



Office of the Comptroller  
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Comptroller

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

RE: Proposed TID 71 – Mitchell Street Project:  
Goldmann's Department Store

Dear Committee Members:

TID 71 – Mitchell Street Project – was created in 2007 to provide public improvements and residential assistance grants in the area along Mitchell Street from 5<sup>th</sup> to 16<sup>th</sup> Street. The project plan also called for a \$1.5 million Development Fund to provide “gap” financing loans and grants for “catalytic” commercial projects within the TID, subject to Common Council approval. The file before the Committee would approve a \$500,000 forgivable loan to Developer - DK USA Property Management LLC for the Goldmann's Department Store Project. The loan amount of \$500,000 is within the Project Plan amount of \$3.4 million originally approved by the Common Council in 2007.

The Project would restore the exterior of the Goldmann's Department Store to its original 1920's façade and renovate the interior into approximately 34,000 s.f. of retail and office space. City Sports, which currently is located at Midtown Center would operate a second location at the Goldmann's site as anchor tenant, occupying 10,000 of the 16,000 s.f. of second floor space. In addition, tenants have been secured for 16,000 of the 18,000 s.f. of first floor retail space. Many of these first floor tenants are shareholder partners in Developer. Total project costs are \$4.5 million, which would be supported by a \$2.6 million first mortgage loan, a \$1.4 million equity contribution by Developer, and a \$500,000 TID forgivable loan.

The \$500,000 TID forgivable loan would accrue interest at 5% per year and be repaid through the tax increments generated by the Goldman's project for up to 15 years. After the 15<sup>th</sup> years or upon sale of the project, if the loan balance is not fully repaid, the Developer agrees to pay any remaining balance of the loan if any. This loan will be secured as a second mortgage and is personally guaranteed by the shareholder's of the Developer in proportion to their ownership shares.

**Is the Project Likely to be Successful?**

The Department of City Development has prepared updated cash flows for TID 71. The Department projects that with the Goldman's project, TID 71 is expected to successfully close by year 24 – 2032. We have reviewed the cash flows and conclude that the Department's updated projection is reasonable. We also note that excluding the additional value associated with the Goldmann's project, the TID is projected to recover in 2035, the last year of this TID.

This indicates that: 1) the TID is marginally feasible without the Goldman’s project 2) the feasibility of the TID is improved by 3 years with the Goldmann’s Project included.

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

In assessing whether TID assistance is necessary for this project we examine whether the return to Developer is reasonable given the risks associated with the Project. In making this assessment we typically exclude sunk costs (developer costs already incurred) as these costs have little bearing on the decision to proceed with the Project. Excluding prior cash contributed to the Project (including the cost of purchasing the building), the internal rate of return to Developer is 19.3% and the average cash-on-cash return is 13.6%. These percentages are higher than DCD’s calculated rate of return (11.7% IRR and 8.5% average cash-on-cash), which are lower due to the inclusion of sunk costs as Developer’s equity.

**Comments and Conclusions**

We also note that reasonable assurances have been put in place to protect the City. First, the TID loan would be repaid through the added incremental value of the Project which is more stable and less sensitive to economic cycles than the Developer’s cash flows. Also, at our recommendation, repayment of the TID loan would be personally guarantied by the equity holders of the Developer, so each shareholder will have a personal stake in the TID loan repayment. Another protection for the City is the disbursement of the TID loan, which contingent upon Developer’s \$1.1 million equity contributions and Developer securing construction financing. Finally, should Developer secure New Market Tax Credits or other grants, the TID loan shall be reduced by 75% of grant amount received.

The expected developer return on its future investment in this Project (19+%) is on the high side of the expected return for this type of project. However, given the protections to the City included in the term sheet and the net positive impact the Project has on the feasibility of TID 71, we do not object to this TID loan to the Developer.

Sincerely,



W. Martin Morics  
Comptroller

Cc Richard Marcoux, Jim Scherer