



Office of the Comptroller

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March 26, 2004

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

File #315478 TID #54 –
Stadium Business Park

Committee Members:

This File would create TID #54 - Stadium Business Park, approve a Project Plan and Term Sheet, authorizing the City enter into a development agreement with Real Estate Recycling (RER). RER proposes to acquire a property formerly owned by Ampco Metal Corporation at 1745 South 38th Street. Ampco Metal Co. declared bankruptcy in 2001, being acquired by United Stars, Inc of Beloit Wisconsin. United Stars is currently offering the sale of this property to RER. Under the Stadium Business Park ("the Project") proposal, RER would acquire the above property, demolish the existing structure, decontaminate the subsoil and construct 200,000 sq ft of light industrial and distribution space in four buildings of about 50,000 sq ft each. The Project would be accomplished in 1-4 phases. The likely tenants are expected to lease about 8,000-12,000 sq ft each, requiring the commitments of 4-6 tenants in each of the new buildings.

The total budget for the project is \$14,785,000, of which the developer would provide \$11,535,000 (78%) with the City providing \$3,250,000 (22%). The RER portion is intended to pay for most of the land acquisition cost and actual construction and soft costs. RER's \$11.5 million financing will be derived from a first mortgage loan of \$8,651,250 and an equity contribution of \$2,883,750.

The \$3.25 million of City financing would pay for the following:

- \$1,950,000 soil and ground water remediation and related activities
- \$1,005,000 demolishing the existing buildings
- \$ 250,000 land acquisition costs
- \$ 50,000 TID Admin & environmental consultants
- \$3,250,000 Total City costs.

This City financing would be derived as follows:

- \$2,450,000 GO debt TID financing
- \$ 800,000 Developer loan to the City (non-TID financing)
- \$3,250,000 Total City financing.

Is the Proposed Project Likely to be Successful?

The first issue involves the completion of the Project as planned. **The Project developer, budget and the Development Agreement Term Sheet provide reasonable assurance that the Project will in fact be completed.** The RER developer has recently completed two similar light industrial developments totaling about 100,000 sqft in nearby West Milwaukee. These buildings have been fully leased. The proposed Project lease rates with 90% industrial and 10% office space would average \$4.92 per sqft, slightly lower than those in the nearby development.

The Development Agreement itself also provides strong assurance of completion. When the Development Agreement between RER and the City-RACM has been signed, RER will purchase the subject property and get State approval of a remedial action plan (RAP) to decontaminate the property subsoil. The City will deposit \$2.4 million and the developer \$1.2 million into an escrow account which cannot be drawn upon by the RER until:

- 1) The Development Agreement has been executed.
- 2) The State approves the RAP plan to remediate the soil.
- 3) The developer's construction loan has been secured.
- 4) Fixed price contracts have been obtained on all required remediation work.

The developer will also provide a completion guarantee to the City secured by a City mortgage on the project site and escrow account.

The second issue is the sufficiency of tax increments to successfully retire the Tax Incremental District. DCD projections show the development occurring over the period 2005 through 2009 when the four buildings would be fully leased. Based on these conservative lease-up projections and equally conservative tax increment projections thereafter, the TID would successfully close in 2027. To assure a return on \$2.4 million TID investment in site acquisition and remediation, **the developer has guaranteed minimum property valuations for each year of the TID** as a part of the Development Agreement. This means that should actual TID property values fall short of the minimum in any year, the developer will pay the shortfall in property taxes to the City. **These minimum tax increments should be sufficient to successfully retire this TID within 25 years (2029) – the maximum life for industrial districts under the new State TID statute.**

Is the City's \$3.2 million Investment required to enable the Project to proceed?

In addition to the \$2.4 million in TID financing, in this File the City would finance an additional \$800,000 through a loan by RER to the City in anticipation of RER's receipt of State and local grant funds expected later this year. Initially, this Project was on hold awaiting \$800,000 in additional grants. Letters from both the Commissioner of DCD and the RER developer indicate their confidence in the receipt of at least the required \$800,000 in anticipated grant funds. See the enclosed. The receipt of these grant funds is anticipated by July or August of this year. Therefore, **this Project could likely proceed in 4-5 months without the need for the proposed \$800,000 of City financing.** However, to allow the developer to initiate property acquisition immediately to accommodate a major prospective tenant, the DCD has proposed that the City borrow \$800,000 from the developer to close this gap now.

Our Office has often expressed our reservations about the use of "off budget" developer loans to the City as a financing method. However, as this loan is an additional "timing" accommodation to RER, the City would pay a very low interest rate – currently about 1% - on the \$800,000 loan. Further, based on the above letters from the DCD Commissioner and RER, this loan would most probably be repaid with the grants anticipated later this year. Should the anticipated grants of at least \$800,000 not be forthcoming, the City would be obligated to repay the developer principal and interest on the difference, but only to the extent that actual property tax increments in any year exceed the guaranteed increments in the Development Agreement. **Relying on the above DCD and developer letters supporting the anticipated grant receipts, our Office concludes that this \$800,000 developer loan to the City is not likely to add a substantial taxpayer cost to this Project.**

Our Office finds the proposed budget, strong developer and contractual protections made part of the draft development agreement sufficient to support the resolution contained in this File, with one contingency. Currently the TID includes a building primarily accommodating private office uses known as the Coakley building. While the DCD tax increment projections exclude the taxes generated by this building, the proposed TID boundary includes this building. Since the proposed development will have little if any affect on this building, **the Coakley building should be excluded from the proposed TID. Leaving the Coakley building within the TID would unfairly raise property taxes while the TID is active by diverting these taxes otherwise used for general government purposes (police, fire, teachers, etc.) to the TID. With this exclusion condition satisfied, we would support approval of this File.**

Sincerely,



W. Martin Morics
Comptroller

Cc Commissioner Patricia Algiers
Thomas O. Gartner
Beverly Craig
Patrick Walsh

**Department of City Development**

Housing Authority
Redevelopment Authority
City Plan Commission
Historic Preservation Commission

March 11, 2004

W. Martin Morics, City Comptroller
City of Milwaukee
200 E. Wells St., Room 404
Milwaukee, WI 53202

Dear Mr. Morics:

I am writing to express the Department of City Development's strong confidence that at least \$800,000 of brownfield grants will be awarded to the Stadium Park Business Project at the former Ampco facility. This redevelopment is the model brownfield project -- taking a property with an outdated, shuttered former foundry and extreme contamination -- cleaning it up and building a \$10 million modern business complex that will employ at least 200 people. Because it is the epitome of a brownfield grant success story, it will score extremely well in grant competitions. Although final awards have not been made yet, various granting organizations have provided strong positive feedback and a willingness to partner with the City of Milwaukee in funding this project.

DCD has assisted Real Estate Recycling in applying for a wide-array of brownfield grants and loans. The project has already secured a \$25,000 grant under the MEDC Site Assessment Grant Matching Program. The Redevelopment Authority of Milwaukee (RACM) submitted two applications on January 15, 2004 for the WI Department of Natural Resources Site Assessment Grant (SAG) program, one for \$30,000 and the other for \$100,000. The \$30,000 application scored second highest of all RACM/City applications and we are confident we will secure at least \$30,000. A higher amount under this grant program, although possible, is less likely.

DCD has supported Real Estate Recycling's efforts to obtain a \$100,000 Milwaukee County Brownfields Grant. The request was heard at the March 8th Economic Development Committee and is currently undergoing staff review for recommendation at the next meeting. We've had informal positive feedback from the County's economic development staff confirming both the availability of funds and a strong positive view of the project. The County is particularly pleased to see the anticipated level of job creation of the project. The County has funded two other projects completed by Real Estate Recycling, both in West Milwaukee.


Mr. Morics
March 11, 2004
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This project is also competing for WI Commerce Brownfield Grant funds. Based on the scoring criteria (which includes the level of investment, amount of contamination, projected job creation, and distress of the area) and our experience in the past, we believe the project should be successful in obtaining between \$650,000 and \$750,000 of grant funds. The maximum grant award could be \$1,250,000. Staff from this program have recently toured the site and provided positive reactions to us. The Commerce Brownfields Program has also provided two other grant awards for other Real Estate Recycling projects in the past. Real Estate Recycling will have the ability to apply for two different award rounds in the next three to four months.

Finally, RACM has been awarded several EPA grants to establish a Revolving Loan Fund to support environmental cleanups. EPA Region 5 has approved a proposal for RACM to loan the City \$500,000 of these funds at 0%. These funds could be used to support the proposed TIF. This is a considerable savings from the 4.25% currently projected for general obligation bonds. Using this borrowing source will allow the TIF to close out a year earlier than projected due to interest cost savings. In the event grant sources are lower than we anticipate, a portion of this loan could be subgranted to support cleanup at the project. RACM and EPA Headquarter approvals are still forthcoming.

I sincerely believe this is a model proposal for brownfields redevelopment. In the absence of this TIF, several grant sources would be put in jeopardy and the property would likely remain contaminated and mothballed for many years to come. We applaud Real Estate Recycling's willingness to take on the risk and inherent frustrations that come from the redevelopment of contaminated land. If the City were to address this property independently without an experienced developer, this project would clearly be more expensive and have a less certain future.

Sincerely,


Patricia S. Algiers
Commissioner

Real Estate Recycling

Thursday, March 11, 2004

Patricia Algiers, Commissioner
Department of City Development
809 North Broadway
Milwaukee, WI 53201

RE: Redevelopment of the Ampco Site, 1745 S. 38th Street – Stadium Business Park

Dear Commissioner Algiers:

Real Estate Recycling (RER), which specializes in brownfield redevelopment, has been working cooperatively with your Department of City Development to create a plan that will successfully redevelop the former Ampco site into the Stadium Business Park. Unlike your Valley project where the City took all the risk, we are willing to step in as a private entity and take acquisition, clean-up and the requisite financial and legal risks. Furthermore, we are willing to guarantee the tax base and taxes required to pay off the Tax Increment, and to finance a significant portion of the project costs with a pay-go TID note.

Ampco went bankrupt recently, and their facility is now an abandoned, shuttered former industrial site with significant environmental contamination. The site is at risk for sitting empty, polluted and un-utilized – such sites become not only eyesores, but also destinations for graffiti, dumping and illegal loitering.

RER has spent significant time and money over the past four months developing plans for Stadium Business Park, which will:

- Create over \$12 million in new tax base
- Generate several hundred new jobs
- Clean up a significantly contaminated property
- Be a brand new business park in the heart of the County
- Leverage other County-funded projects in the immediate area, and
- Attract further new private investment in the neighborhood

TID funding will pay for much of the extraordinary demolition and clean-up costs for the site, and grants are an excellent source for additional funding. RER and the City of Milwaukee have superior track records of pulling together funds for brownfield cleanups.

RER's most recent projects include the following funding:

	<u>Commerce Grant</u>	<u>County Grant</u>	<u>SAG Grant</u>
Brookfield site	\$400,000		
Stadium Business Center I	\$380,000	\$250,000 (back taxes forgiven)	
SBC II		\$ 40,000	\$30,000

3060 Metropolitan Centre
333 South Seventh Street, Minneapolis, MN 55402
phone: (612) 904-1513 fax: (612) 904-1590

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In these projects we received every grant for which we applied. Since our track record of cleaning up and redeveloping sites gets stronger every year, our applications get stronger. Our projects are an excellent bang for the buck, and we turn them around quickly so the impact is immediate.

We have already applied for a \$100,000 SAG Grant from the WDNR and a \$100,000 County Brownfield Grant. We are drafting a \$650,000 Commerce Brownfield Grant application for submittal later this month. We are extremely confident that we will receive grants, and the amounts we have requested are very reasonable.

\$ 850,000 in RER grant applications

Thank you for your continued support of this excellent opportunity.

Sincerely,



Jeff Hall