

Amendment

To

Project Plan For

Tax Incremental District No. 71

(Mitchell Street)

Initial Joint Review Board Meeting:

Public Hearing Held:

Redevelopment Authority Adopted:

Common Council Adopted:

Joint Review Board Approved:

Background

Wisconsin Act 183 allows amendments to tax increment districts which have experienced a decline in property value such that the district's value has been at least 10% less than its base value for at least two consecutive years.

Act 183 allows the base value of the district to be reduced to its current value, subject to approval of the Joint Review Board, if:

- The City conducts a feasibility analysis as required by statute and also includes the annual and total amount of tax increments to be generated over the life of the district; and, the annual debt service costs on bonds issued by the City. In addition, the project must be amended so that at least one of the following three conditions occurs:
- The project plan specifies that, for the total value of public infrastructure improvements in the district that occur after the amendment, at least 51% of the value of such improvements must be financed by a private developer, or other private entity. In return, the City would repay those costs solely through the payment of cash grants from the city (presumably from actual incremental revenue generated by the district), provided the grant recipient has entered into a development agreement with the City; or
- The project plan specifies that the city expects all project costs to be paid within 90% of the district's remaining life; or
- The project plan specifies that expenditures may be made only within the first half of the tax incremental district's remaining life – except that expenditures may be made after this period if they are approved by a unanimous vote of the joint review board. In no event may expenditures be made later than five years prior to the district's unextended termination date.

Project Plan Amendment

TID No. 71 is a 277 parcel district whose Base Value was established as of January 1, 2008.

This TID was originally established to fund certain public improvements along W. Mitchell Street, including upgrading pedestrian lighting, installing irrigation for median plantings, installing security cameras along this retail strip; and, to provide funds to upgrade retail properties in the area, including the former Goldmann's Dept. Store, and

Modjeska Theater. All of the public improvements have been completed and assistance has been provided to three retail facilities on the street, plus funds to stabilize the theater.

The Base Value of this District was established at \$75.25 million. Property value in the district declined significantly as the economy deteriorated. The district value now stands at \$66.75 million. In 2012 and 2013, the district value was 13.9% and 11.3% less than the Base Value. See attached Trend in Values for TID 71.

Given this “negative” incremental value, it is not possible to amortize the costs incurred, to date, for TID 71. Consequently, it is proposed that the Base Value be reset as provided in Act 183.

The updated feasibility analysis for the TID, indicates that the district, as restructured, would have to achieve an average incremental value of \$4.4 million to amortize existing project costs, over the district’s remaining life. If the City intends to spend the remaining funding in the original project plan, the incremental value will have to increase by \$7.5 million, on average.

This district was created in 2008, and its maximum life would be 27 years, ending in 2035. Consequently, the district has 21 years remaining, and 90% of that is 18 years.

As provided in the feasibility analysis, an average incremental value of \$4.4 million, would generate average incremental revenue of \$121,000. Over 18 years, this would recover the current costs of the District, including interest on debt. Average incremental revenue would have to increase to \$205,000 if all originally budgeted costs are incurred.

Per Act 183, the project plan herewith specifies that the City expects all project costs to be paid within 90% of the district’s remaining life.

ECONOMIC FEASIBILITY ANALYSIS

FOR

TAX INCREMENTAL DISTRICT NO. 71

As provided in this Amendment to the Project Plan for TID 71, the City of Milwaukee proposes to adjust the Base value of this TID to its current valuation of \$66,751,300.

The City has incurred approx. \$1.5 million in project costs in TID 71. Total scheduled debt service payments are \$2,846,103, and revenues, consisting of the return of funds not used for project costs are \$500,000. Please see Debt Service schedule and Expense Statement as of April 30, 2014, attached.

Remaining costs to be recovered are shown in the Break Even Schedule, also attached. This schedule shows the costs to be recovered if no additional project costs are incurred, or, alternatively, if the remaining funds (\$940,000) set forth in the original Project Plan are ultimately spent.

Specifically:

- A. \$2,170,000 must be recovered if no future costs are incurred (Forecast A); or,
- B. \$3,688,000 must be recovered if all remaining funding is spent (Forecast B).

In order to amortize these costs from future incremental taxes, District values will have to increase above the revised Base Value, by the amounts shown below, on average, over the next 18 years:

Forecast A: The average annual incremental tax revenue to be generated over the next 18 years must be approximately \$120,600 to pay down current project costs ($\$2,170,000 / 18 = \$120,600$).

Forecast B: \$205,000 ($3,689,000 / 18$)

If incremental taxes are \$120,600 (Forecast A), then the average incremental value needed to generate this annual cash flow is this amount divided by an estimated tax rate of 2.75%, or \$4,385,000. Forecast B's average incremental value is estimated at \$7,455,000.

Consequently, in order to amortize the current expenses, or potential future costs, district value has to increase from nearly \$67 million to:

Forecast A: approx. \$71.4 million, on average, over the district's remaining life.
Forecast B: approx. \$74.5 million, on average, over the district's remaining life.

There are very few individual properties now in the district with values in the neighborhood of \$4-6 million. They include the Schusters apartments on Mitchell and 11th Streets and the Walgreens drug store on Burnham. Other higher-value properties include the Hills building (8th & Mitchell) at \$2.5 million, CVS Pharmacy (\$3.1 million), and the Kunzelman-Esser apartments (\$3.1 million).

It is likely that a number of new or redevelopment projects will be required to generate sufficient increment to repay the district's remaining current costs, or greater expenses if future costs are incurred. As originally presented, these would include the former Goldman's Dept. store and the Modjeska Theater. Both have remained dormant shells since the TID was created.

The conversion of another former theater into 42 apartments at S. 6th & Mitchell will be an immediate contributor to increased property values in the TID. That project is underway and will be completed by the end of 2014. The current assessment for this property is \$1,368,000 and the assessment at completion is estimated at \$3,400,000 – generating an incremental value of \$2,032,000. This represents 46% of the \$4.4 million needed to pay down current costs (Forecast A); or, 27% of current and potential future costs (Forecast B)

Overall, with the adjustment in the Base Value as proposed, we project it is feasible for the TID to recover its remaining costs, but it is likely to involve the redevelopment of numerous properties in the district in order to achieve the required increase in value—particularly if additional costs are incurred.

Attachments:

- Trend in values for TID 71
- Current debt service schedule for TID 71
- Expenses as of 4/30/14 for TID 71
- Break Even Schedule for Forecasts A & B.

Trend in Values for TID 71

	Base	District	Increment	Revenue	% Change
2008		75,252,500			
2009	75,252,500	70,384,400	(4,868,100)		-6.5%
2010	75,252,500	75,252,500	-		0.0%
2011	75,252,500	69,585,400	(5,667,100)		-7.5%
2012	75,252,500	64,801,800	(10,450,700)		-13.9%
2013	75,252,500	66,751,300	(8,501,200)		-11.3%

	Mitchell St.
	TID-71
Current expenditures	\$ 1,443,606
Current capitalized interest	62,694
Total current expenditures	1,506,300
Current bond proceeds	1,684,156
Proceeds needed to fund current expenditures	(177,856)
Future expenditures (Bond funded)	
Outstanding encumbrances	-
Remaining appropriation	940,004
Capitalized interest on additional proceeds @ 10%	76,215
Proposed paving (funded by excess increment)	-
Proceeds needed to complete plan	838,363
Annual debt service on additional proceeds @ 5% (17 yrs.)	74,362
Principal component	838,363
Interest component - other	425,792
	\$ 1,264,155
End of expenditure period	1/15/2030
Remaining expenditure period (years)	16

criteria

Note: from TID Debt maturities 1985 - present as of 12/31/13

Year	07180000	07180000	07180002	07180002
	Principal	Interest	Principal	Interest
1985	-	-	-	-
1986	-	-	-	-
1987	-	-	-	-
1988	-	-	-	-
1989	-	-	-	-
1990	-	-	-	-
1991	-	-	-	-
1992	-	-	-	-
1993	-	-	-	-
1994	-	-	-	-
1995	-	-	-	-
1996	-	-	-	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	-	-	-
2003	-	-	-	-
2004	-	-	-	-
2005	-	-	-	-
2006	-	-	-	-
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010	-	9,468	-	17,113
2011	-	25,642	-	38,028
2012	-	41,379	-	38,028
2013	-	46,434	-	38,028
2014	-	46,434	-	38,028
2015	-	46,434	-	38,028
2016	-	46,434	-	38,028
2017	-	46,434	-	38,028
2018	-	46,434	-	38,028
2019	-	46,434	-	38,028
2020	-	46,434	-	38,028
2021	57,856	44,988	115,074	35,324
2022	106,533	40,878	118,686	29,772
2023	147,980	34,515	118,170	24,028
2024	156,543	26,903	106,817	18,462

Breakeven Schedule for TID 71 Mitchell St.	Assuming no	Assuming remaining
	future expenditures	funds expended
	Forecast A	Forecast B
Life-to-date 4-30-14 project expenditures	\$ 1,506,300	\$ 1,506,300
Interest payments through December 31, 2013	254,120	254,120
Remaining appropriation	-	940,004
Capitalized interest on additional proceeds @ 10%	-	76,215
Add bond interest costs:		
Scheduled 2014 to maturity	907,813	907,813
Estimated interest on future borrowings	-	425,792
Estimated future capitalized interest	-	76,215
12-31-13 cumulative carrying cost	1,892	1,892
Total project costs	2,670,125	4,188,351
Life-to-date 4-30-14 project revenues	(500,000)	(500,000)
Bond proceeds in excess of principal debt service payments	0	0
Net project costs to be recovered through tax increments	2,170,125	3,688,351
Tax increments levied:		
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
Total tax increments levied	-	-
Remaining costs to recover	2,170,125	3,688,351
Note: Option A assumes no future expenditures, while Option B assumes spending all remaining appropriation.		