

MEMORANDUM

TO: Board of Estimates
FR: Joe Gromacki, TIF Coordinator
DATE: December 2, 2014

SUBJECT: TIF REPORT FOR 25 WEST MAIN, LLC TIF LOAN

Project Description

25 West Main, LLC ("Developer") proposes to redevelop the Anchor Bank property located at 126 Carroll Street and subterranean lands beneath the Carroll Street right of way connecting to 25 West Main Street, located in a proposed Tax Incremental District (TID) #45. The proposed project consists of 186,000 gross square feet of office, approximately 100 apartment units, a 43,000 SF of commercial and retail uses, 2,400 SF of storage and a 548-stall underground parking structure. The total estimated cost \$98,105,000.

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 by Developer** \$13,317,000 (71% of TIF)

(b) **Type of Project** Redevelopment

(c) **Analysis Method** Gap Analysis

(d) **Tax Credits:**

Impact	Not applicable
Self-Score	Not applicable

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

Estimated Value	\$84,666,000
Total Estimated Tax Increments	\$48,834,000
Average Annual Tax Increment	\$2,000,000
TIF Supportable at 100%	\$18,643,000

(f) **TID Condition:**

Year Created	2015
Years Remaining	27
Avg. Annual Increment (To Date)	N/A
Unrecovered Cost	\$0
Estimated Cost Recovery To Date (Anchor Bank Project Only) 10 Years	
Estimated Cost Recovery With New Projects	N/A

TID #45 (Capitol Square West) is proposed for creation in 2015. The Project proposed is a sufficient generator to recover the cost of TIF assistance within approximately 10 years. Additional generators, such as the AT&T renovation at 316 W. Washington may provide additional financial cushion for the recovery of all TID costs throughout its projected lifespan.

(h) **TIF Loan Underwriting Policy Compliance**

\$13,317,000 TIF Request is 71% of TIF. Per TIF Policy 1(7), staff consulted the Board of Estimates on September 30, 2014 and was directed to draft a TIF Term Sheet, making an exception to the 55% Gateway policy in 3.1(7). Total private financing is \$84,788,000 including a \$71,236,000 bank loan, and other funds and \$13,552,000 of Developer equity, 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 toward Parking Cost (448 stall)	\$13,317,000	71% of TIF
Total TIF Recommendation	\$4,417,000	71% 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 existing assessed value of the project is \$11,684,000. Upon completion the Project is estimated to add approximately \$73 million of incremental value to the tax base upon completion or approximately \$84.7 million.

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 recent TIF blight study concluded that the Anchor Bank and adjoining parking ramp are in deteriorating condition.

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

186,000 gross square feet of office, 100 apartments, 43,000 SF of commercial and retail and 2,400 SF of storage comprise a significant increase in density for the site that was previously an aging office building with inadequate surface parking and a 40-year old deteriorating parking ramp adjacent to the site. Gross residential density is approximately 89 dwelling units per acre. This is consistent with the Comprehensive Plan’s recommended land use and density for this site of greater than 60 units per acres, as identified in the Downtown Core Sub-district in Volume II, pg 2-108 of the Comprehensive Plan

The Common Council approved the PD re-zoning request on October 7, 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

The housing component is market-rate.

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

The project is utilizing 71% of the tax increments it generates, providing 29% of tax increment for other public improvements, at the City's discretion. Beginning in 2015, the 2015-19 Capital Improvements Plan (CIP) anticipates that about \$3 million of street improvements will be implemented in the Capital Square. These costs would be TIF-eligible if included within the TID boundary or through use of the statutory Half-Mile Rule.

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

The project has a small green roof and maintains strong relationships with surrounding historic structures. The project will also improve walkability on the Carroll and Doty Street frontages. Additionally, this project will re-use and reinvigorate a large downtown office building, which is a sustainable practice.

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

The project utilizes 71% of estimated tax increments, leaving 29% 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 developing 448 of the 548 underground parking stalls contribute to a financing gap of \$13,317,000. One hundred (100) stalls, to be used by the adjacent apartment project, can be feasibly financed by the apartment component, without City TIF assistance. TIF assistance to the Project represents 71% of the net present value of tax increments generated by the project over the 27-year life of the proposed TID #45. Forty percent (29%) 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 \$84.1 million. The City will have a second mortgage security interest in the Project, Developer's increment guaranty and personal guaranty of principals of the Developer. Provided that actual value estimates are below estimate, there is sufficient cushion in the remaining 29% of estimated tax increments to recover the TID indebtedness. The current condition of TID #45 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.