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December 4, 2018

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

RE: File 180884, TID 94 – 1st and Becher

Dear Committee Members:

File 180884 would approve the creation of Tax Incremental District (TID) 94, 1st and Becher (the District), along with the corresponding project plan and term sheet. The Comptroller's office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD) and Assessor's office staff. The Comptroller's office analysis is based on the information provided.

The proposed District includes five properties totaling 6.18 acres, bordered by the Kinnickinnic River, South 1st Street, and West Becher Street (the Property). There are no active uses within the District. The Property is currently comprised of a number of underutilized buildings that will be demolished as part of the redevelopment. The property has an assessed value of \$3,155,800.

Becher Development LLC (the Developer) will undertake the redevelopment of the site (the Project). The Project will consist of the redevelopment of underutilized, former light industrial and commercial properties into a 130,000 square foot, 8- story office building, with associated indoor parking and 1,030 linear feet of new Riverwalk and public access connections.

Total estimated costs for the Project are \$49 million. The Developer financed portion of this file authorizes a \$3.4 million grant to partially fund the Riverwalk costs. The Developer will advance \$3.4 million for the Project costs. After substantial completion of the Project, the District will make full payment of the \$3.4 million at an interest rate of 4.5% to the Developer. The payment will be made in the form of 70 percent of the increment revenue generated by the District, less an administrative charge of \$7,500 per year. The District's obligation to repay the Developer expires after 16 years following substantial completion of the Project.

The "developer financing" approach of the proposed District shifts a portion of the associated risk of this TID from the City to the Developer. As a developer-financed TID, the Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their \$3.4 million investment with interest.

The City financed portion of this file authorizes \$3.0 million to finance public infrastructure improvements and \$250,000 in administrative costs. In addition, the Redevelopment Authority of the City of Milwaukee's (RACM) Revolving Loan fund will provide a \$400,000 loan to partially fund environmental remediation costs. The City's investment and the RACM Revolving Loan will be paid from 30 percent of the increment revenue generated by the District.

The total Developer and City financed costs, excluding financing, are provided below.

<u>List of Estimated Project Costs</u>		
<u>Capital</u>		
Monetary Obligation to Developer	\$3,400,000	
Riverwalk and Public Infrastructure Improvements	3,030,000	
Environmental Remediation	<u>400,000</u>	
Total Capital Project Costs		\$6,830,000
<u>Other</u>		
Administrative, Professional, and Legal	<u>\$250,000</u>	
Total Other Costs		250,000
Total Estimated Project Costs, excluding financing		<u>\$7,080,000</u>

Is This Project Likely to Succeed?

From a financial perspective, the proposed TID appears feasible given that the Developer assumes the risk of recovering their \$3.4 million contribution, which is limited to a 16-year tax incremental revenue stream from the District.

DCD's feasibility study, which uses a constant 3.00% property tax rate and 1% inflation rate over the life of the TID, forecasts the District will fully recover the Project costs plus financing in 2036, after receipt of the 2035 levy (year 17). DCD's analysis is based on an estimated base value of \$1,318,200, which represents only the value of the District's land. Demolition of the existing buildings is currently underway, and it is expected that all of the buildings will be demolished by January 1, 2019.

DCD's feasibility study appears somewhat aggressive based on the Comptroller's office analysis, specifically as it relates to the property tax rate. The Comptroller's office analysis forecasts the District will fully recover the Project costs plus financing in 2038, after receipt of the 2037 levy (year 19). Because the Developer, not the City, assumes the repayment risk on their contribution to the District's costs, the proposed TID appears feasible based on the Comptroller's review.

Is the Proposed Level of City Financial Participation Required to Implement the Project?

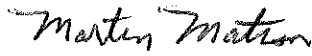
This proposed TID allows the City to provide incentive to the Developer for construction of the Riverwalk while limiting the City's involvement and risk. Without City funding, this Project may be delayed or not occur altogether, reducing the desirability of this area for future development.

Conclusion

The proposed TID provides the financing necessary for the development of the Riverwalk along the Kinnickinnic River. The Developer assumes the risk of recovering \$3.4 million of the initial investment while the City assumes the risk of recovering the remaining \$3.7 million.

Should you have any questions regarding this letter, please contact Joshua Benson at extension 2194.

Sincerely,



Martin Matson
Comptroller

CC: Lori Lutzka
Alyssa Remington

MM/JB