

Draft: June 12, 2014

Amendment

To

Project Plan For

Tax Incremental District No. 74

(N. 35<sup>th</sup> Street & Capitol Drive / Century City)

Initial Joint Review Board Meeting:

Public Hearing Held:

Redevelopment Authority Adopted:

Common Council Adopted:

Joint Review Board Approved:

## Background

Wisconsin Act 183 allows amendments to tax increment districts which have experienced a decline in property value such that the district's value has been at least 10% less than its base value for at least two consecutive years.

Act 183 allows the base value of the district to be reduced to its current value, subject to approval of the Joint Review Board, if:

- The City conducts a feasibility analysis as required by statute and also includes the annual and total amount of tax increments to be generated over the life of the district; and, the annual debt service costs on bonds issued by the City. In addition, the project must be amended so that at least one of the following three conditions occurs:
- The project plan specifies that, for the total value of public infrastructure improvements in the district that occur after the amendment, at least 51% of the value of such improvements must be financed by a private developer, or other private entity. In return, the City would repay those costs solely through the payment of cash grants from the city (presumably from actual incremental revenue generated by the district), provided the grant recipient has entered into a development agreement with the City; or
- The project plan specifies that the city expects all project costs to be paid within 90% of the district's remaining life; or
- The project plan specifies that expenditures may be made only within the first half of the tax incremental district's remaining life – except that expenditures may be made after this period if they are approved by a unanimous vote of the joint review board. In no event may expenditures be made later than five years prior to the district's unextended termination date.

## Project Plan Amendment

TID No. 74 is a 1,050 parcel district whose Base Value was established as of January 1, 2009.

This TID was originally established to promote land uses that engender greater levels of capital investment as well as high quality urban design, and storm-water management. The major objective is to redevelop an 84 acre portion of the former A.O. Smith and

Tower Automotive manufacturing complex into a business park, as well as retail outlets and housing. Similar to the Menomonee Valley redevelopment project, the business park seeks to foster living-wage jobs at a targeted density of 15 per acre.

The Base Value of this District was established in 2009 at \$89,168,800. The district value now stands at \$63.33 million. In 2012 and 2013, the district value was 35.3% and 29% less, respectively, than the Base Value. See attached Trend in Values for TID 74.

Given this “negative” incremental value, no revenue is being generated and it is not possible to amortize the costs incurred, to date, for TID 74. Consequently, it is proposed that the Base Value be reset as provided in Act 183.

The updated feasibility analysis for the TID, indicates that the district, as restructured, would have to achieve an average incremental value of \$58 million to amortize existing and anticipated project costs, over 90% of the district’s remaining life.

This district was created in 2009, and its maximum life would be 27 years, ending in 2036. Consequently, the district has 22 years remaining, and 90% of that is 19 years.

As provided in the feasibility analysis, an average incremental value of \$58 million would generate average incremental revenue of \$1.6 million. Over 19 years, this revenue, plus anticipated property sales income, would recover the costs of the District, including interest on debt.

**Per Act 183, the project plan herewith specifies that the City expects all project costs to be paid within 90% of the district’s remaining life.**

**ECONOMIC FEASIBILITY ANALYSIS**  
**FOR**  
**TAX INCREMENTAL DISTRICT NO. 74**

As provided in this Amendment to the Project Plan for TID 74, the City of Milwaukee proposes to adjust the Base value of this TID to its current valuation of \$63,334,700.

The City has incurred approx. \$16.7 million in project costs in TID 74. Total scheduled debt service payments are \$24,791,979, and miscellaneous revenues are \$38,992. Please see Debt Service schedule and Expense Statement as of April 30, 2014, attached.

Specifically, \$24,765,694 must be recovered if no future costs are incurred, per the break-even schedule, attached. However, approximately \$4 million of additional costs are anticipated to be incurred. With interest estimated at 4.5%, this adds \$5.6 million to future debt service, bringing total past and future debt service to \$30.4 million.

In order to amortize these costs from future incremental taxes, District values will have to increase above the revised Base Value, by the amounts shown below, on average, over the next 19 years:

The average annual incremental tax revenue to be generated over the next 19 years must be approximately \$1,600,000 to pay down current and future borrowing for project costs ( $\$30,400,000/19 = 1,597,500$ ).

If incremental taxes are \$1,600,000, then the average incremental value needed to generate this annual cash flow is this amount divided by an estimated tax rate of 2.75%, or \$58,000,000 – nearly double the current value in the TID. If a tax rate of 3.0% is anticipated (closer to the current rate) the incremental value needed would be \$53 million.

Please keep in mind that this is a simple break-even analysis and no attempt is being made to forecast annual incremental value and revenue.

Certain observations can be made regarding the likelihood of achieving an incremental value of this magnitude.

The business park and adjacent privately owned site at N. 35<sup>th</sup> & W. Capitol Dr. (13+ acres) will comprise 57 acres for new development. If the floor-to-area (FAR) ratio for new development is similar to the Menomonee Valley, i.e. 1 to 3, the business park would ultimately contain 19 acres under roof, or 828,000 s.f. of production, office, and

distribution space – and possibly retail space. At an estimated value of \$50/ s.f., this aggregates to some \$41.4 million of new value, plus personal property.

In addition, Buildings 35 and 36, the “Talgo” and former Tower Automotive office building, comprise 245,000 s.f. . Efforts are underway to convert the office building to an innovation center, and to lease the Talgo building (bldg. no. 36). At \$50 per s.f., the redevelopment of these buildings, and their conversion to private ownership, would add \$12 million in value to the TID.

Also, former parking lots located generally east of the main development are expected to be redeveloped for housing. Single family homes are anticipated for three acres. At 9 homes per acre, 27 homes would be developed. Apartments are planned for 2.2 acres. At 25 units per acre, 55 units would be achieved. We estimate the single family homes would market for \$125,000, and the apartments would have a value of \$50,000 per unit. This adds \$3.9 million to total value in the TID.

The aggregate of the values in the business park, existing buildings nos. 35 and 36, plus anticipated housing is \$57.4 million.

Should property values in the largely residential portion of the TID begin to recover, this would add significantly to incremental value and revenue. When created, residential value in the TID totaled nearly \$51 million. It has since declined to \$30 million, a drop of 40%.

Finally, original forecasts for this TID anticipated property sales proceeds of \$7.6 million, with a present value of \$5.9 million. The receipt of this revenue, over time, will further contribute to the feasibility of the TID, and the fact that the \$58 million of incremental value needed to break-even will not be achieved immediately but will happen over time.

Overall, with the adjustment in the Base Value as proposed, we project it is feasible for the TID to recover its current and remaining costs.

Attachments:

- Trend in values for TID 74
- Current debt service schedule for TID 74
- Expenses as of 4/30/14 for TID 74
- Break Even Schedule for TID 74.

TREND IN VALUES FOR TID 74					
TID 74: N. 35th & Capitol (Tower)					
	Base	District	Increment	Revenue	% Change
2005					
2006					
2007					
2008					
2009					
2010	89,168,800	74,560,400	(14,608,400)		-16%
2011	89,168,800	70,643,200	(18,525,600)		-21%
2012	89,168,800	57,707,700	(31,461,100)		-35%
2013	89,168,800	63,334,700	(25,834,100)		-29%
2014					
2015					
2016					
2017					

**Current Debt Service Schedule for TID 74**

<b>Year</b>	<b>TID 74 Principal</b>	<b>TID 74 Interest</b>
2009	-	-
2010	-	61,231
2011	-	381,575
2012	-	702,620
2013	-	702,620
2014	-	702,620
2015	400,000	697,020
2016	1,213,778	672,214
2017	1,236,383	629,080
2018	1,263,509	579,682
2019	1,292,895	527,554
2020	1,329,064	473,015
2021	1,100,240	422,664
2022	1,145,095	376,744
2023	1,191,970	327,522
2024	1,228,605	275,180
2025	1,288,810	219,192
2026	1,322,581	159,573
2027	1,390,639	96,737
2028	1,349,516	32,051
2029	-	-
2030	-	-
2031	-	-
2032	-	-
	<b>16,753,085</b>	<b>8,038,894</b>

1,848,046 Interest payments through December 31, 2013

6,190,848 Interest scheduled 2014 to maturity

TID 74 -  
Expenses as of 4/30/14

<u>Description</u>	<u>Budget</u>	<u>Appropriations</u>	<u>Encumbrances</u>	<u>Expenditures</u>	<u>Remaining</u>
Administration, Legal, Consulting, Etc.	1,550,000	497,552	-	497,552	-
Environmental Remediation & Due Diligence	3,007,625	2,428,666	-	2,428,666	-
Demolition, Excavation, Asbestos Abatement, Construction	7,127,375	5,137,060	-	5,137,060	-
Infrastructure	-	48,798	-	48,798	-
Stabilization & Holding	-	982,978	-	982,978	-
Neighborhood Housing	400,000	104,945	-	104,945	-
Workforce Development	500,000	-	-	-	-
Contingency	3,015,000	-	-	-	-
NMTC transfer to RACM	-	6,400,000	-	6,400,000	-
Capitalized Interest	-	1,153,085	-	1,153,085	-
	<u>15,600,000</u>	<u>16,753,085</u>	<u>-</u>	<u>16,753,085</u>	<u>-</u>

<b>Breakeven Schedule for TID 74 N. 35th &amp; Capitol Dr.</b>	<b>Assuming no future expenditures</b>
	<b>Forecast</b>
Life-to-date 4-30-14 project expenditures	\$ 16,753,085
Interest payments through December 31, 2013	1,848,046
Remaining appropriation	-
Capitalized interest on additional proceeds @ 10%	-
Add bond interest costs:	
Scheduled 2014 to maturity	6,190,848
Estimated interest on future borrowings	-
Estimated future capitalized interest	-
12-31-13 cumulative carrying cost	12,707
<b>Total project costs</b>	<b>24,804,686</b>
Life-to-date 4-30-14 project revenues	(38,992)
Bond proceeds in excess of principal debt service payments	(0)
<b>Net project costs to be recovered through tax increments</b>	<b>24,765,694</b>
Tax increments levied:	
2009	-
2010	-
2011	-
2012	-
2013	-
<b>Total tax increments levied</b>	<b>-</b>
<b>Remaining costs to recover</b>	<b>24,765,694</b>