

ECONOMIC FEASIBILITY STUDY
TAX INCREMENTAL DISTRICT NO. _____
(20th and Walnut)
City of Milwaukee

Prepared by the Department of City Development

June 2005

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TAX INCREMENTAL DISTRICT NO. ____, CITY OF MILWAUKEE
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I. Overview

Tax Incremental District (TID) Number ____ is being created to support the redevelopment of two key sites in the Fond du Lac and North planning area. The area surrounding the sites has been the center of significant new residential development activity in recent years. The City developed CityHomes, the single-family subdivision located on the north side of Walnut at West 20th street, in 1997. The first phase of this development, containing 43 homes, served as the catalyst for creating interest and demand for new single-family infill housing in the City. Further development followed, including additional new single family housing surrounding CityHomes, as well as the successful infill efforts in the Lindsay Heights neighborhood, directly northeast of 20th and Walnut and the work of Habitat for Humanity in the area west of the 20th and Walnut intersection.

The notable exceptions to these area redevelopment efforts have been the 5 acre site located at on the south side of the 20th and Walnut intersection and a subsidized Section 8 project (London Square) located adjacent and immediately south of the site. From a redevelopment perspective, the sites have been viewed as interdependent. The 20th and Walnut site is a privately owned property consisting of a 32,500 square foot vacant grocery store on approximately 5 acres of land built in 1976. It was leased to Sentry foods, which closed this location in 2001 and the building has been vacant since that time. The London Square development is a 115 unit subsidized housing project. Until recently, the project has suffered from disrepair and absentee management. Recently, a private developer with a strong track record of redeveloping and managing affordable housing developments has purchased the site and is renovating it through the use of the Section 42 affordable housing tax credit program.

The Sentry site is included in the City's Fond du Lac and North Plan as a "catalytic project." Its redevelopment is seen as key to the successful ongoing redevelopment of the area. With the renovation and new ownership of the of the London Square site to the south, the timing is favorable to the redevelopment of the site in a way that reinforces and encourages ongoing redevelopment efforts in the area.

II. Description of TID Improvements

The proposed TID would provide funding for the acquisition, demolition and remediation costs associated with the former Sentry Food Store site. The TID would also fund public improvements for the redevelopment of the site including sewer and

water utilities, lighting, and street work to reopen 21st Street through both the Sentry and London Square sites to recreate the City's existing street grid and reintegrate the sites into the surrounding neighborhood.

A detailed summary of project costs is included in Exhibit 1.

III. Tax Incremental District Analysis

After acquisition, the site will be marketed for redevelopment with an emphasis on residential use. Consistent with the Fond du Lac and North neighborhood plan, this could include single family homes, owner occupied townhomes, or a mixed use development with a limited amount of commercial development along Walnut and the balance of the site being developed for residential. The success at CityHomes and Lindsay Heights suggest that the market demand exists to redevelop the site for residential use. For the purposes of the accompanying financial analysis, a development scheme based on detached single family has been utilized, which from a density and value standpoint, represents the most conservative redevelopment scenario for the site. After a developer or developers are selected, it is projected that construction and marketing of a new development could commence in 2006, and that the entire site could be sold and built out by year-end 2008.

Unlike CityHomes and Lindsay Heights, the TID would not support direct development incentives for homebuyers. It is believed that the market has matured to the point that they are not necessary.

It is also anticipated that sale of the site will yield revenue of a minimum of \$200,000. This is based on proceeds of \$5,000/residential lot under the single-family development scenario. In addition, recognizing the importance of the development of this catalytic site, the Wisconsin Housing and Economic Development Authority will provide a grant in the amount of \$200,000 to assist the project. WHEDA has also indicated that they will request WHEDA Board consideration for an additional \$100,000 in 2006. For the purposes of the TID analysis however, only the 2005 WHEDA commitment (\$200,000) and the anticipated sales proceeds of \$200,000 are netted out of total TID costs in Exhibit I and in the attached analysis.

The following additional assumptions were used in developing the TID analysis for the site:

- A single-family density of 8 units/acre, resulting in the development of 40 single-family homes.
- Average per unit full assessment value of \$165,000. This is based on the average assessed value of units in the CityHomes subdivision directly across from the site (\$163,000), as well as average sales prices of 2003 and 2004 Lindsay Heights infill homes (\$168,000). (Exhibits II and III).

- A build out/absorption period of 3 years. Again, is anticipated to be achievable given the experience at CityHomes (43 homes in Phase I sold in 2.5 years, and the Lindsay Heights Initiative (48 homes sold in the last 2 years).
- Based on experience with other single family infill development in the neighborhood, it is assumed that homes would take two years to achieve full assessment on the tax rolls – this lag time is reflected in the analysis.
- Annual property value increases of 2.5% beginning in 2007 for London Square (redevelopment complete and units fully reoccupied) and 2011 for the single-family homes (all units complete and fully assessed).
- A combined tax rate of \$26/\$1,000.

Tables I and II summarize the assumptions and forecasts associated with this Tax Incremental District. Costs will be financed through the issuance of a general obligation bond issue, with a projected interest rate of 4.5%. It is anticipated that \$979,000 of this is borrowed in July of 2005 to cover the acquisition and demolition of the existing building (cost of acquisition and demolition less the amount of the WHEDA grant), and the balance of just over \$1,200,000 that is attributable to the site development and infrastructure costs (net of sales proceeds) is borrowed in mid-2006. For the purposes of the TID analysis, capitalized interest costs on the gross TID amount (5% of all TID capital and administrative costs) are included in total costs. As shown in the Cash Flow forecast for the TID, the district is expected to recover its projects costs in year 2027 – prior to the current statutory maximum period of 2032. (If the additional WHEDA contribution of \$100,000 is realized in 2006, the TID could be retired almost a year earlier). As with many TID's where the City's funds are advanced early in the development, and the private investment follows, the district will experience initial cash shortfalls, which are eventually recovered. The Cash Flow forecast assigns a carrying cost of 2% annually to any shortfalls.

Based on the analysis of cash flow, the district is economically feasible.

IV. Joint Review Board Test

In this section we evaluate the 3 tests, which the Joint Review must apply in determining whether or not to approve this amendment.

A. "But For"

The Joint Review Board must consider whether the development can occur without the use of tax incremental financing. To evaluate this criterion, we look at whether this project would be feasible without TID assistance. Given the amount of time the site has remained vacant, it is unlikely that viable

development will occur without City intervention. In regard to the costs of public infrastructure, these would have to be passed on to buyers of homes in the development – which could add as much as \$30,000 to the sales prices of individual homes. The residential market in the neighborhood has made significant progress. The original CityHomes development (TID 28) provided for public infrastructure, \$1 lots plus direct subsidies to homebuyers in the \$30,000 range. Current Lindsay Heights scattered site infill buyers receive \$1 lots plus a \$10,000 development incentive. Purchasers in the proposed new residential development will receive no direct incentives. In addition, the City will endeavor to offset the cost of redevelopment by realizing some return on the land – this cost will eventually get passed on to buyers in the form of the price they will pay for a lot in any new development. While this all represents progress in the past several years in reducing development subsidies for new residential development, the market has not reached the point where it could absorb the entire costs of acquisition and conversion of this commercial site, as well as the full costs of infrastructure improvements. We believe the “but for” test has been met.

B. Economic Benefits

The Joint Review Board is charged with determining whether the economic benefits are sufficient to justify the investment of public funds. This has been evaluated in several ways.

First, the ability to retire TIF debt was considered. As structured, the district will close in 2027, prior to its 2032 termination.

Second, there are significant benefits derived from the \$6.6 million in new investment and new residential development in the neighborhood. First, a blighting influence will be eliminated as the vacant building is demolished and the site is redeveloped. The new development will further spur redevelopment in the Fond du Lac and North planning area area, as well as continue to strengthen the market for new single-family infill construction, as well as the resale market for these homes.

Third, the project will create construction jobs and opportunities for emerging business enterprises.

C. Impacts on Other Jurisdictions

The Joint Review Board must also consider whether the benefits outweigh the anticipated tax increments to be paid by the owners of the property in the overlying taxing districts. The property is currently vacant - without the TID, it will likely remain so and continue to have a detrimental effect on the continued redevelopment of the neighborhood. The proposed redevelopment will significantly increase its value, as well as enhance the values and viability

of surrounding properties. The owners of the property in the overlying taxing districts also will benefit when TID is terminated and its incremental tax revenues can be used for general purposes.

In our opinion, the project clearly meets the Joint Review Board tests.

Exhibit I
TID No.
20th and Walnut
Listing of Project Costs

<u>Item</u>	<u>Cost</u>
Acquisition	\$950,000 (1)
Demolition	\$204,000 (2)
Environmental - building	\$25,000 (2)
Environmental - land	\$200,000 (3)
Infrastructure:	
Lighting	\$83,000
Trees	\$4,400
Water Main in Walnut	\$185,000
Water Main in 21st - Galena/Walnut	\$90,000
Water Services to lots	\$80,000 (2,000 per lot)
Combined Sewer in Walnut	\$150,000
Combined Sewer in Galena	\$70,000
Sewer services to lots	\$120,000 (3,000 per lot)
Paving	\$174,250 (850 feet X \$205 per lineal foot)
Alleys	<u>\$156,000</u> (1200 feet X \$130 per lineal foot)
Total Infrastructure	\$1,112,650 (4)
Administrative costs	<u>\$100,000</u>
Subtotal	\$2,591,650
	(\$200,000)
Less WHEDA grant	<u>(\$200,000)</u>
Less sales proceeds	
Total	\$2,191,650

- (1) Negotiated price. 2005 assessed value is \$939,700.
- (2) Based on cost estimates from the Department of Neighborhood Services
- (3) Based on cost estimates from Environmental Staff of the Department of City Development and Sigma Environmental
- (4) Based on cost estimates from the Department of Public Works
- (5) Projected base on sales price of \$5,000 per lot

Exhibit II

TID No.

20th and Walnut

CityHomes Assessed Values

				Assessed Value	Year sold (1)
Address					
2114	W	BARBEE	ST	\$163,000	1995
2022	W	BARBEE	ST	\$150,900	1995
1727	N	21ST	ST	\$160,000	1995
1750	N	21ST	ST	\$158,800	1995
2017	W	VINE	ST	\$171,600	1996
2023	W	VINE	ST	\$150,900	1996
2035	W	VINE	ST	\$160,800	1996
2101	W	VINE	ST	\$160,300	1996
2107	W	VINE	ST	\$162,200	1996
2121	W	VINE	ST	\$157,100	1996
2134	W	BARBEE	ST	\$149,200	1996
2126	W	BARBEE	ST	\$174,400	1996
2120	W	BARBEE	ST	\$160,900	1996
2106	W	BARBEE	ST	\$176,500	1996
2100	W	BARBEE	ST	\$160,300	1996
2034	W	BARBEE	ST	\$148,600	1996
2028	W	BARBEE	ST	\$163,200	1996
2016	W	BARBEE	ST	\$158,000	1996
2010	W	BARBEE	ST	\$168,400	1996
2002	W	BARBEE	ST	\$156,900	1996
1749	N	21ST	ST	\$160,500	1996
1741	N	21ST	ST	\$159,700	1996
1733	N	21ST	ST	\$163,000	1996
1721	N	21ST	ST	\$176,500	1996
1749	N	20TH	ST	\$151,100	1996
1724	N	21ST	ST	\$155,700	1996
1730	N	21ST	ST	\$150,000	1996
1744	N	21ST	ST	\$155,800	1996
1728	N	22ND	ST	\$159,400	1996
2003	W	VINE	ST	\$159,600	1997
2011	W	VINE	ST	\$156,900	1997
2029	W	VINE	ST	\$170,300	1997
2135	W	VINE	ST	\$162,100	1997
1729	N	20TH	ST	\$143,100	1997
1737	N	20TH	ST	\$140,000	1997
1736	N	21ST	ST	\$147,000	1997
1742	N	22ND	ST	\$159,900	1997
1748	N	22ND	ST	\$156,900	1997
2115	W	VINE	ST	\$171,900	1998
2127	W	VINE	ST	\$173,600	1998
1743	N	20TH	ST	\$145,800	1998
1723	N	20TH	ST	\$144,400	1998
1734	N	22ND	ST	\$166,200	1998
2008	W	VINE	ST	\$168,400	1998
2205	W	VINE	ST	\$177,300	1998
2110	W	WALNUT	ST	\$156,700	1999
2132	W	WALNUT	ST	\$168,600	1999
2118	W	VINE	ST	\$169,800	1999
2112	W	VINE	ST	\$177,100	1999
2102	W	WALNUT	ST	\$195,900	2000
2118	W	WALNUT	ST	\$175,500	2000
2124	W	WALNUT	ST	\$188,400	2000
2002	W	VINE	ST	\$161,300	2000
2136	W	VINE	ST	\$173,300	2000
2124	W	VINE	ST	\$176,000	2000
1807	N	22ND	ST	\$154,600	2000
1936	W	VINE	ST	\$164,500	2000
1935	W	VINE	ST	\$168,800	2000
1921	W	VINE	ST	\$160,000	2000
1744	N	20TH	ST	\$208,400	2000
1813	N	22ND	ST	\$162,100	2001
1726	N	20TH	ST	\$202,700	2001
1808	N	20TH	ST	\$153,600	2001
Average				\$163,562	

(1) Marketing commenced in last quarter of 1995

Exhibit III

TID

20th and Walnut

Lindsay Heights Sales

		Year Sold/
Address	Sales Price	Built
1920 N. 18th	\$135,010	2003
1725 W. Brown	\$203,500	2003
1953 N. 19th	\$121,500	2003
1751 N. 18th	\$159,580	2003
1724 N. 18th	\$140,000	2003
1730 N. 18th	\$159,995	2003
1720 N. 18th	\$141,500	2003
1735 N. 17th	\$159,555	2003
1959 N. 15th	\$151,000	2003
1935 N. 17th	\$211,296	2003
1738 N. 18th	\$196,550	2003
1729 W. Brown	\$172,500	2003
1934 N. 18th	\$124,650	2003
1717 W. Brown	\$188,900	2003
1731 N. 18th	\$176,000	2003
1920 N. 15th	\$121,000	2003
1330 W. Garfield	\$109,900	2003
1711 W. Brown	\$207,884	2003
2416 N. 14th	\$185,000	2003
1945 N. 17th	\$196,266	2003
1719 N. 18th	\$159,995	2003
1955 N. 17th	\$208,000	2003
1901 N. 14th	\$174,385	2004
1909 N. 14th	\$205,850	2004
2142 N. 15th	\$140,800	2004
2206 N. 15th	\$206,000	2004
2114 N. 16th	\$135,515	2004
1834 N. 18th	\$131,250	2004
1840 N. 18th	\$166,500	2004
1804 N. 19th	\$146,650	2004
1810 N. 19th	\$210,000	2004
1302 W. Garfield	\$177,775	2004
1922 W. Brown	\$135,000	2004
1851 N. 14th	\$160,500	2004
2227 N. 14th	\$137,200	2004
2222 N. 15th	\$175,300	2004
2122 N. 16th	\$234,165	2004
2132 N. 15th	\$174,900	2004
1806 N. 18th	\$158,172	2004
1848 N. 14th	\$193,000	2004
1743 N. 19th	\$156,500	2004
1809 N. 19th	\$197,500	2004
1820 N. 19th	\$175,000	2004
1913 N. 19th	\$159,900	2004
2227 N. 15th	\$159,990	2004
1725 N. 18th	\$183,000	2004
1733 N. 17th	\$218,000	2004
1826 N. 19th	\$162,101	2004
2221 N. 15th	\$143,900	2004
Average Sales Price	\$168,335	

