



Office of the Comptroller

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March 7, 2008

Members of the Zoning, Neighborhoods  
& Development Committee  
200 East Wells Street, Room 205  
Milwaukee, WI 53202

RE: File 071392 TID 48 Park East Project Plan –  
Aloft Adjustment

Dear Committee Members:

File 071392 authorizes the expenditure of an additional \$1.25 million for Tax Incremental District (TID) 48 – Park East Project Plan. The file revises total project costs from \$20 million to \$21.25 million, excluding capitalized interest and \$6 million in anticipated funding for the North End Project. In addition to this adjustment, DCD anticipates a future amendment to TID 48.

File 071392 proposes \$1.25 million in project costs for the city funded portion of 203 feet of riverwalk and dockwall as well as access improvements for a plaza. These public improvements are associated with the redevelopment of Bock 10 (Aloft Project), within TID 48, which is bounded by McKinley Street, Old World Third Street, Juneau Avenue and the Milwaukee River. Included in this \$1.25 million of TID funding is approximately \$278,000 for the purchase of right of way at \$38 per s.f. for the extension of Market Street, which is not associated with the Aloft Project. DCD included this R.O.W. acquisition as part of this adjustment in anticipation of the extension of Market Street. The installation of public infrastructure for the Market Street extension is to be funded with existing TID 48 funds. Funding per this resolution is as follows:

TID 48 Adjustment		
Riverwalk & Dockwall	\$	530,000
Public Access Improvements		328,000
Admin & Other		114,000
Block 10/Aloft Subtotal		<u>972,000</u>
M&I R.O.W.		278,000
TOTAL	\$	<u><u>1,250,000</u></u> <sup>1</sup>

The funding identified above for the riverwalk, dockwall and public access improvements are associated with the construction of a 160 room Aloft Hotel, 9 luxury lofted condominiums, and 3,368 s.f. of street level retail space. The funding identified above only includes the TID funded portion for these improvements, which are within the maximums set by resolution and City policy<sup>2</sup>.

<sup>1</sup> Figure excludes \$125,000 in capitalized interest

<sup>2</sup> Per resolution 060578, City funding is capped at \$2,000 per linear foot for riverwalk and \$800 per linear foot for dockwall.

The Developer, Milwaukee Block 10 Properties, LLC, is responsible for the remaining 30% of total riverwalk costs, 50% of total dockwall costs, and 30% of total public open space improvements. The riverwalk, dockwall and public open space improvements will be privately owned and maintained, subject to public access easements, with all maintenance being the responsibility of the Developer.

Aloft Project and Market Street Extension			
Sources		Uses	
Debt	33,036,000	Hard Costs	29,367,000
Equity	6,759,000	Soft Costs	9,428,000
TID Funds	1,250,000	Land Acquisition	2,500,000
State Grants	250,000		
<b>TOTAL</b>	<b>41,295,000</b>	<b>TOTAL</b>	<b>41,295,000</b>

In addition to the assistance of this TID adjustment, the Project benefits from a recently approved parking lease agreement at the city’s 4<sup>th</sup> and Highland Parking structure. Under this lease agreement, subsidized lease rates roughly coincide with the Developer’s construction period and provide a benefit to the Project of approximately \$700,000<sup>2</sup>.

**Is the TID Adjustment Likely to be Successful?**

In examining the Project’s success we analyzed whether the development would be placed in service as planned and whether the development will produce sufficient tax increments to recover project costs. We verified the franchise agreement with Aloft Hotels and the first mortgage financing commitment, both of which support the completion of the Project as proposed. We also evaluated the Project’s six-year pro-forma cash flows, which require investor sale or refinancing within the six-year time horizon. The cash-on-cash rate of return of 20% solely related to the hotel portion of the project supports the Developer’s acquisition of the necessary equity investment for the project to proceed.

We also analyzed whether the Aloft project will successfully recover the additional TID expenditures over the shortened time horizon for recovering project and financing costs, of which 20 years of the 27-year maximum life are remaining. We tested the consultants underlying assumptions and found that even at significantly lower values for the residential and hotel components of the Project, the added incremental value of the Aloft development would still recover the additional costs of this TID adjustment. **We conclude that the tax increments from the Aloft project would be sufficient to recover the additional TID expenditures by 2025, the 24<sup>th</sup> year of the TID and is therefore likely to be successful.**

<sup>2</sup> This figure includes subsidized lease rates of \$55,000 and the present value of \$646,000 for converting existing tax exempt debt on the structure to higher rate taxable debt as well as the cost of issuing future debt for the structure at taxable rates. As the lease constitutes a private use of a public asset the City may in the future be required to make these changes to comply with Federal tax laws.

**Are the Proposed Public Improvement's Necessary for Private Development to Proceed?**

This question explores whether this development would likely occur, were it not for TIF assistance. For the most part a TID is created because the public improvements funded by the TID induce the private development to occur, and without this inducement the development would likely not occur. In this case, however, it is arguable whether the Aloft Project would terminate, should the riverwalk, dockwall, and open space improvements not be funded by the TIF.

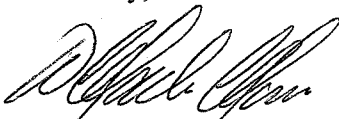
There are public benefits which result from placing these improvements into service, once the fact that 15% of the cost of TIF financing is paid by non-city taxpayers is considered. In this instance, therefore, utilizing TIF financing presents the most cost effective form of financing and provides a tangible economic benefit to City taxpayers. **We therefore conclude that while the Project could proceed without the TIF adjustment, there is a quantifiable benefit to city taxpayers for using TID financing for these public improvements.**

**Conclusions and Recommendations**

We conclude that it is highly likely that the Aloft Project within TID 48 will recover the additional \$1.25 million in project costs. We also conclude that while the project might proceed absent TIF financing, there is a taxpayer benefit for using TID financing to place the proposed public improvements in service.

Please feel free to contact me should you have any questions or comments concerning this letter.

Sincerely,



W. Martin Morics  
Comptroller

Cc Mayor Tom Barrett  
Richard Marcoux  
Sandy Rotar  
Allison Rozek  
Marianne Walsh

CDK/3-7-08