

LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS

ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE

OCTOBER 27, 2009

Item 6, File #090687

File Number 090687 is a resolution authorizing additional funding for Tax Incremental District No. 48 (Park East) and approving the terms of a Development Agreement for the property located at 1141 North Old World Third Street (The Moderne).

Background

1. On March 5, 2002, the Common Council adopted File Number 011182, a resolution creating Tax Incremental District No. 48 (“TID 48”) and approving a project plan for the district. Subsequent Common Council actions relating to this TID include:
 - File No. 041514 (adopted May 3, 2005) - approved an amended and restated project plan for the district, expanded the district’s boundaries and increased the project’s budget from \$3.9 million to \$19,962,895.
 - File No. 071392 (adopted April 9, 2008) - authorized \$1,250,202 in additional project costs within TID 48 for purchase of right-of-way for Ogden and Market Street extensions and a riverwalk and public infrastructure project, and approved the terms of the related riverwalk development agreement.
 - File No. 081717 (adopted May 27, 2009) – approved an amendment to the riverwalk development agreement and increased the total project budget for TID 48 by \$29,232, bringing it to a total of \$21,242,278.
2. Milwaukee Moderne, LLC, a development firm managed by Rick Barrett, desires to develop The Moderne, a \$55.2 million mixed-use project to be located at 1141 North Old World Third Street (southwest corner of Juneau Avenue and Old World Third Street). The development site is located within the boundary of TID 48. The 30-story Moderne would include 14 condominium units, 203 apartments, 204 above-ground, structured parking spaces and 7,230 square feet of street-level retail space.
3. The term sheet for The Moderne indicates the project will receive funding from the following sources:
 - Approximately \$41.4 million from a HUD 221(d)4-enhanced “senior” loan funded by CAPMARK. The term of the loan is the construction period plus 40 years. The interest rate is likely to be in the range of 6-7%.
 - Approximately \$4.53 million in developer equity.
 - \$9.3 million in 2 loans from the City – a \$6 million “completion loan” (with the same interest rate as the HUD-backed loan) and a “mezzanine loan” of \$3.3 million (at an interest rate of 14-15%).
4. The term sheet calls for the 2 City loans for the project to be funded by TID 48. However, almost all of the TID’s existing \$21.2 million in expenditure authorization has already been

used. The remaining funding authorized for TID 48 is insufficient for the Moderne loans -- hence the need to authorize an increase in funding for the district.

Discussion

1. This resolution (Proposed Substitute A) increases the funding for TID 48 by \$11 million for the purposes of providing 2 loans to The Moderne (a \$6 million completion loan and a \$3.3 million mezzanine loan) and providing \$850,000 million for design and construction of a public park within TID 48 and another \$850,000 for the City's TID 48 administrative costs.
2. This resolution also approves the term sheet for The Moderne Development Agreement. The term sheet calls for the City to make the 2 loans to the developer through the Redevelopment Authority. The City will subordinate its calleteral position for the apartment, parking and retail components of the project to the lender providing the senior loan, but will have a first lien on the condominium component.
3. The update economic feasibility study for the project, prepared by S.B. Friedman & Company, indicates that the proposed Moderne project, along with other already-constructed development projects within TID 48 and inflation of other undeveloped parcels with the district, will generate sufficient tax incremental revenues for TID 48 to fully amortize the \$32.3 million in net bond proceeds by 2025, the 24th year of the TID (and within the statutory limit of 27 years for the life of a TID).
4. The resolution also directs the Commissioner of City Development to enter into the contracts and agreements necessary to carry out the improvements intended to be funded with the increase funding authorization. This would include the actual development agreement, loan agreements and ancillary loan documents (the term sheet indicates that the Redevelopment Authority will also be a party to these agreements).

Fiscal Impact

This resolution authorizes the expenditure of \$11 million (plus capitalized interest) for Tax Incremental District No. 48 (Park East), specifically for the purpose of providing 2 City/RACM loans for The Moderne project (totaling \$9.3 million), \$850,000 for a public park in TID 48 and \$850,000 for City TID administrative costs. It is anticipated that this funding will be recovered through repayment of the loans by the developer (both loans have a 4-year term plus a 2-year construction period) and through incremental tax revenues from the TID.

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