



Office of the Comptroller  
August 26, 2009

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

RE: File 090325 TID 74: Proposed Tower Redevelopment Project

Dear Committee Members:

File 090325 would create Tax Incremental District (TID) 74 – the Tower Redevelopment Project (also known as the North 35<sup>th</sup> Street and West Capitol Drive Project) and approve a Project Plan for the District. The proposed District encompasses 293 acres, including 84 acres of the former Tower Automotive facility and adjoining parcels. The proposed TID boundary is W. Capitol Drive on the North, W. Burleigh Street on the South, N. 26<sup>th</sup> Street on the East and N. 36<sup>th</sup> Street on the West. The File also approves the terms of the Cooperation Agreement between the City and the Redevelopment Authority of the City of Milwaukee (RACM) for the purchase of the former Tower Automotive site and its redevelopment consistent with the W. Capitol Drive and N. 35<sup>th</sup> Street “Century City” Redevelopment Plan.

The proposed TID applies a similar approach to that used for the Menomonee Valley Business Park and its earlier TID efforts in the area, where the City and the City Redevelopment Authority act as land developer. TID and other City, State and Federal financing are used to remediate, subdivide and otherwise prepare the site and install the necessary streets and other essential infrastructure. Marketing the site would then target appropriate employers for private purchase and development. The core redevelopment area surrounds the former Tower Automotive property which is planned as a business park. The overall Tower redevelopment plan is quite general at this point, but envisions mixed use featuring industrial uses with some retail development along West Capitol Drive as well as limited residential and open space development.

Project costs are estimated to total \$34.6 million, of which the City would finance \$25.6 million (74%). TID sources support \$15.6 million while City tax levy funded capital would support \$10 million. The remaining \$9 million is projected from various Federal and State grants and Federal Tax Credits. Of this \$9 million in outside funding, \$2 million of funding has been secured, and preliminary commitments have been received for another \$2 million.

The Tower Redevelopment Project sources and uses are as follows:

<u>Uses</u>		<u>Sources</u>	
Land Acquisition & Relocation	\$ 4,500,000	City Tax Increment Financing	\$ 15,600,000
Environmental Remediation	6,300,000	City Capital - Tax Levy Supported	10,000,000
Demolition	11,900,000	Secured State Grant	2,000,000
Infrastructure	4,400,000	Potential New Market Tax Credits	2,100,000
Administrative Costs	1,300,000	Potential Federal & State Grants	4,900,000
Stabilization & Holding Costs	1,000,000		
Workforce Development	500,000		
Neighborhood Housing	400,000		
Soft Costs & Contingency	4,300,000		
<b>TOTAL</b>	<b>\$ 34,600,000</b>	<b>TOTAL</b>	<b>\$ 34,600,000</b>

## Is the Proposed Project Likely to Succeed?

TID Feasibility Study projections show that over the maximum 27 year life of this TID (2036), sufficient property tax and parcel sale revenues will be generated to fully offset the proposed \$15.6 million TID contribution. *We judge the TID projections contained in the feasibility study to be reasonable given the inherent uncertainties and long development period for this Project.* Assumptions on land sale proceeds of \$7.6 million do pose a challenge but are achievable. Other key assumptions regarding projected tax increments and future property tax rates are conservative.

This Project is unlike most other TID proposals that have come before your Committee. By any measure, the proposed Tower Redevelopment Project is extremely difficult given the large initial public outlay (\$26 million City, \$9 million other public funds) and the long development timeline. There is no anchor tenant. The development approach requires all public monies in first. A number of unique development challenges must be successfully overcome, including size of the site and the amount of demolition and environmental remediation required. These site preparation and infrastructure improvements are expected to require about three years prior to any significant private development occurring. A number of additional years will be required to successfully market the site to appropriate buyers-end users. Even if tax increment projections are achieved by 2036, the Feasibility Study reveals that the general taxpayer will still have to support over 40% of total Project costs or about \$14.3 million. We also have no idea what if any additional City financial incentives may be required to attract job focused employers to the development. The DCD cites possible new State and Federal grants beyond that already included in the Project budget, but indeed, achieving Project success entails significant City financial risk.

The Department of City Development (DCD) approach addresses the needed site improvements “up front” rather than developing the project in phases over time. While this strategy allows DCD to make the site more attractive to initial prospective employers, it requires significant up front City investment. Of the \$34.6 million in project costs, \$29 million is to be expended in the first three years (2010 through 2012). DCD has conducted substantial Phase I environmental testing of the site to the extent it has had access to the site. The DCD notes that remediation overruns were not experienced for the DPW field office project adjacent to this site. However, it is always difficult in a large project like this to confidently predict environmental conditions and final remediation costs, particularly given the earlier heavy industrial uses on the site. To mitigate this concern, DCD has included a \$3.4 million contingency which includes substantial contingency funds for environment remediation. Potential cost overruns, such as those relating to unforeseen environmental remediation could increase costs beyond the current budget estimate.

The Project also faces initial funding hurdles as it has not yet finalized a Plan of Finance for the proposed District. As mentioned, while City funding constitutes 74% of the total Project budget, only \$2 million of the remaining \$9 million in outside funding has as yet been secured. The DCD has been encouraged by initial responses from various potential grant sources, having received verbal commitment and/or applied for an additional \$4.2 million in Federal and State brownfield and other grants. With assistance from the Milwaukee Economic Development Corporation, DCD also expects private funding through over \$2 million in Federal New Markets Tax Credit financing. One potential risk is that the amount of grant and tax credit funding actually secured is less than the assumed \$9 million. The DCD indicates that it has already negotiated an end-of-year purchase contract for the land and that all outside funding will not be finalized by that time.

Were this project to be judged only on its direct financial benefits to the City, it would be difficult to support the proposal. However, while the challenges to this development are many, the former Tower site provides an unprecedented employment opportunity for neighborhood, city and metro area residents which cannot be overlooked. In short, while creating sufficient tax increment to offset a substantial part of the City’s cost is essential, *this TID must be viewed primarily as a tool for significant job creation.* Already located in an area of highest city unemployment, to allow the massive Tower site to continue to decline poses a significant

threat of accelerated area blight and indeed continued city employment decline. With such decline comes lower property values, increased unemployment, crime, etc. Even in the 1990s when the metro area and city economies were growing rapidly, this area of the north side saw increased unemployment and poverty. City officials can expect more of the same if nothing is done with this large tract of land. The near north side area faces a critical juncture: either the blight and decline of the current Tower site will worsen and expand to adjoining neighborhoods, or a revitalized Tower can become an active employment generator and retail center, creating positive impacts far beyond the site itself. So, to do nothing does not mean “no progress”, but rather, “further area decline”. *In the Tower Redevelopment Project, the City has a timely opportunity to attract vital jobs for its citizens, particularly as employers look to expand as the current recession abates.* The current success enjoyed at the Menomonee Valley site (Harley Davidson Museum, Charter Wire, Taylor Dynamometer, Derse, Palermos Pizza, Hank Aaron Trail, etc.) was realized only after some 30+ years including numerous successes and failures. Thus, the above cited difficulties in the development of such a large tract of former industrial property should not be unexpected. *A major City investment at this time to attract new employers 3-4 years from now may prove a most timely investment that will provide solid taxpayer and city employment benefits for years to come.*

In our opinion, *key to Tower Redevelopment Project success lies in its ability to attract employers who will bring a sufficient number of long term family supporting jobs to the site.* But what is “a sufficient number” of these jobs? Based on an assumed 15 full time jobs per developable acre goal, the DCD sets a target of 800-900 full time jobs<sup>1</sup> for the site. We don’t believe this projection has been detailed as to job types or skill sets required, or can it be reasonably estimated at this time. We are encouraged that the DCD is establishing a Workforce Development Strategy including a community based master planning process for the Tower Project. The Strategy will include setting sustainable wage criteria for prospective buyers and targeted efforts to connect residents with job opportunities at the site. DCD’s commitment to “family sustaining wages” indicates that the Department will be focusing on employers that provide jobs paying at least \$12 per hour plus benefits. Aggressive, achievable job creation targets need to be established and monitored throughout the course of the project.

### **Is the City’s Proposed \$25.6 million Essential for the Tower Project to Proceed?**

We are not qualified to comment on whether the proposed more risky “up front” approach to public funding of the Project versus a more phased approach is preferable. That is an issue which the DCD will no doubt address before your Committee. The DCD believes that a phased approach will increase overall costs and significantly impede marketing – especially to prospects seeking a large site. At the request of the DCD, the Department of Public Works has provided both design and construction cost estimates for all infrastructure components as a basis for the proposed Project budget. In any case, there is no doubt that *the former Tower Automotive site requires a substantial public investment for the site to achieve its potential as a major employer and jobs generator.*

In our opinion, ultimate Project “success” should be based not only on the adequacy of tax increments generated to offset a substantial portion of City costs, but moreover, on the number of full time, family supporting jobs created through the City’s investment in the Project. High level estimates from DCD indicate that 800 to 1,000 jobs could be created through this Project. This will not occur without a substantial public investment.

### **Recommendations**

Should your Committee and the Common Council consider approving this Project, we suggest the following:

- 1) **Require Common Council passage of sufficient contingent borrowing** to initiate the City activity. A Common Council File has been introduced to authorize \$7 million in contingent borrowing authority.

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<sup>1</sup> For the Menomonee Valley Industrial Center, a target of 22 full time jobs per acre was established and accomplished to date.

- 2) **Understand and accept the financial risk to the City that any shortfall in the expected but as yet uncommitted \$7 million in outside funding will be provided by the City.** The DCD asserts that any material reduction to the scope of work or the proposed \$35 million budget would doom the Project.
- 3) **Create a Tower Project Jobs (TOP Jobs) Task Force** potentially including the DCD Commissioner, the CEO of the Mayor's Workforce Development Board, affected aldermen, citizen members, a representative from M7. This Task Force would establish aggressive but achievable job creation and wage related targets, providing over-site over Project related job training and marketing efforts. This Task Force would also provide active monitoring of actual job creation accomplishments, with periodic reports to your Committee and the full Council. Given the size of the requested City financial commitment and the critical nature of job creation to Project success, ongoing monitoring and reporting by such a Task Force is appropriate.

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

Sincerely,



W. Martin Morics  
Comptroller

Cc Mayor Tom Barrett  
Common Council Members  
Richard Marcoux  
Jim Scherer

CDK/Mjd/8-26-09