

MEMORANDUM

TO: Board of Estimates
FR: Joe Gromacki, TIF Coordinator
DATE: April 10, 2014

SUBJECT: TIF REPORT FOR THE GEBHARDT GALAXIE, LLC TIF LOAN

Project Description

The Gebhardt Galaxie, LLC (“Developer”) proposes to redevelop the City-owned 800 North block of East Washington Avenue, formerly occupied by the Don Miller dealership, located in Tax Incremental District (TID) #36. The proposed Galaxie project is planned in two phases, the first phase consisting of 205 apartment units, a 55,000 SF grocery, 34,000 SF of commercial, 5,000 SF of retail a 501-stall parking structure and a rooftop production farm. The total estimated cost of Phase I is \$43,772,000, including an \$880,000 rooftop production farm.

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) <u>Amount Requested by Developer</u>	\$4,417,000	(60% of TIF)
(b) <u>Type of Project</u>	Redevelopment	
(c) <u>Analysis Method</u>	Gap Analysis	
(d) <u>Tax Credits:</u>		
Impact	Not applicable	
Self-Score	Not applicable	
(e) <u>Estimated Assessed Value and Tax Increments:</u>		
Estimated Value	\$44,671,000	
Total Estimated Tax Increments	\$14,982,000	
Average Annual Tax Increment	\$500,000	
TIF Supportable at 100%	\$7,346,000	
(f) <u>TID Condition:</u>		
Year Created	2005	
Years Remaining	18	
Avg. Annual Increment (To Date)	\$450,000	
Unrecovered Cost	\$7,000,000	
Estimated Cost Recovery To Date	16 yrs.	
Estimated Cost Recovery With New Projects	10-11 yrs.	

TID #36 (Capitol Gateway) was created in 2005. Although producing modest tax increment (about \$450,000 per year on average), the TID has seen sluggish growth since the national economic recession beginning in 2008. TID #36 has unrecovered costs of approximately \$7 million.

(h) TIF Loan Underwriting Policy Compliance

\$3,977,000 TIF Request is 54% of TIF and in compliance. Adding \$440,000 toward the rooftop production farm, at the City’s request, would total \$4,417,000 of TIF Assistance or 60% of TIF, thus exceeding the 55% Gateway and requiring an exception. Developer equity is \$4,800,000, in compliance with TIF policy that equity equal or exceeds the amount of TIF provided. The project is

self-supporting, i.e. tax increments generated by the project support the TIF request. A principal of Developer is providing a personal guaranty.

(i) Amount of TIF Recommended

TIF Assistance for Apartments, Commercial, Parking	\$3,977,000	54% of TIF
TIF Assistance for Rooftop Production Farm	<u>\$440,000</u>	6% of TIF
Total TIF Recommendation	\$4,417,000	60% of TIF

(j) Comments

1) Per Sections 1 and 3.4 of “TIF Goals, Objectives and Process”, how does the Project meet City and TID’s goals?

Goal A: Grows the City’s property tax base

The first phase of the project is estimated to add approximately \$44 million to the tax base upon completion.

Goal B: Fosters the creation and retention of family-supporting jobs

Not applicable

Goal C: Encourages the re-use of obsolete or deteriorating property

The City purchased the vacant Don Miller parcels in 2005. Sale of land to facilitate the Project is part of ongoing effort to revitalize the East Washington Corridor.

Goal D: Encourages urban in-fill projects that increase density consistent with the City’s Comprehensive Plan

205 apartments, 39,000 SF of commercial and retail and a 55,000 SF grocery comprise a significant increase in density for the site that was previously a vacant car-lot. Residential density is approximately 45 dwelling units per acre, qualifying as high-density as defined in the Comprehensive Plan. The Plan Commission approved the land use and design on March 10, 2014.

Goal E: Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts

Not Applicable

Goal F: Creates a range of housing types, specifically encouraging affordable housing

Approximately 41 of 205 units (20% of project) will be affordable units.

Goal G: Funds public improvements that enhance development potential and improve City’s infrastructure

The project is utilizing 60% of the tax increments it generates, providing 40% of tax increment for other public improvements, at the City’s discretion.

Goal H: Promotes superior design, building materials and sustainability features

\$440,000 of TIF Loan assistance is provided for a sustainable rooftop production farm. Developer may implement a bio-digester and passive house as additional sustainable elements in the subsequent phases, depending upon financial feasibility.

Goal I: Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting

The project utilizes 60% of estimated tax increments, leaving 40% available for public infrastructure and the recovery of existing TID indebtedness.

2) Is the TIF Loan amount appropriate and in the public interest?

The TIF loan is based upon gap analysis, demonstrating that the cost of parking, foundation work for a multi-story structure and the rooftop production farm contribute to a financing gap of \$4,417,000, representing 60% of the net present value of tax increments generated by the project over the remaining life of TID #36. Forty percent (40%) of the tax increments may be used to retire existing debt within the TID or fund additional public improvements. The gap is caused by parking cost particularly associated with the grocery component and soil compaction and foundation costs due to poor soils.

3) What is the financial risk to the City?

The project value is estimated at approximately \$44 million. The City will have a second mortgage security interest in the Project, Developer's increment guaranty and personal guaranty of Otto Gebhardt. Provided that actual value estimates are below estimate, there is sufficient cushion in the remaining 40% of estimated tax increments to recover the TID indebtedness. The current condition of TID #36 does not offer excess increment to cushion any increment shortfall. However the recently-funded Constellation project (receiving 59% of TIF) is anticipated to add an additional \$200,000 to \$300,000 per year of excess increment to the TID, to be used at the City's discretion, to retire debt or fund additional public improvements.

(k) TIF Policy Exceptions

Per TIF Policy, TIF staff was authorized by the Board of Estimates to negotiate a base TIF amount of \$3,977,000 (54% of TIF) and a discretionary \$440,000 of TIF assistance to partially fund the rooftop production farm, making the total TIF expenditure \$4,417,000 or 60% of TIF.

(l) Known Labor Agreement, Law Violations

None indicated.