

LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS

ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE

DECEMBER 15, 2009

Item 7, File #090563

File Number 090563 is a resolution creating Tax Incremental District No. 76 (27th & Howard), approving its Project Plan, and authorizing expenditures and a Development Agreement for the project.

Background

1. Wisconsin's Tax Increment Law (s. 66.1105, Wis. Stats.) provides for the creation and administration of a tax incremental district ("TID") to finance economic development and redevelopment projects within the district. Improvements and activities in the district are funded by the increase or "increment" in tax revenues generated by property in the district.
2. To be eligible for TID designation, an area must meet the following criteria:
 - Fifty percent or more of the proposed TID must be "blighted," "in need of rehabilitation or conservation work," or suitable for "industrial sites," within the statutory meanings of these terms.
 - Property that has been vacant for at least 7 years preceding creation of the TID cannot constitute more than 25% of the TID's area (unless the district is being created to promote industrial development).
3. The boundaries and project plan for a TID must be approved by the Redevelopment Authority, the Common Council and the "joint review board" consisting of representatives of the various taxing jurisdictions affected by the creation of the TID.
4. The area along the east side South 27th Street between Loomis Road and Howard Avenue was once a thriving commercial district, but is now challenged by a number of vacant or underutilized properties, particularly the sites of 2 former auto dealerships (Foster Pontiac and Southgate Ford).
5. Creation of a tax increment district encompassing 8 properties totaling approximately 17 acres has been proposed as a means of funding the following activities in this area:
 - Renovation of the vacant, former Foster Pontiac dealership at 3636 S. 27th Street into a 27,000-square-foot retail development.
 - Redevelopment of the trailer court at 3774 S. 27th Street into affordable housing. Assistance for redevelopment of the historic Wildenberg Hotel, which is located on the same site, could also be provided.
 - Redevelopment of the vacant auto dealership at 3804 S. 27th Street (formerly Southgate Ford) into retail space..

Discussion

1. This resolution creates Tax Incremental District No. 76 (S. 27th St. & W. Howard Ave), which encompasses 8 properties with a combined area of approximately 17 acres in the area bounded roughly S. 27th Street on the west, W. Howard Avenue on the south and the southeast branch of the Kinnickinnic River on the north and east. The District is created as of January 1, 2010.
2. This resolution also approves the Project Plan for the new TID. The Project Plan calls for an “Initial Phase” consisting of redevelopment of the former Foster Pontiac site and “Future Phases” for improvements or redevelopment of other properties in the District, particularly the trailer court and the other vacant auto dealership.
3. The Initial Phase will consist of the exterior renovation/restoration and interior remodeling of the former Foster Pontiac facility and its conversion into a 19,550-square-foot multi-tenant retail facility. A 6,500-square-foot stand-alone restaurant will be developed in the northern portion of the site, while an outlot of approximately 8,000 square feet will be reserved for additional development on the southwest corner of the site. The Initial Phase will also include streetscaping improvements in the 27th Street right-of-way between Loomis Road and Howard Avenue. Total project cost is just under \$5 million.
4. The City will provide \$500,000 from its capital TID bond account to the Redevelopment Authority for the purpose of providing a \$500,000 loan to the developer of this project, Foster Endeavor, LLC. An additional \$25,000 in TID funds will be used to defray the City’s administrative expenses. The loan will have an interest rate of 5% and a term of 15 years. No loan payments will be required, and interest will accrue at the rate of 2% per year, until the outlot is developed, for a period of up to 3 years from the date of loan closing.
5. File No. 090563 further authorizes this expenditure of this \$525,000, plus capitalized interest, and directs the proper City officials to enter into the Development Agreement between and among the City, RACM and the developer that is necessary to carry out the project in accordance with the Term Sheet.
6. Consistent with statutory requirements, over 50% of the TID meets the criterion of being “in need of rehabilitation or conservation” (52%). Also, less than 25% of the area within the district boundaries meets the statutory definition of “vacant” property (11%).
7. The Redevelopment Authority held a public hearing on the proposed TID, including its proposed boundaries and Project Plan, on September 17, 2009, and recommended the creation of the District with the boundaries and Project Plan described in File No. 090563.

Fiscal Impact

1. This resolution authorizes the expenditure of \$525,000, plus capitalized interest, from the City's TID capital account for the purpose of funding the Initial Phase of the TID No. 76 Project Plan. Any additional funding for future phases of the TID No. 76 project will require further Common Council approval.
2. The Project Plan indicates that all expenditures for the Foster Pontiac redevelopment project will be incurred in 2010-2011.
3. The economic feasibility study for the proposed TID indicates that, based on receiving annual incremental taxes of \$49,000 and loan payments of \$50,000 per year (assuming development of the outlot in year 2 or 3), the District's project costs could be recovered within a period of approximately 9 years – well within the 27-year statutory limit for the life of a TID.
4. In its analysis of the proposed Project Plan and Development Agreement (letter dated December 10, 2009), the City Comptroller's Office indicates that the TID would generate sufficient incremental property taxes to repay the \$525,000 of project costs and \$260,000 in estimated financing costs within 13 years. The Comptroller also notes that the retail-space leases for the project will generate sufficient positive cash flow to support loan repayment within the 15-year term of the loan. Based on the anticipated tax incremental revenues and healthy cash flow of the project, the Comptroller concludes that "the proposed TID is very likely to recover all project costs."

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