



Office of the Comptroller

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

RE: File #050948; TID #62 – DRS
Power & Control Technologies Project

Dear Committee Members:

File #050948 would authorize the creation of Tax Incremental District (TID) #62, known as the DRS Power & Control Technologies (“DRS”) Project. The File would also approve the Project Plan and the terms of the loan agreement. TID #62 contemplates a \$1.5 million forgivable loan to DRS to assist in the renovation and modernization of its production facility located at 4265 North 30th Street.

Total cost of the renovation and modernization project (“the project”) is estimated to be \$11.5 million. In addition to \$1.5 million in TID support, the State of Wisconsin is providing approximately \$2.5 million, with the remaining \$7.5 million being provided by DRS, with the assistance of Federal New Markets Tax Credits. When complete, the project will upgrade 233,000 s.f. of space, reduce energy and water consumption, and lower maintenance services costs. DRS will utilize 343,000 s.f. of the 600,000 s.f. facility, including 110,000 s.f. of basement storage and maintenance space which is not part of the project. The remaining 257,000 s.f. of space will be made available for lease.

A second objective of the proposed District is to sustain and expand the City’s employment base. DRS currently employs 370 and anticipates hiring an additional 80 employees, predominately in manufacturing and testing positions, which pay on average \$19 per hour.

A third objective of TID #62 is to upgrade the condition of properties surrounding the DRS facility by providing \$150,000 in Residential Assistance Program funding. The program will provide forgivable loans of up to \$10,000 for exterior repairs to neighboring properties. Interest on the loans will be 0% for a term of five years. The loans are forgivable at 20% per year, contingent upon the property being owner occupied. The loan structure is similar to the loans used for Lindsay Heights (TID #44) and Bronzeville (TID #59).

In total, the proposed TID will provide \$1,870,000 (including capitalized interest) of the total \$11,905,000 project costs. Project sources and uses are as follows:

<u>Sources</u>		<u>Uses</u>	
DRS	\$7,535,000	DRS - Hard Costs	\$9,530,000
WI DOC MED Forgivable Loan	2,000,000	DRS - Soft Costs	2,005,000
WI DOA Focus on Energy Grant	500,000	Residential Assistance Program	150,000
City TID - Forgivable Loan	1,500,000	Project Administrative Costs	50,000
City TID - Other	<u>370,000</u>	Capitalized Interest	<u>170,000</u>
Total Sources	\$11,905,000	Total Project Costs	\$11,905,000

Is the Proposed TID Likely to Achieve Its Goals and Objectives?

Of the proposed District’s three primary objectives, the retention and expansion of jobs in the City is the most prominent. In our opinion, it is highly likely the TID will achieve this objective given the terms of the proposed District’s \$1.5 million forgivable loan, which is contingent upon DRS maintaining at least 450 full time equivalent positions at its facility for ten years. Loan repayment is predicated on the number of employees below the stated goal. The State Department of Commerce through the Major Economic Development (MED) program applied similar loan terms for its \$2 million forgivable loan to DRS. Under the terms of the MED loan, loan repayments are deferred through January 1, 2009, with forgiveness calculated on a per position basis throughout the five year loan term.

We feel that the incentive provided through the forgivable loan to DRS is critical to achieving the proposed District’s objective of job retention and expansion as well as providing reasonable assurance to City officials that stated job goals are met.

With respect to the renovation and modernization objective, the proposed District leverages over \$10 million in private and State financing for the remodeling and modernizing the DRS facility. These improvements will enhance the company’s manufacturing capabilities and add significant leaseable manufacturing space. The proposed district is likely to be successful in achieving this objective.

While a third objective of TID #62 is to improve residential housing in the immediate vicinity of the DRS facility and the Project Plan includes \$150,000 for this purpose, the boundaries of the proposed District only include the DRS facility. Therefore, the implementation of the Residential Assistance Program is contingent on an amendment to the proposed District’s boundaries. The Department of City Development has indicated that it is planning on amending the boundaries of TID #62 once meetings are held in adjacent neighborhoods to explain the program. A future amendment of the proposed District’s boundaries will be required to effectuate the residential component of the Project Plan. Such an amendment of the proposed District’s boundaries may need to take into consideration the feasibility of the proposed District.

Is the Proposed TID Likely to Successfully Recover TID Expenditures?

The Economic Feasibility Study for the proposed TID indicates that, based on forecasted cash flows, nearly the entire 27 year recovery period is required, making the proposed District nominally feasible. As such, modest changes in assumptions impact the projected feasibility of the proposed District. This sensitivity relates to the proposed District’s assessed value and assessed value growth, as TID #62 relies on a single manufacturing parcel to generate sufficient tax increment.

The City Assessor believes that in assessing manufacturing property, the State Department of Revenue typically assesses below 50 percent of the cost of improvements made, particularly in instances where the

improvements do not expand the facility, but replace existing components. In addition, the City Assessor believes that in assessing manufacturing property, the highest assessed value is typically assigned in the year the improvements are placed in service, with values stabilizing or declining in subsequent years. A review of the Feasibility Study's cash flow analysis shows that the assumed assessed value appears reasonable, but that the one-half percent annual increase in assessments beginning in 2012 may be somewhat optimistic.

If the Economic Feasibility Study's cash flow assumptions on assessed value and assessed value growth do not materialize, the District may not recover the total cost of the proposed TID. For example, if all of the cash flow assumptions materialize, with the exception of the assumption on assessed value growth, TID #62 will close in 2030, three years beyond the statutory 27 year maximum life of a TID.

The Project Plan includes \$150,000 for a Residential Assistance Program. As currently proposed the TID boundaries only include manufacturing property at the DRS facility site. **If the Residential Assistance Program is to be implemented, the proposed District's boundaries will need to be amended to include surrounding residential properties. Amending the TID to include these residential properties will improve the feasibility of the proposed district.** This improvement will depend on the appreciation rate of TID residential property value and the amount of additional TID project costs, if any, to be added at the time the proposed District's boundaries are amended.

Is the Proposed Level of TID Assistance Necessary & Essential to Project Success?

DRS staff asserts that the firm's required payback period to recover its initial investment is three years, which can only be achieved with the proposed \$1.5 million in TID forgivable loan. In addition, it is asserted that without the TID, State and New Market Tax Credits financing, the operational savings of the DRS project would have a payback period of ten years. What these assertions imply is that all of the sources of assistance are required to move the project forward. **Based on the assertions made by DRS staff, the assistance provided by the TID is essential to project's success.**

Conclusions

As it is highly likely TID #62 will successfully achieve its stated employment goal, our office is in support of the proposed District. Safeguards have been written into the terms of the loan agreement protecting the City's \$1.5 million commitment from: disbursing funds without all funding sources committed; sale of the property; and exemption of any portion of property, including personal property, currently taxable. **With these safeguards in place, our office supports the approval of TID #62, contingent on the amendment of the boundaries to facilitate the Residential Assistance Program.**

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux,
James Scherer,
Pat Walsh
Emma Stamps