

**LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS**

**ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE**

**AUGUST 31, 2009**

**Item 1, File #081627**

File Number 081627 is a resolution creating Tax Incremental District No. 73 (City Lights Project) and approving a project plan and authorizing expenditures for this district.

**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 former Wisconsin Gas Light Company facilities located at N. 25<sup>th</sup> Street and W. Mt. Vernon Avenue occupy a 22.8-acre site consisting of 3 parcels (all with the same owner) containing 99,000 square feet in several buildings, some constructed over a century ago. This long, narrow site is bounded by Interstate 94 on the north, the Menomonee River on the south, 16<sup>th</sup> Street on the east and 25<sup>th</sup> Street on the west.
5. This site is currently used for warehousing, a skateboard park and a trucking terminal. However, the site is underutilized and has limited access to the public street system.
6. Creation of a tax increment district encompassing this site has been proposed as a means of funding the renovation of existing buildings on the site, the construction of new buildings, and the extension of a public street and the City's RiverWalk system to the site. The goal of these actions would be to increase tax base and employment at this location.

**Discussion**

1. Proposed Tax Incremental District No. 73 (City Lights Project) encompasses the entire 22.8-acre parcel described above. This land is currently zoned Planned Development.

2. Consistent with statutory requirements, over 50% of the TID meets the criterion of being “in need of rehabilitation or. conservation” (100%). Also, less than 25% of the area within the district boundaries meets the statutory definition of “vacant” property (13%).
3. On May 21, 2009, the Redevelopment Authority adopted a resolution approving the boundaries and project plan for a proposed City Lights Project Tax Incremental District.
4. The proposed project plan calls for tax incremental financing to fund the following activities and programs:

Construction of a public street and utilities	\$2,171,500
Construction of a RiverWalk/sidewalk along south edge of site	45,500
Contingency	221,000
<u>Administration</u>	<u>100,000</u>
TOTAL PROJECT COTS	\$2,538,000

5. The proposed street will extend eastward from 25<sup>th</sup> Street approximately half the length of the site and will provide public access to existing buildings. In conjunction with the street extension, sanitary and storm water service will be upgraded and new water and gas connections will be provided.
5. The project will be funded as follows:

Tax incremental financing	\$2,038,000
<u>City contribution*</u>	<u>500,000</u>
TOTAL FUNDING	\$2,538,000

(\* The resolution indicates that the City contribution will come from the Sewer Maintenance Fund.)

6. The project plan anticipates a future extension of the public street eastward to 17<sup>th</sup> Street at a cost of \$2 million. This will require future Common Council approval and be conditioned on the district’s incremental revenue being sufficient to amortize all of the City’s past and future costs in the district.
7. In the initial phase of the development, the former “Retort Building” will be converted into 43,000 square feet of office space for Zimmerman Architectural Studios, Inc., which will move 121 jobs from Glendale to this site. Eventually, a total of 5 buildings on the western end of the site will be converted into 98,000 square feet of office and flexible-use space for small businesses. The land to the east of these buildings, which is currently used for truck maintenance, would be redeveloped with new office and/or manufacturing buildings.
8. Total project costs – including both public expenditures and private investment by the developer – are \$14,254,452.
9. It is anticipated that all expenditures for the initial phase of the project (first street extension plus RiverWalk/sidewalk) will be incurred in 2009-2010.

10. File Number 081627 also authorizes the proper City officials to enter into the development agreement which is part of the project plan. This agreement calls for the developer, Giuffre VIII, LLC, to convert 5 buildings on the former Wisconsin Gas Light Co. site into 98,000 square feet of modern, leasable office spaces. Facades will be cleaned, tuckpointed and restored and new windows will be installed. The City will extend a public street, utilities and RiverWalk/sidewalk, and fund the construction of these improvements through tax increment financing. The developer will dedicate the right-of-way for the new street and also grant a public access easement to the City for the 30-foot-wide area between the new public walk and the Menomonee River.

**Fiscal Impact**

1. This resolution directs the City Comptroller to transfer \$2,038,000, plus capitalized interest, from the parent tax incremental district capital account to an account created for the purpose of implementing the project plan. The 2009 Budget provided \$30 million in new borrowing authority for new tax incremental districts such as TID No. 73. The \$2,038,000 will be funded through proceeds from City-issued general obligation bonds and recovered through property tax revenues from the TID's tax increment.
2. The development agreement requires the developer to pay any shortfall in actual incremental revenue in any given year to the City by February 1 of the following year.
3. The economic feasibility study for the proposed TID indicates that, based on cash-flow analysis, the proposed TID is able to support total borrowing of approximately \$2 million, plus 2 years of capitalized interest. The study concludes that the City will recover its project costs over 25 years and that, therefore, the district is "marginally feasible."
4. The City Comptroller's analysis of the proposed TID notes that the TID is likely to retire its project costs in its 26<sup>th</sup> year (just one year before the statutory limit on the life of a TID) and that if the assumptions used in the feasibility analysis are even modestly changed, the TID will not recover its project costs. However, the Comptroller also notes that the developer has agreed to guarantee the annual tax incremental revenue and that proposed TID-funded public improvements are necessary for the developer's project to succeed.

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