



Memorandum

TO: Common Council
FROM: Greg Keil, CDD *CK*
DATE: June 27, 2013
RE: Development Agreement Incentive Payout - Gilbert Development Company, LLC

This memo is a counterpart to the memo concerning the PJC Group, LLC development incentives included in the July 1, 2013 council packets, so please pardon the repetition of certain elements of the correspondence.

In 2007 the City of Menasha entered into a development agreement with the above-referenced entity and created Tax Incremental District #11 to facilitate site clearance and redevelopment of the former Gilbert Paper Mill site on Anhaip Street. The development agreement called for certain incentive payments to be made as related to the project within the area covered by the development agreement. We are now proposing to prepay the development agreement to address mounting interest costs associated with the incentive payment.

The development agreement with the Gilbert Development Company, LLC provides for an incentive to be paid in the amount shown below for the project:

- New Office Project \$280,000

This incentive payment is to be made from the tax increment generated within the project area. Incentive payments have been made for four years commencing in 2009 with a total payout as of 1/11/13 as shown:

- New Office Project \$182,022

The remaining incentive owed, plus accrued interest at 8.25% is as follows as of 1/11/13 (additional interest will accrue from 1/11/13 to the final payout date):

- New Office Project \$179,444

As can be seen from the foregoing, we have made some progress toward paying down the development incentive. This is due to the fact that there has been an increase of \$1.6 million in the value of the property, and a corresponding increase in the tax increment available to pay down the incentive owed. Nevertheless, interest on the remaining incentive owed is accruing interest at a rate of 8.25%.

We are proposing prepayment of the remaining incentive owed on the New Office Project (if prepaid on 8/1/13, the amount would be approximately \$187,719). This will require the city to borrow funds, however, at the current interest rate of 3.75%, our interest costs would be less than half of what we are now paying. Prepayment of the development incentive is permissible under the existing terms of the development agreement. The repayment of the debt imposed by the borrowing will be paid out of TID#11 increment, and will not impact the property tax levy. It is expected that the funds borrowed to prepay the incentive would be included in a larger debt refinancing being contemplated by the Finance

Department. The refinancing package will be presented to the Common Council sometime in the next few months.

Prepaying the development incentive will save approximately \$36,000 in interest expenses for the New Office Project and will enable us to recover the cost of borrowed funds via TIF increment in 5 vs. 6 years.

I urge the Common Council approve the prepayment of the development incentive to the Gilbert Development Company, LLC to reduce the amount of incentive payment that will ultimately need to be paid out of the TID #11 project fund.