

City of Madison TIF Report

University Row Apartments, LLC and University Crossing Office, LLC
July 3, 2012

Background

Krupp Construction is the developer of Phase II of the University Crossing redevelopment project located on the former Erdman property at the southwest corner of University Avenue Whitney Way in TID #41 depicted in Figure 1 at right.

Phase II is divided into two projects—an apartment building with parking structure (“Apartment Project”) and an office and commercial building (“Office Project”). The parking structure will be shared between the apartment and office projects.

Upon completion, the components of Phase II, namely the apartments, office and parking structure, will be owned by three separate limited liability corporations (LLCs). The Apartment LLC and Office LLC will each be separate borrowers and will construct their respective projects. Upon project completion, the Apartment LLC and Office LLC will enter into a lease with the Parking LLC. Joseph D. Krupp and Paul B. Lenhart are the common principals. Staff determined that a \$3,106,000 gap is caused by parking construction costs that are attributable to both projects. For underwriting purposes the two projects were analyzed as one because they shared a common parking element that caused the gap.

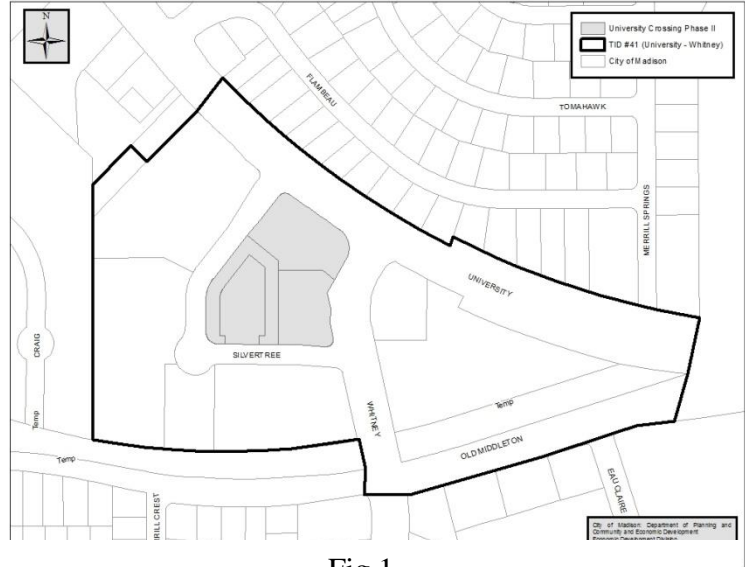


Fig.1

Issues

The complexity of this project ownership and financing structure required staff to develop an unconventional approach to best secure the TIF financial assistance. The issues were as follows:

1. The Office and Apartment LLCs are separate borrowers and are using different sources of funding.
2. The Apartment Project has a \$3.1M gap that can't be supported by the tax increment it generates--no margin for error if tax increments decrease for any reason. It needs increment from the Office Project.
3. The Office Project has no gap but is using the parking constructed by the Apartment Project.
4. Both Projects must be encumbered to guaranty that both are built, both guaranty tax increment and both pay a PILOT in the event either is sold to a non-profit.

Solutions

1. Provide a TIF end-loan to each Project, to be disbursed upon completion of each Project, secured by a Note, Mortgage and respective Loan Agreements. The end-loan structures ensure that each project must be built before TIF will be disbursed to it.
2. Size the two TIF Loans based upon the percentage of total Phase II increment that each Project generates. Apply that percentage to the \$3.1M gap. The Apartment Borrower thereby provides an increment guaranty that would support a \$2,019,000 TIF Loan. Likewise, the Office Borrower



provides an increment guaranty that supports a \$1,087,000 TIF Loan. This secures increment from both projects to repay the TIF end-loans.

- Each loan represents 62% of the TIF estimated for each Project, requiring an exception to the 50% Rule in TIF Policy and an exception to TIF Policy 4.1(10) that projects be self-supporting.

University Row Apartments, LLC

University Row Apartments, LLC (“Apartment Borrower”) requests \$2,019,000 of TIF end-loan assistance for construction of structured parking for a 118-unit, market-rate apartment building with 335 structured parking stalls (“Apartment Project”). The Apartment Project has an estimated value of approximately \$16,395,000.

University Crossing Office, LLC

University Crossing Office, LLC (“Office Borrower”) requests \$1,087,000 of TIF end-loan assistance for construction of structured parking for 62,000 gross square feet of office and commercial uses. The Office Project has an estimated value of \$8,828,000.

Project Data

Total Land Area	130,059 SF
Building Area – Apartment Project	130,000 gross SF, 118 units
Parking Stalls	335 structured stalls
Building Area – Office Project	62,000 gross SF

COST	Apartment	Office	TOTAL
Land	(\$3,356,000)	(\$1,807,000)	(\$5,163,000)
Hard Construction	(12,537,000)	(10,418,000)	(22,955,000)
Parking Construction	(5,499,000)	--	(5,499,000)
Soft Cost	(1,169,000)	(1,178,000)	(2,347,000)
TOTAL COST	(\$22,561,000)	(\$13,403,000)*	(\$35,964,000)

Sources and Uses	Apartment	Office	TOTAL
Loan	\$16,600,000	\$11,975,000	\$28,575,000
Equity	2,855,000	1,428,000	4,283,000
Total Sources	19,455,000	13,403,000	32,858,000
Less: Uses	(22,561,000)	13,403,000	(35,964,000)
Gap	(\$3,106,000)	0	(\$3,106,000)
Estimated Assessed Value	16,395,000	\$8,828,000	25,223,000
TIF Loan	\$2,019,000	\$1,087,000	\$3,106,000
% of TIF Assistance	62%	62%	62%

TIF Policy Exception(s)

4.1(8) 50% Rule – Aggregate financing represents 62% of the net present value of increments generated by both the Apartment and Office projects over the life of the TID.

4.1(10) Self-Supporting Projects—The City must utilize increment from the Office project to recover the TIF Loan.

