



Office of the Comptroller

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

RE: File #050724; Development Agreement
TID 60 Intermodal Passenger Terminal

Dear Committee Members:

At the September 20th Zoning, Neighborhoods and Development Committee meeting, File #050592 was approved, which created TID 60 without establishing funding or terms and conditions of funding. The file currently before the committee, File #050724, establishes the terms and conditions of funding as set forth in the Term Sheet for Development Agreement for TID 60. The approximate boundaries of TID 60 are Clybourn Avenue on the north, the rail line on the south, North 6th and 9th Streets on the west, and North 3rd and 4th Streets on the east. Under the proposed terms of the agreement, the City will grant \$6 million to Milwaukee Intermodal Partners, LLC (MIP) for the renovation and remodeling of the Amtrak station. Through a lease agreement with the State Department of Transportation (DOT), MIP will redevelop the station and lease the facility to commercial tenants. The \$6 million grant proposed for TID 60 will enhance the project to achieve City of Milwaukee design standards for the Intermodal station.

Initially, the DOT proposed a more limited renovation of the Amtrak station as budget constraints limited the scope and design of the renovation. The \$6 million grant allows for a more extensive renovation of the Amtrak facility, including an addition of a new three-story galleria facing St. Paul Avenue. The DCD anticipates that the redevelopment of the station will serve as a catalyst for the redevelopment of other properties located in the immediate vicinity. This much needed improvement will no doubt enhance the appearance of the terminal as well as its convenience and level of usage.

TID 60 has two primary objectives – the immediate renovation of the Amtrak station followed by the redevelopment of properties within the corridor bounded by the Post Office, Marquette Interchange and the Menomonee River. With respect to the first objective, the project would convert the Amtrak station into a combined train station and bus terminal with Greyhound Bus Lines as a tenant. In addition to the 10,000 square feet of space for Amtrak and Greyhound operations, the project will include 4,000 square feet of retail space and 27,300 square feet of office space on the station's 2nd and 3rd floors. With respect to the second objective of redeveloping other properties within the corridor, the current project plan provides no financing, but anticipates an extensive residential condominium development.

The proposed TID will provide \$6.6 million (including capitalized interest) of the total \$15.7 million project cost.. Project sources and uses are as follows:

Sources

Federal and State Transportation Funding	\$6,143,500
City Grant (TID 60)	6,000,000
Milwaukee Intermodal Partners	2,974,676
Capitalized Interest	<u>600,000</u>
Total Sources	\$15,718,176

Uses

Intermodal Station Renovation (hard costs)	\$12,615,720
Project Soft Costs	2,502,456
Capitalized Interest	<u>600,000</u>
Total Project Costs	\$15,718,176

Is the Project Likely to be Successful?

The incremental property value of the proposed improvements for the new Intermodal station will support a portion of TID costs. This is achieved through the lease arrangement between DOT and MIP which allows the station to be assessed and subject to property taxes. However, **the incremental revenue generated from the Intermodal station alone is far short of that required to recover project costs.** By 2010, an additional \$14.7 million in new development is needed for the district to be successful - three times the incremental value produced by the Intermodal station.

DCD cash flow projections from the Intermodal TID feasibility study show that **TID success depends upon a projected \$20 million in incremental value related to the future development of a 70 unit condo development at 420 West St. Paul Avenue.** This projected condo development represents over 80% of the entire district's projected incremental value. The proposed condominium development is anticipated to be a market supported development as there is no City financial assistance anticipated in the existing TID project plan for such development. As noted in the feasibility study, there is no developer identified for this property as there is a lease agreement with the existing owner through 2007 which will delay redevelopment of the site. Also, certain of the land uses surrounding this transportation corridor (post office, freeways, etc.) may cause a potential conflict with the projected condo development.

Even so, should this projected condo development not occur until 2015, the TID would still be able to payoff the City debt issued on its behalf. And while there are only a limited number of other developable parcels in the district, two of these parcels are currently owned by the DOT which plans to sell these parcels upon completion of the Marquette interchange, further increasing TID development potential. Also, prior condo development nearby lends support to a market driven development without further public subsidy.

In summary, development of the 420 West St. Paul Avenue site is crucial to the success of the TID. **Given this dependency, while similar development has occurred in this area, there is some material risk that the proposed TID will not be able to recover all of the above project costs.**

Is the Proposed Level of City Assistance Necessary & Essential to Project Success?

City design standards related to the façade of the renovated station are dictating the vast majority of the proposed TID costs, according to DCD staff. Hence, City TID expenditures are necessary for the project to proceed *consistent with City requirements*.

The MIP private developer contribution of \$2,974,676, generates an average cash-on-cash return to MIP of 19% per year over the 25 year lease term based on figures provided by DCD. This level of cash seems reasonable, especially given that MIP is leasing the property and does not retain any ownership interest in the property. Moreover, as stated, the vast majority of the City's proposed contribution is driven by the City's own design requirements.

Another issue deals with the "but for" question associated with creating a new TID. *State law requires that the desired real estate development and resulting property tax base expansion must not have occurred "but for" the TID expenditures.* The Economic Feasibility Study for TID 60 does not directly address this "but for" question, but cites three recent condominium developments¹ nearby to support the projected future condominium development within TID 60. However, it is unlikely that the prospect of TID 60 had any significant impact on these past condo developments. If the projected new condominium units would be built with or without the passenger station remodeling, then this TID would merely be reallocating those property taxes from general government purposes to pay for debt issued for the project. In such a case, the project would require an annual property tax levy and therefore not be self sustaining. Based on the limited information in the TID 60 feasibility study, it is unclear whether or not the Intermodal Passenger Terminal Project will in fact trigger sufficient real estate development to be self-sustaining.

Conclusions

The need for the proposed expansion and renovation for a new Intermodal Passenger Station is clear. Further, the thoughtful application of City design standards for the station create a structure which complements the high quality development taking place nearby. The leveraging of significant State and Federal funds and the resulting benefits of a renovated Amtrak station also support the creation of this TID. However, as this projected new condominium project is required to provide the vast majority of future property tax increments and given the lack of a private developer for the projected condominium development, the City must be willing to incur a degree of risk with this TID. Finally, it is unclear if the desired condo development would occur even if TID 60 were not created. If this were so, TID 60 would not truly be self-sustaining, requiring additional debt service property tax to pay for the project.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux,
Joel Brennan
James Scherer,
Emma Stamps

CDK/MJD/10-6-05

¹ Economic Feasibility Study Tax Increment District for Milwaukee Intermodal Passenger Station Project", pg 3, cites 413 N. 2nd Street, 418 N.3rd St. and 400 N. Broadway.