



Office of the Comptroller

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

Michael J. Daun  
Deputy Comptroller

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

Craig D. Kammholz  
Special Deputy Comptroller

September 29, 2011

Members of the Zoning, Neighborhoods  
& Development Committee  
City of Milwaukee  
City Hall, Room 205  
Milwaukee, WI 53202

RE: File 110602: TID 63 - Falk/Rexnord  
Amendment #1

Committee Members:

File 110602 seeks approval of Amendment #1 for TID 63 (Falk/Rexnord Project) to provide a \$1 million grant to assist Rexnord, Falk's parent company, with a \$34.8 million plant and equipment improvement Project aimed at maintaining and improving the facility's quality and efficiency. Rexnord has long been a global leader in process and motion control systems - gears, couplings, bearings, chains and conveyor equipment, etc. Rexnord has decided to make this investment with the intent of establishing the Canal Street facility "...into a 'gear center of excellence' (or 'Model Plant') and become the premier gearbox manufacturer in the world."<sup>1</sup>. This is a major investment for the corporation, consuming about one-third of Rexnord's total annual global capital budget.

In addition to the City's TID grant, the Project would receive \$500,000 in forgivable loans and \$250,000 in refundable credits from the State. The remainder of the Project would be internally financed by Rexnord, the syndication of Federal New Market Tax Credits, or both.

TID 63 was created in 2006 to assist Rexnord with a number of site improvements related to the reconstruction of Canal Street. At that time, the TID provided a \$1.5 million grant for facility improvements. In addition to these improvements, Rexnord financed \$6.3 million in improvements to accommodate the relocation of their Wauwatosa facility to the Menomonee Valley site. This project resulted in the addition of 105 positions at the Menomonee Valley facility and a guaranty by Rexnord to maintain employment of at least 520 positions. Current employment is 598 positions.

As with the initial \$1.5 million grant, the \$1 million grant authorized by Amendment #1, would be advanced by Rexnord at 0% interest and recovered over time through tax increments on the increased value of the facility. To date, Rexnord has recovered \$370,000 of the initial \$1.5 million grant. The proposed Amendment #1 also extends the time period in which Rexnord may recover the current \$1.5 million grant and the proposed \$1 million grant from 14 years to 23 years.

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<sup>1</sup> *Wisconsin Department of Commerce Preliminary PDS*, Rexnord Industries, LLC, February 2, 2011, page 2.

## **Is This Project Likely to Be Successful?**

As Rexnord is advancing the proceeds to recover through future tax increments, it assumes all the risk of repayment. Nevertheless, our cash flow projections show that Rexnord will likely recover the initial \$1.5 million grant and the proposed \$1 million grant in 23 years, within the statutory life of the TID. We therefore conclude that that the TID will recover its project costs.

As we noted with the initial TID investment, a key strength of TID 63 is that the boundary is coterminous with the Falk Corporation's existing Canal Street facility. Since TID 53 (Menomonee Valley Business Park) surrounds the Falk site, the well-defined and limited boundary of TID 63 insures that project costs are repaid only through taxes on the incremental property value at the Falk facility and not from growth in surrounding property values.

## **Is the Proposed Level of City Financial Participation Required to Implement the Project?**

In 2006, Rexnord/Falk made a major corporate decision to consolidate its Wauwatosa and Menomonee Valley operations at its Menomonee Valley site through a total expenditure of \$7.8 million. As mentioned above, with this planned plant improvement Project, Rexnord reinforces its earlier decision by investing an additional \$34.8 million to upgrade its Menomonee Valley facility. The City's TID assistance in effect amounts to a limited term property tax abatement to repay Rexnord for a portion of the project costs. With a present value to the City of about \$831,000, this multi-year tax abatement comprises less than 2 1/2 % of the proposed Project capital investment of \$34,800,000. While these capital expenditures would likely have occurred with or without TID assistance, Falk is again committing to maintain employment at no less than the 520 position level. Rexnord asserts that it would not be able to maintain its global competitive advantage without the Project, indicating to the State of Wisconsin Department of Commerce that this investment:

- "Positions this facility to maintain its present workforce of 598 employees
- Upgrades the technical skill of a significant portion of the employees at this facility.
- Puts this facility in a position to potentially increase workforce headcount as our market share improves."<sup>2</sup>

Rexnord also points to the positive impact on in-State construction and service businesses resulting from the project and the longer term benefit to this plant as potential consolidations occur elsewhere.

Unlike the initial TID 63 grant, none of the proposed Project improvements are necessitated by the reconstruction of Canal Street. In addition, the initial TID grant resulted in inclusion of a "claw-back" provision in the term sheet reducing the TID repayment should employment fall below the 520 positions. With the proposed Amendment, none of the project costs are related to City mandated public improvements. Also, there is no additional employment commitment by Rexnord. However, the sizeable investment by Rexnord at the Falk facility indicates a commitment by the company to maintain production in Milwaukee.

## **Conclusion**

Allowing a limited term abatement of property taxes, the proposed TID #63 Amendment #1 will be successful without financial risk to the City. While the Falk consolidation in the Valley and this planned Rexnord Project are likely to have occurred with or without the proposed TID, the retention of manufacturing jobs and the employee training commitment accompanying this substantial plant and equipment investment is clearly significant to the City.

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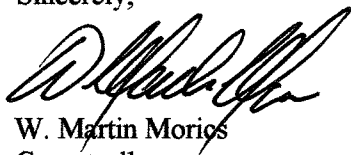
<sup>2</sup> Ibid, page 2.

Taken by itself, the amount and nature of the proposed City funding may not significantly impact the Company's decision to proceed with this Project at its Menomonee Valley location. As such, the Project may not strictly pass the 'but for' test for TID's. ("But for the City investment, the private development would not occur."). However, given the extensive manufacturing property tax exemptions mandated by the State, this level of assistance was all the City could feasibly offer. In addition, the amount of future property taxes lost to the City is very low relative to the \$35 million Rexnord investment and the associated benefits of a leading edge manufacturing plant in the Menomonee Valley. Likewise, the investment in employee training by Rexnord in this Project brings with it additional public benefits. Considering these factors and the continued commitment of Rexnord to Milwaukee, our Office does not object to the proposed Amendment #1.

In anticipation of similar requests, the Department of City Development should recommend guidelines for such proposals to avoid a situation where private sector developers and corporations come to expect that any private capital investment should be accompanied by City taxpayer assistance.

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

Sincerely,



W. Martin Morios  
Comptroller

Cc Rocky Marcoux  
James Scherer