

**Martin Matson**  
Comptroller

**John M. Egan, CPA**  
Deputy Comptroller



Office of the Comptroller

**Glenn Steinbrecher, CPA**  
Special Deputy Comptroller

**Toni Biscobing**  
Special Deputy Comptroller

May 27, 2014

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

RE: File 140200, TID 80 – Posner Building

Committee Members:

File 140200 would approve the creation of TID 80 (Posner Building), 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, as well as discussions with DCD staff.

Tax Incremental District 80 consists of two properties; one at 152 West Wisconsin Avenue and one at 725 North Plankinton Avenue, the combination of which is referred to as the Posner Building. HKS Holdings, LLC (the developer) is proposing to convert the Posner into a mixed-use building with 105 apartments and 20,000 square feet of commercial/retail space. The seven-story, 135,000 square foot building is vacant except for a portion of the first and second floors which is occupied by Mo's Irish Pub. The remaining unoccupied space has been vacant for several years.

Total estimated costs for the project are \$23.5 million. Of this total, \$2.5 million is the estimated extraordinary cost of rehabilitating the façade and whiteboxing the first floor retail space. The developer will advance all funding for the project. Upon 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, until such time as \$2.5 million is repaid at an interest rate of 4.5% over a period not to exceed 20 years. If final project costs are lower than the \$23.5 million budgeted, the City's obligation to the developer will be reduced by 50% of the cost savings.

The "developer financing" approach of the proposed TID is appropriate as the proposed district provides the developer with the potential to recover a portion of its costs associated with the project. As a developer financed TID, the developer assumes the risk that the proposed district will generate sufficient incremental revenue to recapture the \$2.5 million.

### **Is This Project Likely to Be Successful?**

From a financial perspective, the proposed TID will be successful given that the City's contribution is limited to a 20 year tax incremental revenue stream. HKS Holdings, LLC, as the developer, assumes the risk of recovering the \$2.5 million of TID expenditures.



To amortize \$2.5 million over 20 years, tax incremental revenue will have to average \$125,000 per year. The feasibility study forecasts that the developer will fully recover its contribution to the District's cost in year 17. The City assessor's estimated assessed value of the project upon completion, based on the developer's income projections, is \$12 million, an \$8.6 million or 72% increase over the current valuation of \$3.4 million. However, since the developer – not the City – assumes the repayment risk on its contribution to the District's costs, the economic feasibility of the proposed TID to the City of Milwaukee is guaranteed.

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

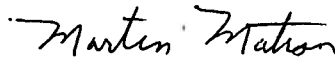
This proposed TID allows the City to provide incentive to HKS Holdings, LLC to redevelop the Posner building while minimizing the City's involvement and risk. While these expenditures may have occurred with or without this proposed TID, the restoration of the historic Posner building will remove a blighting influence on West Wisconsin Avenue while increasing the City's tax base.

### **Conclusion**

It is clear that the proposed TID 80 will be successful from the City of Milwaukee financial perspective since the developer is assuming the risk of recovering the \$2.5 million of TID expenditures. In addition, the proposed TID provides an incentive for HKS Holdings, LLC to remove a blighting influence and increase the City's tax base.

Should you have any questions regarding this letter, please contact me.

Sincerely,



Martin Matson  
Comptroller

TB/MM