

# DRAFT

## INTRODUCTION AND TIF GOALS

Tax Increment Financing (TIF) is a governmental finance tool that the City of Madison uses to provide funds to construct public infrastructure, promote development opportunities and expand the future tax base. The City of Madison seeks to use TIF to enhance the built environment in concert with adopted plans and to strengthen the City's economic foundation in an inclusive manner. Madison's goals for the use of TIF include:

1. Growing the property tax base
2. Fostering the creation and retention of family-supporting jobs and jobs that offer career ladders toward family-supporting jobs
3. Creating a range of housing options and specifically encouraging the development of workforce and affordable housing
4. Assisting in the revitalization of historic or architecturally significant or deteriorated buildings
5. Encouraging adaptive re-use of obsolete or deteriorating property
6. Encouraging urban in-fill projects that increase (or decrease where appropriate) density consistent with the City comprehensive plan
7. Enhancing transportation options by making it easier to walk, bike, use mass-transit, or employ other shared transit options
8. Promoting superior design, building materials, and sustainability features in the built environment

## TIF PROCESS

The City recognizes that some high-quality, desirable development projects cannot proceed without a public-private partnership that may involve TIF. The City actively invites developers to approach the City with these projects.

### **TIF and the Capital Budget**

To the extent that Economic Development Division staff is able to anticipate projects expected in the upcoming calendar year, staff will request Capital Budget allocations for pipeline projects. Developers are encouraged to make staff aware of upcoming projects prior to key Capital Budget deadlines. Typically these deadlines are:

Agency Requests	mid-June
Executive Budget	early September

The Mayor and Common Council may include a pool of TIF funding unallocated to specific Tax Increment Districts (TIDs). This pool may be allocated to specific TIDs on a majority vote based on a first-come, first-serve basis.

Developers should be aware that other TIF funding not included in the Capital Budget will require an extra-majority to adopt a budget amendment.

### **Targeted Development Areas**

The City recognizes the need to be proactive about strategically encouraging development in some areas. In particular, competing for employers that are seeking new space requires nimbleness and responsiveness. To make Madison competitive, the Department of Planning and Community and Economic Development shall propose a map, for adoption by the Common Council, of these Targeted Development Areas (TDAs) appropriate for commercial or industrial development. Any adopted TDAs shall receive certain considerations as outlined below. The purpose of these TDAs is not to choose winners and losers, but help Madison projects be competitive with surrounding communities. The Department shall propose updates to the map as necessary.

### **TIF Application Without a TID**

The City of Madison requires approximately five (5) months to create or amend a TID. TIF law requires that all districts be either created or amended by September 30 of each year in order to be certified for that year. Developers seeking TIF assistance for development on a parcel or parcels that is not located in a TID boundary, and requires either amendment or creation of a TID as part of their request for TIF assistance should ideally apply for TIF and land use approvals by April 15. Applications for TIF after April 15 will be considered, but may bear additional risk for the developer.

### **TIF Origination Fee**

Developers shall pay a TIF origination fee in the amount of one half of one percent of the TIF loan amount upon approval of the TIF loan by the Common Council. Fee shall be paid in full prior to fund disbursement.

### **TIF Generators**

The City will generally consider creating or amending a TID when:

- a. The proposed TID has economic “generators,” i.e., at least one private development project that generates increment to finance TID costs. Economic generators typically must have an incremental value at completion of at least \$3 million to cover the typical costs of establishing a TID
- b. The proposed TID is in a TDA and the Department of Planning and Community and Economic Development finds that near term development is likely
- c. The City owns land in the proposed TID and is actively attempting to sell or develop the land

### **TIF Team**

The Director of the Department of Planning and Community and Economic Development (or the Director of Economic Development as the Department Director’s designee) shall convene a staff TIF team as necessary. The staff TIF team shall be comprised of representatives from the Department of Planning and Community and Economic Development (including the TIF coordinator), the Finance Department, the City Attorney’s Office, and other staff as appropriate. For each project, the team shall collaborate to develop a TIF recommendation to the Mayor and the Common Council.

### **Periodic TIF Policy and Underwriting Review**

The Economic Development Committee shall hold a hearing once every two years to solicit feedback on the City’s TIF Policy. In addition, the TIF Team shall periodically review the adopted TIF policy and propose modifications to reflect changes in market conditions, new experience, and new development trends. Based on the periodic hearing and team review, the TIF Team shall prepare a resolution for Common Council consideration that incorporates suggested changes.

In addition, the TIF Team shall periodically review the assumptions and methodology used in its analysis and make updates as needed. This review will assess the use of cash flow versus static modeling, the discount rate assumption relative to historic City borrowing costs, property value appreciation, rates of levy growth, and other variables.

## **TIF LOAN UNDERWRITING**

### **Definitions**

The follow definitions are used in this section:

- Real Estate Project: The construction, rehabilitation, or expansion of a structure that creates property tax increment (or Payments in Lieu of Taxes)
- Affordable Housing Project: A residential Real Estate Project offering below market rents based on income for an extended period of time
- Employment-Oriented Project: A commercial or mixed-use Real Estate Project led by or anchored by a non-retail employer that meets the Job Standards described below.

### **Job Standards**

The City of Madison is focused on creating jobs that meet two or more of the following standards:

- Twenty-five or more full-time jobs that pay a living wage and offer benefits
- Fifty or more entry level jobs with clear career ladders leading to expanded skills and a living wage
- Jobs in primary industry sectors and including:
  - Manufacturing
  - Medical/Biotechnology
  - Agriculture/Biotechnology
  - Information Systems, Software Technology, Communications
  - Finance and Insurance
  - Alternative Energy, Water, and Sustainability
  - Other sectors consistent with the Economic Development Plan

### **“But For” Standard**

Each project must demonstrate sufficient need for the City’s financial assistance, so that without that assistance, the proposed project would not be expected to occur in the City of Madison. The economics of the project itself will be evaluated and the balance sheet or wealth of an applicant shall not be grounds for rejecting an application. Each project must

demonstrate probability of economic success. The following guidelines will be used for evaluating the “but for” standard:

- For Real Estate Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists.
- For Affordable Housing Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists or when TIF assistance is likely to affect a project’s ability to attract capital to Madison from another public or nonprofit source.
- For Employment-Oriented Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists or when “competitive factors” exist that reasonably lead to the conclusion that but for the provision of TIF assistance, a project is not likely to occur within the City of Madison. Competitive factors include situations where one or more of the following occur:
  - The employer is conducting a site search for a new facility or expansion that includes sites outside of the City of Madison
  - The employer has received or is soliciting an incentive offer(s) from other governments or economic development entities
  - A Madison-based employer is competing for capital investment within their parent organization or investor group
  - The employer is evaluating a capital investment (sunk capital) that is likely to assure the retention of that employer for many years

### **Underwriting Guidelines**

It is the policy of the City to support high quality development consistent with adopted plans while acting as a careful steward of public resources. While providing prudent TIF awards, the City will partner with TIF applicants where appropriate to promote the eight goals outlined above.

#### **Amount of TIF Assistance**

After underwriting each project, staff will make a recommendation on the amount of TIF assistance to be provided based on the following factors (see Appendix for additional detail):

- The type of the project
- The financial gap exhibited in the TIF application
- The projected increment created by the project
- The financial health and the age of the TID
- An evaluation of relevant competitive factors
- Location with a Targeted Development Area
- Other Increment demands for public infrastructure and other projected project plan costs
- Likelihood of catalyzing additional development within the TID
- Extraordinary strategic or civic purposes met through the project
- The current condition of the economy and local real estate market

For Affordable Housing Projects: TIF assistance may be based on matching requirements of other affordable housing programs provided the TID's health or project's value can support such an award.

For Employment-Oriented Projects: TIF assistance may be based on the value created by the project, the age and financial health of the TID, and the best available information about the project's economics and competitive factors.

Note: While the City anticipates generally making TIF awards of up to XX% of projected increment in order to reserve sufficient increment for public purposes such as infrastructure, higher amounts may be considered on a case-by-case basis.

**Equity Greater, Equal to TIF**

TIF assistance shall not exceed the amount of equity provided by the Developer. Equity is defined as cash or un-leveraged value in land or prepaid costs attributable to the project. Donated Developer or Construction Management fees shall not be constituted as equity investment (See 3.2 Non-profit developers).

**No Mortgage Guarantees**

The City will not provide mortgage guarantees.

**Personal Guaranty**

For Real Estate Projects, the City will require a personal guaranty for TIF assistance of other guaranty acceptable to the City. The City will accept a corporate guaranty or other form of security approved by the City for Employment-Oriented Projects, Affordable Housing Projects, or from nonprofit developers.

**Real Estate Taxes**

All projects assisted with TIF shall pay real estate taxes or negotiate a PILOT acceptable to the City.

**Land Use or Contract Violations**

Agreements for TIF assistance shall provide for remedies in the event the applicant violates the land use approvals or other contractual arrangements.

**Cost Considerations**

TIF assistance can generally support capital costs, financing costs, real property assembly costs, and professional service costs as outlined in Wis. Stats 66.1105 (2) (f) subject to the following qualifications:

**Land Cost Due Diligence, Excessive Land Costs**—The City may consider write-downs from the value of the current land use to the market value of the proposed use provided that Developers shall demonstrate proper due diligence in the purchase of land, including but not limited to studies of soil conditions, comparable land prices, environmental issues. Prior to purchase, developers

seeking TIF shall provide the City with documented market evidence that the purchase price negotiated is within an acceptable range of values for the property's current land use and condition. Developers shall conduct initial meetings with the district alder and planning staff concerning zoning, land use and other regulatory issues and shall provide such findings to the City. The City shall not assist write-downs for land purchases that greatly exceed the assessed value of the current land use(s), as determined by the City. The City of Madison is not obligated to provide TIF assistance for land costs, whether purchased or optioned. Developer shall provide all such studies or reports to the City at the time of application.

#### **Environmental Remediation**

The City may consider the cost to remediate environmentally contaminated property when it exceeds the reasonable cost experienced on typical redevelopment projects. However, the City shall not provide TIF write-downs that eliminate a responsible party's obligation to remediate contaminated property.

#### **Assessable Infrastructure Costs**

TIF may not be used to pay for public infrastructure expenditures that are paid for by special assessments or other City charges. Non assessable public infrastructure expenditures may be funded with TIF.

#### **Operating Costs**

Operating costs including, but not limited to, lease-up reserves, working capital are not eligible TIF expenses.

#### **City Fees**

Parks dedication, sewer, water assessments, etc. are not TIF-eligible.

#### **Method of TIF Funding**

The City reserves the right to determine the method of financing TIF loans that is in the best interests of the taxpayer. The City will consider using accrued tax increment, general obligation borrowing, internal borrowing, and developer-financed or pay-as-you-go financing. For projects using a substantial portion of increment or projects with multiple components or phases, the City may require pay-as-you-go financing at its discretion.

Regardless of the method financing, all TIF expenditures will require Common Council approval.

## **INELIGIBLE DEVELOPMENT**

#### **Luxury Housing and Student Housing**

Luxury housing is ineligible for TIF assistance. Market rate housing projects will be evaluated on a case-by-case basis and may be considered for assistance to the degree they demonstrate a financial gap and promote the City's TIF goals articulated above.

**Student Housing**

Student housing, defined as multi-unit residential structures, whether publicly or privately owned, that are leased whole or in part to students attending post-secondary educational institutions, shall not be funded with TIF.

**Speculative Office Development**

Commercial projects will be expected to secure one or more anchor tenants consistent with commercial lending standards.

**Tenant-Shifting Office Development**

The City may consider providing TIF to retain an employer within the City or to accommodate an employer's expansion. The City will seek to avoid providing TIF relocate an employer within the City.

## APPENDIX – TIF UNDERWRITING

This appendix contains additional detail on how these TIF underwriting factors are intended to be interpreted:

- The **type** of the project
- The **financial gap** exhibited in the TIF application
- The **projected increment** created by the project
- The **financial health** and the **age** of the TID
- An evaluation of relevant **competitive factors**
- Location with a **Targeted Development Area**
- **Other Increment demands** for public infrastructure and other projected project plan costs
- Likelihood of **catalyzing additional development** within the TID
- Extraordinary **strategic** or **civic purposes** met through the project
- The **current economic conditions** of the job and local real estate market

### **Type of Project**

TIF loans to affordable housing projects will tend to be calibrated to attract affordable housing resources and reflect the financial health of the TID. TIF loans to employment-oriented projects will tend to be based on the assessment of competitive factors, the projected increment the project generates, and the financial health of the TID.

### **Financial Gap**

In general, TIF assistance should be provided as gap financing to make projects feasible. In the case of affordable housing projects, employment-oriented projects, and extraordinary circumstances, other standards may be utilized.

### **Projected Increment**

In general, projects should generate enough projected increment to support their own TIF loan and contribute to infrastructure and other public project plan costs. Projects using 100% or more of their projected increment will only be approved in extraordinary cases.

### **Financial Health and Age**

Staff will employ additional caution in making recommendations in TIDs that are distressed or at risk for becoming distressed. At the same time, TIF loans in older TIDs may use a higher share of increment than a comparable project in new or younger TIDs.

### **Competitive Factors**

Madison will use TIF prudently to help attract, start, retain, and expand employers that meet job standards. In addition to evaluating the competitive factors present, staff will pay careful attention to the projected increment, financial health, and age of the TID.

### **Targeted Development Areas**

Staff will be proactive about creating TIDs in TDAs when project pipelines, business intelligence, and economic conditions warrant this step.

**Other Increment Demands**

The City recognizes that some TIDs will focus on infrastructure, some on development, and some on a combination of the two. TIF recommendations for development projects should reflect the project plan, reserving increment according to need rather than an arbitrary standard.

**Catalyzing Additional Development**

The City recognizes that pioneering projects in blighted areas and areas surrounded by infill redevelopment candidate sites are riskier than other projects and may warrant more aggressive TIF assistance.

**Strategic or Civic Purpose**

Projects that serve a strategic need or an important civic purpose may warrant more aggressive TIF assistance. Examples of important strategic or civic purposes might include:

- Capturing a critical major employer (250+ jobs)
- Creating a highly visible project conveying a distinct brand advantage to Madison
- Public-private partnership incorporating or complementing a significant public facility

**Current Economic Conditions**

The City’s TIF Team recommendations should be somewhat counter-cyclical, competing more aggressively for projects when the job market or the corresponding segment of the real estate market is depressed.