



Office of the Comptroller

March 30, 2005

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Members of the Zoning, Neighborhoods
& Development Committee
Common Council, City of Milwaukee
City Hall, 200 East Wells St.
Milwaukee, WI 53202

RE: File 041514 Amendment #1, TID
48 Park East Project Plan

Committee Members:

TID 48 (Park East) is a Tax Increment District project originally established in 2002 to fund the required local street improvements to enable development of the area opened by the demolition of the Park East Freeway. The Federal and State governments were to finance the actual freeway demolition, McKinley Street reconstruction and the McKinley-Knapp Street bridge. The City was to fund the vast majority of local street and related improvement (sewer, sidewalk, lighting, etc.) costs, principally through the TID.

File 041514 would amend the current Project Plan for TID 48, increasing the estimated Project cost from \$3.9 million to \$19.9 million in capital expenditures (or \$4.3 million and \$21.9 million, respectively, including financing and issuance costs). The additional \$16 million in capital expenditures would be financed with General Obligation bonds issued by the City. The File would also expand the TID 48 boundaries to include an area roughly bounded by the Milwaukee River west to North 6th Street, and West Juneau Avenue south to West Highland Avenue. There is also a one square block addition bordered by North Jefferson and Milwaukee Streets and East Ogden and Knapp Streets.

Is the Amended Park East TID likely to be Successful?

The DCD feasibility consultant (S.B. Friedman and Company –“Friedman”) used State population projections for Milwaukee County to estimate the future “capture” of new households and resulting development within TID 48. Friedman believes that future Park East development will be driven by residential uses, particularly east of the Milwaukee River. Friedman then devised five TID 48 development scenarios, each based on a different extent and pace of development. The following are the five scenarios and the cumulative present or current value of the property tax increments generated through the year 2024:

<u>Scenario</u>	<u>Projected Tax Increments - Present Value thru 2024</u>
1. Full Development.....	\$87.1 million
2. Residential Downturn.....	\$76.8 million
3. Minimal Commercial Development.....	\$75.2 million
4. Residential Only.....	\$68.5 million
5. Planned (currently committed) Residential Development.....	\$27.0 million.

As its name indicates, the “Full Development” scenario assumes the development of all parcels within TID 48 identified as likely to have a taxable use. Under this best case scenario, our Office estimates that the TID would be retired in 2014. In contrast, the “Planned Residential” scenario –assumes that no development occurs beyond that already known to be “in the pipeline”, namely the Mandel development at the former Pfister and Vogel site and a Big Bend development currently in process. This latter scenario could be viewed as a “worst case”. Even under this forecast, the TID would be able to be successfully retired by 2020 according to calculations by our Office. **Clearly, there should be sufficient revenues to support the \$19.9 million in estimated capital expenditures authorized in the amended TID 48 Project Plan.**

Is the Additional Estimated \$16 million in Capital Expenditures Authorized by the Proposed TID Plan Amendment #1 Necessary to Make the Project Successful?

The 2002 approved Project Plan identified 12 discrete street segments within the TID which would be reconstructed along with accompanying storm sewer, lighting, sidewalk and signing/signalization. In 2002, the original feasibility consultants¹ estimated the cost of each of the 12 street segments, leading to the original \$3.9 million total TID 48 capital expenditure estimate.

Not mentioned in the original 2002 Project Plan, the City of Milwaukee was also subject to the risk of funding project overruns associated with the demolition of the Park East Freeway-McKinley Street reconstruction. Substantial overruns did occur. Also, Amendment #1 makes a variety of changes and additions to the 2002 planned improvements. According to the DCD, these new improvements are dictated by the Park East Redevelopment Plan (updating the 2002 TID 48 Project Plan) approved by the Common Council on June 15th of last year. These improvements include the addition of three new bridges, a riverwalk segment and numerous newly added street improvements throughout the TID 48 area. It is beyond the scope of our analysis to opine on the necessity of each of these proposed additional improvements.

Aside from the issue of necessity, an estimated \$16-\$17 million of the proposed \$19.9 million in TID 48 expenditures has already been either expended or contractually committed by the City. Therefore, practically speaking, the City has limited discretion regarding these added expenditures and commitments. We do not know the impact of terminating all future City work on this TID. DCD will no doubt be able to address this issue. The process leading to the added expenditures is the subject of a separate audit now underway.

Is the Proposed Expansion of TID 48 Boundaries Authorized by the TID Plan Amendment #1 Necessary to Make the Project Successful?

The proposed Amendment #1 to the Project Plan would expand the TID boundaries to include several square blocks on the southern and eastern sections of the current District. DCD staff indicated that this expansion was included principally for consistency, since the City Redevelopment Plan for this project includes the new area.

We do not support the expansion of boundaries for the following reasons:

1. There are no public improvements or other TID activity now planned for this new area
2. As shown above from the DCD consultant data, the additional property tax revenue generated by this expansion is not needed to successfully retire the TID.
3. A portion of the proposed expansion east of Martin Luther King Dr. is already fully developed.

The basic principal underlying the creation of a TID is that a TID's boundaries should be extended only as necessary to include that blighted area in need of *defined public investment*. This is to assure that the TID is retired as soon as possible and property tax revenue released to lower general government tax levies as soon as possible. Expanding the District boundaries beyond what is now required also creates a built-in incentive for additional TID expenditures, delaying prompt TID closure. This incentive is somewhat offset by File No. 031616 adopted on February 22, 2005 which controls TID expenses. This resolution requires that new projects in the expanded areas would first require Common Council approval before such work could be undertaken.

Recommendation: Given 2004 Common Council approval of the Redevelopment Plan for TID 48, approve the Project Plan Amendment #1, contingent upon maintenance of the existing TID 48 boundaries.

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

Sincerely,



W. Martin Morics

Comptroller

Cc Commissioner Marcoux

Michael Wisniewski

¹ The engineering firm of HNTB and the financial consultant Ehlers & Associates, Inc.