

MEMORANDUM

TO: Board of Estimates

FR: Joe Gromacki, TIF Coordinator

DATE: March 27, 2017

**SUBJECT: JOBS TIF REQUEST FOR GAP ANALYSIS WAIVER:
Extreme Engineering Solutions, Inc.**

Background on Jobs TIF Loans

Jobs TIF provides direct TIF assistance to an employer constructing or expanding a facility or occupying at least 30% of newly-developed space as a tenant. An employer may choose one of two options to request Jobs TIF assistance.

First, employers may receive up to 60% of the net present value of tax increments generated by their project provided they demonstrate a gap. This process is called gap analysis.

Second, employers may request a gap analysis waiver from the Board of Estimates provided the project retains and/or creates at least 100 jobs over a five-year period and meets TIF Policy goals. Employers receiving a gap analysis waiver may receive Jobs TIF assistance not to exceed 40% of the net present value of tax increments generated by the project.

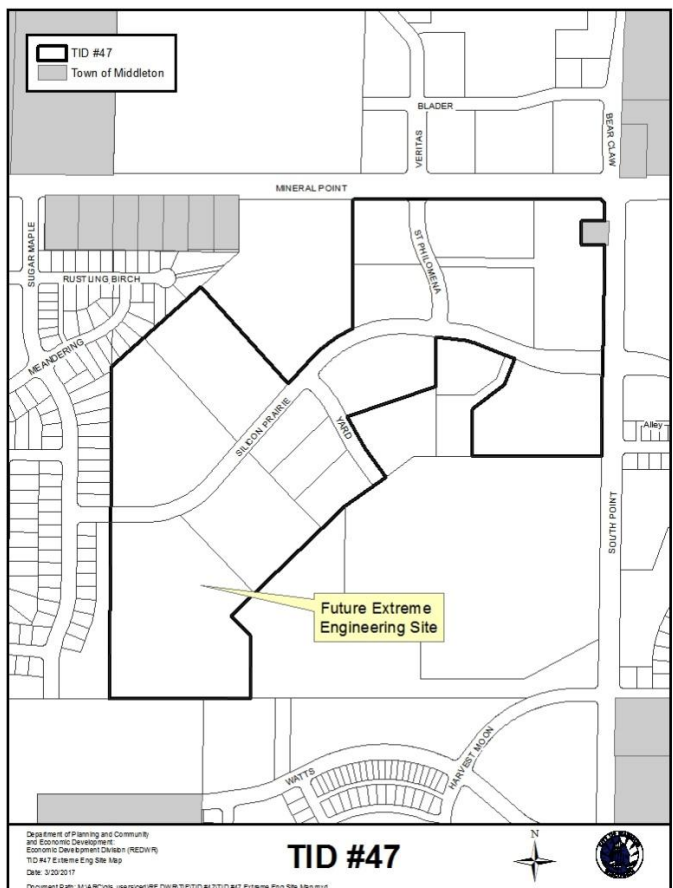
A gap analysis waiver request qualifies as a TIF Policy exception. Policy exceptions are considered by the Board of Estimates (BOE) prior to introduction of a TIF funding resolution. Upon BOE approval, City staff drafts a Term Sheet outlining the terms and conditions of providing Jobs TIF assistance to Employer.

Project Description

Extreme Engineering Solutions, Inc. (the "Employer") was founded in 2002 and is currently occupying 44,000 square feet located at 3225 Deming Way in Middleton. The Employer designs and manufactures rugged-use (i.e. designed to function at extreme temperature, altitude and vibration) electronic circuit boards with uses in the commercial, communications, industrial, military, medical and aerospace industries.

The Employer proposes to construct 115,000 square feet of manufacturing space on 13.6 acres of land in the Silicon Prairie business park at 9901 Silicon Prairie Parkway. The site is located in a proposed new

Figure 1



TID #47-Silicon Prairie (**Figure 1**), generally bounded by Mineral Point Road and South Point Road. Employer has approximately 170 employees.

Total estimated project cost is approximately \$15,357,000. The estimated assessed value of the project is \$9,119,000.

Jobs TIF Application – Gap Analysis Waiver Request

The Employer submitted a TIF Application and fee on February 27, 2017 requesting \$595,000 of TIF assistance, representing 40% of the net present value of tax increments generated by the project, and requested a gap analysis waiver.

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:** \$595,000
- (b) **Type of Project:** Jobs TIF
- (c) **Analysis Method:** Jobs TIF – Gap Analysis Waiver
- (d) **Tax Credits:** Not Applicable

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

Estimated Value	\$9,119,000
Total Est. Tax Increments	\$3,361,000
Avg. Annual Tax Increment	\$200,000
TIF Supportable at 100%	\$1,498,000

(f) **TID Condition:**

The proposed TID #47 would be a 20-year, mixed use TID to be created in 2017.

TID #47 Projections:

Year to Be Created	2017
Est. Annual Increment w/o Project (2017) *Estimated growth on base value only.	\$11,000
Est. Annual Increment Generated by Project	\$200,000
Jobs TIF Loan to Project (maximum amount at 40%)	\$595,000
Estimated Cost Recovery w/ New Project	8 years

(g) **TIF Policy Compliance**

Equity—Equity invested by Employer is approximately \$2,889,000. This amount is in compliance with TIF policy that equity equal or exceeds the amount of TIF provided.

55% Gateway--The \$595,000 Jobs TIF Request is 40% of TIF.

Self-Supporting Projects—The Project generates tax increment sufficient to repay the TIF loan and a portion of the TID’s infrastructure costs.

Guaranty—TIF staff will require that a principal of Employer provide a personal guaranty of both increment and the loan agreement terms and conditions. Such principal and Employer will be required to provide a guaranty of the jobs retained and/or created.

(h) Other Applicable

Job Retention—The Employer estimates that 170 jobs (Engineering, Manufacturing, Sales, Support and Administration) will be retained in the City of Madison for five years as a result of this project.

(i) Amount of TIF to Be Considered

TIF Policy states that employers may receive no more than 40% of TIF as a Jobs TIF applicant with a gap analysis waiver.

Jobs TIF Requested	\$595,000	
Jobs TIF Eligible	\$595,000	40% of TIF

(j) Employer's TIF Policy Goals Statement— TIF Policy requires that Employer provide a statement (**Figure 2**) as to how the project addresses the following TIF Policy Goals:

- 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

(k) TIF Policy Exceptions

Gap Analysis Waiver Requirements—Employer proposes to retain 170 jobs for a five-year period, exceeding the TIF Policy minimum standard of creating and/or retaining 100 full-time equivalent jobs over a five-year period. In addition, Employer must provide a TIF Policy Goals Statement (**Figure 2**) demonstrating how the project meets other TIF Policy goals that make it eligible for a gap analysis waiver.

(l) Known Labor Agreement, Law Violations**None indicated.****Staff Recommendation:**

The amount of Jobs TIF (with a gap analysis waiver) provided to an employer is guided by policy rather than empirical data from gap analysis. Policymakers must weigh the eligibility for a gap analysis waiver based upon the number of jobs being created and/or retained and judge whether the TIF Policy Goal Statement (**Figure 2**) submitted by the Employer justifies such a waiver. In the event gap analysis waiver is granted, TIF staff can only recommend that Jobs TIF assistance not exceed \$595,000, comprising 40% of TIF, as established by TIF Policy.

A TIF authorizing resolution that includes the terms and conditions of TIF assistance to Employer is forthcoming for Common Council consideration. The basic conditions of TIF assistance to Employer would be as follows:

1. The TIF Loan is contingent upon Common Council authorization of an amendment to the 2017 Capital Budget authorizing the funding of a TIF Loan to the project.
2. The TIF Loan is contingent upon the creation of the Project Plan and Boundary for TID #47.
3. A principal of Employer shall guaranty that tax increment generated by the project shall be sufficient to recover the TIF Loan.
4. A principal of Employer and/or the Employer's corporate entity shall guaranty that not less than 170 jobs shall be retained for a five-year period commencing on the date of occupancy.
5. At the anniversary of the job retention period, Guarantor shall certify job retention to the City.
6. In the event that job retention is below 170 jobs, Guarantor shall pay the City an amount per job for each job below the job retention threshold.

Figure 2

City of Madison
Jobs Project TIF Assistance Application

8

TIF POLICY GOAL STATEMENT RESPONSE

1. Grows the City's property tax base

Extreme Engineering Solutions designs and provides light manufacturing for ruggedized electronic circuit boards. These products are in the Commercial, Communications, Industrial, Military, Medical and Aerospace industries. Extreme Engineering Solutions has 170+ employees, (full-time and students) and has its headquarters in Middleton WI. With this project, Extreme Engineering Solutions would move the entirety of its company (excluding sales individuals) from Middleton WI to Madison WI.

Extreme Engineering Solutions is a small company that started in 2002 with 10 employees and has seen continual growth over the past 15 years to the state where it employees 170+ employees in various disciplines from Engineering, Manufacturing, Sales, Support and Administration. Extreme Engineering Solutions currently is occupying a 44,000-square foot build. The proposed new building will almost triple the office and manufacturing size to support continued jobs growth in the future.

2. Fosters the creation and retention of family-supporting jobs

Extreme Engineering Solutions provides a wide variety of two and four year degreed jobs. The company employs Electrical Engineers, Mechanical Engineers, Software Engineers, Electronics Technicians, Machinist, Manufacturing, Sales, Marketing, Finance, Purchasing, and Quality Insurance positions to name a few. All of these jobs meet or exceed the living wage standards provided by the city. As we look to the future, we expect to grow in all of these areas with the biggest area of growth being in the Manufacturing area.

3. Encourages the re-use of obsolete or deteriorating property

Not applicable as this is a vacant lot.

4. Encourages urban in-fill projects that increase density consistent with the City's Comprehensive Plan

Not applicable as this is a vacant lot in a new development

5. Assists in the revitalization of historic, architecturally significant or deteriorated buildings or enhancement of historic districts.

Not applicable as this is a vacant lot in a new development

6. Creates a range of housing types, specifically encouraging affordable housing

Not applicable as this is an office building

7. Funds public improvements that enhance development potential and improve City's infrastructure

Not applicable as this is for a private office.

8. Promotes superior design, building materials and sustainability features

Not applicable

9. Reserves sufficient increment for public infrastructure in both TID Project Plan and TIF underwriting

Not applicable

ADDITIONAL QUESTIONS RESPONSE

1. Is the Employer leasing the property from a developer? If yes, explain.
No. The employer is the developer
2. If the answer to the above question is "yes", is the Employer or some other entity related to the legal entity purchasing/exchanging/taking title to the property at a later date? If yes, explain.
Not applicable.
3. Does the project require the extension of sewer and/or water to the site? If yes, explain.
No
4. Does the project require extension of public roads to the site? If yes, explain.
No
5. Does the project require a change of zoning? If yes, explain.
No
6. Does the Employer or developer owe back property taxes? If yes, explain.
No