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Office of the Comptroller

December 3, 2019

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

RE: File 191280, TID 103 – Phillis Wheatley

Dear Committee Members:

File 191280 would approve the creation of Tax Incremental District (TID) 103, Phillis Wheatley (the District), along with a 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. This analysis is based on the information provided.

The proposed District includes one property, totaling 165,853 square feet, located on North 20th Street between West Meinecke Street and West Wright Street in the Lindsay Heights neighborhood (the Property). The Property comprised of the former Phillis Wheatley School, which has been vacant since 2005. The District is being created to assist in the adaptive reuse of the school building into 40 housing units and the new construction of a four story residential building on the south side of the site containing 42 housing units (the Project). The Project may also include a community commercial kitchen, café, fitness center, gym, and basketball court. The Project is being undertaken by Royal Capital Group (the Developer).

Total estimated costs for the Project are \$19,403,700. This file authorizes a \$1,050,000 grant to the Developer to partially fund construction costs. The Developer will advance the \$1,050,000. After substantial completion of the Project, the District will make annual payments to the Developer equal to the incremental taxes collected in the District, less an annual administration charge of \$7,500, until the \$1,050,000 plus 5.5% interest is repaid. However, the term sheet limits payments to the Developer to 20 years (2039 tax levy). If final Project costs are lower than the \$19,403,700 budgeted, the City's obligation to the Developer will be reduced by 50% of the cost savings. In addition to the TID grant, the Developer has obtained an allocation of Federal HOME funds from the City in the amount of \$400,000.

The "developer financing" approach of the proposed District shifts the risk of this TID not breaking even 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 \$1,050,000 investment with interest.

Is This Project Likely to Succeed?

From a financial perspective, the proposed TID is viable given that the City's contribution is limited to a 20-year tax incremental revenue stream from the District. The Developer assumes the risk of recovering their \$1,050,000 contribution.

DCD's feasibility study, which uses a constant 2.785% property tax rate and 1% inflation rate over the life of the TID, forecasts that the Developer will fully recover the \$1,050,000, plus interest, after receipt of the 2039 levy (the final year of City's obligation to the Developer). However, if the tax rate does not remain constant or the forecasted 1% annual appreciation is not realized, the Developer may not recover the entire \$1,050,000 plus interest. Nonetheless, because the Developer, not the City, assumes the repayment risk on their contribution to the District's costs, the economic feasibility of the proposed TID to the City is guaranteed.

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

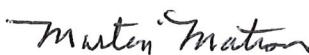
This proposed TID allows the City to provide incentive to the Developer to redevelop the Property while minimizing the City's involvement and risk. While these expenditures may have occurred with or without this proposed TID, the redevelopment of the Property should increase the City's tax base.

Conclusion

The proposed TID provides incentive for the Developer to redevelop a vacant building and construct a new residential building, while assuming the financial risk, and increasing the City's tax base.

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

Sincerely,



Martin Matson
Comptroller

CC: Maria Prioletta

MM/JB