

**AMENDMENT NO. 1**

**PROJECT PLAN FOR  
TAX INCREMENTAL FINANCING DISTRICT NO. 98  
(The Ikon)**

**CITY OF MILWAUKEE**

**Public Hearing Held: August 15, 2019**

**Redevelopment Authority Adopted:**

**Common Council Adopted:**

**Joint Review Board Adopted:**

**AMENDMENT NO. 1 to the PROJECT PLAN for  
TAX INCREMENTAL FINANCING DISTRICT NUMBER 98  
CITY OF MILWAUKEE  
(THE IKON)**

**Introduction**

Section 66.1105 (4)(h)(1), Wisconsin Statutes, permits the Redevelopment Authority, subject to the approval of the Common Council, to amend the project plan for a tax incremental financing district.

Section 66.1105 (2)(f) 1.n., permits that amendment to fund projects located outside, but within one half-mile of the district's boundary.

The Common Council created Tax Incremental District No. 98 (the "District") in 2019 for the purpose of providing a \$4,000,000 loan to assist in the redevelopment of the former Sears and Milwaukee Mall building at 2100 West North Avenue into a 80-room boutique hotel, restaurant, retail/commercial space, parking and an adjacent 23,600 SF conference center (the "Hotel Project") called The Ikon.

Amendment No. 1 (the "Amendment"), authorizes an additional \$5,000,000 loan to assist the Hotel Project, \$500,000 for public infrastructure improvements, \$500,000 for commercial corridor improvements and \$112,500 in administrative expenses for a total of \$6,112,500 in new project costs.

**Amendments to the Project Plan:**

The following amendments are made to the Project Plan. All other sections of the Plan remain unchanged.

**I. DESCRIPTION OF THE PROJECT**

**Sub-Section C, "Proposed Project," is amended by adding the following:**

The City is proposing up to a \$5,000,000 loan to the Developer from this District for costs associated with the Hotel Project, per the attached Term Sheet, **Exhibit 7, "The Ikon Loan Term Sheet Amendment No. 1."** In addition, the City is proposing \$500,000 for Commercial Corridor projects and \$500,000 for public infrastructure improvements.

**II. PLAN PROPOSALS**

**Sub-Section A, "Statement of the Kind, Number, and Location of All Proposed Public Works or Improvements," is amended by adding the following:**

Amendment No. 1 Loan (\$5,000,000): Provide up to a \$5,000,000 loan to Developer for costs associated with the Hotel Project (the "Loan"), per the attached Term Sheet, **Exhibit 7, "The Ikon Loan Term Sheet Amendment No. 1."**

Public Infrastructure Improvements (\$500,000): Funding for public improvements, infrastructure, engineering and planning, including street paving, streetscaping, traffic signal upgrades, utility work,

public art, lighting improvements, pedestrian amenities and bike amenities, within the District and within a one half-mile radius of the District boundary, per Section 66.1105(2)(f) Stats.

Commercial Corridor Fund (\$500,000). In an effort to attract or retain office and retail tenants in the District and within a one half-mile radius of the District boundary, per Section 66.1105(2)(f) Stats., fund cash grants or loans to be used for tenant improvements, façade improvements, new signage or other expenses. The funds would be administered through the City’s existing Commercial Corridors programs.

The number and location of proposed public works and improvements are shown in “**Map 3: Amendment No. 1, Proposed Uses and Improvements.**”

**Sub-Section B, “Detailed List of Estimated Project Costs,” is deleted and restated as follows:**

B. “Detailed List of Estimated Project Costs.”

The costs included in this subsection and detailed in Table B which follows are, without limitation because of enumeration, eligible project costs as defined under Section 66.1105(2)(f) and, if appropriate, in any cooperation agreement(s) entered into by and between the City of Milwaukee and eligible designated developer(s), provided further that such expenditures are necessitated by this Project Plan.

These costs and costs estimates are more fully described as follows:

Capital Costs

The City shall fund an estimated \$10,000,000 in the form of TID Capital Project Costs enumerated in further detail in **Table A** of this Plan.

<b>TABLE A: TID Capital Project Costs</b>	
Original Loan to Developer	\$4,000,000
Amend No. 1 Loan to Developer	\$5,000,000
Public Infrastructure Improvements	\$500,000
Commercial Corridor Programs	\$500,000
<b>TOTAL Capital Project Costs</b>	<b>\$10,000,000</b>

Other Costs

This category of Project Costs includes estimates for administrative, professional, organizational and legal costs.

Financing Costs

Financing costs include estimated gross interest expenses on bonds that will be issued to pay for Project Costs. Estimates of interest are based on interest rates as set forth in the Economic Feasibility Analysis, attached as **Exhibit 4, “Feasibility Study for Amendment No. 1.”**

**TABLE B: Lists of Estimated Project Costs**

<u>Capital:</u> Original Loan to Developer	\$4,000,000
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Amend No. 1 Loan to Developer	\$5,000,000
Public Infrastructure Improvements	\$500,000
Commercial Corridor Programs	\$500,000
<u>Other:</u>	
Administration (\$7,500 x 15 years)	\$112,500
Total Estimated Project Costs, excluding financing	\$10,112,500
<u>Financing:</u>	
Interest	\$5,750,000

**Sub-Section C, “Description of Timing and Methods of Financing” is deleted and restated, as follows:**

All expenditures for the City Project Costs are expected to be incurred during the period from 2019-2029.

The City may proceed to fund any or all Project Costs using general obligation bonds or notes, or Redevelopment Authority revenue bonds to be issued in amounts which can be supported using tax increments in the District.

**Sub-Section D, “Economic Feasibility Study”, is deleted and restated as follows:**

The Economic Feasibility Study for this District is attached to this Project Plan as **Exhibit 4, “Feasibility Study for Amendment No. 1.”** The study establishes the dollar value of the Project Costs which, based on certain general assumptions and a reasonable margin of safety, can be financed with the revenues projected to be generated by the District, including payments by the Developer on the Loan.

Based upon the anticipated tax incremental revenue to be generated by the District, the District is financially feasible and is likely to be retired on or before year 2045, the 26th year of the District. Accordingly, the District is determined to be feasible.

**Sub-Section F, “Map Showing Proposed Improvements and Uses:” is amended by adding “Map 3: Amendment No. 1, Proposed Improvements and Uses”, attached.**

**Opinion of City Attorney letter is deleted and replaced with the attached letter from the City Attorney.**

## EXHIBIT 4

### ECONOMIC FEASIBILITY STUDY FOR AMENDMENT NO. 1 THE IKON TID (NO. 98)

#### **Background:**

The City of Milwaukee is proposing to amend The Ikon Tax Incremental District No. 98 (the “District”) to provide an additional \$5,000,000 loan to assist the Hotel Project, \$500,000 for public infrastructure improvements and \$500,000 for commercial corridor improvements.

The additional \$5,000,000 loan would be combined with the previously approved \$4,000,000 loan to the Hotel Project. The combined loan would be paid back under the terms outlined in **Exhibit 7, “The Ikon Loan Term Sheet Amendment No. 1.”**

#### **Current Property Valuation:**

The assessment of the Property as of 1/1/2019 (the base year) is estimated at \$1,469,600.

#### **Anticipated Future Value of the District:**

Increment generated in the District will come primarily from the redevelopment of the Property into the Hotel Project: an 80-room full-service boutique hotel, 23,600 SF conference center, full-service restaurant, lobby bar and co-working space.

In March of 2019, the feasibility study for the creation of the District was prepared. At that time, there was limited information on the expected financial performance of the Hotel Project. As a result, a comparables approach was used to determine a potential value for the Hotel Project. That analysis concluded that, based on comparables, the Hotel Project would have a stabilized value of \$3,642,800 in 2022.

Since that time, the Developer has provided the City with a hotel market study prepared by Hospitality Marketers International, Inc. which shows likely room rates, food and beverage revenue and typical operating costs. The study estimated a gross profit for the Hotel Project of \$1,500,000-\$2,500,000. The Developer used the results from that study to finalize a proforma for the Hotel Project. Including additional expenses, the Developer is estimating a net operating income of apr. \$1,000,000.

The Hotel Project is projected to have a higher net operating income than some of the comparables that were previously looked at because of the food and beverage offerings and the 23,600 SF conference center at the Hotel Project. No other comparable hotel previously analyzed had those same revenue opportunities as the Hotel Project.

Based on conversations with the City Assessor’s Office, hotels are typically valued on an income basis, not a comparable basis. A cap rate of 8% is typically used to determine the assessed values of hotels in the City of Milwaukee.

Using the Developer’s projected net operating income of \$1,000,000 and an 8% cap rate would lead to an assessed value of \$12,500,000. However, to be more conservative for the purposes of this feasibility study, a 15% reduction in expected net operating income is applied, resulting in an expected net operating income of \$850,000. At an 8% cap rate, the stabilized value of the Hotel Project would then be \$10,625,000 ( $\$850,000 / .08$ ). It is assumed that the Hotel Project will reach its stabilized value in 2023.

In addition, for the purposes of this feasibility study, it is assumed that no further development or redevelopment occurs in the District. However, a 1% annual appreciation on all Property is assumed.

**Anticipated District Cash Flow:**

In addition to the incremental tax revenue, the District will receive loan payments from the Developer. The repayment terms for the loan are as follows and explained in more detail in **Exhibit 7, “The Ikon Loan Term Sheet Amendment No. 1”**:

- Years 1-2: No payments of principal or interest
- Years 3-5: Annual payment of \$500,000 (includes payment of incremental property taxes)
- Years 6-20: Annual payment of \$850,000 (includes payment of incremental property taxes)

Attached as Table 1 is a cash flow forecast for the proposed Amendment No. 1 to the District. In addition to the loan repayment, basic parameters of this forecast are:

- Base Value: \$1,469,600
- Tax Rate: 2.785%
- Interest Rate on City Borrowing: 4.75%
- Annual Appreciation: 1.00%
- Project Costs: \$10,000,000 (for the loan, public infrastructure and commercial corridor funds)
- Annual Admin Costs: \$7,500 (15 years)

As shown in the forecast, the District is able to amortize the amended Project Costs in an estimated 26 years. Given this estimate, the proposed District is determined to be feasible and capable of amortizing the Project Costs within the statutory life of the proposed District.

**The Ikon TID No. 98 Amendment No. 1 Feasibility**

No.	Assessment Year	Budget Year	Base Value	Projected Value	TID Incremental Value	Incremental Revenue	Cumulative Inc. Revenue	Developer Loan Repayment	Total Developer Payment	Debt Service on Project Costs	Total		After reserving for remaining debt Surplus/(deficit)	TID Payoff
											Cash flow	Cum. Cash Flow		
1	2019	2020	1,469,600	1,469,600	-	-	-	-	-	(485,147)	(485,147)	(485,147)	(15,863,532)	
2	2020	2021	1,469,600	1,469,600	-	-	-	-	-	(485,147)	(485,147)	(970,294)	(15,863,532)	No
3	2021	2022	1,469,600	2,656,250	1,186,650	33,048	33,048	216,952	250,000	(485,147)	(235,147)	(1,205,442)	(15,613,532)	No
4	2022	2023	1,469,600	10,625,000	9,155,400	254,978	288,026	245,022	500,000	(485,147)	14,853	(1,190,589)	(15,113,532)	No
5	2023	2024	1,469,600	10,731,250	9,261,650	257,937	545,963	242,063	500,000	(1,070,996)	(570,996)	(1,761,584)	(14,613,532)	No
6	2024	2025	1,469,600	10,838,563	9,368,963	260,926	806,889	589,074	850,000	(1,070,996)	(220,996)	(1,982,580)	(13,763,532)	No
7	2025	2026	1,469,600	10,946,948	9,477,348	263,944	1,070,833	586,056	850,000	(1,070,996)	(220,996)	(2,203,576)	(12,913,532)	No
8	2026	2027	1,469,600	11,056,418	9,586,818	266,993	1,337,826	583,007	850,000	(1,070,996)	(220,996)	(2,424,571)	(12,063,532)	No
9	2027	2028	1,469,600	11,166,982	9,697,382	270,072	1,607,898	579,928	850,000	(1,070,996)	(220,996)	(2,645,567)	(11,213,532)	No
10	2028	2029	1,469,600	11,278,652	9,809,052	273,182	1,881,080	576,818	850,000	(1,070,996)	(220,996)	(2,866,563)	(10,363,532)	No
11	2029	2030	1,469,600	11,391,438	9,921,838	276,323	2,157,403	573,677	850,000	(1,070,996)	(220,996)	(3,087,558)	(9,513,532)	No
12	2030	2031	1,469,600	11,505,352	10,035,752	279,496	2,436,899	570,504	850,000	(1,070,996)	(220,996)	(3,308,554)	(8,663,532)	No
13	2031	2032	1,469,600	11,620,406	10,150,806	282,700	2,719,599	567,300	850,000	(1,070,996)	(220,996)	(3,529,550)	(7,813,532)	No
14	2032	2033	1,469,600	11,736,610	10,267,010	285,936	3,005,535	564,064	850,000	(1,070,996)	(220,996)	(3,750,545)	(6,963,532)	No
15	2033	2034	1,469,600	11,853,976	10,384,376	289,205	3,294,740	560,795	850,000	(1,070,996)	(220,996)	(3,971,541)	(6,113,532)	No
16	2034	2035	1,469,600	11,972,516	10,502,916	292,506	3,587,246	557,494	850,000	(1,070,996)	(220,996)	(4,192,537)	(5,263,532)	No
17	2035	2036	1,469,600	12,092,241	10,622,641	295,841	3,883,087	554,159	850,000	(1,070,996)	(220,996)	(4,413,532)	(4,413,532)	No
18	2036	2037	1,469,600	12,213,164	10,743,564	299,208	4,182,295	550,792	850,000		850,000	(3,563,532)	(3,563,532)	No
19	2037	2038	1,469,600	12,335,295	10,865,695	302,610	4,484,904	547,390	850,000		850,000	(2,713,532)	(2,713,532)	No
20	2038	2039	1,469,600	12,458,648	10,989,048	306,045	4,790,949	543,955	850,000		850,000	(1,863,532)	(1,863,532)	No
21	2039	2040	1,469,600	12,583,235	11,113,635	309,515	5,100,464		309,515		309,515	(1,554,018)	(1,554,018)	No
22	2040	2041	1,469,600	12,709,067	11,239,467	313,019	5,413,483		313,019		313,019	(1,240,998)	(1,240,998)	No
23	2041	2042	1,469,600	12,836,158	11,366,558	316,559	5,730,042		316,559		316,559	(924,440)	(924,440)	No
24	2042	2043	1,469,600	12,964,519	11,494,919	320,133	6,050,175		320,133		320,133	(604,306)	(604,306)	No
25	2043	2044	1,469,600	13,094,164	11,624,564	323,744	6,373,920		323,744		323,744	(280,562)	(280,562)	No
26	2044	2045	1,469,600	13,225,106	11,755,506	327,391	6,701,310		327,391		327,391	46,829	46,829	YES
27	2045	2046	1,469,600	13,357,357	11,887,757	331,074	7,032,384		331,074		331,074	377,903	377,903	YES
						7,032,384			9,209,051			(15,863,532)	377,903	

Annual appreciation	1.010
Interest Rate	4.75%
Base Value	1,469,600
Property Tax rate	2.785%
Issuance Costs	101,125
Project Costs	10,112,500

<u>Project Costs</u>	<u>Value</u>
Loan:	9,000,000
NOI	\$850,000
PI/CC:	1,000,000
Cap Rate	8%
Administration	112,500
Stabilized Value	\$10,625,000

**EXHIBIT 7**  
**The Ikon Loan Term Sheet Amendment No. 1**  
**(see following pages)**



## **THE IKON LOAN TERM SHEET AMENDMENT NO. 1**

**(The Ikon – TID 98)**

### **PROJECT**

The Ikon project is a mixed-use development proposed on property bounded by West North Avenue, North 24th Street, West Oak Street and West Fond du Lave Avenue (the “Project Site”). The majority of the Project Site, 2100 West North Avenue, is owned by HG Sears, LLC (the “Developer”), or successors and assigns. The Project Site also includes three parcels owned by the City of Milwaukee (the “City”) and a few other privately-owned parcels.

The initial project would redevelop the former Sears and Milwaukee Mall building at the corner of West North Avenue and West Fond du Lac Avenue (the “Hotel Property”) into a 80-room boutique hotel, restaurant, retail/commercial space, parking and an adjacent 23,600 SF conference center (the “Hotel Project”) with a total investment of apr. \$30m. Later phases of development on the remaining portions of the Project Site could include housing, office, a fitness center retail and parking.

City proposes to assist Developer via the creation of a new Tax Incremental District No. 98 (The Ikon) (“the TID”) to fund the items below as set forth in the TID Project Plan:

- Loan (\$9,000,000). City will provide up to a \$9,000,000 loan to the Developer (the “Loan”) for development costs associated with the Hotel Project, as described in the Loan section below.

### **APPROXIMATE DEVELOPMENT SCHEDULE**

Commence Construction of Hotel Project by December 31, 2019.  
Substantial Completion of Hotel Project by December 31, 2022.

### **DESIGN REVIEW**

Plans and specifications for the Overall Project shall be subject to the reasonable review and approval of City’s Commissioner of City Development (the “Commissioner”). City and Developer shall cooperate in the design of streetscape elements.

### **PARTIES**

City, Redevelopment Authority of the City of Milwaukee and Developer.

## **PARTIES' OBLIGATIONS**

In order to receive the financial assistance described above, Developer must fulfill the following obligations:

- A. Developer shall obtain building permits for the construction of Hotel Project and substantially complete construction of the Hotel Project by December 31, 2022, subject to force majeure.
- B. Developer shall repay the Loan in accordance with the terms described below.
- C. Developer shall enter into a Human Resources Agreement with City that will require Developer to utilize certified Small Business Enterprises ("SBE") for 25% of construction and supply costs and 18% of professional services costs on the Hotel Project and utilize unemployed and underemployed residents, pursuant to City's Resident Preference Program ("RPP"), for no less than 40% of total "worker hours" expended on construction of the Hotel Project. City and Developer shall agree upon a schedule of anticipated SBE and RPP percentages over the life of the Hotel Project. Developer may also receive credit for RPP qualified new employees added at the Project Site with respect to the required RPP percentages, per Ordinance Section 355-7-2A. If the Developer does not meet the required SBE and RPP percentages set forth in Ordinance Section 355-7-2A, release of all or a portion of the Loan may be withheld until the percentages are met or may be withheld completely if the percentages are never met.
- D. Developer shall enter into a standard payment in lieu of taxes ("PILOT") agreement with City agreeing to make PILOT payments to City for the full property tax rate in the event that any parcel or building within the Hotel Project, or the entire Project Site, becomes exempt from the payment of real property taxes during the original term of the TID. PILOT payments shall be due until termination of the TID or through the year of the 2045 tax levy, payable in 2046; whichever shall first occur.

## **LOAN**

City shall use funds approved as part of the TID to fund the Loan in the amount of \$9,000,000 to assist the Developer with the Hotel Project.

Initially, \$2,000,000 shall be provided to the Developer on the Loan closing date to be determined by the parties. Developer shall sign and deliver to City a First Mortgage and a Loan Agreement regarding the Loan.

Subsequent to the loan closing, Developer may draw up to an additional \$2,000,000 for pre-development activities for the Hotel Project, such as architectural/engineering expenses, legal expenses, environmental remediation, interior demolition, holding costs and other direct costs. No developer fee shall be paid from these funds, other than to

reimburse Developer for direct costs related to the project. Funds for pre-development will be drawn as expenses are incurred.

After all other project funding sources have been secured and construction is underway, Developer may draw the remaining \$5,000,000 in Loan proceeds for any costs related to the Hotel Project.

## **LOAN PAYMENTS**

For the first two years of the Loan, no payments shall be due and no interest shall accrue.

Developer must make annual property tax payments by December 31st of any year. Annual Loan described below payments must be made by August 1st of any year.

For year 3 of the Loan, payments shall be calculated as follows:

$$\begin{aligned} & \$250,000 \\ & - \text{Total Property Taxes Paid on the Hotel Project in Year X (ie, 2022)} \\ & + \text{Base Value (2019) Property Taxes Paid on the Hotel Project} \\ & \text{Loan Payment for Year X + 1 (ie, 2023)} \end{aligned}$$

For years 4-5 of the Loan, payments shall be calculated as follows:

$$\begin{aligned} & \$500,000 \\ & - \text{Total Property Taxes Paid on the Hotel Project in Year X (ie, 2022)} \\ & + \text{Base Value (2019) Property Taxes Paid on the Hotel Project} \\ & \text{Loan Payment for Year X + 1 (ie, 2023)} \end{aligned}$$

For years 6-20 of the Loan, payments shall be calculated as follows:

$$\begin{aligned} & \$850,000 \\ & - \text{Total Property Taxes Paid on the Hotel Project in Year X (ie, 2022)} \\ & + \text{Base Value (2019) Property Taxes Paid on the Hotel Project} \\ & \text{Loan Payment for Year X + 1 (ie, 2023)} \end{aligned}$$

All Loan payments will be put towards the principal of the Loan (ie, 0% interest will be charged). After the Year 20 Loan payment, if the TID is projected to pay off by Year 23, any remaining principal on the Loan will be forgiven. If the TID is not projected to pay off by Year 23, Loan payments will continue under the Year 6-20 formula until such year is necessary for the TID to pay off.

## **OTHER ENTITLEMENTS OR APPROVALS**

City will work with Developer to secure any zoning changes, right-of-way vacations, right-of-way dedications and any other approvals or entitlements required for the Overall Project.

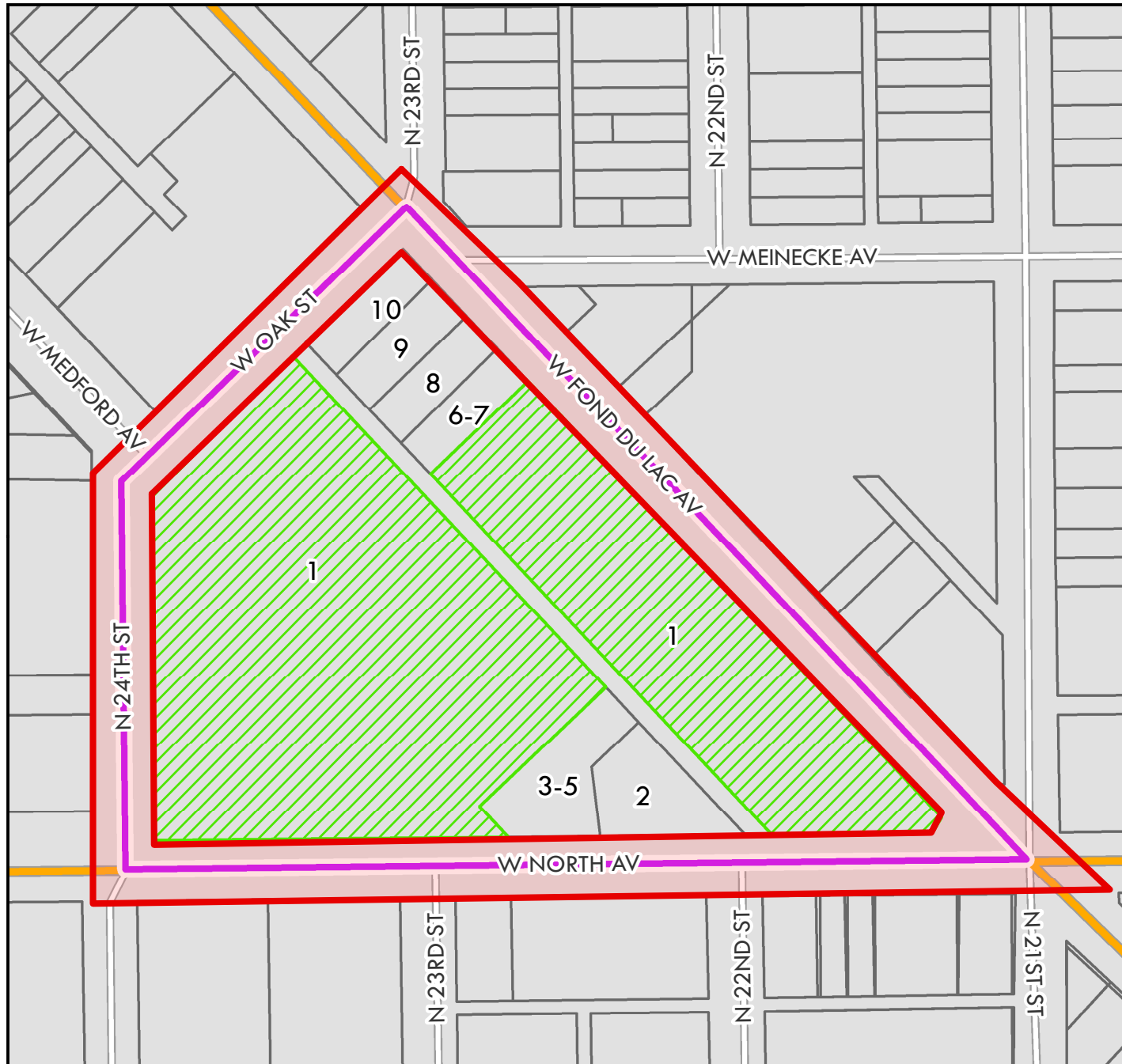
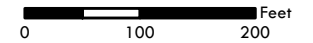
## **GENERAL**

This Term Sheet does not constitute a binding agreement. The terms set forth herein and other provisions customary for a transaction of this sort, shall be incorporated into a Loan Agreement, First Mortgage, Human Resources Agreement, a PILOT Agreement and any other documents, instruments or agreements necessary to accomplish the objectives described above. In recognition that there may be adjustments of the dates and descriptions herein as well as administrative approvals which will require the exercise of reasonable discretion on behalf of City, the Commissioner will be authorized under these agreements to exercise such discretion and grant such approvals.

# TID 98 Amendment No.1: THE IKON, MAP 3

## PROPOSED USES AND IMPROVEMENTS

Prepared by the Department of City Development Planning Division, 6/26/2019  
 Source: City of Milwaukee Information Technology Management Division







### PROPERTY LIST

No.	Taxkey	Property Address
1	325-0005-110	2100 W NORTH AV
2	325-0007-000	2202 W NORTH AV
3	325-0008-100	2228 W NORTH AV
4	325-8100-000*	2228 W NORTH AV
5	325-8101-000*	2228 W NORTH AV
6	325-0004-000	2229 W FOND DU LAC AV
7	325-8105-000*	2229 W FOND DU LAC AV
8	325-0003-000	2239 W FOND DU LAC AV
9	325-0002-000	2245 W FOND DU LAC AV
10	325-0001-000	2249 W FOND DU LAC AV

\* Billboard

### MAP LEGEND

-  TID 98 Boundary
-  Parcel Boundary
-  Project Site  
(Parcel 1 - Hotel Project)
-  Public Infrastructure Improvements