

**LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS**

**ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE**

**SEPTEMBER 15, 2009**

**Item 3, File #090564**

File Number 090564 is a resolution creating the Reed Street Yards Tax Incremental District and approving a project plan for this district.

**Background**

1. Wisconsin's Tax Increment Law (s. 66.1105, Wis. Stats.) provides for the creation and administration of a tax incremental district ("TID") to finance economic development and redevelopment projects within the district. Improvements and activities in the district are funded by the increase or "increment" in tax revenues generated by property in the district.
2. To be eligible for TID designation, an area must meet the following criteria:
  - Fifty percent or more of the proposed TID must be "blighted," "in need of rehabilitation or conservation work," or suitable for "industrial sites," within the statutory meanings of these terms.
  - Property that has been vacant for at least 7 years preceding creation of the TID cannot constitute more than 25% of the TID's area (unless the district is being created to promote industrial development).
3. The boundaries and project plan for a TID must be approved by the Redevelopment Authority, the Common Council and the "joint review board" consisting of representatives of the various taxing jurisdictions affected by the creation of the TID.
4. The Reed Street Yards project area consists of approximately 20 acres of land and buildings bounded roughly by the Menomonee River on the north and west, West Florida Street on the south and South 2<sup>nd</sup> and 3<sup>rd</sup> Streets on the east. The majority of the project area east of 6<sup>th</sup> Street consists of a former rail and trucking yard that is currently vacant land. Along the periphery of the project area are the recently-renovated Iron Horse Hotel, the 234 Florida office building and Teweles Seed apartment building, along with a number of other buildings in various states of rehabilitation. The portion of the project area west of 6<sup>th</sup> Street contains a series of vacant buildings totaling almost 300,000 square feet; these are the remaining undeveloped buildings in The Tannery complex.
5. Creation of a tax increment district encompassing the Reed Street Yards and surrounding properties has been proposed as a means of funding:
  - Development of the public improvements necessary to make the Reed Street Yards and the remaining Tannery buildings accessible for development or redevelopment.
  - Extension of the Milwaukee Riverwalk into the Walker's Point neighborhood, including a connection to the Hank Aaron State Trail.

- Development of a business and research park focused on attracting water-related businesses to Milwaukee.

**Discussion**

1. This resolution creates Tax Incremental District No. 75 (Reed Street Yards), which encompasses 23 properties with a combined area of approximately 20 acres in the area bounded roughly by the Menomonee River (Menomonee Canal), West Florida Street and South 2<sup>nd</sup> and 3<sup>rd</sup> Streets. The resolution also approves a project plan for the new TID.
2. This resolution does not authorize any expenditures for the new TID. Nor does it approve a development agreement for the project. Those actions will require future Common Council action.
3. Consistent with statutory requirements, over 50% of the TID meets the criterion of being “in need of rehabilitation or. conservation” (58%). Also, less than 25% of the area within the district boundaries meets the statutory definition of “vacant” property (19%).
4. The proposed project plan calls for tax incremental financing to fund the following activities and programs:

Public Infrastructure, Riverwalk and Dockwall	
Roadways	\$600,000
Street lighting	90,000
Sewers	1,000,000
Stormwater management	1,000,000
Water mains	450,000
Neighborhood parking	23,000
Riverwalk (70% of costs)	142,000
Dockwall (50% of costs)	225,000
Contingency (20% of all above costs)	<u>706,000</u>
SUBTOTAL	\$4,236,000

Initial Building Grant (financial assistant to developer to cover extraordinary site costs, such as geotechnical work, foundations, grading and environmental remediation) \$900,000

Water Technology and Research Fund (to provide grants or loans that may be used to attract water-related businesses to the Reed Street Yards) \$1,020,000

TOTAL CAPITAL PROJECT COSTS \$6,156,000

Administrative, professional, organizational and legal costs \$264,000

TOTAL PROJECT COSTS, EXCL. FINANCING \$6,420,000

5. The project plan calls for the developer, Building 41, LLC, or its assignee, to undertake the public infrastructure improvements, with reimbursement of costs by the TID.
6. The project plan also indicates that the term sheet for the development agreement will stipulate that the developer will agree to restrict occupancy in the Reed Street Yards to water-related businesses, thereby assisting the City and the Milwaukee 7's Water Council in marketing the property to potential water-related companies.
7. Specific public infrastructure improvements identified in the project plan include:
  - Construction of a new street connecting the 3<sup>rd</sup>/Pittsburgh intersection with the vacant Tannery buildings.
  - Construction of an Oregon Street extension from 3<sup>rd</sup> Street to the vacant Tannery buildings.
  - Construction of a 2,700-foot Riverwalk segment along the Menomonee Canal. The developer will provide the City with a public access easement for this Riverwalk which shall remain in perpetuity.
  - Dockwall repair and replacement along the Menomonee Canal, where necessary.
  - Provision of pedestrian amenities, such as pedestrian-level lighting, decorative pavement, widened sidewalks, landscaping, signage and street furniture.
9. The “initial building grant” will be paid to the developer upon completion of the first building in the project.
10. Both the project plan and the term sheet (not before the Common Council for approval at this time) indicate that development of buildings within the project area will be carried out over time in one or more phases, as end users buy or lease space in the water and technology research park. These documents envision the developer seeking future authorization for additional funding for building grants and/or water technology grants/loans. The proposed term sheet indicates that the commissioner of DCD will work with the developer to determine the appropriate amount for each additional building grant and then submit a mutually agreed upon request for each additional grant to the Common Council (the request would presumably be presented in the form of an amendment to the project plan). The term sheet also states that the amount of any additional City investment above and beyond the initial investment shall not exceed the amount that can be fully amortized and repaid by the TID by year 24, and that amortization forecasts will be made each time the developer seeks additional funding for the project.
11. The proposed term sheet for the Reed Street Yards project indicates that tax increment generated from developments within the TID that do not use the aforementioned “building grants” (e.g., residential apartments or condominiums) may be made available to pay for the cost of constructing parking structures within the TID, with any shortfall in the cost of constructing such parking structures to be funded by the developer. This, too, would require an amendment to the project plan.

**Fiscal Impact**

1. As indicated on the fiscal note prepared by the Department of City Development, this resolution does not authorize expenditures; further Common Council action will be needed to authorize any expenditures for the TID. However, adoption of the project plan does establish the City's intent to expend \$6,420,000 in tax incremental financing revenue for project costs in TID No. 75.
2. The project plan calls for the City to issue general obligation bonds to finance the TID project costs. The 2009 Budget provided \$30 million in new borrowing authority for new tax incremental districts like TID No. 75.
3. The project plan indicates that all expenditures relating to implementation of the plan will be incurred between 2009 and 2014.
4. The economic feasibility study for the proposed TID performed by S. B. Friedman & Company indicates that the district is financially feasible and is likely to be retired on or before year 24 – within the 27-year statutory limit for the life of a TID.
5. The City Comptroller's letter on this file does not include an analysis of the financial feasibility of the project. The Comptroller notes that this resolution is intended to meet a September 30 statutory deadline for creation of a TID; creation by this date will enable the City to capture property tax increments realized in the 2010. A full Comptroller analysis will accompany a future Common Council resolution to approve the commitment and expenditure of funds for this TID.

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