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DRAFT MEMORANDUM

TO: Donna Olson, Mayor of Stoughton
Laurie Sullivan, Director of Finance and Economic Development
Rodney Scheel, Director of Planning and Development

FROM: Mikaela Huot, Vice President/Consultant
Joseph Murray, Vice President/Client Representative

DATE: December 26, 2013

SUBJECT: Updated Preliminary Feasibility Analysis for Kettle West Development

The City of Stoughton has retained Springsted to review the information submitted by the developer for the proposed development of an area to be referred to as Kettle West. The developer has proposed the purchase of the site and subsequent new development in phases. Significant public improvements will be necessary for development of the site and the developer has requested public assistance to finance those improvements.

Based on available information, Springsted will be prepared to assist the City with financial review of the project by providing the following analyses:

- Revenue projection and cash flow analysis of the proposed project to determine financial feasibility and assess City's risk profile
- Review and analysis of the proposed public assistance request for the development project to determine necessity and appropriateness ("But-For" and Needs Analysis Determination Report)
- Assistance with negotiation of the development agreement, as necessary

The purpose of this memo is to provide a summary of the preliminary tax increment revenue projections based on the information provided by the developer. The underlying assumption includes the establishment of a Tax Incremental District to provide financing for certain eligible public improvement costs associated with the project. The estimates of incremental new value on the project site are based on the information provided by the developer using the additional tax increment assumptions outlined below.

Developer Request for Tax Increment Financing Assistance

It is our understanding that the developer has not formally submitted a request for TIF assistance but has provided the City with a listing of project costs (including on-site and off-site improvements) totaling approximately \$5.379M for the first phases of development (as opposed to \$12.5M for all phases of the development, as previously provided). The costs are primarily public improvement costs necessary to facilitate development of the project site. The following chart provides a summary of the total estimated project costs broken out by type. For purposes of our preliminary revenue projections and feasibility analysis, we are focusing on the Phase I public improvements which the City believes will benefit the City as a whole and not just the development. This amount is approximately \$4.6M and is shown in the table below.

Project Costs	Total Costs	Financed by City in 2014	Financed by City in 2015	Total Costs City Financed
On-Site Costs				
General/Misc	\$230,000	\$0	\$0	\$0
Stormwater Management	\$1,247,220	\$700,000	\$547,220	\$1,247,220
Engineering & Contingency	\$346,149	\$292,000	\$54,149	\$346,149
Site Utilities	\$434,001	\$0	\$0	\$0
Engineering & Contingency	\$110,395	\$0	\$0	\$0
Subtotal	\$2,367,765	\$992,000	\$601,369	\$1,593,369
Off Site Costs				
General/Misc	\$270,000	\$0	\$270,000	\$270,000
US Highway 51 Improvements	\$662,185	\$0	\$662,185	\$662,185
Engineering & Contingency	\$170,610	\$131,000	\$39,610	\$170,610
STH 138 Improvements	\$876,452	\$0	\$876,452	\$876,452
Engineering & Contingency	\$230,825	\$184,000	\$46,825	\$230,825
Jackson Street (West) Improvements	\$501,105	\$501,105		\$501,105
Engineering & Contingency	\$130,467	\$130,467		\$130,467
Jackson Street (East) Improvements	\$129,585	\$129,585		\$129,585
Engineering & Contingency	\$40,144	\$40,144		\$40,144
Total	\$3,011,373	\$1,116,301	\$1,895,072	\$3,011,373
Total	\$5,379,138	\$2,108,301	\$2,496,441	\$4,604,742

There are generally two ways in which assistance can be provided for most projects, either upfront or on a pay-as-you-go basis. With upfront financing, the City would finance a portion of the developer's initial project costs through the issuance of bonds or as an internal loan. Future tax increment would be collected by the City and used to pay debt service on the bonds or repayment of the internal loan. With pay-as-you-go financing, the developer would finance all project costs upfront and would be reimbursed over time for a portion of those costs as revenues are available.

Pay-as-you-go-financing is generally more acceptable than upfront financing for the City because it shifts the risk for repayment to the developer. If tax increment revenues are less than originally projected, the developer receives less and therefore bears the risk of not being reimbursed the full amount of their financing. With bonds, the City would still need to make debt service payments and would have to use other sources to fill any shortfall of tax increment revenues. With internal financing, the City risks not repaying itself in full if tax increment revenues are not sufficient. Typically in either case of upfront financing, there is a shortfall payment guarantee with the developer.

However, in some cases in which the project costs include public improvements the City may otherwise be intending or required to finance in accordance with general development plans of the City, tax increment revenues from a new District may provide a source of revenues available to finance those costs. It has been presented to us that the developer is requesting upfront assistance through the City's issuance of bonds to finance certain on-site and off-site public improvements. The City would issue bonds to finance the public improvements and rely upon future tax increment revenues to repay the debt. We recommend the City require some form of minimum valuation agreements and assessments for each development component to provide a greater guarantee of revenues to be received.

Tax Increment Analysis

In order to estimate the amount of tax increment revenues generated by the proposed development, certain assumptions were made based on the value of the project, construction schedule, and anticipated financing terms.

- Base value
 - \$0 for preliminary purposes
- Estimated valuation of the proposed projects (Phase 1):
 - \$18,607,401

Site Ref	Description	Value / SF	Site Area / # Units	Estimated Value	Construction Start Date
A	Retail Anchor	\$17	607,028	\$10,319,476	2014
D	Convenience Store	\$35	97,633	\$3,417,155	2015
E	Retail	\$30	69,300	\$2,079,000	2015
F	Retail	\$30	93,059	\$2,791,770	2015
Phase 1 Estimated Total				\$18,607,401	

- Creation Resolution approved before 9/30/14, allowing base value to be established as of 1/2/14
- 2012 equalized tax rate of 23.08, no change throughout term of TID
- \$0 value increment from personal property
- New value inflates 0% annually
- Mixed-Use TID, 20 year maximum term

Tax Increment Revenue Estimates

The developer's request for assistance has been based on the estimated public improvement costs as outlined previously. Using the developer's build-out assumptions for Phase I, our preliminary TIF projections estimate total tax increment generated from the project during the maximum term of the TIF District will be \$7,346,960. The

projected maximum available amount of tax increment revenues for financing of public improvement costs, therefore, is summarized below:

	Scenario 1
Annual Market Value Inflation	0%
Total Projected Tax Increment (Phase 1 Only)	\$7,346,960
Projected Present Value Amount (4% discount rate)	\$4,610,423

The objective of the District is to facilitate development of the project site and subsequent construction of a new mixed-use development with Phase 1 comprising primarily of retail and some office. The developer has indicated it will only be able to commit to development of Phase 1 which consists of approximately \$18.6M of assessed value. It would be the intention of the developer to construct additional phases at a later date. As a result, future phases have not been included in these projections. The developer has indicated a financial gap exists in Phase 1 due to the significant public improvement costs including utilities, stormwater, and streets/sidewalks.

General Obligation Bonds

Springsted made certain assumptions to structure the preliminary debt structures for financing of a portion of the on-site and off-site public improvement costs associated with the new development. Due to the timing of when the improvements would occur (a portion in 2014 when development of the private improvements would commence followed by the remainder of costs in 2015) we have assumed the City would finance the improvements in stages with two bond issuances. Further discussion regarding timing of when bond proceeds are needed and number of bond issues will continue as the project proceeds. Assumptions used to prepare the preliminary bond structures include the following:

- Total Project Cost Amount of \$4.6M
- 2014 Issue: \$2.1M
 - Dated date of April 1, 2014
 - Capitalized interest until revenues available (2016)
 - First interest payment October 1, 2014
- 2015 Issue: \$2.496M
 - Dated date of October 1, 2015
 - Capitalized Interest until revenues available (2017)
 - First interest payment October 1, 2016
- 2 bond scenarios
 - Scenario 1: Tax-Exempt
 - 2014 Bond issue
 - NIC (interest): 3.4% (25 basis point cushion)
 - 2015 Bond issue
 - NIC (interest): 4.0% (100 basis point cushion)
 - Approximate annual surplus approx. \$30,000/year

- Scenario 2: Taxable
 - 2014 Bond issue
 - NIC (interest): 4.1% (25 basis point cushion)
 - 2015 Bond issue
 - NIC (interest): 4.9% (100 basis point cushion)
 - Approximate annual deficit approx. \$(2,300)/year
- 20 year term of debt service

Additional Discussion Issues

- City's share of public improvement costs
 - Discussions with developer regarding on-site improvements
- Developer proforma
 - Verify rate of return (need for assistance)
- Other public improvement financing needs of the district
- Financing commitments
- Minimum valuation guarantees
- Timing of construction
- Tax increment revenues

Thank you for the opportunity to be of assistance to the City of Stoughton. Please let us know how we can best assist the City as this project proceeds. We would be happy to discuss following your review and are available at 651.223.3036 and mhuot@springsted.com (Mikaela) and 414.220.4257 and jmurray@springsted.com (Joe).

Proposed Kettle West Development: Phase 1 Public Improvement Costs of \$5.379M

City of Stoughton, Wisconsin

Tax Incremental Financing District

Scenario 1: Total Tax Increment Revenue Projections - \$18M In Incremental New Value (First 4 Users) with 0% Annual MV Inflation

		Annual	Annual	Cumulative	Cumulative		Total				Annual			
		Increased	Increased	Value of New	Value	Due to	Estimated		TID	2012	Increment	Land	Total	PV
Construct	Valuation	Value of New	Value of New	Buildings &	with	Personal	Taxable	Base	Value	Net Total	Revenue	Sale	Projected	Annual
Year	Year	Buildings	Improvements	Improvements	Inflation	Property	Value	Value *	Increment	Tax Rate	/1000	Proceeds	Revenues	TI Revenue **
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
		-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	23.080	-	-	-	-
2013	1/1/2013	-	-	-	-	-	-	-	-	23.080	-	-	-	-
2014	1/1/2014	2,000,000	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000	23.080	-	-	-	-
2015	1/1/2015	16,607,401	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	-	-	-	-
2016	1/1/2016	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	46,160	-	46,160	40,239
2017	1/1/2017	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	359,974
2018	1/1/2018	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	346,129
2019	1/1/2019	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	332,816
2020	1/1/2020	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	320,016
2021	1/1/2021	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	307,708
2022	1/1/2022	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	295,873
2023	1/1/2023	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	284,493
2024	1/1/2024	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	273,551
2025	1/1/2025	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	263,030
2026	1/1/2026	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	252,913
2027	1/1/2027	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	243,186
2028	1/1/2028	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	233,832
2029	1/1/2029	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	224,839
2030	1/1/2030	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	216,191
2031	1/1/2031	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	207,876
2032	1/1/2032	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	207,876
2033	1/1/2033	-	-	18,607,401	18,607,401	-	18,607,401	-	18,607,401	23.080	429,459	-	429,459	199,881
Totals:		\$ 18,607,401	\$ -								\$ 7,346,960	\$ -	\$ 7,346,960	\$ 4,610,423

* Base value assumed to \$0 for preliminary purposes - incremental value based on new buildings.