



Office of the Comptroller

January 10, 2003

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

RE: File 021332 – Creation of  
TID 51, Granville Station

Committee Members:

The File would establish a Tax Incremental District (TID) and approve a Project Plan and terms of a development agreement for the Granville Station Project (the Project). The Project is a commercial development located at the southern portion of the former Northridge Shopping Mall, at the intersection of West Good Hope Road and North 76<sup>th</sup> Street. Tucker Development Corporation and its related Limited Liability Corporation, TDC Milwaukee, LLC (TDC) will develop and own the land and improvements except as outlined below. TDC is an Illinois based development company experienced in shopping center and other retail development. TDC has an incentive to develop the site since already owns the mall building portion of the property. TDC plans to acquire and demolish the former Sears Department store, re-grade the southern portion of the property, and provide for the construction of 223,000 sq. ft. of retail space and a small outlot. A 61,000 sq. ft. Pick N Save grocery store and a 162,000 sq.ft. Menards home improvement center will be constructed on the project site.

Last month Saks', Inc announced the closure of the Northridge Boston Store department store, the last major retailer on the site, in March of this year. The timely redevelopment of the Northridge site is therefore essential to the economic well being of the site itself and extremely important to that of the surrounding neighborhoods.

TDC and its broker have been effective in attracting two leading retailers – Menards and Pick N Save (Roundy's) – to the site. In the case of Pick N Save, a 20 year lease is being finalized. In the case of Menards, land would be sold to Menards which would construct and own the home improvement center building. According to the DCD, timing is crucial due to the two retailers' desire to begin operations as soon as possible. The estimated development budget totals \$14.4 million plus an additional \$7 million to be spent by Menards for their store-lumberyard construction.

The proposed Project is to be financed as follows:

Menards land acquisition & construction financing .....	\$11.5 million
Owner First Mortgage financing.....	\$ 4.3 million
City Grant to Project financed by City of Milwaukee tax exempt General Obligation bonds.....	\$ 4.4 million
Owner Equity Investment.....	\$ 1.2 million
Total Phase I Project.....	<u>\$ 21.4 million.</u>

**Is the Project Likely to be Successful?**

In its Feasibility Study<sup>1</sup>, the DCD notes that there is substantial buying power in the vicinity of the development area, with 18,000 households having an annual incoming exceeding \$50,000 within a three-mile radius of site. The DCD is projecting property value growth of \$16.2 million - \$16.8 million once the Project improvements are fully operational. **Based on a successful operation of the Project's two major retail developments**, this is a conservative estimate of property value growth. Should this growth be realized, **we would agree with the Feasibility Study's conclusion that the District would be successfully retired on or before the year 2019.** This conclusion assumes City bonds are sold at current market interest rates and a constant property tax rate of \$2.80 cents per \$1,000 of assessed value.

The Feasibility Study also makes note of the substantial Project risks. With the imminent departure of Boston Store, the site will have been reduced to a very limited level of retail activity. The sight is somewhat isolated, with high traffic volumes on the adjoining arterial streets and relatively long access roads. The years of decline pose probably the biggest development challenge, that is, changing customer attitudes that discouraged shopping at the former Northridge. Until these attitudes are changed, property values on the site will remain depressed. **This Project's success is therefore dependent on increasing customer attractiveness to the new Phase I retail development, thereby generating adequate market appeal for the adjoining property on the Granville Station site.**

If successful, this Project will mark a major turnaround for this important northwest development site. Based on this success, additional tenants will likely be attracted, along with higher lease rates and land sale prices. Image will slowly change from an undesirable retail location to the beginnings of a vibrant, new and growing shopping venue. Given the site's suitability to group similar land uses within the site, other types of commercial uses (university campus, medical, child care, etc.) could also evolve. **As such, this proposed TID Project investment will serve as an excellent test of whether the marketplace can support further large-scale development at the Granville Station. If further large-scale development of Granville Station as begun in this Phase I Project cannot succeed on its own even after a \$4.4 million City grant, future development of this area should be best left to development as dictated by the marketplace.**

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<sup>1</sup> "Economic Feasibility Study Tax Incremental District #51, City of Milwaukee Granville Station", Department of City Development, City of Milwaukee; December, 2002.

The DCD has indicated that both Menard's and Roundy's have imposed a tight timeframe in order to get their respective operations in service on the site. This in turn has posed an initial challenge to DCD. While an overall Project budget and project plans have been developed, these documents have not yet been sufficiently detailed to be formally reviewed and approved by DCD. DCD has responded by instituting two major controls in the term sheet supporting the TDC grant. First, formal DCD Commissioner approval of the development plans, specifications and the detailed budget for the Phase I Project is required. This will allow the Department to assure that the initial budget estimate of \$14,400,000 required of TDC to construct its share of the improvements – as well as the City's \$4.4 million grant share - is in fact needed. Secondly, the DCD requires that its grant be provided only upon substantial completion of the development. This eliminates the risk of the City providing financing to a project which is not completed as planned. **Both of these administrative controls promote Project completion as designed, and therefore, overall success.**

#### **Is the Proposed City Financial Assistance Necessary to Make the Project Possible?**

With a history of decline and little commercial activity remaining at the site, there is no question that significant City financial assistance will be required for the proposed Project. The proposed \$4,400,000 City of Milwaukee grant is among the highest level of City subsidy for a project of this type. The City has at times provided substantial loans to developers, but it is rare that the City of Milwaukee makes a grant of this amount to a private entity. This City grant amount was derived based upon a \$1.2 million TDC developer equity investment, an assumed 10 percent cash-on-cash return to TDC, and an assumed maximum amount of private financing to the developer. **The developer-required 10 percent cash-on-cash rate of return is clearly reasonable for this project.**

Normally, the DCD will require that the developer obtain a formal first mortgage commitment from a lender prior to the City committing to a level of financial participation. This is because the City should only be financing the minimum "gap" necessary to fully fund the project. Unfortunately, another constraint apparently imposed by the timing requirements of the retailers is that the developer TDC has yet to finalize its first mortgage financing. Therefore, the City has been placed in a position where it can only estimate the level of first mortgage loan funds the developer can obtain for this Project. This is crucial in that every additional dollar the developer can actually obtain through private financing is a dollar the City grant can be reduced.

To derive the maximum amount of financing supporting the required 10% annual return to the developer, a first mortgage of 20 years at a fixed rate of 6.75% was assumed. This yielded the \$4.4 million TDC first mortgage amount with the remaining \$4.4 City grant as shown on page one of this letter. These financing assumptions are not unreasonable. However, in the event that the developer could obtain additional financing, the City's grant could be significantly reduced. For example, TDC could seek lower interest rate, short term, variable rate financing until the point at which the project proves its success. At that point, TDC could lock in a fixed rate financing, pursue a buyer or pay off the debt itself. As opposed to the 20 year financing assumption, if possible for this project, a shorter term

private financing could increase the private financing portion of the project substantially, with a corresponding decrease in the City grant.

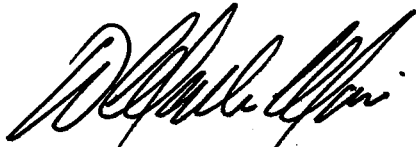
**Conclusion**

Our Office supports the Granville Station Project and the City's participation in it.

We would offer two recommendations. **In addition to the DCD review and approval of Project plans, specifications and final budget, we would recommend that DCD review the proposed first mortgage bank commitment to assure that the final mortgage amount provided is in fact the maximum supportable by this Project.** In light of this additional review, we would also recommend that the proposed term sheet language under the "CITY CONTRIBUTION" item be changed to read, "The City will provide the Developer with a grant in an amount up to \$4.4 million consistent with the final approved budget and the maximum feasible first bank mortgage toward the cost of this Phase I. Said grant...."

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

Sincerely,



W. Martin Morics  
Comptroller

Cc Julie A. Penman  
Daniel J. McCarthy  
Jennifer Brown

Mjd/1-10-03