



Office of the Comptroller

November 14, 2003

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

Re: File # 030974 – Proposed TID 53
Menomonee Valley Business Park

Dear Committee Members:

This File would approve a Project Plan and create Tax Incremental District 53, the Menomonee Valley Business Park. The proposed TID includes 261 acres south of I-94, primarily located east of Miller Park, west of West 30th Street and north of the Menomonee River. The File also approves the terms of a Cooperation Agreement between the Redevelopment Authority (RACM) and the City.

The initial 2-3 years' development effort would focus on 62 acres of land near the western boundary of the District (the "Shops" site) recently purchased by the City Redevelopment Authority from CMC Heartland Partners. The central goal of this TID is to make possible the sale and private development of appropriate parcels on the Shops site. This target private development is solely manufacturing and distribution related at this time. The public improvements financed through the TID would rehabilitate developable real estate within the District and establish the necessary transportation ways and other infrastructure. The feasibility study for the proposed TID does not estimate the potential jobs created through a successful development. However, with 18-20 initial parcels to be available for sale in 2005, 600-1,000 new jobs could locate within the TID if sold to appropriate businesses.

Although the proposed budget changes as new information is made available, the current TID budget totals \$20.8 million, of which about 25 percent is expected to be derived from Federal and State grants/loans. Under the current proposal, RACM would borrow the remaining \$15-\$16 million. If successful, the project would generate annual property tax revenues sufficient to repay the RACM bond debt service.

Activity in 2004 would be directed toward the clearing and remediation of land within the TID, much of it contaminated from prior activities. This work is expected to focus on the needed demolition, remediation, filling/compacting and stormwater system work. Estimates of these costs range from \$11-\$13 million. In 2005, construction of local roads, installation of utilities and landscaping would follow at an estimated cost of \$5-7 million. Properties would be offered for sale in late 2005 and 2006. An amount of \$2,000,000 is also included in the TID budget for possible financial assistance to businesses locating within the District.

The proposed Cooperation Agreement would require the City to provide security for the \$16 million in RACM bonds in the form of a "moral obligation" pledge. In any year in which the related TID property tax increments proved insufficient, the City would be expected to levy the

necessary property taxes to make up for any debt service shortfall. This security is known as a City "moral obligation pledge". Without this City pledge, the RACM bonds could not be sold. RACM debt service payments could range up to \$1.4-\$1.6 million annually.

In addition to the projected costs included in the proposed TID budget, other related public development costs include:

- The extension of Canal Street.....\$20 million (\$10 million City funds)
- Construction of a bridge from bounded by N. 25th and North 35th Streets along the extended Canal Street\$ 5 million (funding not yet determined)
- Potential added cost of acquiring former CMC land..... \$0-7 million (Cost, if any, to be determined.)

Is the Proposed Tax Incremental District Project Likely to be Successful?

The proposed TID offers a number of important strengths supporting its success. The demand for outlying industrial land bank property within and adjoining the city speaks well for this TID. Adjoining a major interstate highway and near a major Great Lakes port, the development potential for this land is significant. In initial contacts, the DCD has indicated that several mid-sized manufacturers have shown interest. Also, the City of Milwaukee already has control over the entire project area, avoiding a frequent obstacle to successful development. In addition, with the help of our local congressional representatives, the DCD has already garnered an estimated \$5,000,000+ in Federal and State funding for the project

The proposed budget for this TID is the result of a thorough development design plan and an extensive examination of soil conditions within the District. This budget also includes a generous contingency and accommodation for "changed conditions", allowing about \$3,000,000 for costs not yet foreseen. The tax increment projections contained in the TID feasibility study show the proposed TID as economically feasible, with the TID successfully closing in 22 years, one year below the maximum 23 year life permitted under current TID statutes. The DCD has noted that a State Senate Committee has recently approved a bill which would extend the maximum life for "blighted" TIDs from 23 to 27 years. Should this bill become law, the proposed TID 53 would have an additional four years of tax increments to recover its project costs.

In spite of its many strengths, TID 53 is a project involving substantial budget and development risks. Unlike a "one building-one developer" project, there are no guaranteed private developments resulting from these expenditures. Extensive public improvements need to be made before private land purchase and subsequent development can be expected. City land sales and private development projections are based on broad development ratios for past City land banks. These projections can only be viewed as reasonable approximations of what will actually occur.

Likewise, development costs for this extensive area with poor soil conditions are difficult to predict with any precision. We believe the development budget to be reasonable and carefully prepared. However, unlike "green field" and small area projects, the nature of this project brings with it additional development cost risk. For example, the recent discovery of extremely poor soil conditions along the Canal Street extension project dictated the lengthening of a proposed bridge, adding an estimated \$5,000,000 to this public works project. Should the Council decide to approve this TID, it should do so understanding that there is significant risk of cost overrun and delayed or reduced development in the targeted 60 acre "Shops" development tract.

Is the Proposed City Financial Involvement Needed to Enable the Project to Proceed?

In reviewing this proposal, two facts stand out:

1. The Menomonee River Valley is now and has long been grossly underutilized, wasting its significant development potential.
 2. Without a substantial public investment, this development potential is unlikely to be realized.
- These facts would indicate the need for action by the City. Further, timely and effective action now may prove crucial given signs an emerging metro area and national economic recovery.

Also, while extensive, the proposed City financial commitment is limited mainly to preparing the land for development and providing the requisite transportation and sewer infrastructure. The \$2 million set aside for assistance to business loans or grants is less than 10 percent of the total development budget. Furthermore, as mentioned, about 25 percent of the proposed budget is funded by non-City sources.

Our Office supports the development plan and budget as carefully constructed and an effective, proactive City approach. Further, the budget and proposed City financial assistance as described to us and summarized in the Project feasibility study appear both reasonable and a prudent investment for the City

Follow-up Recommendations

Regarding the financing methods to be used for this project, we have discussed the proposed City "moral obligation pledge" approach with a representative from Moody's Investor Services, a national bond rating agency which rates City bonds. Moody's indicates that a City of Milwaukee moral obligation pledge such as that proposed for this project will impact the City's bond rating in much the same way as would City General Obligation debt. **Therefore, we are uncertain whether or not the "moral obligation" approach to funding this development is the most cost-effective, and would like to work with the DCD-RACM to research this issue further.**

The City Budget limits the amount of TID debt to be issued each year through its annual TID borrowing authorization. However, City moral obligation amounts are outside of any budget constraint. Given this "off-budget" financing commitment by the City, DCD staff indicates that it does not intend to "double up", to expand its TID program beyond the limits prescribed in the City budget. **As such, should the City choose to use the "moral obligation" approach to financing this project, we would strongly recommend that for each dollar of RACM bonding supported by a City moral obligation pledge, a like amount of TID borrowing authority be reduced or allowed to lapse. DCD has indicated its agreement with this approach.**

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

Sincerely,



W. Martin Morics
Comptroller

Cc Alderman Donald F. Richards
Julie A. Penman
James Scherer
Mjd/11-14-03