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December 4, 2018

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

RE: File 181254, TID 96 – Komatsu Mining Corp.

Dear Committee Members:

File 181254 would approve the creation of Tax Incremental District (TID) 96, Komatsu Mining Corp. (the District), along with the corresponding project plan and term sheet. The Comptroller's office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD) and Assessor's office staff. The Comptroller's office analysis is based on the information provided.

The proposed District includes five properties totaling 68.1 acres in the City's Harbor District, generally bordered by the Kinnickinnic River, East Greenfield Avenue, the railroad tracks east of South 1<sup>st</sup> Street, and South Kinnickinnic Avenue (the Property). The Property is currently comprised of mostly vacant brownfield land and a small privately owned parcel, which operates as a barging and dredging business and is not within the scope of the current project plan. The Property has an assessed value of \$3,776,300.

Komatsu Mining Corp. (the Developer) will undertake the redevelopment of the site (the Project). The Project will serve as the Developer's global mining headquarters and a large industrial facility. The Project includes 170,000 square feet of office space, 410,000 square feet of manufacturing space, 20,000 square feet for a museum and training facility, and associated structured and surface parking.

**Developer Financed**

Total estimated costs for the Project are \$250 - \$300 million. The Developer financed portion of this file authorizes a \$25 million grant for job creation. The Developer will advance \$25 million for the Project costs. After substantial completion of the Project, the District will make full payment of the \$25 million at an interest rate of 4.5% to the Developer. Payment will be made in the form of a percentage of the increment revenue generated by the District (initially set at 50 percent, but subject to change as further described in this letter), less an administrative charge of \$7,500 per year. The District's obligation to repay the Developer expires after 25 years following substantial completion of the Project, or after full payment.



The “developer financing” approach of the proposed District shifts a majority of the associated risk of this TID from the City to the Developer. As a developer-financed TID, the Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their \$25 million investment with interest.

**City Financed**

Adjacent to the Project, the City is proposing to design and construct a publicly-accessible Riverwalk along the entire Project site. The City financed portion of this file authorizes \$15 million to finance this Riverwalk segment and other public infrastructure improvements. In addition, the City is proposing to fund a \$1,000 option fee from the District to purchase 302 East Greenfield Avenue from Wisconsin Gas, LLC for a future transit hub or other purposes. Purchasing this option allows the City to lock in the purchase price for a small parcel in the District for five years at the current market rate.

Estimated City Financed Project Costs	
Description	Estimated Cost
Riverwalk Construction	\$ 7,250,000
Landscaping, Lighting, Bike/Pedestrian Amenities	1,500,000
Pedestrian Bridge	2,500,000
Rail Crossing	250,000
Riverwalk Design and Administration	1,500,000
Harbor View Plaza	300,000
Watermarks Public Art	200,000
Contingency	1,500,000
Land Purchase Option	1,000
<b>Total</b>	<b>\$ 15,001,000</b>

The City’s investment will be paid from a percentage of the increment revenue generated by the District. The initial split of increment revenue will provide the City with 50 percent of increment revenue to repay its investment. Every five years the percentage of increment revenue will be adjusted based on updated projections of tax incremental tax revenue using the assessed value of the District to date, such that the City’s contribution to the District’s costs is fully recovered by 2044, after receipt of the 2043 levy (year 25).

The total Developer and City financed costs, excluding financing, are provided below.

<u>List of Estimated Project Costs</u>	
<u>Capital</u>	
Monetary Obligation to Developer	\$ 25,000,000
Riverwalk and Public Infrastructure Improvements	15,000,000
Property Acquisition Option Fee	<u>1,000</u>
<b>Total Capital Project Costs</b>	<b>\$ 40,001,000</b>
<u>Other</u>	
Administration	<u>\$ 187,500</u>
<b>Total Other Costs</b>	<b>187,500</b>
<b>Total Estimated Project Costs, excluding financing</b>	<b>\$ 40,188,500</b>

### **Is This Project Likely to Succeed?**

From a financial perspective, the proposed TID appears feasible for two reasons. The Developer assumes the risk of recovering their \$25 million contribution, which is limited to a 25-year tax incremental revenue stream from the District.. Additionally, the City has an extra layer of protection in the increment revenue adjustment, which prioritizes the City's investment repayment above the Developer's investment in the event that increment revenue does not meet DCD's projections.

DCD's feasibility study, which uses a constant 2.90% property tax rate and 1% inflation rate over the life of the TID, forecasts the District will fully recover the City's portion of the District's costs plus financing in 2044, after receipt of the 2043 levy (year 25).

DCD's feasibility study uses a tax rate which the Comptroller's office views as somewhat aggressive. However, because the Developer, not the City, assumes the repayment risk on the majority of the contribution to the District's costs, and because the increment revenue adjustment prioritizes the City's repayment, the proposed TID appears feasible based on the Comptroller's review.

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

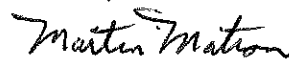
This proposed TID allows the City to provide incentive to the Developer for construction of their global mining headquarters and a large industrial facility and allows the City to finance a new segment of the Riverwalk and other public improvements. Without City funding, this Project may be delayed or not occur altogether, which could result in the City missing a catalytic project in the Harbor District.

### **Conclusion**

The proposed TID provides the financing necessary for the development of 170,000 square feet of office space, 410,000 square feet of manufacturing space, 20,000 square feet for a museum and training facility, and associated structured and surface parking. In addition, the proposed TID provides the financing necessary for the City to develop a new Riverwalk segment along the Kinnickinnic River and other public improvements. The Developer assumes the risk of recovering \$25 million of the initial investment while the City assumes the risk of recovering the remaining \$15 million.

Should you have any questions regarding this letter, please contact Joshua Benson at extension 2194.

Sincerely,



Martin Matson  
Comptroller

CC: Dan Casanova  
Alyssa Remington  
Lori Lutzka

MM/JB