

LRB – FISCAL REVIEW SECTION ANALYSIS

DECEMBER 17, 2002 AGENDA

ITEM 2, FILE 021194

ITEM 3, FILE 021195

**ZONING NEIGHBORHOODS &
DEVELOPMENT COMMITTEE**

Emma J. Stamps

File No. 021194 and File No. 021195 facilitate the City's response to approve and enter into agreements for Tax Incremental District No. 46 (New Arcade Project). File No. 021194 is a resolution approving Amendment No. 1 to the Project Plan for Tax Incremental District Number Forty-Six (New Arcade Project) in the 4th Aldermanic District. File No. 021195 is a resolution authorizing the proper City officials to enter into a Grand Avenue Mall Phase Two Development and Cooperation Agreement for Tax Incremental District No. 46 (New Arcade Project). (DCD)

Background

1. Tax incremental districts flourish when the city induces private development in a targeted geographic area by making public improvements and loans to developers. City costs are later recovered through the additional property taxes generated (from all local governments) by the new development.
2. File No. 010542 authorized the City of Milwaukee to enter into a Development Agreement with the Redevelopment Authority and New Arcade LLC under the terms set forth in a Term Sheet, which describes the Project that includes renovations to the western segment, known as the "Grand Arcade," of the Grand Avenue Mall. Terms discussed include but are not limited to the following:

Focus: Various components of the Grand Avenue Shopping Center

Area: Bounded by Plankinton Avenue (east), the Boston Store Building (west), Wisconsin Avenue (north) and Michigan Avenue (south)

Primary Purpose: To renovate interior common areas, the parking structure, building exteriors, the Food court and tenant spaces, the relocation of tenants, installation of new signage and additional related and complementary activities and certain agreed upon streetscape work

Secondary Purpose: The Project's secondary purpose is to simplify the existing complex ownership structure of the Grand Avenue Mall, which was to sell for approximately \$2,035,000.

3. On September 5, 2001, the Council adopted File No. 010322 and File No. 010542 to facilitate the City's response to approve, create and enter into agreements for Tax Incremental District No. 46 (New Arcade Project).
4. Resolution No. 010322 approved a Project Plan and creation of Tax Incremental District Number Forty-Six (New Arcade Project) and the terms of a Development Agreement to implement the Project Plan, in the 4th Aldermanic District.
5. Resolution No. 010542 authorized the proper City officials to enter into a Development and Cooperation Agreement for Tax Incremental District No. 46 (New Arcade Project).

6. Terms of the agreement included the following:

Conveyance:	All City real property ownership interest in the Grand Avenue Mall and adjacent parking structure to RACM
TID Project Budget:	Estimated at \$18,665,698
Developer Financing:	At least \$12,000,000 of project costs
City Contribution:	\$1,000,000 in General Obligation borrowing to provide a \$750,000 grant to the developer/owner and \$250,000 in City infrastructure expenditures.
Disbursements:	6:1 ratio of grant dollars to qualifying developer costs
TID Term:	Required by 2024 but likely to terminate n 2012
Interest charge:	Based on the market rate for 15 years, Standard & Poor's AA rated, taxable municipal revenue bonds

Discussion

1. The 2003 Proposed budget provides \$14 million to sustain TID expenditure needs.
2. The developer seeks another city grant for the New Arcade LLC TID project.
3. Based on an amended economic feasibility study, the Department of City Development and the developer estimate that an additional \$5,540,000 is required for TID No. 46 expenditures.
4. The funds will be used to implement a repositioning strategy to renovate floors one and two of Plankinton Building in the original Project area within the Grand Avenue Mall by December 31, 2005.
5. Formulated in 2000, the repositioning strategy focuses on mini-anchors or retailers that have store formats between 15,000 to 30,000 s.f. in size. They are a Border's Books and Music store (located in a portion of the former Marshall Fields building), a 30,000 s.f. TJ Maxx and a 31,000 s.f. Linens N Things, which are proposed to be located on the ground floor of the Plankinton Arcade.
6. The strategy calls for mini-anchors to sign 10-year lease agreements.
7. File No. 021194 and File No. 021195 facilitate the City's response to approve and enter into agreements for Tax Incremental District No. 46 (New Arcade Project). File No. 021194 is a resolution approving Amendment No. 1 to the Project Plan for Tax Incremental District No. 46 (New Arcade Project) in the 4th Aldermanic District. File No. 021195 is a resolution authorizing the proper City officials to enter into a Grand Avenue Mall Phase Two Development and Cooperation Agreement for Tax Incremental District No. 46.

Fiscal Impact

Each TID project normally requires 15-22 years to generate the property value necessary to repay city costs. During that period the city loses many years of interest earnings on the funds it initially provided. Beginning in 2003, these “carrying costs” will be included in the amount to be recovered by the city.

Adoption of File 021194 authorizes expenditures of \$5,540,000 for Tax Increment District No. 46 (New Arcade Project) of which \$5,000,000 is a grant to the developer and \$540,000 is capitalized interest.

Per the November 2002 Economic Feasibility Study, the New Arcade and Plankinton Arcade will require another \$30 million in private investments once the repositioning strategy is implemented.

Assuming a 2003 city borrowing of \$6.54 million, which accounts for two years of capitalized interest payments (4.5%) and \$6.0 million for TID project expenditures, the annual debt service starting in the Spring of 2006 will be \$608,964. By 2015 there should be sufficient surplus in the TID to pay the remaining debt service so the district can be closed out.

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