



Office of the Comptroller

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August 26, 2009

Members of the Zoning, Neighborhoods
& Development Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: File #081627; TID 73 - City Lights Project

Dear Committee Members:

File 081627 authorizes the creation of Tax Incremental District (TID) 73 for the City Lights Project. The file also approves the TID Project Plan and the terms of the development agreement between the City and Giuffre VIII, LLC, (Developer). The Project would renovate and convert five buildings at the 25 acre former Wisconsin Gas Light Company site into 98,000 square feet of office and commercial space. The site is bounded by I-94 on the North, the Menomonee River on the South, 16th Street on the East and 25th Street on the West.

Redevelopment of the site will occur in three phases. The first phase includes renovation and conversion of the "Retort Building" into 43,000 square feet of office space for Zimmerman Architectural Studios, Inc., which will lease the building from Developer. The relocation of Zimmerman Architects from its current location in Wauwatosa would bring approximately 120 employees to the site. The subsequent two phases would redevelop the remainder of the properties at the site. Tenants for these remaining properties have yet to be identified, but it is anticipated that the redevelopment of these properties would result in an estimated 90 additional employees. The budget for the three phase project totals \$14.3 million.

<u>Uses</u>		<u>Sources</u>	
Land Acquisition	\$ 1,400,000	Tax Increment Financing	\$ 2,038,000
Construction Costs	8,677,490	Capital - Tax Levy Supported	500,000
Soft Costs	1,638,962	Developer Equity	2,220,000
Street, Sewer & Infrastructure	2,538,000	Developer Debt	8,496,452
		Historic Tax Credits	1,000,000
	<u>\$ 14,254,452</u>		<u>\$ 14,254,452</u>

In support of the project, the proposed TID would fund \$2,038,000 in public infrastructure, primarily for the extension of a public street and related infrastructure and utilities. In addition to the approximately \$2 million in TID project costs, the City would commit an additional \$500,000 in sewer capital funds for the expansion and upgrade of sewers to service the Project. The TID project plan also contemplates an additional \$2 million in funding for the extension of 17th Street at some future date, pending Council approval at that time.

Is the Project Likely to be Successful?

We have reviewed the Department of City Development's (DCD) cash flow projections that show that the TID will likely retire \$2.2 million (including \$0.2 million in capitalized interest) in City debt issued in 2035, the 26th year of the TID. One year later - 2036 - would be the last year of the TID as permitted by State statute. The TID's projected feasibility is dependent upon the completion of Phase II of the project, which is anticipated to occur in 2013. Without the completion of Phase II, the TID will not recover its project and interest costs. In fact, modest changes to the assumptions used in the feasibility analysis show that the TID may not fully recover its costs. For example, should market demand for office and commercial space lag and Phase II is not completed or if assessed values fall even slightly below projections, the TID would not fully recover its costs.

Given this financial uncertainty, the Developer has agreed to guarantee the annual tax incremental revenue as projected in DCD's feasibility analysis and included in the Project Plan. The guarantee provides that should actual incremental revenue fall short of DCD's forecasted incremental revenue, the Developer will pay the difference. In effect, the guarantee by the Developer protects the City's investment in the TID by insuring that there will be sufficient revenues to repay the debt issued for the TID project costs. Given the significant job relocation to the city of Milwaukee and the existence of a strong Developer guarantee, there is a reasonable expectation of project success.

Is the Proposed Level of City Assistance Required for Project's Success?

The proposed project site and its anchor building have not been the focus of any major development over the past 25 years or more. Also, the proposed TID expenditures for TID 73 are for basic public works improvements – required expenditures that would not be expected to be financed through private sources. Therefore, we conclude that the approximately \$2.5 million in public improvements are necessary to allow private development to proceed.

While there is no direct financial assistance to the Developer from the TID, we reviewed the Developer's cash flows to determine whether the Developer could support a portion of the TID's public infrastructure costs and still realize an adequate investment return. Based on an agreed upon \$10.79 per sq.ft. Retort Building (Zimmerman) lease and assumed \$7 to \$8 per sq.ft. leases for the remainder of the project, the average cash-on-cash return to the Developer is projected at 8.4% - a reasonable rate of return for similar projects. Given this projection, the Developer would not be able to finance significant public infrastructure costs.

Conclusion

There exists a clear need for the public improvements proposed to provide the access and the amenities necessary for the project. Thus we conclude that the proposed public improvements are needed for the project to proceed. Since the entire \$2.5 million infrastructure investment needs to be in place for Phase I of the project, the City would be exposed to the risk that the TID might not recover all project and financing costs, particularly since TID feasibility is largely dependent on the completion of Phase II. However, the Developer guarantee provides adequate protection should TID increments be insufficient to recover project and finance costs. Given the job relocation benefits and this Developer guarantee, we conclude that the project will likely succeed and that the proposed City financing is essential to its ultimate success.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Dan". The signature is written in a cursive style with a long horizontal flourish at the end.

W. Martin Morics
Comptroller

Cc Richard Marcoux,
James Scherer,
Alyssa Remington

CDK/Mjd 08-25-09