



TIF Case Studies

Joe Gromacki, TIF Coordinator
City of Madison, WI

Council of Development Finance Agencies & Milwaukee LISC
Marquette University
July 24, 2007



City of Madison TIF Track Record

- ◆ 35 districts created since 1977.
- ◆ 15 active districts
- ◆ \$68 million of TIF invested in 66 projects
- ◆ \$865 million of growth in all active districts.



City of Madison TIF Policy



- ◆ The first comprehensive City of Madison TIF Policies were adopted in 2001, amended in 2006

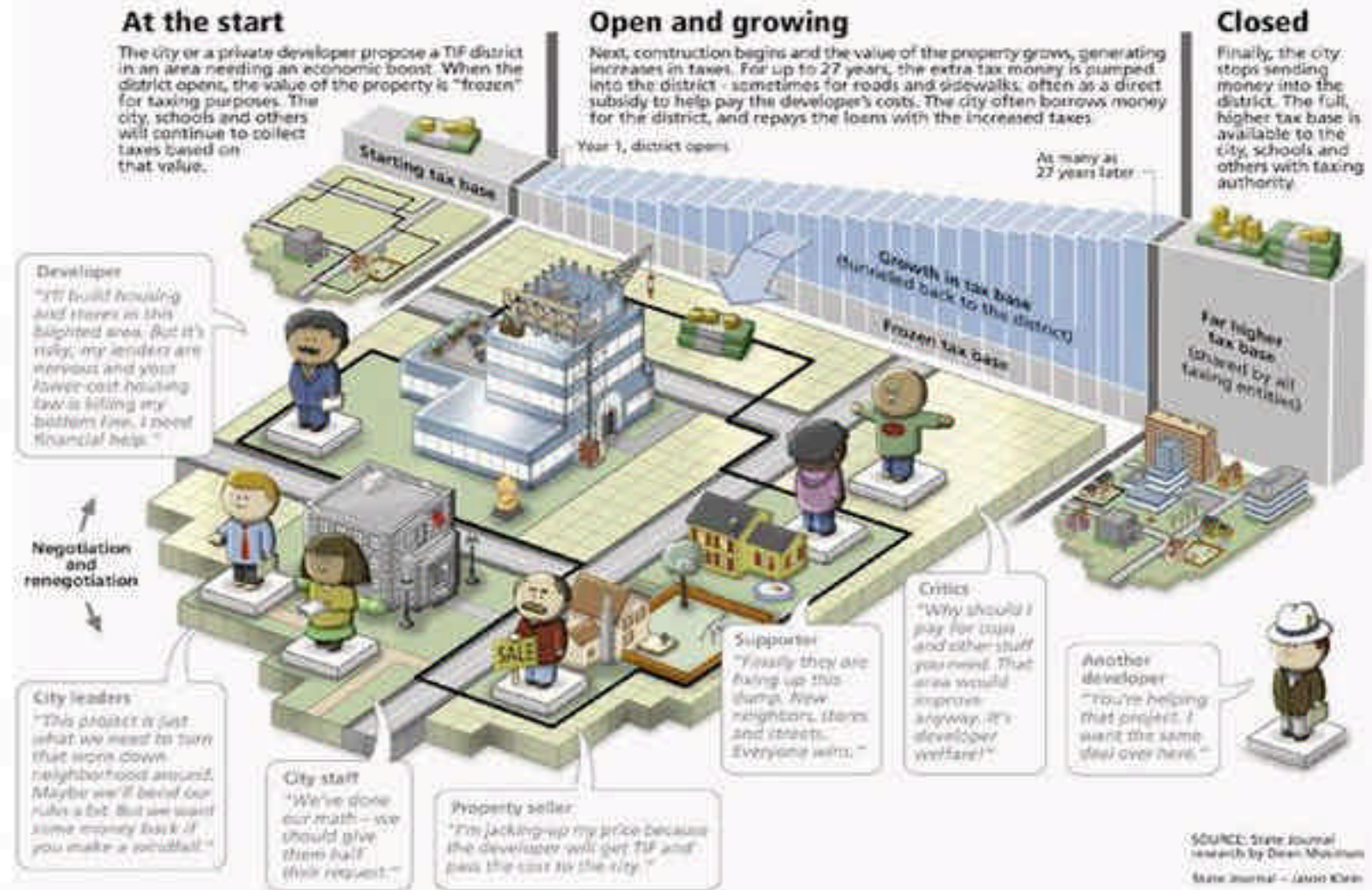
- ◆ The Policy is comprised of the following:
 - Objectives, priorities for TIF

 - Eligible & Ineligible Development

 - TIF Process
 - Simultaneous Land Use, TIF Loan Approvals

 - Key TIF Underwriting Standards
 - “But for” requirement in TIF Law = gap analysis
 - “50% Rule” – Project eligible for 50% of TIF it generates
 - Gap Reconciliation Audit

The TIF Process



Conducting Gap Analysis and Negotiation

Negotiation Process

Step 1: Estimate available TIF.

- Value estimate is important. Developer guaranty.
- Eligible for 50% of present value of estimated tax increments

Step 2: Analyze sources and uses. Ground truth all assumptions.

- Loans, Equity, lending ratios etc. Are they standard?
- Verify costs, ratios, industry standards for soft costs, fees

Step 3: TIF assistance addresses demonstrated need ("but for")

- The "but for" finding is what the numbers demonstrate, not what the developer wants

Step 4: Audit the project on completion and keep data for comparison.

Some TIF Negotiating Maxims

1. Know every developer's motives.

Developers want to maximize their return. They achieve this by convincing others to mitigate the developer's risk by investing and whenever possible, avoiding a personal guaranty. Your role is to make sure that the TIF investment is necessary, secure and shows potential for success.

2. Know your local market potential.

Keep track of trends in rents, lease terms, prices for land, construction costs, etc. Get the best opinions of values and cost that you can. Focus on projects that show promise. Realize that some development ideas just won't work based on market expectations.

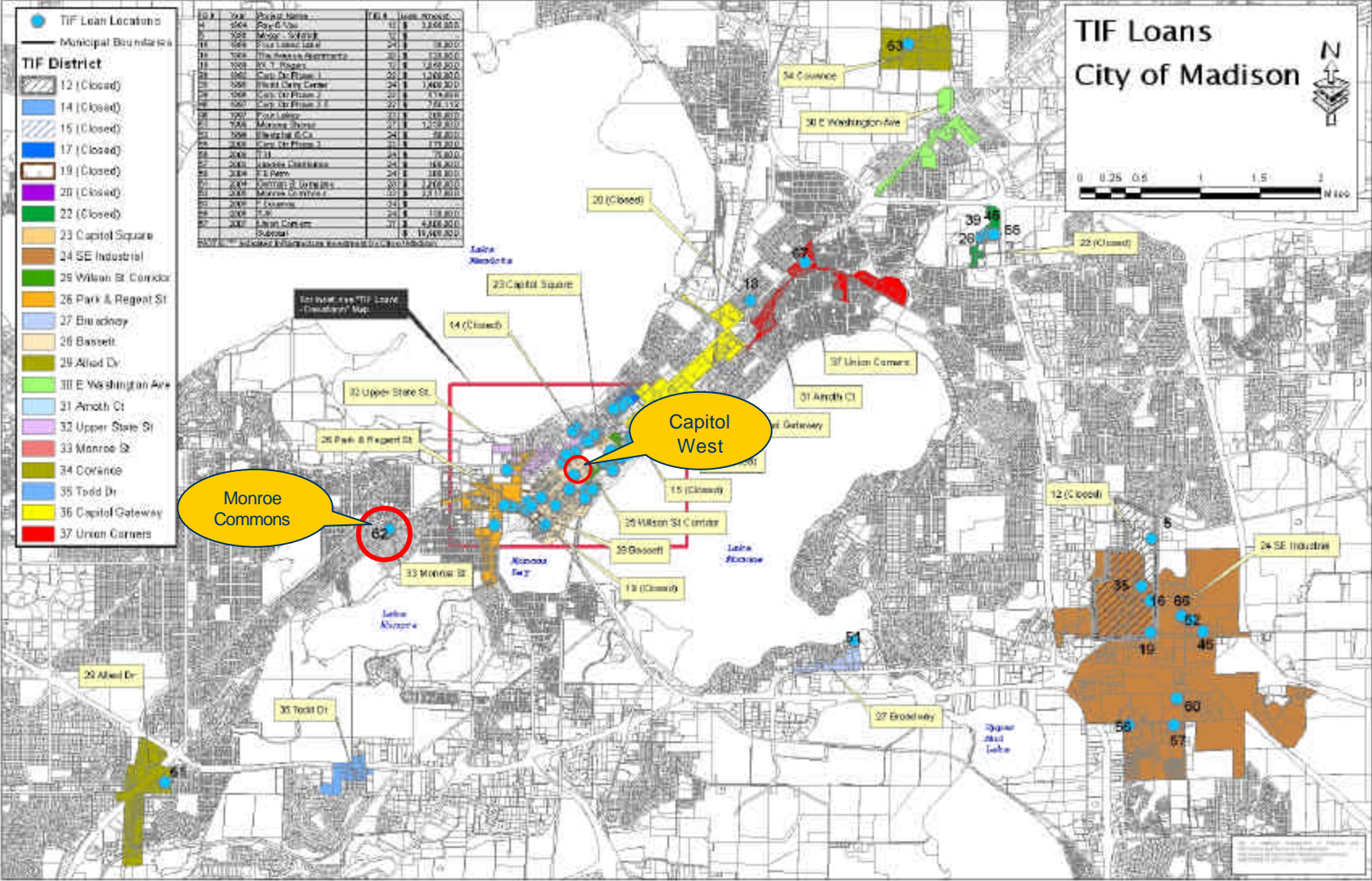
Potential value resources: Assessor, appraisers, realtors, bankers, WI Dept. of Revenue (industrial)

Potential cost resources: Appraisers, contractors, engineers, architects, City engineer

3. Know the difference between needing and wanting TIF.

"But for TIF, the developer will walk" is not the best "but for." Prove they NEED it.

TIF Loan Portfolio



Capitol West



Case Study: Capitol West Condominiums (All Phases)

Projected Value:	\$100,000,000*
Est. Cost Per Developer	(\$115,000,000)*
Sources of Capital	\$100,000,000*
Proposed Gap	(\$ 15,000,000)*

*Estimates spread over 3 phases, 8 years

Capitol West Negotiations

Initial Request: \$15 million

- 3 phases over 8 years
- 400 excess parking stalls
- 120% of TIF
- More TIF than equity

2nd Request: \$9.1 million

- Allocating land cost of all phases to Phase I
- Phase I lasts approx. 6 years
- Still includes 400 excess parking stalls
- Approx. 90% of TIF

3rd, 4th, 5th Requests: \$6.9 to 5.5 million

- Some Phase II land cost still included
- More developer cash into project
- Excess stalls removed
- Approximately 70% of TIF

City Response

- Phase I only
- No excess stalls
- Eligible for 50% of TIF - Phase I Only
- Equity must equal or exceed TIF

City Response

- Allocate only land used in Phase I
- Phase I has to be more near-term (2-3 yrs.)
- Still no to excess parking
- Still needs to be 50%

City Response

- Only Phase I land allocated to Phase I
- TIF to Equity ratio OK
- Land cost allocation should bring TIF closer to 50%

Case Study: Capitol West Condominiums-Phase I

UNIT MIX (Phase I)

Market Units	125
Affordable Units	<u>16</u>
Total Units	141

PARKING

Underground	216
Surface	20
Purchased	<u>32</u>
Total Parking Stalls	268

COST

Land	(\$1,995,000)
Hard Construction	(\$35,370,000)
Parking	(\$5,010,000)
Soft	<u>(\$8,930,000)</u>
Total Cost	(\$51,305,000)

GAP ANALYSIS

Total Estimated Value	\$49,083,000
LESS: Base Value	<u>(\$5,026,000)</u>
Incremental Value	\$44,057,000

Est. TIF Available @ 50% \$4,085,000

Sources of Capital

Equity	\$5,953,000
Loan (s)	<u>\$41,078,000</u>
Total Sources	\$47,031,000
Less: Cost (Uses)	(\$51,305,000)

GAP **(\$4,274,000)**
52% of TIF

Case Study: Monroe Commons



Monroe Street Elevation

Monroe Commons

Madison, Wisconsin



Monroe Commons

Projected Value:	\$29,800,000
Est. Cost Per Developer	(\$31,500,000)
Sources of Capital	\$27,100,000
Proposed Gap	(\$4,400,000)

Monroe Commons: City Negotiations

Initial TIF Request: \$4.4 million

- Blighted, vacant property
- Requires creation of new TID
- High land cost, unmotivated seller
- 120% of TIF requested
- Condos with grocery
- Site is very small, requires height

2nd Request: \$3.3 million

- Requests waiver of affordable units
- Land cost still a problem
- Developer asserts full value in 12 mos.

3rd, 4th Requests: \$2.8 and \$2.6 million

- Grocery tenant requires dedicated free parking
- Grocery specifications drive cost to \$360/SF.

City Response

- Property blighted, not neighborhood
- TID must be single-site due to limited blight
- TIF Policy allows a comparable price
- 50% of TIF is eligible and feasible
- Neighborhood wants grocery
- Neighborhood concerned about height

City Response

- Council wants more affordability
- Land cost OK for condos, not grocery
- Developer must guaranty increment

City Response

- Drag on project is grocery, some land
- 10-year guaranty on grocery lease

Case Study: Monroe Commons

UNIT MIX

Market Units	50
Affordable Units	<u>3</u>
Total Units	53

PARKING

129

COST (rounded)

Land	\$(2,375,000)
Hard Cost	(13,200,000)
Parking Const. Cost	(3,600,000)
Soft Cost	<u>(3,747,000)</u>
Total Cost	\$(22,922,000)

GAP ANALYSIS

Estimated Value	\$22,900,000
LESS: Base Value	<u>(\$1,300,000)</u>
Incremental Value	\$21,600,000

Est. TIF Available @ 50% \$2,339,000

Sources of Capital

Equity	\$2,400,000
Loans	<u>\$18,200,000</u>
Total Sources	\$20,600,000
Less: Total Cost	<u>(22,922,000)</u>

GAP

(\$2,322,000)
50% of TIF



Questions



More questions contact:

Joe Gromacki

TIF Coordinator

City of Madison, WI

215 Dr. Martin Luther King Jr. Blvd

Madison 53701

(608) 267-8724

jgromacki@cityofmadison.com