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Comptroller

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Office of the Comptroller

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September 9, 2020

Members of the Zoning, Neighborhoods
& Development Committee
City of Milwaukee
City Hall, Room 205
Milwaukee, WI 53202

RE: File 200598, TID 106 –McKinley School

Dear Committee Members:

File 200598 would approve the creation of Tax Incremental District (TID) 106, McKinley School (the District) along with a corresponding project plan and term sheet. The Comptroller's Office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD) and Assessor's Office staff. Our analysis is based on the information provided.

The proposed District is being created to assist in the adaptive reuse of the former McKinley School/VE Carter Development Center located at 2001 West Vliet Street (the Property). The Property was owned by Milwaukee Public Schools until 1991, when it was sold and operated as a school and daycare facility until a fire damaged the building in 2013. The City foreclosed on the Property in 2016 and the Property has an assessed value of \$0.

The reuse will include the creation of 35 affordable rental units in the former school building and four single family homes along the northern boundary of the site (the Project). The Project is being undertaken by Gorman & Company, Inc. (the Developer). Total costs for the Project are estimated at \$12.6 million.

This file authorizes expenditures of \$950,000 for environmental remediation, demolition, infrastructure, site preparation, and construction expenses. The table below outlines the proposed project costs, excluding financing and interest expenses.

Estimated Project Costs	
Environmental Remediation and Demolition	\$ 650,000
Infrastructure, Site Preparation, and Construction	300,000
Total Project Costs	\$ 950,000



The Developer will perform the infrastructure, site preparation, and construction work for the four single family homes and will be reimbursed by the City for actual costs up to \$300,000. The City will contract and carry out the environmental remediation and related interior demolition to prepare the building for development. The funds from the proposed District will be supplemented by a grant of \$450,000 received by the City from the Environmental Protection Agency to perform this work. The current estimate for the environmental remediation work includes a contingency for cost overruns. In the event of extraordinary circumstances substantially raising the environmental remediation costs, the City will work with the Developer to make up the difference.

Is This Project Likely to Succeed?

DCD’s feasibility study, which uses a 2.783% property tax rate and 1% inflation rate over the life of the District, forecasts the District will fully recover the \$950,000 project costs plus financing in 2043, after receipt of the 2042 levy (year 23). DCD’s feasibility study appears reasonable based on the Comptroller’s analysis.

Sensitivity Analysis

There is inherent risk in every projection of future results. One common way to alleviate this risk is to provide sensitivity analysis which forecasts the impact that different assumptions have on the projection. Below is a table which summarizes several scenarios which show the sensitivity of DCD’s projected incremental revenues within the District.

Sensitivity Analysis	
Percentage of DCD Projected Revenue	District Payback Year
90%	2045
95%	2043
100% (Base Case)	2043
105%	2042
110%	2041

Under each of the above scenarios, the City would fully recover its \$950,000 investment in the District plus financing costs within the District’s 27 year life.

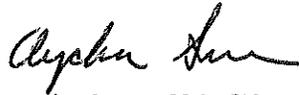
Is the Proposed Level of City Financial Participation Required to Implement the Project?

This proposed District provides incentive to the Developer to complete the adaptive reuse of a vacant building and construct four new single-family homes. Without City funding, this project may be delayed or not occur altogether, reducing the desirability of this area for future development.

Conclusion

Based on the feasibility study, it appears that the proposed District is likely to generate enough cash to fund \$950,000 of environmental remediation costs, demolition work, infrastructure, and site preparation costs. Should you have any questions regarding this letter, please contact Joshua Benson at 2302.

Sincerely,



Aycha Sawa, CPA, CIA
Comptroller

CC: Maria Prioletta

AS/JB