



Office of the Comptroller

June 8, 2001

W. Martin Morics, C.P.A.
Comptroller

John M. Egan, C.P.A.
Deputy Comptroller

Michael J. Daun
Special Deputy Comptroller

Anita W. Paretti, C.P.A.
Special Deputy Comptroller

Members of the Zoning, Neighborhoods
& Development Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: File 001779 Proposed Fond du Lac & North TID 43

Dear Committee Members:

File 001779 would create Tax Incremental District (TID) 43, the Fond du Lac & North TID. The proposed TID would generally run from West North Avenue to Lloyd Street (N-S), and North 20th to North 23rd Streets (E-W). TID 43 is anchored by proposed construction of a 156,100 s.f. "Super K-Mart" along with 35,000 additional s.f. for restaurant and other retail space. The project cost is estimated to total about \$21 million including \$2.75 million from the City of Milwaukee. The City would provide its funds first to acquire (and re-sell) the necessary land, relocate existing tenants, perform the required subsoil remediation and demolition and make limited public improvements in the form of street related improvements. It is estimated by DCD that the City would need to contribute only \$100,000 of its \$2.75 million for the land acquisition.

A successful project of this kind is truly significant to the continued redevelopment of this north side commercial-residential neighborhood and the surrounding area as well. DCD estimates that a successful development could create 500 additional jobs while providing near-by residents with a sorely needed retail development. **Clearly, the construction of a "Super K-Mart" store in the proposed location would be a major City development achievement.**

After reviewing material provided by DCD over the past 2-3 weeks, our Office clearly supports the development concept. At this point, however, the project should be viewed as just that – a concept without sufficient form to justify a financial commitment by the City. In fact, the only item clear at this point seems to be the City contribution. Beyond this, the proposal seems limited to ideas proposed or under discussion with K-Mart and various private and community entities. **Because of the lack of specific information regarding non-City of Milwaukee project commitments, we are unable to confirm the feasibility of the project or determine whether the proposed City investment is sufficient and necessary to successfully accomplish the development.**

Little if any agreement seems to have been reached on the non-City sources of financing or even the respective roles of the non-City participants. The proposal feasibility study mentions two developers and a non-profit Inner City Redevelopment Corporation. DCD staff has also mentioned potential equity investor(s), construction companies, etc. However, neither the non-City "players" nor their financial commitments to the project have been firmed up. In addition, the proposal is inconsistent in its treatment of the land acquisition costs. The City contribution calls for only \$100,000 – the difference between the City's estimated \$3.1 million acquisition price and its \$3 million sale price to the developer. However, the feasibility study shows City TID proceeds applied to pay the \$3 million acquisition price. If true this would more than double the City TID contribution to \$5.75 million.

Based on our inquiries, we are led to understand the following:

- The developer(s) has no equity or collateral available for the project and there has been no equity commitment by any other entity at this point.
- There is no commitment by a bank to make a proposed private \$11.32 million loan, nor is our Office aware of who the borrower would be.
- Although drafted, essential lease terms for the K-Mart building have yet to be agreed upon.
- Even though an *unlimited City financial commitment* to acquire/prepare the site and relocate all displaced occupants has been proposed, the City has yet to complete its analysis of subsoil condition to help quantify these costs and narrow taxpayer financial risk. We are also unaware of any agreements with existing land occupants as to the extent of relocation reimbursement.
- The \$3.1 million cost of land acquisition to the City and the City's proposed \$3 million sale to the developer are initial estimates only, and have yet to be agreed upon by anyone outside the City.

For these reasons, we would prefer that this File not be brought to your Committee for consideration until basic commitments have been made and essential agreement reached on these issues. More solid information and successful negotiations should be concluded on the financial structure of the project.

When this TID is created, DCD will later need to bring to your Committee the development agreement required to implement the TID. In spite of our above suggestion, should your Committee wish to refer this File to the Common Council now for adoption, **we would strongly recommend that each of the following requirements be accomplished *prior to bringing the implementing contracts/agreements back to your Committee and the Common Council for consideration:***

1. Written commitments from all private and non-City public financing sources in amounts sufficient to implement the project development. These would include all equity, mortgage loan, grant and other financing sources along with the essential terms of those commitments.
2. A final lease and term sheet for the proposed K-Mart lease agreed upon by all affected parties.
3. A construction completion guarantee by the developer with security satisfactory to DCD. This assures that before the City provides \$2.75 million "up front", it expects a corresponding commitment from the developer to complete construction.
4. Either of the following—
 - a) Completion of the City Phase II Environmental study confirming or updating the initial DCD remediation cost estimates, *and* property-by-property acquisition cost estimates prepared by DCD after conferring with affected property owners, or
 - b) Agreement among the City and developer that if the total cost of required relocation and remediation are ever expected to exceed the budgeted \$2.75 million by more than five percent, the two entities will not proceed until a sharing of the additional costs has been agreed upon.
5. Written opinion by the Tax Assessor as to the likely taxability of the improved properties within the project development.

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

Sincerely,



W. Martin Morics
Comptroller

Cc Julie A. Penman
Michael A. Brodd
Mjd/6-7-01