



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

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Deputy Comptroller

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Office of the Comptroller

June 3, 2004

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

Re: File 031752 - TID 55 Holt Plaza
Term Sheet & Development Agreement

Committee Members:

Adopted by the Common Council on April 20th, File 031665 established Tax Incremental District 55 - Holt Plaza - and approved the related Project Plan for the District. Because certain financial issues existed at that time, the resolution required that the terms of any proposed City of Milwaukee financial assistance to this Project and the Project development agreement be approved by your Committee and the Common Council.

File 031752 would approve the terms of a \$2.1 million City grant to the developer and the related development agreement. The developer would advance these funds to the City and be repaid with future property tax increments. Thus, the City grant would function as a long-term abatement (forgiveness) of all property taxes on the development through the year 2021.

Due to the lack of essential information regarding Project costs and financing, we take no position on this resolution.

This Project is a proposed shopping center located between South 3rd Street and South Chase Avenue, just north of West Holt Avenue. The site totals about 20 acres. The current site includes about ¼ million square feet of useable space, including an existing Pick N' Save store. The developer – Mifflin Care Center, Inc. (MCC) - proposes a retail development anchored by a 103,000 sq. ft Home Depot, a 76,000 sq. ft Pick N' Save, a 12,000 sq. ft mid size retailer and 19,000 sq. ft. of outlot space. The developer currently owns the land and has a \$5.6 million mortgage balance outstanding on the property. The developer requests a City grant to fill a "gap" to complete the financing.

A brief history of this Project follows. April 16th - The Comptroller sent a letter to your Committee (see enclosed) indicating that this Project "...holds the potential of improving a large (underutilized) development site." This letter also raised two important financing issues. First, we indicated that a firm bank loan commitment for the required financing was needed prior to the City committing any funding. Secondly, we note that the developer's proposed financing for this Project included a \$1.6 million prepayment penalty on an existing mortgage. This prepayment penalty nearly equals the City's proposed \$2 million Project grant. Therefore, our letter asked that the developer seek ways to acquire the needed financing "...without the City taxpayer having to pay this mortgage prepayment penalty." A limited City loan guarantee was discussed as a possible inducement to a potential bank lender. This approach would minimize the taxpayer subsidy to this Project, while still allowing the Project to proceed.

April 20th - The DCD received a copy of a bank loan commitment for the needed financing from the developer. This bank commitment included a 5.5% interest rate, substantially below the 6.5% assumed cost of financing shown in the developer's earlier estimates. This lower rate would in turn substantially lower annual bank loan repayments by the developer.

April 23rd - As a result of this lowered interest expense, DCD staff and our Office mutually concluded that no City of Milwaukee financial assistance was needed to allow this Project to proceed. On April 26th, a meeting was held with the developer to inform him of this conclusion. After conferring with his staff the developer responded at the meeting that additional construction costs had been identified which had not been previously disclosed.

April 30th - the developer submitted a revised budget. The following summarizes the original and revised budgets for the Holt Plaza Project:

Project Budget	<u>Dec. 2003-Apr 25, 2004</u>	<u>April 26, 04</u>	<u>% Change</u>
Project design, construction costs	\$9,120,000	\$11,086,000	+22%
Repay Existing Debt	\$5,604,000	\$ 5,581,000	---
Prepayment Penalty current mortgage	\$1,665,000	\$ 1,665,000	---
City administrative & other costs	<u>\$ 492,000</u>	<u>\$ 492,000</u>	---
Total Uses	\$16,881,000	\$18,824,000	+12%

DCD hired a construction consultant to carefully examine all construction and related cost estimates in detail to verify their accuracy, and determine whether the increased costs were both justified and sufficient to complete the Project without further increases. At this date we have seen a fax copy summary of the DCD consultant's comments, but we have not been provided the consultant's report to enable us to review the extent of his examination or his specific conclusions. We have also not been given any completed examination of financing alternatives that could potentially avoid the \$1,600,000 mortgage prepayment penalty that would have to be paid by the City on the developer's existing debt. Finally, as of close of business June 2nd, we have yet to receive a current and final statement of Project sources, uses and estimated developer cashflows.

Until such time that we can receive, review and follow-up on the above information items, I am not in a position to determine the reasonableness of the proposed City subsidy, and thus cannot make any recommendations regarding this Project. Should you have any questions or comments on this letter, please contact me immediately.

Sincerely,



W. Martin Morics
Comptroller

Cc Patricia Algiers
Jennifer Basile
Thomas Gartner
James Scherer

Ref: PD-6811W.DOC



Office of the Comptroller

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April 16, 2004

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

Re: File 031665 TID 55 Holt Plaza

Committee Members:

File 031665 would create Tax Incremental District 55, Holt Plaza and approve a Project Plan for the District. Certain key issues related to the Project's financing have yet to be resolved. As a result, this File proposes only the creation of the TID and Project Plan approval. **The terms of any City assistance and the related development agreement would need to be brought back to this Committee for its required approval.**

This project is a proposed shopping center located between South 3rd Street and South Chase Avenue, just north of West Holt Avenue. The site totals about 20 acres. Once the site of a major manufacturer, the space was developed into a shopping area 20 years ago including a large grocery chain, hardware store and warehousing. The current site includes about ¼ million square feet of useable space, most of which remains vacant.

The developer – Mifflin Care Center, Inc. - proposes a retail development anchored by a 103,000 sqft Home Depot, a 76,000 sqft Pick N' Save, a 12,000 sqft mid size retailer and 19,000 sqft. of outlot space. The developer currently owns the land and has a \$5.6 million mortgage balance outstanding on the property. The developer requests a City grant to fill the "gap" to complete financing. The following are the proposed budget sources and uses of funds for the proposed Holt Plaza project:

Uses

Project design, construction & infrastructure costs	\$9,120,000
Repay Existing Debt	\$5,604,000
Prepayment Penalty to payoff current mortgage	\$1,665,000
City Capitalized interest & administrative costs	<u>\$ 492,000</u>
Total Uses	\$16,881,000

Sources

Debt	\$12,828,000
Equity	\$1,913,000
Estimated City Contribution	
Through Developer Loan	<u>\$2,140,000</u>
Total Sources	\$16,881,000.

Is the Project Likely to be Successful?

Two questions to be addressed to determine project success are: 'Will the project be completed as planned?' and 'Will the project produce sufficient property tax revenues to provide a viable development and retire the TID with all City costs covered?'. The project holds the potential of

improving a large development site previously underutilized for a number of years. Two major tenants proposed for the project also provide a strong base for success. The developer does need to acquire a firm loan or equity commitment regarding the \$7.2 million of additional capital required and finalize the City financing. What needs to happen next is for the developer to reach agreement on the following on terms acceptable to both the developer and the City:

- 1) First, a loan commitment from a private lender to finance the additional developer capital needed
- 2) After 1) is achieved, an adequate financing arrangement with the City to complete the plan of finance for the project.

Once these issues are successfully addressed, our Office would likely conclude that the project should be successful.

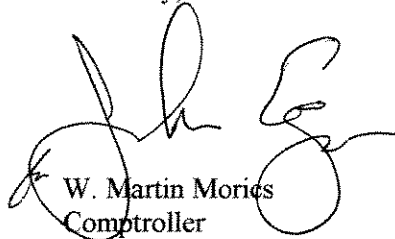
Is the Proposed Level of City Financial Assistance Required for the Project to Proceed?

The current estimate of City financial assistance for this project totals up to \$2,140,000. The developer currently owns the project site, including an outstanding first mortgage debt of \$5.6 million. As shown above, the developer needs to borrow another \$7.2 million to finance the project. The developer would like to finance the entire \$12.9 million through a new mortgage, in part by refinancing the \$5.6 million of existing debt. However, the current mortgage agreement includes a penalty of over \$1.6 million to prepay the \$5.6 million current mortgage balance. The proposed City contribution of up to \$2.1 million is needed mainly to fund this large prepayment penalty. Without the prepayment penalty, the developer would be able to proceed with the project with only a fraction of the proposed \$2 million taxpayer subsidy.

The City and the developer are currently seeking ways in which the needed additional capital can be acquired without the City taxpayer having to pay this mortgage prepayment penalty. Once a loan commitment or other source(s) acceptable to both the developer and the City is acquired for the additional \$7.3 million financing, the City's necessary financial assistance can be established. At that time, the terms of a development agreement between the City and the developer would be drafted and submitted to your Committee and, if approved, to the Common Council for its consideration.

Therefore, we do not object to the approval of the TID at this time, contingent on the developer acquiring a financing commitment for the project acceptable to the City which minimizes the necessary City taxpayer subsidy. Should you have any questions regarding this letter, please contact me immediately.

Sincerely,



W. Martin Morics
Comptroller

Cc Patricia Algiers
Jennifer Basile
James Scherer

Mjd/4-16-04