

PROJECT PLAN

TAX INCREMENTAL DISTRICT NO. 64

CITY OF MILWAUKEE

(Falk Project)

Public Hearing Held: March 16, 2006

Redevelopment Authority Adopted :

Common Council Adopted:

Joint Review Board Approval:

I. DESCRIPTION OF PROJECT

A. Introduction

Section 66.1105(4)(d), Wis. Stats. Requires the "preparation and adoption of a project plan for each tax incremental district." This Project Plan is submitted in accordance with this statutory requirement.

B. District Boundaries & Compliance with Statutory Eligibility Criteria

Tax Incremental District No. 64, City of Milwaukee (the " District") consists of a single 51 acre site located at 3001 W. Canal St. (Tax Key No. 424-9998-110). The District is shown on Map 1, "Boundary and Existing Land Use," and described in Exhibit 6, "Boundary Description."

The District is presently zoned IH (Industrial Heavy). The 1.2 million s.f. manufacturing complex on the property is owned by Falk, a division of Rexnord Industries, LLC ("Falk"), which has been based in Milwaukee for over 100 years. Falk produces gear drives, shaft couplings and transmissions for heavy industrial uses. The company employs 585 at its Canal St. location, with average wages of \$24.06 per hour.

In May of 2005, The Falk Corporation was acquired by Rexnord Industries, Inc. ("Rexnord", n/k/a Rexnord Industries, LLC) another heavy manufacturer headquartered in the Milwaukee area. Effective December 31, 2005, The Falk Corporation was merged into Rexnord and has since operated as a division of Rexnord. Rexnord, which has been owned by the private equity investment company The Carlyle Group since 2002, makes gears, conveyors, couplings, chains, bearings and similar industrial components. The company's products are sold to the food processing, cement, forest products, mining, energy and aerospace industries. Rexnord runs 29 factories worldwide and employs approximately 5,680 people. Locally, Rexnord also has facilities in West Milwaukee, Cudahy, Grafton, and New Berlin.

Given the current zoning, the District satisfies the requirements of Wis. Stats. Sec 66.1105(4)(gm)(4)(a) as being "suitable for industrial sites within the meaning of section 66.1101, Wis. Stats, and has been zoned for industrial use."

C. Project Plan Goals and Objectives

Goals and objectives for the District are:

1. To upgrade the Falk facility, expanding its production capacity, increasing efficiency, and to increase employment opportunities.
2. To fund certain one-time expenses of the company in connection with the Menomonee Valley Shops redevelopment plan, and the extension of Canal Street through its property.
3. To increase the property tax base of the community.

D. Existing Land Uses and Conditions in the District

As discussed above, the District contains a 1.1 million s.f. heavy manufacturing plant, situated on 51 acres.

Due to the extension of Canal Street from 25th Street to Miller Park, Falk will incur significant modifications to its infrastructure, including:

- Demolition of the private vehicular bridge which spans the mainline railroad tracks north of its property. Certain segments of the bridge intersect with the new Canal Street bridges, and their cost of removal is part of the Canal Street project. However, removing the balance of the structure, which has no utility, is a cost to be borne by the company.
- Utility relocations necessitated by the Canal St. project include a water main, water pit, and a gas line relocation. In addition, the company is required to relocate its main entrance and associated guard shack because access to Falk will now be from a street originating from Canal Street from the west – rather than the bridge.
- Paving and façade improvements are also necessitated by the new entrance, including truck access from the west, and the need to rebuild and recover the company's west façade, demolish old unsightly buildings, and perform associated utility work.

Estimated costs for the above work are \$1.5 million, and are provided in additional detail in the Exhibit 2 to this Project Plan.

Simultaneously with implementing the projects described above, the company has decided to close its Capitol Drive facility in Wauwatosa, and relocate approximately 105 positions to the Canal Street site. In connection with this move, Falk anticipates spending an additional \$5 -6 million on moving expenses, plant floor upgrades, machinery and equipment, as well as HVAC, plumbing, and electric modifications necessitated by the move. Additional detail on these project costs is included in the Exhibit 3 to this Project Plan.

II. PROJECT PLAN PROPOSALS

A. The following is a description of the kind, number, and location of all proposed Public Works or Improvements within the District:

1. The City proposes to fund a grant to Falk for the above listed costs associated with site work and infrastructure necessitated by the Canal Street project. These funds, in the amount of \$1.5 million, will be advanced by the Developer and repaid, by the City, but only from future tax incremental revenue generated in the District. Payments will be reduced, proportionately, if employment at the Canal Street site declines below 520 full-time equivalent positions. The Term Sheet for the Project (Exhibit 4) provides that the life of the District shall not extend beyond 2020 (2020 levy for 2021 budget). All expenditures in the District will be made at 3001 W. Canal Street, Milwaukee, WI.

B. The following is an estimate of the project costs to be implemented as part of this Project Plan.

TASK	ESTIMATED COST
City grant to Redevelopment Authority for Contribution to Developer Costs	\$ 1,500,000
NET PROJECT CAPITAL COSTS	\$ 1,500,000
Estimated Interest Costs	0
TOTAL TID PROJECT COSTS	\$ 1,500,000

The Developer will advance the \$1,500,000 noted above. These funds, will be repaid, pursuant to a Monetary Obligation with the Developer, but only from incremental taxes generated annually in the District.

The costs included in this subsection, without limitation hereof because of enumeration, are claimed as eligible Project Costs as defined under Wis. Stats. Sec. 66.1105(2)(f) and may be incurred directly by the City, or by the Redevelopment Authority of the City pursuant to a grant or cooperation agreement with the City, pursuant to Wis. Stats. Sec.66.1105(2)(f)(1)(h).

C. Project financing and timetable for expenditures:

All expenditures are expected to be incurred in 2007.

As discussed above, the TID funding will be advanced by the Developer and amortized from future tax incremental revenue generated in the District.

D. List of Estimated Non-Project Costs:

Estimated costs of redeveloping the entire project are shown in Exhibit 3.

E. Proposed Method of Relocating any Persons to be Displaced:

No persons or businesses are to be displaced.

F. Statement Indicating How District Creation Promotes Orderly Development:

The Project Plan for the District anticipates upgrading the production efficiency and infrastructure for the Falk facility to accommodate the relocating of its Capitol Drive plant. The project will help preserve the employment originally at the Canal Street location and increase employment opportunities due to the move from Capitol Drive. The project, therefore, adds employment opportunities to the community as well as tax base.

G. Proposed changes of zoning ordinances, master plan, if any, map, building codes and city ordinances:

The zoning for the District is currently IH (Industrial Heavy). The District is required to be zoned for industrial use for the life of the District.

APPENDIX

List of Exhibits

Map 1: Map of Boundary and Existing Land Use

Map 2: Map of proposed improvements

Exhibit 1: Parcel listing and calculation of percent “suitable for industrial sites.”

Exhibit 2: Tax Increment District Project budget

Exhibit 3: List of Falk project costs

Exhibit 4: Term Sheet

Exhibit 5: Economic Feasibility Study

Exhibit 6: Metes and Bounds description of District boundary.

Exhibit 7: City Attorney’s opinion.

EXHIBIT 1

PARCEL LISTING AND PERCENT SUITABLE FOR INDUSTRIAL SITES.

Parcel	Key No.	Address	Site S.F.	Owner	Suitable for Industrial Sites
1	424-9998-110	3001 W. Canal St.	2,207,185	Falk, a division of Rexnord Industries LLC	2,207,185 S.F.
	Total / %				100 %

EXHIBIT 2

TAX INCREMENT DISTRICT PROJECT BUDGET

Bridge Demolition	\$250,000	Demo bid of \$450K, less avoided \$200k current repair est.
Foundry Sand	\$0	Sand accepted at Falk's request.
Water Pit	\$50,000	Falk 50%; per bid
Relocate Guard Shk	\$146,000	Per bid
Gas Line Relocation	\$39,000	Per bid
CP Rail Flagging	\$16,500	CP rail charges at \$550 / day
Site Prep	\$9,500	Demo flood wall at new entrance;
Paving	\$623,000	Per bid, repave west entrance area and connecting roadways..
Façade	\$358,000	Per bid, incl. demo and resurfacing + utility relo.

\$1,492,000 All items subject to review of actual costs.

EXHIBIT 3

TOTAL FALK CORP. COSTS

August 17, 2005

Falk / Rexnord

Costs Anticipated at Canal Street Location

Roof Replacement	\$ 63,300
Architectural Fees	1,200
Benefits	126,000
Capitol Drive Miscellaneous Equipment	28,040
Capitol Drive Rent	270,000
Contingency	123,100
Decking Lumber and Installation	15,000
Decommissioning	400,000
Department 260 Building Renovation	590,500
Dismantle, Disconnect, Reconnect Equipment	176,000
Fabrication Shop Renovation	15,000
Foundations for 2 Machining Centers	20,300
Foundry Equipment	67,300
Lead Check, CMM, and Recreation Buildings	126,600
Lost Productivity-Operators Helping with Move While Machine	125,000
Material Relocation - Rough, Work in Process, Finished Goods	140,000
MEP Shop (Electrical)	414,500
MEP Shop (HVAC, Plumbing)	272,800
Miscellaneous Fees, Survey Etc.	2,500
Miscellaneous	74,000
Move Equipment/Info/People	25,004
New Concrete Floor Topping Shop1+	141,400
New Docks and Associated Work	317,200
New Wall and Air Lock	15,000
Other Facility Costs 1 Contingency	293,500
Outside Service to Disconnect/Connect Equipment	83,400
Overhead Material Handling - Modify 8 Move, Install	439,300
Painting Shop 1+	33,300
Patchwork (Fill Pits, Etc.)	50,000
Phones, Computer, LAN	50,000
Project Team Payroll	161,000
Raised Roof	16,500
Relocate Foundry Equipment (Moving Dept 260)	65,000
Relocate Maintenance,/Tool Services	13,000
Relocate Patterns	39,400
Rig and Truck Machine Tools and Equipment	410,800
New Façade Cost	957,000
Upper Level Locker Room Refurbished	7,000
VJS General Conditions, Project Management, Safety,	6,000
VJS Proj #2 - Demolition of Cafeteria, Pattern Storage and	3,900
Wheelabrator Install	<u>99,900</u>
Total Costs	<u>\$6,278,700</u>

EXHIBIT 4

TERM SHEET FOR TID 64

Falk Corp. Canal Street Project

Project: Site and building improvements and renovations, per Budget attached hereto, of industrial facility at 3001 W. Canal Street, Milwaukee, WI

Tax Increment
District: Means Tax Incremental District No. 64, and the Project Plan therefore, created by adoption of File No. _____ on _____, 2006.

Corporation: The Falk Corporation

Funding: Corporation shall advance all funding for the Project, including the City Contribution, as set forth below.

City Contribution: City contribution shall consist of a limited and conditional Monetary obligation to repay Corporation an amount equal to TID 64 Project Costs, in the maximum amount of \$1,500,000. Payments are to be made annually but only in an amount equal to the tax incremental revenue actually received by the City from TID 64, less \$5000 for annual audit purposes. Tax incremental revenue will not be pledged to the payment of the Monetary Obligation and the Monetary Obligation shall not constitute a general obligation of the City, or count against its statutory debt limits.

City Contribution Earned: The City contribution shall be for Site and Building Improvements and Renovations as provided in the Budget. The City contribution shall be deemed earned upon approval, by the Commissioner of City Development, of invoices or customary AIA documentation for work performed for the Project.

Term of Payments: City payments on the Monetary Obligation will terminate at the time: a) the Monetary Obligation is fully paid; b) Upon payment of the tax incremental revenue obtained from the District from the 2020 tax levy for 2021 budget purposes; or, c) upon sale of the Project. Once terminated, payments may not be re-initiated.

Payment Reduction: In the event Corporation's employment at the Project location and at all other locations within the City of Milwaukee ("Falk City Employment") shall, on a combined basis, be less than 520 full-time equivalent positions for a period of six months within any given calendar year, unless caused in substantial part by damage or destruction to the Project, other event of force majeure, or economic event or condition beyond the reasonable control of Corporation, City's payment on the Monetary Obligation for that year will be reduced as follows: (a) City's payment for that year will be reduced to an amount equal to the tax incremental revenue actually received by City that year from TID No. 64

multiplied by a fraction, the numerator of which will be the actual Falk City Employment (full-time equivalent positions) that year and the denominator of which will be 520, and (b) following such payment, the balance of the Monetary Obligation will be reduced and calculated as if City's payment for that year were equal to the tax incremental revenue actually received by City that year from TID No. 64. Corporation shall submit to City copies of its UC-101A Quarterly Contribution / Wage Report at the same time it submits it to the Wisconsin Dept. of Workforce Development. Corporation shall submit such other information to evidence its employment as City may reasonably require.

Material

Disturbance: If the Project is not continuously used for manufacturing and office purposes, the Common Council may adopt a resolution terminating any future payments on the Monetary Obligation.

EBE: Corporation shall utilize its best efforts to have not less than 18% of the renovation work on the Project performed by Emerging Business Enterprises as defined in Chapter 360, Milwaukee Code of Ordinances.

General: This Term Sheet does not constitute an agreement with the Corporation. The terms set forth herein, and other provisions customary for a transaction of this sort, shall be incorporated in a Cooperation, Contribution, and Redevelopment Agreement for this tax incremental district.

EXHIBIT 5

ECONOMIC FEASIBILITY STUDY FOR: FALK CORP. PROJECT

Background:

The City of Milwaukee is proposing to offset certain costs incurred by the Falk Corp. in connection with the extension of W. Canal St. from N. 25th St. to Miller Park. These costs are listed in the Project Plan and total an estimated \$1.5 million. Simultaneous with the Canal Street project, Falk has decided to relocate its Capitol Dr. operation to its Canal Street site, at a cost of \$5 to 6 million. Falk currently employs 585 at Canal St. and the Capitol Dr. relocation would add another 105, once the move is completed by the end of 2006. Wages at Falk average \$24 / hr.

Through a Development and Contribution Agreement, funds will be advanced by Falk under a “pay-as-you-go” approach, and be repaid, by the City, but only from future tax incremental revenue generated by the project. To the extent employment at Canal Street declines below a certain threshold, the payment to Falk would be reduced proportionately.

Current Property Valuation:

The current valuation of the Falk facility is:

	Value	S.F.or Acres	Value / S.F. or Acre
Land	\$1,702,900	51 Acres	\$33,390 / Acre
Buildings	\$3,112,400	1,100,000 S.F.	\$2.82 / S.F.
Total	\$4,815,300		

This represents the Base Value of the Proposed District. This value has remained substantially unchanged for quite some time, and reflects values placed on similar, large manufacturing complexes in the area – e.g. Tower Automotive, Joy Global, and former Metso Minerals (TID 61). The facility, while adequately maintained, dates back to at least 1931 and, accordingly, carries a substantial functional obsolescence factor. The original Falk facility at this location broke ground in 1899.

Anticipated Future Value of the District & District Cash Flow:

As a “pay-as-you-go” District, Falk is accepting the risk that the District will generate sufficient incremental value to recapture its \$1.5 million cost through future incremental revenue.

Improvements planned by Falk do not translate into a dollar for dollar increase in property value, as has been seen for other industrial districts created by the City. Much of the expense planned by the company is in the form of soft costs, equipment (which is exempt), and general alterations. Of the \$5 to 6 million in expenses planned, we estimate that the value of the buildings is not likely to increase by more than \$1 million as a result of the company’s program.

On the other hand, the property, after being isolated in the Menomonee Valley for generations, is now gaining much improved accessibility via Canal Street, and finds itself adjacent to a state-of-the-art major league baseball stadium, and an even more state-of-the-art business park.

Sites in the Menomonee Valley Business Park (a.k.a. the “Shops”) are currently selling at \$110,000 per acre. Should the Falk site ultimately be assessed at this value, the overall value of its site would increase by \$3,800,000 (51 acres @ \$110,000 vs. current assessment).

Combined, the value of the Falk buildings and land would therefore increase by \$4.8 million, generating incremental revenue of \$115,000 annually – assuming the current tax rate and no escalation of property value or the tax rate. This revenue would amortize the \$1.5 million TID Project Cost over a 13 year period following completion, without interest. At the anticipated future tax rate of 2%, the payback period would lengthen to 15 – 16 years. The Term Sheet for the Project provides that the life of the District shall not extend beyond the 2020 levy for 2021 budget purposes.

Under these circumstances the District is feasible. However, the pace at which nearby land values change as a result of being adjacent to the Shops is difficult to predict and the pay-back period for the District could be lengthened as a result.

EXHIBIT 6
METES AND BOUNDS DESCRIPTION
OF DISTRICT

LANDS IN NE 1/4 SEC 36-7-21
COM 537.47' S OF NE COR SD 1/4 SEC-TH S 641.08'-TH SWLY ALG
CL OF MENOMONEE RIVER 1950.20'-TH N 1411.15'-TH NE-E & SELY
1929.39'-TH E 29.35' TO BEG & BRIDGE AIR & SUPPORT RIGHTS
EXC HI-WAY (PIERS & EASM'TS)

EXHIBIT 7

CITY ATTORNEY OPINION