

MEMORANDUM

TO: Common Council

FR: Joe Gromacki, TIF Coordinator

DATE: July 26, 2021

SUBJECT: TIF REPORT – Madison Interstate East, LLC

Project Description

Madison Interstate East, LLC (“Developer”) proposes to construct a 169,000 square foot industrial building by May 23, 2022 (“Project A”), a 91,200 square foot industrial building by May 22, 2023 (“Project B”) and a 169,000 square foot industrial building by May 22, 2024 (“Project C”) (**Figure 1**). The project is located at the former GE Medical property at 2930 and 3030 Ohmeda Drive in the City of Madison and within the proposed TID #49 (Femrite Drive) boundary along the Interstate 90/94 corridor within the TID #49 boundary (**Figure 2**).

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) <u>Amount Requested</u>	\$2,100,000
(b) <u>Type of Project</u>	Industrial
(c) <u>Analysis Method</u>	Gap Analysis
(d) <u>Tax Credits:</u>	N/A
(e) <u>Estimated Assessed Value and Tax Increments:</u>	
Estimated Value (Projects A, B and C)	\$28,800,000
Total Estimated Tax Increments	\$8,606,000
Average Annual Tax Increment	\$550,000
TIF Supportable at 100%	\$3,830,000
TIF Supportable Per 50% Rule	\$1,915,000

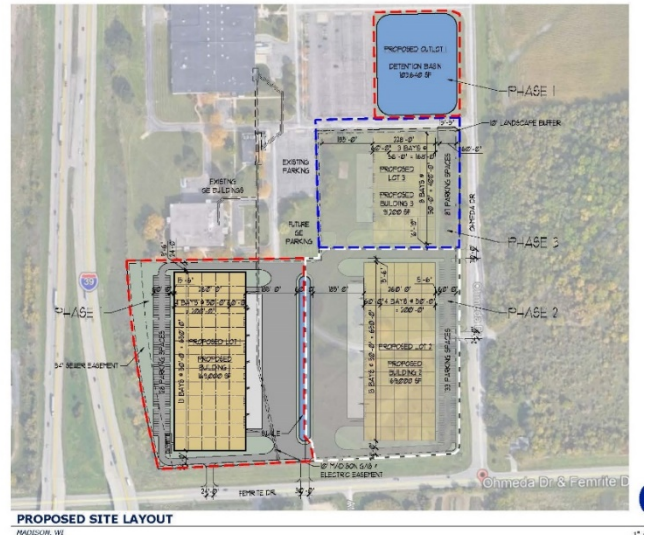
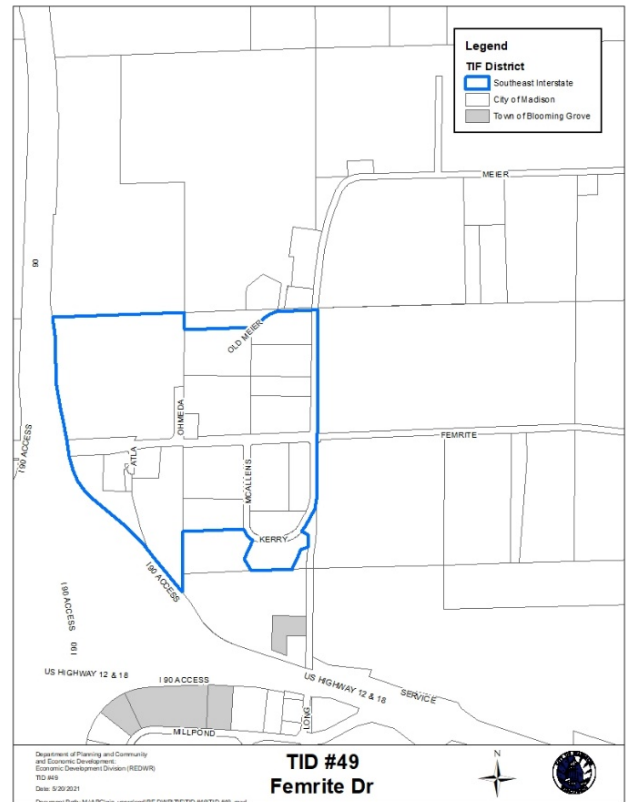


Figure 1



(f) TID Condition:

The TID #49 Project Plan authorizes approximately \$3.6M of expenditures including the TIF Loan to this Project. Once the last of the three TIF generator projects are completed in 2025, TIF staff forecasts that TID may average approximately \$550,000 in tax increments per year. The \$2.1M TIF loan to the Project will be recovered by tax increments in approximately 9 years.

Year Created	2021
Years Remaining to Recover Cost	20 years
Avg. Annual Increment After All Projects Completed in 2024	\$550,000
Unrecovered Cost	\$2,100,000
Estimated Cost Recovery to Date	9 years

(g) TIF Policy Compliance

Developer Equity—Developer equity is approximately \$7.4M. This amount complies with TIF policy that equity equal or exceeds the amount of TIF provided. A Principal of Developer is providing a personal guaranty for all three projects.

Self-Supporting Projects--TIF Policy requires that each project component requesting TIF assistance must generate sufficient tax increments to support its TIF assistance. A portion of the total TIF Loan proceeds shall be disbursed to Project A, B and C as each phase commences construction prior to pre-established deadlines, outlined in the TIF Loan authorizing resolution. In each disbursement, the disbursed amount does not exceed the 50% Rule, thus ensuring that the amount of TIF assistance provided to each Project is supported only by tax increments generated by that respective project.

50% Rule and 55% Gateway-- TIF Policy requires that a TIF applicant is eligible to receive up to 50% of the TIF generated by a project that demonstrates a gap. TIF Policy also allows a 5% cushion, called the “55% Gateway”, wherein a project that slightly exceeds the 50% Rule may receive up to 55% of TIF without requiring a Common Council review for an exception to TIF Policy. The \$2.1M gap demonstrated by the project represents 55% of the TIF generated by the three project components. As stated above, disbursement of TIF funds to any individual component does not exceed 50% of the TIF generated by that respective component. Therefore, the project conforms to both the 50% Rule for each individual project component and the 55% Gateway policy requirements.

(h) Other Applicable

- 1) Quantity of living wage jobs created and/or retained: **See Economic Development Report.**
- 2) Quantity of affordable housing units and level of affordability: **N/A**

(i) Amount of TIF to Be Considered

TIF Eligible	\$1,915,000	50% of TIF
TIF Recommended	\$2,100,000	55% of TIF

(j) Developer’s TIF Goals Statement— TIF Policy requires that Developer provide a statement (**See Figure 3**) 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

None.

(l) Known Labor Agreement, Law Violations

None indicated.

Staff Recommendation: The Project has demonstrated a gap that does not exceed \$2,100,000 or 55% of TIF generated by all three projects.

TIF APPLICATION BORROWER'S TIF POLICY GOAL STATEMENT March 24, 2021	
Borrower	HSA COMMERCIAL REAL ESTATE
Subject Property	GE HEALTHCARE SITE (Tax Parcels: 0710029400889 & 07100201100885)



PROJECT OVERVIEW

HSA Commercial Real Estate (HSA) is proposing to acquire a 28-acre parcel from GE Healthcare and develop it. The subject property is bounded by Femrite Drive on the south, Ohmeda Drive on the east, the GE Healthcare buildings to the north. GE Healthcare will continue to operate in their buildings.

HSA is planning to construct three institutional grade, Class A industrial buildings encompassing 428,000 square feet. The buildings will incorporate the latest technology and will be constructed with tilt-up concrete panels.

HSA has a 40-year track record of developing and owning industrial buildings and related real estate throughout the Midwest, including multiple buildings in Wisconsin (i.e., Cudahy, Franklin, Brown Deer, Mt. Pleasant, Sturtevant, Bristol).

To off-set some of the costs associated with installing infrastructure that will serve multiple parcels in the Industrial section of the Yahara Hills Neighborhood Plan, HSA has petitioned the City of Madison for the creation of an Industrial TID.

Why this TID?

- [1] **It's CONSISTENT WITH THE NEIGHBORHOOD PLAN.** The proposed development is in the Employment District of Yahara Hills Neighborhood Plan. City Development staff supports the development plan for this site.
- [2] **IT PROVIDES FAMILY SUPPORTING JOBS.** The employment opportunities are likely to be diverse — logistics, manufacturing, value-added assembly/finishing, etc. — and appealing to a variety of employees (including those in the early stages of their careers).
- [3] **IT'S AN EMPLOYMENT AND DEVELOPMENT CATALYST.** This TID will provide the "gateway" for additional industrial development and employment opportunities in the Employment District.
- [4] **IT WILL CREATE A MINIMAL DEMAND FOR MUNICIPAL SERVICES.** Industrial development adds to the tax base but doesn't demand additional municipal resources.
- [5] **THE YHNP EMPLOYMENT DISTRICT IS SERVED BY MADISON METRO.** This site is unique because it is served by Madison Metro. Having the "right jobs in the right place" with a public transportation option for the workforce is a positive attribute for the neighborhood.

INDUSTRIAL TID

We think the community's leaders should support the TID for the following reasons:

- [1] The Yahara Hills Neighborhood Plan designates the area surrounding the current GE Healthcare site as an "Employment District." The industrial development proposed for this site will attract businesses with employees and support for HSA's development plan is reflected in City Staff comments: "Staff considers the proposed land use consistent with the NDP's employment land use recommendation."¹

¹ Legislat File ID #614679. Planning Division Staff Report prepared for the Plan Commission, July 30, 2020. Brian Grady and Heather Stouder.

[2] Typically, the businesses that occupy industrial buildings are diverse in two ways. First, the array of businesses that occupy industrial buildings includes logistics, inventory management, manufacturing, packaging, value-added assembly, and quality assurance. Secondly, the nature of the jobs within the diverse array of businesses is also diverse and typically include a mix of low-skill jobs, high-skill jobs, entry-level jobs, jobs requiring specific experience, and opportunities for progression and increased responsibility. The competitive nature of the labor market in South Central Wisconsin inures to the benefit of the work force in the form of competitive wages, attractive benefits, and family-supporting career opportunities.

[3] The TID will likely stimulate additional employment-oriented development in the designated Employment District. Typically, development begets additional development and the availability of developable land that is contiguous to the TID is likely to catalyze further development and employment opportunities consistent with the Neighborhood Plan.

[4] Industrial development is unique in the sense that it's a "net giver" to a community. Industrial development provides predictable property tax base to a community but imposes a very modest marginal demand for municipal services including, most notably, no corresponding demand for new schools. The combination of high tax base and low services demand is appealing.

[5] Transportation Advantages. Frequently industrial development occurs in Dane County but outside of the City of Madison which has the unappealing situation of attractive employment opportunities in places not served by public transportation. This Industrial TID is unique because it locates high quality industrial development (and the related employment opportunities) on existing public transportation lines within the City of Madison.

TIF GOALS

How Does this Project Stack Up to the City's TIF Goals, Objectives, and Process as Established by the TIF Policy Committee?

- [Goal A] This TIF will grow the Tax Base.
- [Goal B] This TIF will contribute to the creation of Family Supporting Jobs.
- [Goal G] This TIF will fund infrastructure improvements that will enhance development potential in the parcels immediately contiguous to the TID.
- [Goal H] This TIF will promote the development of institutional-grade, Class A industrial buildings that rival contemporary industrial buildings throughout the U.S.
- [Goal I] The financial underwriting of this project is sound and will meet the City's long-range financial objectives.

