

MEMORANDUM

TO: Finance Committee
FR: Joe Gromacki, TIF Coordinator
DATE: July 10, 2018

SUBJECT: JOBS TIF REQUEST FOR GAP ANALYSIS WAIVER – CG Growth, LLC (Exact Sciences) Phase II

TIF Law “But For” Requirement

TIF Law requires that projects requesting TIF assistance meet a statutory “but for” requirement (i.e. “but for” TIF, the project could not proceed.)

City of Madison TIF Policy establishes that the City determines the “but for” through gap analysis, wherein Developers must numerically demonstrate that the project could not be financed without TIF assistance.

Jobs TIF - Gap Analysis Waiver Requirements

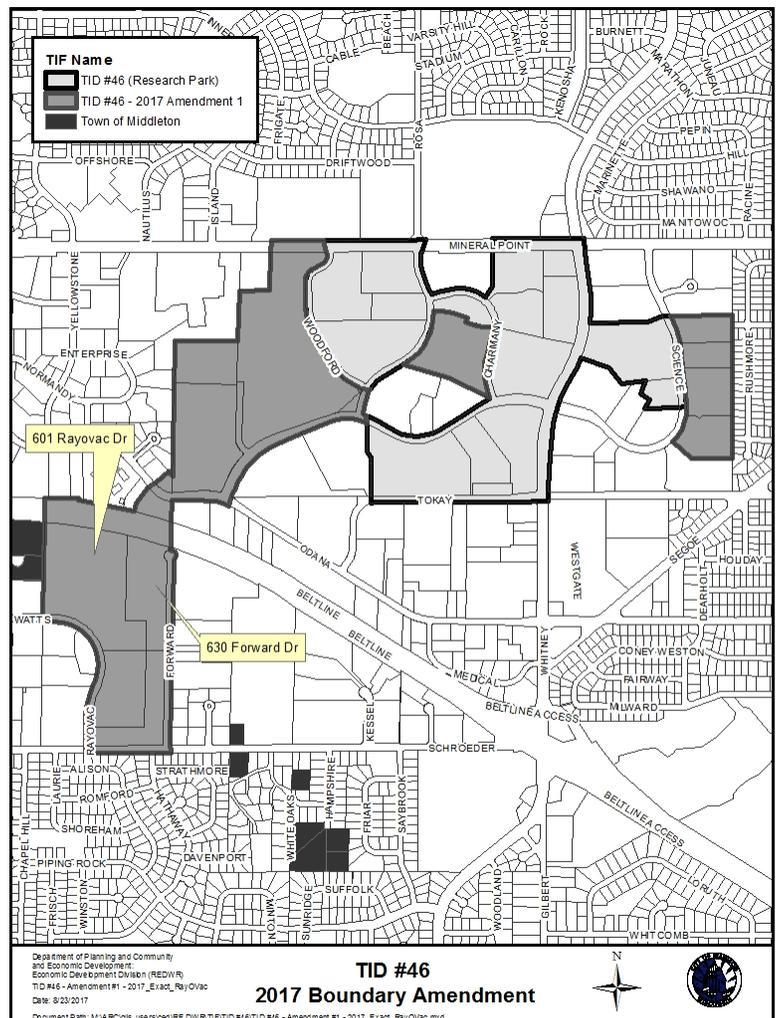
In 2013, the City adopted amendments to the TIF Policy that introduced the “Jobs TIF” program. Jobs TIF may provide 40% of the TIF generated by a project to an Employer that meets criteria for a gap analysis waiver. The Employer must retain and/or create at least 100 jobs and provide written evidence that another community has made a competing offer of financial assistance.

The City is currently considering making changes to the Jobs TIF Policy. However, the Common Council has yet to adopt these proposed changes.

Rayovac / 1 Exact Lane Background

In 1984, the City of Madison created TID #13 to fund the \$2.6M purchase of 49 acres of vacant land located on the West Beltline Highway. The City sold the parcel to Rayovac for approximately \$274,000 (a land cost write-down of approximately \$2.3M) for the development of its headquarters. The public purpose of the City’s investment was the retention of 1,200 jobs. The site is generally bounded by Forward Drive, Schroeder Road, Watts Road, and the Beltline Highway.

Figure 1



TID #13 recovered the cost of the land write-down in 2002, when the district was closed. Rayovac was subsequently purchased by Spectrum Brands, which over time, reduced the Madison staff. In 2013, Spectrum relocated more than 500 remaining employees to a new headquarters in the City of Middleton. The City of Middleton provided a TIF write-down to Livesey Development in the amount of \$4.2M to facilitate the relocation. The Rayovac property has been vacant since Spectrum moved to Middleton in 2013.

Exact Sciences Corporation was founded in 1995 and is currently occupying space at both 650 Forward Drive and 1 Exact Lane in Madison, WI.

Exact Sciences manufactures, markets, distributes and provides lab analysis to clients using their Cologuard product, a multi-target stool DNA test designed as a noninvasive colorectal cancer-screening test.

In 2017, Exact Sciences purchased the former Rayovac property with the intention of renovating it as a production, office, lab and warehouse facility.

Phase I Project

The Phase I project is located at 1 Exact Lane in Tax Incremental District (TID) #46 (Figure 1).

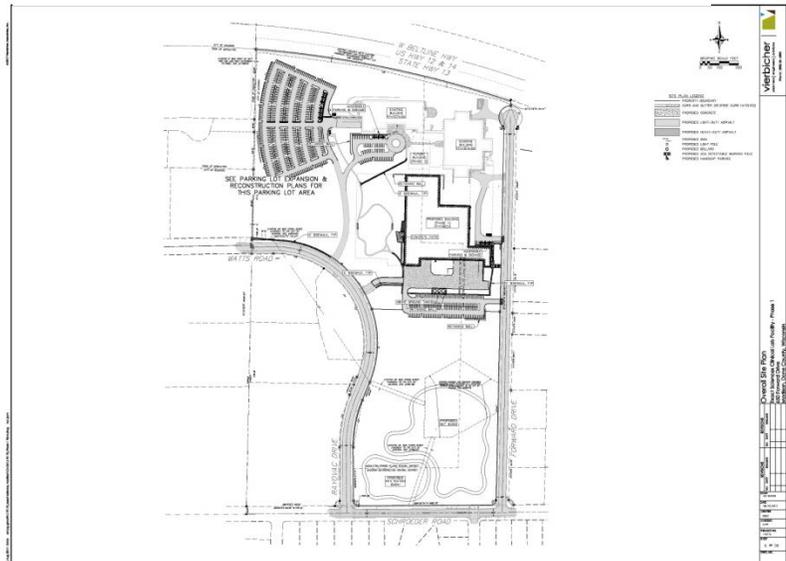
On August 18, 2017, CG Growth, LLC, a real estate holding company of Exact Sciences (the "Employer") submitted a Jobs TIF Application requesting \$2.5M of Jobs TIF assistance, representing 55% of the TIF generated by a proposed redevelopment of the former Rayovac property. The redevelopment consisted of the purchase and renovation of the 157,000 square foot vacant office building and the construction of a new 137,000 square foot laboratory at an estimated cost of \$57.3M (Figure 2). The Employer committed to the creation and/or retention of 250 jobs over five years. The City authorized \$2.5M of Jobs TIF assistance on October 17, 2017 (RES 17-00811). Phase I construction is under way. Employer has not yet closed on the Phase I Jobs TIF assistance.

Phase II Project – First Application

In late 2017, the Employer submitted a second application for TIF assistance, requesting an additional \$2.6M. This project included rehabilitation of the balance of the existing office building, construction of a new laboratory building, construction of a new office and amenities building, and an 800 stall parking structure. The total project cost was \$74,500,000. Staff determined that this project was not eligible for Jobs TIF under the City's current TIF policy, as the Employer had already chosen to locate at the 1 Exact Lane site and was not at risk of locating outside the City of Madison. Employer elected to apply for TIF assistance under the Gap Analysis process.

After reviewing the financial information in the TIF application, staff concluded that there was no financial gap and determined that the project was not eligible for assistance. In addition, during the review process, representatives for the Employer indicated to City staff both verbally and in writing that the Employer could finance the project without City TIF assistance.

Figure 2



Phase III Project - UW Research Park – Exact Sciences Headquarters

In February of 2018, University Research Park, Inc. met with staff regarding an application for \$7,212,673 of TIF assistance associated with the Employer's corporate headquarters. Ultimately, University Research Park, Inc. applied for \$2.6M in TIF assistance. Staff conducted a gap analysis of this project, which consisted of the construction of a 137,000 square foot office building, 338 underground parking stalls, and 134 surface parking stalls. The Common Council approved providing \$2.6M of TIF assistance to the University Research Park, Inc. for this project. This expenditure expended the last of the fiscal authority allowed in the existing adopted TID #46 Project Plan.

Phase II Project – 2nd Application

On June 20, 2018, Employer submitted a new Jobs TIF Application requesting \$2,600,000 of Jobs TIF assistance for a somewhat different Phase II project.

Project changes include moving ahead with the laboratory without TIF assistance, increasing the new office construction space from 70,000 to 109,000 square feet, decreasing the renovated space to 66,000 square feet and increasing the parking ramp from 800 to 970 stalls. The overall changes reduced the estimated project value from \$53.5M in the first Phase II application to \$39.4M in the second application.

Only 823 of the 970 parking stalls are accounted for in the value estimate for this project. The remaining 147 stalls are associated with the production lab that is currently under construction without TIF assistance. Providing TIF to the production lab portions of the redevelopment would violate TIF law because starting the project without TIF establishes that the statutory "but for" requirement of TIF cannot be met. Therefore, 147 parking stalls associated with it must be removed from these calculations.

The Employer also proposes to create an additional 250 jobs over five years – 50 FTE jobs per year for a five-year period. Wages will range from \$31,200 - \$200,000 per year.

Total estimated project cost is approximately \$71,000,000. The estimated assessed value of the project is \$39,423,000. A TIF run estimate of this value calculates that, if the Council authorizes an exception to TIF Policy as stated below, the project would be eligible to receive \$2,086,000 of Jobs TIF assistance at 40% of the TIF generated.

Status Report – 2nd Application for Phase II

TIF Policy requires that the Finance Committee review projects requesting one or more exceptions to TIF Policy in closed session, prior to drafting a Term Sheet and introduction of a TIF authorizing resolution. Staff presented Employer's second Jobs TIF application for Phase II to the Finance Committee on June 25, 2018. The Finance Committee gave no recommendation regarding an exception to TIF Policy.

Upon completion of term sheet negotiations, staff drafted an authorizing resolution that was introduced to the Common Council on July 10, 2018. The Finance Committee and Common Council must consider whether to grant an exception to current Jobs TIF Policy in order to provide Jobs TIF to the project.

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:** \$2,086,000
- (b) **Type of Project:** Jobs TIF
- (c) **Analysis Method:** Jobs TIF – Exception to Jobs TIF Policy
- (d) **Tax Credits:** Not Applicable
- (e) **Estimated Assessed Value and Tax Increments:**

Estimated Value	\$39,423,000
Total Est. Tax Increments	\$10,764,000
Avg. Annual Tax Increment	\$840,000
TIF Supportable at 100%	\$5,215,000
Estimated Recovery (yrs)	8 years

(f) **TID Condition:**

TID #46 was created in 2015 as a 20-year mixed-use TID. At its creation, the TID 46 Project Plan authorized approximately \$6.3M of expenditures. As of the most recent audit dated December 31, 2016, TID #46 has not generated positive tax increment. Based upon the most recent completed audit from December 31, 2016, TID #46 has approximately \$1,415,930 of outstanding debts. It is typical of newly-created districts, such as TID #46, to generate insufficient tax increment in the early years to meet its debt service obligations. Generally, tax increments from TIF generator projects begin to flow into the district in small amounts in the first 2-3 years and then reach full potential in about 4-5 years after its creation.

On March 21, 2017 the Common Council adopted RES 17-00250 authorizing a \$1.89M TIF Loan, representing 40% of the TIF, to Epicentre, Inc. to construct a corporate headquarters at 6102 Odana Road (also in the TID #46 Boundary and Plan amendment) and retain 100 jobs over five years. The Epicentre project was forecasted to generate approximately \$600,000 per year beginning in 2022, fully recovering the expenditure in about 6 years.

With the recent adoption of \$2.6M of TIF Assistance to UW Research Park (RES-18-00470) for construction of the Exact Sciences headquarters facility at 501 Charmany Drive, the TID #46 Project plan has expended the last of its currently authorized fiscal authority. The City must amend the TID #46 Project Plan to authorize further expenditure within the TID—a process that takes about three to four months. **Although the plan amendment process may start at any time, it must be completed and submitted to the WI Department of Revenue prior to December 31, 2018 in order to disburse funds in 2018.**

Year Created	2015
Years Remaining to Recover Cost	17 years
Avg. Annual TID Increment (To Date)	\$267,000
Unrecovered Cost ¹	\$1,415,930

¹ Source: Draft of 2017 TID #46 Audit. Does not include loans to Exact Sciences I \$2.5M, Exact Sciences III \$2.6M.

<u>Projected – Epicentre Loan</u>		
Unrecovered Cost – Epicentre TIF Loan		\$1,890,000
Estimated Tax Increment – Epicentre (Year 5)		\$600,000
Estimated Cost Recovery To Date		6 years
 <u>Projected – Exact Sciences Loan--Phase I</u>		
Unrecovered Cost – Exact Sciences TIF Loan ²		\$2,500,000
Estimated Tax Increment – Exact Sciences (Year 5)		600,000
Estimated Cost Recovery To Date		5 years
 <u>Projected—UW Research Park Loan (Exact Sciences HQ)</u>		
Unrecovered Cost – UWRP ³		\$2,600,000
Estimated Tax Increment		\$874,000
Estimated Cost Recovery		7 years

(g) TIF Policy Compliance

Equity—Equity invested by Employer is approximately \$68,914,000. This amount is in compliance with TIF policy that equity equal or exceeds the amount of TIF provided.

55% Gateway--The \$2,086,000 Jobs TIF Request is 40% of TIF.

Self-Supporting Projects—The Project generates tax increment sufficient to repay the TIF loan.

Guaranty—TIF staff will require that Employer provide a corporate guaranty of both increment and the loan agreement terms and conditions. Employer will be required to provide a guaranty of the jobs retained and/or created.

(h) Other Applicable

Job Retention—Employer estimates that 250 jobs will be created in the City of Madison over a five-year period.

(i) Amount of TIF to Be Considered

TIF Policy states that employers may receive no more than 40% of TIF as a Jobs TIF applicant with a gap analysis waiver.

Jobs TIF Requested	\$2,600,000	
Jobs TIF Eligible	\$2,086,000	40% of TIF

(j) Employer’s TIF Policy Goals Statement— TIF Policy requires that Employer provide a statement (**Figure 2**) 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

² Exact Sciences Phase I loan has not yet been disbursed.

³ UW Research Park – Exact Sciences Phase III has not yet been disbursed.

- 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

Jobs TIF Requirements—Employer proposes to create 250 jobs for a five-year period, however Employer does not meet the credible relocation risk requirement in current TIF Policy to make it eligible for Jobs TIF Assistance. An exception to current TIF Policy would be required.

Employer has provided a TIF Policy Goals Statement (**Figure 2**) demonstrating how the project meets other TIF Policy goals that make it eligible for a gap analysis waiver.

(l) Known Labor Agreement, Law Violations

None indicated.

Staff Recommendation:

The amount of Jobs TIF (with a gap analysis waiver) provided to an employer is guided by policy rather than empirical data from gap analysis. Policymakers must weigh the eligibility for a gap analysis waiver based upon the number of jobs being created and/or retained and judge whether the TIF Policy Goal Statement (**Figure 3**) submitted by the Employer justifies such a waiver. In addition, Policymakers must also determine whether to grant an exception to the City's currently adopted Jobs TIF Policy requirements as outlined in section (k) above, and with consideration for the pending TIF Policy changes that may be forth coming.

The TIF authorizing resolution includes the following terms and conditions of TIF assistance to Employer:

1. The TIF Loan is contingent upon Common Council authorization of an amendment to the 2018 Capital Budget authorizing the funding of a TIF Loan to the project.
2. The TIF Loan is contingent upon the amendment of the Project Plan for TID #46.
3. Employer shall provide a corporate guaranty that tax increment generated by the project shall be sufficient to recover the TIF Loan.
4. A principal of Employer and/or the Employer's corporate entity shall guaranty that not less than 250 jobs shall be created for a five-year period commencing on the date of occupancy.
5. At the anniversary of the job creation period, Guarantor shall certify job retention to the City.
6. In the event that job retention is below 250 jobs, Guarantor shall pay the City an amount per job for each job below the job retention threshold.

Figure 3

TIF Policy Goal Statement
Phase 2 TIF application
Exact Sciences Corporation/CG Growth LLC
Forward Drive/Exact Lane Campus
06 15 2018

1. We have not received the Assessor's estimate of new tax base, but the project will generate substantial tax increment.
2. The project will foster the retention of family-supporting jobs. All of the retained/created jobs enumerated in the application are at family-sustaining levels. There will be a diverse range of jobs and pay scales, with initial jobs projected to pay between \$31,200 - \$200,000 per year.
3. The project will re-use obsolete property. The 156,863 square foot former Rayovac office building was not built to current Class A market standards and was vacant for over 3.5 years when CG Growth LLC purchased it in Fall 2017. Exact Sciences plans to substantially renovate the 2nd and 3rd floors as part of the Phase 2 project if TIF funding is received.
4. The project is urban infill. By building a parking deck, CG Growth/Exact Sciences will maximize the ultimate buildout potential of the site.
5. The project will revitalize the former Rayovac office building and the campus, which will benefit from new parking lots, landscaping, and outdoor amenity spaces.
6. NA
7. The following public improvements will enhance the development potential of the site:

Driveway openings and public sidewalk along to-be-constructed east-west private roadway. Taken together, these improvements will alleviate congestion at peak hours by enhancing the connectivity of Rayovac Drive and Forward Drive. Designed in coordination with the Traffic Engineering Department, the road will improve the flow of vehicular traffic and enhance pedestrian safety on Forward Drive and Schroeder Road.

8. The project will promote superior design through the use of quality building materials and sustainability features. The design will take advantage of the storm ponds as curvilinear, landscaped water features, that will be linked to the rest of the campus through a network of pedestrian walkways. Onsite amenities will include an outdoor patio area and ample bicycle parking. The Office/Amenities will maximize natural daylighting to the extent possible, and the project team is incorporating a host of green design features into the project. The team hopes to achieve LEED certification at a Silver level or greater.
9. The project will reserve sufficient increment for public infrastructure.