Tax Increment Financing Practice and Policy Seminar

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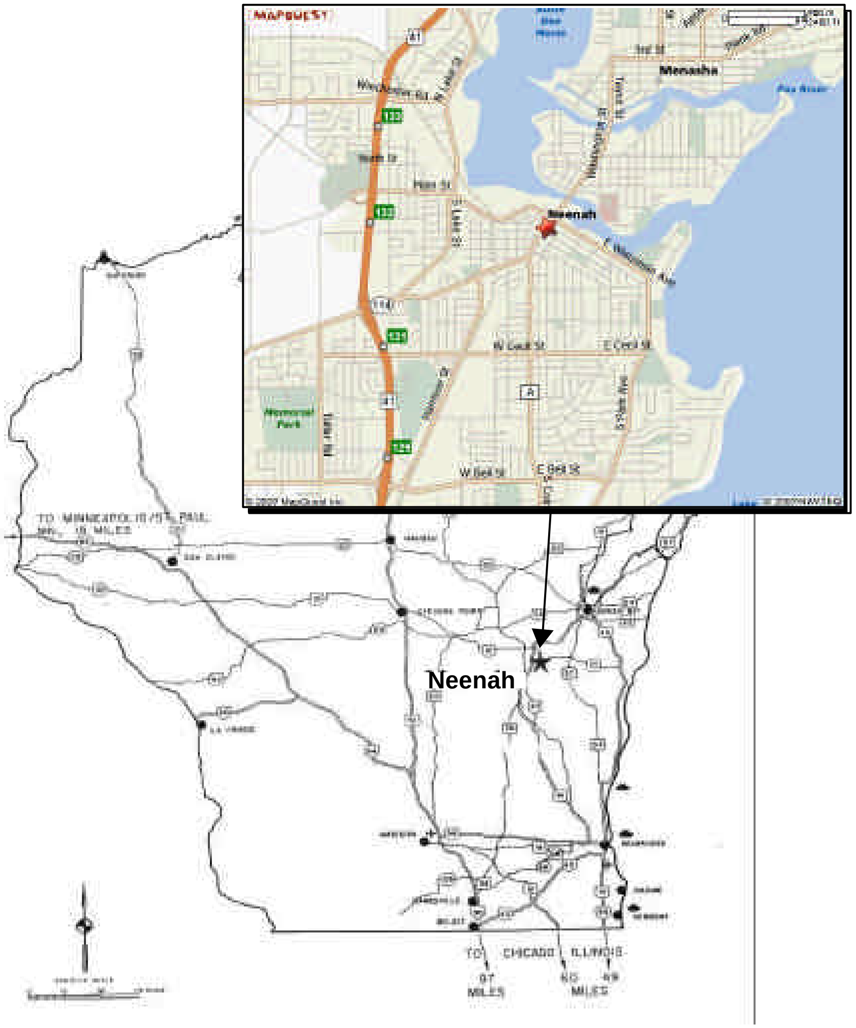
Topics

- City of Neenah Case Study
- City of Waukesha Case Study

City of Neenah



The City of Neenah covers an area of nearly 9 square miles and is located approximately 90 miles north of Milwaukee, 5 miles south of Appleton and 40 miles south of Green Bay.

Neenah is situated in the heart of the "Fox Valley", so named due to the historical significance of the Fox River as a waterway connecting Lake Winnebago, Lake Michigan and the St. Lawrence Seaway.

Neenah hosts significant steel and paper industries. The Kimberly-Clark Corporation was founded in Neenah and still maintains significant operations there, though its headquarters moved to Dallas, Texas.

The City's general obligation debt carries a "Aa2" rating from Moody's Investors Service.

The City's revenue debt for its Water Utility and Community Development Authority carries an "A1" rating from Moody's Investors Service.

Total Area	8.6 miles
Population (2000 Census)	24,507
(2006 Estimate)	25,430
City Adjusted Gross Income (2005)	$48,999
State Adjusted Gross Income (2005)	$45,357
Tax Base (2006)	$1,843,845,100
Average Annual Valuation Growth Since 2001	5.58%
Overall Valuation Growth Since 2001	31.2%

City of Neenah Highlights

- Prudent Budgeting and Financial Procedures
  - General fund balance at 21% of revenues
  - Property taxes comprise 51% of City's revenue source
  - Direct debt burden is 3.6%; Overall debt burden is 4.4%
  - All tax increment districts are self supporting (four open districts)
- Diversified tax base
  - 2/3 residential
  - 1/3 manufacturing, service and commercial
- Recreation
  - 22 public parks
  - 8,400 acres of lake shoreline
  - Neenah Access Trails
  - Aquatic Center
- Proximity to Outagamie County Airport (regional airport)

Comparison
Equalized Tax Rates

	2006 Population Estimate	2006 Equalized Tax Rate
C. Menasha	17,282	$9.53
C. Appleton	71,065	$7.78
C. Neenah	25,430	$7.77
C. Kaukauna	14,515	$7.50
C. Oshkosh	65,510	$7.36
V. Little Chute	10,955	$6.00
T. Menasha	17,005	$4.97
T. Grand Chute	20,425	$3.59

City of Neenah
Downtown Riverwalk Project Background

- In 2004, five years of community-based planning lead Neenah officials to develop downtown waterfront revitalization strategy
- Former riverfront use:
  - 1800's – small mills and river navigation
  - 1900's – national paper companies using the Fox River for mill power and water processing
- New strategy
  - Provide office space for growing service sector economy
  - Seek new housing options for downtown
  - Provide open space enhancements for the public to enjoy the Fox River

City of Neenah
Alta Resources

- Routine business retention call resulted in City learning of the following needs for Alta Resources:
  - Relocate Neenah headquarters and local satellite offices to single location within 18-24 months
  - New location will require up to 1,000 employees
- Site search include Neenah, other Fox Cities communities and Michigan office sites
- Alta Resources preferred to remain in Neenah but doubted that there was a large enough site to accommodate their space and parking needs

City of Neenah
Downtown Riverwalk Zone Project

- Five redevelopment sites were identified within the Riverwalk
- After 12 months of project negotiations and strategy, a plan was agreed upon for the development of an office building for Alta Resources and a public parking structure in the City's downtown
- Alta Resources will build a seven story, 180,000 square foot office building at the West Canal redevelopment site which was a contaminated site
- Project began in September 2004 and was completed in November 2005

City of Neenah
Downtown Riverwalk Zone Case Study

- How Neenah fostered the Economic Development
  - Amended the boundaries and project plan of an existing TID
  - Created a Community Development Authority ("CDA")
    - ➢ CDA can issue bonds
      - ❑ Not general obligation of the City
      - ❑ Not limited to 20 year repayment
      - ❑ Not subject to borrowing caps
      - ❑ Double tax-exempt
  - Entered into a Development Agreement with Alta Resources

City of Neenah
Downtown Riverwalk Zone Case Study

- Highlights of the Development Agreement
  - CDA constructs 900 stall parking structure
    - ➢ CDA leases the parking structure to the City
    - ➢ City applies TID revenues to the lease payment
    - ➢ Lease revenues to CDA are sufficient to make payments on CDA Lease Revenue Bonds
  - City and CDA completes site preparation for the office site
    - ➢ Demolition
    - ➢ Utility relocation, etc.
  - Alta Resources constructs 179,000 square foot office structure
    - ➢ Minimum guaranteed construction cost of $19 million
    - ➢ Minimum personal property value of $1 million
  - Alta Resources guarantees the leasing of not less than 125,000 square feet of office space for a period of not less than 20 years

City of Neenah
Downtown Riverwalk Zone Case Study

- Restraints
  - Comply with City policies
  - Closely tie project to the financing
  - Minimize long-term interest rate risk
    - ➢ Avoid balloon payments
    - ➢ Avoid multiple financings
- Execution
  - Create and utilize a CDA
    - ➢ Entire process took approximately 12 months
- Outcome
  - Moody’s Investors Service assigns A1 rating to the CDA Lease Revenue Bonds
  - All restraints are met

CDA Example - City of Neenah

Assumptions	
Annual Inflation During Life of TID..	1.00%
2003 gross tax rate (per $1000 equal. value)..................................	$24.00
2004 gross tax rate (per $1000 equal. value)..................................	$24.40
Investment rate for DSRF & Inv. Proceeds 2001-08	1.00%
Investment rate for DSRF & Inv. Proceeds 2009-24	4.76%
Data above dashed line are actual	

Background Data						Revenues			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Val. Date	TIF District Valuation (January 1)	Inflation Increment	Increment (1)	TIF Increment Over Base	Tax Rate	Tax Revenue	Investment Proceeds	DSRF Revenues	Total Revenues
Recertified Base									
2004	**$5,800,000**								
2001	$4,818,900	$48,189	$1,104,900	$1,329,989					
2002	$5,971,989	$59,720	$962,500	$2,313,709	$25.00		$4,803		$4,803
2003	$6,994,209	$69,942	$2,256,819	$4,641,854	$24.00	$33,250	$0		$33,250
2004	$10,302,070	$103,021	$5,420,000	$10,166,273	$24.40	$55,529	$0	$720	$56,249
2005	$15,825,091	$158,251	$28,350,000	$38,675,935	$24.40	$113,261	$0	$16,190	$129,451
2006	$44,333,342	$443,333	$9,000,000	$48,120,695	$24.40	$248,057	$0	$16,190	$264,247
2007	$53,776,675	$537,767	$4,650,000	$53,309,902	$24.40	$943,693	$0	$16,190	$959,883
2008	$58,964,442	$589,644		$53,901,001	$24.40	$1,174,145	$0	$16,190	$1,190,335
2009	$59,554,086	$595,541	$1,750,000	$56,248,011	$24.40	$1,300,762	$0	$77,064	$1,377,826
2010	$61,899,627	$618,996		$56,868,491	$24.40	$1,315,184	$0	$77,064	$1,392,249
2011	$62,518,623	$625,186	$11,700,000	$69,195,176	$24.40	$1,372,451	$0	$77,064	$1,449,516
2012	$74,843,810	$748,438		$69,945,127	$24.40	$1,387,591	$0	$77,064	$1,464,656
2013	$75,592,248	$755,922		$70,702,579	$24.40	$1,688,362	$0	$77,064	$1,765,427
2014	$76,348,170	$763,482		$71,467,604	$24.40	$1,706,661	$0	$77,064	$1,783,726
2015	$77,111,652	$771,117		$72,240,280	$24.40	$1,725,143	$11,832	$77,064	$1,814,039
2016	$77,882,768	$778,828		$73,020,683	$24.40	$1,743,810	$43,008	$77,064	$1,863,882
2017	$78,661,596	$786,616		$73,808,890	$24.40	$1,762,663	$76,479	$77,064	$1,916,207
2018	$79,448,212	$794,482		$74,604,979	$24.40	$1,781,705	$95,203	$77,064	$1,953,973
2019	$80,242,694	$802,427		$75,409,029	$24.40	$1,800,937	$94,943	$77,064	$1,972,945
2020	$81,045,121	$810,451		$76,221,119	$24.40	$1,820,361	$94,845	$77,064	$1,992,271
2021	$81,855,572	$818,556		$77,041,330	$24.40	$1,839,980	$94,883	$77,064	$2,011,928
2022	$82,674,128	$826,741		$77,869,744	$24.40	$1,859,795	$94,754	$77,064	$2,031,614
2023	$83,500,869	$835,009		$78,706,441	$24.40	$1,879,808	$94,681	$77,064	$2,051,554
2024	$84,335,878	$843,359		$79,551,505	$24.40	$1,900,022	$95,094	$77,064	$2,072,181
2025	$85,179,237	$851,792		$80,405,020	$24.40	$1,920,437	$94,713	$77,064	$2,092,215
2026	$86,031,029	$860,310		$81,267,071	$24.40	$1,941,057	$94,583	$77,064	$2,112,704
2027	$86,891,339	$868,913		$82,137,741	$24.40	$1,961,882	$94,578	$77,064	$2,133,525
2028	$87,760,253	$877,603		$83,017,119	$24.40	$1,982,917	$95,023	$1,689,642	$3,767,581
2029	$88,637,855	$886,379		$83,905,290	$24.40	$2,004,161	$131,327		$2,135,488
2030	$89,524,234	$895,242		$84,802,343	$24.40	$2,025,618	$232,976		$2,258,594
2031	$90,419,476	$904,195		$85,708,366	$24.40	$2,047,289	$340,485		$2,387,774
2032	$91,323,671	$913,237		$86,623,450	$24.40	$2,069,177	$454,143		$2,523,320
		$21,242,689	$65,194,219			$45,405,709	$2,338,355	$3,219,346	$50,963,410

2001 TID Inception

2023 Final Year to incur TIF related costs.

2032 Maximum legal life of TID with extensions (31 Years)

CDA Example – City of Neenah

	Expenditures						TID Status				
		Final Pricing $16,190,000 CDA Lease Revenue Bonds Dated December 15, 2004			*Example New Future Issues*						
	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)
	Existing Debt Service	Principal	Interest	Debt Service	Debt Service	Combined Debt Service	Annual Balance	Annual Advance from City	Cumulative Advance from City	Year End Cumulative Balance	Cost Recovery
		(12/1)	*(6/1 & 12/1) avg = 4.74%*		*(2)*					*(December 31)*	
2001								$20,058	$20,058	$0	
2002	$77,000					$77,000	($72,197)	$72,384	$92,442	$0	
2003	$55,000					$55,000	($21,750)	$21,750	$114,192	$0	
2004	$80,631					$80,631	($24,383)	$24,383	$138,575	$0	
2005	$257,732		$733,585	$733,585		$991,317	($861,865)	$861,865	$1,000,440	$0	
2006	$222,312		$763,268	$763,268	$82,500	$1,068,079	($803,832)	$803,832	$1,804,272	$0	
2007	$233,164		$763,268	$763,268	$101,956	$1,098,388	($138,505)	$138,505	$1,942,778	$0	
2008	$291,282		$763,268	$763,268	$148,119	$1,202,668	($12,333)	$12,333	$1,955,111	$0	
2009	$294,764		$763,268	$763,268	$143,025	$1,201,056	$176,770	($176,770)	$1,778,341	$0	
2010	$284,404		$763,268	$763,268	$183,956	$1,231,627	$160,621	($160,621)	$1,617,720	$0	
2011	$205,811		$763,268	$763,268	$188,413	$1,157,491	$292,025	($292,025)	$1,325,695	$0	
2012	$221,245		$763,268	$763,268	$182,613	$1,167,125	$297,531	($297,531)	$1,028,165	$0	
2013	$206,418		$763,268	$763,268	$176,813	$1,146,498	$618,929	($618,929)	$409,236	$0	
2014	$177,019		$763,268	$763,268	$185,638	$1,125,924	$657,802	($409,236)	$0	$248,566	
2015	$211,850		$763,268	$763,268	$183,950	$1,159,068	$654,972			$903,538	
2016	$215,438		$763,268	$763,268	$182,006	$1,160,711	$703,171			$1,606,709	
2017	$208,700	$415,000	$763,268	$1,178,268	$135,875	$1,522,843	$393,364			$2,000,073	
2018	$231,144	$890,000	$746,668	$1,636,668	$91,625	$1,959,436	($5,464)			$1,994,609	
2019	$256,875	$915,000	$709,955	$1,624,955	$93,188	$1,975,018	($2,073)			$1,992,537	
2020	$256,375	$970,000	$670,610	$1,640,610	$94,475	$1,991,460	$811			$1,993,347	
2021	$260,250	$1,030,000	$628,900	$1,658,900	$95,488	$2,014,638	($2,709)			$1,990,638	
2022	$258,500	$1,100,000	$578,425	$1,678,425	$96,225	$2,033,150	($1,536)			$1,989,102	
2023	$256,250	$1,170,000	$524,800	$1,694,800	$91,825	$2,042,875	$8,679			$1,997,781	
2024		$1,520,000	$467,900	$1,987,900	$92,288	$2,080,188	($8,007)			$1,989,774	
2025		$1,610,000	$392,470	$2,002,470	$92,475	$2,094,945	($2,730)			$1,987,044	
2026		$1,800,000	$312,810	$2,112,810		$2,112,810	($106)			$1,986,938	
2027		$1,900,000	$224,190	$2,124,190		$2,124,190	$9,335			$1,996,273	
2028		$2,870,000	$134,890	$3,004,890		$3,004,890	$762,691			$2,758,965	Expenditures Recovered
2029							$2,135,488			$4,894,452	Expenditures Recovered
2030							$2,258,594			$7,153,046	Expenditures Recovered
2031							$2,387,774			$9,540,820	Expenditures Recovered
2032							$2,523,320			$12,064,140	Expenditures Recovered
	$4,762,162	$16,190,000	$15,284,412	$31,474,412	$2,642,450	$38,879,025					

$8,100,000 Principal from 2025 - 2028

Principal repayment begins once cumulative balance exceeds annual debt service

Reflects Total Expenditures (Debt Service, Transfers to General Fund and Misc. Costs)

(1) *Increment per City's Project Plan Amendment #2 Effective 1/1/2004.*

(2) *Future issues consist of G.O. Notes: 3/1/05 $1,000,000; 3/1/06 $385,000; 3/1/07 $310,000*

Accomplishments
Downtown Riverwalk Zone Case Study

- Over $52 million in new construction has taken place since 2004
- Alta Resources Project
  - Single largest downtown development in the City's history
  - $35 million of total combined public and private investment
  - Alta Resources experienced accelerated business growth since moving to their new headquarters with total employment growing to 870 employees by mid-2006
- Other Downtown Riverwalk Zone projects
  - Other downtown developments were spurred with the infusion of the Alta office development including:
    - ➢ $12 million Senior Lifestyle Residence currently under construction
    - ➢ Nearly $5 million in new improvements for other downtown developments including a major renovation of a Holiday Inn

City of Waukesha

The City of Waukesha is located in southeastern Wisconsin approximately 15 miles west of the City of Milwaukee. The City encompasses an area of 18 square miles and is the county seat for Waukesha County. Waukesha County is the third largest county in the state with a population of over 379,000 people.

Although manufacturing continues to play a major role in the local labor market, Waukesha is also home to a significant GE Medical presence. GE is currently partnering with a new specialty hospital under construction, which is part of a broader development of the medical/health care sector locally.

The City's general obligation debt carries a "Aa2" rating from Moody's Investors Service.

The City's revenue debt for its Water Utility carries a "Aa3" rating from Moody's Investors Service

Total Area	21.7 miles
Population (2000 Census)	64,825
(2006 Estimate)	67,814
City Adjusted Gross Income (2005)	$46,328
State Adjusted Gross Income (2005)	$45,357
Tax Base (2006)	$5,716,891,600
Average Annual Valuation Growth Since 2001	8.59%
Overall Valuation Growth Since 2001	51.0%

Developer Agreements
City of Waukesha Example

- Background
  - Developer requested assistance for a downtown hotel/restaurant project
    - ➢ Redevelopment of a blighted downtown building
  - Project located in an existing tax incremental district
- Developer Agreement included the following incentives (three prong approach):
  - $750,000 City Grant
  - $750,000 Developer Loan
  - $500,000 Municipal Revenue Obligation

Summary of Developer Guarantees

- Minimum equalized value as of 01/01/2008
  - $2,000,000
- Minimum equalized value each January 1 thereafter
  - $5,000,000
- If minimum valuation guarantees are not met, shortfall payment equals debt service requirement of city financing less TID property tax generated in the year of the shortfall

City Grant - $750,000

- One-time upfront payment of $750,000 from the City to Developers
- Funding Source (grant to developer): City issued taxable bonds
- Repayment (to the City): TID revenues from future construction increment/developer guarantee

Developer Loan - $750,000 Non-Interest Bearing Loan

- Non-interest bearing loan for $750,000 from the City to Developers
- Funding Source (loan to developer): City issued taxable bonds
- Repayment (to the City): Loan is secured by a promissory note from Developer to the City based on an a fixed annual repayment schedule
  - Principal payments on the promissory note first paid from 75% of room tax revenues generated by development property each year
  - If 75% of room tax is insufficient to make annual principal payments Developer agrees to make remainder due in any year
  - If 75% of room tax is greater than the annual principal payment due the City agrees to reserve the excess for the next principal payment
- Future construction increment/developer guarantee will repay remaining principal and interest incurred by the City relating to the Developer Loan

Municipal Revenue Obligation/Developer Financed Grant/Developer Bond - $500,000

- City issues a Municipal Revenue Obligation (MRO) for the lesser of available tax increment or $500,000 to the Developers
- Source (grant to developer): MRO will be paid to the developers on an annual pay-as-you-go basis determined by available tax increment generated by the development property and additional properties.
- Annual MRO payments to developer are made with surplus tax increment after the following expenses:
  - Annual expenses are paid related to TID
  - Annual debt service on City borrowing related to the Developer Grant and Developer Loan
  - Annual debt service on City borrowing related to any public improvements
  - The MRO terminates when $500,000 is paid to the Developer or as of December 31, 2021 regardless of the incentive paid

Questions