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

RE: File 250154, TID 123 – Northwoods

Dear Committee Members:

File 250154 would approve the creation of Tax Incremental District (TID) 123, Northwoods (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 the Department of City Development (DCD) and confirmed pro forma details with the Assessor's Office. The Comptroller's Office analysis is based on the information provided.

The District is located at the northwest corner of North 2nd Street and West Wright Street in the City's Harambee neighborhood. The District overlaps a portion of the existing TID 59 (Bronzeville). The site is comprised of one parcel at 2515 N. 2nd Street and will be developed by KCG Development, LLC ("Developer"). The Developer is proposing the total rehabilitation of the two existing 3-story buildings containing 48 one-bedroom/one-bathroom units and 24 two-bedroom/one-bathroom units, along with outdoor and site work amenities. The buildings were originally constructed without fire sprinklers, with additional TID support the developer is exceeding existing fire code requirements. These improvements include the addition of a full sprinkler system, fire suppression canisters over all stoves, and fire extinguishers and fire blankets in each apartment (the "Project"). The units will be affordable to families with incomes between 30% and 60% of Area Median Income.

The total estimated costs for the Project are \$15,165,143 and this file authorizes an up to \$1,670,000 grant to the Developer to assist in funding a portion of these costs. The Developer will advance the \$1,670,000. The District will make annual payments to the Developer equal to the incremental taxes collected in the District, less an annual administration charge of \$7,500. The District's payments will terminate at the earlier of the repayment of \$1,670,000 plus 5.75% interest, or the payment derived from the 2048 levy payable in 2049 (year 25 of District).

Is This Project Likely to Succeed?

As a Developer-financed TID, the Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their \$1,670,000 investment with interest.

DCD's feasibility study, completed by Ehlers Public Finance Advisors, which uses a constant 2.2215615% property tax rate and 1% inflation rate over the life of the TID, forecasts that the Developer will nearly recover the \$1,670,000 plus interest in 2049 after receipt of the 2048 levy. However, if the tax rate does not remain constant, the Developer may not recover the entire \$1,670,000 plus interest. Nonetheless, because the Developer, not the City, assumes the repayment risk on their up to \$1,670,000 contribution, the proposed TID to the City is economically feasible.

Sensitivity Analysis

There is inherent risk in every projection of future results. One common way to evaluate this risk is to provide sensitivity analysis, which forecasts the impact that different assumptions have on the projection. Below is a table calculated by the Comptroller's office, which summarizes several scenarios to show the sensitivity of the projected incremental revenues within the District.

Sensitivity Analysis	
Percentage of Projected Revenue	District Payback Year
90%	2049*
95%	2049*
100% (Base Case)	2049*
105%	2049
110%	2047

** 2049 is the final year of the monetary obligation. The Developer would not fully recover their investment, plus interest, in this scenario.*

It is important to note that the payback year relates to the expected year in which the Developer will recover their investment. Since the Project will be financed by the Developer, the City is not at risk of losing the \$1,670,000.

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

This proposed TID allows the City to provide incentive to the Developer to develop the Property while minimizing the City's involvement and risk.

Conclusion

The proposed TID provides incentive for the Developer to materially renovate and improve residential space for residents in the City, while maintaining affordable housing options for families with incomes between 30% and 60% of Area Median Income. The Developer will assume the financial risk, and the Project should increase the City's tax base.

Should you have any questions regarding this letter, do not hesitate to contact Jesse Hagen at extension 5839.

Sincerely,


for Bill Christianson, CPFO
Comptroller

CC: Lori Lutzka, Charles Roedel

BC:JH