

## MEMORANDUM

TO: Board of Estimates and Common Council  
FR: Joe Gromacki, TIF Coordinator  
DATE: June 24, 2015

**SUBJECT: TIF REPORT FOR GORMAN & COMPANY, INC. AND ITS ASSIGNS TIF LOAN**

### Project Description

Gorman and Company, Inc. and its assigns, ("Developer") proposes to redevelop the City-owned Union Corners Property located at 2504, 2507 and 2340 Winnebago Street located in Tax Incremental District (TID) #37 ("Property"). The proposed project (the "Project") consists of four phases, including a 60,000 SF medical clinic, approximately 102 apartment units, approximately 28,200 SF grocery store, approximately 7,700 gross square feet of commercial and retail space, approximately 97 affordable and market rate apartment units and 10,250 SF of commercial and retail space and non-assessable infrastructure such as a serpentine walkway and 40 angled on street parking stalls, or other use allowed by the zoning text. The project demonstrates a gap of approximately \$5,000,000, representing 50% of TIF, such that the City may transfer Phases 1 through 4 of the Property, valued at approximately \$5,000,000 to Developer for \$1.00, the cost of said Property to be recovered by tax increments generated by the Project.

**Staff recommends providing \$5,000,000 of TIF loan assistance by conveying approximately \$5,000,000 of the City-owned Union Corners property, constituting Phases 1, 2, 3 & 4, to Developer for \$1.00, said cost to be recovered by tax increments generated by the phase projects, said \$5,000,000 of TIF assistance thus representing 50% 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:** \$5,000,000 (50% of TIF)
- (b) **Type of Project:** Redevelopment
- (c) **Analysis Method:** Gap Analysis
- (d) **Tax Credits:** Project awarded WHEDA Tax Credits

### **Estimated Assessed Value and Tax Increments:**

Estimated Value (All Phases)	\$60,914,000
Total Estimated Tax Increments	\$20,381,000
Average TID #37 Annual Tax Increment (First 10 Yrs.)	\$690,000
TIF Supportable at 100%	\$9,973,000

### (f) **TID Condition:**

Year Created	2006
Years Remaining	18
Annual Increment (To Date)	\$226,000
Unrecovered Cost	\$5,326,000
Estimated Cost Recovery To Date (Project Only)	7 Years
Estimated Cost Recovery With New Projects	Unknown

TID #37 (Union Corners) was created in 2006. It has unrecovered cost of \$5,326,000. It is currently meeting debt obligations, but its increment generation is only \$226,000 per year after nine years of operation. The City's purchase of the Union Corners property and street improvements to Winnebago Street comprised most of the Unrecovered Cost remaining within the TID.

The proposed Project, in aggregate of all its phases, is a sufficient generator to recover \$5,000,000 of the City's land cost, provided to the Developer for \$1.00 in lieu of borrowing, within approximately 7 years. Without increment generated by all phases of the Project, and referencing the current \$226,000 of annual increment, the TID would take 22 years to recover the \$5.3M of unrecovered cost—**exceeding the statutory life of the TID by 4 years**. No additional TIF generators within this TID are known at this time.

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

The \$5,000,000 TIF Request is 50% of TIF. Total project cost of all four phases is approximately \$66,408,000. Total private financing is approximately \$60,914,000 including approximately \$41,110,000 of bank loans and approximately \$19,804,000 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 approximately \$5,000,000, representing 50% of the TIF generated by the project. The project is self-supporting, i.e. tax increments generated by the project support the TIF request. Per the Board of Estimates direction on June 8, 2015, an exception was granted allowing Developer to providing a corporate guaranty in lieu of a personal guaranty.

**(i) Amount of TIF Recommended**

**\$5,000,000 (50% 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 \$0. Upon completion, the Project is estimated to add approximately \$60,914,000 of assessed value to the tax base.

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

The project includes a 28,000 SF grocery and additional retail space that will create jobs.

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

The Union Corners property has been vacant since Rayovac shuttered its operation there in about 2001. A proposed redevelopment project, including condominiums, apartments and commercial space failed to launch in 2008 as the nation entered an economic recession that depressed the housing market. The City acquired the property in receivership in 2010. 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.

The Property, and urban in-fill redevelopment site, is identified in the City's Comprehensive Plan for Community Mixed Use. The proposed levels of density are consistent with the City's Comprehensive Plan.

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 first four phases of the Project propose about 200 units of affordable and market rate housing. Developer has received low income housing tax credit award from WHEDA and funding assistance from the City of Madison Affordable Housing Initiative Fund.

Goal G: Funds public improvements that enhance development potential and improve City's infrastructure. The planning process has added several improvements to the interior of Project such as the serpentine walkway, landscaping and angled parking that enhance its walk-ability.

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

The Property will be redeveloped with new stormwater management features, improved pedestrian access and new commercial and residential spaces open to the public.

Goal I: Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting. The TIF Loan, in the form of a transfer of \$5,000,000 for \$1.00, represents 50% of the tax increment generated by the Project, leaving 50% for public infrastructure and the recovery of existing and 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 \$60,914,000 of private financing toward a \$66,408,000 project cost, resulting in a \$5,494,000 gap. Most of the gap is attributable to underground parking for the grocery and affordable housing that does not generate rental income and about \$850,000 of non-assessable infrastructure costs. Project costs are in line with market standards.

TIF assistance to the Project represents 50% of the net present value of tax increments generated by the project over the 18-year life of the TID #37. Fifty percent (50%) of the tax increments represents approximately \$5,000,000 of TIF funds that may be used to retire additional debt within the TID or fund additional public improvements.

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.

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

The Project value is estimated at approximately \$60,914,000. The City will have a second mortgage security interest in the Project, Developer's corporate increment guaranty and overall corporate guaranty are provided. The Developer's guarantee will be released when a separate LLC takes control of a Phase and its net worth equals or exceeds the principal on the note for the Phase. The City will only be left with a mortgage and a guarantee that the LLC will not remove assets. Based upon tax increment projections, the \$5,000,000 TIF Loan may be recovered in approximately 7 years. In the event that actual values are below estimates, there is sufficient cushion in the remaining 50% of estimated tax increments to recover the TID indebtedness.

**(k) TIF Policy Exceptions**

Two exceptions were recommended by the Board of Estimates concerning the Project on June 8, 2015. They include the exception to the Equity Participation Payment, that was waived in the Council's adoption of the Purchase and Sale Agreement in 2013, and the Personal Guaranty requirement, wherein a corporate guaranty was provided in lieu of a personal guaranty of the Loan. The Developer's guarantee will be released when a separate LLC takes control of a Phase and its net worth equals or exceeds the principal on the note for the Phase. The City will only be left with a mortgage and a guarantee that the LLC will not remove assets.

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

None indicated.