



Department of City Development

Housing Authority
Redevelopment Authority
City Plan Commission
Historic Preservation Commission
NIDC

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

March 12, 2007

To The Honorable Members of the Zoning, Neighborhoods
& Development Committee
200 E. Wells, Room 205
Milwaukee, WI 53202

Dear Committee Members:

Re: File No. 060961 – Proposed TID 69, 735 N. Water St., Cornice & Riverwalk
Restoration Project

This letter is in response to the City Comptroller's communication to your Committee, dated February 27th, regarding the proposed Tax Increment District to assist with the restoration of the Cornice and Riverwalk, at the 735 N. Water Street office building.

This building was designed by Daniel Burnham and constructed for the First Wisconsin National Bank in 1913. It is undoubtedly one of the more prestigious historic buildings in our downtown. Unfortunately, its ornate cornice is deteriorating and the Department of Neighborhood Services has issued orders to correct the structural defects or tear it down. Likewise, its riverwalk, the first such segment constructed in the City, also requires extensive repairs and is not ADA compliant.

The proposed Tax Increment District would provide funding of \$3.8 million to restore the cornice and riverwalk at this historic structure. It would also bring the riverwalk into compliance with ADA. The TID would be implemented along with private improvements to this office building, and the conversion of an adjacent building, also owned by the developer, into a parking ramp and seven condominiums. It is the incremental taxes from this building conversion and condominium project that is intended to generate the funding for the TID-funded cornice and riverwalk work.

In his letter of February 27th, the Comptroller stated that the proposed Tax Increment District failed to meet the "but for" test required for all tax increment districts. That is, "but for" the proposed TID assistance, the project would not proceed. The Comptroller states: "Since these improvements [the cornice and riverwalk] are not necessary for the economics of the project, the proposed TID does not meet the "but for" test...."

The Comptroller goes on to state that “the proposed TID improvements are likely to have no bearing on the developer’s decision to proceed with the proposed project.” Elsewhere in the correspondence, the Comptroller states that “the internal rate-of-return to the developer” is estimated at 16.1% before taxes, which is sufficient for a project of this type.”

Following considerable discussion with the Comptroller’s office, it has become apparent that his office is defining the project differently than is proposed in the TID Project Plan. His definition of the project does not include the cornice and riverwalk restoration. He is, of course, correct that the proposed TID improvements would likely have no bearing on the lease or sale revenue derived from the project. It is because of this, that the historic renovation work is proposed to be funding through the Tax Increment District.

The Comptroller’s conclusion that the project achieves a rate of return of 16.1% is based on the cornice and riverwalk repair being **excluded** from the development. That is, in order to achieve this return, the cornice would have to be torn down and the riverwalk would continue to be inaccessible to the handicapped. If, however, this work is **included** in the project and the building is preserved, with all funding from the developer, the rate of return to the developer drops to the below-market single digit range. This was confirmed by the Comptroller’s office, and our economic consultants. This fact underscores the economic challenges of historic preservation.

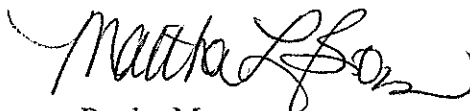
It is precisely because the developer would achieve no economic benefit by doing the preservation work, and indeed would achieve a below market rate of return if it funded that work, that we believe it is appropriate to fund this “gap” in project finances through a Tax Increment District.

Consequently, we believe strongly that the proposed TID does meet the “but for” test. Without the TID funding, the developer will not be able to raise the private debt and equity for the overall project, given the limited rate of return, and the project, including the historic restoration work, will not proceed.

We sincerely hope the Committee would consider this perspective on the proposed TID.

We understand the Comptroller has other concerns about the project being structured as a “developer funded” TID and we will be happy to address those matters at committee.

Sincerely,



Rocky Marcoux
Commissioner

Cc: W. Martin Morics / Michael Daun /Craig Kammholz
Jim Scherer /Joel Brennan /Allison Rozek/Tom Gartner
Sheldon Oppermann /Tyler Noel