

Amendment
To
Project Plan For
Tax Incremental District No. 72
(Bishop's Creek)

Initial Joint Review Board Meeting: August 7, 2014

Public Hearing Held: August 21, 2014

Redevelopment Authority Adopted:

Common Council Adopted:

Joint Review Board Approved:

Background

Wisconsin Act 183 allows amendments to tax increment districts which have experienced a decline in property value such that the district's value has been at least 10% less than its base value for the prior two consecutive years.

Act 183 allows the base value of the district to be reduced to its current value, subject to approval of the Joint Review Board, if:

- The City conducts a feasibility analysis as required by statute and also includes the annual and total amount of tax increments to be generated over the life of the district; and, the annual debt service costs on bonds issued by the City. In addition, the project must be amended so that at least one of the following three conditions occurs:
- The project plan specifies that, for the total value of public infrastructure improvements in the district that occur after the amendment, at least 51% of the value of such improvements must be financed by a private developer, or other private entity. In return, the City would repay those costs solely through the payment of cash grants from the city (presumably from actual incremental revenue generated by the district), provided the grant recipient has entered into a development agreement with the City; or
- The project plan specifies that the city expects all project costs to be paid within 90% of the district's remaining life; or
- The project plan specifies that expenditures may be made only within the first half of the tax incremental district's remaining life – except that expenditures may be made after this period if they are approved by a unanimous vote of the joint review board. In no event may expenditures be made later than five years prior to the district's unextended termination date.

Project Plan Amendment

TID No. 72 is an area bounded by N. 32nd St., N. 38th St., W. Congress Ave. and W. Hampton Ave., including the northwest corner of N. 32nd and W. Hampton. More than 50% of this 65 acre area was found to be “in need of rehabilitation or conservation work.”

This TID was originally established to fund the redevelopment of the former Kaiser Tannery at 32nd and Hampton, and to fund forgivable home improvement loans throughout the TID. The Kaiser site was purchased in 2004 by the Bishop's Creek

Community Development Corp., an entity organized by Holy Redeemer Church which has its campus immediately north of the Kaiser site and includes community facilities, including a Boys and Girls Club.

Funding was provided for demolition, environmental remediation, and utility improvements. By year-end 2010, a new 55 unit, apartment complex was completed and is completely leased up.

The Base Value of this District was established at \$32.69 million. Property value in the district declined significantly as the economy deteriorated. The district value now stands at \$26.86 million. In 2012 and 2013, the district value was 20.7% and 17.8% less than the Base Value. See attached Trend in Values for TID 72.

Given this “negative” incremental value, it is not possible to amortize the costs incurred, to date, for TID 72. Consequently, it is proposed that the Base Value be reset as provided in Act 183.

The updated feasibility analysis for the TID indicates that the district, as restructured, would have to achieve an average incremental value of \$4.5 million to amortize existing project costs, over the district’s remaining life. If the City intends to spend the remaining funding in the original project plan, the incremental value will have to increase by \$5.2 million, on average.

This district was created in 2009, and its maximum life would be 27 years, ending in 2036. Consequently, the district has 22 years remaining, and 90% of that is 19 years.

As provided in the feasibility analysis, an average incremental value of \$4.5 million would generate average incremental revenue of \$122,000. Over 19 years, this would recover the current costs of the District, including interest on debt. Average incremental revenue would have to increase to \$143,000 if all originally budgeted costs are incurred.

Per Act 183, the project plan herewith specifies that the City expects all project costs to be paid within 90% of the district’s remaining life.

ECONOMIC FEASIBILITY ANALYSIS

FOR

TAX INCREMENTAL DISTRICT NO. 72

As provided in this Amendment to the Project Plan for TID 72, the City of Milwaukee proposes to adjust the Base value of this TID to its current valuation of \$26,862,100.

The City has incurred approx. \$1.3 million in project costs in TID 72. Total scheduled debt service payments are \$2,494,060. Please see Debt Service schedule and Expense Statement as of April 30, 2014, attached.

Remaining costs to be recovered are shown in the Break Even Schedule, also attached. This schedule shows the costs to be recovered if no additional project costs are incurred, or, alternatively, if the remaining funds (\$360,000) set forth in the original Project Plan are ultimately spent.

Specifically:

- A. \$2,326,953 must be recovered if no future costs are incurred (Forecast A); or,
- B. \$2,813,288 must be recovered if all remaining funding is spent (Forecast B).

In order to amortize these costs from future incremental taxes, District values will have to increase compared with the revised Base Value, by the amounts shown below, on average, over the next 19 years:

Forecast A: The average annual incremental tax revenue to be generated over the next 19 years must be approximately \$122,500 to pay down current project costs ($\$2,327,000/19 = \$122,500$).

Forecast B: \$142,800 ($2,813,300/19$)

If incremental taxes are \$122,500 (Forecast A), then the average incremental value needed to generate this annual cash flow is this amount divided by an estimated tax rate of 2.75%, or \$4,455,000. Forecast B's average incremental value is estimated at \$5,193,000.

Consequently, in order to amortize the current expenses, or potential future costs, district value has to increase from nearly \$27 million to:

Forecast A: approx. \$31.5 million, on average, over the district's remaining life.

Forecast B: approx. \$32.2 million, on average, over the district's remaining life.

As shown in the chart below, the decline in values for TID 72 is attributable to residential property in the district. Commercial property, which would include multi-unit apartments, has actually increased.

Year	Residential Value	Commercial Value
2009	\$24,058,200	\$5,409,300
2013	\$17,722,700	\$7,099,400
% Change	-26%	+31%

The City may wish to consider shrinking the size of this TID to reduce the number of residential properties, and focus on the Kaiser site where new development is expected. It could continue to implement the forgivable loan program for housing upgrades through an amendment using the half-mile option. This would allow funding of residential improvements from the TID but avoid the decline in residential values which is diminishing the overall TID value.

If the residential values can be stabilized, accomplishing the necessary \$4-5 million increase in value could be achieved by the development of two apartment projects comparable to the one completed in 2010. That project is assessed at \$36,000 per unit. Consequently, 110 additional units would provide the increased \$4 million that is needed.

Overall, with the adjustment in the Base Value as proposed, we project it is feasible for the TID to recover its remaining costs, but it is likely to involve the further redevelopment of the Kaiser site, and the possible reduction in the size of the district as discussed above.

Attachments:

- Trend in values for TID 72
- Current debt service schedule for TID 72
- Expenses as of 4/30/14 for TID 72
- Break Even Schedule for Forecasts A & B.

Trend in Values for TID 72					
	Base	District	Increment	Revenue	% Change
2009		32,685,200			
2010	32,685,200	32,685,200	-		0.0%
2011	32,685,200	30,906,600	(1,778,600)		-5.4%
2012	32,685,200	25,919,000	(6,766,200)		-20.7%
2013	32,685,200	26,862,100	(5,823,100)		-17.8%

Current Debt Service Schedule for TID 72					
	07280002	07280002			
Year	Principal	Interest			
2009	-	-			
2010	-	24,702			
2011	-	62,688			
2012	-	72,880			
2013	-	72,880			
2014	-	72,880			
2015	-	72,880			
2016	25,834	72,492			
2017	26,551	71,573			
2018	27,412	70,494			
2019	28,345	69,379			
2020	29,494	68,222			
2021	196,820	63,114			
2022	203,326	53,845			
2023	204,088	44,203			
2024	189,280	34,710			
2025	198,451	25,120			
2026	169,032	15,772			
2027	177,001	6,725			
2028	42,850	1,018			
2029	-	-			
2030	-	-			
2031	-	-			
2032	-	-			
	1,518,484	975,577			
		233,150	Interest payments through December 31, 2013		
		742,427	Interest scheduled 2014 to maturity		

<u>Expenses as of 4/30/2014 for TID 72</u>					
<u>Description</u>	<u>Budget</u>	<u>Appropriations</u>	<u>Encumbrances</u>	<u>Expenditures</u>	<u>Remaining</u>
Administration	150,000	156,400	-	112,109	44,291
Public Improvements	150,000	150,000	-	-	150,000
Site Demolition and Remediation	335,000	335,000	-	335,000	-
New Housing Construction	650,000	650,000	-	650,000	-
Forgivable Loan Pool	300,000	300,000	-	134,026	165,974
subtotal	1,585,000	1,591,400	-	1,231,135	360,265
Capitalized Interest	158,500	118,484	-	118,484	-
Total	1,743,500	1,709,884	-	1,349,619	360,265

Breakeven Schedule for TID 72 Bishop's Creek	Assuming no	Assuming remaining
	future expenditures	appropriation spent
	Forecast A	Forecast B
Life-to-date 4-30-14 project expenditures	\$1,349,619	\$1,349,619
Interest payments through December 31, 2013	233,150	233,150
Remaining appropriation		360,265
Add bond interest costs:		
Scheduled 2014 to maturity	742,427	742,427
Estimated interest on future borrowings		106,930
Estimated future capitalized interest		19,140
12-31-13 cumulative carrying cost	1,757	1,757
Total project costs	2,326,953	2,813,289
Life-to-date 4-30-14 project revenues	-	-
Bond proceeds in excess of principal debt service payments	(0)	(0)
Net project costs to be recovered through tax increments	2,326,953	2,813,288
Tax increments levied:		
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
Total tax increments levied	-	-
Remaining costs to recover	2,326,953	2,813,288