



Office of the Comptroller

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Members of the Steering and Rules and
Zoning, Neighborhoods & Development Committees
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: Files 110372; 110324 TID 49 Amendment -- Cathedral Place

Dear Committee Members:

Files 110324 and 110372 would amend TID 49 – Cathedral Place and authorize \$9.7 million in additional TID 49 expenditures as a local match to secure \$54.9 million in federal funding for a downtown Streetcar Project ('the Project'). The current estimated cost totals \$64.6 million and would be expended to prepare a detail design, acquire right of way and construct a downtown streetcar line. The TID amendment applies a section of State Statute that permits TID project costs for purposes located outside the TID boundaries, provided these costs are within one-half mile of those boundaries.

While general information was provided to our Office earlier, we were unaware that the Common Council was going to be asked to make a single and final decision about this Project in the above resolutions now being considered until last Friday. When we met with representatives of the DPW this past Monday, they asserted that this single Common Council decision process was necessary to accomplish the Project.

Is the Project Likely to be Successful?

It is too early in the engineering design process to reliably determine whether the projected \$64.6 million will be sufficient to construct and place into service the planned (locally preferred alternative) downtown streetcar system. A contingency of 25% of "hard costs", approximately 9% of the total project, has been incorporated in the budget to lower the risk of cost overrun. However, at this stage of design, the risk of such overrun exists nonetheless. We have not had the opportunity to examine projected ridership and levels of service, fare structure and other operating revenues to determine their sufficiency or to review a third party analysis of these matters. Typically, the fare box will not generate sufficient revenues to support on-going operations. It is our understanding that other revenue sources within the Parking Fund are contemplated and that this future financing plan will be before the Common Council in 2012 for implementation in 2013. Likewise, we have not had access to detail projections of operating costs at the proposed level of streetcar service. In short, data and engineering design work critical to addressing the likely success of the Project is either in process or not available so we are unable to comment on the likely success of the Project.

In terms of the capacity of the existing Cathedral Square TID (49) to recover an additional \$9.7 million in project costs, \$25.4 million of existing debt for the Cathedral Place TID is variable rate debt issued by the Redevelopment Authority which must also be recovered within this TID. As a result, there is a certain amount of interest rate risk imposed on this TID. DCD's consultant, S.B. Friedman & Co., assumed a 4.85% fixed rate for all future payments on this debt. The City could issue the additional \$9.7 million at a fixed rate which would eliminate the interest rate risk on the Streetcar Project related debt, but there is market interest rate risk associated with TID 49 debt.

As your Committee is aware, the fundamental assumption in creating a TID or adding projects within an existing TID is that the cost of the proposed development project is to be offset by future property tax base expansion produced by the development. The proposed Streetcar Project relies entirely on the existing property value within the District for the repayment of TID 49 project costs. This fact defers for several years the time when such property tax revenue can be used for general government purposes. In addition, since most of the improvements will be occurring within one-half mile beyond the TID's boundaries, there is a limited ability to capture new incremental value for the District. However, to the extent that additional property value occurs along the line outside the TID boundary, that property tax revenue could be used for general government purposes.

S.B. Friedman and Co. projected the retirement of the existing and new debt, by 2026, or the 25th year of the District's life. The maximum statutory life of TID 49 ends in 2028.

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

In terms of the necessity of TID funding, based on today's estimate of Project costs and Federal aid for this Project, the Project could not occur without the planned \$9.7 million level of City financial TID assistance. The City's share constitutes the required local funding match. There are no private investors and the Federal government has placed a limit on its funding of this Project. There is a provision in Resolution 110372 for the Commissioner of DPW to continue to seek additional Federal funding that if realized could reduce the amount of City financing required for future extensions. But as stated earlier, given the current stage of engineering design, it is unclear if the proposed \$9.7 million in City financial assistance will be sufficient to successfully complete construction of the Locally Preferred Alternative for this Project.

Conclusions and Recommendations

Jobs created during the construction of the Streetcar Project would no doubt be substantial as would downtown business, leisure and environmental benefits. Such benefits have proven successful for similar streetcar systems elsewhere. Currently the Project is at a 30% engineering design stage, so project costs could change substantially from the current Project plan. As the Project is in 30% engineering design stage, no operator has been established for the system nor has a specific financial plan for ongoing operations. Upon completion of final engineering design and receipt of bids, should projected cost for the initial 2.1 mile phase of the Project exceed the current estimate of \$64.6 million, the Resolution states that the Project scope would be reduced to fit within the \$64.6 million project budget. These factors protect the City from funding amounts above the \$9.7

million, but resulting route and/or service reductions could also reduce ridership and the benefits cited above.

The desirability of the Downtown Streetcar system is a policy decision for the Mayor and Common Council. In our judgment, releasing nearly \$10,000,000 now at an early point in the design process for a Project with major issues of capital cost and operational feasibility yet to be resolved would be premature. As the Project is currently in the 30% engineering design stage, our Office recommends that should your Committees and the Common Council wish to proceed, Resolution 110372 be modified to-

- 1) Indicate City of Milwaukee Common Council approval of the Milwaukee Downtown Streetcar concept and preliminary engineering plan for the Locally Preferred Alternative.**
 - 2) Approve the proposed Amendment authorizing an additional \$9.7 million for the Project, but approve for immediate expenditure only those funds needed to complete the following for the Downtown Streetcar Locally Preferred Alternative Route:**
 - a. Engineering Design Report at 60% Completion** for the capital construction project including design for the required right-of-way, infrastructure, streetcar specifications and other major sub-systems.
 - b. Operational & Financial Plan** including detailed headways/levels of service, expected ridership estimates and assumptions, proposed system operator requirements, maintenance requirements, detailed projections of operating and non-operating revenues, parking fee changes, debt service, etc.
- Funds would be released immediately to complete the above two work products.**
- 3) a. Require approval by the Mayor and Common Council of the above two completed reports 2 a) and b) as a condition of the subsequent release of funds for streetcar procurement and construction contracts.**
 - b. As an alternative, require a report from the Comptroller which, verifies the completion of reports 2 a) and b), relays the findings of a third party engineering consultant, prior to releasing funds for streetcar procurement and construction contracts, based upon its findings.**

Should you have any questions, please contact me immediately.

Sincerely,



W. Martin Morics
Comptroller

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Jeff Polenske
Richard Marcoux
James Scherer
Dan Casanova

Ck/Mjd/WMM7-11-11