



Office of the Comptroller

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December 10, 2009

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

RE: File #090563; 27th & Howard TID Project

Dear Committee Members:

File 090563 is a resolution authorizing the Project Plan and Development Agreement for a Tax Incremental Financing District for the South 27th Street & West Howard Avenue Project. The resolution also authorizes the expenditure of \$525,000 in accordance with the terms of the Development Agreement between the City and Developer, Foster Endeavor, LLC.

The proposed project involves the conversion of the former Foster Pontiac auto dealership, located at 3636 South 27th Street, into a 27,000 square foot retail complex for franchises such as Buffalo Wild Wings, Auto Zone, Rocky Rococo, Playmakers and Ultimate Beach Tanning. Future phases of the Project Plan, which are not currently under consideration or funded, include the conversion of a trailer court, the conversion of a second auto dealership on South 27th Street, and the removal of the concrete drop liner in the Kinnickinnic River. The boundaries of the TID, previously established through the approval of File 090211, are: 27th Street on the west, Howard Avenue on the South, and the Kinnickinnic River on the north and east.

Total project costs for the Foster Project are \$5 million. The City's participation in the Project is through a \$500,000 loan to Foster Endeavor, LLC ("Developer") for the redevelopment of the site. The term of the loan would be for 15 years at an interest rate of 5%. Until the time an 8,000 square foot out lot is developed, but no longer than three years, no principal payments are due and interest would accrue at 2%. This provision provides flexibility for the project to achieve stabilized cash flow for repayment of the loan. The sources and uses of the Project are provided below:

<u>USES</u>		<u>Sources</u>	
Land	\$ 1,530,000	First Mortgage	\$ 3,228,000
Hard Costs	2,446,000	Land Sale Proceeds	950,000
Soft Costs	500,000	TID - Project Loan	500,000
Reserves	74,000	Deferred Developer Fee	300,000
Developer Fee & Overhead	428,000	TID - Administration	25,000
TID Administration	25,000		
	\$ 5,003,000		\$ 5,003,000

Is the proposed Tax Incremental Financing District likely to recover its costs?

In evaluating TID the ability of the proposed TID to recover project and financing costs over time through incremental property taxes, we evaluate the incremental value of the proposed district relative to its base year value to determine whether projected tax rates generate sufficient property tax revenue. In this instance, the \$525,000 of proposed project costs and an estimated \$260,000 of financing costs are to be recovered through incremental property tax revenue over 27 years. The base value of the proposed TID is approximately \$12 million, with roughly \$2 million attributed to the former Foster Pontiac site. The redevelopment of the site could add an additional \$2.2 million of incremental value. At an assumed property growth fact of 2.5% and combined property tax rate of 2.2%, the TID would generate sufficient incremental property taxes to repay the \$525,000 of project costs and the \$260,000 in estimated financing costs within 13 years.

Also, \$500,000 of the TID project expenditures is in the form of a loan to the Project which is to be repaid from the project cash flows. To the extent that the Project cash flows can support the TID loan repayment, incremental property tax revenues would not be needed to recover the City's investment in the project. We have reviewed the proposed lease agreements for the aforementioned franchises, which range from approximately \$13 to \$20 per square foot, triple net. These rents are in line with the market for similar franchises in the areas. With the existing leases, the project will generate positive cash sufficient to support loan repayment over the 15 year loan term. Based on the above projected loan repayments and tax increments, we conclude that the proposed TID is very likely to recover all project costs.

Is the Proposed Level of City Assistance Required for Project Success?

In terms of calculating the return to Developer from the Project, Developer is contributing \$550,000 in equity in the project, \$300,000 in the form of a deferred developer fee and \$250,000 in cash related to a mortgage on the land controlled by Developer. With this equity contribution, the estimated annual return (IRR) to Developer is 19.1%. Although we view this as a relatively high rate of return for this type of project, DCD indicated that Developer could not inject additional equity into the Project.

Noting both the relatively high rate of return to Developer and the likely loan repayment to the City, we do not object to the Committee approving this file. Please contact me should you have questions.

Very truly yours,



W. MARTIN MORICS
Comptroller

Cc Richard Marcoux, James Scherer
CDK/Mjd 12-10-09