

**City of Madison TIF Report**  
The Constellation Project, LLC  
February 6, 2012

**Background**

The proposed project is situated on a 1.5 acre site comprising part of the former Don Miller and Schappe parcels, currently owned by the City, located at 754 East Washington Avenue and 741 East Mifflin (“Property”).

The Constellation Project, LLC (“Developer”) has committed to purchase the Property from the City. The Property is located adjacent to the TID #36 (Capitol Gateway) boundaries. Providing TIF assistance to Developer requires that the TID boundary and project plan be amended in 2012 as depicted in the map at right.

Developer has requested \$3.43 million of TIF loan (“Loan”) assistance to construct 220 apartment units, 36,000 gross square feet of commercial and retail space and 280 parking stalls (“Project”). The TIF request represents 59% of the TIF per the 50% Rule that would require an exception to TIF Policy.

Although parking cost and foundation costs due to soft soil conditions are primary cost factors contributing to the gap, the Project is also negatively impacted by lower rents that, although in-line with market, are insufficient to attract more debt and equity investment. Thus, the Project gap is both attributable to sources and uses in this instance.

The Project has an estimated value of approximately \$34.7 million. Total project cost is approximately \$39.9 million with sources of financing of about \$36.5 million.

Upon Project completion, Developer shall provide an audit of final cost and financing to the City to its satisfaction. The City may elect to conduct its own audit of the Project. If actual project cost is less than projected in the TIF Application and/or financing less than projected in the TIF Application, Developer shall pay the City 50% of any difference between actual costs and financing as a Clawback Payment.

Due to construction timing, Developer intends to close on TIF financing in 2012 prior to the state certification of the TID amendment that is anticipated in early 2013. The City has agreed to



disburse TIF loan funds in advance of state certification.

In the event the amendment is not state-certified, Developer will be credited for the amount of annual taxes levied on the Project to repay the loan, estimated at an average of approximately \$750,000 per year. The City's portion of this levy would be about \$270,000. Developer shall guaranty that taxes levied against the Project shall equal or exceed projected levels or pay the difference to the City. All other provisions of the TIF Loan Agreement, including but not limited to the personal guaranty, PILOT payment (if Project is sold to a tax-exempt entity), Clawback Payment and the Equity Participation Payment shall apply to the Loan as though the Project were located within a TID.

**Project Data**

Land Uses (rounded)

|                    |            |
|--------------------|------------|
| Housing            | 203,000 SF |
| Commercial, Retail | 36,000 SF  |
| Total              | 239,000 SF |

|                |            |
|----------------|------------|
| <u>Parking</u> | 280 stalls |
|----------------|------------|

**Estimated Value @ Stabilization** **\$37,400, 000**

**TIF Available @ 50%** **\$2,907,000**

**PROJECT COST**

|                  | <u>Proposed</u> |   |
|------------------|-----------------|---|
| Land Acquisition | \$ (982,350)    | \$15/SF. \$5,064 per unit. Satisfactory for assemblage. |
| Demolition       | (123,000)       |   |
| Total Land Cost  | (1,105,350)     |   |

Hard Cost

|  |                 |  |
|--|-----------------|--|
| Construction – Residential, Commercial | \$ (28,983,761) | Hard Cost \$138/SF. \$2.4 M of cost is for foundation, soils |
| Parking Construction                   | (3,976,000)     | \$14,600 per stall in line with market cost                  |
| Total Hard Cost                        | \$(32,959,761)  |  |

|                  |                |  |
|------------------|----------------|--|
| <u>Soft Cost</u> | \$ (5,832,441) | 19.6% of Hard Cost. Within acceptable range. |
|------------------|----------------|--|

**TOTAL PROJECT COST** **\$ (39,897,552)** \$170/SF is viable cost.

**Sources and Uses (Gap Analysis)**

|                          |                       |   |
|--------------------------|-----------------------|---|
| Equity                   | \$ 5,067,170          | Exceeds TIF request per TIF Policy.                           |
| BREWED grant             | \$ 200,000            |   |
| Debt                     | \$ 31,198,206         | 84% loan to value is aggressive.                              |
| Total Sources            | \$ 36,465,376         | Rents are market but insufficient to attract more investment. |
| Less: Total Project Cost | \$ (39,897,552)       |   |
| <b>Gap</b>               | <b>\$ (3,432,176)</b> |   |

**TIF Recommendation** **\$ 3,432,000** 59% of TIF. Requires TIF Policy exception.

