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April 21, 2021

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

RE: File 201674, TID 108 – 5th and Michigan

Dear Committee Members:

File 201674 would approve the creation of Tax Incremental District (TID) 108, 5th and Michigan (the District), along with the 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) and Assessor's office staff. The Comptroller's office analysis is based on the information provided.

The proposed District includes one property at 501 West Michigan Street (the Property). The Property includes an approximately 350,000 square foot office building built in 1978 which has been vacant since 2016. The property also contains an attached parking structure with approximately 850 parking stalls. The Property has an assessed value of $4,000,000.

Milwaukee Tool (the Developer) will undertake the renovation of the building (the Project). The Project includes the investment of at least $30,000,000 to renovate the building into office space for at least 1,210 employees. In addition, the Developer may also decide to expand the building by adding at least three stories or 150,000 square feet of new office space to create room for an additional 790 employees (the Expansion).

Initial Grant – City Financed

The City is proposing to provide an initial grant of $12,100,000 to the Developer for the Developer to complete the Project and retain 1,210 employees at the Property (the Initial Grant). The City's investment will be repaid from the increment revenue generated by the District.

The Initial Grant will be considered earned by the Developer upon the following conditions.

1) The Developer must purchase the Property.
2) The Developer must enter into contracts to expend at least an initial $15,000,000 in renovations to the Property by December 31, 2022.
3) The Developer must provide a commitment to invest at least another $15,000,000 in renovations by December 31, 2024.

The Initial Grant will be subject to a repayment provision in the event that the Developer does not comply with employment projections at the Property. If the Developer does not meet the employment projections as shown in the below table, the Developer will be required to repay the City $10,000 per position deficiency.

Job Retention Requirements – Initial Grant

	2021	2022	2023	2024	2025	2026 and beyond
Total Projected FTE	450	650	800	950	1,100	1,210

The term sheet includes provisions for including employees with schedules that include working remotely. In order to qualify, these employees must work either 60% of their time at the Property or at their residence if they reside within the City.

Because the Initial Grant is City financed, the City bears the risk that the District will not generate sufficient increment revenue to repay the $12,100,000 investment with interest. In this case, the City would likely utilize more successful tax incremental districts to donate excess increment revenue to cover these costs. If donor increment revenue are not able to make up any future shortfall, the City would be required to add such shortfall to the debt service levy.

Expansion Grant - Developer Financed

The City will provide a subsequent grant up to $7,900,000 for the Developer to complete the Expansion and retain an additional 790 employees at the Property (the Expansion Grant). The Expansion Grant will provide $10,000 per additional employee above the 1,210 covered under the Initial Grant. The Developer will advance the funds to complete the Expansion.

Increment revenue from the District will first be allocated to repay the City's debt service associated with the Initial Grant. Then, the administrative costs associated with the District will be paid. Any remaining increment revenue will be used to repay the Developer's investment in the Expansion Grant at 4.5% interest. The monetary obligation associated with the Expansion Grant will terminate 20 years after the creation of the District whether or not the Developer has fully recovered their cost.

The "developer financing" approach of the proposed District shifts the risk associated with the Expansion Grant from the City to the Developer. The Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their $7.9 million investment with interest.

The total Developer and City financed costs, excluding financing, are provided below.

List of Estimated Project Costs	
Initial Grant	$ 12,100,000
Expansion Grant	7,900,000
Administration	200,000
Total	**$ 20,200,000**

Is This Project Likely to Succeed?

DCD's feasibility study, which uses a constant 2.771% property tax rate and 1% inflation rate over the life of the District, forecasts the District will fully recover the City's portion of the District's costs plus financing in 2039, after receipt of the 2038 levy (year 18).

DCD's feasibility study uses a projected property value which the Comptroller's office views as somewhat aggressive given discussions with the Assessor's office and the uncertainty regarding the future of office space valuation due to the paradigm shift to working from home precipitated by the COVID-19 pandemic. However, lowering the projected initial value to a more conservative level still results in a projected payoff in 2041, after receipt of the 2040 levy (year 20). Therefore, the proposed District appears financially feasible based on the Comptroller's review.

For the Expansion Grant, the Developer assumes the risk of recovering their $7,900,000 contribution, which is limited to a 20-year tax incremental revenue stream from the District after payment of the City's debt service relating to the Initial Grant and administrative costs are repaid.

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.

Sensitivity Analysis	
Percentage of DCD Projected Revenue	District Payback Year
90%	2040
95%	2039
100% (Base Case)	2039
105%	2038
110%	2037

Under each of the above scenarios, the City would fully recover its $12,100,000 investment in the District plus financing costs within the District's 27-year life.

As noted above, the Comptroller's Office views the projected valuation as somewhat aggressive. However, using a more conservative valuation estimate under each of the scenarios contemplated above projects that the City would fully recover its investment in the District plus financing costs within the District's life. The Property would have to be valued 39% lower than DCD's current projections before projections indicate that the District would be at risk of not fully recovering its project costs.

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

This proposed District allows the City to provide incentive to the Developer to invest at least $30,000,000 in order to complete the Project. Without City funding, this Project may be delayed or not occur altogether. The Project should result in an increased valuation of the Property.

Conclusion

The proposed District provides the financing to incentivize the Developer to renovate a vacant building into office space and retain at least 1,210 employees in the City. The City assumes the risk of recovering the $12,100,000 related to the Initial Grant while the Developer assumes the risk of recovering $7,900,000 related to the Expansion Grant. Should you have any questions regarding this letter, please contact Joshua Benson at 2302.

Sincerely,

Aycha Sawa, CPA, CIA
Comptroller

CC: Dan Casanova
Lori Lutzka

AS/JB