



Office of the Comptroller

October 5, 2005

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Members of the Zoning, Neighborhoods
& Development Committee
The Honorable, the Common Council
City of Milwaukee, City Hall, Room 205
Milwaukee, WI 53202

Re File 050725 - Development Agreement,
TID 61-Chase Commerce Center

Committee Members:

During the previous cycle, in Resolution 050593 the Common Council approved the creation of TID 61 – the Chase Commerce Center (CCC). File 050725 now under consideration would approve the terms of a Development and Contribution (grant) Agreement providing financial assistance to rehabilitate the CCC facility. Under this TID agreement, the City would provide a \$500,000 grant to the property owner, Industrial Properties LLC (“Developer”), to complete financing for a proposed \$7,500,000 rehabilitation of a 513,000 sq. ft. manufacturing building located at South Chase Avenue and West Oklahoma Avenue. The Developer would fund the necessary \$500,000 on behalf of the City. These funds would be repaid by the City of Milwaukee without interest by the tax increments generated through the year 2015 or until building occupancy reaches 80 percent, whichever is sooner. Bucyrus International, an established Milwaukee capital goods manufacturer, currently occupies about 17 percent of the facility under a current lease agreement. Bucyrus International would become the anchor tenant of the improved facility.

The Sources and Uses of the CCC rehabilitation project are as follows:

<u>SOURCES</u>	<u>USES</u>
Conventional 1 st Mortgage &/or RACM bond issue.....\$5.8 million	Property Acquisition.....\$4.8 million
MEDC Loan.....\$1.0 million	Site Improvements.....\$2.2 million
Developer Equity.....\$0.2 million	Brokers’ Fees, rent concessions, marketing 2005 operations shortfalls <u>\$0.5 million</u>
TID grant (Developer Financed). <u>\$0.5 million</u>	
Total Sources.....\$7.5 million	Total Uses.....\$7.5 million.

Is the Chase Commerce Center TID likely to be successful?

There are two elements of this question, namely, ‘Will the City’s TID obligation be satisfied?’, and ‘Will the project produce the desired manufacturing/office expansion and related job creation activity?’.

Will the City’s TID obligation be satisfied?

The proposed City grant is financed through a no interest loan from the Developer which expires within ten years should the TID tax increments be insufficient to fully repay the City obligation. Alternatively, should total occupancy reach or exceed 80 percent, the City obligation expires. In effect, with the Developer financing the City grant, the City is not providing any funds directly, but rather is enabling an avoidance of all property tax increases to the Developer for up to ten years. Also, since the City does not provide any up front cash, it incurs no completion risk related to the subject facility improvements. **Regardless of the actual economic activity generated, this City TID obligation will be satisfied on or before 2015.**

Will the project produce the desired manufacturing/office expansion and related job creation activity?

The intent of the TID is to induce the attraction of additional manufacturing and, to a lesser, extent office usage at the facility. With the aid of about \$180,000 in City of Milwaukee grants/loans to Bucyrus International approved earlier this year, Bucyrus is currently leasing about 17 percent of the CCC facility,



maintaining and training 80 employees there. Bucyrus is reportedly also spending about \$3.1 million to improve and equip the site. The current term of the Bucyrus lease is five years with two five year extension options. The attraction of other manufacturers as well as the expansion of the current Bucyrus operations at the facility are subject to the uncertainties of the economy and the quality of the Developer's marketing efforts. This project would provide strong momentum toward achieving the desired occupancy level of at least 80 percent over the next 2-4 years. It is unclear what the Developer's additional leasing efforts would mean in terms of further job creation.

Is the proposed City financial assistance required to allow the project to proceed?

The City apparently intervened in the Developer's decision on how to rehabilitate the facility, negotiating with the Developer to maintain a manufacturing focus for the facility and likewise maintain the Bucyrus, International presence there. The alternative would apparently have been a "big box" retail development. In consideration of maintaining this manufacturing use, the City would offer the Developer a maximum 10 year "freeze" on future property tax increases under this resolution. **Given the greater potential for additional family supporting jobs with a manufacturing use, it was appropriate for the DCD to propose a financial incentive to the Developer.**

The Developer is providing \$200,000 as an equity investment in addition to the \$500,000 it loans the City of Milwaukee. This constitutes just over nine percent of the required \$7.5 million financing. Based on an analysis of project cashflows over the first ten years of the project, the Developer-Owner would receive an average cash return of 12.1% for his \$200,000 equity investment. This excludes the amount the Developer would receive upon sale of the property. **When this sale value of the improved property is included in our investment analysis, the Developer's expected rate-of-return grows to 26%-32% per annum, depending on the actual sale value of the property¹. While this return is higher than what we would expect, the nature and limits of the City's participation argue for the support of the proposed financial terms.**

The DCD has also included a number of administrative safeguards in the term sheet accompanying File #050725. Included in the term sheet is a "due on sale" provision which terminates any City obligation to repay its loan upon sale of the facility by the Developer. Also included in the term sheet and related agreement with the Developer is a provision which, if occupancy ever exceeds 80%, the City loan is permanently extinguished regardless of future facility occupancy levels.

One suggestion is that the DCD define specific employment goals for this TID, record, monitor and report actual employment at the subject facility against these goals. With this suggestion our Office supports the proposed terms of the proposed Development and Contribution Agreement. Should you have any questions or comment, please contact me.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux
Joel Brennan
James Scherer
Emma Stamps

¹ Assumes the improved property is sold at the end of year 10. The 26%-32% is an annual before tax internal rate of return. Estimated after tax internal rate of return is 22%-28%.