

AMENDMENT NO. 1

**PROJECT PLAN FOR TAX INCREMENTAL FINANCING DISTRICT NO.
63**

(REXNORD INDUSTRIES, LLC / FALK GEAR GROUP PROJECT)

CITY OF MILWAUKEE

Public Hearing Held: August 25, 2011

Redevelopment Authority Adopted :

Common Council Adopted:

Joint Review Board Adopted:

**AMENDMENT NO. 1 to the PROJECT PLAN for
TAX INCREMENTAL FINANCING DISTRICT NUMBER 63
CITY OF MILWAUKEE
(Rexnord LLC / Falk Gear Group Project)**

Introduction

Section 66.1105 (4)(h)(1), Wisconsin Statutes, permits the Redevelopment Authority, subject to the approval of the Common Council, to amend the project plan for a tax incremental financing district.

The Common Council created Tax Incremental District Number 63 in 2006 for the purpose of facilitating upgrades to the Rexnord facility at 3001 W. Canal St., and funding one-time expenses of the company in connection with the Menomonee Valley Shops redevelopment plan, and the extension of Canal St. through the Rexnord property.

The District consists only of Rexnord's property (Tax Key No. 424-9998-110) a site of 51 acres on the south side of W. Canal St., at S. 30th St. The facility is commonly known as the Falk facility. Rexnord acquired Falk in 2005. Falk was established in 1888 and moved to its Menomonee Valley location in 1895.

Funding provided by the District project plan amounted to \$1.5 Million. All funds have been advanced by Rexnord, and are being repaid to the company only from actual tax incremental revenue generated in the District. To date the company has been repaid \$370,932; leaving a balance of \$1,129,068.

Rexnord now has 598 employees at this location. In 2006, Rexnord closed its Capitol Drive facility, relocating approximately 105 positions to the Canal St. facility. Rexnord invested approximately \$6 million in the move. The company's products include gears, couplings, industrial and aerospace bearings, seals, conveyor equipment as well as drainage systems, piping, sensor flush and pressure release valves, faucets, wastewater treatment and related controls.

Rexnord operates in highly competitive, global markets. To maintain its competitive advantage, Rexnord plans to invest \$21.9 million to transform the 100 year old Canal St. plant into a "Gear Center of Excellence" model plant to enhance quality, delivery, and efficiency. Rexnord will also invest approximately \$10.5 million in equipment and facility maintenance, rebuilds, and retrofits.

Goals of the model plant include:

- Transform plant layout to streamline manufacturing process, improve quality, and reduce lead-time.
- Lighting and efficiency improvements, floor resurfacing, and communications / technology upgrades.
- Investment in new machinery, equipment, and manufacturing systems.

The Canal St. project will result in significant investments in job training for safety, quality, and new production line technical skills.

While this project will not result in an immediate increase in employment, the plant upgrades, equipment acquisitions, and employee training will help preserve current employment levels and create opportunities for new positions in the future.

In summary, Amendment No. 1 to the Project Plan will provide \$1 million to fund facility upgrades in connection with the Gear Center of Excellence Project. All funds will be advanced by Rexnord and amortized by tax incremental revenue generated in the District.

Specific terms and conditions of the transaction are attached as Exhibit 1.

Amendments to the Project Plan:

The following amendments are made to the Project Plan. All other sections of the Plan remain unchanged.

II. PROJECT PLAN PROPOSALS

Sub-Section’s A, B, and C are restated as follows:

A. The following is a description of the kind, number, and location of all proposed Public Works or Improvements within the District:

The City proposes to fund a grant to Rexnord LLC for the above listed costs associated with site work and infrastructure necessitated by the Canal Street project, and costs associated with the Gear Center of Excellence project. These funds, in the amount of \$2.5 million, will be advanced by the Developer and repaid, by the City, but only from future tax incremental revenue generated in the District. Payments will be reduced, proportionately, if employment at the Canal Street site declines below 520 full-time equivalent positions. The Term Sheet for the Project (Exhibit 4) provides that the life of the District shall extend to 23 years (2029 levy for 2030 budget) All expenditures in the District will be made at 3001 W. Canal Street, Milwaukee, WI.

B. The following is an estimate of the project costs to be implemented as part of this Project Plan

TASK	ESTIMATED COST
<i>INITIAL PROJECT PLAN</i>	
City grant to Redevelopment Authority for Contribution to Developer Costs	\$1,500,000
INITIAL PROJECT CAPITAL COSTS	\$1,500,000
<i>PROPOSED AMENDMENT</i>	
City grant to RACM for Contribution to Developer Costs for Gear Center of Excellence Model Plant	\$1,000,000
Estimated Interest Costs	0
<i>TOTAL TID 63 PROJECT COSTS</i>	\$2,500,000

The Developer will advance the \$2,500,000 noted above. These funds will be repaid pursuant to a Monetary Obligation with the Developer, but only from incremental taxes generated annually in the District.

The costs included in this subsection, without limitation hereof because of enumeration, are claimed as eligible Project Costs as defined under Wis. Stats. Sec. 66.1105(2)(f) and may be incurred directly by the City, or by the Redevelopment Authority of the City pursuant to a grant or cooperation agreement with the City, pursuant to Wis. Stats. Sec.66.1105(2)(f)(1)(h).

C. Project financing and timetable for expenditures:

All expenditures are expected to be incurred in 2006 and 2011-2013

As discussed above, the TID funding will be advanced by the Developer and amortized from future tax incremental revenue generated in the District.

APPENDIX

List of Exhibits

Exhibit 4: Amended Term Sheet

Exhibit 5: Amended Economic Feasibility Study

EXHIBIT 4: Amended Term Sheet

Amendment No. 1 for Tax Incremental District No. 63

Rexnord Industries LLC/ Falk Gear Group Project

Project: Site and building improvements and renovations, equipment acquisitions and upgrades in connection with Gear Center of Excellence Project, per Budget attached hereto, of industrial facility at 3001 W. Canal Street, Milwaukee, WI

Tax Increment

District: Means Tax Incremental District No. 63, and the Project Plan therefore, created by adoption of File No. 051461 on April 11, 2006 and amended by the adoption of File No. _____, on _____ 2011 (“District”).

Corporation: Rexnord Industries LLC

Funding: Corporation shall advance all funding for the Project, including the City Contribution, as set forth below.

City

Contribution: City contribution shall consist of a limited and conditional Monetary obligation to repay Corporation an amount equal to TID 63 Project Costs, as amended, in the maximum amount of \$2,500,000. Payments are to be made annually but only in an amount equal to the tax incremental revenue actually received by the City from TID 63, less \$5000 for annual audit purposes. Tax incremental revenue will not be pledged to the payment of the Monetary Obligation and the Monetary Obligation shall not constitute a general obligation of the City, or count against its statutory debt limits.

City

Contribution

Earned: The City contribution shall be for site and building improvements, renovations, and equipment acquisitions and upgrades in connection with Corporation’s Gear Center of Excellence Project, and Renovations as provided in the Budget. The City contribution shall be deemed earned upon approval, by the Commissioner of City Development, of invoices or customary AIA documentation for work performed for the Project.

Term of

Payments: City payments on the Monetary Obligation will terminate upon the earlier of: a) Payment in full of the Monetary Obligation; b) Upon payment of

the tax incremental revenue obtained from the District from the 2029 tax levy for 2030 budget purposes; or, c) upon sale of the Project. Once terminated, payments may not be re-initiated.

Payment

Reduction: In the event Corporation's employment at the Project location and at all other locations within the City of Milwaukee ("Rexnord City Employment") shall, on a combined basis, be less than 520 full-time equivalent positions for a period of six months within any given calendar year, unless caused in substantial part by damage or destruction to the Project, other event of force majeure, or economic event or condition beyond the reasonable control of Corporation, City's payment on the Monetary Obligation for that year will be reduced as follows: (a) City's payment for that year will be reduced to an amount equal to the tax incremental revenue actually received by City that year from TID No. 63 multiplied by a fraction, the numerator of which will be the actual Falk City Employment (full-time equivalent positions) that year and the denominator of which will be 520, and (b) following such payment, the balance of the Monetary Obligation will be reduced and calculated as if City's payment for that year were equal to the tax incremental revenue actually received by City that year from TID No. 63. Corporation shall submit to City copies of its UC-101A Quarterly Contribution / Wage Report at the same time it submits it to the Wisconsin Dept. of Workforce Development. Corporation shall submit such other information to evidence its employment as City may reasonably require.

Material

Disturbance: If the Project is not continuously used for manufacturing and office purposes, the Common Council may adopt a resolution terminating any future payments on the Monetary Obligation.

Human

Resources: Company shall also comply with applicable Human Resource requirements for the construction of privately owned improvements or building renovations within the District as to which the City has provided funding through grants.

General:

This Term Sheet does not constitute an agreement with the Corporation. The terms set forth herein, and other provisions customary for a transaction of this sort, shall be incorporated in a Cooperation, Contribution, and Redevelopment Agreement for this tax incremental district.

AMENDED EXHIBIT 5

ECONOMIC FEASIBILITY STUDY FOR: REXNORD INDUSTRIES LLC PROJECT

Background:

The City of Milwaukee created Tax Increment District 63 to offset certain costs incurred by Rexnord Industries LLC in connection with the extension of W. Canal St. from N. 25th St. to Miller Park. The District provided \$1.5 million for this purpose, in 2006.

Rexnord now proposes to implement its Gear Center of Excellence project which will involve a commitment of approximately \$32 million for facility and equipment upgrades, as more particularly described in the Amendment to the TID 63 Project Plan.

Through an amendment to the current Development and Contribution Agreement, an additional \$1 million will be advanced by Rexnord under a “pay-as-you-go” approach, and be repaid, by the City, but only from future tax incremental revenue generated by the project. To the extent employment at Canal Street declines below a certain threshold, the payment to Rexnord would be reduced proportionately.

Thus far, under the original Development Agreement, Rexnord has been paid approximately \$371,000 of the initial \$1,500,000 committed under the TID Project Plan. The proposed amendment will increase total funding by \$1,000,000 and extend the payback period to the maximum statutory life of the District, 2029. Accordingly, the District is intended to pay back \$2,129,000 over the next 18 years.

Base Property Valuation and 2010 Incremental Revenue

The Dept. of Revenue has established the Base Value for this District at \$8,871,100, and in 2010 the District had a value of \$12,635,700. This produced an incremental value of \$3,764,600, and at the prevailing tax rate, incremental revenue of \$100,871.

Anticipated Future Value of the District & District Cash Flow:

As a “pay-as-you-go” District, Falk is accepting the risk that the District will generate sufficient incremental value to recapture the remaining \$2,129,000 TID cost through future incremental revenue.

Improvements planned by Falk do not translate into a dollar-for-dollar increase in property value, as has been seen for other industrial districts created by the City. Much of the expense planned by the company is in the form of soft costs, equipment (which is exempt), and general alterations.

To amortize \$2,129,000 over 18 years, incremental revenue would have to average \$118,300, at 0% interest. This represents a 17% increase over the latest incremental revenue realized by the District, \$100,871; and, assuming static tax rates, an increase of incremental value of 17%, as well. Incremental value in 2010 was \$3,764,000 as mentioned above. A 17% increase in this value would be \$650,400.

Therefore, in order for the District to be feasible and allow Rexnord to fully recover its contribution to the District's cost, real and personal property value in the District would have to increase by an average of \$650,000 over the District's remaining life. This increase represents just 2% of the \$32 million investment planned by Rexnord, and 3% of the non-equipment investment (\$21 million) planned by the company.

Given the above analysis, we believe the substantial investment planned by Rexnord will translate into increased property values sufficient to amortize the additional \$1 million cost proposed in the Amendment and the balance of the cost from the initial TID Plan, a total of \$2,129,000

Under these circumstances the District is feasible. We note, also, that Rexnord is accepting the risk that values will increase in order to recover its contribution, and not the City.