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Office of the Comptroller

March 18, 2014

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

RE: File 131580, TID 37 – Grand Avenue

Committee Members:

File 131580 would approve Amendment 3 to the Project Plan of TID 37 (Grand Avenue), and the related Term Sheet. This project plan amendment provides an annual grant to Bon-Ton Stores, Inc. as an incentive to extend its Boston Store retail lease through January, 2018. We have reviewed the project plan amendment, feasibility study and term sheet. We are basing our analysis on this information, as well as discussions with Department of City Development staff. My office cannot determine, at this time, the impact of this amendment on future development of West Wisconsin Avenue.

Grand Avenue District

Tax Incremental District 37 was created in 1998 to revitalize the downtown retail and commercial district anchored by the Grand Avenue mall. The initial project plan provided a \$2 million loan to the Courtyard by Marriott Hotel project. The project plan was amended in 1999 to provide \$9.4 million in grants and loans to assist with the renovation of the former Marshall Fields building. In 2000, the project plan was amended a second time to provide \$5 million for the renovation of the Boston Store space.

Boston Store

Bon-Ton Stores, Inc. operates 270 department stores in 25 states including the Boston Store chain. Boston Store is an anchor tenant at the Shops of Grand Avenue mall. Bon-Ton also operates one of two corporate offices at the same location. The store lease is on a year-to-year basis and the office lease expires in early 2018.

Under the proposed amendment, the District will fund an annual grant to Bon-Ton, for a period of four years, limited to the lesser of \$300,000 or the amount of the annual real estate property taxes for the store and office space. The total maximum payout is limited to \$1.2 million. Payment of the annual grant is contingent upon Bon-Ton extending its retail lease to coincide with their office lease and maintaining the store space as a retail facility. In addition, the term sheet includes a provision reducing the annual payment should total employment within the retail and office functions fall below 750 full-time equivalent positions.



TID Project Analysis

Project expenditures	\$ 20,877,332
Interest expense to maturity	10,804,907
Total expenditures	<u>31,682,239</u>
Less:	
Financing costs (revenues)	(1,267,196)
Tax increment revenue	(20,022,987)
Project revenues	<u>(9,018,094)</u>
Current amount necessary to break even	1,373,962
Add:	
Maximum payout under amendment	<u>1,200,000</u>
Break even after amendment	<u>\$ 2,573,962</u>

Amounts as of 12-31-2013

Is This Project Likely to Be Successful?

From a financial perspective, the addition of up to \$1.2 million of projects costs as proposed in Amendment 3 will likely be recoverable with one additional year's tax increment. In 2013, the District generated over \$2 million in incremental revenue and \$200,000 in project revenue. Without the proposed amendment, the district should realize a surplus once the 2014 tax increment is received. Increasing project expenditures by \$300,000 in 2014 would reduce but not eliminate the surplus. Going forward, the district would generate an additional surplus with the 2015 tax levy and beyond.

The proposed annual incentive payment to Bon-Ton is limited to the lesser of \$300,000 or annual real estate property taxes on the retail and office spaces through the 2017 tax levy year. According to Bon-Ton, the Grand Avenue Boston Store realized a loss, before depreciation and other non-cash charges, of \$600,000 for the period ending January 31, 2013. The corporation as a whole experienced a net loss of \$21.6 million for the same period.

The likelihood that Bon-Ton will maintain its downtown corporate offices and retail store at the Shops of Grand Avenue through January 2018 cannot be determined. However, if Bon-Ton decides to close the Grand Avenue store, it will forgo the \$300,000 grant for that year and subsequent years. Furthermore, the annual payment will be reduced if combined employment at the store and office falls below 750 full-time equivalents (FTE) for a period of six months within any calendar year. Therefore, the elimination of one full time employee would reduce the annual subsidy by \$400.

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

The proposed amendment to TID 37 provides financial incentive for Bon-Ton Stores, Inc. to maintain retail and corporate office operations at the Shops of Grand Avenue through January 2018. The annual payment is limited to the lesser of \$300,000, or annual real estate property taxes on the retail and office space. The most recent real estate property taxes were approximately \$339,000. Without the proposed financial incentive, Bon-Ton likely will not enter into the multi-year lease for the retail space, nor agree to the employment provision to retain 750 employees at this location through the term of the lease.

Conclusion

Approving this project plan amendment will not adversely impact the financial viability of TID 37. The district will most likely realize surplus revenue with one additional year of tax levy. Increasing district expenditures would reduce, but not eliminate, the surplus.

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

Sincerely,



Martin Matson
Comptroller

Cc Alderman Michael J. Murphy, President
Rocky Marcoux