

## MEMORANDUM

TO: Board of Estimates and Common Council  
FR: Joe Gromacki, TIF Coordinator  
DATE: March 3, 2015

**SUBJECT: TIF REPORT FOR 316 WWA, LLC TIF LOAN**

### Project Description

316 WWA, LLC ("Developer") proposes to redevelop the AT&T property located at 316 West Washington Avenue located in a proposed Tax Incremental District (TID) #45. The proposed project (the "Project") consists of 141,000 gross square feet of office and approximately 11,000 gross square feet of first floor retail. The total estimated cost is \$29,157,000. Developer requested \$2,800,000 of TIF assistance (75% of TIF). **Staff recommends \$2,050,000 of TIF assistance representing 55% of TIF.**

### 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:** \$2,800,000 (75% of TIF)

(b) **Type of Project:** Redevelopment

(c) **Analysis Method:** Gap Analysis

(d) **Tax Credits:** Not Applicable

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

Estimated Value	\$20,997,000
Total Estimated Tax Increments	\$9,262,000
Average Annual Tax Increment (First 10 Yrs.)	\$281,000
TIF Supportable at 100%	\$3,724,000

(f) **TID Condition:**

Year Created	2015
Years Remaining	27
Avg. Annual Increment (To Date)	N/A
Unrecovered Cost	\$0
Estimated Cost Recovery To Date (Project Only)	8 Years
Estimated Cost Recovery With New Projects	N/A

TID #45 (Capitol Square West) is proposed to be created in 2015. The proposed Project is a sufficient generator to recover the cost of TIF assistance within approximately 8 years. Additional generators, such as the Anchor Bank project, are anticipated to provide an additional financial cushion for the recovery of all TID costs throughout the TID's projected lifespan.

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

The \$2,050,000 TIF Request is 55% of TIF. Total project cost is approximately \$29,157,000. Total private financing is \$27,107,000 including a \$18,600,000 bank loan and \$8,507,000 of Developer equity, in compliance with TIF policy that equity equal or exceeds the amount of TIF provided. The gap between total cost and total private financing is \$2,050,000. The project is self-supporting, i.e. tax increments generated by the project support the TIF request. A principal of the Developer is providing a personal guaranty.

(i) Amount of TIF Recommended

\$2,050,000 (55% 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 \$5,050,000. Upon completion, the Project is estimated to add approximately \$15,947,000 of incremental value to the tax base or approximately \$20,997,000 of total assessed value.

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

The Project would retain existing Downtown tenants and attract new opportunities by offering improved lease space to existing and prospective tenants. It also follows that without the improvements made through TIF to the Project, tenant migration to other outlying areas would have a negative economic impact on the Downtown. As commercial landlords generally do not have access to tenants’ wage information, the level of family-supporting jobs cannot be estimated.

At present, the current tenants include AT&T, occupying 64,629 SF (number of jobs unavailable), a 9,300 SF user that will retain 66 jobs, a 12,192 SF user that would retain 55 jobs and an 11,135 SF user that would retain 60 jobs now with potential to create 50 new jobs by the end of 2016. In addition, the fifth and sixth floors, comprising 28,257 SF and the planned first floor retail of 11,717 SF would be made available for lease. Data regarding wage levels is not made available to the Developer.

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

The AT&T building at 316 West Washington was constructed prior to the implementation of state building codes in 1970 that required sprinkler systems in multi-story commercial buildings. The property is ten stories in height. Currently only floors 1 through 5 have adequate sprinkler systems. The previous owner made little effort to improve the building, vacancy increased and value decreased.

Developer purchased the building out of receivership and intends to make significant improvements. In addition to installing proper fire suppression systems to floors 6 through 10, the building requires significant asbestos abatement, the replacement or addition of windows to much of the building façade and about \$1 million upgrade to the elevator system. TIF assistance is required to reverse the property’s physical and economic deterioration.

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

As stated in Goal C, the re-design and upgrade of the property will reverse its physical and economic deterioration and address public health and safety objectives.

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

The Project is utilizing 55% of the tax increments it generates, providing 45% 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 constructed in the Capitol 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 will upgrade the building exterior by installing new and replacing old windows that enhance natural lighting and promote energy efficiency. The interior upgrades include an elevator upgrade, asbestos abatement and implementation of a fire suppression system to the sixth through tenth floors. The project received design approvals in February to begin construction in 2015.

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

The project utilizes 55% of estimated tax increments, leaving 45%, or approximately \$1,675,000, available for public infrastructure and the recovery of additional future TID indebtedness.

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

The TIF Loan is based upon gap analysis, demonstrating that project attracts \$27,107,000 of private financing toward a \$29,157,000 project cost, resulting in a \$2,050,000 gap. The excess costs of fire suppression systems on the sixth through tenth floors, asbestos abatement and other building upgrades contribute to the gap. Project costs are in line with market standards.

TIF assistance to the Project represents 55% of the net present value of tax increments generated by the project over the 27-year life of the proposed TID #45. Forty-five percent (45%) of the tax increments representing an additional \$1,675,000 of TIF funds may be used to retire additional debt within the TID or fund additional public improvements. Although assessed at approximately \$8 million in 2013, the project was purchased for \$5 million out of receivership at the end of 2014, thus indicating a dramatic drop in its economic value.

The TIF Loan enables the project to add value to the City's tax base, recycle a deteriorating property from a physical and economic standpoint and improve public safety via the implementation of fire suppression systems, asbestos abatement and improved natural lighting via window replacement and new window installation.

**3) What is the financial risk to the City?**

The Project value is estimated at approximately \$20,997,000. The City will have a second mortgage security interest in the Project, Developer's increment guaranty and personal guaranty of principals of the Developer. Based upon tax increment projections, the \$2,050,000 TIF Loan may be recovered in approximately 8 years. In the event that actual values are below estimates, there is sufficient cushion in the remaining 45% of estimated tax increments to recover the TID indebtedness.

Additional generators, such as the renovation of the Anchor Bank project at 25 West Main and 126 Carroll Streets are currently being proposed that are anticipated to provide additional financial cushion over time for the recovery of all TID costs throughout the TID's projected lifespan. However, until such additional projects receive the necessary City approvals, this factor

is not predictable at this time. In the absence of such additional generators, the remaining 45% of tax increment provides security to the new TID #45 if it were to operate as a single-purpose TID.

**(k) TIF Policy Exceptions**

None required.

**(l) Known Labor Agreement, Law Violations**

None indicated.