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Office of the Comptroller

October 24, 2019

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

RE: File 191013, TID 102 – Schuster's Building

Dear Committee Members:

File 191013 would approve the creation of Tax Incremental District (TID) 102, Schuster's Building (the District), along with a corresponding project plan and term sheet. The Comptroller's office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD) and Assessor's Office staff. This analysis is based on the information provided.

The proposed District includes four properties, totaling 163,619 square feet, generally bounded by North Martin Luther King Drive, West Lloyd Street, Vel R Phillips Avenue, and West Garfield Avenue (the Property). The Property is located in the Bronzeville neighborhood, and is entirely located within the boundaries of the existing TID 59, Bronzeville. The District is being created to partially fund the redevelopment of the former Shuster's department store and Gimbel's warehouse, also commonly referred to as the Coakley Building, into approximately 131,000 square feet of office space, 40,000 square feet of early childhood education/fitness uses, 77 affordable apartment units, and 315 structured parking spaces (the Project). The Project is being developed by Royal Capital Group, LLC (the Developer).

Total estimated costs for the Project are $84,500,000. The proposed financing sources for the Project are shown in the table below.

Table 1 - Project Budget	
Commercial Loans	$ 39,000,000
Historic Tax Credits	16,600,000
Tax Incremental Financing	12,600,000
Equity	7,400,000
Low Income Housing Tax Credit	6,200,000
Deferred Developer Fee	2,700,000
TOTAL	$ 84,500,000

This file authorizes a $15,000,000 grant to the Developer to partially fund construction costs. Although the funding gap in the capital stack is only $12,600,000, the Developer needs to project debt service coverage on their loan of 120%. In order to achieve 120% loan coverage, it is projected that the grant will need to be higher than the loan amount. If the Developer is not able to project 120% loan coverage, they will not be able to secure a loan to finance the gap in the Project's capital stack.

The Developer will advance the $15,000,000. After substantial completion of the Project, the District will make annual payments to the Developer equal to the incremental taxes collected in the District, less an annual administration charge of $7,500, until the $15,000,000 plus 5.5% interest is repaid. However, the term sheet limits payments to the Developer to 25 years (2045 tax levy). If final Project costs are lower than the $84,500,000 budgeted, the City's obligation to the Developer will be reduced by 50% of the cost savings.

The "developer financing" approach of the proposed District shifts the risk of this TID not breaking even from the City to the Developer. As a developer-financed TID, the Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their $15,000,000 investment with interest.

Is This Project Likely to Succeed?

From a financial perspective, the proposed TID is viable given the City's contribution is limited to a 25-year tax incremental revenue stream from the District. The Developer assumes the risk of recovering their $15,000,000 contribution.

DCD's feasibility study, which uses a constant 2.785% property tax rate and 1% inflation rate over the life of the TID, forecasts the Developer will fully recover the $15,000,000, plus interest, after receipt of the 2045 levy (the final year of City's obligation to the Developer). However, if the assessed valuation does not meet current projections, if the tax rate does not remain constant, or if the forecasted 1% annual appreciation is not realized, the Developer may not recover the entire $15,000,000 plus interest. Nonetheless, because the Developer, not the City, assumes the repayment risk on their contribution to the District's costs, the economic feasibility of the proposed TID to the City is guaranteed.

Is the Proposed Level of City Financial Participation Required to Implement the Project?

This proposed TID allows the City to provide incentive to the Developer to construct a new mixed-use building while minimizing the City's involvement and risk. While these expenditures may have occurred with or without this proposed TID, the new construction on the Property should increase the City's tax base.

Conclusion

The proposed TID provides the remaining funding necessary for the Developer to construct a new building on underutilized land, while assuming the financial risk, and increasing the City's tax base.

Should you have any questions regarding this letter, please contact Joshua Benson at extension 2194.

Sincerely,

Martin Matson
Comptroller

CC: Dan Casanova, Lori Lutzka

MM/JB