CITY OF STOUGHTON, 207 S FORREST ST, STOUGHTON, WISCONSIN

RESOLUTION OF THE COMMON COUNCIL		
Enter into an agreement with Ehlers for a proforma analysis related to 211 S. Water St.		
Committee Action:	Finance Committee recommended approval ____ on 09/12/2023	
Fiscal Impact:	$3,000 – Anticipate requesting reimbursement from developer	
File Number:	R-xxx-2023	**Date: 09/26/23**

The City of Stoughton, Wisconsin, Common Council does proclaim as follows:

RECITALS:

WHEREAS, the City received an application for Tax Incremental Financing ("TIF) on August 23, 2023 for renovations on the property at 211 S. Water Street in the amount of $514,250; and,

WHEREAS, staff has recommended contracting with Ehlers to provide a proforma review of the Tax Increment Financing application; and,

WHEREAS, Ehlers has provided the attached documentation regarding pricing for a proforma review; and,

WHEREAS, it is anticipated that the developer will be requested to reimburse the City of the cost of the proforma review;

NOW THEREFORE BE IT RESOLVED, that City staff is authorized to enter into a contract with Ehlers to perform a proforma analysis of the Tax Incremental Financing application for the property located at 211 S. Water St.

Council Action: ☐ **Adopted** ☐ **Failed** **Vote** _____

Mayoral Action: ☐ **Accept** ☐ **Veto**

_____

Mayor Tim Swadley Date

Council Action: _____ ☐ **Override** **Vote** _____

Dave Ehlinger

From: Dustin Oler <DOler@walkerdunlop.com>
Sent: Wednesday, August 23, 2023 5:08 PM
To: Dave Ehlinger
Cc: Justin Hanson; Tim Swadley
Subject: 211 S Water Street - TIF Application
Attachments: Stoughton TIF Policy and Application.pdf; The Shop Lofts Underwriting TIF MODEL.xlsx; 211 S Water Map.pptx

Follow Up Flag: Follow up
Flag Status: Flagged

CAUTION: This email originated from outside your organization. Exercise caution when opening attachments or clicking links, especially from unknown senders.

Dave,

Justin Hanson and I have been working on re-zoning 211 S Water Street for residential use. Our current plans call to retrofit the building into 18-multifamily units, while preserving the historic character of the building. We have moved past the planning commission with a positive recommendation to City Council and are on the docket for the September 12th meeting. As a part of our request we are applying for TIF financing and the creation of a new TID, and have been working with Mayor Swadley and Gary Becker on that front.

Attached please find our TIF Application, financial model, and site map. We should have complete exterior renderings in the coming weeks.

Please let me know if you need anything further at this time. We look forward to working with you on this request.

Thank you,

Dustin Oler
Associate Director | Capital Markets
Walker & Dunlop
7780 Elmwood Ave, Suite 205
Middleton, WI 53562
P: 608-831-6408 M: 608-347-4497
DOler@walkerdunlop.com

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City of Stoughton
Tax Incremental Financing Application

Please complete this application, along with such additional documentation and information you wish to supplement this application.

APPLICANT INFORMATION

Name: 211 S Water Street, LLC

Mailing Address: 4056 Lally Road, Oregon, WI 53575

Phone: 608-347-4497 Email: olerdc08@gmail.com

Legal Entity (check one): ____Individual(s) ____ Corporation X LLC ____ Partnership

____Other: _____

If not a Wisconsin corporation / partnership / LLC, state where organized: _____

Will a new entity be created for ownership (check one)? X Yes ____ No

Principals of existing or proposed corporation / partnership / LLC and extent of ownership interests (add more pages, if necessary):

Name	Address	Title	Interest
Dustin Oler	4056 Lally Road, Oregon, WI, 53575	Managing Member	31.25%
Justin Hanson	1743 Apollo Cir, Stoughton, WI 53589	Managing Member	31.25%
Jim Oler		Member	31.25%
Adam Polizzi		Member	6.25%

DEVELOPMENT TEAM

Developer: Dustin Oler and Justin Hanson Architect: One Design & Engineering

Surveyor: _____ Contractor: KSW

Other Members (add more pages, if necessary):

Describe the Applicant and Development Team's background, expertise, and experience in developing similar projects:

Dustin Oler - 14 years in commercial real estate experience, currently an Associate Director at Walker & Dunlop, one of the largest multifamily capital providers in the country. My day-to-day role is helping clients/developers with debt and equity to advance their commercial projects, with an expertise in structuring multifamily debt. Justin Hanson - Experienced local business owner, currently working as a commercial real estate lender for ONE Community Bank. KSW - Madison-based general contractor with decades of ground up and renovation experience in all asset classes, including multi-family.

CITY GOALS OF TAX INCREMENTAL FINANCING

The City has established goals for the use of tax incremental financing. Please indicate which goals you believe the proposed project advances. Select all that apply. *If checked as applicable, please describe in further detail how the goal will be achieved.*

☒ Whether the proposed tax increment district or project assists in the implementation of the City's Comprehensive Plan. *Please describe*: One of the goals of the Comprehensive Plan was to enhance and maintain the City's downtown area through rehabilitation/redevelopment while respecting the City's character, adhering to surrounding uses and improving overall appearance. This project does just that as we will look to maintain the historic appearance (brick), while bringing it up to "new" quality, while also providing affordable housing to residents and increasing traffic to local businesses.

☒ Whether the proposed tax increment district or project would eliminate blight, redevelop underused lands, or provide suitable sites for industrial, commercial or residential development. *Please describe*: The current building at 211 S Water Street is underutilized and blighted, yet is in a great location for residential development. With this redevelopment current residents will have access to brand new, yet affordable housing and downtown business will benefit from having 20-30 permanent residents within foot-steps of their doors. **We are requesting a designation for a blight elimination TID.**

☒ Whether the proposed tax increment district or project would increase employment opportunities. *Please describe:* Having access to new, affordable housing downtown increases the chances of new businesses coming to the area, helping backfill any vacancies in our downtown commercial space. It provides business owners a place to live close to their business and for more permanent residents to frequent them.

☒ Whether the proposed tax increment district or project would increase the property tax base. *Please describe:* The current assessed value of the building at 211 S Water Street is $276,000. The anticipated assessed value, if sufficient TIF funds are obtained to move forward with the development, would be close to $2,000,000, significantly increasing the tax revenue generated at the property.

☒ Whether the proposed tax increment district or project would increase the availability of a range of workforce housing options, including affordable housing. *Please describe:* The project, while having no affordability requirements, have projected rents that fall below 60% of the area's Average Median Income.

☒ Whether the proposed tax increment district or project would include sustainability measures that will promote a healthy environment, including measures to reduce climate change impacts. *Please describe* The location provides walkability to all downtown amenities for the tenants. In addition the project will include high efficiency appliances, energy efficient lighting and plumbing fixtures, and bike racks.

☒ Whether the proposed tax increment would help encourage unsubsidized private development. *Please describe* It is our belief that there is a lot of redevelopment opportunity in Stoughton, specifically in the downtown area. We believe this project could be the catalyst for future development or redevelopment and we would be interested in working with the city on that going forward.

PROJECT AND PROPERTY INFORMATION

Address and / or Parcel Number(s) of proposed development: 211 S Water Street, Stoughton, WI

Overall Project Summary and Objectives (include information describing the current and proposed zoning and uses of the site; description of end users; estimated jobs created; anticipated value created; consistency with TID project plan, City Comprehensive Plan, zoning ordinance, subdivision ordinance, and other City ordinances and policies as applicable; whether there has been or will be outreach to the public or neighborhood):

The overall goal of the project is to redevelop the existing industrial/warehouse building into 18 multifamily residences. We are working through the re-zoning process with a request for PD Zoning to allow for first floor residential use, without a commercial component. The exterior and main structural components of the building would remain, with the goal of preserving the brick exterior and many interior structural components, while bringing all components up to a level of new construction. The finished exterior will have a similar look to the adjacent brick buildings, while having a modern touch with new windows, doors, and sandblasted brick or another similar façade. The theme of the project would be industrial style finishes, with high ceilings, and exposed steel and brick to keep the historic feel intact. The unit mix, as currently configured, would include 1 studio loft unit, 4 micro one-bedroom units, 10 standard one-bedroom units, 2 two-bedroom units, and 1 three-bedroom unit. The total rentable square feet would be 11,582 with an average unit size of 643 square feet. The projected rents would all fall under 60% of the Area Median Income while increasing the assessed value by ~7x. The project is in line with TID project plans and the City Comprehensive Plan by enhancing the quality of a downtown building, while staying true to the historic look and feel, providing brand new yet affordable housing to the City's residents, and by bringing more permanent residents downtown to increase economic opportunities for future and current businesses. We have reached out to many of the local downtown businesses with all responding with positivity and excitement.

For a project that contains housing, describe whether the project would increase the availability of a range of workforce housing options, including affordable housing. If the project will not increase the availability of affordable housing, explain why it does not, and explain whether the project could include affordable housing if the City provides additional TIF support.

The project, as currently presented, would contain 18 units with a variety of one, two, and three bedroom floorplans that all have projected rents under 60% of the AMI.

Describe whether the project would include sustainability measures that will promote a healthy environment, including measures to reduce climate change impacts. The location provides walkability to all downtown amenities for the tenants. In addition the project will include high efficiency appliances, energy efficient lighting and plumbing fixtures, and bike racks. Residents will have an opportunity to work and live downtown thus reducing emissions from their previous commute to work and to the shops and restaurants they frequent.

Describe the request for tax increment financing.

We are requesting a TIF allocation in the amount of $1,161,000. We understand the City's preferred TIF method is a Pay-as-you-go allotment. We would look for 95% of the tax increment to be reimbursed to the project over the 27-year payback period. Based on our model this would provide over $61,000 in addition tax revenue to the City during the initial 27-year period, before recognizing the entire increment thereafter in perpetuity, which is estimated 7-8x the current real estate taxes paid. We understand the 95% increment going towards repayment is higher then the City is used to, however as you will see in our model, it is necessary to help close the gap as detailed below.

"BUT FOR" TEST

Why is the requested TIF funding needed? Explain why the project cannot proceed without such support? In addition, provide a complete description of the sources and uses of funding for the project. If land will be purchased for the project, please describe the purchase price, and supply any appraisal or other documentation available that provides information relating to the fair market value of the property. If you are paying more than fair market value for the property, please explain why.

Based on the TIF financial model that is being provided accompanying this Application, our total costs for the project are approximately $3,233,000, with a stabilized completion valuation of $2,320,000. This equates to a shortfall of $913,000 The $1,161,000 in requested TIF funds would provide for $514,250 in day 1 equity if monetized with a bank at current interest rates. This still leaves an almost $400,000 gap based on an estimated loan amount able to achieve at current rates. At this point we are willing to fill that shortfall with additional equity. The total amount of equity based on our model is $1,308,664 or 40.5% of total costs. The margins to complete the project are extremely thin with a estimated return on cost at 4.30%, We looked for other ways of closing the financing gap via a WEDC grant, however they require a business to operate in the buildings they provide grants for.

The current building is owned by Jim Oler, my father. We will be purchasing from him via a mix of cash and ownership in the new project. I have put together sale comparables for other similar buildings that have recently sold that support a market value of $560,000. Those have also been provided with this Application.

What economic benefits will result due to the development?

In addition to the tax increment created by the redevelopment there is huge economic benefits to the downtown businesses. The project will provide affordable housing for approximately 25 residents who will have walkable access to the bevy of local shops and restaurants downtown. Based on what we believe to be conservative projections, the economic implications of our tenants eating and shopping locally would bring nearly $150,000 annually in revenue to the downtown businesses.

What non-economic benefits will the development provide to the community?

The current building at 211 S Water Street isn't up to the standards of some of the neighboring uses. By reinvesting in the asset, we would turn a blighted site in the downtown into a Class-A multifamily asset, while keeping the historic character intact. The project will allow for new residents to join the community at a price point more can afford.

FILING REQUIREMENTS

You must provide all the following items with your signed application:

- **Reimbursement Agreement**: Provide a signed Reimbursement Agreement in the form approved by the City.
- **Site Map**: Provide a map that shows the location of the site and its immediate surroundings.
- **Project Renderings**: Provide preliminary architectural drawings, plans, and renderings for the project.
- **Analysis of Financial Need:** Each application must include financial analyses that demonstrate the need for TIF assistance, including project budgets, proformas describing sources and uses of funds, and revenue projections.
- **Project Timeline:** An outline of the timeline envisioned for the project to completion.

The City may require additional documentation, including but not limited to market studies, appraisals, and / or other documents.

AGREEMENT

By signing this application, Applicant agrees to the following:

- The information submitted is correct.
- I understand that the City reserves the right to approve or not approve this application, in the City's sole discretion.

Dustin Oler — Managing Member of 211 S Water Street, LLC

Applicant Printed Name — Applicant Title

Dustin Oler — 8/23/23

Applicant Signature — Date

City of Stoughton Policy
for the Creation of Tax Incremental Finance Districts
and the Approval of TIF Projects.

1. *Purpose*. This policy has been prepared to assist the City in determining whether to create a Tax Incremental Finance District, and in determining whether to approve the use of Tax Incremental Financing for particular projects. The authority to approve the use of Tax Incremental Financing is vested solely in the City Council. The City reserves the right to reject any and all projects, including projects that are eligible for the use of Tax Incremental Financing, for any reason or no reason. The City Council reserves the right to approve or disapprove any project as it deems appropriate.

2. *General Goals for the use of Tax Incremental Financing*. The City may consider whether a TIF District or a TIF project serves one or more of the following general goals when deciding whether to create a TIF District, or whether to provide TIF financing for a particular project:

   A. Eliminate blighting influences, redevelop underutilized lands, and provide suitable sites for industrial, commercial or residential development.
   B. Achieve or accelerate development on sites that would not be developed without the use of Tax Incremental Financing.
   C. Increase employment opportunities in the City.
   D. Increase the tax base for the City and other taxing jurisdictions.
   E. Assists implementation of the City's Comprehensive Plan.
   F. Provide workforce and affordable housing opportunities.
   G. Includes sustainability measures that will promote a healthy environment, including measures to reduce climate change impacts.
   H. Encourage unsubsidized private development in the City.

3. *TIF District Creation*.

   A. TIF Districts will be created in accordance with the procedures and standards in Wis. Stat. § 66.1105, and as such statute may be amended. (See Appendix A - Department of Revenue TIF Creation Checklist).
   B. The City Council may, in individual cases, expand the process for creating a TIF District in such manner as it deems appropriate.

4. *TIF Project Approval*. All TIF projects must be approved by the City Council, following review and report by the Finance Committee. The Finance Director shall provide a report to the Finance Committee and the City Council addressing

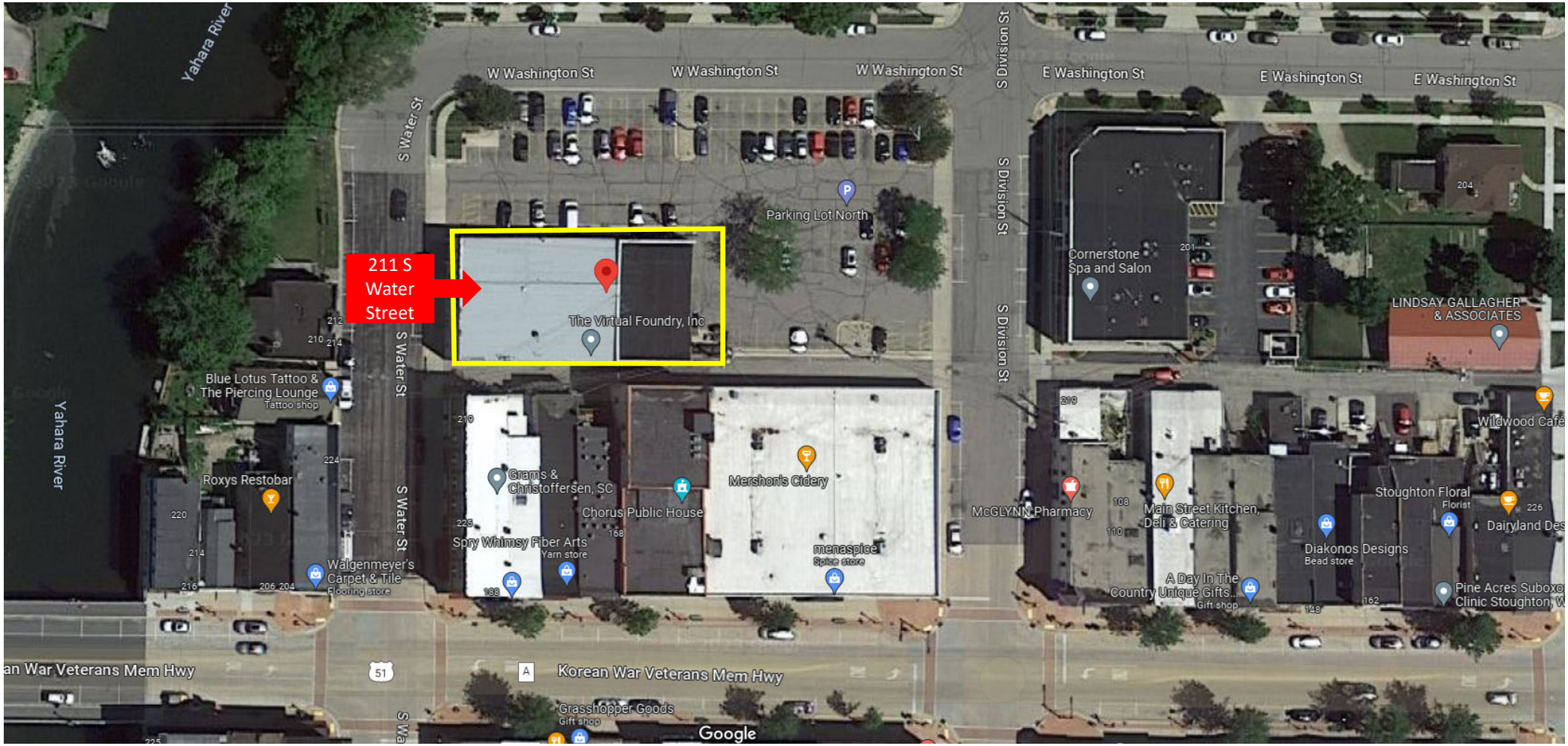
the following issues, which shall be considered by the Finance Committee and City Council before approving any TIF project:

A. Is the project authorized by the Project Plan for the TIF District?
B. Does the project serve one or more of the City's general goals for the use of TIF?
C. Is Tax Incremental Financing feasible, in that the TIF District will support the level of TIF investment?
D. Is the amount of Tax Increment Financing requested reasonably necessary to make the project financially viable?
E. Should a development agreement be required, and what terms should be included in the agreement?
F. Is more process (such as additional public hearings or a referendum) appropriate?
G. Such other factors as either the Finance Committee or the City Council deem appropriate.

5. *Permissive Referendum*. Before the City may issue bonds or otherwise borrow funds that will be payable over more than 10 years to fund a TIF project, the City Council must first adopt a resolution declaring its intent to borrow the funds. If a number of electors of the city equal to at least 15% of the of the votes cast for governor at the last general election in the city sign and file a petition conforming to the requirements of Wis. Stat. § 8.40 with the city clerk requesting submission of the resolution, the City may not issue bonds or borrow funds for financing the TIF project without calling a special election to submit the question of bonding or borrowing to the city electors for their approval.

6. *Negotiations*. City staff and the city attorney will negotiate development agreements within the parameters established by the City Council, and subject to final approval by the City Council.

7. *Suspension of Policy*. This policy shall be followed in all cases, except where the common council approves deviating from this policy by a vote of two-thirds of all members of the common council.


211 S Water Street
Yahara River
W Washington St
S Water St
S Division St
E Washington St
Parking Lot North
The Virtual Foundry, Inc
Cornerstone Spa and Salon
LINDSAY GALLAGHER & ASSOCIATES
Blue Lotus Tattoo & The Piercing Lounge
Tattoo shop
Roxys Restobar
Grams & Christoffersen, SC
Chorus Public House
Mershon's Cidery
Spry Whimsy Fiber Arts
Yarn store
menaspice
Spice store
Walgenmeyer's Carpet & Tile
Flooring store
McGLYNN Pharmacy
Main Street Kitchen, Deli & Catering
Stoughton Floral
Florist
Diakonos Designs
Bead store
A Day In The Country Unique Gifts...
Gift shop
Wildwood Café
Korean War Veterans Mem Hwy
Grasshopper Goods
Gift shop
Google

Water Street Lofts
Stoughton, WI

Number of Units:
18

	Budget			Proforma				
			Per Unit			Per Unit	% of EGI	
Gross Potential Rent	$241,200		$13,400	$241,200		$13,400	102.8%	
Vacancy	($12,060)		($670)	($12,060)		($670)	-5.1%	5%
Concessions	$0		$0	$0		$0	0.0%	0%
Bad Debt	$0		$0	$0		$0	0.0%	0%
Net Rental Income		**$229,140**	$12,730		**$229,140**	$12,730	97.7%	5%
Other Income:								
Resident Parking	$0		$0	$0		$0	0.0%	
Storage	$0		$0	$0		$0		
Pet	$3,510		$195	$3,510		$195	1.5%	
Pet Deposits (one time)	$900		$50	$900		$50	0.4%	
TIF Income	$0		$0	$0		$0		
Misc. Income	$1,000		$56	$1,000		$56	0.4%	
Total Other Income		**$5,410**	$301		**$5,410**	$301	2.3%	
Effective Gross Income		**$234,550**	$13,031		**$234,550**	$13,031	100.0%	
Expenses:		5.0%			5.0%			
Management Fee		**$11,728**	$652		**$11,728**	$652	5.0%	5%
Real Estate Taxes		**$34,345**	$1,908		**$34,345**	$1,908	14.6%	
Insurance		**$7,000**	$389		**$7,000**	$389	3.0%	
Advertising & Promotion	$1,000		$56	$1,000		$56	0.4%	
Office Expense	$500		$28	$500		$28	0.2%	
Legal & Audit	$1,000		$56	$1,000		$56	0.4%	
Misc. Admin.	$0		$0	$0		$0	0.0%	
Administration Expense		**$2,500**	$139		**$2,500**	$139	1.1%	
Commissions	$1,500		$83	$1,500		$83	0.6%	
Maintenance	$7,500		$417	$7,500		$417	3.2%	
Payroll		**$9,000**	$500		**$9,000**	$500	3.8%	
Gas/Electric - Vacant/common are	$1,500		$83	$1,500		$83	0.6%	
Cable & Internet	$0		$0	$0		$0	0.0%	
Utilities		**$1,500**	$83		**$1,500**	$83	0.6%	
Water & Sewer		**$5,465**	$304		**$5,465**	$304	2.3%	
Trash Removal	$2,500		$139	$2,500		$139	1.1%	
Pest Control	$0		$0	$0		$0	0.0%	
Bldg R&M	$10,000		$556	$10,000		$556	4.3%	
Painting/Decorating	$2,000		$111	$2,000		$111	0.9%	
Cleaning/Turnover	$4,500		$250	$4,500		$250	1.9%	
Fire/Security	$500		$28	$500		$28	0.2%	
Garage/Parking	$0		$0	$0		$0	0.0%	
Elevator	$0		$0	$0		$0	0.0%	
Snow Removal	$1,000		$56	$1,000		$56	0.4%	
Landscaping/Grounds	$0		$0	$0		$0	0.0%	
Repairs & Maintenance		**$20,500**	$1,139		**$20,500**	$1,139	8.7%	
Total Operating Expenses		**$92,037**	$5,113		**$92,037**	$5,113	39.2%	
Cap Ex		**$3,600**	$200		**$3,600**	$200	1.5%	$200
Total Expenses		**$95,637**	$5,313		**$95,637**	$5,313	40.8%	
Net Operating Income		**$138,913**	$7,717		**$138,913**	$7,717	59.2%	
Total R&M and Payroll		$29,500	$1,639		$29,500	$1,639	12.6%	
Before Taxes & CapEx		$57,692	$3,205		$57,692	$3,205		

Loan Proforma

		Proforma Scenario			
NOI		$138,913	$7,717		
Debt Service		$115,424			
Cash Flow		$23,488			
DSCR		1.203			
Debt Yield		9.85%			
Cap Rate		6.00%	Per Unit	Value + TIF and Grant	
Valuation		$2,320,000	$129,000	$2,834,250	
Loan Amount		**$1,410,000**	$78,000		
LTV		60.8%			
LTC		43.6%			
Term		5			
Amortization		30			
SOFR		5.00%			
Spread		2.25%			
Interest Rate		7.25%			
Loan Constant		8.19%			
Annual Payment		$115,424	$74,000		
Ending Balance		$1,330,741			
SOURCES:					
Proposed Loan		$1,410,000			
TIF Funding		$514,250	15.9%		
Grant Funding		$0			
Equity:		$1,308,664	40.5%		
TOTAL SOURCES:		$3,232,914			
USES:					
Construction Costs		$3,232,914			
Closing Costs		$0			
TOTAL USES:		$3,232,914	$2,972,914	Developer Shortfall Equity	
				$398,664	$912,914 < Without TIF or Grant
Construction Costs:				$2,458,664	
Land:		$560,000	$31,111		
Hard Costs:		$2,199,750	$122,208		
Soft Costs:		$279,189	$15,511		
Developer Fee:	6.00%	$193,975	$10,776		
Total Costs:		$3,232,914	$179,606		
Equity:		$1,308,664			
Return on Costs:		4.30%			
Cash on Cash:		1.79%			

Taxes		
2022 Assessment:	$	249,600
2022 Taxes:	$	4,286
Mil Rate:		1.717256%
Est. Fair Market Value	$	257,082
Assessment Ratio		97.09%