

MEMORANDUM

TO: Common Council
FR: Joe Gromacki, TIF Coordinator
DATE: March 7, 2017

SUBJECT: JOBS TIF REPORT – Epicentre Technologies, Inc. and assigns

Project Description

Background

Illumina, Inc., a medical technology company, based in San Diego, CA that engages in human genomic research (“Illumina”), purchased Madison-based Epicentre Technologies, Inc. (“Epicentre”), thus making it a wholly-owned subsidiary, in 2011. Epicentre researches and manufactures enzymes that aid in Illumina’s genome research. Epicentre’s products also have several medical applications. Epicentre currently employs approximately 130 full-time employees.

In 2016, Illumina commissioned a California-based real estate broker to issue a Request for Proposals among developers to construct a new office, research and development, and warehouse facility in Dane County to be leased by Epicentre.

General Capital, Inc. (“Developer”) was selected from among several finalists to construct 132,000 square feet of office, laboratory research, development and warehouse space on 17 acres of land currently owned by CUNA Mutual, at 6021 Odana Road in the City of Madison (“Project”). The site is adjacent to Tax Incremental District (TID) #46 – Research Park (**Figure 1**). Epicentre will execute a 20-year lease with Developer.

Figure 1



Gap Analysis

Developer submitted a TIF Application and fee on January 16, 2017, requesting \$3,314,000 of TIF assistance. TIF staff conducted a gap analysis and concluded that the gap was \$292,000. The reasons for the difference between the proposed gap and TIF staff's finding are as follows:

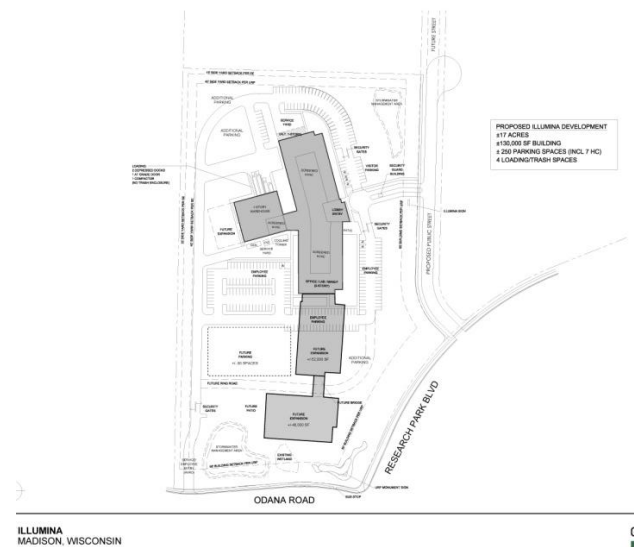
1. Land Banking—TIF staff noted that Developer's proposed gap was higher due to allocating \$1,656,000 of Phase II land cost (more than necessary) to develop Phase I. It is the City's policy that TIF not be used to subsidize land cost for future phases, i.e., "land banking." Developer's land cost allocated to Phase I was thereby reduced by \$1,656,000.

2. Third Party Brokerage Fee— In 2016, Illumina commissioned a broker to oversee its RFP process. On January 28, 2017, Developer signed an agreement to pay the \$1,300,000 fee to Illumina's broker.

Based upon past advice from the City Attorney's office, the City of Madison has historically viewed paying for such third-party broker fees as inadvisable for two reasons. First, when a Developer agrees to pay this cost, he or she does so as an incentive to a particular tenant and not a measurable hard or soft cost required to construct a real estate project.

Second, as competition for tenants grows, Developers may agree to pay for other costs, such as the tenant's legal or relocation cost, passing those incentive costs onto TIF. The current recommendation of the City Attorney's office also advises against paying this type of tenant-based fee to Developers.

Figure 2



Jobs TIF Application

Toward reaching a compromise, City staff suggested that Epicentre apply for TIF assistance under the Jobs TIF program which allows a gap analysis waiver. Per TIF Policy, Jobs TIF applicants are granted a gap analysis waiver in advance by the Board of Estimates may thereby receive TIF assistance that "shall not exceed 40% of the net present value of tax increments generated by the Employer's project." In this case, TIF assistance would be provided to Epicentre as an employer to leverage the retention of 100 jobs over five years rather than provide TIF assistance to a Developer to bridge a financial gap.

As a gap analysis waiver qualifies as an exception to TIF Policy, it requires that such a waiver be considered by the Board of Estimates at a separate meeting prior to introduction of a TIF funding resolution. However, due to timing issues between the commencement of construction and the lack of a second Common Council meeting in April, City staff is presenting the gap analysis waiver request and the TIF funding request simultaneously.

On February 24, 2017, Epicentre and its assigns submitted a Jobs TIF Application requesting \$1,890,000 of TIF, or 40% of the net present value of tax increments generated by 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:** \$1,890,000
- (b) **Type of Project:** Jobs TIF
- (c) **Analysis Method:** Jobs TIF – Gap Analysis Waiver
- (d) **Tax Credits:** Not Applicable
- (e) **Estimated Assessed Value and Tax Increments:**

Estimated Value	\$31,181,000
Total Est. Tax Increments	\$9,544,000
Avg. Annual Tax Increment	\$630,000
TIF Supportable at 100%	\$4,727,000

(f) **TID Condition:**

TID #46 is a 20-year, mixed use TID created in 2015. It is currently the only speculative TID (i.e. a TID that was created without a TIF generator project) in the City of Madison. TIF Policy allows that no more than two speculative TIDs may be active at any time.

TID 46 Project Plan authorized approximately \$2,800,000 of expenditures. As of the most recent audit dated December 31, 2015, TID #46 has expended \$8,400. In 2016, TID #46 did not generate positive tax increment. As it is newly-created, this is not unusual. In 2017 it is estimated to generate approximately \$260,000. The TID currently has no debt service obligations. However, there is a degree of risk in providing TIF assistance at this stage, as there is no tax increment cushion to absorb shortfalls, making adherence to TIF underwriting policies essential.

The proposed Project is located adjacent to the TID #46 boundary, requiring the adoption of a Project Plan and Boundary amendment in 2017. In the forecast demonstrated below, it is anticipated that the TID will generate sufficient tax increment by 2023 to recover the TIF Loan.

TID #46 Projections:

Year Created	2015
Unrecovered Cost	\$8,400
Cash Balance – December 31, 2015	\$8,400
Est. Annual Increment w/o Project (2017)	\$260,000
Est. Annual Increment Generated by Project	\$630,000
Jobs TIF Loan to Project (maximum amount at 40%)	\$1,890,000
Estimated Cost Recovery w/ New Project	6 years

(g) **TIF Policy Compliance**

Developer Equity--Developer equity is approximately \$5,550,000. This amount is in compliance with TIF policy that equity equal or exceeds the amount of TIF provided.

55% Gateway--The \$1,890,000 TIF Request is 40% of TIF.

Self-Supporting Projects—The Project generates tax increment sufficient to repay the TIF loan and a portion of the TID’s infrastructure costs.

Guaranty—A principal of Developer is providing a personal guaranty of both increment and the loan agreement terms and conditions. Epicentre Technologies, Inc. and Illumina, Inc. are co-guarantors of the jobs retained.

(h) Other Applicable

Job Retention--Developer estimates that 100 jobs will be retained in the City of Madison for five years as a result of this project.

(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	\$1,890,000	
Jobs TIF Eligible	\$1,890,000	40% of TIF

(j) Developer’s TIF Policy Goals Statement— TIF Policy requires that Developer provide a statement (**Figure 3**) 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

Gap Analysis Waiver— As Epicentre Technologies, Corporation and Illumina, Inc. shall guaranty to retain 100 jobs for a five-year period, the request meets the basic requirements of a Jobs TIF gap analysis waiver. As required by TIF Policy, Epicentre’s TIF Policy Goals Statement and a copy of a letter of interest from the City of Fitchburg are found (**Figure 3 and 4**). Due to timing issues between the commencement of construction and the lack of a second Common Council meeting in April, City staff is presenting the gap analysis waiver request and the TIF funding request simultaneously.

(l) Known Labor Agreement, Law Violations

None indicated.

Staff Recommendation:

Gap analysis conducted upon Developer's application concluded a gap of \$292,000 after removing the \$1,300,000 brokerage fee and the \$1,656,000 of excess land cost based on the reasoning above. Epicentre's Jobs TIF request is \$1,890,000, representing the maximum allowable 40% of TIF, assuming a gap analysis waiver being and loan amount approved by BOE simultaneously.

As the amount of Jobs TIF (with a gap analysis waiver) provided to such an applicant is guided by policy rather than empirical data from gap analysis, TIF staff can only recommend that Jobs TIF assistance not exceed \$1,890,000, comprising 40% of TIF, as established by TIF Policy.

The Jobs TIF Loan is contingent upon the adoption of an amendment to the Project Plan and Boundary for TID #46. Developer shall guaranty that tax increment generated by the Project shall be sufficient to recover the TIF Loan. Epicentre Technologies, Inc. and Illumina, Inc. ("Guarantors") shall provide corporate guaranty that Epicentre shall retain not less than 100 jobs for a five-year period commencing on the date of occupancy. At the anniversary of the job retention period, Guarantors shall certify job retention to the City. In the event that job retention is below 100 jobs, Guarantors shall pay \$25,700 per job for each job below the job retention threshold, not to exceed \$400,000 in any year of the five-year job retention period.

Figure 3

City of Madison
Jobs Project TIF Assistance Application

6

-Income Tax						
Profit After Tax						

6) JOB CREATION AND/OR RETENTION

Current FTE Employees	100
Number of FTE Jobs Retained – Year 1	100
Number of FTE Jobs Created:	
Year 1	
Year 2	
Year 3	
Year 4	
Year 5	
Total Jobs Created	
Current Wage Rates – Range	
Estimated Wage Rates – New Hires	

7) TIF POLICY GOAL STATEMENT— Describe how the proposed project meets any of the following TIF Policy Goals on a separate attachment that is no longer than two pages:

- 1) Grows the City's property tax base. The City Assessor has estimated that that Phase 1 of the project will add approximately \$27.295 million of incremental value by the time the project is. As discussed in (G) below, we anticipate that this project and the new public road will have a catalytic impact on future Research Park development, which will engender substantial additional tax revenues.
- 2) Fosters the creation and retention of family-supporting jobs. Illumina has facilities at various locations around the world. If the project were not able to move forward in Madison, Illumina would locate the new facility elsewhere. The TIF assistance is very important in making the project feasible in Madison. By building in Madison, Illumina will be retaining at least 100 full-time employees in the City at family-sustaining wages.
- 3) Encourages the re-use of obsolete or deteriorating property. NA.
- 4) Encourages urban in-fill projects that increase density consistent with the City's Comprehensive Plan. NA.
- 5) Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts. NA.
- 6) Creates a range of housing types, specifically encouraging affordable housing NA.
- 7) Funds public improvements that enhance development potential and improve City's infrastructure. The project owner will be entering a Development Agreement with the City that obligates us to build a new public road (Genomic Drive) to serve the project. We will build an additional 30 feet of roadway to facilitate linkage to the parcel to the north, which is under contract for sale to Oakwood for a future development project. When complete, the road will also provide immediate access to CUNA's remaining lands to the east and north and will make that property shovel-ready. On February 20, 2017, the Plan Commission approved a preliminary plat that illustrates how this road can eventually be extended to serve all of the remaining CUNA lands. The road is the lynchpin for future development of the 60 acres of

vacant land in the highly attractive University Research Park. We anticipate that this project, together with the public road, will have a catalytic impact on future development. Additional development in the Research Park is expected to add very significant additional tax revenues and jobs for the City.

- 8) Promotes superior design, building materials and sustainability features. The building is a highly flexible Class A office/R&D/lab space designed with 18.5 foot floor to floor heights. The high clearance makes the building completely adaptable for Illumina and any future users, who can easily convert any of the space between office, lab, and R&D. In addition to its high functional utility, Kahler Slater's design is very attractive. Illumina has committed to designing and building the project to a LEED Silver standard, resulting in a sustainable, energy-efficient building that has a minimal environmental footprint and creates a healthy work environment. The building will be dramatically perched at the high point of this hilly site, with a commanding view through a dramatic atrium all the way to the Capitol. A variety of attractive and sustainable materials will be used, including architectural precast concrete, vertical and shingled metal panels, and a variety of glazing styles, including ribbon windows, punched openings, and storefront framing with vertical caps to provide a 3-dimensional surface and a variety of shadows on the structure.

We previously submitted the proposed CSM and preliminary plat, approved by the Plan Commission on February 20, 2017, as well as the project concept plans approved by the University Research Park Design Review Board.

- 9) Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting. Yes. We are requesting 40% of TIF, which leaves 60% available for infrastructure improvements.

8) ADDITIONAL QUESTIONS – Please answer the following, on the form or separate attachment:

1. Is the Employer leasing the property from a developer? If yes, explain. Yes, Epicentre Technologies Corporation, a Wisconsin Corporation (an Illumina, Inc. affiliate), will lease the entire property from the developer.
 2. If the answer to the above question is "yes", is the Employer or some other entity related to the legal entity purchasing/exchanging/taking title to the property at a later date? No.
 3. Does the project require the extension of sewer and/or water to the site? If yes, explain. Yes, we are connecting to public sewer in Odana Road, and then extending via private pipes to serve the building. Public water main is being extended under Genomic Drive and will connect to private main around the building for fire protection.
 4. Does the project require extension of public roads to the site? If yes, explain. Yes, the developer will build Genomic Drive, a new public road, to serve the property.
 5. Does the project require a change of zoning? If yes, explain. Yes, the Plan Commission approved rezoning from MXC to SE on 2/20/2017.
 6. Does the Employer or developer owe back property taxes? If yes, explain. No.
- 9) SITE MAP—**Attach a map of the project site and its surrounding structures, including size, shape, arrangement of densities, parking and street patterns. Previously submitted.

Figure 4



Patrick Marsh | City Administrator
 City Hall, 5520 Lacy Road, Fitchburg, Wisconsin 53711
 Ph: 608.270.4209 | Fx: 608.270.4212 | fitchburgwi.gov

11/9/2016

Steve Sirkis
 General Capital
 6938 N. Santa Monica Blvd.
 Fox Point, WI 53217

Dear Steve,

The City of Fitchburg would welcome the opportunity to partner with Illumina to locate your new headquarters facilities here in our community. Fitchburg is recognized as one of the biotech hubs within the greater Madison region. Illumina would complement our existing biotech industry cluster, already home to global companies like Promega Corporation and accelerating businesses such as Platypus Technologies. Fitchburg offers multiple premier sites within the Fitchburg Technology Neighborhood that would be ideal locations for Illumina.

The Fitchburg Technology Neighborhood (FTN) dedicates over 2,000 acres for high quality science and technology oriented businesses connected by a variety of residential housing types, mixed use retail and commercial areas, parks/open space and multi modal transportation networks. The FTN is anchored by major employment centers including: Fitchburg Center, Fitchburg Technology Campus Phases I & II, Uptown Fitchburg, and Novation Campus.

Uptown Fitchburg with its proximity to the University of Wisconsin-Madison, the Isthmus, east and west sides of Madison, provides easy access via the U.S. Hwy 14 Lacy Road interchange, and is the latest employment center envisioned for science oriented companies. Illumina is exactly the type of anchor tenant that was imagined for Uptown Fitchburg. As Wisconsin's first SmartCode zoned neighborhood, Uptown delivers form based zoning with the advantages of flexibility and speed to market to get projects done quickly. Intended to be a higher density mixed use urban environment, Uptown Fitchburg will offer Illumina and its employees a vibrant mix of retail, commercial, and hotel amenities as well as a variety of residential housing to create a walkable live, work, play quality of life.

To facilitate development within these employment centers, the City of Fitchburg has effectively utilized tax incremental finance as our local economic development tool. We've partnered with the private sector on catalytic projects that include employment opportunities and produce significant capital expenditure investments. Previous projects have received tax incremental financing assistance for eligible project costs such as:

- Sub-soil surface conditions
- Sound attenuation
- Sustainability initiatives

- Structured parking
- Relocation expenses
- Development incentives

The total amount of financial assistance is variable and determined based upon the actual valuation of the project as well as the demonstrated need. Past practice has shown that total assistance could range up to approximately 10% of the project costs, subject to negotiation and a developer agreement.

To encourage further conversation regarding the project that Illumina envisions and to determine the level of assistance that might be available, we would encourage that our City Development Team, along with our development partners Avante Properties, schedule a time to meet with your representatives. This process will be coordinated by our development team consisting of Mark Sewell, City Attorney, Mike Zimmerman, Economic Development Director, and myself.

The City of Fitchburg appreciates the opportunity to submit sites in Uptown Fitchburg in response to the RFP for Illumina. Our Development Team is eager to meet with you to discuss the magnitude and timing of Illumina project in more detail. Thank you for your consideration of sites here in Fitchburg. We look forward to making your vision a reality here in our community.

Sincerely,



Patrick Marsh
City Administrator
City of Fitchburg