

TIF Policy Discussion

Ad Hoc TIF Policy Committee

Department of Planning & Community & Economic Development

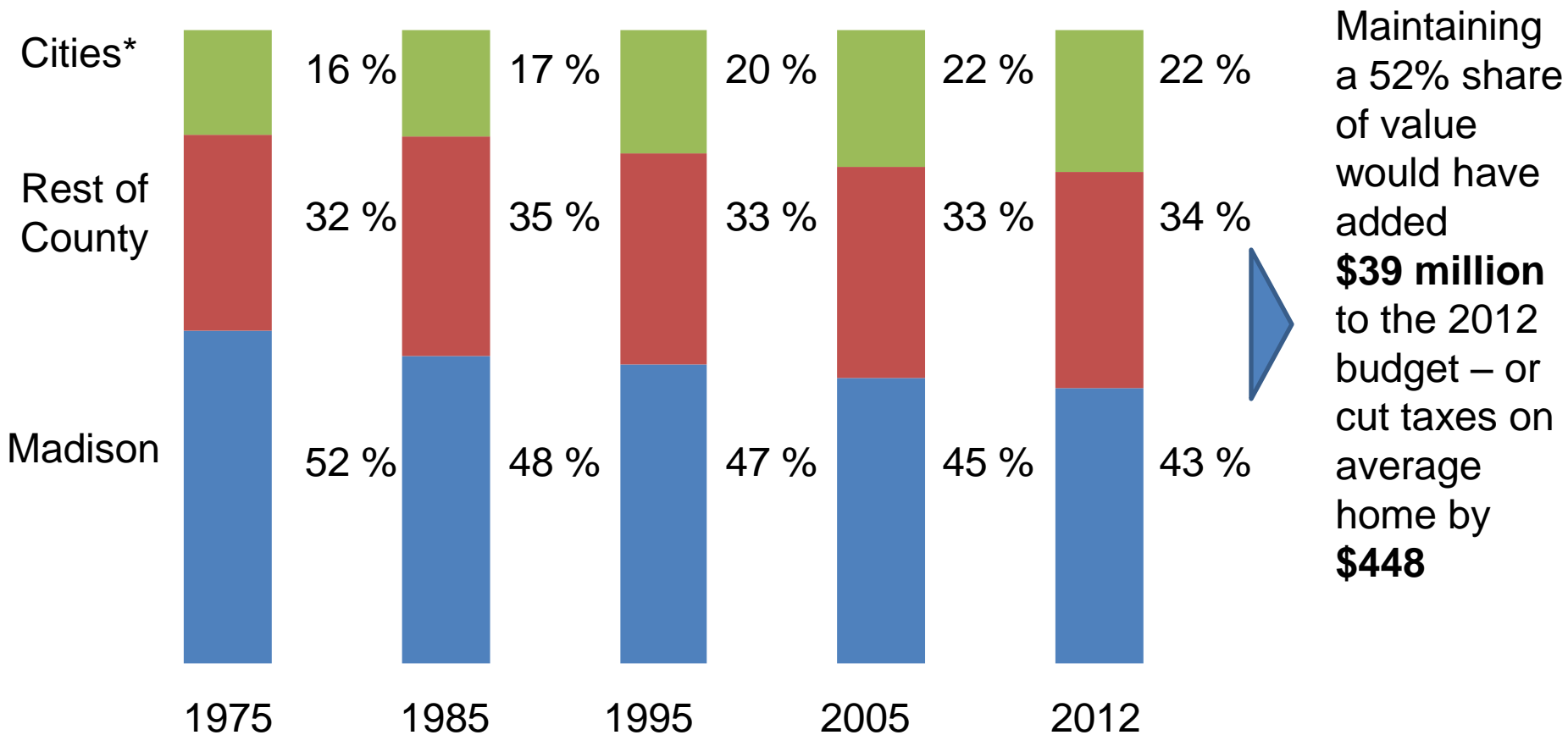


CITY OF MADISON • WISCONSIN

Madison has lost “market share” within Dane County

Percent of Equalized Value within Dane County – all real estate classes

ALL PROPERTY CLASSES

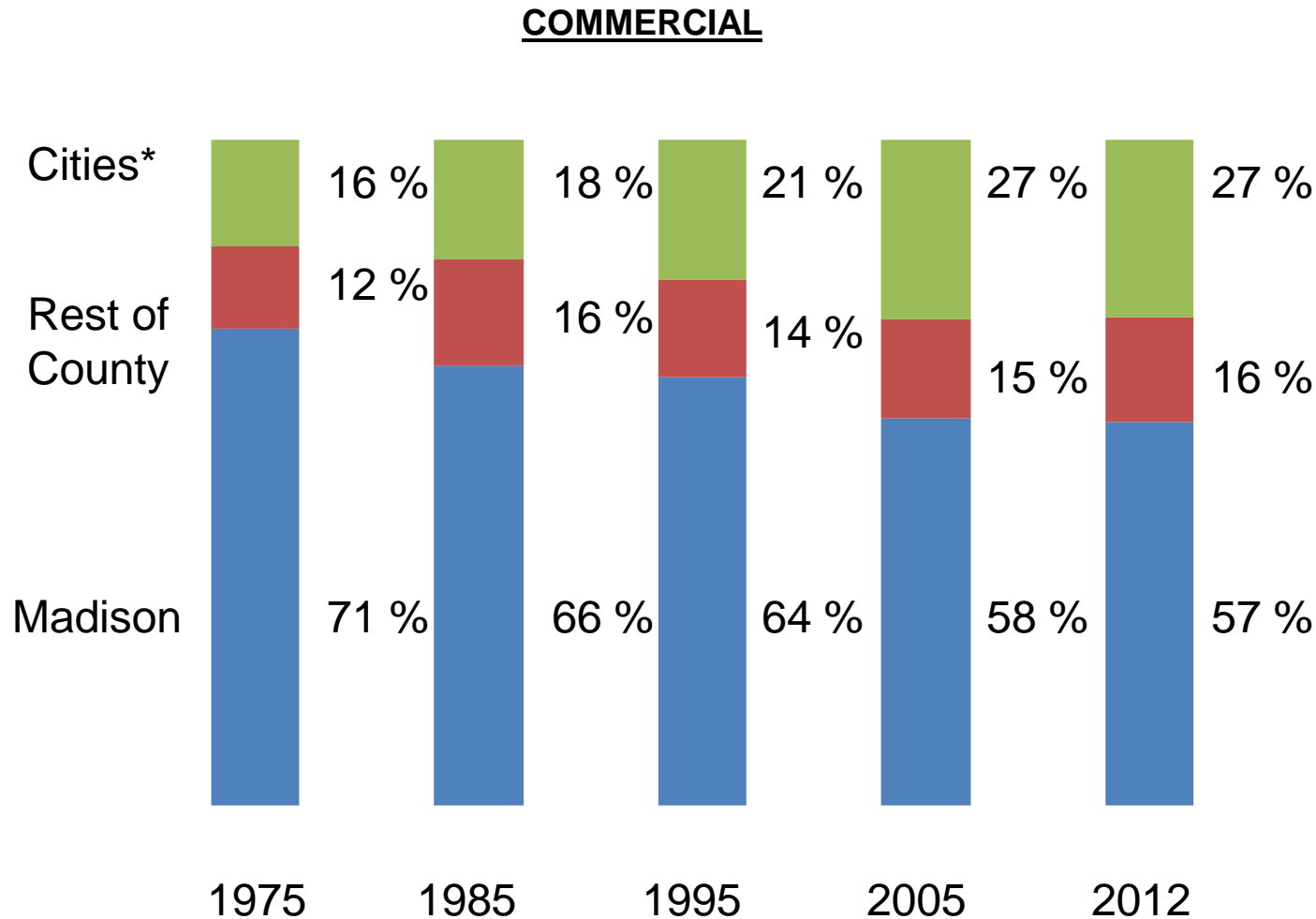


* Fitchburg, Middleton, Monona, Stoughton, Sun Prairie, Verona – excludes Edgerton

Sources: Department of Revenue, 2012 Madison Budget, analysis

Steeper decline in commercial class

Percent of Equalized Value within Dane County – Commercial Property

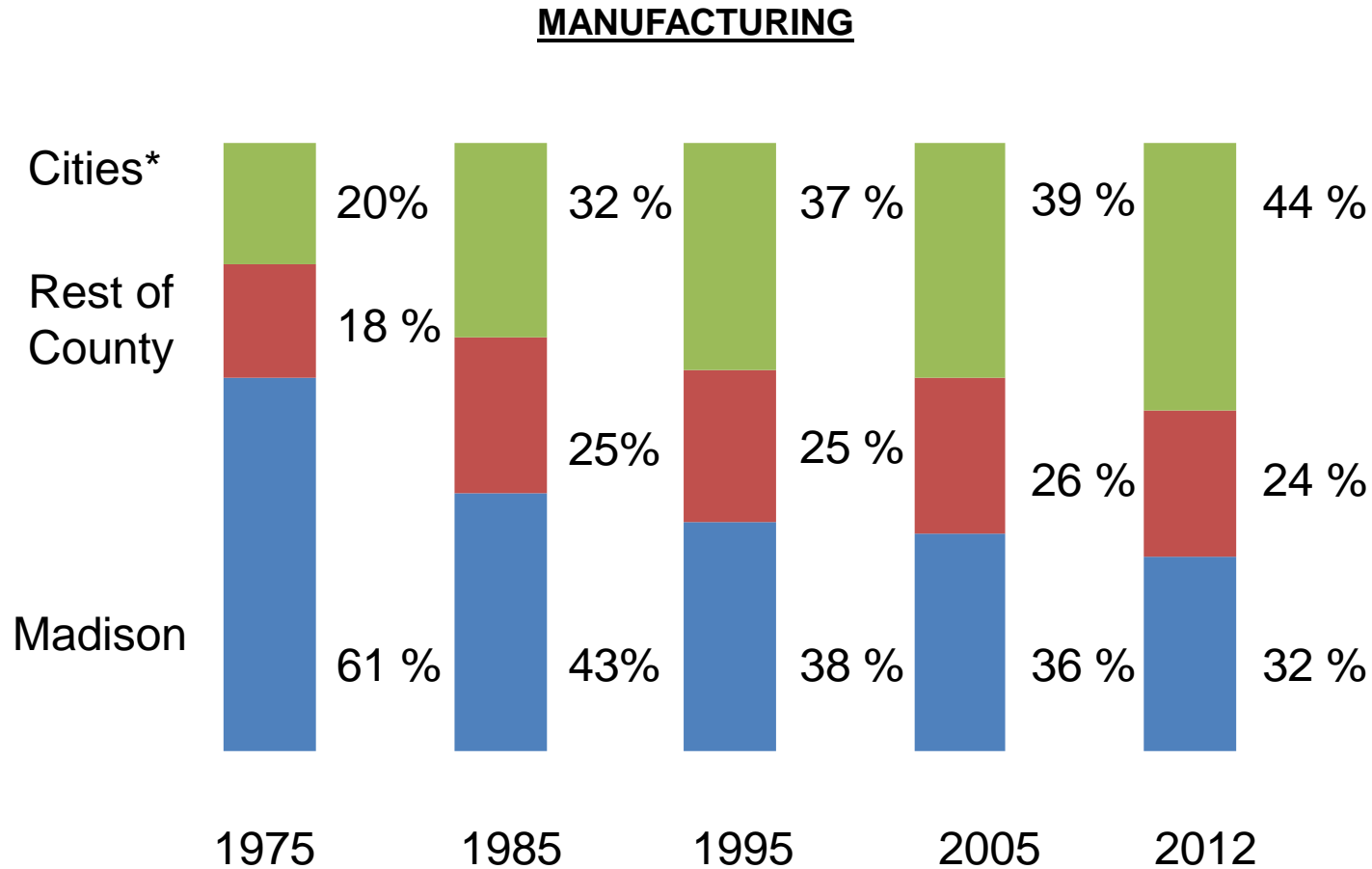


Madison continues to enjoy a strong employment base with over 50% of the commercial class

* Fitchburg, Middleton, Monona, Stoughton, Sun Prairie, Verona – excludes Edgerton

Even greater decline in manufacturing class

Percent of Equalized Value within Dane County – Manufacturing Property

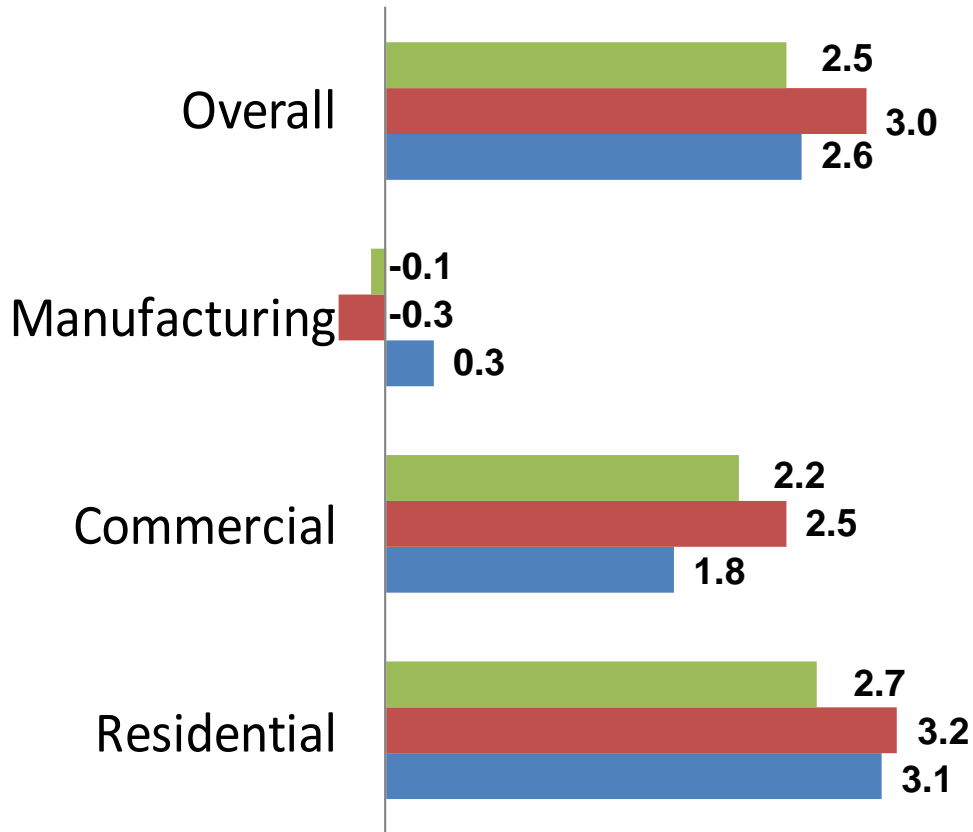


Madison has taken steps to increase land available for industrial and employment uses

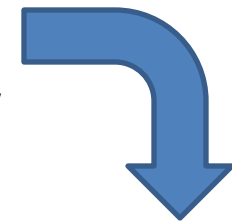
* Fitchburg, Middleton, Monona, Stoughton, Sun Prairie, Verona – excludes Edgerton

Market share decline is not caused by appreciation

Percent Economic Change/Appreciation of Equalized Value (CAGR 1997-2011)



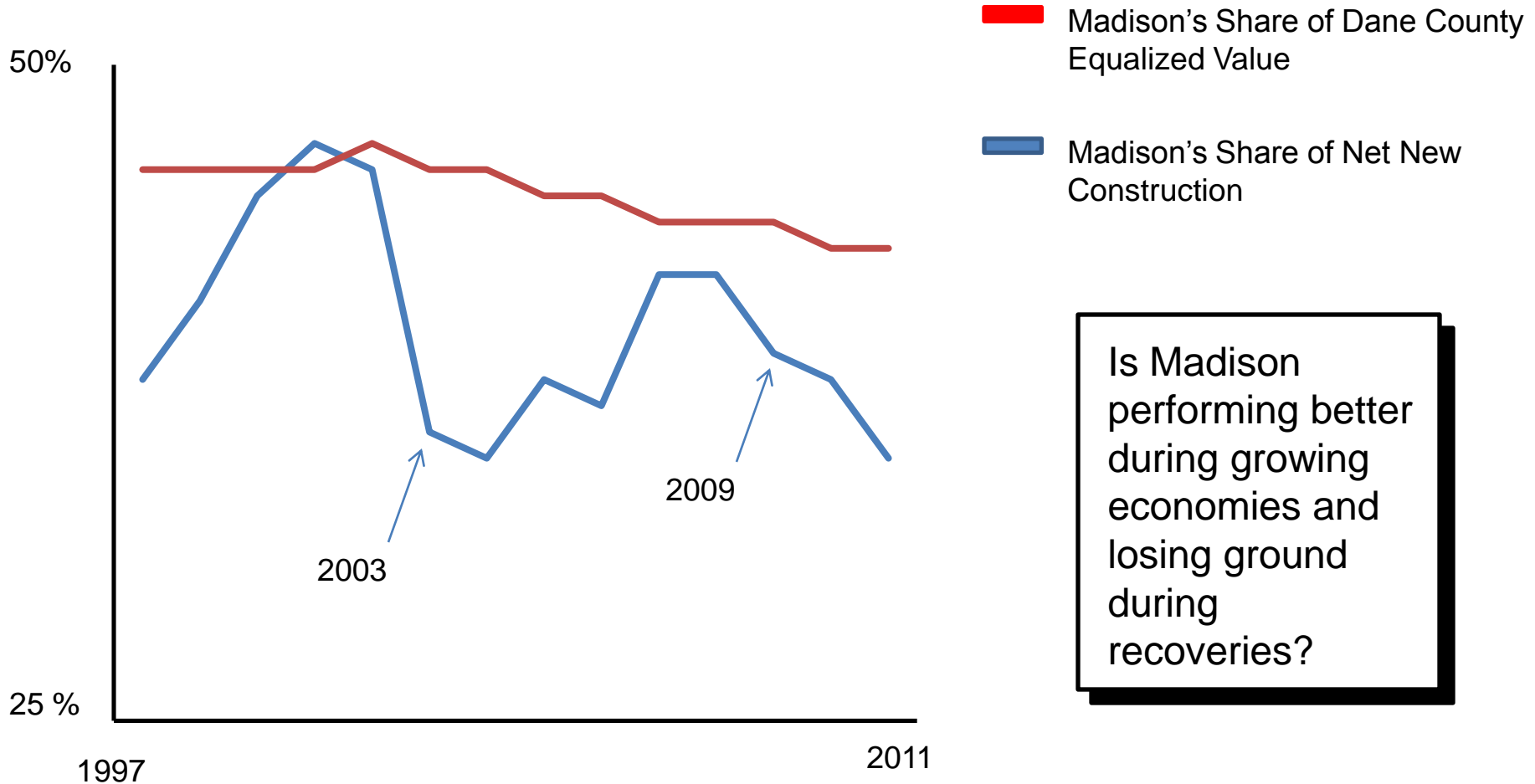
- Other Cities
- Balance of County
- Madison



Differences in appreciation do not account for lost share of property value

Net new construction gap driving loss of share

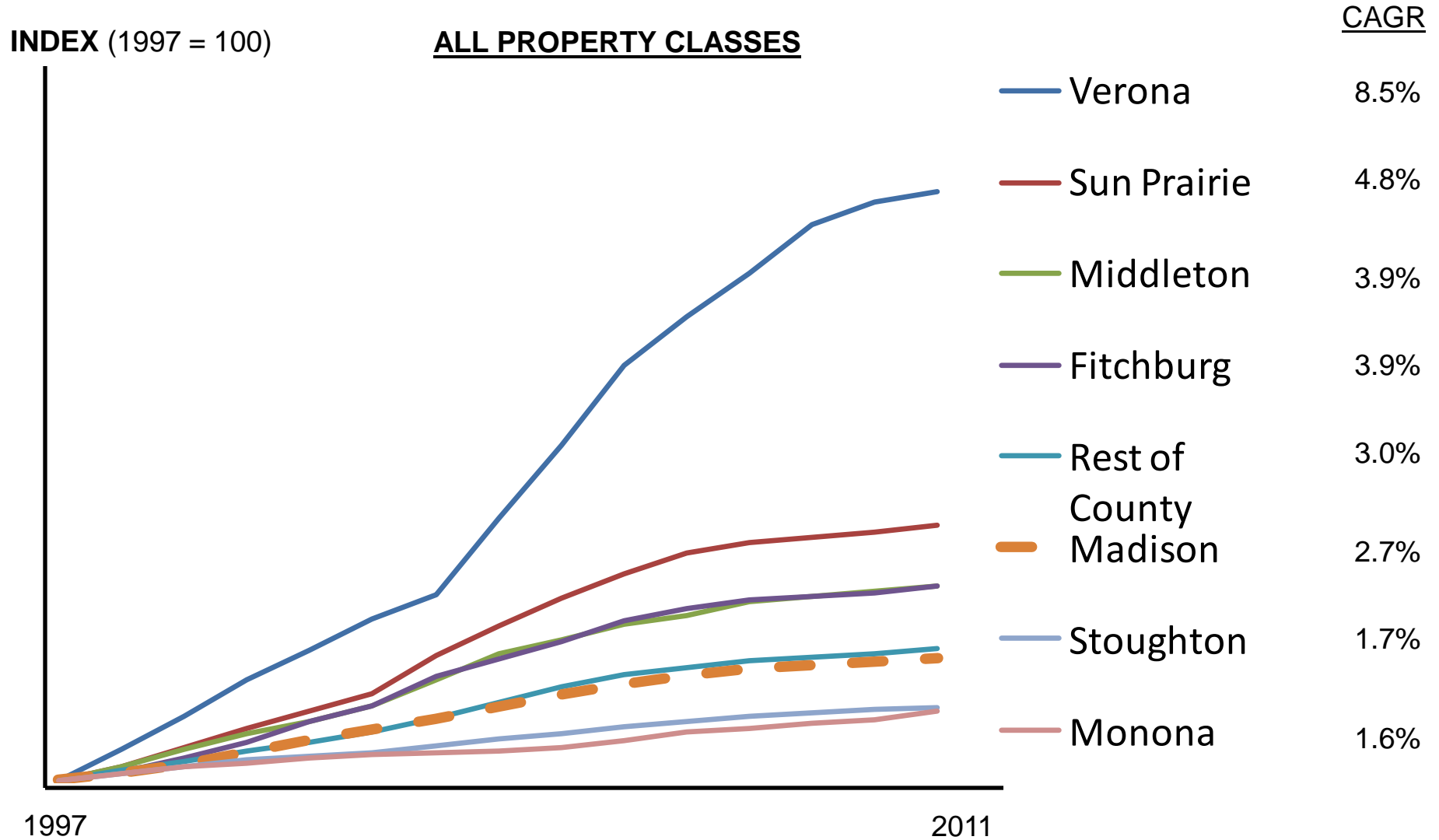
Madison's share of Dane County equalized value vs. Madison's share of Net New Construction



Is Madison performing better during growing economies and losing ground during recoveries?

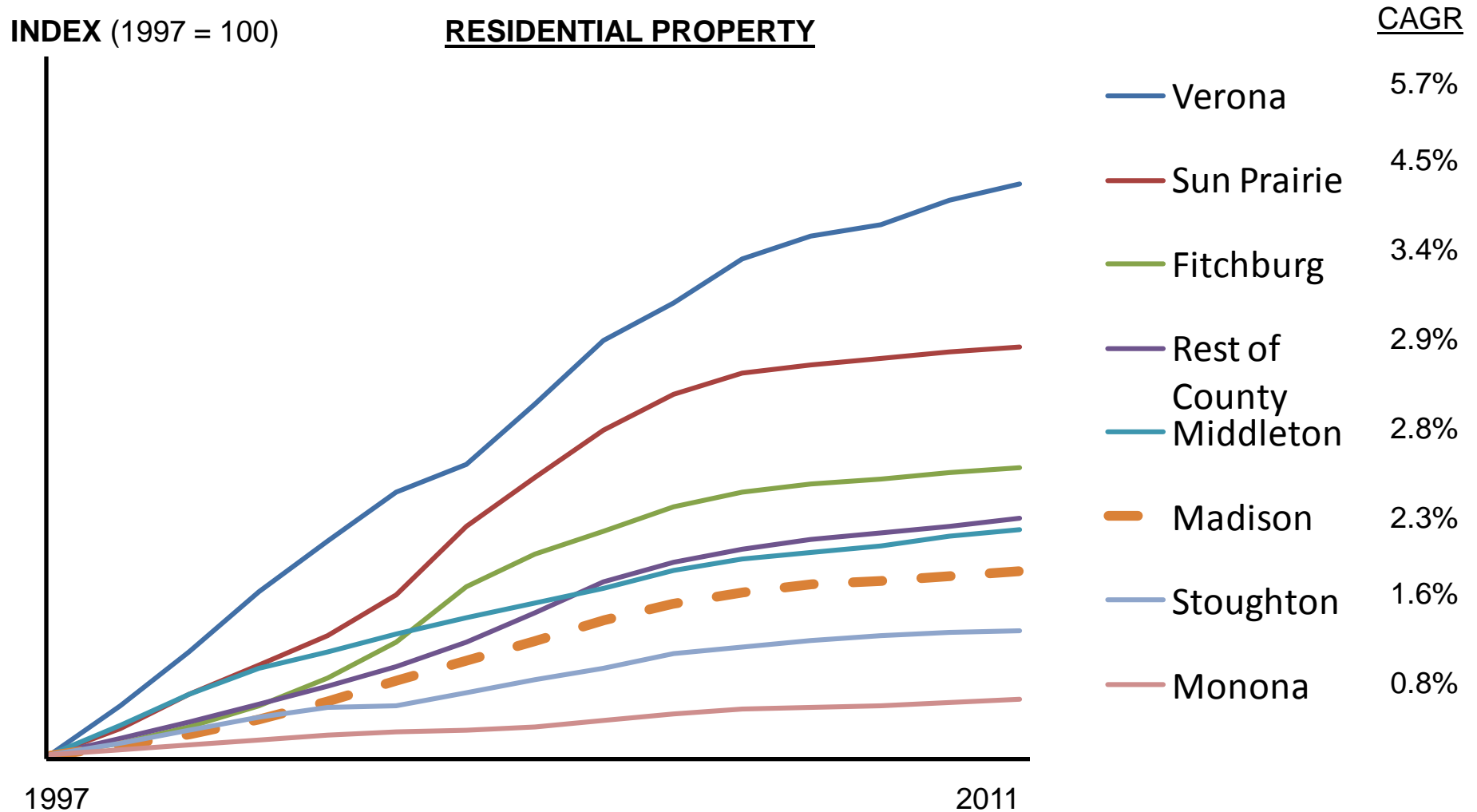
Gap due to differences in New Construction

Index of Cumulative Growth of New Construction – All Property Types (1997-2011)



New Construction gap exists across classes

Index of Cumulative Growth of New Construction – Residential Construction (1997-2011)

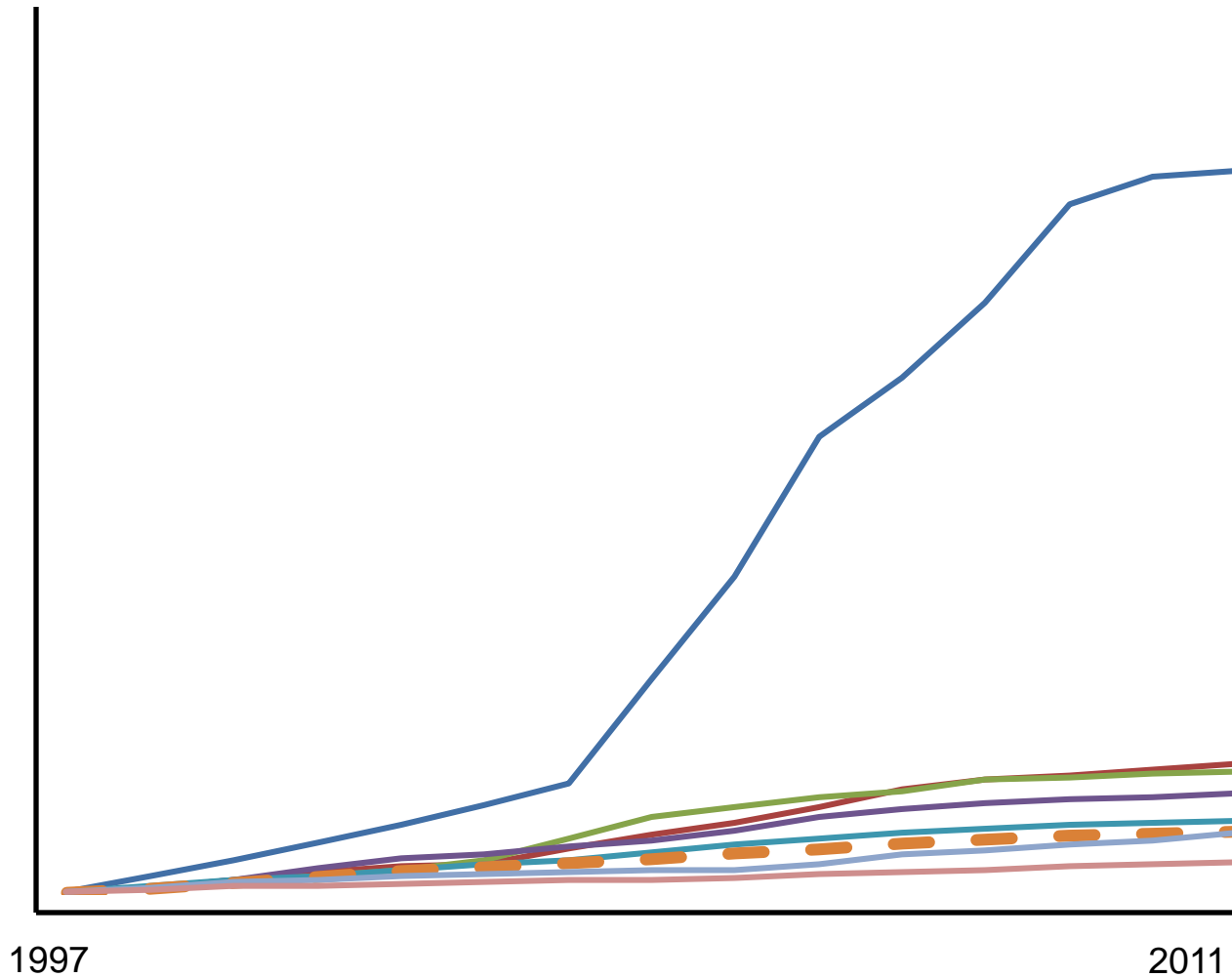


Epic Systems distorts the commercial picture

Index of Cumulative Growth of New Construction – Commercial Construction (1997-2011)

INDEX (1997 = 100)

COMMERCIAL PROPERTY



CAGR

— Verona 16.0%

— Sun Prairie 6.0%

— Middleton 5.7%

— Fitchburg 4.9%

— Rest of County 3.9%

— Madison 3.3%

— Monona 3.3%

— Stoughton 1.9%

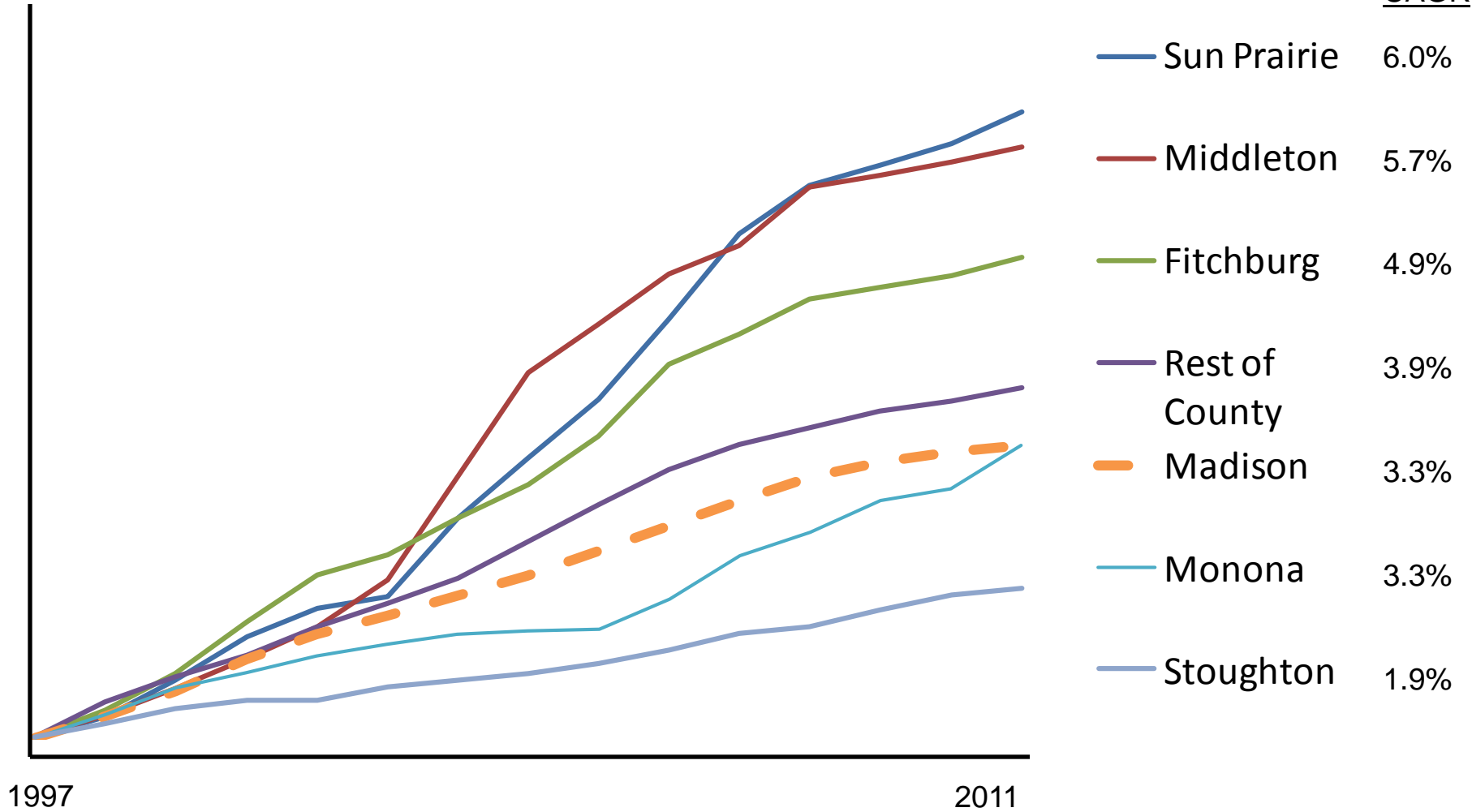
Commercial construction without Verona

Index of Cumulative Growth of New Construction – Commercial Construction (1997-2011)

INDEX (1997 = 100)

COMMERCIAL PROPERTY

CAGR



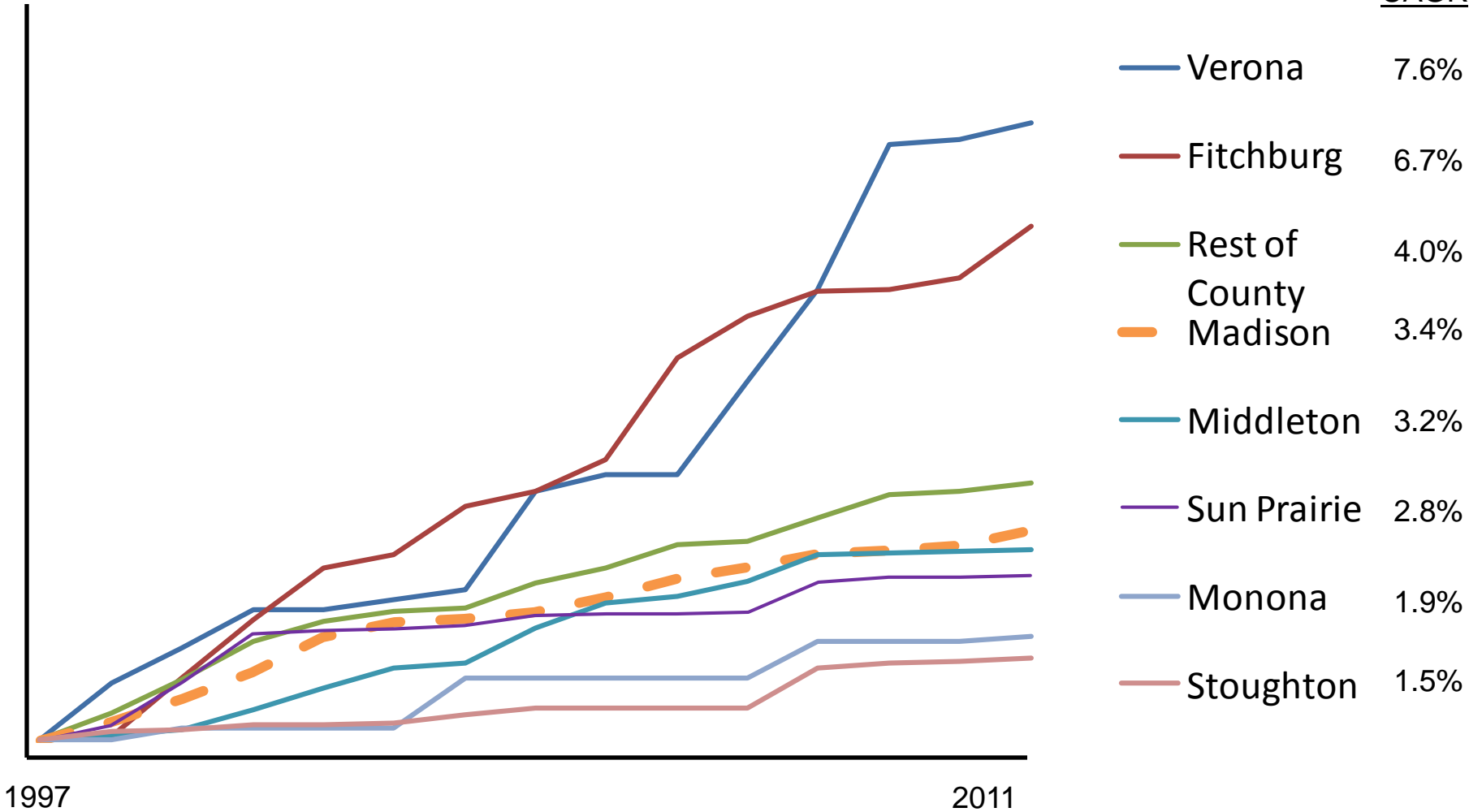
Pattern in manufacturing is slightly different

Index of Cumulative Growth of New Construction – Manufacturing Construction (1997-2011)

INDEX (1997 = 100)

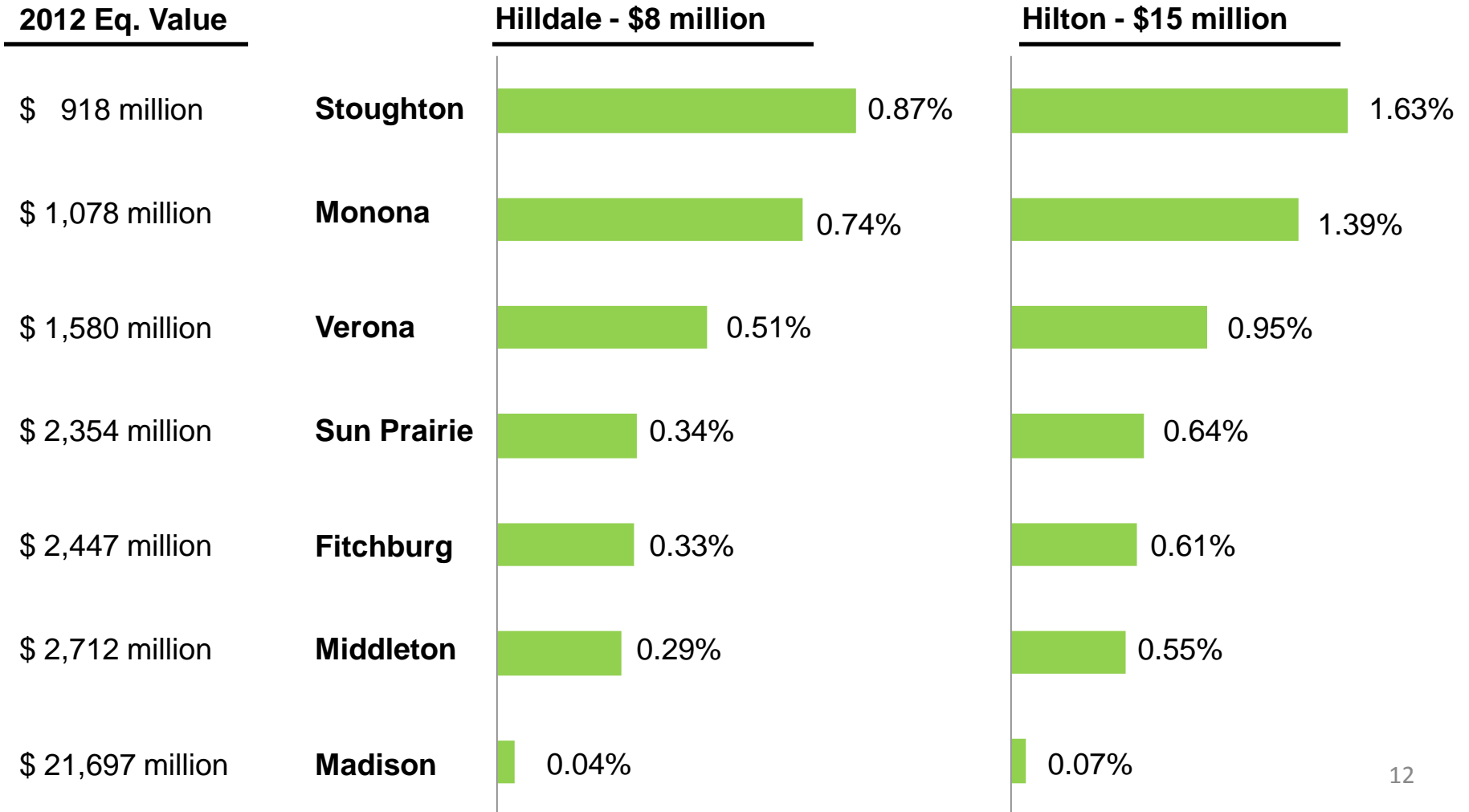
MANUFACTURING PROPERTY

CAGR



Madison requires more projects to grow at same rate

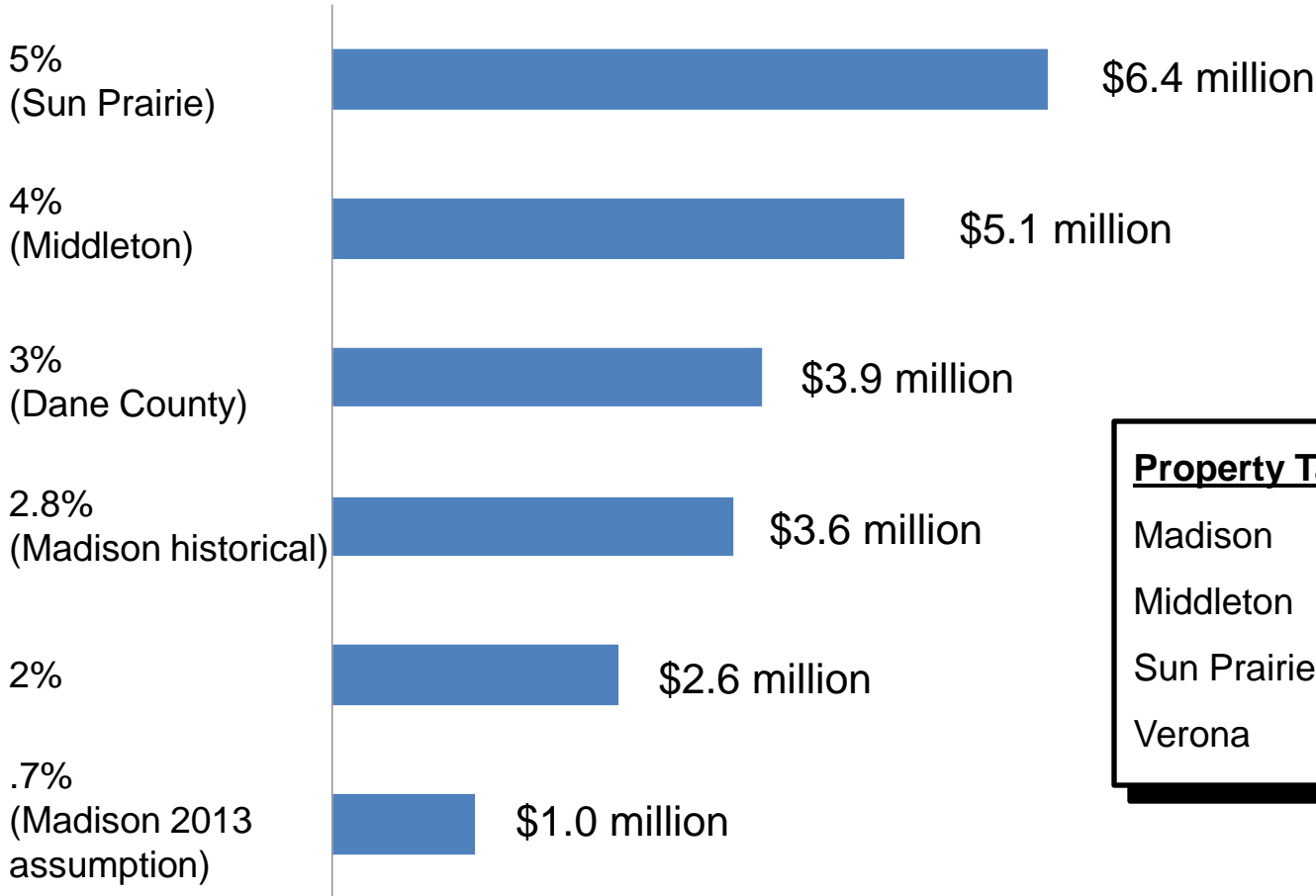
Impact of representative projects (Improvement value only) on Net New Construction rate



In era of strict levy limits, net new construction is vital

Hypothetical implications for Madison achieving various competitor's construction rates on 2013 budget*

GROWTH



Property Tax Base (2012 equalized value)

Madison	\$21.7 billion
Middleton	\$ 2.7 billion
Sun Prairie	\$ 2.4 billion
Verona	\$ 1.6 billion

2013 budget deficit is approximately \$11 million

* Assumes \$128.4 million base levy; 2013 budget deficit less net new construction

Value of higher construction rates compounds

Hypothetical implications of achieving various growth rates over time

Net New Construction Benchmark	2013 year revenue implication*	2017 revenue implication**
5.0 %	\$ 6.4 million	\$ 35.5 million
4.0 %	\$ 5.1 million	\$ 27.8 million
3.0 %	\$ 3.9 million	\$ 20.4 million
2.8 %	\$ 3.6 million	\$ 19.0 million
2.0 %	\$ 2.6 million	\$ 13.4 million
1.0 %	\$ 1.3 million	\$ 6.5 million
0.7 %	\$ 1.0 million	\$ 4.8 million

2013 budget deficit is approximately \$11 million

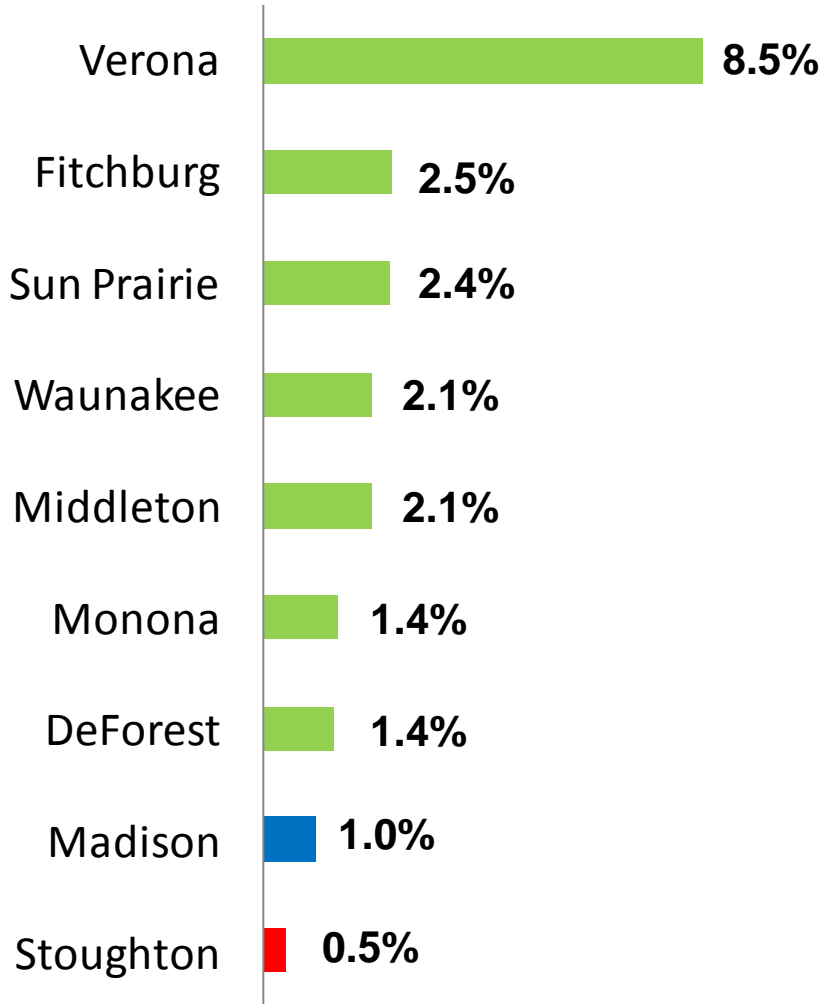
* Assumes \$128.4 million base levy; 2013 budget deficit less net new construction

** Assumes \$128.4 million base levy; 5 years of net new construction at specified rate; does not account for other changes to levy

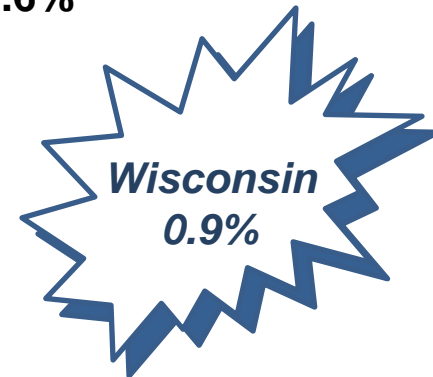
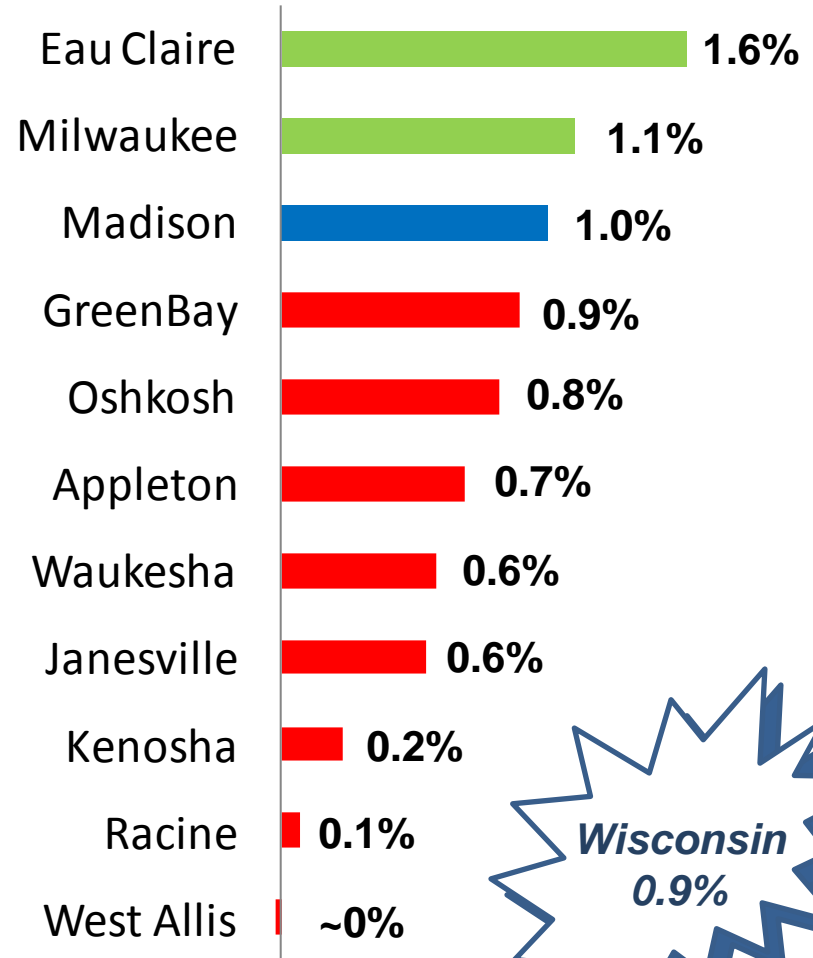
Madison trails locally, beats statewide average in 2012

Percentage of Net New Construction – 2012 (PRELIMINARY)

LARGEST DANE COUNTY CITIES/VILLAGES



TEN LARGEST CITIES IN WISCONSIN*

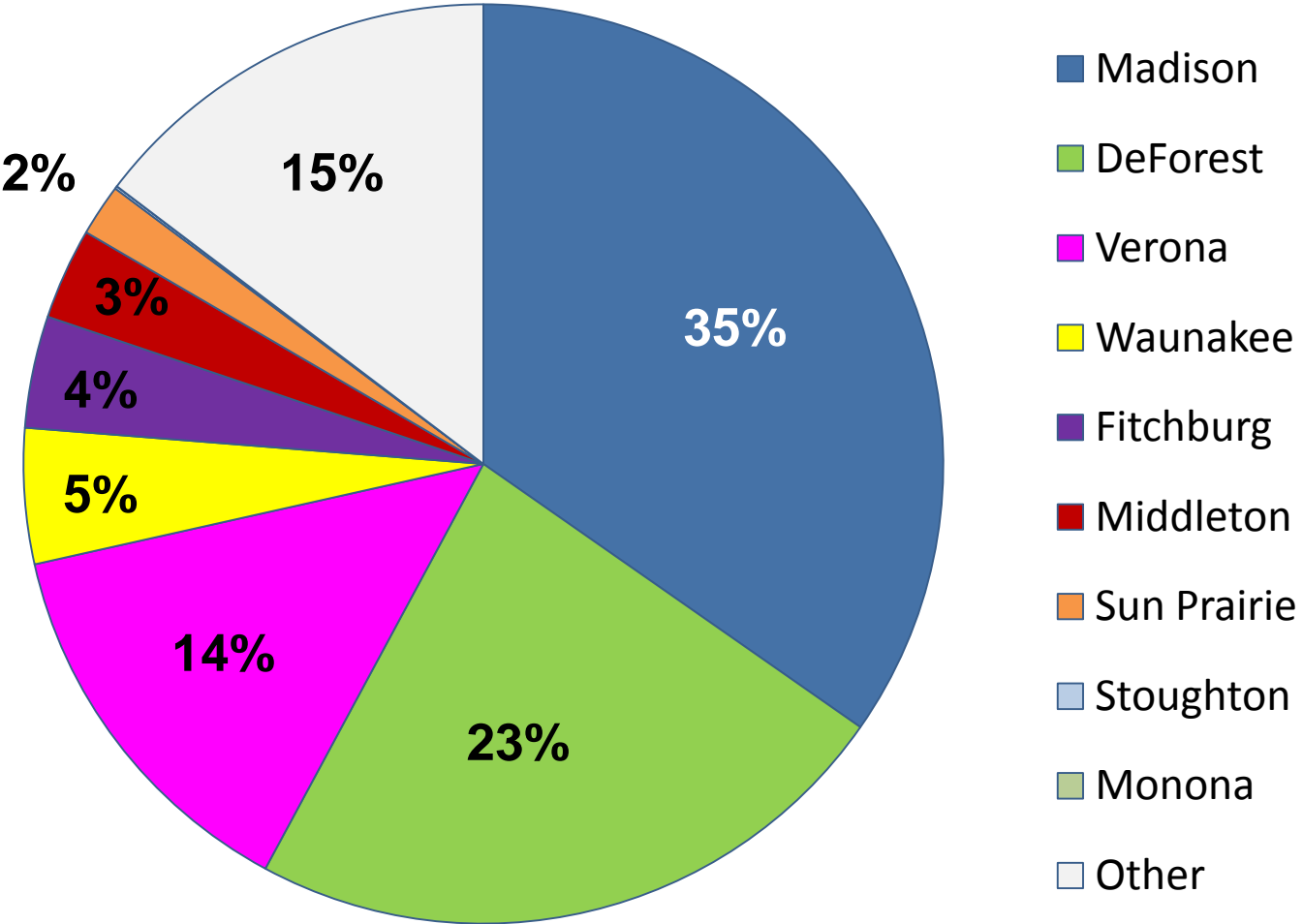


* Top eleven largest cities excluding Madison

Sources: Department of Revenue

Relative amount of industrial acres available

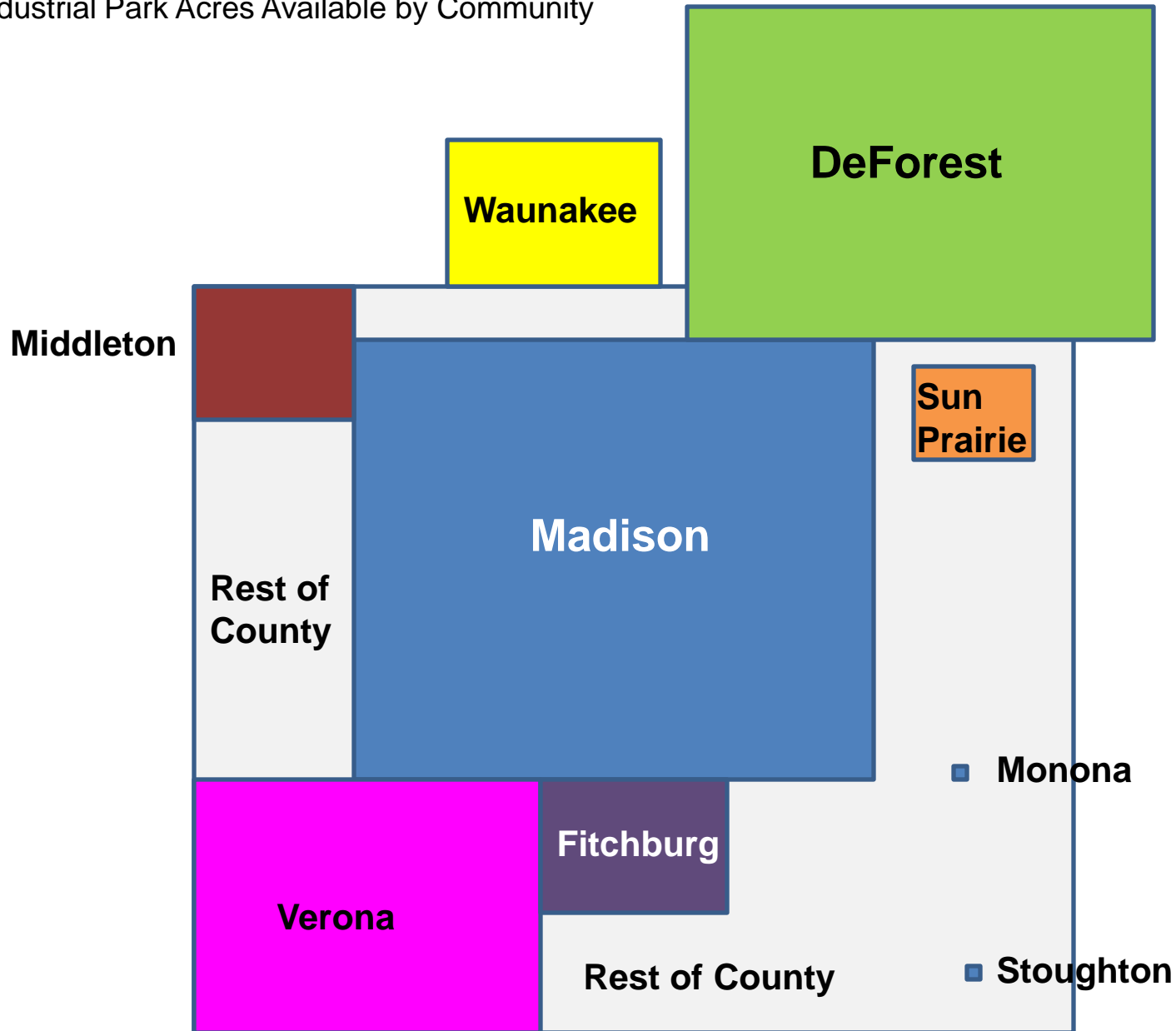
Industrial Park Acres Available by Community - 2012



Sources: MGE

Relative amount of industrial acres available

Industrial Park Acres Available by Community



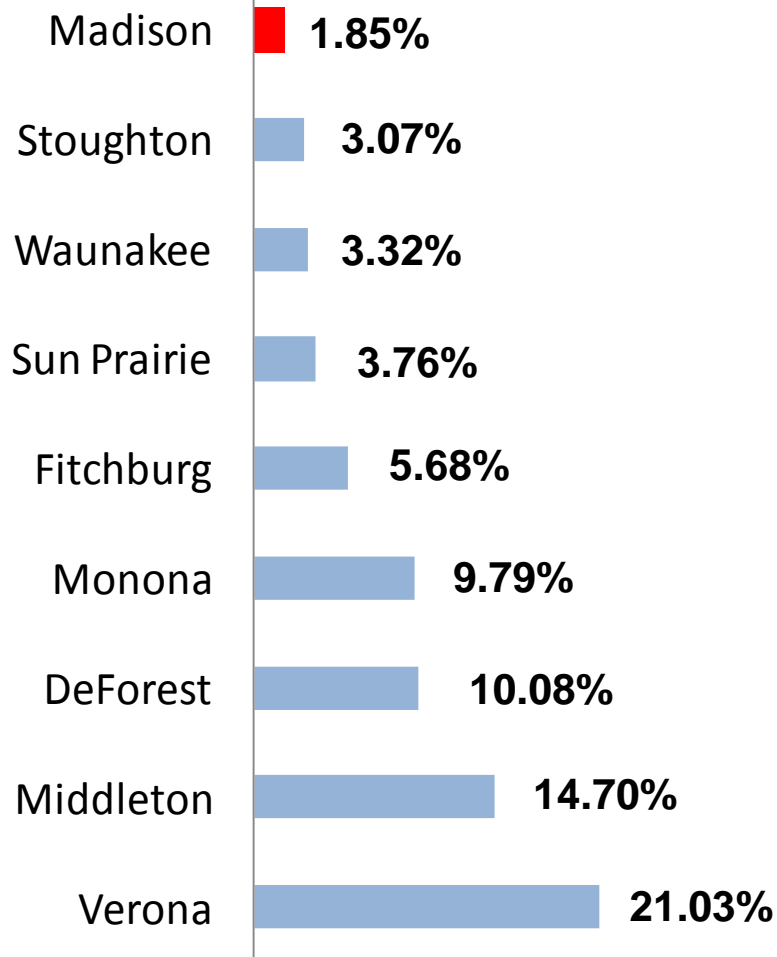
Current TIF Policy has produced positive results

- Approximately \$1.5 billion of value created
- Investments of ~\$100 million (approximately 14:1 leverage)
- TIF has built substantial infrastructure
- No failed or distressed districts
- Average TID closes in 12-13 years
- However, we have been a conservative user

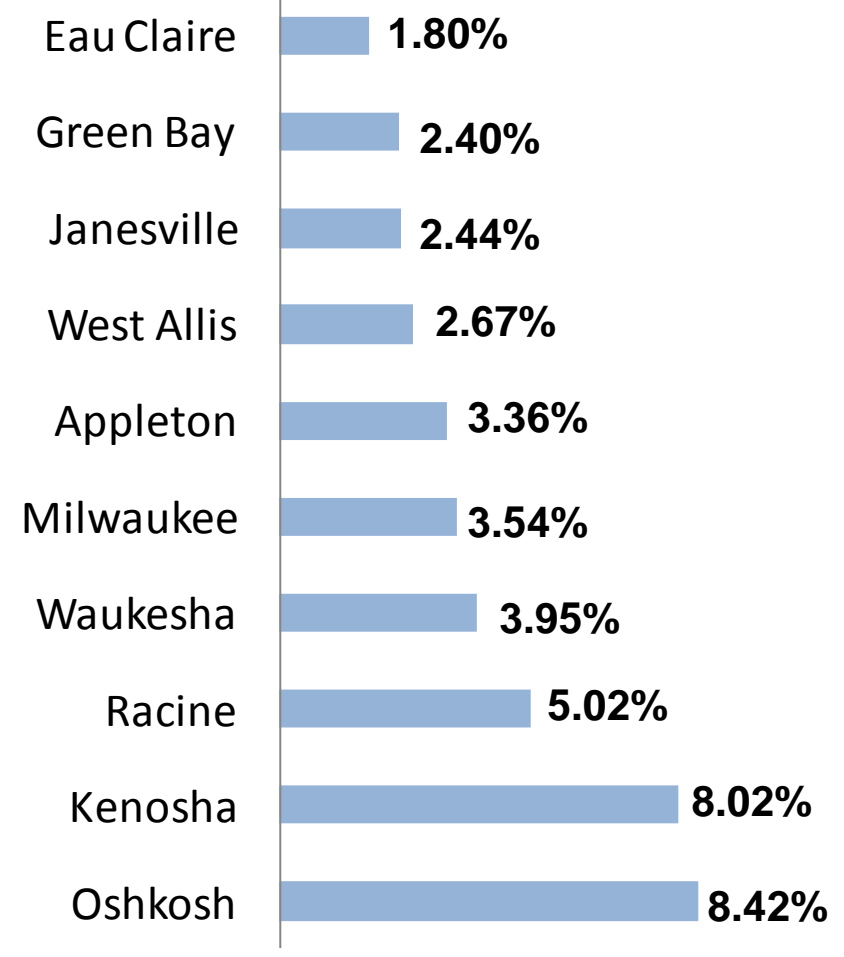
Madison has less property in TIDs than most cities

Percentage of Equalized Value in TIDs - 2012

LARGEST DANE COUNTY CITIES/VILLAGES



TEN LARGEST CITIES IN WISCONSIN*

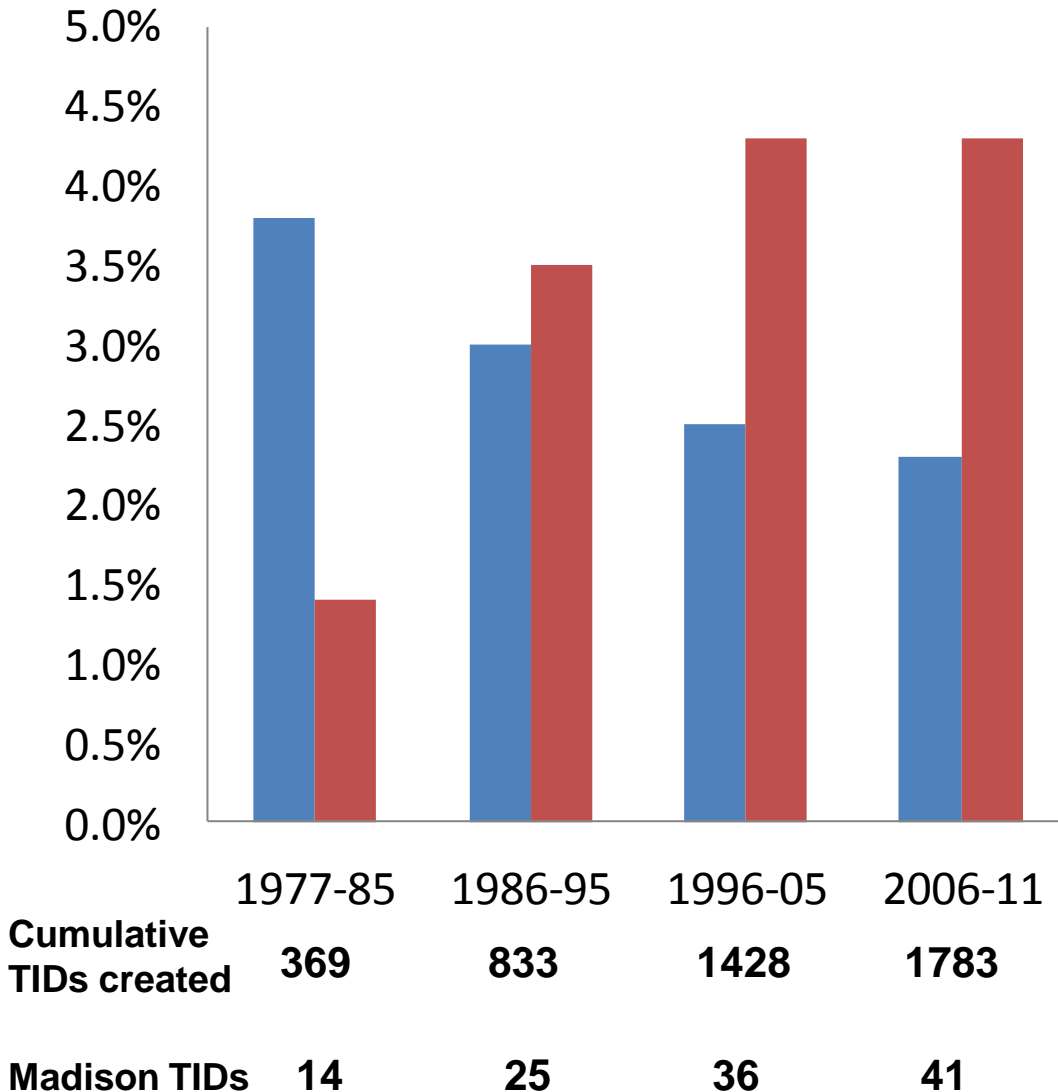


* Top eleven largest cities excluding Madison

Sources: Department of Revenue, analysis

Madison's relative use of TIF has declined

Share of Cumulative Wisconsin TIDs Created (1977-2011)



Madison was an early adopter of TIF but has seen its share of statewide TIDs decline

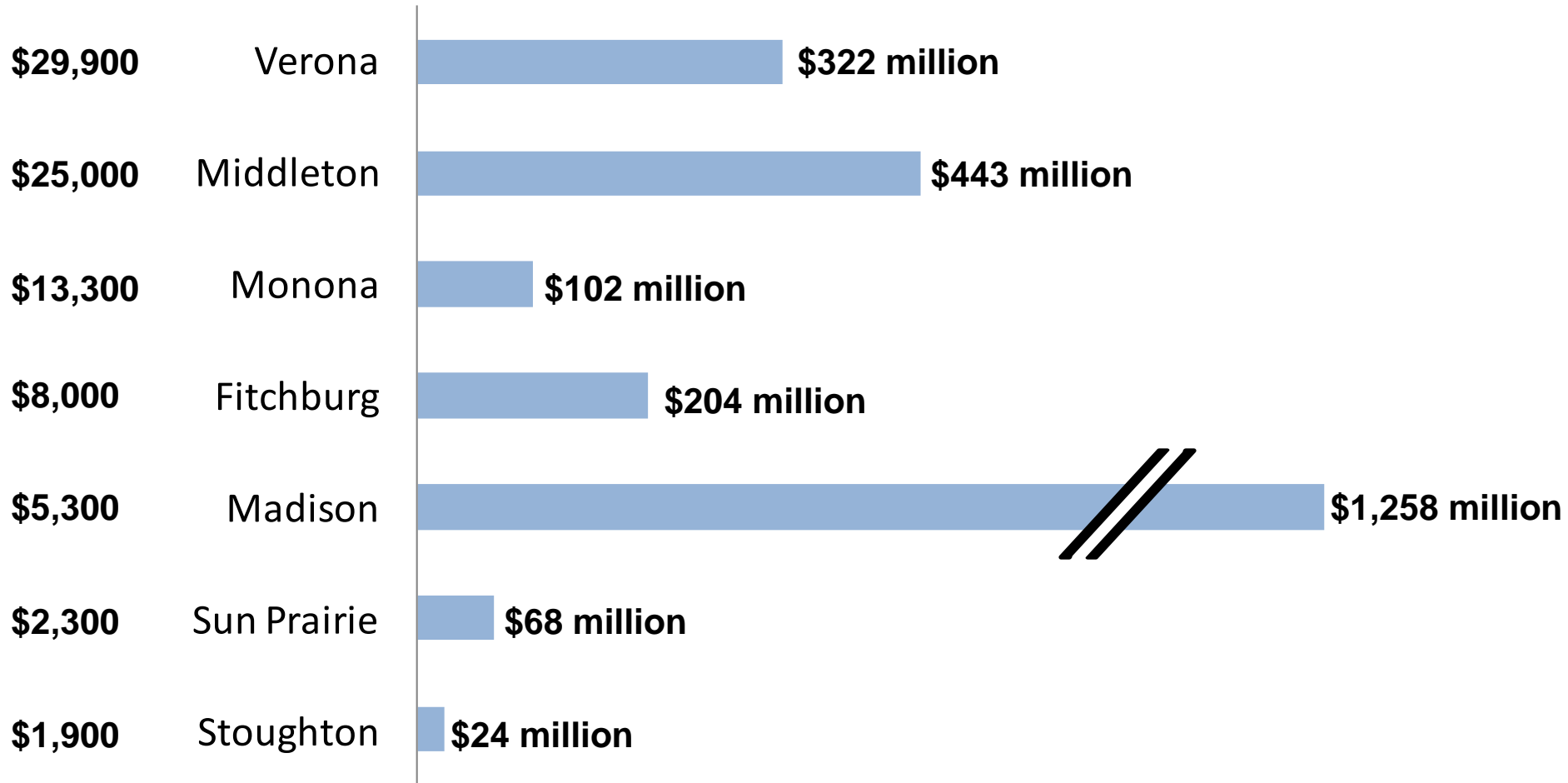
Some difference may be explained by size of TIDs (e.g., Milwaukee may have more single-purpose TIDs)

Madison has created more value than neighbors...

Tax Base Growth in and after TIDs (2001-2012) relative to 2001 base

Value per Capita

Gross Value Created with TIDs (2001-2012)

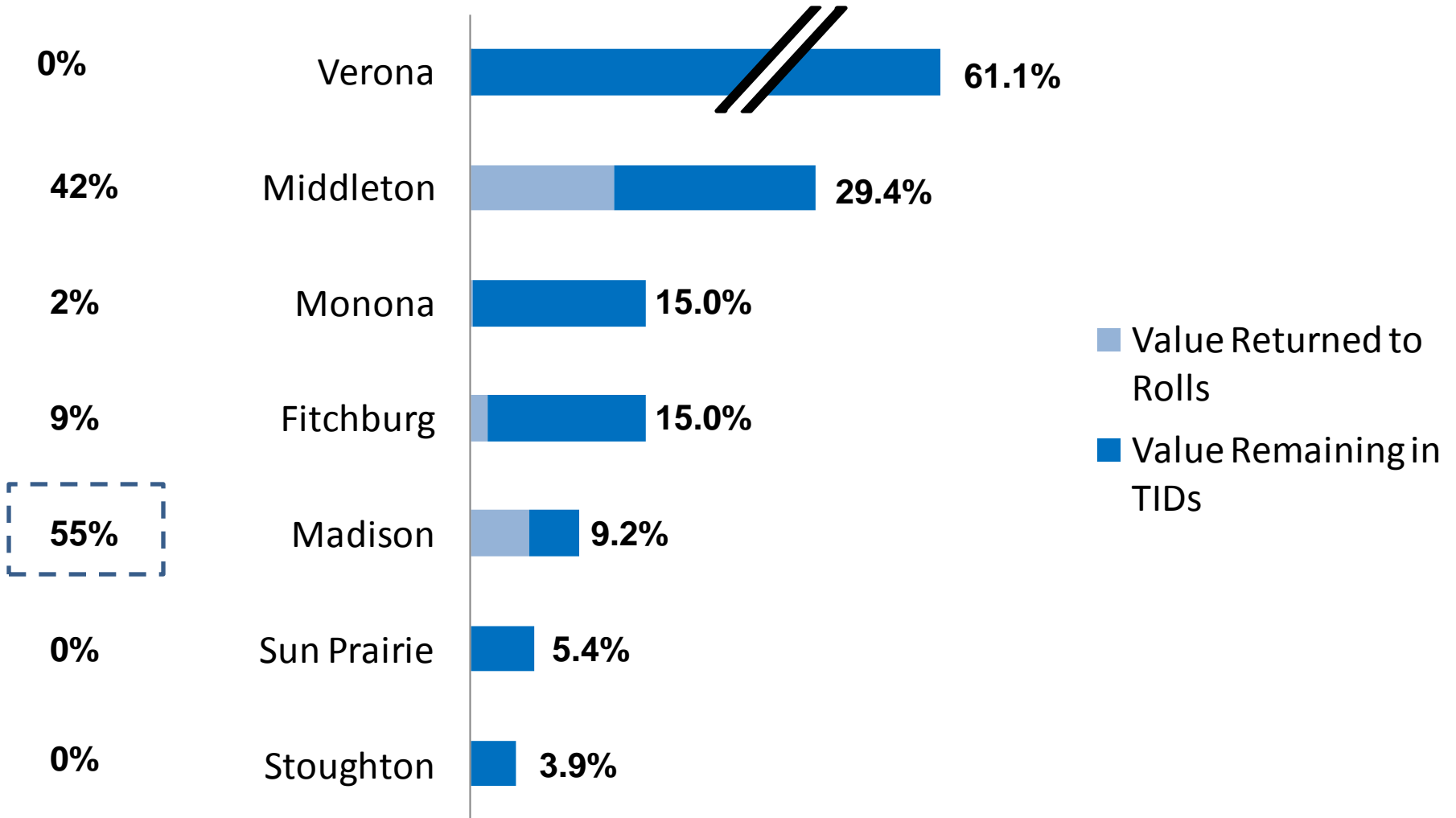


...But less value relative to Madison's base

Tax Base Growth in and after TIDs (2001-2011) relative to 2001 base

Returned to Rolls

Value Created from TIDs relative to base (2001-2012)



Key Takeaways from previous slides



Madison has the sophistication, staff, and expertise to use TIF responsibly



Madison has been a conservative user of TIF and can expand its use without becoming reckless



With strict levy limits, facilitating quality, plan-consistent net new construction is critical to budget

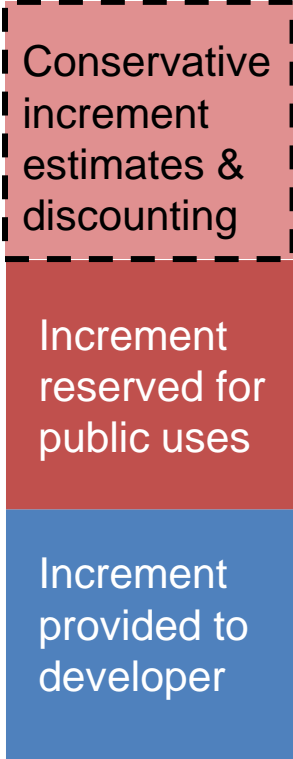
Major Policy Issues Addressed by EDC

1. 50% Rule
2. Equity Participation
3. Guarantees
4. Generator Requirement
5. Greenfield TIDs
6. Treatment of Employers
7. Affordable Housing
8. Conventional vs. Pay-As-You-Go Financing

The 50% Rule is misleading



Perception of rule

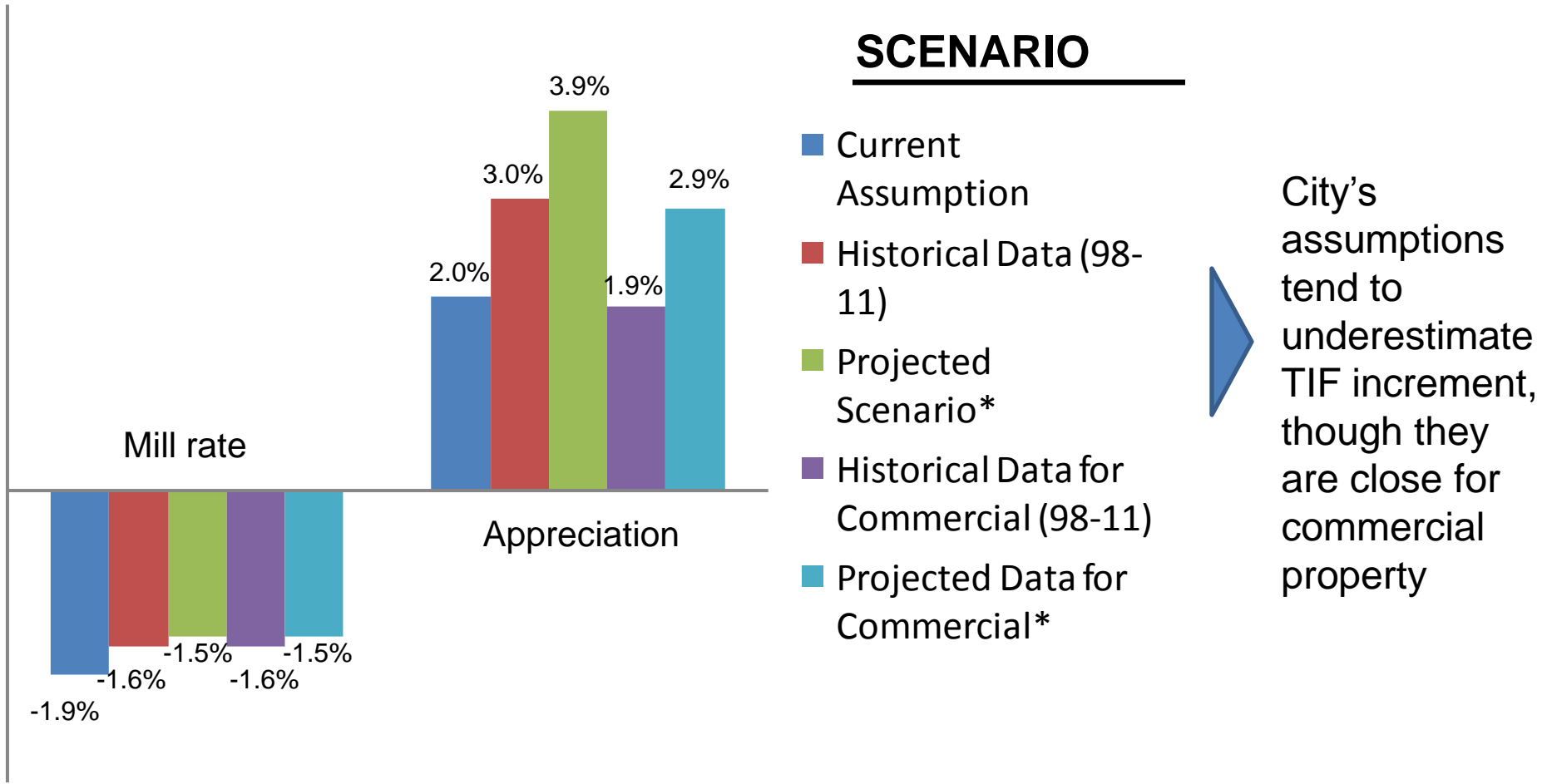


Reality of rule

The city is conservative and employs two safety mechanisms:

1. Estimating and discounting increment
2. Providing 50% of the estimate

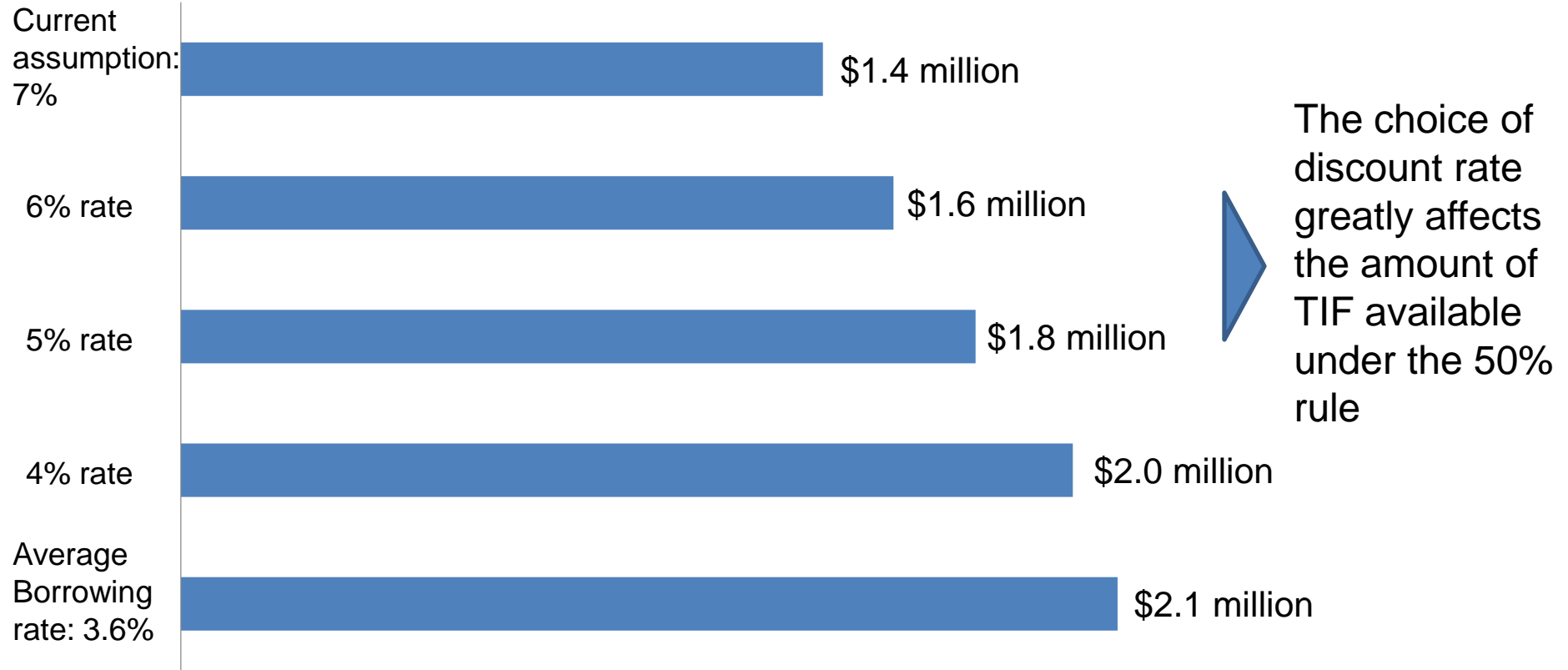
City assumptions underestimate actual increment



* Projected scenario assumes real estate slump once every 27 years; Historical decline 98-09 = 3%

Available increment sensitive to discount rate

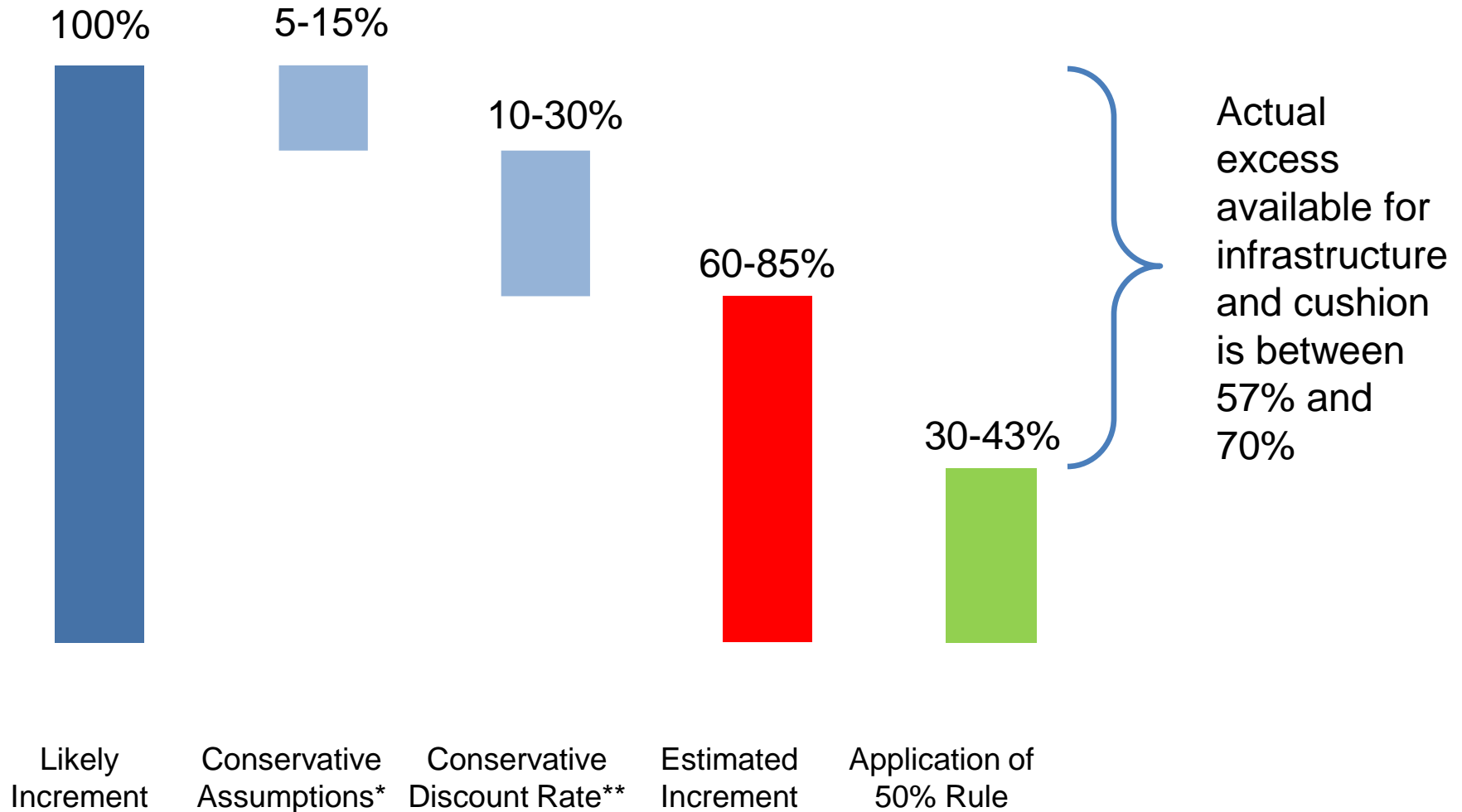
TIF Increment available for \$10 million project at 50% of discounted increment



Note: The average cost of the city to borrow at taxable rates for TIF projects over the previous 6 years is 3.59%

Our actual “cushion” is greater than 50%

Percentage of Increment on hypothetical \$10 million project



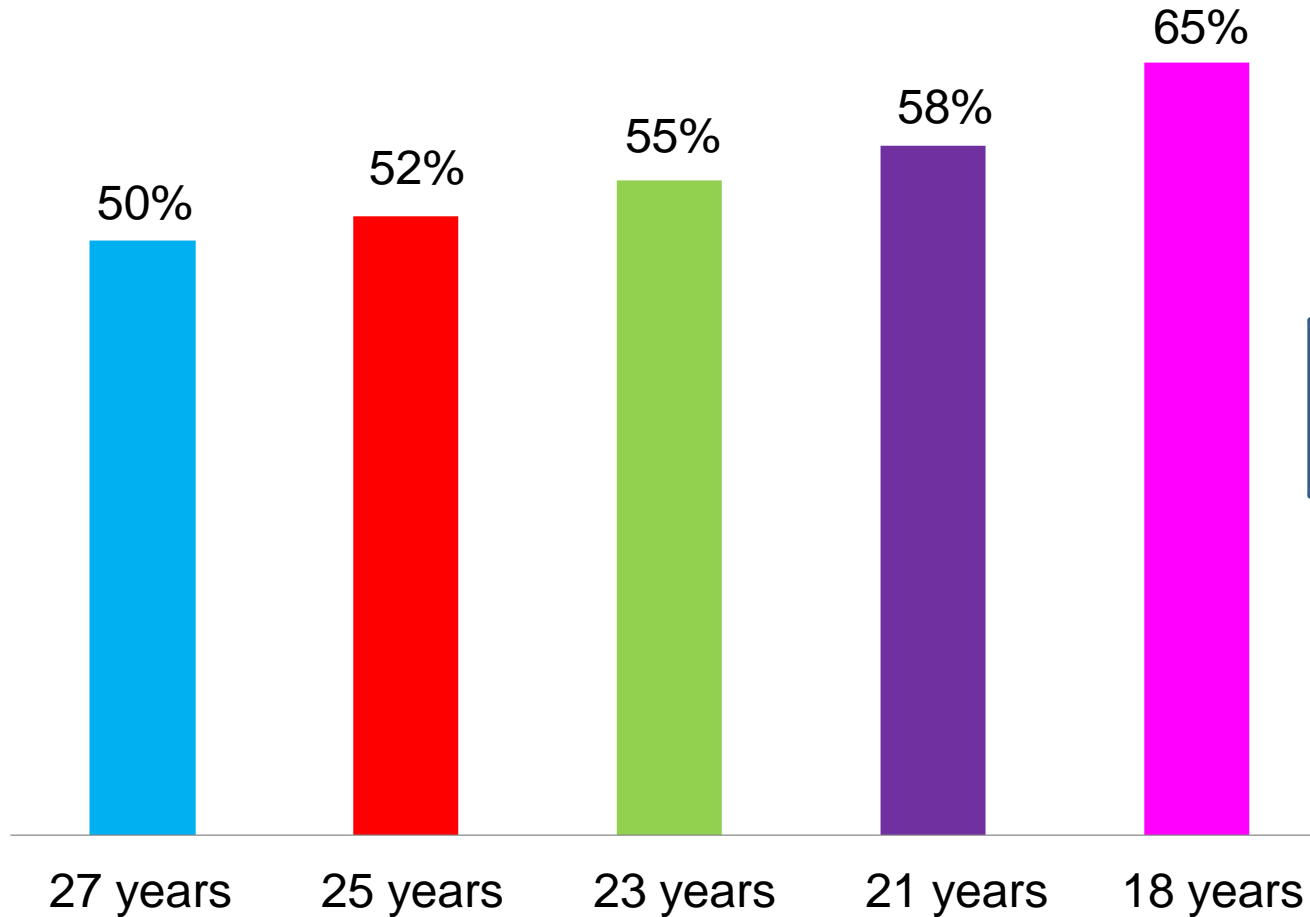
* Assumptions consider mill rates and appreciation for all classes and commercial only

** Sensitivity tested between 3.59% and 7%

Sources: City of Madison data; Department of Revenue; analysis

Lifespan of TIDs also creates issues for the 50% rule

Percent of Increment Consumed for Identical Loan in TIDs with varying lifespans

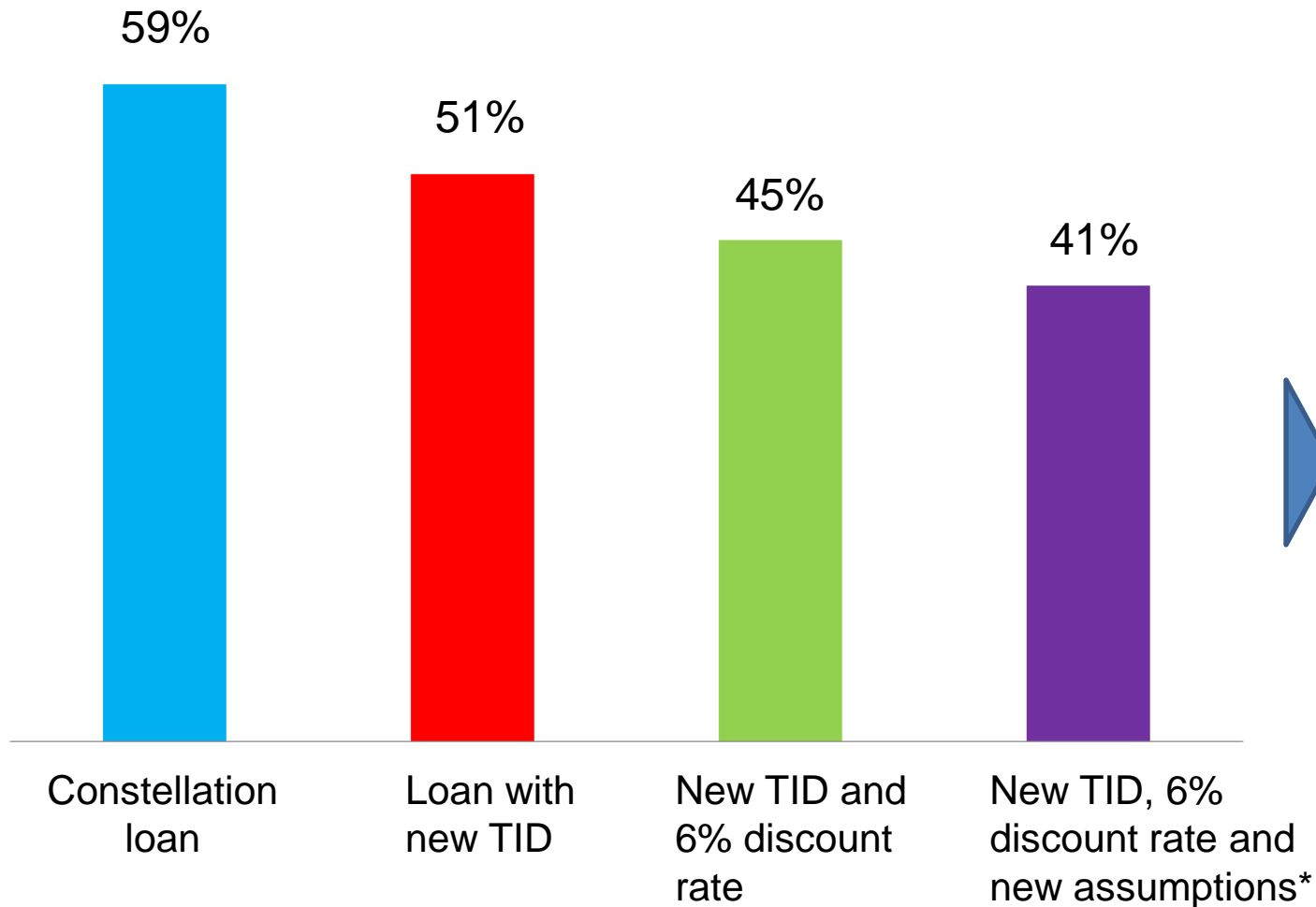


A loan conforming to the 50% rule in a new TID would use 65% of the increment in a TID that is nine years old

Time Remaining in Life of TID

Example: Constellation Capitol East District Project

Percent of Increment Consumed for Constellation Loan under varying assumptions



The \$3.4 million TIF loan to the Constellation (Gebhardt) would nearly conform to the 50% rule if the TID had been new.

* Assumes mill rate declines at 1.6% versus 1.9%, commercial appreciation at 2.8% versus 2%

EDC recommended flexibility within criteria

EDC Criteria

1. Type of the project
2. Financial gap
3. Projected increment
4. Financial health and age of the TID
5. Evaluation of competitive factors
6. Location in a Targeted Development Area
7. Other demands for increment
8. Likelihood of catalyzing other development
9. Extraordinary strategic or civic purposes
10. Current economic conditions

EXAMPLES OF HEALTH OF TID

TID #40

TID is \$20 million below base value



TID #37

TID has no excess increment



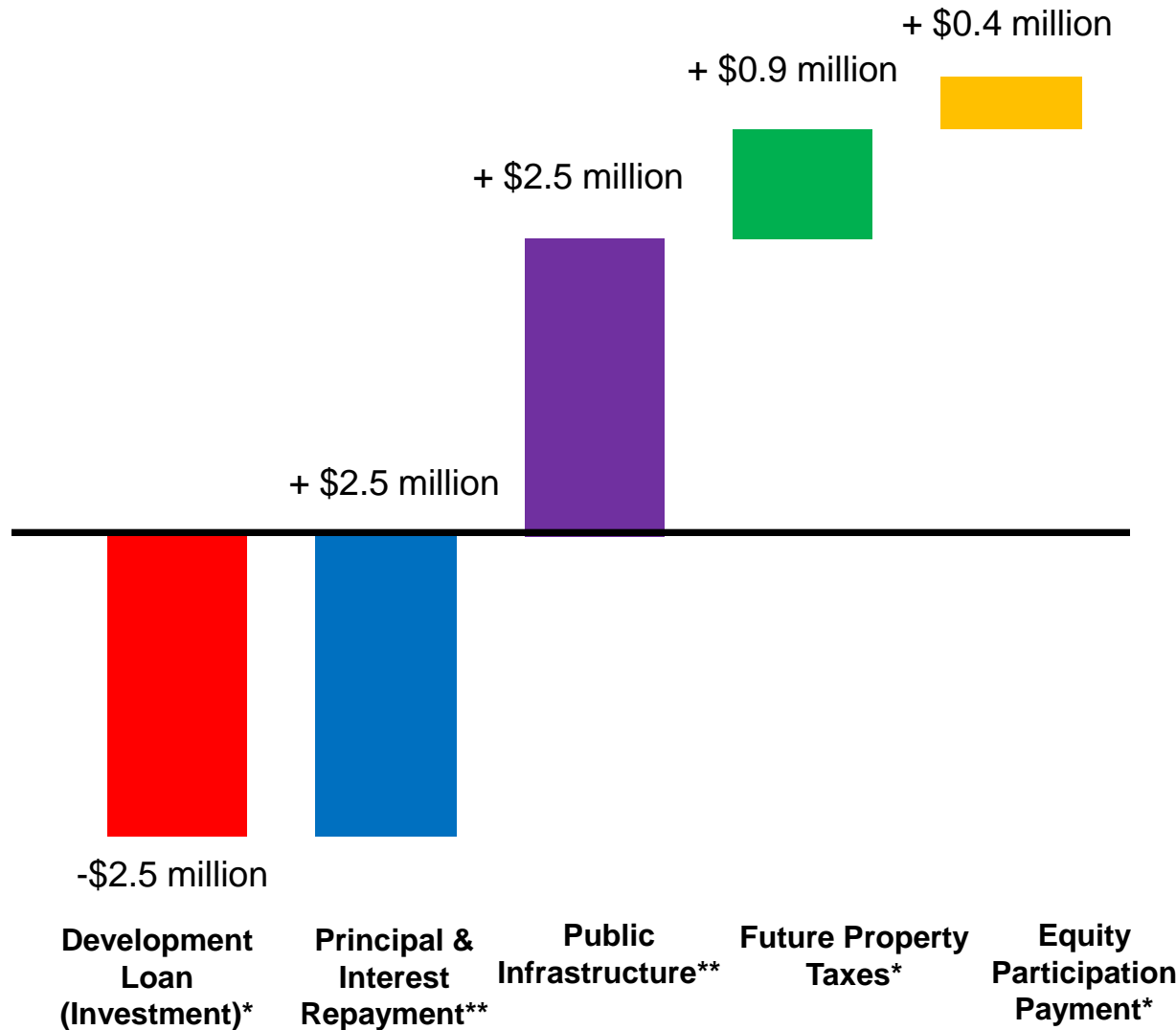
TID #25 or #32

TIDs are generating strong cash flow



Equity participation the least important component

Hypothetical return from \$20 million project

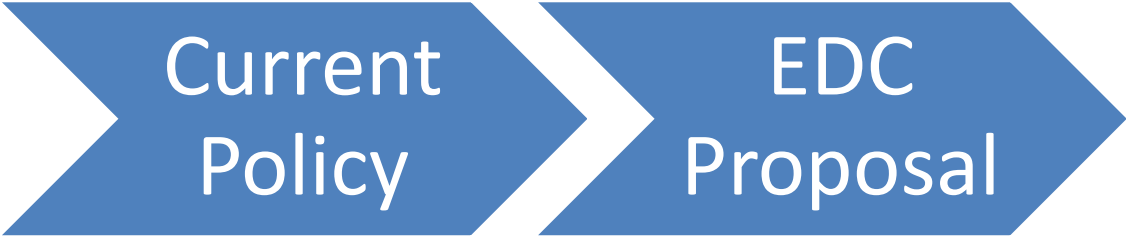


Equity participation payments are the least important part of the city's return but one of the biggest sticking points in closing deals

* Calculated on standard city assumptions at 50% of increment using a 7% discount rate with 100 year time horizon

** Paid through property taxes, not direct payment; assumes actual interest rate in lieu of using 7% discount rate

The Issue of Guarantees



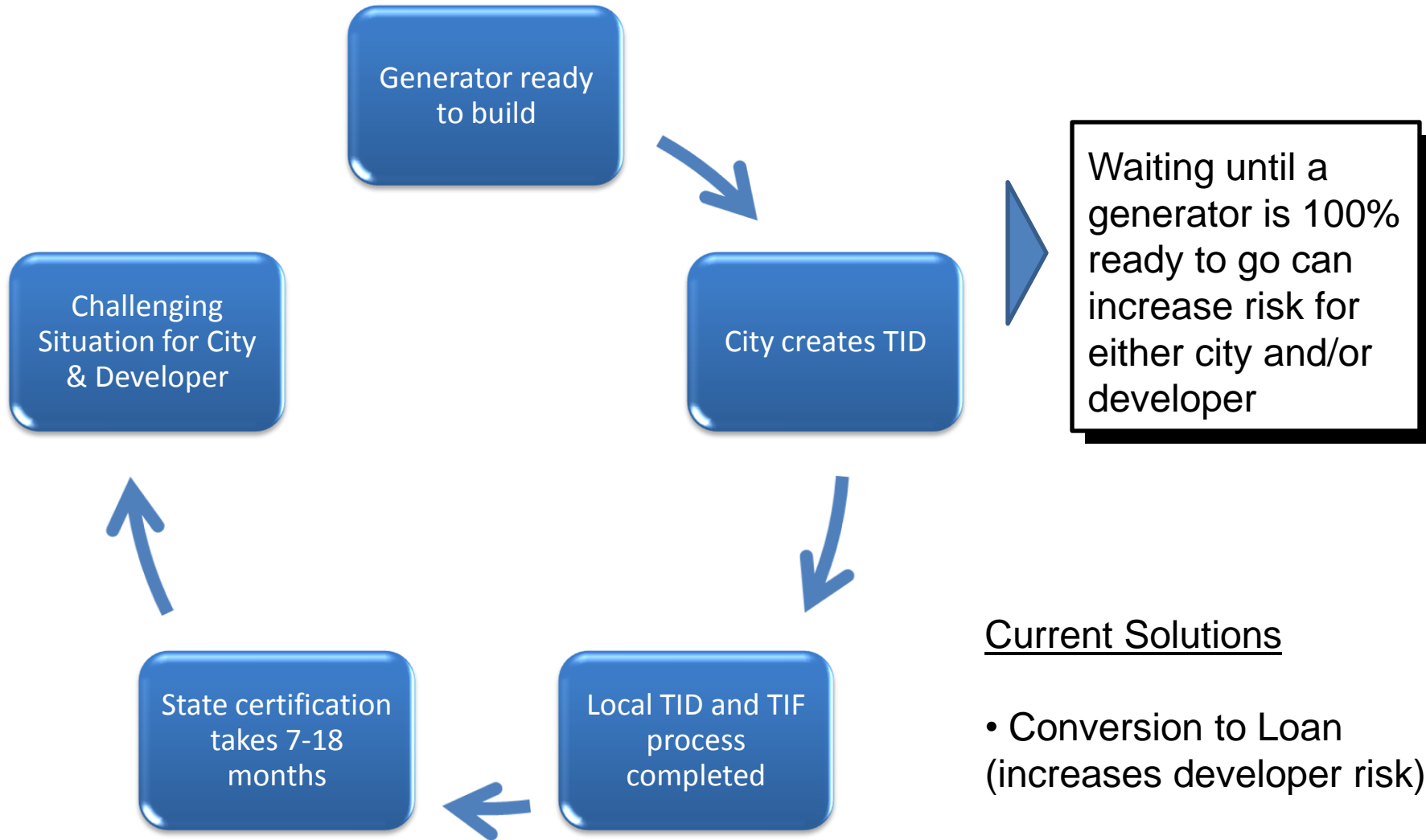
Personal
Guarantee
Required

Guarantee
acceptable
to City
required

**Personal
Guarantee
generally desired**

- Possible reasons
for other guarantee**
- Nonprofit
 - Corporation or employer is applicant
 - City TID need for generator greater than need for security
 - High risk, highly desirable development

Generator requirement can cause an issue



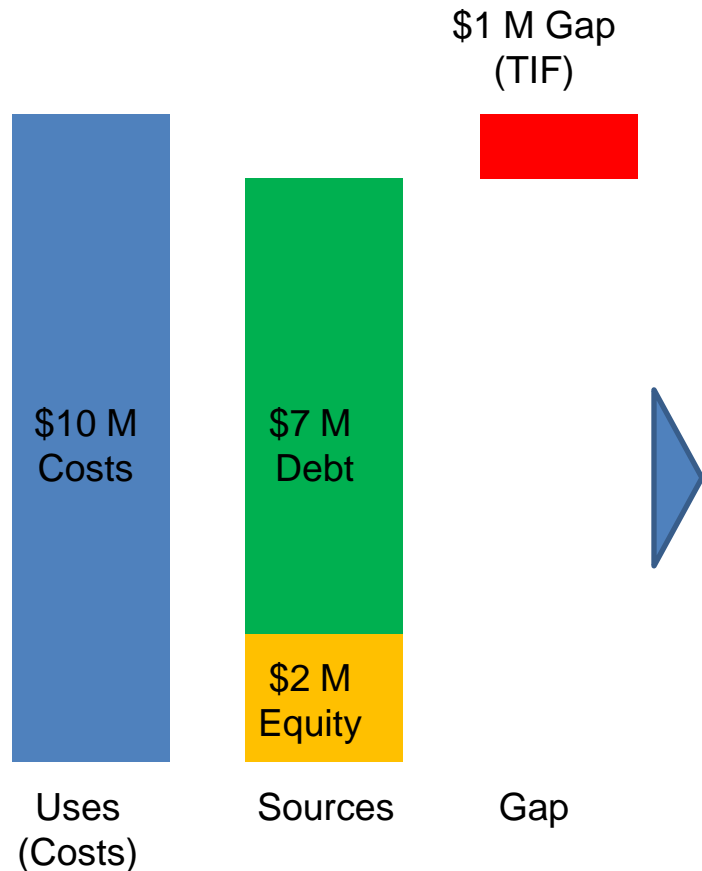
Current Solutions

- Conversion to Loan (increases developer risk)
- City bears risk (increases city risk)

City's Method Doesn't Always Translate for Companies

Schematic of City's Underwriting Method

City's Underwriting Method



Comments

- Analysis of gap useful in demonstrating that “but for” TIF, the project would not occur
- Gap financing method especially relevant to developer real estate projects
- Gap analysis is less useful in situations where employers are making location or investment decisions
- Companies allocate capital based on expected returns
- Sometimes a subsidy is required to make Madison projects more attractive than other projects (“but for” the subsidy, the project may happen elsewhere)
- Other communities use TIF as an incentive
- City needs to develop policy to address situations where “competitive factors” are at play*

* See City Attorney Opinion, “Legal Limitations on Tax Incremental Financing (TIF)” dated August 5, 2009

Affordable housing challenges City's TIF Policy

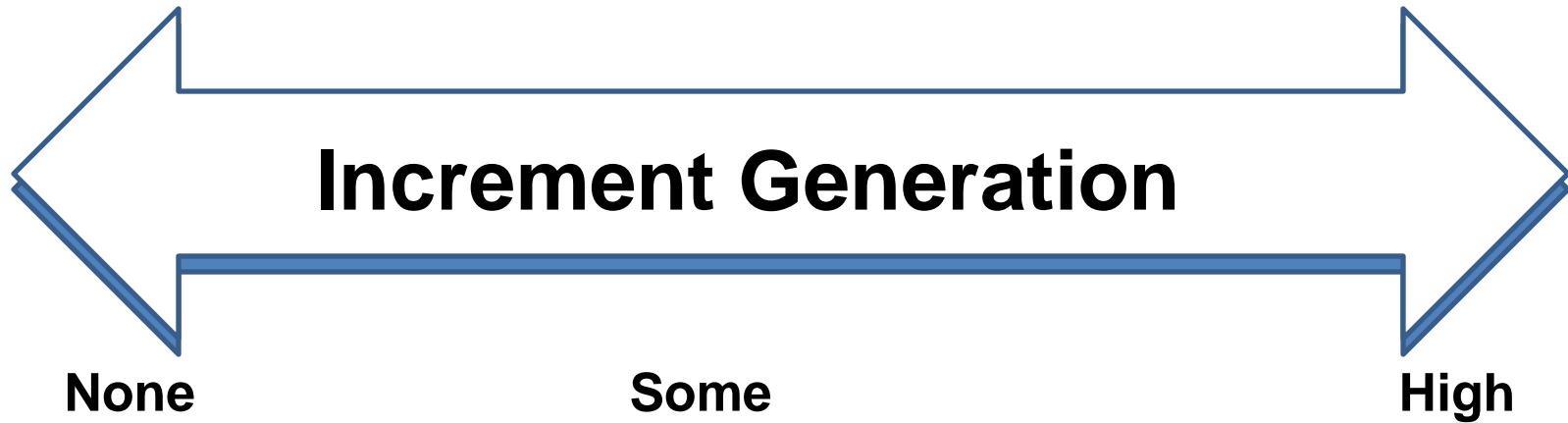
**Difficult for Developers to
secure LIHTC without TIF**

The Affordable Housing Catch-22

**But Affordable Housing
projects with LIHTCs:**

- 1) Often don't have gap**
- 2) Often generate minimum
increment**

EDC's affordable housing solution



Public Good

User of increment

Example: Public Infrastructure

Hybrid Good

Small user; small generator of increment

Example: Affordable Housing

Private Good

Generator (and user) of Increment

Example: Private development

Consider employing Pay-As-You-Go when indicated

Traditional Financing

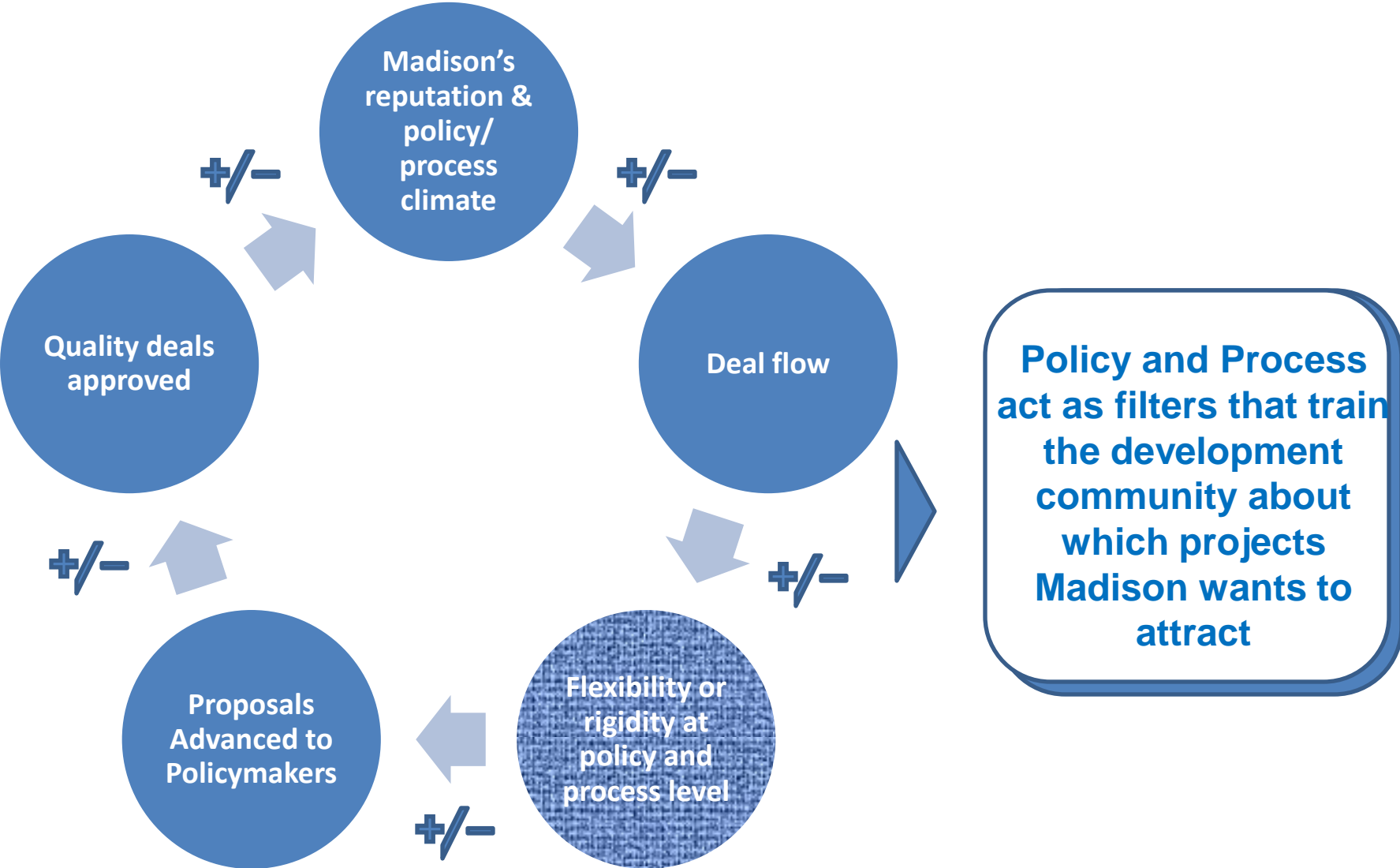
Pay-As-You-Go

	Traditional Financing	Pay-As-You-Go
Who incurs Debt?	City	Developer
Timing of TIF expenditure	Up front	Over time
Interest rate	Low (City rate)	Higher (Developer rate)
Method to transfer risk to Developer	Guarantee	N/A (Nature of Pay as you go)
Interface with multi-phase projects	Difficult to negotiate multi-phase guarantees up front	Creates incentive to complete multi-phase projects

Conventional vs. Pay-As-You-Go

Method	CONVENTIONAL FINANCING	PAY-AS-YOU-GO FINANCING
Chief Advantages	<p data-bbox="751 494 1083 596">Lower interest payments</p> <p data-bbox="697 665 1137 768">More increment for infrastructure</p>	<p data-bbox="1392 494 1763 596">Shifts risk more effectively</p> <p data-bbox="1344 665 1812 768">Creates greater incentive to develop</p>
Likely Scenario	<p data-bbox="653 943 1174 1046">Straightforward single-phase projects</p> <p data-bbox="697 1115 1137 1160">Lower risk projects</p> <p data-bbox="653 1229 1182 1275">Increment around 50%</p>	<p data-bbox="1335 943 1821 1046">Complex multi-phase projects</p> <p data-bbox="1354 1115 1802 1160">Higher risk projects</p> <p data-bbox="1325 1229 1831 1275">Increment above 50%</p>

A Virtuous or Vicious Circle of Quality Development



What should we be filtering for?

- **Quality of Design**
- **Place-making**
- **Infill Development**
- **Sustainability**
- **Planning**
- **Transit-Oriented**
- **Quality of Jobs**
- **Mix of Uses**
- **Historic Preservation**
- **Adaptive Reuse**
- **Catalytic Impact**
- **<50% of increment**
- **Personal Guarantee**
- **Equity Participation**
- **\$3 million + Generator**