

# MEMORANDUM

TO: Common Council  
FR: Joe Gromacki, TIF Coordinator  
DATE: March 2, 2021

**SUBJECT: TIF REPORT – University Park Acquisitions LLC (Westgate Redevelopment Project)**

## Project Description

University Park Acquisitions LLC (“Developer”) proposes to construct a mixed-use project consisting of 82 senior affordable apartment units (“Project A”), 68 units of affordable housing (“Project B”) and 156 market-rate apartment units (“Project C”) (**Figure 2**). The project is located Westgate property adjacent to Tax Incremental District (TID) #46 (**Figure 1**).

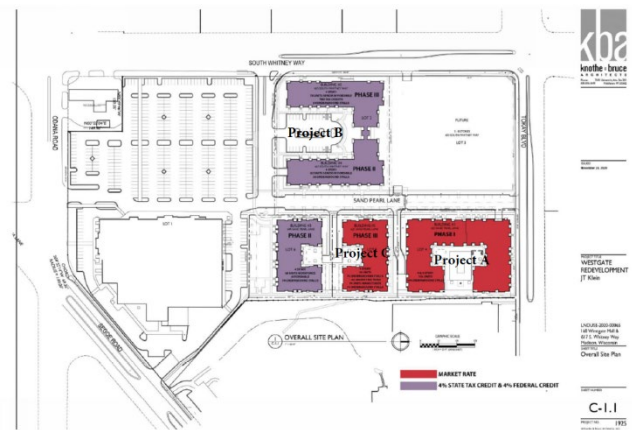
Project C did not demonstrate a gap. Project A demonstrated a gap of approximately \$1,782,000, or the difference between total project cost of \$19,260,000 and capital sources of \$17,477,200. Project B demonstrated a \$774,000 gap or the difference between \$17,954,000 of total project cost and \$17,180,000 of capital sources (including Affordable Housing Initiative funds indicated below).

Project A and B were unable to generate sufficient tax increment to support TIF funding for their respective gaps. As the same individual owns all three projects (and is providing a personal guaranty), tax increments from Project C were used to support TIF assistance to Projects A and B. The \$2,556,000 of aggregate TIF assistance to Projects A and B represented 69% of the tax increments generated by all three components.

The Finance Committee authorized exceptions to the 50% Rule and Self-Supporting Projects Rule in order to facilitate this financing structure. In addition, the Common Council adopted RES-20-00732 authorizing \$1,680,000 of Affordable Housing Initiative funds for Project B, the 68-unit affordable housing project on October 20, 2020.

## 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**                      \$2,556,000 (69% of TIF)
- (b) **Type of Project**                                      Redevelopment
- (c) **Analysis Method**                                      Gap Analysis

(d) **Tax Credits:**

Project A: \$6,700,000  
Project B: \$6,200,000

(e) **Estimated Assessed Value and Tax Increments:**

Estimated Value (Projects A, B and C)	\$33,450,000
Total Estimated Tax Increments	\$6,781,000
Average Annual Tax Increment	\$640,000
TIF Supportable at 100%	\$3,704,000

(f) **TID Condition:**

The TID #46 Project Plan authorizes approximately \$9.5M of expenditures. As of the most recent audit dated December 31, 2019, TID #46 has expended \$9.5M allowed under the adopted project plan, and plans to amend the project plan amendment in 2021 to authorize an additional \$7M, including the expenditure for this project. TID #46 is currently averaging approximately \$6.5M in tax increments per year. With the amendment, TID #46 will approximately \$16.5M million of outstanding debts.

TID #46 is currently meeting its debt service obligations with significant excess tax increment carried forward, allowing the district a tax increment cushion in the event that the various development projects do not meet value growth expectations. TIF staff concluded that amending TID #46 boundary, which is adjacent to the Project, mitigated the City's risk as opposed to creating a new stand-alone TID in which the Project would be the sole TIF generator. In particular, staff was concerned the value growth of market-rate housing in the post-COVID economy.

Year Created	2015
Years Remaining to Recover Cost	15 years
Avg. Annual TID Increment (To Date)	\$6,500,000
Unrecovered Cost	\$9,500,000
Estimated Cost Recovery to Date	2 years
Estimated Cost Recovery With \$7M of New Project Costs	3 years

(g) **TIF Policy Compliance**

**Developer Equity**—Developer equity is approximately \$1,427,000 of deferred developer fee and \$6,700,000 of Low Income Housing Tax Credit equity from investors for Project A and \$1,450,000 of deferred developer fee with \$6,200,000 of Low Income Housing Tax Credit equity from investors for Project B. In total, this amount complies with TIF policy that equity equal or exceeds the amount of TIF provided. A Principal of Developer is providing a personal guaranty for all three projects.

**Affordable Housing Project Requirements**—TIF assistance may be provided to a residential real estate project in which no less than 40% of the units are affordable to households making less than or equal to 40% of Area Median Income, said units made affordable for a period of not less than 30 years. Developer's proposal significantly exceeds this standard for both affordable housing components.

**(h) Other Applicable**

- 1) Quantity of living wage jobs created and/or retained: **N/A**  
 2) Quantity of affordable housing units and level of affordability:

82 units of senior affordable (17 units at 30% AMI, 33 units at 50% AMI, 32 units at 80% AMI)  
 68 units of affordable housing (14 units at 30% AMI, 27 units at 50% AMI, 27 market-rate units)

**(i) Amount of TIF to Be Considered**

TIF Eligible	\$1,852,000	50% of TIF
<b>TIF Recommended</b>	<b>\$2,556,000</b>	<b>69% of TIF</b>

**(j) Developer's TIF Goals Statement—** TIF Policy requires that Developer provide a statement (**See 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**

**50% Rule—**TIF Policy requires that a TIF applicant is eligible to receive up to 50% of the TIF generated by the project demonstrates a gap. The Finance Committee granted an exception to exceed the 50% Rule on February 8, 2021 to allow the Project to utilize 69% of the TIF generated by all three projects (A, B and C), to support Projects A and B.

**Self-Supporting Projects—**TIF Policy requires that each project component requesting TIF assistance must generate sufficient tax increments to support its TIF assistance. On February 8, 2021, the Finance Committee granted an exception to utilize tax increments from Project C to support Projects A & B as a principal of Developer provided a personal guaranty of tax increment from all three projects.

**(l) Known Labor Agreement, Law Violations****None indicated.**

**Staff Recommendation:** The Project has demonstrated a gap that does not exceed \$2,556,000 or 69% of TIF generated by all three projects.

Figure 3

### JT Klein Company Inc.'s Westgate Redevelopment TIF Goals

- A. Growing the property tax base. Estimate the property tax growth as a result of your project.**  
As of today, the Westgate Mall is completely vacant, and has had significant vacancy loss over the last decade, resulting in stagnant property tax growth. The proposed JT Klein redevelopment estimates a future property value of \$33,450,000 within the next 5 years.
- B. Fostering the creation and retention of family-supporting jobs. The City of Madison has a Living Wage Ordinance and has stated through numerous resolutions its support for the right of workers to collectively bargain.**  
N/A
- C. Encouraging adaptive re-use of obsolete or deteriorating property. The most sustainable building practice is often to reuse existing structures in whole or in part. The City of Madison has an adopted Sustainability Plan.**  
N/A- Due to significant damage from the 2018 flood, the existing building would require considerable rehabilitation resulting in significant up front costs. Furthermore, market data concluded that a large retail space such as the existing Westgate Mall does not have sustainable demand.
- D. Encouraging urban in-fill projects that increase (or decrease where appropriate) density consistent with the City's Comprehensive Plan. The City has adopted plans and policies to encourage growth and density in certain locations through its Comprehensive Plan, Neighborhood Plans, and other applicable land use and transportation plans**  
The Westgate redevelopment will revitalize a blighted and under-used site and greatly increase density in accordance of the City's Comprehensive Plan. The location is perfectly suited for density with access to both public transportation and local employment. Proximity to the West Transfer bus stop and future BRT will provide future residents the ability to traverse the City without a vehicle. JT Klein is expecting to develop 464 units of housing, which will be among the most dense residential areas outside the Capitol Square district.
- E. Assisting in the revitalization of historic or architecturally significant or deteriorated buildings. The goal of the Madison Landmarks Ordinance is to preserve, protect, enhance and perpetuate and improve historically and architecturally significant buildings, neighborhoods, and historic districts.**  
N/A
- F. Creating a range of housing options and specifically encouraging the development of workforce and affordable housing. Adopted land use plans and the report of the Housing Diversity Ad Hoc Committee contain recommendations to further the availability of a full range of housing choices.**  
JT Klein prides the Westgate redevelopment as a project with the ability to provide housing for any person of any income, age, or demographic. The Westgate redevelopment will contain a significant portion of workforce and affordable housing, including approximately 68 units of family housing across 30%-80% of the county AMI. 161 units of affordable senior housing across 30%-market level county AMI. 225 units of market rate housing across two buildings, and roughly 2.5 acres of commercial/medical office use. Along with a variety of private building amenities, this redevelopment will contain a public green space that leads into the adjacent Odana School Park.