

## **Should You Build It With TIF?**

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### **TIF 101**

- A. Tax Incremental Financing (“TIF”) is about the only meaningful tool available to municipalities to finance larger infrastructure projects and spur private development.
- B. TIF allows a municipality to leverage future tax revenues to help make projects happen now.
- C. TIF allows all taxing jurisdictions to cooperate in promoting economic development.

## **What does TIF pay for?**

- A. Public Infrastructure.
- B. Public benefits (such as affordable housing).
- C. Private development financial gaps.
- D. Administrative costs.

## **Common Objections**

- It's "corporate welfare."
- It's risky.
- It's unfair to competitors.
- It pits communities against each other.
- It distorts the market.

With all these objections, why do it?

## **The “But For Test”**

- TIF is used because:
  - the project won’t happen without TIF, and
  - the projected benefits outweigh the risks and costs.

## **The Hard Questions**

- Should TIF be used?
- How much TIF is needed?
- What is the financial risk?

## **Should TIF Be Used?**

- This is an economic policy decision, and a political judgment, to be made by the municipality and the joint review board.

## **How Much TIF Is Reasonable?**

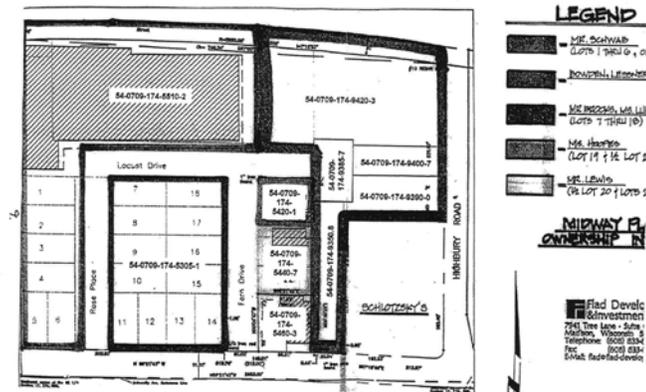
- GAP Analysis:
  - Purpose is to determine how much TIF a “reasonable” investor would need to proceed with the project.
  - Evaluates projected rates of return.
  - Complex analysis to be performed by a qualified financial expert.
- Extraordinary Costs.
- Negotiation.
- Look-back provisions.

## Managing The Risk

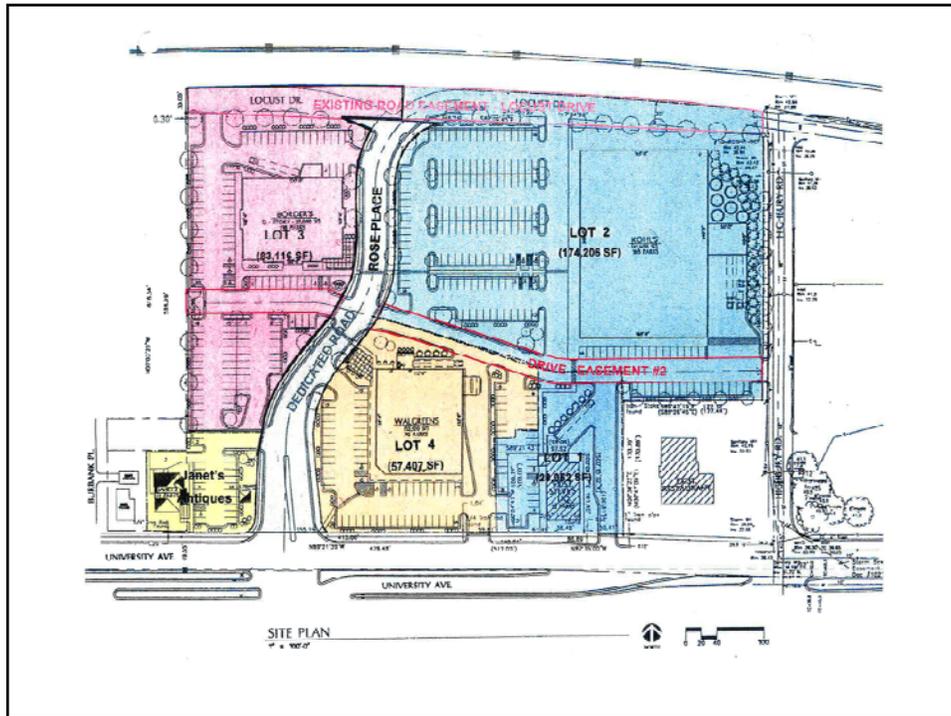
- Pay-as-you go.
- Timing of payment.
- Increment guarantee.
- Security options:
  - letter of credit.
  - special assessment.
  - mortgage.

## Case Study No. 1

### PARCEL IDENTIFICATION NUMBERS



Kohl's Shopping Center  
Village of Shorewood Hills : Madison, Wisconsin



## TIF Support

- \$1,640,000 (borrowed by municipality) for:
  - Land acquisition
  - Street improvements
  - Environmental remediation
  - Site preparation
  - Landscaping
- Negotiation and extraordinary cost approach.

## **Managing Risk**

- TIF Guarantee
  - 20 years
  - Tied to municipal debt service
  - Partially Secured by letters of credit
- Risk Assessment
  - Solid developer
  - Solid leases with end-users
  - Reliable assessment projections

## **Public Improvements**

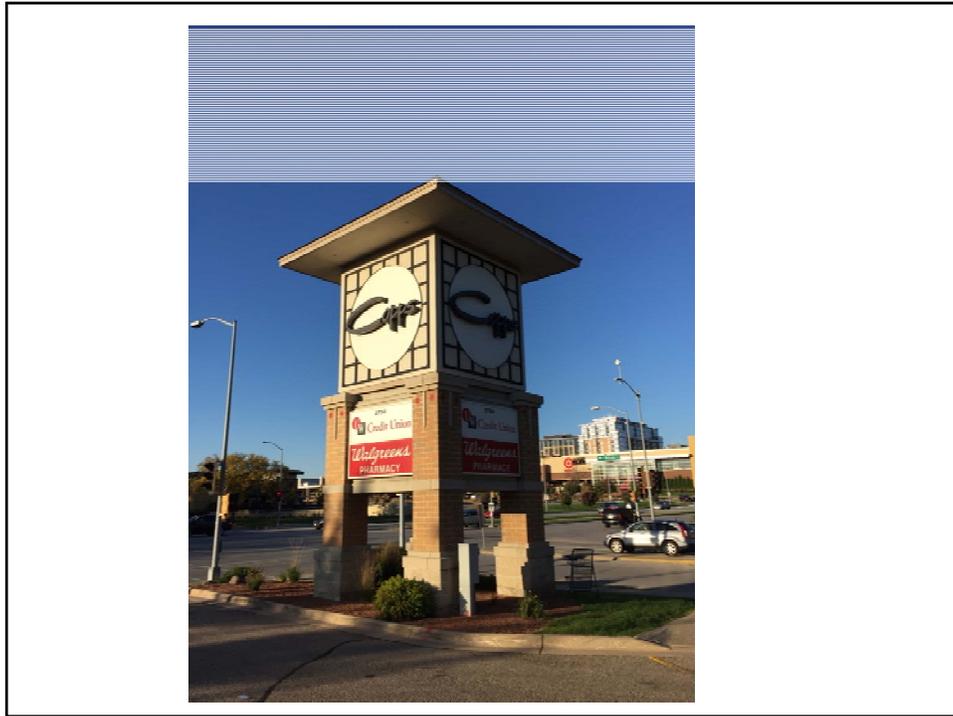
- Two new streets with sidewalks and enhanced public safety.
- New water and sewer infrastructure.
- New stormwater management infrastructure.
- New street lighting and landscaping.

## **New Private Development**

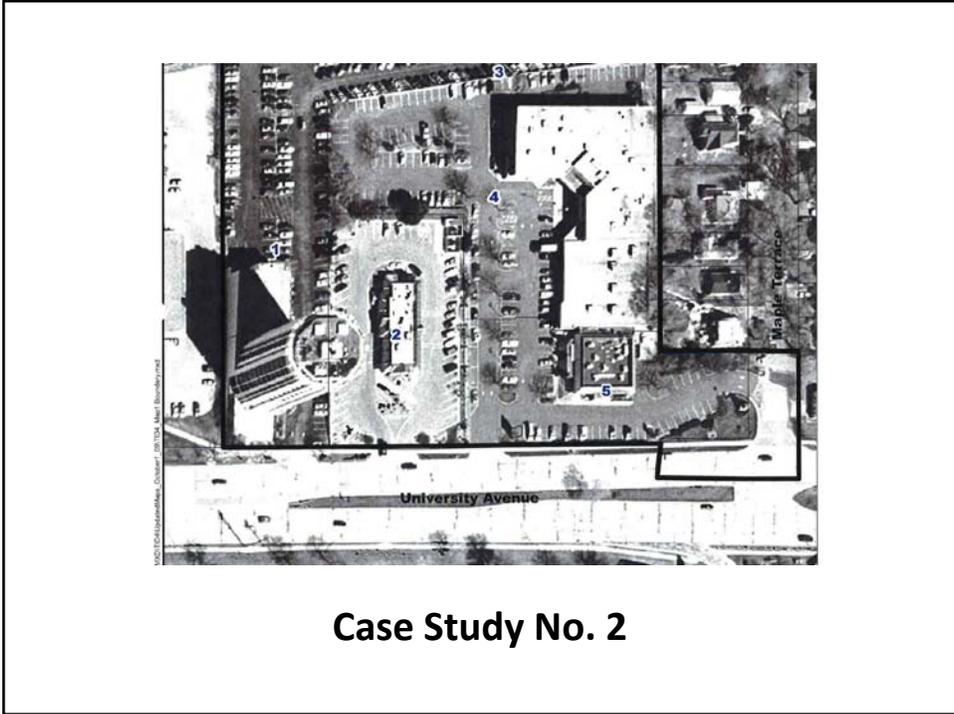
- Grocery store
- Borders book store (now UW Credit Union)
- Walgreens
- Relocated and reconstructed antique store
- Relocated and reconstructed Steve's Liquor
- Enhanced parking, circulation, landscaping

## **Political Impacts**

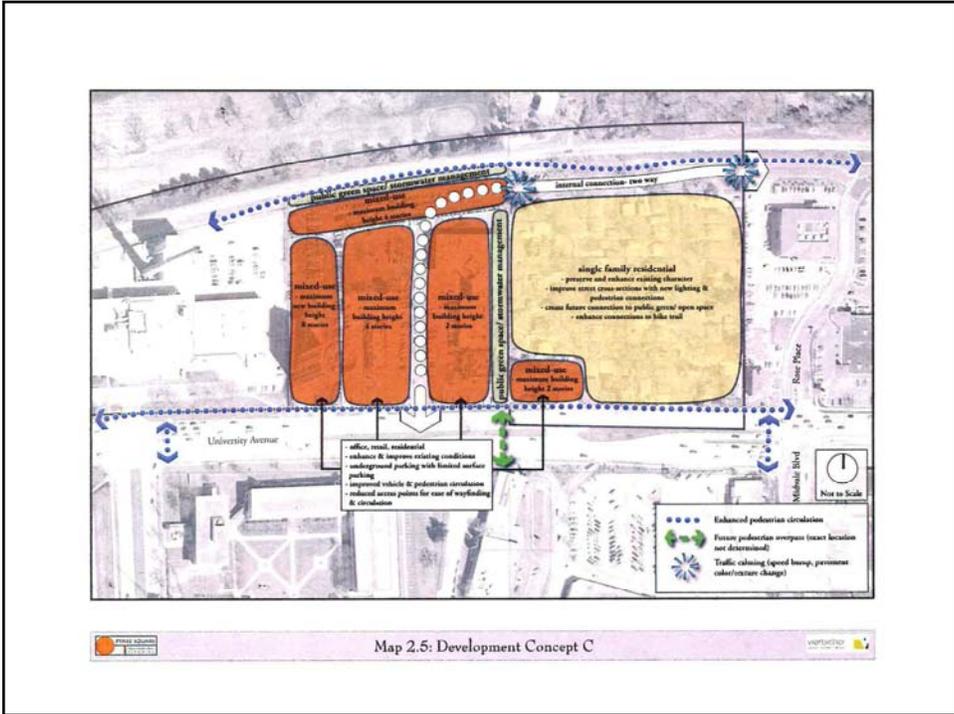
- Divided community, divided board.
- Months of difficult meetings.
- Strong feelings on both sides.
- Recall election threats.
- Zoning protest threatened.







Case Study No. 2



## **Continuum of Care Development**

- 64 units of senior independent living
- 40 bed skilled nursing facility
- Guaranteed value - \$30 Million

## **Extraordinary Costs**

- \$1,450,000 - Land acquisition (for a vacant building on a difficult site)
- \$770,000 - Asbestos abatement and demolition
- \$300,000 – Easement from adjacent landowner.
- Very expensive project to build.

### **3.9 Million TIF Funding**

- \$1,950,000 grant funded by Village borrowing.
- \$1,950,000 grant funded by Developer borrowing (“pay as you go”).
- Included a look-back provision.
- Amount based on combination of extraordinary costs, gap analysis and negotiation.

### **Managing Risk**

- Pay-as-you go shifts risk to Developer.
- \$30 Million valuation guarantee secured by \$1,950,000 letter of credit and personal guarantee.

## End Result

- After a three year process, the Developer was unable to secure the necessary Non-TIF financing by the agreed deadline, and agreement terminated.
- There is always a risk that deal will fall through.

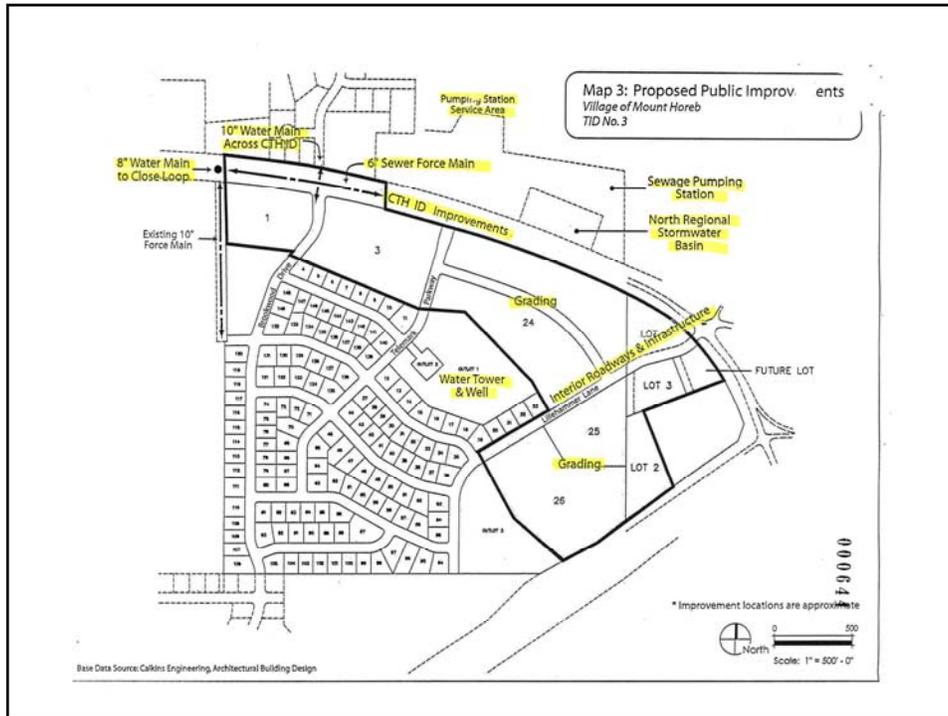
## Walnut Grove II

- Multi-Family Residential
  - 94 Apartments.
  - 8 Affordable Units
- \$2,490,000 (Pay-Go MRO)



## Case Study 3

- Village of Mount Horeb East Corridor Business Park, Commercial and Residential Development.



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APPENDIX C  
IMPROVEMENTS COST ALLOCATION

Improvement [Estimated cost]	District Cost (% and est.)	County ID LLC (% and est.)	Symdon (% and est.)	Recapture (% and est.)
CTH ID [\$2,300,000]	100% [\$2,300,000]	0%	0%	0%
Sanitary Sewer [\$607,724]	80% [\$486,179]	2.3% [\$13,979]	0%	17.7% [\$107,567]
Water Extension [\$111,608]	78% [\$87,054]	0%	0%	22% [\$24,554]
North Side Regional Basin [\$268,450]	42.8% [\$168,587]	9%	0%	28.2% [\$75,703]
Water Tower and Well [\$2,750,000]	13.1% [\$360,250]	0%	0%	0%
Site Grading [\$921,000]	100% [up to \$921,000]	[all costs over \$921,000]	0%	0%
Interior Streets (County ID LLC) [\$838,000]	100% [up to \$838,000]	[all costs over \$838,000]	0%	0%
Interior Streets (Symdon) [\$200,000]	50% [\$100,000]	0%	50% [\$100,000]	0%
Temporary well [unknown- \$25,000+]	100% [up to \$25,000]	0%	[all costs over \$25,000]	0%
<b>Estimated total costs: \$7,971,782</b>	<b>\$5,286,070</b>	<b>\$38,138</b>	<b>\$100,000</b>	<b>\$207,824</b>

Note: The cost of the water tower and well that is not a District Cost (estimated at \$2,389,750) is not allocated to County ID LLC, Symdon, or Recapture Cost. Such cost will likely be paid through impact and user fees collected from property outside the District.

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APPENDIX E

DISTRICT COST "GUARANTY" ALLOCATION

Improvement [Estimated cost]	County ID LLC	Symdon Brothers LLC	Village Share	Lands North of CTH ID
CTH ID [\$2,300,000]	26% [\$598,000]	8.53% [\$196,190]	40.47% [\$930,810]	25% [\$575,000]
Sanitary Sewer [\$486,179]	85.95% [\$417,871]	14.95% [\$68,308]	0%	0%
Water Extension [\$87,492]	86% [\$75,243]	14% [\$12,249]	0%	0%
North Side Regional Basin [\$168,600]	84% [\$141,624]	16% [\$26,976]	0%	0%
Water Tower and Well [\$360,000]	86% [\$309,600]	14% [\$50,400]	0%	0%
Site Grading [\$921,000]	100% [\$921,000]	0%	0%	0%
Interior Streets (County ID LLC) [\$838,000]	100% [\$838,000]	0%	0%	0%
Interior Streets (Symdon) [\$50,000]	0%	100% [\$100,000]	0%	0%
Temporary well [\$25,000]	0%	100% [\$25,000]	0%	0%
Estimated total costs: \$5,236,271	\$3,301,338	\$479,123	\$930,810	\$575,000

Note: The actual percentage of the Annual Debt Service for the District Cost share of each Village Improvement that will be guaranteed by the Developers will not change, while the percentage of the total Annual Debt Service that will be guaranteed by the Developers will depend on the actual cost of all Improvements.

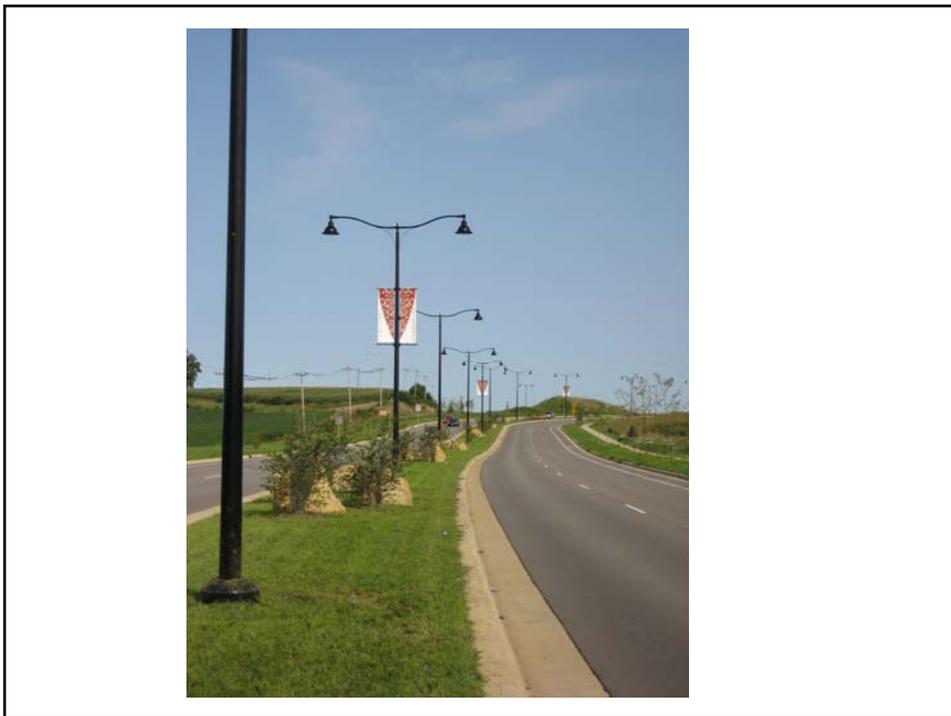
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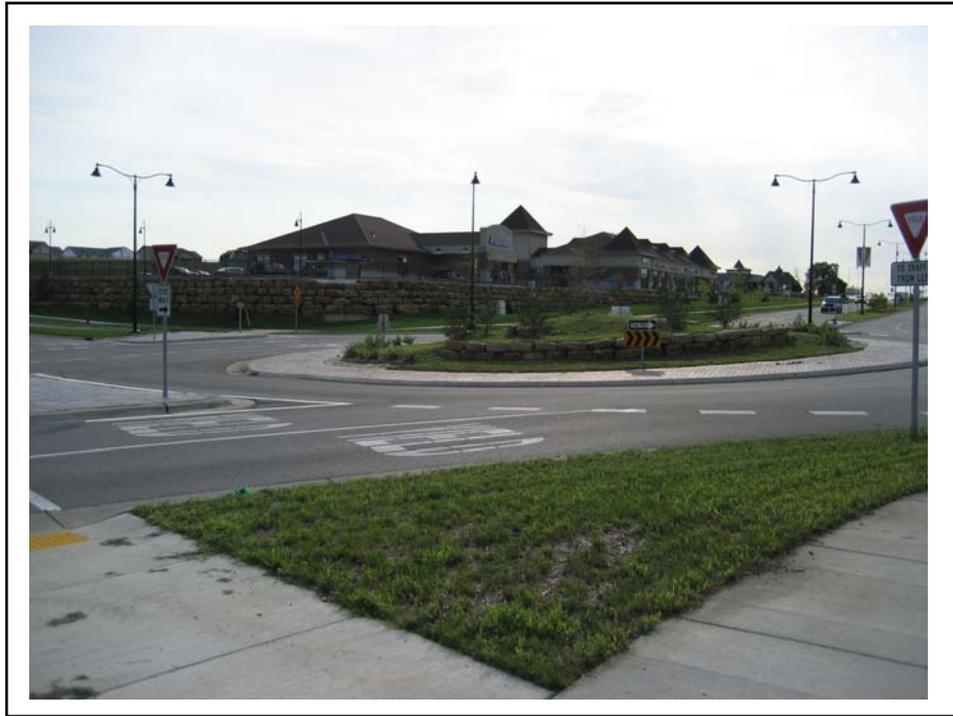
## Managing Risk

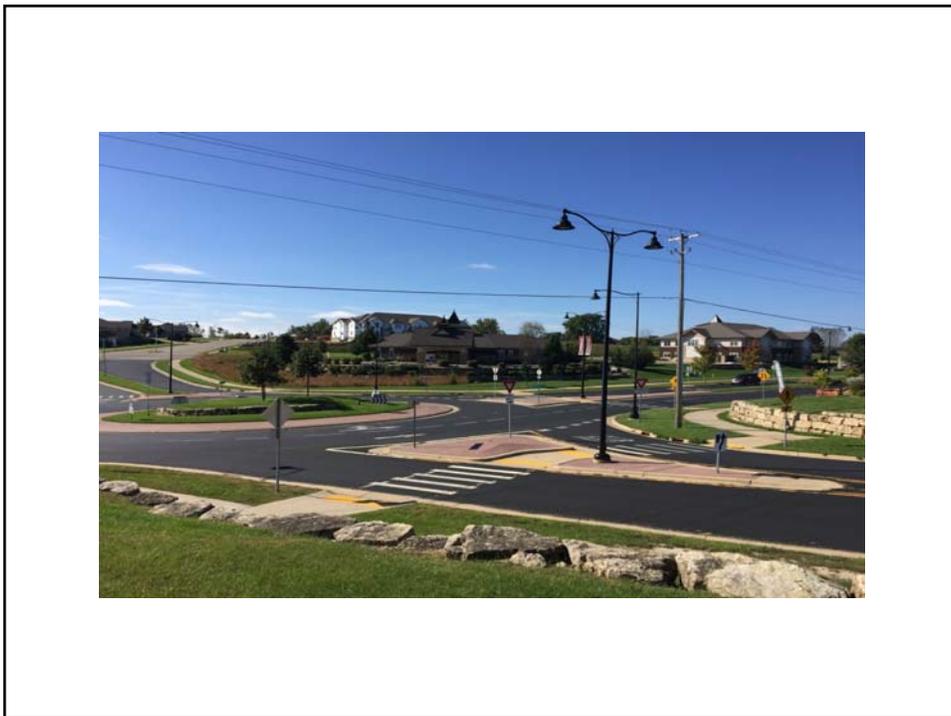
- Tax Increment Guarantees.
- Secured by letters of credit.
- The Great Recession.
- The Bank that failed.

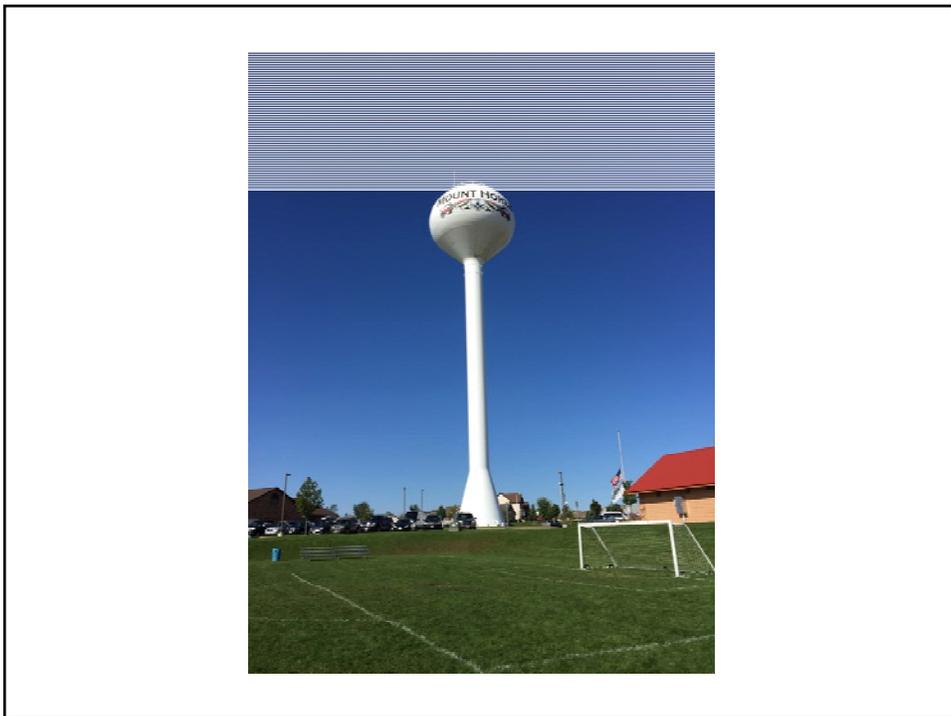








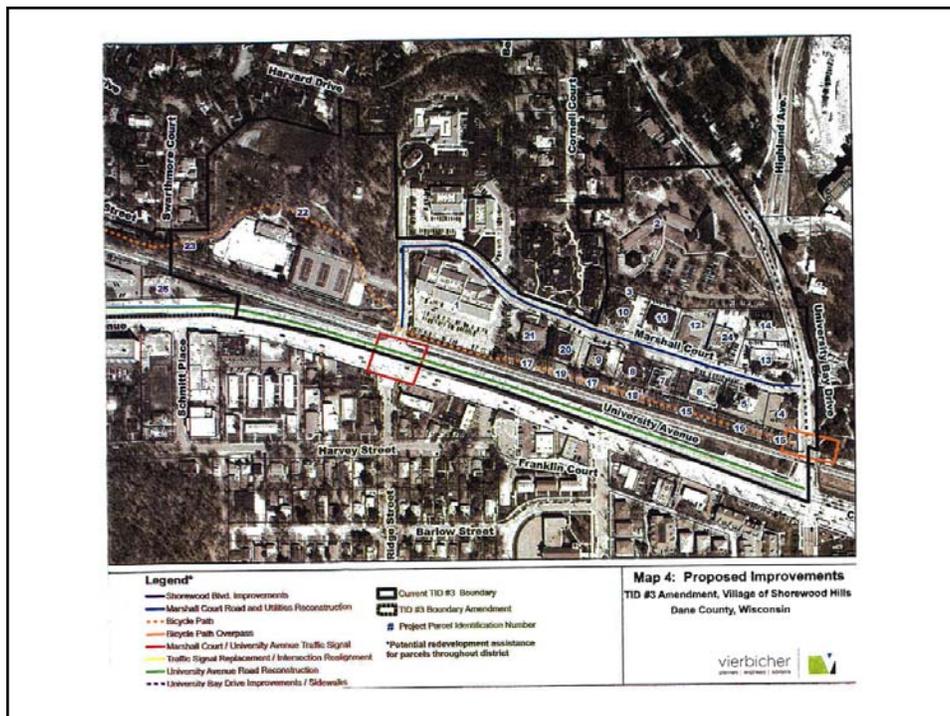






## Case Study 4

- Marshall Court Redevelopment.



## Arbor Crossing – Plan A

- 80 residential units
  - 68 Affordable Units
- 10,000 square feet of commercial space
- Underground parking

## Plan A funding

- Section 41 tax credits
- \$1,750,000 TIF Grant, payable when project reached 80 percent completion.

Tax credit application unsuccessful ☹️

## Arbor Crossing Plan B

- Same project, but 26 units of affordable housing, instead of 68 units.
- No tax credits.
- TIF funding increased to \$2,100,000.
- Careful GAP analysis.
- Careful valuation analysis.
- Shows the impact of tax credits on affordable housing.





## 700 UBD

- 54 residential units
  - 9 affordable units
- 9,000 square feet of commercial space
- Underground parking
- \$2.1 Million (pay – go MRO)





## Case Study No. 5 The Boulevard

- Mixed use multi-family and commercial project.
- 38 residential units
  - 4 affordable units
- 11,739 square feet of commercial space
- Underground parking.

## TIF Support

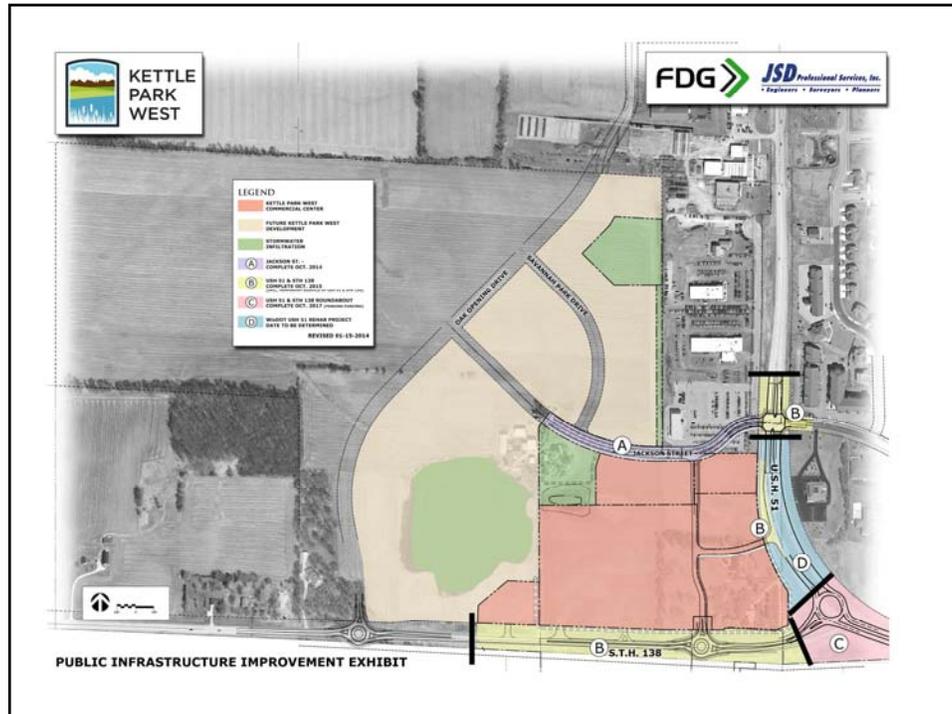
- \$1,015,000
  - Pay Go MRO
- Gap analysis performed.
- Look back provision included.





## Case Study No. 6

- Kettle Park West Commercial Development



## Public Infrastructure – Off Site

- Utility Relocation
- U.S. Hwy 51 Improvements
- S.T.H. 138 Improvements
- Jackson Street
- Infiltration Basin
- Water Quality Basin
- Pump Station and Pressure Pipe

## TIF Support

- \$4.4 Million reimbursement for off-site public improvements.
  - Funded with City Borrowing.
- \$550,000 reimbursement for site graded.
  - Funded with pay-go MRO.

## Managing Risk

- Letter of Credit to secure completion of public improvements.
- Tax Increment guarantee from developer, secured by letter of credit.
- Tax Increment guarantee from anchor store.
- TIF funds disbursed as a construction loan.