

MEMORANDUM

TO: Board of Estimates
FR: Joe Gromacki, TIF Coordinator
DATE: March 15, 2016

SUBJECT: TIF REPORT: MADISON DAIRY

Project Description

Stone House Development proposes to construct a project located in the north 1000 Block of E. Washington Avenue, adjacent to Tax Incremental District (TID) #36.

TIF Loan assistance for this project, totaling \$3,450,000, is authorized by two separate resolutions for the Common Council's consideration. The first resolution authorizes \$2,885,000 for 140 market rate apartments, 61,000 square feet of office, 18,000 square feet of retail and 362 structured parking stalls. The second resolution authorizes \$565,000 for the development of a 65-unit affordable housing component (55 affordable and 10 market units) and 50 structured parking stalls. The affordable housing component was also awarded \$1,000,000 of assistance from the City's Affordable Housing Initiative (AHI) fund in 2015.

The separation of these two TIF loans that provide financial assistance to two components of the same development is due to federal low-income housing tax credit regulations that exclude commercial and retail-related costs, including parking, from tax credit consideration.

In early 2016, staff will introduce an amendment to the Project Plan and Boundary for TID 36 to include this and other projects to be implemented in the district during its remaining lifespan. If a TIF funding resolution is authorized by the Common Council, a TIF loan to this project would also be contingent upon TIF Joint Review Board approval of the TID 36 Project Plan and Boundary amendment.

TIF Report

The following TIF Report is provided in compliance with Section 3.1 (8) of TIF Goals, Objectives and Process and Section 1 (9) of TIF Loan Underwriting Policy, adopted by the Common Council on February 25, 2014:

(a) **Amount Requested by Developer** \$3,450,000 (67% of TIF)

(b) **Type of Project** Redevelopment

(c) **Analysis Method** Gap Analysis

(d) **Tax Credits:**

Tax Credit Request	\$6,150,000
Self-Score	283
Maximum Possible Score (After WHEDA Review)	328

(e) **Estimated Assessed Value and Tax Increments:**

Estimated Value	\$34,200,000
Total Estimated Tax Increments	\$10,031,000
Average Annual Tax Increment	\$780,000
TIF Supportable at 100%	\$5,196,000
Estimated Recovery of Proposed TIF Loan (Yrs)	9 years

(f) TID Condition:

At its creation, the TID 36 Project Plan authorized approximately \$22 million of expenditures. The Galaxie II project utilized the last remaining \$1.5 million of funding authorization allowable in the Project Plan. Hereafter, additional TID expenditures would require TIF Joint Review Board approval of a TID Project Plan amendment. Overall, the TID has been meeting financial obligations, although beginning in 2008, the national economic recession delayed growth in the district for quite some time, averaging only about \$450,000 of tax increment per year. 2014 tax increment improved to about \$800,000 per year and is projected to reach \$1.66 million in 2016. Although currently meeting its debt service obligations, the district has been unable to accrue any tax increment cushion in the event that the various development projects do not meet value growth expectations. **It is anticipated that staff will propose a TID 36 Project Plan and Boundary amendment in early 2016 to include this project and additional project costs going forward.** The last date that the TID may incur expenditures is September 6, 2027.

Year Created	2005
Years to Recover Cost	16
Avg. Annual TID Increment (To Date)	\$1,662,000
Unrecovered Cost	\$11,025,000
Estimated Cost Recovery To Date	10 yrs.
Estimated Cost Recovery With New Project	11 yrs.

(h) TIF Loan Underwriting Policy Compliance

The \$3,450,000 TIF Request is 67% of TIF thus requiring an exception to City of Madison TIF Policy. Developer equity is \$9,450,000 in compliance with TIF policy that equity equal or exceeds the amount of TIF provided. Both principals of Developer are providing a personal guaranty.

(i) Amount of TIF to Be Considered

TIF staff requests that BOE authorize TIF assistance not to exceed \$3,450,000, representing 67% of TIF and contingent upon TIF Joint Review Board approval of a TID 36 Project Plan and Boundary amendment.

TIF Eligible at 55% Gateway	\$2,857,000	
Total TIF for Consideration	\$3,450,000	67% of TIF

(j) Comments

See Stone House Development’s attached “TIF Policy Goals” EXHIBIT A that address the following questions regarding TIF Policy Goals, appropriateness and financial risk to the City:

- 1) Per Sections 1 and 3.4 of “TIF Goals, Objectives and Process”, how does the Project meet City and TID’s goals?**
 - A) Grows the City’s property tax base
 - B) Fosters the creation and retention of family-supporting jobs
 - C) Encourages the re-use of obsolete or deteriorating property
 - D) Encourages urban in-fill projects that increase density consistent with the City’s Comprehensive Plan

- E) Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts.
- F) Creates a range of housing types, specifically encouraging affordable housing
- G) Funds public improvements that enhance development potential and improve City's infrastructure
- H) Promotes superior design, building materials and sustainability features
- I) Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting

2) **Is the TIF Loan amount appropriate and in the public interest?**

3) **What is the financial risk to the City?**

(k) **TIF Policy Exceptions**

55% Gateway—No more than 55% of the TIF generated by a project shall be provided to the project without prior authorization of the Board of Estimates in closed session. On January 25, 2016, the Board of Estimates authorized an exception to the 55% Gateway for the project.

(l) **Known Labor Agreement, Law Violations**

None indicated.

EXHIBIT A

Madison Dairy Redevelopment Proposal

TIF Policy Goals

Section 1 –

A. Growing the property tax base

The site currently is primarily an abandoned dairy building, with the exception of a small parcel currently owned and operated by a Car X muffler franchisee. Tearing down the abandoned dairy factory and constructing approximately 200 apartment units, 50,000 square feet of office space, 12,000 square feet of retail space and a parking structure with 350 stalls will bring over \$30 million dollars in new taxable value on the approximately half of the site that is currently planned for redevelopment. The second half of the site, Phase II, can be programmed to mirror the current program for Phase I adding potentially another \$20-\$30 million in value.

B. Fostering the creation and retention of family-supporting jobs.

Currently there are no people employed on the dairy site. The housing and retail components will create new jobs and both prospective office tenants are expanding their employment base once they relocate to this site.

D. Encouraging urban in-fill projects that increase density consistent with the City's Comprehensive Plan.

The City's Comprehensive Plan indicates that the site is located in a "special area", that being the East Capitol Corridor Gateway. The site is controlled by Urban Design District 8 standards. The parcel is approximately half medium density residential and half medium density residential/employment. The proposed Phase I project complies with all City zoning and land use plans, except is seeking a variance for an 11th floor community room. City Staff has indicated that keeping the community room less than 25% of the 10th floor floorplate should ensure that it receives the variance. The developer has attended numerous meetings with staff on Phase I and one DAT meeting.

F. Creating a range of housing types and specifically encouraging the development of workforce and affordable housing, especially housing that is for those earning much less than the area median income.

The project contains 55 units of affordable housing which represents more than 30% of the proposed housing units on the site. These units will be restricted to individuals and families earning far less than the area median income. The breakdown is as follows: 25% of the affordable units will be set aside for people whose incomes are at or below 30% of the Dane

County median income; 30% of the affordable units will be set aside for people whose incomes are at or below 50% of the Dane County median income; and 45% of the affordable units will be set aside for people whose incomes are at or below 60% of the Dane County median income.

G. Funding public improvements that ... improve the quality and livability of neighborhoods.

While not a public improvement, the project includes a parking deck with 350 stalls. The deck is across Brearly Street from Breese Stevens Field. It is anticipated that some public parking will be available in the deck for night and weekend events at Breese Stevens.

H. Promoting superior design, building materials, and sustainability features in the built environment.

As noted above, the site lies in Urban Design District #8. The developer has presented Phase I to UDC for informational purposes and received positive feedback. Both the office/housing tower and the affordable housing component will display superior design and utilize high quality building materials.