



Office of the Comptroller

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March 30, 2006

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

RE: File 051461 TID 63 – Falk Corporation Canal  
Street Project

Committee Members:

File 051461 would approve the creation of TID 63 (Falk Project), the related Project Plan, the terms of the Development Agreement, and the terms of the Cooperation, Contribution and Redevelopment Agreement between the City, the Redevelopment Authority and Rexnord Industries, LLC, parent company of the Falk Corporation. We have reviewed the Project Plan, Feasibility Study and term sheet and are basing our analysis on this information as well as discussions with DCD staff.

The boundaries of the proposed TID 63 would be coterminous with the Falk Corporation's existing Canal Street facility. The Project Plan proposes \$1.5 million of private site improvements at the Falk facility including the relocation of the facility's entrance, façade improvements related to a new facility entrance, the demolition of the remaining segments of the vehicle bridge linking 32<sup>nd</sup> Street to the Falk site; and the relocation of water, sewer and gas utilities. **These Falk improvements supported by the TID are necessitated by the City's Canal Street extension project. All funding for these improvements will be advanced by the company.**

In addition to the \$1.5 million in TID supported facility improvements related to Canal Street construction, the Falk Corporation anticipates expending an additional \$6.3 million related to relocation from its current facility in Wauwatosa to its Canal Street site. The facility relocation will result in expanded production at the Canal Street facility, which manufactures gears, couplings and transmissions. Expenditures related to this plant consolidation involve the relocation of machinery and equipment, moving and decommissioning costs, electrical, plumbing and facility upgrades including roof replacement and HVAC upgrades.

**The relocation of Falk's Wauwatosa facility to the Valley has already added approximately 105 additional positions to the original 585 positions at its Canal Street facility. The average hourly wage at the Canal Street facility is now \$24.06 per hour. According to Falk personnel, thirty-three additional full time employees have been added since the relocation began for a total of 723 employees at the Canal Street site.**

The \$1.5 million of Falk facilities improvements related to the Canal Street extension project will be financed by Falk with reimbursement from taxes on the incremental property value of the Falk improvements for a period of up to 14 years. The interest rate charged on funds advanced by Falk is 0%. Also included in the term sheet is a "claw-back" provision on the number of positions employed citywide

by Falk. Should Falk's citywide employment fall below a baseline minimum during a six-month period in any year, this would result in a reduction in the City's annual payment to Falk. Unless the Falk job reduction is restored, subsequent City annual payments would continue at a reduced level.

In effect, the proposed District amounts to a limited term property tax abatement to the Falk Corporation. The "developer financing" approach of the proposed TID is appropriate as the proposed district provides Falk Corporation with the potential to recover its costs associated with the Canal Street extension project. As there is no interest applied to this Falk-developer financing, there is no need to consider GO bond financing. As a developer financed TID, Falk assumes the risk that the proposed district will generate sufficient incremental revenue to recapture the \$1.5 million. The following is a summary of the "uses" and "sources" of the Falk Corporation Canal Street project.

<u>Uses</u>	
Entrance Relocation & Paving	\$ 778,500
Façade Improvements	358,000
Bridge Demolition	250,000
Utility Relocation & Other	<u>105,500</u>
Canal Street Related Expenditures	\$1,492,000
Capital Drive Facility Relocation	6,278,700
Total Uses	<u>\$7,770,700</u>
 <u>Sources</u>	
Falk Corporation (TID Recoverable)	\$1,500,000
Falk Corporation (Other)	6,270,700
Total Sources	<u>\$7,770,700</u>

### **Is This Project Likely to Be Successful?**

From a financial perspective, it is clear that the proposed TID will be successful, given that repayment of the City's \$1.5 million loan from Falk is limited to a 14 year tax incremental revenue stream and its cost of borrowing is 0%. Falk, as the developer, assumes the risk of recovering the \$1.5 million of TID expenditures.

Another key strength of the proposed agreement with Falk is the well defined and limited boundary of the proposed TID 63. Currently, TID 53 (Menomonee Valley Business Park) surrounds the Falk facility and the proposed TID 63. The DCD is proposing a separate TID for the Falk Project to assure that only tax increments from the Falk Project support TID 63. This avoids tax base growth from the surrounding area to be allocated to the benefit of TID 63.

The feasibility study assumes the proposed District will generate \$115,000 annually in increment revenue, which is sufficient to recover the \$1.5 million monetary obligation within 13-14 years<sup>1</sup>. This may be optimistic because, according to the City assessor, for many manufacturing improvements no more than 50 percent of such improvements to real property result in increased assessed value. However, since Falk – not the City – assumes the repayment risk and receives no interest on its loan to the City, the economic feasibility of the proposed TID to the City of Milwaukee is guaranteed.

<sup>1</sup> Nearly all of this projected increment is owing to the Falk improvements associated with its consolidation of facilities in the Menomonee River Valley. Tax increments from "normal" growth in the base TID value are not likely to exceed a total of \$20,000-\$25,000 over the maximum 14 year life of TID 63.

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

The Canal Street extension will no doubt benefit Falk Corporation operations as it will other commercial and manufacturing activities in the Valley. But in making these improvements, the City has imposed an estimated \$1.5 million in additional reconstruction and construction costs on the Falk Corporation. The proposed TID would partially offset these costs. The proposed TID also leverages significant additional resources that address the functional obsolescence of the prior Falk Canal Street facility

Falk has made a major corporate relocation decision, consolidating its Wauwatosa and Valley facilities in the Menomonee River Valley, with a total expenditure of \$7.8 million. While these expenditures would likely have occurred with or without this proposed TID, Falk is committed to maintain a significantly larger employment level in the city of Milwaukee over the term of this TID than it had prior to the consolidation. In addition, as indicated above, Falk plans further hiring in its Valley location through 2007. But for this TID, the City would not have been able to formalize this significant Falk/Rexnord employment commitment.

It could also be argued that "but for" the potential for City payment of costs incurred by Falk related to the Canal Street extension, Rexnord Industries may have chosen one of its 28 other facilities to upgrade and consolidate production. In other words, the proposed TID may have been a factor to spur additional investment at the Valley facility.

### **Conclusion**

It is clear that the proposed TID #63 will be successful from the City of Milwaukee financial perspective. Moreover, the proposed TID addresses the mutual goals of expanding manufacturing and manufacturing employment in the city. While the Falk consolidation in the Valley is likely to have occurred with or without the proposed TID, the formal Falk employment commitment would not have been likely. Our Office is in support of the proposed District.

Should you have any questions regarding this letter, please contact me immediately.

Sincerely,



W. Martin Morics  
Comptroller

CDK/mjd/3-30-06