



Legislation Text

File #: 24651, Version: 3

Fiscal Note

This resolution would authorize a \$1,898,000 loan to 1102 South Park Street, LLC ("Developer") for the redevelopment of a portion of the former Bancroft Dairy property located at the intersection of Fish Hatchery Road and South Park Street. The redevelopment consists of an approximately 76,800 SF medical and commercial office building to be leased by the UW Health for the UW Health Wingra Family Medical Clinic and other commercial tenants and 305 parking stalls ("Project"). This loan would be repaid through incremental taxes generated by the Project and represents approximately 56% of the present value of all incremental taxes anticipated from the Project throughout the 27-year life of proposed TID #42 to be created in 2012. The TIF Loan would be disbursed to Developer from the General Fund in advance of TID base value certification being provided by the Wisconsin Department of Revenue, anticipated in the first quarter of 2013. In the event that the TID #42 base value is not certified by DOR, the Developer shall be obligated to repay the \$1,898,000 of funds disbursed in advance by the City as a conventional loan, amortized over ten years, together with interest on the unpaid principal balance at the rate of the City investment fund yield calculated at the time of repayment, plus one hundred basis points. Payments of principal and interest shall be made quarterly.

Funds to capitalize this loan were authorized in the 2012 Capital Budget, funded with general obligation debt. While it is anticipated that the incremental taxes generated by the Project will be sufficient to repay the loan within approximately 8 years, the Developer is required to guarantee a minimum payment if sufficient future tax increment is not available.

The Developer is also obligated to return an equity participation payment equal to either Seven and sixty-five hundredths percent (7.65%) of the gross selling price of the Property, including improvements thereon, on the day of sale or seven and sixty-five hundredths percent (7.65%) of the assessed valuation of the Property, including improvements thereon on September 30, 2039 whichever occurs first, in an amount not to exceed \$1,898,000.

Title

SECOND SUBSTITUTE Authorizing the Mayor and City Clerk to execute a development agreement to fund a \$1,898,000 Tax Incremental Finance Loan to 1102 South Park Street, LLC to assist in the development of the Wingra Clinic commercial redevelopment project located at 1102 South Park Street on a portion of the former Bancroft Dairy in the proposed TID #42 (Wingra).

Body

WHEREAS the City of Madison is in the process of creating TID #42 Wingra during 2012 and has completed a blight survey indicating that that 62% of the proposed boundary qualifies as blighted; and

WHEREAS the intent and purpose of the TID 42 Project Plan, among other things, is to eliminate blighting conditions and attract and retain business and employment along South Park Street in an area encompassing South Park Street and Fish Hatchery Road from Plaenert Drive north to Delaplaine Street and in particular in the former Bancroft Dairy property located at the intersection of South Park Street and Fish Hatchery Road; and

WHEREAS, 1102 South Park Street, LLC ("Developer") has proposed to construct no less than 76,800 square feet of medical clinic and not less than 305 parking stalls, to be leased by UW Health as a location for the UW Health Wingra Family Medical Clinic and other commercial tenants at an estimated development cost of approximately \$24,818,000 ("Project") on property generally located south of the intersection of South Park Street and Fish Hatchery Road ("Property"); and

WHEREAS, the Project would generate additional tax increment that would pay for additional public works and improvements to the South Park Street area, would retain 127 existing jobs and create 18 new jobs in said area and stimulate additional new employment, these outcomes being consistent with said intent and purposes of the Project Plan and City of Madison TIF Policy; and

WHEREAS, in conformance to City of Madison TIF Policy, the \$1,898,000 gap is attributable to parking construction cost; and

WHEREAS, City staff has conducted an analysis (See Attached Report) of the Project and has determined the gap to be \$1,898,000 and that, but for TIF assistance, the Project could not occur; and

WHEREAS, \$1,898,000 of said TIF assistance represents approximately 56% of the present value of the estimated tax incremental revenues generated by the Project and requires an exception to TIF Policy that no more than 50% be made available to a project; and

WHEREAS, the TIF Loan becomes a grant when tax increment received from the Project and/or Developer out-of-pocket payments are sufficient to repay the TIF Loan; 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, funding of the loan proceeds to this project have been authorized in the adopted City of Madison 2012 Capital Budget; and

NOW, THEREFORE, BE IT RESOLVED that the City hereby finds and determines that the Project is consistent with the public purposes of Tax Increment Finance Law and the plans and objectives set forth in City of Madison TIF Policy, the City's loan to Developer demonstrates the potential to eliminate blighting conditions and attract and retain businesses and employment in the South Park Street area and finance additional public works and improvements that would stimulate planned commercial redevelopment in TID #42, 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 that funding is subject to the following conditions:

1. The Project. Developer agrees to develop:
 - a. Not less than 76,800 gross square feet of clinic space or other use allowed by the zoning text.
 - b. No fewer than 305 parking stalls allocated for employees, visitors and customers of the clinic or other use allowed by the zoning text.
2. Form of Assistance. TIF assistance shall be provided in the form of a zero interest (0%) loan at closing from the City to Developer, in the amount of One Million Eight Hundred Ninety Eight Thousand Dollars (\$1,898,000) ("TIF Loan") to partially finance Developer's development of the Project. Said TIF Loan becomes a grant when tax increment recovered from the Project and/or cash payments by Developer are sufficient to repay the TIF Loan and the City's associated borrowing costs.
3. 2012 Capital Budget Authorization. Funding of the TIF Loan has been authorized in the adopted 2012 City of Madison Capital Budget.

4. Evidence of Lease and Financing. Prior to the TIF Loan closing, Developer shall provide an executed lease or leases in a form acceptable to the City by December 31, 2012 with clinic tenant(s), with primary terms of not less than 12 years and such tenant(s) occupying not less than 55,000 square feet of the Project (approximately 75% of leaseable area stated as of the July 13, 2011 TIF Application and its amendments or attachments). Developer shall also provide evidence of financing to the City in the form of bank commitment letters, New Markets Tax Credit allocation or bank statement showing equity invested in the project.
5. TIF Loan Disbursal Prior to TID #42 Certification of Boundary and Project Plan. The TIF Loan shall be disbursed to Developer from the City's General Fund in advance of TID base value certification being provided by the Wisconsin Department of Revenue (DOR), anticipated in the first quarter of 2013. In the event that TID #42 is not certified by DOR, the Developer shall be obligated to repay the \$1,898,000 of funds disbursed in advance by the City as a conventional loan, amortized over ten years, together with interest on the unpaid principal balance at the rate of the City investment fund yield calculated at the time of repayment, plus one hundred basis points. Payments of principal and interest shall be made quarterly.
6. Method of Payment and Tax Increment Guaranty. The City's expenditure in providing the TIF Loan shall be repaid by Developer through tax increments generated by the Project and/or cash payments by Developer. Borrower shall guaranty the City's receipt of increment revenue.
7. Security. If the base value is certified by DOR, the TIF Loan shall be evidenced by a Note to the City of Madison in the amount of the TIF Loan bearing zero percent (0%) interest ("Note"). Developer shall execute a second mortgage in favor of the City of Madison securing payment of the TIF Loan and equity participation payment ("Mortgage"). The City shall agree to execute a subordination of mortgage in a form approved by the City Attorney. An individual principal of the Developer shall execute a personal guaranty guaranteeing payment of the TIF Loan and equity participation payment.
8. Equity Participation Payment. In addition to all other payments required to be made by Borrower to the City, Developer shall pay the City seven and sixty-five hundredths percent (7.65%) of the gross sale proceeds, representing the percentage of TIF assistance disbursed for TIF-eligible project costs, not to exceed One Million Eight Hundred and Ninety Eight Thousand Dollars (\$1,898,000) on the day of sale or transfer of the Property, including improvements thereon or on September 30, 2039, whichever occurs first ("Equity Participation").
9. Sale to Tax Exempt Entity - PILOT Payment. Developer shall be prohibited from selling or transferring any portion of the Property prior to the Developer's repayment of the TIF Loan. If Developer sells or transfers any portion of the Property to the UW Health or other such tax exempt entity ("Buyer"), whereupon such ownership renders the Property or any portion thereof as property tax exempt, Buyer shall pay the City an annual payment in lieu of taxes (PILOT) in the amount of property tax last levied as of the date of sale to Buyer, frozen, through 2039. The City of Madison shall share said PILOT in proportion with the overlying taxing jurisdictions. Buyer shall execute a PILOT Agreement and a mortgage in favor of the City in the amount of the PILOT payments ("Buyer's Mortgage") at the time of Buyer's acquisition of the Property. The Buyer's Mortgage and PILOT Agreement shall be released and terminated by the City upon the receipt by the City of the required PILOT payments.
10. Satisfaction. The Mortgage shall be satisfied and the Note cancelled upon full payment of the TIF Loan and equity participation payment.
11. Affirmative Action MGO 39.02 (9). Developer and its contractors/subcontractors shall comply with all applicable provisions of the Madison General Ordinance (MGO) 39.02 (9), concerning contract compliance requirements. Prior to commencing construction, Developer shall contact the City's Affirmative Action Division to assure that Developer is in compliance with the aforementioned

requirements. Developer shall assist and actively cooperate with the Affirmative Action Division in obtaining the compliance of contractors and subcontractors with such applicable provisions of the Madison General Ordinance. Developer shall allow maximum feasible opportunity to minority/disadvantaged/women business enterprises to compete for any contracts entered into pursuant to the contract.

12. Living Wage (MGO 4.20). Developer shall comply with Madison General Ordinance 4.20 that requires Borrower to provide a living wage.
13. Accessibility (MGO 39.05). Developer shall submit a written assurance of compliance with Madison General Ordinance 39.05.
14. Equal Opportunity. Developer shall comply with all applicable local, state and federal provisions concerning Equal Opportunity.
15. Material Changes. Any material changes to the size, use or ownership of the Project or Property that is stated in the TIF Application dated July 13, 2011 and its attachments and amendments submitted to the City as of the date of introduction of a resolution to the Common Council to approve this TIF Loan, shall subject this TIF Loan commitment to reconsideration by the City, or if the loan has been made to immediate repayment of the TIF Loan by Developer.
16. Project Completion. Developer shall guarantee that the construction the Project shall be completed by December 31, 2014. Project completion shall be evidenced by the issuance of a certificate of occupancy.
17. Property Insurance. Prior to funding, evidence shall be provided that a property insurance policy of the proper type and amount of coverage to protect the City's participation has been obtained. The policy shall name the City of Madison as an additional insured.
18. Title Insurance. At least fifteen (15) days prior to closing, Developer shall provide a commitment for a title insurance policy of the proper type and amount of coverage to the City. The City shall receive a lender's policy.
19. Environmental Assessment. Developer shall provide the City an environmental assessment of the site which is acceptable to staff.
20. Land Use Approval Contingency. The terms and conditions of this TIF assistance are contingent upon approval and recording of the GDP/SIP for the Project as described in the July 13, 2011 TIF Application and its amendments and attachments including no less than 76,800 gross square feet of commercial and 305 parking stalls.
21. Automatic Expiration. The TIF Loan to Developer shall be null and void in the event that Developer does not commence construction on the Project, as evidenced by issuance of construction permits, by December 31, 2012, unless otherwise extended by the Common Council and contingent on authorization in the 2013 Capital Budget.

BE IT STILL FURTHER RESOLVED that the City of Madison hereby makes exception to TIF Policy 3.1 (8) "50% Rule" to provide Developer with 56% of the present value of tax increments generated by the Project.

BE IT STILL FURTHER RESOLVED that the TIF Loan to the Developer is hereby approved and that the Mayor and City Clerk are hereby authorized to execute a development agreement and other documents as may be necessary to effectuate the transaction, all of which are subject to the approval of the City Attorney.