

## MEMORANDUM

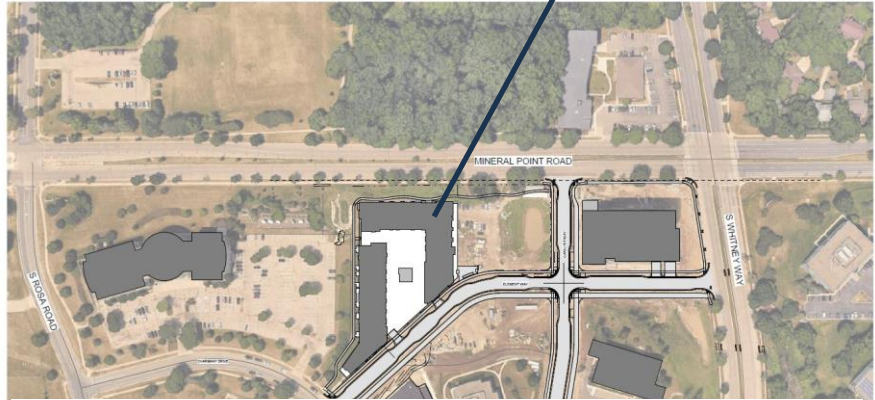
TO: Common Council  
FR: Joe Gromacki, TIF Coordinator  
DATE: November 26, 2024

**SUBJECT: TIF REPORT – EC Residential LLC**

The Project  
197 Affordable Units

### Project Description

EC Residential, LLC, (“Developer”) proposes to construct an affordable housing project consisting of 197 apartment units, 100% of which are affordable to households at an approximate average of 60% AMI and 151 underground parking stalls (the “Project”) (see **Figure 1**). The Project is located at 5546 Element Way located in the University Research Park (“URP”) in Tax Incremental District 46 (Research Park) (“Property”) (**Figure 2**).



**Figure 1**

### TIF Loan Participation

The Project demonstrated a gap of approximately \$5,295,000 or the difference between total project cost of approximately \$63,254,000 and capital sources of approximately \$57,959,000. Due to the TID’s advanced age and the lower assessed value (see **Paragraph (f) - TID Condition**), the Project supports \$930,000 of TIF at the maximum 55% amount allowed under TIF Policy (55% Gateway).



**Figure 2**

With a significant gap remaining (\$4,365,000), TIF assistance for 4% LIHTC projects has been customarily provided in tandem with funding from the Affordable Housing Fund (AHF). However, the AHF has exhausted its 2024 Capital Budget allocation and cannot provide additional financial assistance.

TIF staff has been asked to come up with a creative way to fund the remaining gap. In response, TIF staff proposes a financial structure utilizing the Community Development Authority (CDA) as demonstrated below.

### CDA Participation

Developer intends to sell the project to other investors after the 15-year affordable period expires. Approximately \$2,400,000 of the remaining \$4,365,000 gap is attributable to Developer pre-paying a 49-year land lease between Developer and URP.

As the City desires to fund the balance of the Project gap and preserve long-term affordability, the CDA will purchase a financial stake in the project, using excess tax increments disbursed from TID 46, toward future ownership after Year 15, at the end of the affordability period, thereby ensuring that the Project

remains affordable. In general terms, the CDA shall make the following investments in the Project as follows:

1. At closing, the CDA shall pre-pay the land lease in the amount of \$2,400,000, receive an assignment of the lease from Developer.
2. In addition, at closing, the CDA will pay for an Option to Purchase the Property in the amount of \$500,000 from Developer and shall pay Developer an additional \$1,465,000 as a pre-payment toward purchase of the Project after Year 15. In Year 15, the purchase price of the project shall be verified by a real estate appraisal to the City and CDA's satisfaction.

#### TID 46 Project Plan Amendment

The deal structure will require a TID 46 Project Plan amendment in the first quarter of 2025, authorizing the \$930,000 TIF Loan, and a disbursement of \$4,365,000 of excess TID 46 tax increment to the CDA.

#### 2025 Capital Budget Amendment

The deal structure will also require authorization as an amendment to the 2025 Capital Budget, authorizing the TIF Loan and tax increments disbursed to CDA.

#### **TIF Report**

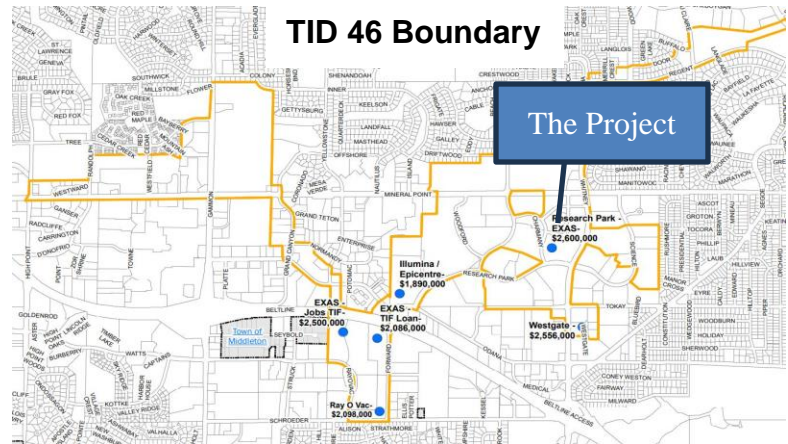
The following TIF Report is provided in compliance with Section 3.1 (8) of TIF Goals, Objectives and Process and Section 1 (9) of TIF Loan Underwriting Policy, adopted by the Common Council on February 25, 2014:

<b>(a) <u>Amount Requested:</u></b>	\$5,295,000	
<b>(b) <u>Type of Project:</u></b>	Affordable Housing	
<b>(c) <u>Analysis Method:</u></b>	Gap Analysis	
<b>(d) <u>Tax Credits:</u></b>	\$23,914,000	
<b>(e) <u>Est. Value and Tax Increments:</u></b>		
Approximate Project Cost	\$63,254,000	
Estimated Assessed Value	\$21,522,000	
Total Estimated Tax Increments	\$ 1,554,000	
Average Annual Tax Increment*	\$ 163,000	*Average increment until loan repaid.
<b>TIF Supportable at 55%</b>	<b>\$ 930,000</b>	
<b>TIF Loan Recovery:</b>	<b>6 years</b>	

**(f) TID Condition:**

The Project is located within Tax Incremental District (TID) 46 which the City created in 2015. TID 46 stretches east and west along the West Beltline Highway and Mineral Point Road, bounded by Schroeder Road to the south (**Figure 3**).

TID 46 has about 10 years of life remaining to recover the TIF Loan expenditure with tax increments. The TID has committed over \$20M to fund the East-West BRT. Although generating about \$9.9M per year in estimated tax increment, the TID is also committed to funding over \$9.5M of various public works projects in 2025.



**Figure 3**

Due to the Project's lower value (about 30% of market) attributed to a considerable number of low-AMI units (50% AMI and below) constructed, the Project can only support \$930,000 at the 55% maximum eligible under TIF Policy. Providing a \$5,295,000 TIF Loan to fund the gap would represent 311% of the TIF generated by the project and would require problematic exceptions to TIF Policy in three areas:

1. All TIF projects must be self-supporting (Self-Supporting Projects Rule)
2. All TIF projects must not exceed the 55% Gateway (55% Gateway)
3. Developers must guarantee the tax increment to recover the amount of TIF provided. In this case, the Developer cannot guarantee more than the Project generates as other projects within in the TID would be generating (or not) tax increment outside of the Developer's control.

Therefore, it is financially and operationally prudent to limit TIF assistance to no more than the maximum amount allowable under TIF Policy (55% Gateway), thus providing financial cushion for the lower incremental value, any market or economic uncertainty and the reduced period to recover the expenditure with project tax increments. In addition, the proposed deal structure, including the CDA's future ownership, preserves affordability longer than the Developer's 15-year proposal, potentially permanently, should the CDA purchase the property after Year 15. The proposed deal structure improves the City / CDA's position in the project by providing taxpayers additional assets (site control via the lease pre-payment, the option to purchase the project, and prepaid funds towards the purchase price) in exchange for the \$4.635M of funding through the CDA. This structure also preserves the City's TIF Policy in the three areas noted above.

**(g) TIF Policy Compliance**

**Developer Equity**—Developer equity is approximately \$6,099,000 of deferred developer fee, and \$23,914,000 of Low-Income Housing Tax Credit (LIHTC) and an additional \$1,895,000 of interest income as equity from investors. Developer is providing a corporate guaranty of MGI Security LLC for the Project. This deferred fee amount exceeds TIF Policy that developer equity (i.e., in this case, the deferred developer fee) must be equal to or greater than the amount of TIF assistance and is therefore in compliance.

**(h) Other Applicable**

- 1) Quantity of living wage jobs created and/or retained.

**See TIF Goal Statement (Figure 4.)**

2) Quantity of affordable housing units and level of affordability. **See TIF Goal Statement (Figure 4.)**

**(i) Amount of TIF to Be Considered**

TIF Eligible	\$930,000	55% of TIF
<b>TIF Recommended</b>	<b>\$930,000</b>	<b>55% of TIF</b>

**(j) Developer's TIF Goals Statement—** TIF Policy requires that Developer provide a statement (**See Figure 4**) 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:** TIF assistance in the amount of \$930,000 or 55% of TIF generated by the project. A 40-year land use restriction agreement (LURA) shall be recorded, requiring the Project to remain affordable for that period.

The City will complete a 2025 Project Plan amendment for TID 46 that authorizes the \$930,000 TIF Loan and a grant of \$4,365,000 of tax increment to the CDA for the purpose of assisting the Project to prepay the 49-year land lease and ensuring the Project's long-term affordability through the purchase of a future CDA ownership stake in the Project.

## Figure 4: Applicant's TIF Policy Goal Statement



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November 11, 2024

Joseph Gromacki  
215 Martin Luther King Drive, 3<sup>rd</sup> Floor  
Madison, WI 53703

RE: Element Collective alignment with TIF Goals and Objectives

Dear Joe,

Mandel Group, Inc., a private real estate developer, through its project-specific affiliate EC Residential LLC ("EC Residential") is developing a \$63+ million affordable workforce housing project (Element Collective ) in the University Research Park on Madison's west side.

The development consists of 197 apartments above 151 stalls of underground parking. The apartment rental rates as set by WHEDA target renters earning between 30% and 80% of Area Median Income, averaging to not more than 60%. EC Residential will ground lease the land from the landowner. The development will be financed through a combination of equity proceeds made available through the sale of Low-Income Housing Tax Credits and a permanent loan generated through the sale of tax-exempt bonds. Despite best efforts to secure additional sources of financing, a financing gap of \$5,295,519 remains. EC Residential has applied for a TIF loan or commensurate financial assistance to fill the financing gap and allow the project to move forward. The developer of Element Collective will provide a requisite guaranty to underwrite repayment of any financial assistance provided in the form of a TIF loan..

### Developer's TIF Policy Goal Statements

**Grows the City's property tax base:** The site of Element Collective is vacant today and minimally taxed; so any additional value derived from development of this project represents incremental growth. Element Collective also kicks-off the first phase of a mixed-use development– future planned phases could create in



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excess of \$100 million in additional development. Importantly the tax base growth is tied to affordable housing and is in immediate proximity to BRT service.

**Fosters the creation and retention of family-supporting jobs:** URP is an employment-rich environment that surrounds Element Collective. Element Collective is a textbook example of transit-enhanced development creating affordable workforce housing in immediate proximity of a dense cluster of employment opportunities. The property creates walk-to-work and BRT-enabled commutes, reducing the necessity of owning a personal automobile (BLS est. \$12,078/year in costs). The cost of owning and operating a personal auto is 82% of the average annual rent for an apartment at Element Collective. Given the steep inflation that has occurred in the purchase and maintenance of automobiles, non-automotive dependent commutes provide real value to income-constrained households.

**Encourages the re-use of obsolete or deteriorating property:** Since the inception of URP the development site has been vacant, without access or utility services necessary to support development. URP has invested \$6+ million to provide infrastructure to make the site and surrounding lands developable. No public funds have been used to create this expanded public infrastructure nor for a new 200-year stormwater system that not only serves the site but also 20+ acres of previously developed lands surrounding Element Collective. The project overcomes daunting site challenges such as a 38-foot gradient drop to make the site developable at high densities.

**Encourages urban in-fill projects that increase density consistent with the City's Comprehensive Plan:** Element Collective is the first phase of a catalytic, in-fill mixed-use anchor for the University Research Park that creatively applies urban design standards to a suburban site. Element Collective is developed to an overall FAR of 2.44; the balance of URP is developed to an approximate 0.26 FAR. This nearly ten-fold increase in density drives enhanced creation of property tax base and collaborative opportunities for URP businesses and employees to reduce reliance on autos.



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Comprehensive Plan goals met by the Element Collective plan include “concentrate(ing) the highest intensity development along transit corridors” and “expand(ing) and improv(ing) the city’s pedestrian and bicycle networks.” The adjoining Mineral Point Road ROW is a key segment of the West Side BRT route.

**Creates a range of housing types, specifically encouraging affordable housing:** Element Collective represents one of the largest affordable workforce housing projects ever undertaken on the west side of Madison. Units will be offered to renters with qualifying incomes at 30%, 40%, 50%, 60%, and 80% AMI thereby creating a diverse mix of affordable units and sizes to individuals, couples, and families in one of the city’s most concentrated job clusters. Enhanced affordability is achieved through strategic siting and design, specifically walk-to-work and transit-to-work options - the latter supported by the adjoining BRT system.

**Funds public improvements that enhance development potential and improve City’s infrastructure:** TID 46 supported \$20 million of investment in the City’s BRT system, the single largest non-federal source of BRT funds as detailed in the 2022 Capital Budget. As evidenced by the allocation to BRT capital costs, TID 46 has proved to be a robust economic tool for the City to realize beneficial investments that serve the entire City. The district is in the top 6 of TIDs in the State in total assessed value; a top 10 performer in terms of incremental value added; and has accomplished its growth more cost-effectively than any other district in the City. TID 46’s value to the city will now be fully realized by adding the missing ingredient: affordable housing, to support the city’s Comprehensive Plan with a much in-demand housing type that will anchor the next phase of development at URP.

**Promotes superior design, building materials and sustainability features:** Element Collective will achieve the sustainability thresholds inherent in Mandel Group projects. The developer works closely with Focus on Energy to achieve Tier 2 enhanced performance and will achieve Green Built Home standards.

**Reserves sufficient increment for public infrastructure:** While the closure of TID 46 is near-term, the TID has already proven to be a tremendous financial success as evidenced by its recent contributions to the

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city's BRT system. A TIF loan for Element Collective from TID 46 brings the BRT investment full circle, by creating a large supply of affordable housing immediately adjacent to the BRT line it helped create.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Katt".

Dan Katt  
Development Manager  
Mandel Group, Inc.