



Office of the Comptroller

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Members of the Zoning, Neighborhoods & Development Committee  
200 East Wells Street, Room 205  
Milwaukee, WI 53202

RE: TID 27: 1574 W. National Avenue Project

Dear Committee Members:

The file before the Committee is a resolution amending the Project Plan for TID 27 and approving the Term Sheet between the City and Developer (an LCC to be formed by Hussein Govani). The Project is a 6,500 s.f. retail facility at 1574 W. National Avenue, located on the corner of South Cesar Chavez Drive and West National Avenue. The Project also includes on-site parking, site improvements and environmental remediation of two adjacent parcels for two potential subsequent project phases. Phase one, the 6,500 s.f. retail facility, is to be leased to an O'Reilly Auto Parts franchise.

Total costs of the Project are \$1.5 million. The City's participation in the Project is through a \$400,000 loan to Developer. The term of the loan would be for 17 years with an interest rate of 0%. The amortization of the loan is 20 years, with any remaining principal due in year 17. In addition to the \$400,000 City TID loan, the Project is supported by a \$900,000 New Markets Tax Credit loan from M&I Bank and a \$200,000 equity contribution from Developer.

**Is the proposed Project & Tax Incremental Financing District likely to recover its costs?**

TID 27 was created in 1995 and has established positive cash flows. The positive tax increments, should they continue as projected, will assist in the recovery of project costs. In addition, as the City assistance is structured as a loan, the recovery of project costs is also dependent on repayment of the \$400,000 TID loan. We have reviewed the Project's cash flows and the lease agreement with O'Reilly Auto Parts, and conclude that the Project should generate positive cash sufficient to support loan repayments over the 17 year loan term<sup>1</sup>. Based on the above projected loan repayments and tax increments, we concur with DCD's projections that the proposed TID is likely to recover all project costs by 2019, or year 24 of the 27 year maximum statutory life of a TID.

<sup>1</sup> The term of the loan will continue beyond the life of the TID, with loan repayments after the termination of the TID reverting to the City.

**Is the Proposed Level of City Assistance Required for Project Success?**

Initially, City assistance to the Project was structured as a \$200,000 grant and a \$200,000 loan with a 17 year term and 3% interest rate. With this structure, the internal rate of return (IRR) to Developer was 16.6%, with a ten year average return on equity (ROE) of 8%. Following discussions with DCD staff, a \$400,000 City loan with a 17 year term and 0% interest rate is being now proposed. The combined effects of the additional loan amount at no interest results in more reasonable rates of return - an estimated IRR of 13.7% and average ROE of 7.3%. Also, as structured as a loan, the City will recover the full \$400,000 in TID assistance to the project.


Finally, we note certain City protections included in term sheet, which includes a personal guaranty of the City TID loan by Developer and the disbursement of the City's loan into the Project after Developer's equity is put into the project. We have reviewed the loan commitment from M&I Bank, and confirmed that DCD has obtained a personal financial statement of Developer showing sufficient assets for the equity contribution and loan guaranty. The project budget has also been reviewed by construction consultant Concord Group, verifying that project costs are reasonable.

**Recommendation**

Since the City of Milwaukee is providing the loan to the developer, should the TID be retired prior to loan repayment, we recommend that any remaining loan repayments be made deposited and credited to the City General Fund. This is consistent with existing Common Council resolution requiring such disposition unless expressly directed otherwise by the Council.

Noting the above recommendation, the revised rate of return to Developer and the contractual protections afforded the City in the Term Sheet we have no objections to this file. Please contact me should you have questions.

Sincerely,



W. Martin Morics  
Comptroller

Cc Richard Marcoux, James Scherer