

RESEARCH AND ANALYSIS SECTION ANALYSIS

JULY 25, 2006 AGENDA

ITEM 1, FILE 060420

ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE

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File No. 051461 is a resolution approving a Project Plan and creating Tax Incremental District No. 64 (Direct Supply Project) and approving the terms of a monetary obligation and Development Agreement to implement the Project Plan, in the 9th Aldermanic District.

OVERVIEW

1. The tenant, Direct Supply, Inc. (DSI) and developer KJ Greentree LLC, are seeking City contributions to facilitate a long-term business expansion plan that involves construction over a 10-year period from 2006-2016 to expand its campus on the city’s northwest side and further facilitate the creation of up to 1,354 new jobs at the project site. This commitment involves approving a developer financed tax incremental district which requires the developer to advance the project costs and be repaid by the city, including inflationary and a 6% per annum interest rates, but only to the extent of incremental tax revenue generated in the TID with a contingency that the tenant (DSI) successfully meets its new job creation goals.
2. Among the properties to be relocated, at the developer’s option, are a school bus yard and a Department of Public Works transfer station and self-help facility. This proposal would commit the city to issuing city general obligation bonds and any other unforeseeable resources to accomplish the relocations.

Discussion

1. The Project Plan describes the expectations for the developer, the tenant and the city in this long-term redevelopment plan to expand the DSI campus, increase the number of jobs on the city’s northwest side, and, at the developer’s option, purchase city owned property that currently houses Department of Public Works sanitation and self help operations.
2. The aforementioned parties are responsible for, but not limited to, the following:

Tenant (DSI) :

- (a) Increase employment from 636 currently to 1,989 in 2020 (No distinction between part-time versus full-time jobs)

| | Projected 2006 | Projected 2007 | Projected 2008 | Projected 2009 | Projected 2010 | Projected 2011-15 | Projected 2016-20 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|-------------------|
| New Job Creation | 101 | 100 | 96 | 99 | 100 | 434 | 423 |
| Cumulative Job Creation | 101 | 201 | 297 | 396 | 496 | 930 | 1353 |
| Projected Employee Population | 737 | 837 | 933 | 1032 | 1132 | 1566 | 1989 |

- (b) Address employment goal shortcomings “right to cure” within 12 month of notification that a breach has occurred

- (c) In exchange for 1,354 new jobs, until 2003, incremental taxes generated in the District will be repaid to the Developer instead of offsetting the general city tax levy
- (d) May exercise an open end option to purchase the City owned DPW facilities with the understanding that the option is not covered by the TID No. 64 and that they and the city would share the cost of relocating the City facilities
- (e) Participate in the 2006 City of Milwaukee Summer Jobs Program, work with local schools and universities to identify internship opportunities and post available positions with Milwaukee area Job Centers.
- (f) Prior to commencement of payment of the City's monetary obligation, the tenant agrees to enter into a long-term lease with the developer for term of not less than 9 years

Developer (KJ Greentree LLC) :

- (a) Developing a campus for tenant DSI with expansion capabilities subject to the tenant's decision to exercise an open ended purchase option for city owned property
- (b) Advance at least \$13,350,000 (plus cost overruns) toward the \$92,700,000 total project costs with the expectation of reimbursement from the city, with interest up only up to the amount of tax increments generated by the TID No. 64 less any audit expense
- (c) Agree that repayments are also contingent upon the tenant (DSI) meeting job creation goals
- (d) Accepts the risk that revenues will be sufficient to fully repay the funds advanced on behalf of the City.

City of Milwaukee :

- (a) Repay the developer finance loan, TID No. 64, at least \$13,350,000, plus inflation, plus 6% year but only up to the amount of actual tax increments generated by the district (Comptroller estimates this obligation at \$29.5 million plus inflation)
 - (b) Agree that repayments are also contingent upon the tenant (DSI) meeting job creation goals
 - (c) Vacate adjacent streets
 - (d) Provide assistance in relocating other businesses within the project area
 - (e) Allow the developer close off the campus by closing and securing N. Industrial Road where it bisects the campus (Project Plan, pg. 18)
 - (f) Issue a \$4.7 general obligation bond to facilitate relocating DPW operations to a to-be determined location at a to-be-determined time
 - (g) If the developer is unsuccessful in acquiring any one or more of the lots needed to facilitate this development, then, at the request of the developer and to the extent permissible by law, RACM will promptly initiate the process to acquire the same through negotiations and/or eminent domain in accordance with applicable law
3. All parties are expected to cooperate on obtaining brownfield grants, tax credits, and assistance from the State of Wisconsin to facilitate this development project.
 4. In regards to environmental costs, the developer and/or tenant obligation is limited to 20% of the total project costs. (current est. project cost \$92,700,000 x 0.20 = \$19,540,000)
 5. The project also reconfigures access roads to the DPW facilities and installing a fence around the DPW parcels to screen the property until they are vacated, sold, and full redeveloped into the DSI campus expansion.
 6. At minimum, the estimated total costs and TIF funding represents approximately 19% of the total \$92,700,000 project costs which also includes costs related to moving the DPW sanitation

operations, including employees, equipment, and salting operating supplies, to an undetermined location if and when DSI exercises its option to purchase the city owned property at 6511 N Industrial Road.

7. File 060420 creates and funds up to \$13,350,000 for Developer Financed TID No. 64 (Direct Supply Project) related to adding additional building and parking to the existing campus that encompasses properties between 7221 West Green Tree Road and 6655 North Industrial Road.

| General Project Description | Estimated Cost | Sources of Funding |
|--|---------------------|------------------------------|
| Construct connector building | \$74,858,000 | Developer and tenant |
| DPW site relocation (100% = est. \$9,400,000) | | (50/50) GO Bonds / developer |
| Developer (50%) | \$ 4,700,000 | Developer (TID reimbursable) |
| City GO Borrowing (50%) | \$ 4,700,000 | Separate City GO bond |
| Acquisition, demolition & extraordinary costs | \$ 6,692,000 | TID No. 64 |
| DPW access road and street vacation | \$ 1,700,000 | TID No. 64 |
| Administrative costs | \$ 250,000 | TID No. 64 |
| Total Estimated Project Cost (excl. interest) | \$92,700,000 | |

8. The Project Plan (Exhibit 4) estimates real and personal properties in the district increasing from the current \$13 million combined to approximately \$70 million combined in 2017.
9. The industrial TID will expire in 2033.
10. Except in the comprehensive annual report on all TID activities which the Common Council, requires the Department of City Development to submit, this resolution does not direct city officials to provide future reports to the Common Council on TID performance, potential sites to relocate the DPW facilities, project cost adjustments, job creation goal attainments or other matters that the Council may determine to be relevant.

Fiscal Impact

If adopted, File 060420 has a fiscal impact of a minimum \$13,350,000 principal investment, plus inflationary interest, an additional 6% interest per annum and also a \$4,700,000 general obligation borrowing commitment.

Other Information

1. The Comptroller’s Office, in its July 20 letter complements the DSI project on the economic benefits expected from adding 1,354 new jobs to the city’s job market. The letter also notes that the developer assumes the risk that repayments from the TID are greatly contingent upon the tenant meeting annual job creation goals. Select highlights from the letter include:
 - Given the projected tax increments from the DCD feasibility study, this project is not likely to generate any new property tax revenues to the benefit of the general taxpayer.
 - The City’s loan will be reduced pro-rata based on the proportion of employment falling below the target (LRB noted no distinction for the types of jobs – full versus part time, seasonal, etc.)

- The developer loan “claw-back” provision should be strengthened.
 - The City has not yet found an alternate location for the DPW sanitation site that, at tenant’s discretion sometime between years 2009 and 2016 to purchase (LRB notes that this uncertainty as well as the option being exercised would disrupt and potentially displace a the city’s sanitation, snow and ice removal, leaf collection, street sweeping, and recycling operations and staff serving several neighborhoods on the city’s northwest side).
 - The claw-back incentive is weakened by the 12-month “cure period” largely due to the fact that the tenant controls its employment levels
 - To avoid a potentially exorbitant future acquisition costs, the City should consider making the DSI option to purchase the DPW site contingent on the City’s procuring a site or acquiring its own option to purchase an alternate site.
2. The documents do not address obligations in the event of DSI business closure, relocating outside the Milwaukee area, corporate mergers and takeovers, strategic down- or right-sizing initiatives, or other voluntary or involuntary actions that would affect the job projections.

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