



Legislation Text

File #: 62620, Version: 1

Fiscal Note

The proposed resolution authorizes a \$500,000 Small Cap TIF Loan Program in Tax Incremental Financing District #39 (TID #39) and a service contract with Madison Development Corp. to provide loan administration services. The loan program will be entirely funded by TID #39 incremental revenue. Such TIF funding was authorized in an amendment to the TID #39 Project Plan through RES 20-00619 adopted by the Common Council on September 1, 2020. The Program will expire on the anniversary of the TIF expenditure period on September 2, 2023. The Economic Development Division's 2020 Adopted Capital Budget will be amended to include the proposed \$500,000 loan program in the TID #39 Stoughton Road capital program.

Title

Amending the Economic Development Division's 2020 Adopted Capital Budget (TIF District #39) by \$500,000 and authorizing the \$500,000 to be used for a TID 39 Small Cap TIF loan program for small businesses and authorizing the Mayor and City Clerk to execute a sole source service contract with Madison Development Corp. ("MDC") to provide loan administration services. (16th A.D.)

Body

WHEREAS the City of Madison has on September 2, 2008 by adoption on of RES-08-0817 File ID Number 11506, created the boundary and Project Plan for Tax Incremental District (TID) #39; and

WHEREAS the intent and purpose of the Project Plan, among other things, is to attract and retain business and employment in the southeast industrial area generally bounded by Stoughton Road, US Hwy 12 & 18, Interstate Hwy 90 and the Union Pacific railroad right of way; and

WHEREAS, on September 1, 2020 the Common Council of the City of Madison adopted RES-20-00619 amending the TID #39 Project Plan and Boundary and authorizing \$500,000 of excess tax increments to be set aside for use as a Small Cap TIF loan program for qualifying small business ("Program"); and

WHEREAS, Program loans ("Loan(s)") may be made within the TID #39 boundary and its half mile radius until the 15-year expenditure period, as set forth in TIF Law, expires on September 2, 2023; and

WHEREAS, said Loans would be made available to the following, qualifying small businesses and loan assistance provided under the following terms and conditions:

Eligible Borrowers

- Businesses located within the City of Madison TID 39 District or within Half Mile Boundary Area of TID 39 per the attached map.
- Small businesses defined as companies employing between 5 and 100 employees
- Businesses intending to stay within the TID 39 District (or within a half mile of the same) for at least 5 years
- Business must be a for-profit entity

Ineligible Borrowers

- Lending and investment institutions and insurance companies
- Golf courses, racetracks or gambling facilities
- Nonprofit entities
- Businesses engaged in any illegal activity per local, state or federal regulations with federal regulations

taking precedence over local or state regulations.

- Home-based businesses
- Chain stores
- Businesses with more than 100 Full-Time Equivalent (FTE) employees as of Feb. 28, 2020.

Loan Amounts, Terms

- Borrowers may receive zero-percent (0%) loans, not to exceed \$250,000, for the purpose of purchasing real estate, financing real estate improvements or loans not to exceed \$150,000 for purchasing capital machinery and equipment.
- For each anniversary year of the Common Council authorization of the Loan, 20% of the original principal of the Loan is forgiven until the entire balance is forgiven at the end of five (5) years, assuming the business remains in the location.
- Failure to remain in the location or within TID 39 (or a half-mile thereof) will require repayment of the remaining loan balance.
- The City will take the most mortgage security interest practicable in real estate and / or a practicable senior lien on machinery and equipment to secure the Loan
- Personal guarantee required of all principals with 20% or more interest in business.
- Loans may be disbursed until the statutory expenditure period for TID 39 expires on September 2, 2023.

WHEREAS the City of Madison adopted a Half Mile Rule boundary amendment allowing said Program to provide Small Cap TIF Loan assistance located in or locating to the TID #39 Boundary or a half mile of said boundary as set forth in TIF Law; and

WHEREAS, MDC is currently contracted with the City to administer a Business Loan Program ("BLP") utilizing Community Development Block Grant (CDBG) funds; and

WHEREAS, the Loan underwriting and administration services provided through the existing MDC service contract for administration of the CDBG funds used in the BLP are consistent with the services required for administration of the Program; and

WHEREAS, this relationship meets the requirements of MGO 4.27(4)(a)(7) for an exception to the RFP process stating: "[a] particular consultant has provided services to the City on a similar or continuing project in the recent past, and it would be economical to the City on the basis of time and money to retain the same consultant ; and

WHEREAS, at Loan closing, the City shall disburse an amount equal to fifteen percent (15%) of the principal amount of each Loan to MDC from Program funds for servicing and closing fees and the aggregate of all Loan fees disbursed from Program funds shall not exceed \$75,000; and

WHEREAS, the Program objectives include retaining and creating jobs within the TID 39 Boundary and its half mile radius, renovating and expanding existing property and assisting in the purchase of capital equipment, said objectives are a public purpose consistent with job creation objectives in the Comprehensive Plan and City of Madison TIF Policy; and

WHEREAS, in addition to any other powers conferred by law, the City may exercise any power necessary and convenient to carry out the purpose of the TIF law, including the power to cause project plans to be prepared, to approve such plans, and to implement the provisions that effectuate the purpose of such plans; and

WHEREAS, Loan applications are anticipated in 2020, therefore funding of the Program requires an amendment to the City of Madison 2020 Adopted Economic Development Division Capital Budget (TID 39).

NOW, THEREFORE, BE IT RESOLVED that the City hereby finds and determines that the Program, as described herein, is consistent with the public purposes, plans and objectives set forth in the TID #39 Project Plan and demonstrates the potential to attract, retain and expand small businesses and create employment in the southeast industrial area thereby making more likely an accomplishment of the public purpose objectives set forth in the Project Plan and its amendment, the TIF Law and City TIF Policy.

BE IT FURTHER RESOLVED the Program, as described herein, is hereby created to operate within the TID 39 boundary and within the Half Mile Boundary of TID 39 until the statutory expenditure period expires on September 2, 2023.

BE IT STILL FURTHER RESOLVED authorizes the Mayor and City Clerk to execute a sole source service contract with MDC to administer the Program and provide the City of Madison with the following scope of services:

Scope of Services: Madison Development Corp., TID 39 Small Cap TIF

- 1) Marketing and Prospect Qualification. With assistance from the City of Madison Office of Business Resources (OBR), MDC shall market the Program to eligible small businesses. MDC shall qualify all Borrowers for program eligibility and credit-worthiness.
- 2) MDC Loan Committee Credit Review, Required Documentation. Loan documentation shall be prepared by MDC staff utilizing the current boilerplate forms on file. MDC shall present qualified, credit-worthy loan proposals to its loan committee, comprised of MDC board members and private-sector commercial lending officers from area financial institutions for credit review. Such loan proposals shall include at minimum the following documentation concerning the Borrower:
 - A statement of the purpose of the loan and the use of funds.
 - A brief history of the business.
 - Brief bios of Board members and key staff people.
 - Financial Statements for the last three years consisting of:
 - Balance Sheet
 - Income Statement
 - Applicable Footnotes
 - Interim Statements
 - A schedule of existing debt and a valuation of available collateral.
 - An aging of accounts receivable and accounts payable.
 - Projections of income/expense and cash flow of the proposed project.
 - A statement of the job retention and creation
- 3) Loan Summary Report to City of Madison. Upon MDC Loan Committee approval, MDC shall provide City staff with a Loan Summary Report of the credit analysis and recommendation. The report shall include a summary of the analysis of the proposal detailing key ratios such as Borrower's debt to net worth, current ratio, debt coverage, and any irregularities in the Borrower's performance and profitability over time and in comparison to industry standards.
- 4) Common Council Authorization. City staff shall attach the Loan Summary Report to an authorizing resolution introduced to the Common Council, referred to the Finance Committee and reported to Common Council for final consideration.
- 5) Loan Closing, Servicing, Cost and Fees. At Loan closing, the City shall disburse an amount equal to

fifteen percent (15%) of the principal amount of each Loan to MDC from Program funds for servicing and closing fees. The aggregate of all such Loan fees disbursed from Program funds shall not exceed \$75,000. There are no closing fees on the Loan paid by the Borrower.

- 6) Documents. MDC shall coordinate efforts with the City Attorney's office staff to draft and execute loan security documents to the City of Madison's satisfaction.
- 7) Loan Servicing. MDC shall periodically service all loans made through the program to determine ongoing credit quality and ensure the Borrower's conformance to program requirements.
- 8) Loan Default Notification. MDC shall immediately notify the City of Madison City Attorney of any default of the loan agreement made by the Borrower.

BE IT FINALLY RESOLVED that the 2020 Adopted Economic Development Division Capital Budget (TIF District #39) is hereby amended to authorize a \$500,000 expenditure of TID 39 tax incremental revenue to fund the TID 39 Small Cap TIF Loan Program.