

The background of the slide features a large, light gray watermark of the City of Madison seal. The seal is circular and contains the text "CITY OF MADISON" at the top and "WISCONSIN" at the bottom. In the center of the seal is a detailed illustration of the Wisconsin State Capitol building, showing its dome and classical architectural elements.

**Tax Increment Financing  
and  
Judge Doyle Square Project  
Issues and Options**

**February 28, 2014**

# Background

- Created: September 1995
- Latest Possible Date for Capital Expenditures: September 2017
- Latest Closure Date: September 2022 (last year of increment – 2023)
- Estimated Balance if Closed in 2014: \$16.7 million (under revision)  
Estimated Distribution to Taxing Jurisdictions:

School District	\$7.6 million
City	\$5.9 million
County	\$1.9 million
MATC	\$1.2 million
State	\$0.1 million
- Estimated Balance if Closed in 2022/23: \$50 m to \$60 m (exc. new development)
- TID Closure and Levy Limits: allowable rate of growth in the levy is increased by 50% of the incremental value of a TID divided by the total equalized value of the city (e.g., \$150 million of incremental value in a closed TID; \$75 million divided by \$22 billion total equalized value; added amount = 0.3%)

# Issues

- *Why has TID 25 remained open?*

There are two CDA lease revenue bonds that are being repaid with a combination of TID 25 tax increment and developer contributions.

1. Monona Terrace Hotel Parking (Series 1999C)
  - Original Indebtedness -- \$10.87 million
  - Estimated Developer Rent (2014 through 2022) -- \$4.7 million
2. Block 89 Parking (Series 2000)
  - Principal -- \$6.8 million
  - Estimated Developer Rent (2014 through 2019) -- \$2.8 million

# Issues

- *What requirements are associated with the Monona Terrace Hotel Parking debt?*
  1. Marcus Corporation must provide a 150-room block for Monona Terrace events.
  2. The developer of a second convention center hotel must negotiate for a 120 day period with Marcus to operate that hotel. If an agreement cannot be reached, then the developer may solicit proposals from third parties to operate the hotel, but only on terms substantially similar to those offered to Marcus.



# Issues

- Affordable Housing
  - State law allows a TID to remain open one additional year with the increment used to benefit the city's housing stock.
  - All of the increment must be used for housing, with at least 75% for affordable housing.

# Cost and Investment Overview (JDS 2)

Category	Amount
<b>TOTAL COST</b>	\$190 million (without city offices)
<b><u>SOURCES OF CAPITAL</u></b>	
<b>Equity &amp; Tax Credits</b>	\$32 million
<b>Debt</b>	\$96 million
<b>TIF</b>	\$21 million
<b>Parking Utility</b>	\$40 million
<b>Bike Center</b>	\$1 million

**Modifications will be necessary. Resolution before Council provides guidance for change**

- JDS indicated pro forma did not work
- Parking Utility cannot support assumed contribution
- Negotiations may alter program

# Potential Taxpayer Impact

## *Variables*

- *Assessed value of project* – dependent on net operating income of hotel and rents associated with residential, retail and office development.
- *Future growth rates* – TIF projections assume falling tax rates due to 6% citywide value growth and 4% overall levy growth. Levy growth has remained relatively consistent in the past 20-, 10-, and 5-year periods; assessed values grew 3.5% on average since 2004 and have had 0% average growth since 2009.
- *Discount rate* – Have used 7% to reflect average long-term city borrowing rates since late 1980s; recent rates have been between 1.5% and 3%.
- *Average value home* – Growth has averaged 5% annually since 1992; 3.4% since 2004; and -0.5% since 2009.

# Potential Taxpayer Impact

## *Outcomes*

- JDS 2 proposal not fully developed:
  - estimated assessed value is uncertain
  - Net operating income and final amount of contributed private debt and equity are yet to be determined.
- Without that information, it is difficult to determine full impact on taxpayers.
- Generally, if the TIF investment equals the amount of taxes expected to be generated by the value of the project, then no short-term cost to taxpayers; taxpayers benefit from increased property values after TID is closed.
- If the TIF investment exceeds the project value, then there will be some cost. That cost will be recovered over a span of time beyond the “life” of a TID.
- Development also has “spin-off” effects that raise property values, as is evidenced by the over 9% average growth in property values in TID 25 since inception.



# Possible Judge Doyle Square TIF Assumptions

- Use JDS 1 factors (hotel plus limited development on Block 105)
  - \$17 million TIF request
  - \$14 million additional TIF to replace assumed Parking Utility contribution
  - \$79 million of property value
  - Excludes contributed value of Blocks 88 and 105 (estimated at \$10 million); TIF investment increases if developer required to pay for the value.

# Judge Doyle Square TIF Assumptions

## Model Projections – Blight / Value

Blight-Based TID (27 years); Discount Rate = 4%

	Additional Tax Base in New TID beyond Blocks 88 & 105					
Project Value	\$0	\$50 million	\$100 million	\$150 million	\$250 million	\$350 million
\$40 million	\$10.9 M	\$14.2 M	\$17.4 M	\$20.7 M	\$27.2 M	\$33.7 M
\$50 million	\$13.6 M	\$16.9 M	\$20.2 M	\$23.4 M	\$29.9 M	\$36.5 M
\$60 million	\$16.4 M	\$19.6 M	\$22.9 M	\$26.1 M	\$32.7 M	\$39.2 M
\$70 million	\$19.1 M	\$22.4 M	\$25.6 M	\$28.9 M	\$35.4 M	\$41.9 M
\$80 million	\$21.8 M	\$25.1 M	\$28.3 M	\$31.6 M	\$38.1 M	\$44.6 M
\$90 million	\$24.5 M	\$27.8 M	\$31.1 M	\$34.3 M	\$40.8 M	\$47.4 M
\$100 million	\$27.3 M	\$30.5 M	\$33.8 M	\$37.1 M	\$43.6 M	\$50.1 M

# Judge Doyle Square TIF Assumptions

## Model Projections – Mixed Use / Value

Mixed-Use TID (20 years); Discount Rate = 4%

Project Value	Additional Tax Base in New TID beyond Blocks 88 & 105					
	\$0	\$50 million	\$100 million	\$150 million	\$250 million	\$350 million
\$40 million	\$8.6 M	\$10.8 M	\$13.0 M	\$15.1 M	\$19.4 M	\$23.7 M
\$50 million	\$10.8 M	\$13.0 M	\$15.1 M	\$17.3 M	\$21.6 M	\$25.9 M
\$60 million	\$13.0 M	\$15.1 M	\$17.3 M	\$19.4 M	\$23.8 M	\$28.1 M
\$70 million	\$15.1 M	\$17.3 M	\$19.4 M	\$21.6 M	\$25.9 M	\$30.2 M
\$80 million	\$17.3 M	\$19.4 M	\$21.6 M	\$23.8 M	\$28.1 M	\$32.4 M
\$90 million	\$19.4 M	\$21.6 M	\$23.8 M	\$25.9 M	\$30.2 M	\$34.5 M
\$100 million	\$21.6 M	\$23.8 M	\$25.9 M	\$28.1 M	\$32.4 M	\$36.7 M

# Impact of Different Assumptions

## 27 year Single Project TID

Assumed Project Assessed Value at Completion		\$79,000,000		
	Variables used in TIF Runs			
Look-back Period for Averages	20 years	10 years	5 years	
Citywide Change in Property Value	6%	3.50%	0%	
Change in Property Tax Levies	4%	4%	4%	
Discount Rate	7%	4%	4%	
Change in Average Value Home	5%	3.50%	-0.50%	
Growth in Project Assessed Value	2%	2%	0%	
Increment Generated (NPV)	\$18 million	\$35 million	\$45 million	
Average Taxes on Average Value Home (TOAH) for Each Additional \$10 million of TIF Investment	\$11	\$8	\$7	
1st year TOAH	\$12	\$6	\$5	
27th year TOAH	\$10	\$10	\$10	
Average Additional Tax Rate	0.0023%	0.0018%	0.0033%	
1st year Tax Rate	0.0041%	0.0022%	0.0020%	
27th year Tax Rate	0.0011%	0.0017%	0.0050%	

# Options -- Close TID 25 / Open New TID

- Need blight study or 20 year TID
- TID 25 proceeds distributed.
- Lease agreements will have to be restructured to calculate increment as if TID 25 continued to exist.
- Unknown impact on room block and hotel operations provisions.
- Based on JDS 1 and 2 options, may need financial support beyond project-generated increment.
- Consider keeping TID 32 open longer to support project.
- Consider pay-as-you-go TID
- New TID could capture increment from Anchor Bank building redevelopment.
- Adds approximately 0.3% to levy limit in 2015.

# Options -- Keep TID 25 Open

- Avoids challenge / delay of establishing new TID (e.g., blight findings)
- *Possibly* requires indirect means of allocating balance to taxing jurisdictions (reviewing options)
- Maintains lease revenue structure and related room block and hotel operations provisions.
- Returns JDS property value to tax roll sooner.
- Lower risk TID structure
- Requires TID project plan amendment to address project cost deficiency (TID has been over-budget for several years; JRB approval required).

# Options for Allocating TID 25 Balance

- City purchases assets for school district.
- City makes loan to school district.
- City invests in a promissory note issued by the district.
- City makes an “early distribution” from TID 25 as part of project plan amendment to JRB.
- Close TID 25.

