

MEMORANDUM

TO: TIF Policy Committee
FR: Joe Gromacki, TIF Coordinator
DATE: January 7, 2008
SUBJECT: Madison TIF Milestones, Performance Summary of Closed TIDs Since 2005

Background

At its December 3, 2007 meeting, the TIF Policy Committee asked staff to provide an updated performance report of Madison's Tax Incremental Districts based upon an April 12, 2005 report to the 2004-05 TIF Policy Committee concerning industrial Tax Incremental Districts (TIDs). This report examines milestones and performance of both the industrial TIDs from the 2005 report and adds data concerning several blighted area TIDs (12 TIDs in total) that have closed as of 2007. The purpose of this report is to assist in the committee's discussion of TIF Policy objectives by analyzing final performance figures of these sampled TIDs. The more recently closed TIDs (#24 and #28) have provided estimates of final costs at this time as staff is finalizing audits. **A map indicating the locations of this sampling of TIDs is attached for your reference.**

Madison TIF Milestones

The following is a timeline description of key milestones in both blighted area and industrial TIDs in the City of Madison:

- 1977** **Madison's First TID--** Using the recently enacted TIF Law, the City of Madison's very first Tax Increment District or "TID" is industrial. TID #1 (Broadway Industrial) is located in the southeast corner of Madison in the vicinity of Broadway and USH 51.
- 1984** TID #1 recovers all **\$474,000** of its project costs through tax increment and closes after approximately 7 years. Incremental value growth created: **\$11,095,895**
- The City creates TID #12 (Broadway Industrial II) in the same general area of southeast Madison but with a broader boundary than TID #1.
- The City creates TID #13 (Rayovac) in an effort to retain Rayovac as a major Madison employer (approximately 332 jobs at the time). **\$3,200,000** of TIF assistance enables the company to purchase and develop land on the site where their headquarters is located today.
- 1988** The City creates TID #19 (West Rail Corridor) in conjunction with the Alexander Company to redevelop the blighted rail corridor parallel to Regent Street and heading west from West Washington Avenue.
- 1992** The City creates TID #22 (Corporate Center) to assist development of Robert Blettner's Madison Corporate Center on Madison's east side. The TID is bounded by Corporate Drive, Regas Road and Hwy 51.
- 1995** **TIF Law Changes--**The Wisconsin Legislature enacts significant changes to TIF Law, including reducing the 10-year expenditure period to 7 years, and the life of TIDs from 27 to 23 years. The law also enables cities to adopt no more than two "donor-recipient" plans wherein excess increment may be donated from one district to another for a five-year period.
- 1st Donor-Recipient Plan—**As costs outpace growth in TIDs #15, #21, #22 and #25 from projections, the City creates its first donor-recipient plan to infuse **\$10,500,000** beginning in 1996 of increment from donor TIDs #6 and #14.
- The City creates TID #24 (Southeast Industrial), covering a larger area around the original TIDs #1 and #12 and a significant amount of underutilized and vacant acreage in the southeast corner of Madison.

- 1996** TID #12 district closes after approximately 12 years, having creating **\$20,029,800** of incremental value growth. The City has provided **\$989,400** of TIF assistance for two small projects, including Four Lakes Label (\$90,400) and W.T. Rogers (\$899,000).
- 2000** **2nd Donor-Recipient Plan**--The City of Madison adopts its second donor-recipient plan but plans to close TID #6 as a donor and allows excess increments from TID #14 to be donated to TID #15, #22 and #25.
- 2001** TID #6 is closed after 20 years, the last 5 years as a donor TID/ Incremental value is \$48,200,100. Of the \$19 million of cost, approx. \$6 million was donated to TIDs #15, #21, #22 and #25.
- TIF Policy Adopted**—Madison Common Council adopts a TIF Policy document that includes general industrial and economic development objectives and specific policies concerning the implementation of TIF in Madison.
- 2002** TID #13 recovers all its costs through tax increments and closes in 2002 after approximately 15 years, having created **\$19.8 million** of incremental value growth. The objective of TIF its creation was to retain 332 jobs. The company now employs 750 people.
- TID #19 (West Rail Corridor) is closed. Incremental value is \$27.2 million, recovering costs of \$6.2 million. Alexander sells several of the properties to third parties, paying the City approximately \$1.2 million of equity participation. The district also generates approx. \$500,000 of excess increment that is apportioned among overlying tax jurisdictions.
- 2003** TID #22 (Corporate Center) closes after approximately 11 years, having created **\$19,008,000** of incremental value growth. The City invested approximately **\$5,600,000**, including \$3,000,000 of infrastructure including grading and storm water drainage, \$1,150,000 of right of way acquisition and relocation, and \$1,450,000 of City borrowing cost to facilitate the project. Donor increment from TIDs #6 and #14 contributed approximately \$3.2 million toward closing the district in a timely manner.
- 2004** **TIF Law Changes**--The Wisconsin Legislature enacts sweeping TIF Law changes. These include reducing the life of industrial districts from 23 to 20 years and increasing the expenditure period from 7 to 15 years. A city may also amend an industrial TID to add an additional 5 years in the 18th year of the district's life provided an independent audit demonstrates to the Joint Review Board that the district is unable to pay off its project costs within 20 years of its creation. A blighted area TID increased from 23 to 27 years and its expenditure period from 7 years to 22 years.
- 2005** The City creates TID #34 (Covance) in northeast Madison to pay for public improvements that will facilitate the estimated \$57,000,000 Covance expansion project. The City forecasts that tax increments on the estimated \$25,000,000 incremental value could pay for approximately **\$6,700,000** of public improvements.
- 2006** **TIF Policy Amended**—The Common Council adopts its first amendment to TIF Policy after two years of committee work. Key changes are an outline of the TIF process, re-organization of the document, policies concerning the creation of TIDs, equity participation payments and developer's land cost due diligence.
- 2007** TID #14 (Capitol Square North) is closed after 22 years, the last 10 years as a donor district contributing \$12.2 million to four recipient TIDs. In addition, the district distributes approximately \$1.5 million of excess increment to overlying jurisdictions and posts a final incremental value of over \$70 million.
- 2008** TID #34 (Covance) will close in 2008 after only two years of operation when it fully recovers \$114,000 of project costs. An additional \$900,000 of State of Wisconsin Transportation Economic Assistance (TEA) grant funds paid for the remaining costs, in lieu of TIF. The Covance expansion has resulted in \$36 million of new value in the creation of 330 new jobs.

TID #24 (Southeast Industrial) will close in 2008 after fully recovering all \$14.5 million of the project costs. Development projects within the TID and value growth over time create approximately \$184 million of value. The City provided \$2,310,000 of business loans to attract or retain the following companies in TID #24:

TID #24 Business Loans

TID #24 Company	Year	TIF Loan Amount	Jobs Retained	Jobs Created
World Dairy Center*	1995	\$ 1,400,000	NA*	NA*
Kornell Properties	1997	200,000	65	10
Westphal Associates	1999	50,000	20	0
Temperature Systems, Inc.	2001	75,000	74	3
Jaeckle Wholesale, Inc.	2002	100,000	55	0
Westphal Associates, #2	2006	135,000		
FE Petro/Franklin Fueling Systems	2003	200,000	65	70
Isthmus Engineering	2004	150,000	40	6
TOTAL		\$ 2,310,000	319	89

*World Dairy Center is an industrial park land development project. To date, no data is available as to the number of jobs retained or created as a result of businesses constructing facilities in the industrial park.

TID #28 (Bassett) will close in 2008 after fully recovering approximately \$12.7 million in project costs. Development projects within the district created an estimated \$278 million of incremental value.

Summary and Conclusions: Closed TIDs Since 2005

General observations of the sample data are as follows:

TIF Project Costs, Incremental Value at Closure

TID No.	Total Amount of TIF Project Costs	Incremental Value at Closure	Years Active
#1 (Broadway Industrial)	474,000	11,095,895	7
#6 (Capital Center)	19,608,692	48,200,100	20
#12 (Broadway II)	989,400	20,029,800	12
#13 (Rayovac)	3,200,000	19,808,400	15
#14 (Capitol Square North)*	12,187,811	70,489,650	23
#15 (Capitol Square South)	8,903,144	43,189,000	19
#19 (West Rail Corridor)	6,247,062	27,189,500	13
#21 (Olbrich)	641,000	(780,400)	4
#22 (Corporate Center)	5,600,000	19,008,000	11
#24 (Southeast Industrial)	14,540,000	184,000,000	7
#28 (Bassett)	12,728,000	278,473,400	8
#34 (Covance) **	114,383	36,014,600	2
Totals	\$85,233,492	726,848,445	

←← TIDs officially close in 2008

*TID #14 amended four times, twice for donor-recipient plans, donating \$12.2 million.

**TID #34 costs were supplemented with a \$900,000 TEA grant from the State of Wisconsin.

- 1) Based upon the sampling, incremental value growth has been significant enough for non-donor TIDs to recover cost and close in an average 10.1 years. Including donor TIDs, the average TID life was 12.4 years.
- 2) The City of Madison invested \$85 million of infrastructure and TIF loan costs in the 12 TIDs sampled, leveraging \$726 million of value or about a 1:9 leverage ratio.

3) Industrial TID Objectives—

TID #13 (Rayovac) exceeded its original job retention objectives (332 jobs), employing 750 at the time of TID closure.

TID#24 (Southeast Industrial) far exceeded incremental value expectations recovering all of its costs in 7 years. The district also spent all \$14.5 million of capital expenditures authorized in the project plan. However, although a significant figure (\$184 million of incremental value) at closure, TID #24 did not achieve \$368 million of incremental value projected at the time of its creation. Of the 9,200 jobs projected, it is uncertain how many jobs have been created in the TID. TID #24 also funded seven TIF loans to private businesses totaling approximately \$2.3 million creating or retaining 408 jobs.

TID #34 (Covance) achieved both value and job retention expectations in two years. Due to \$900,000 in State of Wisconsin TEA grant assistance, the district did not spend as much TIF on capital improvements (\$114,000) and was thereby able to accelerate cost recovery and closure.

TID #22 (Corporate Center) tax increments lagged in comparison to projections and the district was unable to recover its cost without \$3.2 million of donor district assistance. The City could have opted to let the district's increment catch up over time but opted to make use of the donor-recipient program initiated into TIF Law in 1995. Perhaps the value expectations at the time were too optimistic for a commercial park considering the high level of non-assessable infrastructure cost that was required at its onset.

4) Blighted Area TID Objectives—

TID #14 (Capitol Square North)—The generator projects for the district included 44 on the Square and the Concourse Hotel to eliminate blighted conditions. The project plan included a \$3.6 million covered “pedestrian skywalk” linking several of the buildings that was never implemented.

TID #15 (Capitol Square South)— The TID #15 project plan set broad objectives, including elimination of blight and reversing a trend of retail vacancy and property value decline in the Capitol Square (61% of property the same or lower value). The plan also included a \$2 million skywalk proposal that was intended (but never built) to link all the major property around the Capitol. Several TIDs created at that time (#14, #23 and #25) included skywalk proposals that were never constructed. TID #15 was also contributed to the construction of private parking ramps at Block 89 to eliminate parking pressure that existed in the south Capitol Square at that time and public improvements such as Olin Terrace.

TID #19 (West Rail)—The West Rail Corridor was a highly contaminated, blighted area that bordered West Washington Avenue and Regent Street and included the vacant and deteriorating City Station. Environmental remediation of the site, historic revitalization of the City station and establishment of commercial and office uses in the West Washington Avenue area were key objectives that were achieved.

TID #28 (Bassett)—As of 2000, when the district was created, approximately 95% of the Bassett Neighborhood and the Downtown was comprised of rental housing. Achieving equilibrium between rental and owner-occupied housing Downtown has been a Master Plan objective for over 30 years, culminating in the City's 2020 Downtown plan that forecasted that 4,500 owner-occupied units should be built downtown. The district greatly surpassed value projections in a very short time.

5) Excess Tax Increments at Closure—In five cases, closed TIDs generated excess tax increments to be apportioned among overlying tax jurisdictions. This is generally regarded as a positive sign and is favorably regarded by overlying taxing jurisdictions.

TID No.	Amt. of Excess Increment
TID #13 (Rayovac)	\$687,000
TID #14 (Capitol Square North)	\$548,000 (est.)
TID #19 (West Rail Corridor)	\$502,310
TID #24 (SE Industrial)	\$4,000,000 (est.)
TID #28 (Bassett)	\$3,400,000 (est.)

- 6) **Donor and Recipient TIDS**— Between 1996 and 2006, the City adopted two donor-recipient plans enabling donor TIDs #6 and #14 to contribute approximately \$18 million to the following recipient TIDs, listed below:

Recipient TID	Contribution by TIDs #6 & #14	Purpose of Donated TIF
TID #15	1,394,000	Kept pace with long-term debt repayment.
TID #21	643,000	CDA generator project became tax-exempt Olbrich Gardens
TID #22	3,213,000	TID generator was slower than projected to fully realize its value
TID #25	12,937,000	Repayment of approx. \$40 million of long-term debt incurred by the Block 89 and Hilton Monona Terrace projects.
Totals	\$18,187,000	

TIF Law changed again in 2004 to allow limited, multiple opportunities to use the donor-recipient clause pay for costs of environmental remediation, affordable housing or blighted area districts. Considerations in terms of TIF Policy, TID creation and management concerning donor-recipient TIDs are the following:

- a) Statistically, only two (2) of the City's 16 active districts as of 2005 qualified as donors. This suggests that donor TIDs are a finite resource. They should be used only when needed and used judiciously.
- b) The City's policy on requiring TIF generators is a good one. Special care must be taken to ensure that both increment and cost estimates are reasonable and conservative.
- c) The 50% Rule also contributes to sound TID management. In the event values are not realized, an increment reserve pays for ongoing costs.
- d) Developers' increment guaranty is still a sound TIF underwriting policy.
- e) The use of donor TIDs increases the amount of time a TID is active.
- f) TIF Law requires that the City demonstrate economic feasibility of a TID at its creation, i.e. that increments are sufficient to pay for costs. It is not sound policy to create under-performing TIDs in tandem with donor TIDs. Donor TIDs should be used solely as a remedy if a temporary shortfall occurs, not as a crutch for a TID projected to fail.
- g) In general, commercial and industrial parks take about 15 years to completely reach their full value potential. Exercise caution in estimating value and cost over longer periods of time.

