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Office of the Comptroller

December 8, 2014

Zoning, Neighborhoods & Development Committee
City of Milwaukee
City Hall, Room 205

RE: File 141263, TID 82 – East Michigan

Dear Committee Members:

File 141263 would approve the creation of TID 82 (East Michigan), and the related Project Plan and Development Agreement. We have reviewed the project plan, feasibility study and term sheet and are basing our analysis on this information.

Tax Incremental District 82 consists of two properties; one at 909 East Michigan Street (the Couture) and one at 833 East Michigan Street. The Couture is a planned 44-story, mixed-use development which will replace the existing Milwaukee County Downtown Transit Center. The 833 East building is an 18-story office tower, currently under construction, with a 2014 assessed valuation of \$5.4 million. The district is being created mainly to fund portions of two segments of the proposed streetcar lines along with public improvements, infrastructure and amenities within a half-mile radius of the district boundary.

Total estimated TID project costs, excluding financing, are \$49.55 million. A breakdown of this total is shown in Table A.

Capital		
<u>Streetcar Costs</u>		
Phase 1	\$ 15,900,000	
Lakefront Line	15,100,000	\$ 31,000,000
<u>Couture Public Amenities</u>		
Public Transportation Concourse	6,000,000	
Visitor Walkways	3,100,000	
Public Area Core/Common Space/Pedestrian & Bike Amenities	3,000,000	
Public Pedestrian Visitor Plaza	2,200,000	
Publicly Accessible Plazas and Spaces	2,000,000	
Public Access Stairs to Walkways	1,200,000	17,500,000
Repaving of North Astor from East Kilbourn Ave. to East State St.		150,000
Capital Project Costs		48,650,000
Other		
Workforce Training		400,000
Administrative		500,000
Total TID Project Costs (excluding financing)		\$ 49,550,000



Streetcar Costs

The proposed district would fund \$15.9 million of costs related to construction of Phase 1 of the Streetcar project. TID 82 would also fund \$15.1 million in costs related to the proposed Streetcar Lakefront extension. The cost for the proposed Lakefront extension is estimated at \$25 million (see Table B). This is a conceptual estimate provided by the City's owner's representative, the Concord group, and is based on the 60% Cost Summary for the initial base route. If approved, the Lakefront line cost estimate will be refined as the project is further developed.

Guideway	\$ 2,741,000
Stations/Support Facilities/Sitework	3,867,000
Systems	4,003,000
Vehicles	4,130,000
Professional Services	2,690,000
Unallocated Contingency & Escalation	3,883,000
Private Utilities	3,693,000
Total	\$ 25,007,000

¹ Based on the Lakefront Line draft capital cost plan

Approximately \$10 million of the Streetcar lakefront extension costs are not included in the project plan for TID 82. The Department of Public Works believes the Lakefront extension is well positioned for a USDOT TIGER Grant. However, at this time, federal funding has not been secured, and the next grant program has not yet been announced.

Couture Public Amenities

The \$17.5 million of public amenities associated with the Couture would be constructed by the proposed developer, Barrett Visionary Development (the Developer). The TID would reimburse the Developer for these improvements.

The Department of City Development (DCD) feasibility study provides two scenarios for this district; one version which includes development of both the Couture site (Couture scenario) and the 833 East building and another version excluding the Couture project (833-only scenario). DCD forecasts the project under the Couture scenario to break even in year 19 while the 833-only scenario is estimated to break even in year 21. It should be noted that DCD's feasibility study is based on the assumption that Milwaukee general obligation bonds will be issued to fund expenditures. However, the project plan anticipates that all project costs will be funded by a combination of Milwaukee promissory notes and RACM revenue bonds. Discussions with the City's financial advisor have indicated that, due to its double tax exemption, the interest rate on a 17-year RACM revenue bond would be approximately the same as a 17-year GO bond. Due to its shorter duration, the interest rates on 10-year promissory notes could be lower than a 17-year GO bond. Therefore, the feasibility study, assuming the use of GO debt, would likely be a good proxy for a similar RACM revenue bond issue and could be considered a reasonable comparison to 10-year promissory notes.

Should the Couture portion of the project not move forward, funds for the Couture Public Amenities, as itemized in Table A, will only be spent to the extent necessary to provide public access to the streetcar line and the lakefront and to provide related pedestrian and bicycle amenities connecting public and private transportation modes within the district. These Couture expenditures will be limited to the debt capacity, resulting from tax incremental revenues generated by the 833 East building, in excess of the amounts needed for the streetcar segments.

Is This Project Likely to Be Successful?

Because the proposed Couture Developer lacks control of the building site and since the current DCD feasibility study is based on preliminary information, we have not analyzed the feasibility scenario which includes construction of the Couture project. Based only on the DCD feasibility study, if the Couture project is built as planned, it appears likely the increased incremental revenue for this project would be sufficient to recover the \$17.5 million plus financing costs.

The DCD feasibility study forecasts that the project, without the Couture, will generate enough tax increments to support general obligation (GO) debt service on \$32.05 million of streetcar, paving, workforce development and administrative expenditures, with the district breaking even in year 21. Based on the property valuation estimates provided by DCD for the 833 East building, DCD's feasibility study estimates, under the no Couture scenario, appear reasonable based on my office's analysis which agrees that break even should occur in year 21.

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

The 833 portion of this proposed TID would allow the City to fund \$31 million of streetcar construction along with \$150,000 of North Astor Street paving, \$400,000 of workforce training and \$500,000 of administrative activities. Currently, there are no alternative City funding sources to finance these activities. Without TID funding, streetcar and Astor Street paving projects would need to be delayed.

Conclusion

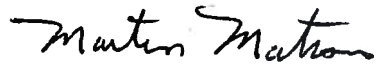
It is clear that, based on DCD's estimated project valuations of the 833 East building, TID 82 tax incremental revenue related to that portion of the district will support \$32.05 million of planned expenditures plus financing costs. The \$32 million would be adequate to cover TID 82 Project Plan costs estimates for the streetcar, workforce training, and administration.

It is too early in the engineering design process for my office to reliably determine whether the estimated dollars for the streetcar lakefront line included in TID 82 will be sufficient to construct and place into service the planned lakefront extension to the Phase 1 streetcar system. The estimated \$25 million for the Lakefront line has only been designed to a conceptual level and the cost estimate is expected to be refined as the project is further developed. Also, if the planned \$10 million in grant or other funding does not materialize, DPW will likely not have enough funding to complete the extension of the streetcar.

After the Couture developer gains control of the site and initial planning is complete, we recommend that DCD return to the Committee for approval of release of Couture funding.

Should you have any questions regarding this letter, please contact Rocky Wruck of my staff at 2304.

Sincerely,

A handwritten signature in black ink that reads "Martin Matson". The signature is written in a cursive style with a prominent flourish at the end of the word "Matson".

Martin Matson
Comptroller

MM/TB/WR