

MEMORANDUM



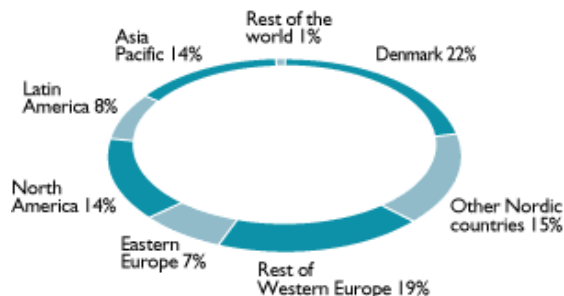
August 24, 2009

TO: City of Madison Common Council
FROM: Tim Cooley, Director - Economic Development Division, DPCED
SUBJECT: Danisco TIF Application

At its August 5, 2009 meeting, the City of Madison Economic Development Committee voted to recommend approval of Danisco USA's application for TIF but requested additional analysis and opinion regarding the economic impacts and justification for exceptions to the City's existing policy before Council action on this application.

Danisco (www.danisco.com) is an established, growing, multinational company headquartered in Denmark with an operating division in Madison which is located within an existing industrial Tax Increment District ("TID".)

Geographical distribution of employees



Danisco USA needs to make its case to its parent in Denmark to expand operations in Madison. This expansion builds on an existing investment of over \$35 million in plant and equipment in Madison over the past five years, maintenance of 154 jobs in the city, and over \$450,000 paid in local real estate and personal property taxes during the past five (5) years. [Note: Full economic impact would also include additional sales taxes generated as a result of business operations/employee purchases and property taxes on employee homes.]

Danisco USA is planning multiple additional expansions in the U.S. over the next few years and is considering a number of sites, the preferred being as an addition to its existing operations in Madison.

The forecasted economic impact for Madison over the next several years = \$43M to \$52M in total additional investment and 179+ direct jobs (370 total jobs with accepted multipliers*.)

Danisco USA is requesting TIF in the amount of \$300K that will facilitate the company's Phase I investment. This is a reasonable ratio of TIF assistance to private investment leveraged when looking at historic TIF projects within the City of Madison.

[Note: A common misconception is that TIF is "taxpayer money being paid out." That's not accurate. The way TIF works is that a loan is made for the investment and is paid off by additional property tax (the increment) from new building and assessed additions (real and personal property) within the Tax Incremental District (TID.) Without the new development, the taxpayer would be getting nothing additional and would be net neutral. TIF, used correctly, adds additional benefits (financial, jobs, and strategic) while the TID is open and a significant increase in new assessed value that flows through the tax levy to the City and other members of the Joint Review Board (City, County, schools, MATC) upon closure of the TID.]

Danisco USA has made the case that the decision, in part, to expand in Madison vs. in one of their other U.S. or European locations is based on Madison's willingness to assist the company to level the playing-field vis-à-vis costs to expand in other locations. If Danisco USA has to include the cost proposed to be offset by TIF, its parent will possibly choose to expand at one of its other locations.

This, admittedly, results in a judgment call on the City's part that this is an actual likelihood. It is where existing City TIF policy specifying a purely financial need is replaced by a reasonable belief, allowable under statute that Danisco USA's investment will not occur without TIF investment. Under current policy, TIF only is offered to businesses that are on the financial edge of making a development viable vs. this scenario where the business is financially able but is looking for a leveling of the competitive playing field...in this case the cost differential between expanding in Madison (more expensive) over another location in the U.S.

The "but for" test is satisfied by; 'But for the TIF investment, Danisco USA may not build Phase I in the city, and may not build Phases II – IV in Madison.'

Additional considerations:

- In addition to Madison, Danisco USA has operations in Waukesha, WI and Rochester, NY. An expansion of operations took place earlier this year. Danisco USA had wanted to make this investment in Madison but chose, instead, to make it in Rochester after concluding that the implementation timeframe and permitting process in Madison would take longer and be more arduous from a management time-perspective impacting its production schedule.

From the company...

"Danisco, as a global competitor in a high tech industry, faces strong competitive forces for all of its resources. In the recent couple of years and after a detailed process of investigation, looking at Europe, Asia and the US, the decision was made to prepare a project in the US."

"Danisco prepared a project and approached the city [Madison] to enter the permit process. The timeline proposed by the contracting firm and subsequently

confirmed by the Dansico Division representatives was going to extend the horizon of the investment a minimum of 2 months and potentially longer.”

“An interim option was developed and the time horizon for the interim option was still not going to meet the needs of the market growth. Subsequently, a push within Danisco to begin utilizing its assets more effectively and reach market targets more quickly added pressure to the investment.”

“After an exhaustive investigation into methods to reduce the timeline and the push internally within Danisco to utilize assets better, the project team redirected its focus to a facility slated for closure in another US city by another Division. As a result the interim option was taken to this facility and now is also being considered for the extended expansion.”

- Danisco USA has made it clear that if Phase I of their expansion does not occur in Madison then the odds of subsequent expansions occurring in the city are very low. Conversely, developing Phase I in the city will facilitate additional investment and growth of their Madison campus.
- Danisco has recently changed its growth strategy moving from acquisitions to organic growth from within. They will be looking at existing sites to consolidate operations and additional investment in Madison will possibly result in additional operations being consolidated and moved to the city.
- Danisco USA is a strong participant in a strategic industry that has been identified as important to Madison’s growth and future economy. It is part of both the City’s and Thrive’s articulated cluster focus and is an existing major anchor in an industrial park focused on the industry.

Conclusion

Concerns have been raised by some that this type of TIF use will lead to a “race to the bottom.” If a company is truly looking for the lowest cost, Madison will never be competitive with other lower-cost locations in the state, nation or the world. For firms like Danisco USA, which are considering factors other than absolute cost (i.e. access to university research, highly trained workforce, strategic cluster dynamics, etc.), an investment of TIF will assist in the decision-making process. Rather than a “race to the bottom,” a more accurate description is a “battle for the top.”

Danisco USA will be making major investments resulting in the creation of good-paying professional and blue-collar jobs with hourly wages in the \$16 - \$23 plus benefits range. These are exactly the types of family-supporting jobs specified in the City’s adopted Economic Development Plan. The company is considering two sites in two separate locations. There is a multitude of costs associated with each location (i.e. labor, utilities, land and construction, taxes, etc.) There are also incentives to offset these total costs that the company is considering...some direct and some indirect.

We may never know what the absolute bottom-line is but to the degree that we can reduce costs of expansion in Madison, Danisco management will look more favorably at making additional investments here.

It is important to note that there are other provisions of Madison's existing TIF Policy and WI statutes that limit the amount of funds that can be provided to a firm through TIF. There will always be a limit to the support that the City can provide.

Staff is proposing a finite, negotiated investment. But only after considering all relevant information, and running numbers through our existing TIF financial analysis to determine increment generated, amount eligible for, and cost benefit analysis will we move forward with any applicant for TIF. The City's Economic Development Division's Real Estate/TIF and Business Resource groups together with the City Comptroller and City Attorney are experienced and capable of performing the due diligence necessary to make a recommendation.

In the final analysis, however, given all the available information, it's a "reasonable belief" in an outcome that matters to the ultimate recommendation to the Common Council.

* According to an August 18, 2009 report by the Workforce Development Board of South Central Wisconsin prepared as part of this analysis.