

# **Dane County Housing Summit**

**November 19, 2020**



## **City of Middleton's Use of TIF for Incentivizing Affordable Workforce Housing:**

**Relevant Excerpts from the City's TIF Policy & Development Agreement  
with The Trota**



# Community Profile



- **Located in Dane County, adjacent to Madison (AAA), 7 miles west of the State Capitol**
- **Approximately 9.1 square miles**
- **2020 population estimate: 21,050**
- **2019 total equalized valuation: \$3,829,510,100**



# Strong Employment Base

**Middleton is a net contributor of regional jobs with 11,287 more people coming to Middleton to work than residents commuting to other areas.**

**Middleton is home to about 1,000 businesses and the headquarters for five of Dane County's largest employers:**

- **PPD** **1,750**
- **Electronic Theatre Controls** **954**
- **UW Medical Foundation** **650**
- **Springs Window Fashions** **550**
- **Spectrum Brands** **451**

**MIDDLETON EMPLOYMENT DISTRIBUTION AND NET JOB CONTRIBUTION**

YEAR	TOTAL EMPLOYED IN MIDDLETON	EMPLOYED IN MIDDLETON LIVES ELSEWHERE	EMPLOYED AND LIVES IN MIDDLETON	LIVES IN MIDDLETON EMPLOYED ELSEWHERE	TOTAL NET NEW JOBS IN MIDDLETON	NET REGIONAL JOB CONTRIBUTION BY MIDDLETON*
2018 (est.)	23,678	21,496	2,182	10,209	12,391	11,287
2010	16,075	15,409	1,666	7,793	8,459	8,616
2008	17,469	15,750	1,719	8,109	8,824	7,641
2006	16,788	15,015	1,773	7,233	8,006	7,782
2004	15,544	13,514	1,830	8,287	10,117	5,227

\*Net Job Contribution found by subtracting Total "Lives in Middleton Employed Elsewhere" from Total "Employed in Middleton Lives Elsewhere"



# Tax Increment Financing Districts

## Active TIF Districts

<b>TID</b>	<b>Creation Year</b>	<b>Expenditure Period</b>	<b>Legal Term</b>	<b>Current Base Value</b>	<b>2019 Total Value</b>	<b>Value Increment</b>
3	1993	2025	2030	\$59,669,200	\$638,136,000	\$578,466,800
5	2009	2031	2036	\$89,665,500	\$159,954,500	\$70,289,000

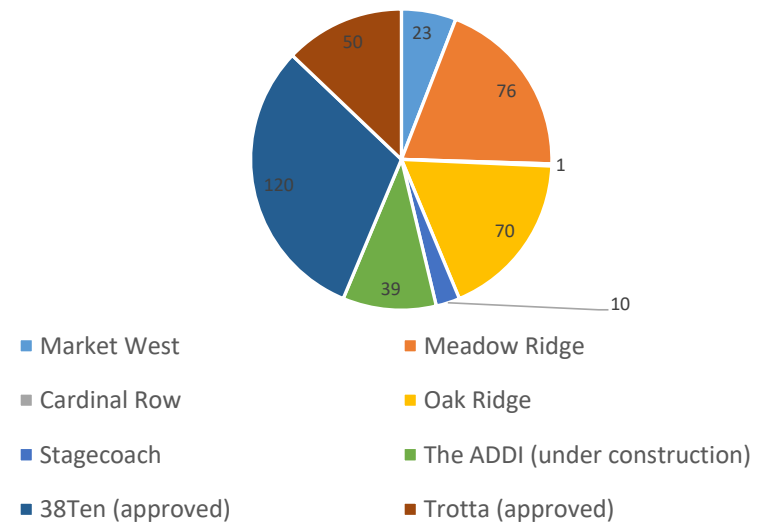
- **TID 3 has the second highest value increment of all active Wisconsin TIDs**
- **Since its creation, TID 3 subtractions have returned approximately \$344 million to the non-TID tax base**
- **The City has just completed an additional TID 3 subtraction in 2020 to take advantage of state law that allows for a levy limit adjustment for TID subtractions.**
- **Approved TID projects are projected to add over \$100 million of additional value over the next two years.**

# Workforce Housing Strategy



- **City set goal of adding 295 units of workforce housing in the next 3-5 years in 2015**
- **Chart at right represents 389 units**
- **Data shows new housing gap expanded to 420 units**

**Workforce Housing Developments Since 2015**



# Current Workforce Housing Developments



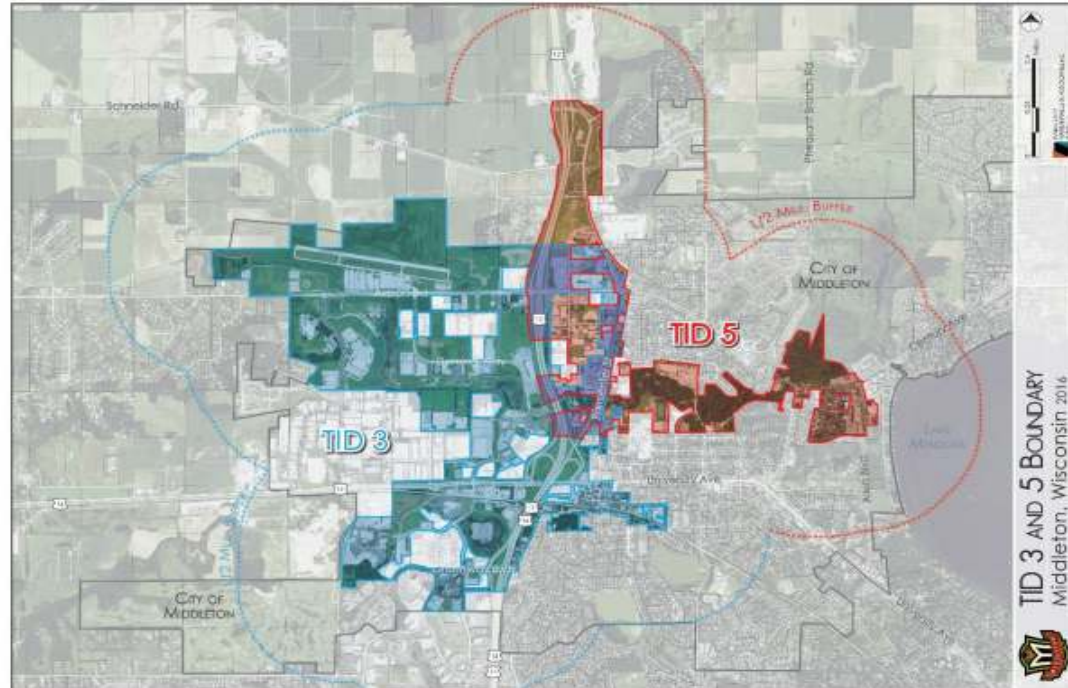
**The Trotta**



**The ADDI**



# City of Middleton, Wisconsin Tax Increment Financing (TIF) Policy



## **Introduction**

- **TIF is a financing tool where cities can use the increased property tax revenue from new development or redevelopment in an area (called a TIF District or TID) in order to pay for public infrastructure projects or economic development projects in the TID.**
- **TIF works by temporarily capturing a portion of property tax revenues collected in the TID to pay for eligible project costs as described in the TID project plan.**

## **Section 1: TIF Goals**

- 1. Promoting infill development and redevelopment that can achieve highest and best use of land.**
- 2. Incentivizing the development of a range of workforce housing options that can close the housing affordability gap.**
- 3. Funding public improvements that enhance livability, improve the City's infrastructure, enhance the urban greenway, improve multi-modal transportation options and access to employment areas, enrich the aesthetics of key areas and corridors within the City through the use of streetscaping and art amenities, and boost the stormwater management capabilities.**
- 4. Leveling the playing field for sites that are challenging to develop due to extremely poor soil quality 10. Implementing adopted City plans and policies, particularly the City's Comprehensive Plan.**



## **Section 2: TIF Policy Guidelines**

- **Middleton will give preference to TIF assistance for projects that are occurring on sites that are already developed (redevelopment projects) over greenfield development projects which typically have lower costs.**
- **Middleton will consider TIF requests only after determining that “but for” TIF, the project would not be financially viable.**

## **Section 3: TIF Project Types & Costs**

**The following project types may be TIF eligible if they meet the City’s TIF Goals (Section 1):**

- 1. Redevelopment projects, including but not limited to office, research & development, medical uses, light manufacturing, housing, and mixed-use projects**
- 2. Expansions and renovations that increase the valuation of the property**
- 3. Blight elimination**
- 4. Greenfield office, research & development, medical uses, light manufacturing, mixed-use, and affordable housing developments**

## **Project Evaluation Criteria**

**The following criteria will be used in evaluating requests for TIF assistance. Other factors may be considered as well on a project by project basis.**

- 1. Does the project conform to existing plans and zoning?**
- 2. How does the project increase and improve the City's tax base?**
- 3. What portion of the tax increment is applied to the project compared to total TIF district?**
- 4. What is the economic impact of the project including job creation and retention?**
- 5. Does the project support the City's affordable housing and sustainability goals?**

### **Calculating Capitalized Loss of Rents:**

**We calculate the difference between affordable/income-restricted annual rent income AND market rent income in present values and then multiply by the # of years of income restriction (usually 15 years).**

**This doesn't take into account that income-restricted rent levels (per the Wisconsin Standard Multi-family Tax Subsidy Project Estimated Maximum Income and Rent Limits for 2020):**

**<https://www.wheda.com/globalassets/documents/tax-credits/htc/2020/2020-mtsp.pdf>**

**are re-evaluated each year and also that market rents fluctuate each year but it provides a simplified way to do the calculations for the TIF incentive.**

## **DEVELOPMENT AGREEMENT BETWEEN THE CITY OF MIDDLETON AND IMPACT SEVEN**

**WHEREAS, in order to complete the Project, Developer will incur approximately \$429,800 in extraordinary costs for demolition, soil stabilization, and infrastructure, interest costs in the amount of 318,922 and rental opportunity cost of \$2,488,200 measured as the capitalized value of the difference between workforce housing rents to be charged and market rents all of which the City hereby determines are eligible project costs under Wis. Stats. § 66.1105 and in accordance with the Project Plan of the District; and**

**WHEREAS, the City finds that but for the City's provision of this financial assistance to the Developer, the Project would not occur.**

### **1. DEFINITIONS**

**"Assessed Value Base" means \$1,400,100 which represents the imputed assessed value of the Property as of January 1, 2020.**

**"Principal Amount" shall mean the amount of TIF Eligible Project Costs, exclusive of interest not to exceed \$2,918,000.**

**"Revenue Bond" means the Revenue Bond the City shall issue to Developer in accordance with Sections 3.1 – 3.5 of this Agreement.**

**"Special Redemption Fund" means the Special Redemption Fund to be established in accordance with Section 3.3(c) of this Agreement.**

## **2. DEVELOPER'S OBLIGATIONS.**

### **2.1 Covenant to Develop.**

- **Developer agrees and covenants to expend at least \$25,000,000 on development and construction costs for the Project.**
- **Construction shall commence no later than October, 31 2020 and is estimated to be substantially completed by September 30, 2021 (projected TIF payments in Exhibit E assume completion by December 31, 2021).**

### **2.2 Property to Remain Taxable.**

- **Developer acknowledges that the City, in providing the financial assistance promised in this Agreement, is relying upon an expectation of future generation of general property taxes to generate revenues for repayment of other project costs incurred in connection with TID No. 5.**
- **From the commencement of this Agreement until September 1, 2051, Developer shall not apply for property tax exemption and shall use the Property for purposes that maintain the taxable status of the Property for general property tax purposes.**
- **Nothing in this Agreement shall be construed to prohibit or restrict the Property from being put to charitable, educational or benevolent activities, provided that the Property remains subject to general property taxes.**

## **2.3 Workforce Housing Obligation**

### **a) Income and Rent Level.**

- **Developer, for a period of 15 years, shall rent or reserve for rent at least 50 units dedicated to workforce housing.**
- **Of those 50 units, no fewer than 30 units shall be 2 or 3 bedroom units of which no fewer than 5 units must be 3 bedroom units.**
- **Except as provided in subsection (c), rent levels shall not exceed those rent levels considered affordable for a household earning at or below 60% of the area median income, adjusted for family size, as determined by the most recent fiscal year data published by the Department of Housing and Urban Development (“HUD”)**
- **or Wisconsin Housing and Economic Development Authority (“WHEDA”) and also as adjusted for utilities in accordance with the most current publication of the *Dane County Housing Authority Utility Allowance Schedule* (“Adjusted Area Median Income”).**
- **The 15 year period established hereunder shall commence September 1, 2021.**

**b) Students.**

- **No unit reserved under this section may be occupied by a single tenant that is a full-time student or, if occupied by multiple tenants, by more than one tenant that is a full-time student.**
- **For purposes of this section, a “full-time student” is a student enrolled in a postsecondary education program with a class schedule of 12 or more semester or quarter hours, but does not include any person 24 years of age or older or a person meeting the criteria under 26 USC Sec 42(i)(3)(D) or 24 CFR 5.612.**

**c) Permissible Income and Rent Level Increase.**

**Provided a unit is initially rented to tenants in conformity with subsections (a) and (b) any such unit may continue to be occupied by a qualified tenant or tenants whose earnings have increased to at or below up to 80% of the Adjusted Area Median Income with rent levels increased accordingly.**

**d) Certification.**

- **Beginning January 31, 2022, no later than January 31 of each year thereafter for the duration of this Workforce Housing Obligation, Developer shall provide the City with completed owner and renter certifications in the forms provided in Exhibits “F” and “G” respectively, for the prior calendar year, demonstrating that Developer has complied with the obligations under this section.**

- **The City shall have the right to conduct an independent audit of Developer's records to verify compliance with Developer's Workforce Housing Obligation and Developer shall promptly provide any and all information reasonably necessary for the City to conduct such audit.**
- **The City shall be responsible for the cost of any independent audit unless the audit uncovers a violation of this Agreement not previously disclosed by Developer prior to the City's determination to conduct such audit in which instance the cost of the audit shall be paid by Developer.**

#### **2.4 Waiver of Impact Fees.**

- **Section 3.11(11)(b) of the City of Middleton Code of Ordinances provides an exemption to the payment of impact fees for development subject to a Workforce Housing Agreement.**
- **The City hereby agrees that this Agreement includes sufficient provisions, including Section 2.2, to constitute a Workforce Housing Agreement.**
- **Accordingly impact fees in the amount of \$ \_\_\_\_\_ (per 3 bedroom), \$ \_\_\_\_\_ (per 2 bedroom) or \$ \_\_\_\_\_ (per 1 bedroom) for each dwelling unit anticipated by this Agreement to be reserved for workforce housing pursuant to Section 2.3 are hereby waived**



### **3.1 Provision for Payment of Revenue Bond.**

- **In order to induce Developer to undertake the Project, the Developer has requested and the City has agreed to make available to the Developer a Revenue Bond for the Project in the Principal Amount not to exceed \$2,918,000, exclusive of interest for the purposes of implementing the TID No. 5 Project Plan and this Agreement.**
- **The Revenue Bonds shall be issued pursuant to Wis. Stats. § 66.1105, and shall be made available as provided in this Agreement and in the form of the Bond attached hereto as Exhibit “D.”**

### **3.4 Character of Bond.**

**The City’s payment obligations with respect to the Bond is subject to appropriation by the Common Council of Collected Tax Increments to make payments due on the Bond.**

**EXHIBIT C  
TO  
DEVELOPMENT AGREEMENT**

**Useful Lives**

	Year 1	Year 2	Year 3	Year 4
Depreciation	\$ 100,000	\$ -	\$ -	\$ 100,000
Amortization	\$ 100,000	\$ -	\$ -	\$ 100,000
Depletion	\$ 100,000	\$ 100,000	\$ -	\$ -
Total Depreciation, Amortization and Depletion	\$ 300,000	\$ 100,000	\$ -	\$ 100,000
Useful Life	3	3	3	3
Total Depreciation, Amortization and Depletion				\$ 300,000
	Total			\$ 300,000

**CITY OF MIDDLETON  
WORK FORCE HOUSING FISCAL IMPACT SUMMARY  
UPDATED FEBRUARY 2019**

**Workforce Housing Projects**

Project	Total Units	Impact Fee Exemptions*		TIF Incentives		Reduced Property Tax Revenue			Total Fiscal Impact: Impact Fee Exemption, TIF Incentives, & 15-Year Reduced Tax Revenue
		Low Cost Housing Units	Impact Fee Exemption (Total Approved)	TIF District	TIF Incentive for Low Cost Housing (Total Approved)	Estimated Reduction in Assessed Value**	Estimated Annual Reduction in Property Taxes***	15-Year Impact Reduced Tax Revenue	
Meadow Ridge	95	76	\$ 59,520	TID 5	\$ 1,305,000	\$ 3,458,000	\$ 72,030	\$ 1,080,452	\$ 2,444,972
Market West Apartments	240	23	\$ 16,430	TID 3	\$ 1,756,246	\$ 1,046,500	\$ 21,799	\$ 326,979	\$ 2,099,655
Cardinal Row Apartments	16	1	\$ 930	TID 5	\$ 173,520	\$ 45,500	\$ 948	\$ 14,216	\$ 188,666
Stagecoach Apartments	46	10	\$ 6,200	TID 5	\$ 739,800	\$ 455,000	\$ 8,140	\$ 122,099	\$ 868,099
<b>TOTAL</b>	<b>397</b>	<b>110</b>	<b>\$ 83,080</b>		<b>\$ 3,974,566</b>	<b>\$ 5,005,000</b>	<b>\$ 102,916</b>	<b>\$ 1,543,747</b>	<b>\$ 5,601,393</b>

**Assumptions**

\* Includes waivers of impact fees for Police, Fire, and EMS

\*\* Average reduction in assessed value of \$45,500 per reduced rent unit per City Assessor

\*\*\* 2018 Mill Rate (Total) of \$17.89 per \$1,000

**Senior Housing Projects**

Project	Total Units	Impact Fee Exemptions*		TIF Incentives		Reduced Property Tax Revenue			Total Fiscal Impact: Impact Fee Exemption, TIF Incentives, & 15-Year Reduced Tax Revenue
		Low Cost Housing Units	Impact Fee Exemption (Total Approved)	TIF District	TIF Incentive for Low Cost Housing (Total Approved)	Estimated Reduction in Assessed Value**	Estimated Annual Reduction in Property Taxes***	15-Year Impact Reduced Tax Revenue	
Heritage Middleton	135	47	\$ 37,200	TID 5	\$ 435,316	\$ 2,138,500	\$ 44,545	\$ 658,174	\$ 1,140,690
Dak Ridge Senior Apts.	83	70	\$ 53,320	TID 5	\$ 395,000	\$ 3,185,000	\$ 66,344	\$ 995,153	\$ 1,443,473
<b>TOTAL</b>	<b>218</b>	<b>117</b>	<b>\$ 90,520</b>		<b>\$ 830,316</b>	<b>\$ 5,323,500</b>	<b>\$ 110,889</b>	<b>\$ 1,663,328</b>	<b>\$ 2,584,164</b>

**Assumptions**

\* Includes waivers of impact fees for Police, Fire, and EMS

\*\* Average reduction in assessed value of \$45,500 per reduced rent unit per City Assessor

\*\*\* 2015 Mill Rate (Total) of \$20.83 per \$1,000

# Questions?

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