

MEMORANDUM

TO: Common Council
FR: Joe Gromacki, TIF Coordinator
DATE: March 20, 2024

SUBJECT: TIF REPORT (REVISED Figure 1) – Vermillion Madison LLC

Project Description

Vermillion Madison LLC, (“Developer”) proposes to construct a residential project consisting of 328 market-rate apartment units and 361 parking stalls (the “Project”) (see **Figure 1**). The Project is located at 1617 Sherman Avenue, the site of the former Filene House, in Tax Increment District (TID) 54 and is also located in a U.S. Census Bureau Opportunity Zone (**Figures 2 and 3**).



Figure 1

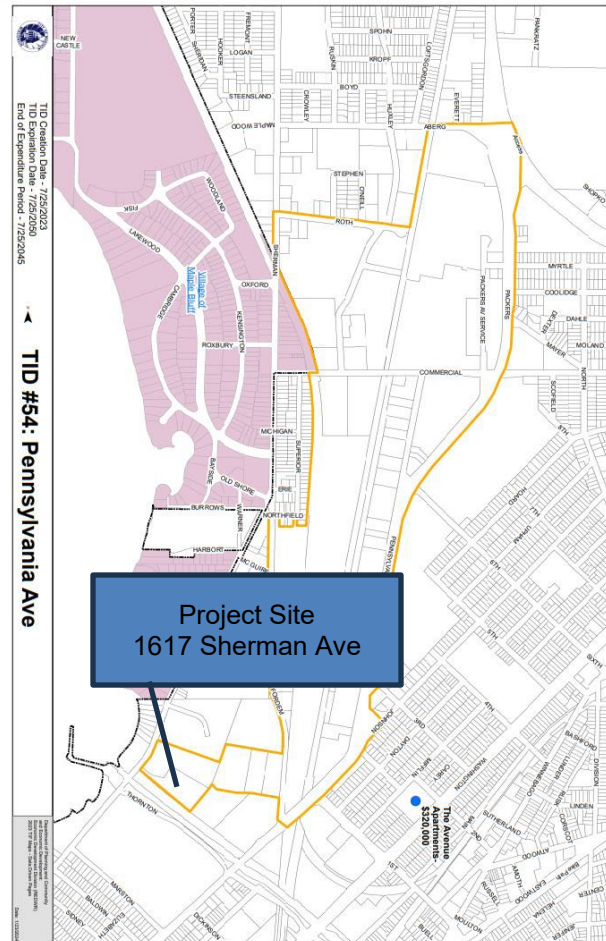
The Project demonstrated a gap of approximately \$1,669,000 or the difference between total project cost of approximately \$96,572,000 and capital sources of approximately \$94,903,000. The estimated assessed value of the Project is \$79,530,000.

The primary cause of the gap is the cost of upgrading sanitary sewer to accommodate increased capacity of multi-family residential development on the site and associated infrastructure costs. Recommended TIF assistance of \$1,669,000 is 15% of the present value of tax increments generated over the life of the TID, in compliance with the 50% Rule in TIF Policy.

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:** \$1,669,000 (15% of TIF)
- (b) **Type of Project:** Redevelopment, Housing
- (c) **Analysis Method:** Gap Analysis
- (d) **Tax Credits:** None.



(e) Est. Value and Tax Increments:

Approximate Project Cost	\$96,572,000
Estimated Assessed Value	\$79,530,000
Total Estimated Tax Increments	\$14,707,000
Average Annual Tax Increment	\$ 400,800

(f) TID Condition:

The Project is located within Tax Incremental District (TID) 54 (Pennsylvania Ave) which the City created in 2023. TID 54 stretches along Pennsylvania Avenue to Packers Avenue, bounded by Thornton Avenue to the southwest and Aberg Avenue to the northeast. **(Figure 2).**

There is limited value growth from other private development in the initial years of a newly created TID such as TID 54. Affordable housing projects such as the recently approved Huxley Yards (on the former Hartmeyer site), which suppress rents for long periods of time for the purposes of affordability, are assessed lower (anywhere between 30% and 45% of market value) than comparable market rate projects.

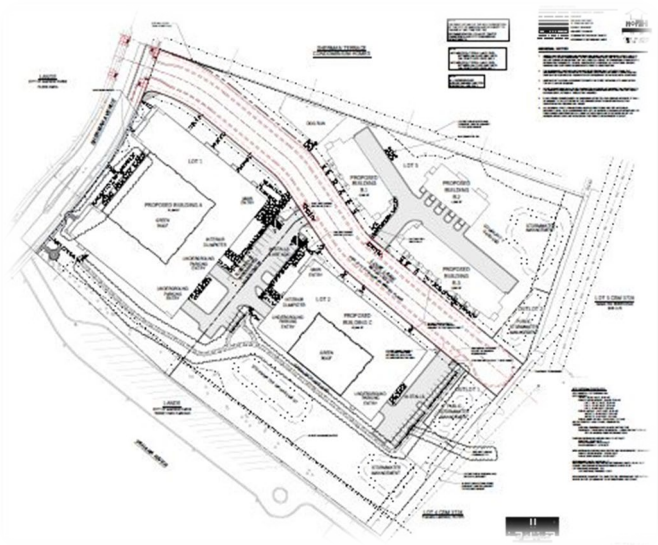


Figure 3

Although market-rate projects such as the Project perform better in terms of tax increment generation, and the TIF assistance to the Project is utilizing only 15% of the projected tax increments, it is anticipated that the TID will need a significant amount of time to accumulate tax increments that will provide the TID with adequate financial cushion.

Therefore, it is financially prudent to limit TIF assistance to no more than the maximum amount allowable under TIF Policy (50% Rule), thus providing financial cushion for market uncertainty and funds for public works improvements, if necessary and feasible, in the future.

(g) TIF Policy Compliance

Developer Equity—Developer equity is approximately \$35,000,000 of Opportunity Zone fund equity from investors that receive income tax incentives for investing in such areas. Developer is providing a corporate guaranty for the Project. The equity amount exceeds TIF Policy requiring that the developer equity must be equal to or greater than the amount of TIF assistance. The project is therefore in compliance with the equity investment requirement.

(h) Other Applicable

- 1) Quantity of living wage jobs created and/or retained. **See TIF Goal Statement (Figure 4.)**
- 2) Quantity of affordable housing units and level of affordability. **See TIF Goal Statement (Figure 4.)**

(i) Amount of TIF to Be Considered \$1,669,000 (15% of TIF)

(j) Developer’s TIF Goals Statement— TIF Policy requires that Developer provide a statement **(See Figure 4)** as to how the project addresses the following TIF Policy Goals:

- 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

(k) **TIF Policy Exceptions:** **None.**

(l) **Known Labor Agreement, Law Violations:** **None indicated.**

Staff Recommendation: TIF assistance in the amount of \$1,669,000 or 15% of TIF generated by the project.

Figure 4: Applicant's TIF Policy Goal Statement

TIF Application – Policy Statement

Vermilion's development on Sherman Avenue calls for the demolition and redevelopment of an infill property on the near east side of Madison located at 1617 Sherman Ave (the "Project"). The Project meets several of TIF's Policy Goals as detailed below.

1. Growing the property tax base.

The property at 1617 Sherman Ave. is currently a two-story building with an assessed value of \$3,681,600. The Project is anticipated to be valued at approximately \$80 million. According to the Tax Incremental District Project Plan for TID 54, the Vermilion project is expected to deliver over 43% of the total increment required under the plan for public projects.

2. Encouraging urban in-fill projects that increase (or decrease where appropriate) density.

The site is approximately 8.5 acres of land, the majority of which is undeveloped. Increasing density in this area is a goal for the [City](#).

3. Consistent with the City's Comprehensive Plan.

The Future Land Use Plan for the City calls for the site to be medium density residential, which is consistent with the development.

4. Funding public improvements that enhance development potential, improve the City's infrastructure, enhance transportation options, and improve the quality and livability of neighborhoods.

As part of this project, Vermilion has been required by the [City](#) to reconstruct an off-site sewer serving the neighborhood. The sewer will likely assist future development in the neighborhood as well. The new street will require Vermilion to dedicate about 1.5 acres of land to the [City](#) as part of the City's street connectivity goals identified by the Planning Department.

5. Reserving sufficient increment for public infrastructure in both TIF project plans and TIF underwriting.

The Project is required for TID 54's Project Plan to remain feasible. The Project is considered a generator for the TID and the TID's anticipated project costs rely on the anticipated tax increment the Project will generate. However, the Project Plan does not anticipate using TIF to assist the Development. The request for TIF is a function of the City's need for the public improvements to the street and sewer, which ultimately benefit the [City](#).

Vermilion's TIF request is below 50% of the anticipated generated increment, which will provide an adequate source of funds for future public improvements.