CITY OF STOUGHTON
TAX INCREMENTAL FINANCING APPLICATION

Date: June 9, 2023

APPLICANT INFORMATION

Legal Name: STI Holdings, Inc.

Mailing Address: 416 S. Academy Street, Stoughton, WI 53589

Phone: 608-467-8760 Email: dst@stmarie-law.com

Legal Entity (check one): ____ Individual(s) __X__ Corporation ____ LLC

____ Partnership ____ Other: _____

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

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

Principals of existing or proposed corporation / partnership / LLC and extent of ownership interests:

Name	Address	Title	Interest
Bob Wahlin		Owner	

DEVELOPMENT TEAM

Developer: STI Holdings, Inc.

Engineer, Planner: MSA Professional Services, Inc.

Development Team expertise and experience in developing similar projects:

STI Holdings, Inc. has owned, managed, and constructed commercial property throughout Stoughton, WI, and in Evansville, WI, Brodhead, WI, and Waco, TX to support its growth and that of its subsidiary, Stoughton Trailers, LLC, a family-owned manufacturer of semi-trailers and intermodal container chassis. In addition, development partner, MSA Professional Services, Inc. has experience with a wide range of commercial and residential development design and construction across Dane County and Wisconsin, including Stoughton, Wisconsin and the company's project manager, Daniele Thompson, is a commercial real estate attorney with over 20 years' experience in the areas of commercial real estate and development.

Project Timeline	
Step	**Date**
Final Plan / Specification Preparation	Summer/Fall 2023
Bidding and Contracting	Fall 2023
Firm Financing Approval	

Construction / Rehabilitation	Fall/Winter 2023 through Fall/Winter 2024 (Phase 1)
Landscaping / Site Work	2024
Occupancy / Lease Up	Late 2024 (STI Headquarters)
Lot Sale and Development	2024 - 2031

Project Narrative:

STI Holding, Inc. ("STI") plans to develop a 182-acre mixed use development project located at the intersection of Hwy 51 and Cty. Hwy B in Stoughton, Wisconsin ("STI Site"). The STI Site will also serve as the new corporate headquarter site for Stoughton Trailers. Stoughton Trailers, a family-owned company, is the 5th largest semi-trailer manufacturer in North America and employs about 2,100 direct and indirect employees. Stoughton Trailers has been a vital part of the Stoughton community throughout its history. Stoughton Trailers and the Wahlin Foundation have donated over $5 million to support local non-profits that includes Stoughton Youth Center, youth sports teams and community events.

STI has a plan and vision for the property as a gateway to the Stoughton community, distinctive neighborhood, and regional destination. The hallmarks of this vision are Stoughton Trailers' corporate headquarters building and development of a large, multi-use community park that serves various ages and needs within our community.

STI plans to execute its vision in a phased approach. Phase 1 of the project will include the construction of Stoughton Trailers' headquarters and possibly some of the new residential uses, tentatively about 34 units in single-family and duplex formats. Subsequent phases will be the development of the remainder of the 182 acres including additional housing of various types, additional office and commercial sites along Hwy 51 and is currently planning on a large, central, multi-use community park. Pursuant to the City of Stoughton Code of Ordinances, STI is required to dedicate approximately 14 acres of parkland based on an assumption of 56 single family/duplex units and 521 multifamily units. The acreage of parkland STI is considering dedicating for active-use park space is more than double that amount. The community park will be City owned and operated, though STI looks forward to collaboration with the City.

STI is excited and optimistic about successfully achieving its vision, though a gap between costs and revenues is anticipated. The financial gap is primarily related to the topography of the site and surrounding area. This site was originally planned for development many years ago and has since been evaluated by multiple developers who have backed away because development was deemed cost prohibitive.

The primary challenge with the STI Site is related to stormwater. Water from more than 100 acres of contiguous lands flow to it, but it is not well-drained, so water accumulates on the site. This has led to the formation of wetlands. When water does run off the STI Site, that water flows to other water bodies without an outlet (Virgin Lake, Paradise Pond). The stormwater management techniques necessary to protect downstream residents, including large infiltration basins and all infrastructure associated with those basins, require about 40 acres (22%) of the STI Site (compared to the more typical 10-15%). This is in addition to and separate from the roughly 6 acres (3.3%) of the site that is wetland and unusable space around those wetlands. The difference in acreage for stormwater management as compared to "normal" is at least 13

acres of land. If usable for, say, single family housing, that land could be worth $5M-$7M in lot sales revenue. Further, we expect to be required to import new soils that optimize infiltration in those large basins, at an estimated cost of $2.3M for 150,000 cubic yards of material.

A second, related challenge is the limited change in elevation across the site. Except for the southeast corner of the site, the total variation in elevation is about 10 feet. Offsite stormwater from the west enters the site just 6 feet higher than the elevation at which it drains out to the south, about one-half mile away. The site grading design must contain a high volume of stormwater and prevent flooding, both within this development or downstream. The grading design process has revealed a need for as much as 450,000 cubic yards of fill. After accounting for the volume and cost of new infiltration soils, there is still a need for as much as 300,000 cubic yards of other fill, at an estimated cost of $3.6M.

A third challenge, also related to topography, is the need for a sewer lift station to serve most of this development and other lands west of USH 51, at an estimated cost of $750,000.

A fourth challenge is the proposed park size. Our preliminary residential unit count estimate is 577 units, resulting in requirement for just over 14 acres of park space. The approximate park space presently proposed is about 35 acres, or more than double the amount required by City ordinance. That additional park space is desired to host a community park that is a regional attraction for City residents and visitors. But the additional 21 acres is a cost to the development in the loss of land sale revenue that might otherwise contribute to the costs of infrastructure. If that land could be sold for commercial use it could bring in about $4.8M in revenue.

A fifth challenge is related to rising interest rates. Standard loan rates for a project of this type over the past several years had been approximately 4-5% and today the rates have increased to about 8%. This increase will have a significant impact on the development – a 2% increase in borrowing results in an increase of about $5.5M in interest costs over the life of the project.

In addition to the costs to develop infrastructure for the entire neighborhood, STI proposes enhancements to the new headquarters building to enhance its long-term energy performance and environmental impact. STI requests that the balance of TID revenue generated by the headquarters, beyond that dedicated to the land development process, be used to support sustainability features that cannot cover their own costs through energy savings within a reasonable period.

Estimate Costs and Revenues

A summary of estimated costs and revenues for development of the site follows. In short, we estimate costs of $32.7M, revenue of $18.6M, and an upfront project gap of $14.1M.

ESTIMATED COSTS		
Land	$	7,217,210
Preliminary Planning and Legal	$	90,000
STI Development Staffing	$	250,000
Property Taxes until all lots sold	$	500,000
Infrastructure Design and Construction*	$	21,540,000
Surety	$	291,000

Park Improvement Fees	$	1,599,819
Gas/Electric	$	710,000
City Admin, Appraisals, Legal, Fees	$	350,000
Title/Transfer/Recording Fees	$	150,000
Total	**$**	**32,698,029**
ESTIMATE REVENUES		
Land Sales	$	18,236,847
DOT Land Purchase for ROW Expansion	$	364,000
Total	**$**	**18,600,847**
GAP	**$**	**14,097,182**

**The Infrastructure design and construction estimate includes all costs for imported fill*

Financing

This is a Mixed-Use TIF request in the amount of $14.1 million. It is our understanding that the City prefers developer financing. STI is currently estimating an investment of $7.3M in equity and a need for $16.7M in bank loans, to be paid off by a combination of land sales and anticipated TIF revenue over a period of 20 years. Our current projection is a borrowing rate of 8% on loans with 15-20 year terms, with total interest costs of $13.9M.

Based on our projections of when lot development will occur (beginning in 2024, first taxable values assessed in 2025), TID increment revenue and payments to the developer would commence in 2027 with a payment of $122,000 and would retire the remaining debt in 2044. Our projections assume about 80% of the TID increment will be allocated to the STI site, reserving the remaining 20% of the increment for other uses. That repayment schedule can be adjusted to use more or less of the available increment each year, with a corresponding impact on the cost of borrowing and total funding assistance needed.

STI would like the City to consider the feasibility of municipal bonding for the project gap, to be paid off with TIF revenues. The City will almost certainly have access to better rates than a private corporation and could preserve more of the TID increment for uses other than bank interest, such as additional projects and/or earlier retirement of the TID.

Need for TIF Support

But for TIF, the development of the STI Site is not economically feasible based on the exorbitant amount of unusable acreage. STI Holdings, Inc. requires TIF to bridge an estimated $14.1M gap excluding interest costs between the anticipated costs and anticipated revenues. This gap is due to multiple factors, including the following:

1. The significantly high percentage of the site (22%) reserved for stormwater.
2. Significant investment in park space. STI Holdings, Inc., is willing to dedicate land in excess of the City ordinance, for the benefit of the community.
3. The need for a significant amount of imported fill, including specific qualities for the stormwater infiltration basins.
4. The need for a wastewater lift station serving this site and lands to the west.
5. Rising interest rates.

Consistency with the City's TIF Policy

The City's TIF policy, updated in 2022, established a set of "General Goals for the use of Tax Increment Financing". The seven goals are listed here with commentary about the consistency of the proposed STI Site TID.

A. *Eliminate blighting influences, redevelop underutilized lands, and provide suitable sites for industrial, commercial or residential development.*
   The STI Site is located with good highway visibility and access and designed for a mix of commercial and residential uses.

B. *Achieve or accelerate development on sites that would not be developed without the use of Tax Incremental Financing.*
   The costs to develop the STI site and prepare for additional west side development are projected to exceed revenues by over $14M. Without TIF support this land will not be developed.

C. *Increase employment opportunities in the City.*
   The STI site will include commercial uses and employment opportunities, including the global headquarters for Stoughton Trailers and at least another 23 acres of commercial land. Further, the site will provide housing to attract residents and workforce, a critical need to enable job growth.

D. *Increase the tax base for the City and other taxing jurisdictions.*
   STI Site is projected to add approximately $131M in new tax base (2022 values).

E. *Assists implementation of the City's Comprehensive Plan.*
   The proposed mix of commercial uses and residential uses is consistent with the "Planned Neighborhood and Planned Mixed Use" designations in the City's 2017 Comprehensive Plan. The City is currently amending the plan to ensure compatibility with the current understanding of the site's wetland and drainage limitations.

F. *Provide affordable housing opportunities.*
   The proposed mix of housing types will help meet a variety of housing needs in the City. At the City's discretion, and separate from this request, TIF funding could specifically support the development of income-qualified housing to improve the availability of housing affordable to the local workforce.

G. *Encourage unsubsidized private development in the City.*
   The proposed TID will increase demand for local products and services normally desired by residential and commercial customers therefore supporting and encouraging growth of local businesses. Further, the park has the potential to attract out-of-town visitors for single day or overnight stays. But for this assistance, these lands are unlikely to develop.

Jobs Created

The STI site offers 30 acres in land intended for business development, plus another 8 acres of land with the flexibility for commercial use. The 30 acres includes a 7-acre site for the Stoughton Trailers Headquarters, with estimated on-site employment of up to 200 people at full build-out. The other sites are not specified for specific users at this time, however STI seeks active uses with on-site employment.

Value Created

We estimate total new taxable value of about $139M at build-out of the STI Project. STI is interested in exploring options in which the City is able to utilize lower interest rates to finance some or all of this unique project.

Parcel Number	Acres	Type of Development	Residential Units	Estimated Developed Land Value	Estimated Construction Year	Estimated Improvement Value	Estimated Total Increment
1	7.00	STI Headquarters	0	$1,610,000	2025	$5,500,000	$7,107,550
2	3.58	Mixed Use (assuming residential only)	105	$1,050,000	2027	$13,650,000	$14,698,747
3	4.39	Mixed Use (assuming commercial only)	0	$1,009,698	2029	$4,389,991	$5,398,152
4	11.61	General Business	0	$2,670,302	2031	$11,610,009	$14,276,248
5	10.01	General Business	0	$2,302,302	2028	$10,010,009	$12,308,808
6	1.82	General Business	0	$418,599	2030	$1,819,995	$2,237,957
7	20.81	Residential - MF	400	$4,000,000	2027	$52,000,000	$55,992,717
8	1.35	Residential - MF	16	$160,000	2026	$2,080,000	$2,239,528
9	0.85	Duplex Residential	2	$150,000	2026	$600,000	$749,703
10	0.85	Duplex Residential	2	$150,000	2026	$600,000	$749,703
11	0.35	SF Residential	1	$130,000	2025	$350,000	$479,879
12	0.35	SF Residential	1	$130,000	2025	$350,000	$479,879
13	0.35	SF Residential	1	$130,000	2026	$350,000	$479,879
14	0.35	SF Residential	1	$130,000	2026	$350,000	$479,879
15	0.35	SF Residential	1	$130,000	2026	$350,000	$479,879
16	0.35	SF Residential	1	$130,000	2026	$350,000	$479,879
17	0.35	SF Residential	1	$130,000	2027	$350,000	$479,879
18	0.35	SF Residential	1	$130,000	2027	$350,000	$479,879
19	0.35	SF Residential	1	$130,000	2027	$350,000	$479,879
20	0.35	SF Residential	1	$130,000	2027	$350,000	$479,879
21	0.35	SF Residential	1	$130,000	2028	$350,000	$479,879
22	0.35	SF Residential	1	$130,000	2028	$350,000	$479,879
23	0.35	SF Residential	1	$130,000	2028	$350,000	$479,879
24	0.35	SF Residential	1	$130,000	2028	$350,000	$479,879
25	0.34	SF Residential	1	$130,000	2027	$350,000	$479,881
26	0.34	SF Residential	1	$130,000	2027	$350,000	$479,881
27	0.34	SF Residential	1	$130,000	2027	$350,000	$479,881
28	0.34	SF Residential	1	$130,000	2028	$350,000	$479,881
29	0.34	SF Residential	1	$130,000	2028	$350,000	$479,881
30	0.34	SF Residential	1	$130,000	2028	$350,000	$479,881
31	0.34	SF Residential	1	$130,000	2029	$350,000	$479,881
32	0.34	SF Residential	1	$130,000	2029	$350,000	$479,881
33	0.34	SF Residential	1	$130,000	2029	$350,000	$479,881
34	0.34	SF Residential	1	$130,000	2029	$350,000	$479,881
35	0.34	SF Residential	1	$130,000	2029	$350,000	$479,881

36	0.34	SF Residential	1	$130,000	2030	$350,000	$479,881
37	0.34	SF Residential	1	$130,000	2030	$350,000	$479,881
38	0.34	SF Residential	1	$130,000	2030	$350,000	$479,881
39	0.34	SF Residential	1	$130,000	2030	$350,000	$479,881
40	0.34	SF Residential	1	$130,000	2030	$350,000	$479,881
41	0.34	SF Residential	1	$130,000	2031	$350,000	$479,881
42	0.34	SF Residential	1	$130,000	2031	$350,000	$479,881
43	0.34	SF Residential	1	$130,000	2031	$350,000	$479,881
44	0.34	SF Residential	1	$130,000	2031	$350,000	$479,881
45	0.34	SF Residential	1	$130,000	2031	$350,000	$479,881
46	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
47	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
48	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
49	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
50	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
51	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
52	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
53	0.38	Duplex Residential	2	$150,000	2027	$600,000	$749,867
Park	30	Community Park	0		2026	$0	-$10,500
Total			**576**	**$19,270,901**		**$119,310,005**	**$138,543,345**

Site Map and Project Rendering: See attached Development Plan

Market Analysis: Regarding the market feasibility of the residential components of the STI Site, there is ample evidence of demand for housing of various types. Ownership housing prices have been rising quickly in response to inadequate supply. Numerous housing studies completed in Dane County in the past few years describe a lingering shortage of inventory after construction mostly stopped during the Great Recession. Multifamily rental housing also continues to be in high demand because of shifting market preferences and the low inventory and high prices in the ownership market. Vacancy rates in rental housing have risen from historic lows to healthier levels in recent years due to construction across the region, but continued construction is necessary to keep pace with population growth in the County. The STI Site offers a range of housing types in order to establish a robust, resilient neighborhood. An estimate of values for the planned units is provided in the preceding table. These values are derived from a review of sale prices and values in comparable development in the Stoughton area. The development team is confident in the stability of the residential values because the housing market is in a persistent state of inadequate supply due to a lack of construction during and after the Great Recession.

Regarding the market feasibility of the commercial components of the STI site, a review of available sites within the City that have good highway visibility and access revealed relatively few sites. The specific commercial users of the parcels along Hwy 51 are not yet known; the proposed zoning would allow for flexibility to respond to shifts in market demand over the next few years, and the development projections assume market absorption over several years, through 2030.

An estimate of property values is provided in the preceding table.

Appraisal: Not Applicable

TID Phasing Strategy: As described in the Project Narrative, Phase 1 would include the Stoughton Trailers headquarters and the infrastructure to serve it (roads, water, wastewater, stormwater). STI recognizes the complexity of the overall development and would like to allow appropriate time for deliberation on the entire site while proceeding more quickly with the various approvals necessary to construct the headquarters. We request consideration of a phasing strategy not only for construction but also for land division, zoning and TIF approvals. We propose and request evaluation of a two-stage TIF strategy, such that a TID is created or amended in 2023 to enable TIF support for Phase 1, and then another TID is created in 2024 that includes the entirety of the proposed STI development, with overlay of Phase 1. We would like to work with the City and its TIF consultant to evaluate TIF support feasibility for both the full project and Phase 1, with a goal of recommending a TIF strategy for Phase 1 as soon as possible so that we can proceed with any recommended TID creation or amendment effort.

AGREEMENT

By signing this application, Applicant agrees to the following:

- To STI's knowledge, the information submitted is correct.
- STI agrees to pay reasonable City costs involved in the legal and fiscal review of this project in accordance with the Cost Reimbursement Agreement and other agreements entered into between STI and the City.
- STI understands that the City reserves the right to approve or not approve this application, in the City's sole discretion.
- STI authorizes the City to check credit references and verify financial and other information.
- STI agrees to provide any additional information as may be requested by the City.

STI HOLDINGS, INC.

By: _____

Sue Vanderbilt
Chief Financial Officer
Stoughton Trailers, LLC