



Office of the Comptroller

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March 19, 2009

Alderman Willie L. Hines, Jr., President
Milwaukee Common Council
City of Milwaukee
City Hall, Room 205
Milwaukee, WI 53202

Dear Alderman Hines:

This letter is in response to your March 17th letter requesting comment regarding the MORE Ordinance - file #080218. This letter is intended to address issues surrounding one aspect of the proposed ordinance, namely the prevailing wage requirement. Operatively, the ordinance would extend prevailing wage requirements under State Statute, to private developer sponsored construction projects receiving \$1 million or more in City assistance. Currently the prevailing wage requirement only applies to public works projects.

It is the nature of private development projects that the developer acquires the maximum amount of private capital possible, leaving a shortfall or "gap" that cannot be filled by other private or public sources. In other words, without City funding, the project would not proceed. In as much as developers are approaching the City seeking to close an existing gap, the prevailing wage aspect of the proposed ordinance will likely increase the total project costs and therefore the gap.

For example, assume there is a \$50 million real estate development with a \$5 million financing gap. If project costs increase 10 percent due to prevailing wage requirements, project costs would now total \$55 million, resulting in a \$10 million gap requiring the City to finance the entire \$5 million increase. Thus while the project costs increased by 10 percent, from \$50 million to \$55 million, the City's share of project costs doubles, from \$5 million to \$10 million, as a result of prevailing wage. This type of leverage can result in even marginal increases in total project costs causing major increases in City taxpayer subsidy. The other alternative is that the costs added by the prevailing wage requirement, in effect, kills the project. In any event, the Common Council should be aware that a byproduct of this ordinance will be a larger requirement for City participation in City assisted private development projects.

The source of funding for these added project costs is the property tax levy. Increasing the project costs results in a longer payback for the Tax Incremental District, delaying the date when the City can receive these property tax dollars to fund other needed services. This is a policy choice. However, it should be clear that the cost of adding these additional expenditures is diminished future revenues for municipal services.

The prevailing wage provision of the proposed MORE Ordinance would further increase TID project costs and defer the date of successful TID completion. The impact of prevailing wage on development projects will likely vary depending on the type of work involved. Estimates reviewed by our office ranged from about an 8 percent cost increase for skilled carpentry work to as much as a 22 percent cost increase for interior build out work. A risk the City of Milwaukee faces is that regardless of the actual increase, developers with opportunities both within and beyond the City of Milwaukee will choose a non-City location rather than face the uncertain future cost imposed by the prevailing wage requirement.

Tax Incremental Districts have proven to be an extremely useful financial tool. In 2008 alone, the incremental value of all TIDs was approximately \$1.2 billion and have generated \$28.6 million of property tax levy in 2009. Under current policy, the City strives to minimize the City TID subsidy so that the project's new tax revenue can be returned to the tax rolls and generate revenue for City services as soon as possible. This is a policy choice and the Council may wish to forego general fund revenue in order to pay for additional costs incurred due to this ordinance.

In addition to the proposed ordinance, we are aware of proposals to set aside City funds following the closure of a TID for Housing Trust Fund purposes. There is currently also consideration of further modifications for the disposition of TID revenues to fill various City government and citizen needs including extending the life of a TID for one, two or more years to provide funds City street repair and reconstruction.

As there are several policy alternatives available and under consideration, it may be useful for the Council to evaluate these policies concurrently and to analyze the capacity the TIF's have to absorb the financial requirements of these policies. Our current policy of returning the TIF to the City's tax rolls adds no costs, while the Housing and Paving options have costs which can be computed and known. At a minimum, if the policy as embodied in file 080218 is adopted by the Council, it should clearly require that an estimate of the additional development costs required by the proposed ordinance should be made part of the fiscal analysis of each development project as required in the ordinance. In that way, your body will have the information for its ongoing review in order to determine if the policy objectives of this ordinance are being met in a cost effective manner.

Sincerely,



W. MARTIN MORICS
Comptroller

Cc: Mayor Tom Barrett
Members of the Common Council