

MEMORANDUM

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

SUBJECT: TIF REPORT FOR THE ARBOR GATE DEVELOPMENT, LLC TIF LOAN

Project Description

In 2007, the City of Madison disbursed a \$2,700,000 TIF Loan (47% of TIF) to Arbor Gate Development, LLC ("Arbor Gate") to construct a 200,000 square foot retail/commercial building and associated parking to retain the existing employers in the Todd Drive/West Beltline area, stimulate new employment and eliminate blight ("Arbor Gate Project"). The project is located within TID #35 (Todd Drive).

Arbor Gate requests a \$150,000 supplemental TIF loan to renovate a 7,800 square foot property located at 2821 Todd Drive to lease said property to Dane County Parent Council, Inc. (DCPC) to continue DCPC's operation of the Head Start childcare program to low- and moderate-income and disadvantaged households. Tax increments generated by the Arbor Gate Project will recover the indebtedness of the supplemental TIF Loan. The total project cost is \$300,000 for the renovation of the property to make it suitable for a childcare facility ("Project").

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>	\$150,000	(3% 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	\$22,369,000	
Total Estimated Tax Increments	\$9,373,000	
Average Annual Tax Increment	\$540,000	
TIF Supportable at 100%	\$5,020,000	
(f) <u>TID Condition:</u>		
Year Created	2005	
Years Remaining	18	
Avg. Annual Increment (To Date)	\$700,000	
Unrecovered Cost	\$109,000	
Estimated Cost Recovery To Date	1 yr.	
Estimated Cost Recovery With New Projects	2 yrs.	

TID #35 (Todd Drive) was created in 2005. The TID has performed well—producing an average of \$700,000 of tax increment to recover approximately \$3,273,000 of project costs. TID #35 has unrecovered costs of approximately \$109,000 and was scheduled to close in 2015.

(h) TIF Loan Underwriting Policy Compliance

The \$150,000 supplemental TIF Request is 3% of TIF generated by the Arbor Gate project and is therefore in compliance. Developer equity is \$75,000 with an additional \$75,000 of charitable donations to DCPC being contributed to the project as near-equity. In staff's view the project is more or less in compliance with TIF policy that equity equal or exceeds the amount of TIF provided, as the additional funds are donations toward the project costs and not debt. The project itself is not self-supporting, i.e. tax increments generated by the Arbor Gate project must support the supplemental TIF request, requiring an exception to TIF Underwriting Policy. A mitigating factor is that the borrowing entities are the same and the overall value of both projects is sufficient to recover the supplemental TIF loan. A principal of Developer is providing a personal guaranty.

(i) Amount of TIF Recommended

\$150,000 3% 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

Not Applicable. The project provides community-based child-care service to low-, moderate- and disadvantaged households. The renovation of the property at 2821 Todd Drive is not likely to increase the value of that property by an appreciable amount. The Arbor Gate development approved in 2008 is the sole generator of value and tax increment to support this project.

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 property was formerly a senior housing project that was purchased by Developer. It has been boarded up and is in deteriorating condition.

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

Not applicable

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

Not Applicable

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

Not Applicable.

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

Project re-purposes a vacant senior center into a childcare facility.

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

Not Applicable for Project. However, Project only uses 3% of tax increment generated by Arbor Gate project for a total of 50% of TIF to both projects. Excess tax increments from the Arbor Gate project may still be used to pay for infrastructure in the TID.

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

The TIF loan is based upon gap analysis, demonstrating that a financing gap of \$150,000 is attributable to insufficient equity being generated by the lower rent required by Tenant to operate an affordable childcare facility for low- and moderate-income and disadvantaged households.

3) What is the financial risk to the City?

The Arbor Gate Project value is estimated at approximately \$22 million. The City currently has a second mortgage security interest in the Arbor Gate Project that will be increased by \$150,000 to secure the supplemental TIF Loan. A principal of Developer is providing a personal guaranty. Provided that actual value estimates are below estimate, there is sufficient cushion in the remaining 50% of estimated tax increments generated by the Arbor Gate Project to recover the supplemental TIF loan indebtedness. The current condition of TID #35 is quite healthy, i.e. the TID has significant excess increment to cushion any increment shortfall.

(k) TIF Policy Exceptions

The project is not self-supporting, i.e. it requires TIF from the Arbor Gate project to recover the supplemental TIF Loan. However, the borrowing entities are identical, which is a mitigating factor. Overall funding of this Project requires an exception to TIF Loan Underwriting Policy 1 (12).

(l) Known Labor Agreement, Law Violations

None indicated.