

MEMORANDUM

TO: Board of Estimates
FR: Joe Gromacki, TIF Coordinator
DATE: October 12, 2015

SUBJECT: INITIAL TIF REPORT: THE GALAXIE II PROPOSAL

Background on TIF Policy Exceptions

TIF Policy states that in the event that a project may require one or more exceptions to TIF Policy, that staff presents the proposed exceptions to the Board of Estimates (BOE) in closed session, prior to drafting a Term Sheet and introduction of a TIF authorizing resolution. The project described in this initial TIF Report meets the criteria that the proposed TIF Policy exceptions be considered by the BOE.

Project Description

The Gebhardt Galaxie, LLC ("Developer") proposes to construct Phase II of the Galaxie project located in the north 800 Block of E. Washington Avenue in Tax Incremental District (TID) #36. The first phase consisted of 205 apartments, 34,000 square feet of commercial, a 55,000 SF grocery, 501 parking stalls and a rooftop garden. The City provided \$4,417,000 of TIF assistance to Phase I, or 60% of the TIF. In particular, \$440,000 of the TIF loan assistance was earmarked by the Common Council for construction of a Phase I rooftop garden, which it considered a key infrastructure improvement.

Phase I construction is nearing completion, such that Developer must commence construction for Phase II in November, 2015. For Phase II, Developer requests \$1,540,000 of TIF assistance for Phase II to construct 50 market-rate apartments, 21,800 square feet of commercial, 6,630 square feet of commercial and an additional 190 structured parking stalls.

This initial report considers the facts as presented by Developer, pending completion of a gap analysis at a later date, at which time a TIF authorizing resolution and updated TIF Report will follow for the Common Council's final consideration.

TIF Assistance – Transfer of Phase I Funds, Exception to 55% Gateway, Tight Timeline

Developer was not timely in making this TIF request which also imposed tight time constraints upon the City to analyze, negotiate and approve TIF financing by November 3. If the deadline is not reached, Developer asserts that he will be in default on his lease with the grocery tenant. In addition, Phase II supports only \$1,100,000 of TIF at 55% of his initial \$1,875,000 TIF request, which constituted 92% of the TIF. TIF staff responded to Developer that this initial request was infeasible.

In response, Developer proposed to transfer \$440,000 of TIF authorized for the Phase I rooftop garden to fund a \$275,000 rooftop garden in Phase II. Presumably, the \$165,000 balance of Phase I TIF would be used to fund Developer's proposed \$1,875,000 gap. At present, TIF staff is uncertain how the balance of Developer's proposed gap would be funded. More analysis should provide an answer that the Common Council could consider with an updated TIF Report and TIF authorizing resolution.

The City Attorney's Office has concluded that the City may at its discretion transfer such Phase I funds to Phase II but it must treat such a transfer as part of a new TIF loan to Phase II. As the project is eligible for up to \$1,100,000 of TIF under the 55% Gateway in TIF Policy, adding \$440,000 of Phase I funds would increase the TIF percentage to 75% of TIF. This action would require an exception to TIF Policy.

In the interest of time, staff must ask the BOE for consideration of an exception to TIF Policy while gap analysis is still ongoing. It is possible that upon completion of gap analysis, TIF staff may recommend less TIF assistance than the Developer's proposed \$1,540,000. At any rate, a final TIF recommendation

would be introduced to the Common Council on October 20, reviewed by BOE on October 26, for final consideration by the Common Council on November 3.

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** \$1,540,000 (75% 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	\$13,680,000
Total Estimated Tax Increments	\$3,950,000
Average Annual Tax Increment	\$311,000
TIF Supportable at 100%	\$2,047,000

(f) **TID Condition:**

At its creation, the TID 36 Project Plan authorized approximately \$22 million of expenditures. The Galaxie II project would use the last remaining \$1.5 million of funding authorization allowable in the Project Plan. Hereafter, additional TID expenditures would require TIF Joint Review Board approval of a TID Project Plan amendment. Overall, the TID has been meeting financial obligations, although beginning in 2008, the national economic recession delayed growth in the district for quite some time, averaging only about \$450,000 of tax increment per year. 2014 tax increment improved to about \$800,000 per year and is projected to reach \$1.66 million in 2016. Although currently meeting its debt service obligations, the district has been unable to accrue any tax increment cushion in the event that the various development projects do not meet value growth expectations.

Year Created	2005
Years to Recover Cost	17
Avg. Annual TID Increment (To Date)	\$1,662,000
Unrecovered Cost	\$11,025,000
Estimated Cost Recovery To Date	10 yrs.
Estimated Cost Recovery With New Project	11 yrs.

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

The \$1,540,000 TIF Request is 75% of TIF thus requiring an exception to City of Madison TIF Policy. Developer equity is \$3,360,000, in compliance with TIF policy that equity equal or exceeds the amount of TIF provided. A principal of Developer is providing a personal guaranty.

(i) Amount of TIF to Be Considered

TIF staff requests that BOE authorize TIF assistance not to exceed \$1,540,000, representing 75% of TIF and contingent upon TIF staff's final recommendation as a result of gap analysis that will be introduced to Council as part of a TIF funding authorizing resolution.

TIF Eligible at 55%	\$1,100,000	55% of TIF
Transferred TIF from Phase I	\$440,000	20% of TIF
Total TIF for Consideration	\$1,540,000	75% of TIF

(j) Comments

See Gebhardt Development's attached "Statement of TIF Goals" that address the following questions regarding TIF Policy Goals, appropriateness and financial risk to the City:

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

- A) Grows the City's property tax base
- B) Fosters the creation and retention of family-supporting jobs
- C) Encourages the re-use of obsolete or deteriorating property
- D) Encourages urban in-fill projects that increase density consistent with the City's Comprehensive Plan
- E) Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts.
- F) Creates a range of housing types, specifically encouraging affordable housing
- G) Funds public improvements that enhance development potential and improve City's infrastructure
- H) Promotes superior design, building materials and sustainability features
- I) Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting

2) Is the TIF Loan amount appropriate and in the public interest?**3) What is the financial risk to the City?****(k) TIF Policy Exceptions**

55% Gateway—No more than 55% of the TIF generated by a project shall be provided to the project without prior authorization of the Board of Estimates in closed session.

(l) Known Labor Agreement, Law Violations

None indicated.



GALAXIE PHASE II

TIF Application

Statement on TIF Goals

Phase II of the Galaxie Mixed Use Development Project is expected to achieve the primary goals noted under TIF policy considerations that are applicable to this project. These goals include the following.

- The project is expected to increase the tax base substantially. It is projected to create an assessable value of approximately \$13,500,000 upon its stabilization. This value effectively represents the increment increase in assessed value as there is no material value of the vacant site at the present time.
- The project is an urban infill development that makes use of an underutilized and deteriorating property. It will increase density of the property from virtually a vacant site to a high density infill development comprising approximately 70,000 square feet of mixed use commercial and apartment uses together with 190 parking stalls in a multi-level parking structure.
- The building has been designed to high architectural standards that complement both the historical neighborhood components and the evolving East Washington Gateway Corridor, with its intent for modern commercial and mixed-use developments. It has been designed with environmentally sustainable features including a rooftop garden.
- Together with its neighbors the Constellation and the soon to be built Cosmos, the Galaxie will serve as the primary catalyst for further infill development along the Gateway Corridor as well as connecting submarkets such as Williamson Street and East Johnson/East Main Streets.
- The project will generate significant employment for trades people and others during the construction process. Upon completion, the retail and office components are expected to be occupied by businesses that will provide a wide range of employment opportunities and associated wage levels. It is likely that full-time equivalent employment within the building will exceed 100 people. These employees and the residents of the 50 apartment units will support the neighborhood economy by frequenting other services and restaurants in the area, providing an economic multiplier effect.
- The amount of the TIF request matches the budgeted funds for this project and does not require material deviation from TIF policy standards and goals.