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July 16, 2020

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

RE: File 200378, TID 84 – West McKinley and West Juneau  
Amendment 1

Dear Committee Members:

File 200378 would approve Amendment 1 Tax Incremental District (TID) 84, West McKinley and West Juneau (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) staff. This analysis is based on the information provided.

The District was created in 2015 to provide a \$20,000,000 contribution to the Bucks Arena (now known as the Fiserv Forum). The District provided a \$12,000,000 grant to the public plaza adjacent to the Fiserv Forum and an \$8,000,000 developer-financed grant towards the new parking structure built to the north of the Fiserv Forum.

Amendment No. 1 would assist the redevelopment of portions of the former Milwaukee Journal Sentinel complex at 333 West State Street, 925 North Old World Third Street, 918 North Vel R. Phillips Avenue, and 330 West Kilbourn Avenue (the Property). The Property is split into three condominium units. JS1924 Holdings, LLC and JS1962 Holdings, LLC, subsidiaries of J. Jeffers & Co., LLC (the Developers) plan to redevelop two of the three condominium units. One of the buildings will be converted into 116 apartments and another building will be converted to 83 student housing units for the Milwaukee Area Technical College (the Project).

This file would provide a \$1,000,000 developer-financed cash grant to the Developers. The table on the following page shows a summary of project budget amendments and funding increases for the District.

TID 84 Project Budget Revisions		
File No.	Description	Amount
150383	Original Project Plan – authorized a \$12,000,000 grant for the public plaza adjacent to the new arena and an \$8,000,000 grant to the Milwaukee Bucks.	\$ 20,000,000
200378	Proposed Amendment #1 - would authorize an additional \$1,000,000 in developer grants for redevelopment of the former Milwaukee Journal Sentinel complex and \$75,000 in administration.	1,075,000
<b>Total Budget Including File No. 200378</b>		<b>\$ 21,075,000</b>

Total estimated costs for the Project are \$54,325,056. This file authorizes a \$1,000,000 grant to the Developers to fund project costs. The Developers will advance the \$1,000,000. After substantial completion of the Project, the District will make annual payments to the Developers equal to the incremental taxes collected on the tax parcels that constitute Property (using the assessment of the Property as of January 1, 2020 as the base value), less an annual administration charge of \$7,500. The District’s payments will terminate at the earlier of the repayment of \$1,000,000 plus 4.5% interest, or the payment derived from the 2029 levy payable in 2030. Incremental taxes collected on the remainder of the District will continue to pay the District’s outstanding costs.

The estimated financing sources for the Project are outlined in the below table.

TID 84 - Amendment 1			
Estimated Financing Sources			
	<u>Apartments</u>	<u>Student Housing</u>	<u>Total</u>
Commercial Loans	\$ 15,500,000	\$ 14,442,764	\$ 29,942,764
Historic Tax Credits	6,481,860	6,389,903	12,871,763
Tax Incremental Financing	200,000	800,000	1,000,000
Equity	3,751,791	4,682,510	8,434,301
Deferred Developer Fee	736,110	1,340,118	2,076,228
<b>Total</b>	<b>\$ 26,669,761</b>	<b>\$ 27,655,295</b>	<b>\$ 54,325,056</b>

In the event that the project costs are less than the amounts estimated in the Term Sheet, the monetary obligation to the Developers will be reduced by 50% of the cost savings.

The “developer financing” approach of the proposed Amendment shifts the risk from the City to the Developers. As a developer-financed Amendment, the Developers assume the risk that the District will generate sufficient incremental revenue to recapture their \$1,000,000 investment with interest.

**Is This Project Likely to Succeed?**

From a financial perspective, the proposed Amendment is viable given that the City’s contribution is limited to a 10-year tax incremental revenue stream from the District, specifically on the Property. The Developers assume the risk of recovering their \$1,000,000 contribution.

DCD’s feasibility study, which uses a constant 2.759% property tax rate and 1% inflation rate over the life of the District, forecasts the District will fully recover its total costs after receipt of the 2028 levy (year 14 of the District). This forecast includes a one-time decrease in value within the District of 25% in 2021 due to the future uncertainty related to COVID-19. Because the Developers, not the City, assumes the repayment risk on their contribution to the District’s costs, the economic feasibility of Amendment 1 to the District to the City is guaranteed.

**Sensitivity Analysis**

There is inherent risk in every projection of future results. One common way to alleviate this risk is to provide sensitivity analysis which forecasts the impact that different assumptions have on the projection. Below is a table which summarizes several scenarios which show the sensitivity of DCD’s projected incremental revenues within the District. It is important to note that DCD’s projected revenue includes a one-time 25% decrease in incremental value for the District in 2021.

<b>Sensitivity Analysis</b>	
Percentage of DCD Projected Revenue	District Payback Year
90%	2030
95%	2030
100% (Base Case)	2029
105%	2029
110%	2029

The above table represents the District’s projected payback for total costs. Since the Project in Amendment 1 will be financed by the Developers the City is not at risk of losing the \$1,000,000 contemplated in this file.

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

This proposed Amendment allows the City to provide incentive to the Developers to redevelop the Property while minimizing the City’s involvement and risk. While these expenditures may have occurred with or without this proposed Amendment, the redevelopment of the Property should increase the City’s tax base.

**Conclusion**

The proposed Amendment provides incentive for the Developers to redevelop two buildings into apartments and student housing, 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 2302.

Sincerely,



Aycha Sawa, CPA, CIA  
Comptroller

CC: Dan Casanova  
Lori Lutzka

AS/JB