

MICHAEL S. D'AMATO
ALDERMAN, 3RD DISTRICT

42



CITY HALL
MILWAUKEE, WISCONSIN

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To: The Honorable Members of the Common Council

From: Michael D'Amato, Alderman 3rd District

Date: April 24, 2007

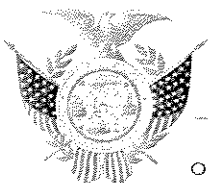
Re: Park East Development Block 26, TID #48 and File #070158

After consultation with the City Comptroller and City Attorney I have introduced file #070158 for your consideration. Attached please find a copy of the file.

For the past several months I have been in contact with the Department of City Development regarding the above referenced project. After numerous requests to DCD staff and to the Mayor's Chief of Staff, the administration has refused to provide the analysis necessary for the Common Council to perform our due diligence with regard to this request for financial assistance. Having no other choice, I offer this file directing the proper city officials to perform the analysis necessary so that the Common Council can objectively decide whether providing financial assistance to this project is in the best long-term interest of Milwaukee and our taxpayers.

The development site referred to is the first parcel of Park East land that was sold by Milwaukee County for the long awaited development of the Park East corridor. The site was sold for development of a mixed-use project that was originally estimated to have a post development value of approximately \$37 million. In addition, RSC purchased the site immediately west of Block 26 (Block 22) for a development that is estimated to be valued at \$80 to \$100 million when completed. Their total investment in Milwaukee will be anywhere from \$120 million to \$180 million.

RSC now believes that they can finance and build a project that is valued at nearly \$80 million. In order to do so, they ask the city to consider financial assistance of approximately \$9.5 million. These plans were reviewed by DCD design staff and, after working together with RSC's architects, the plans have been approved as being consistent with the design guidelines laid out in the *Park East Redevelopment Vision: Master Plan Summary*.



A brief analysis of the larger proposal done by the Comptroller's office (attached) illustrates that such an arrangement would assist the taxpayers by paying back TID 48 sooner while also providing a much larger tax base when this land does go back on the tax rolls. Regardless of how optimistic the Comptroller's memo is, the Common Council does deserve a full report and analysis on the project in order to make an educated decision.

The ultimate questions here are very simple; does RSC's \$37 million project without any city subsidy make more financial sense for the long-term health of the city and our taxpayers than the (approx.) \$80 million project with a \$9.5 million TID? Is it beneficial to the city to create additional jobs (prevailing wage jobs as assured by the County PERC requirement) and the related wealth to our citizens or is it not?

That decision lies with you, the Common Council, not staff at the Department of City Development. Support for file# 070158 will allow us to give this

A handwritten signature in black ink, appearing to read "M. S. D'Amato". The signature is fluid and cursive, with a large initial "M" and "S" and a stylized "D'Amato" following.

Michael S. D'Amato
Alderman 3rd District



Office of the Comptroller

April 4, 2007

W. Martin Monos, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kamholz
Assistant Deputy Comptroller

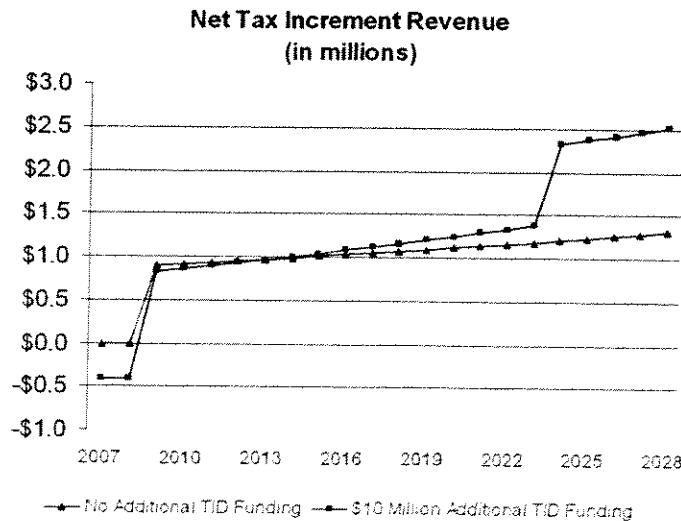
Alderman Michael S. D'Amato
200 East Wells Street,
Room 205
Milwaukee, WI 53202

RE: TID 48 Information Request

Dear Alderman D'Amato:

This is in response to your letter requesting an analysis of the impact of potential additional public investment in TID 48 – the Park East TID. In making this request you stated the need for policy makers to make better informed decisions regarding the future of the area and possible future requests for public financing. My staff met with you on this request, reviewed the materials you provided as well your letter, and developed the following financial analysis for your review.

In responding to this request we examined two policy options. One option provides no new public investment in TID 48, relying on the current investment of approximately \$20 million to generate incremental property value in the District. The other option provides additional public investment in TID 48 with the assumption that additional incremental property value would be generated beyond what would otherwise be realized if there would be no investment. The following chart illustrates the net tax incremental revenue of both scenarios¹.



¹ The "no additional funding" option is assumed to produce \$40 million and the "\$10 million funding" option is assumed to produce \$77 million in incremental property value. A 2% annual "natural growth" rate was assumed for both options. Debt service on \$10 million in bonds is based on 4% interest and a 17 year level payment TID schedule with two years of capitalized interest.

Comparing the two options, net increment revenue is greater for the \$10 million option than the no additional TID alternative. On a net present value basis, the additional \$10 million option generates approximately 15%² more incremental property tax revenue over a twenty year term than the alternative policy option. Based on this greater "return" or incremental property tax, it appears as though the \$10 million funding option is the preferred policy alternative.


Although investing an additional \$10 million generates a greater "return" to the City, this option also involves a greater degree of risk. In other words, it is the option in which the City risks \$10 million to generate a greater return, whereas the City risks nothing in the alternative option.

In the final analysis the foregoing illustrates both the principles of risk and leverage. If one could objectively assign a numerical value to risk, it would be easy to conclude that at a 90% certainty of project success one would proceed and at a 10% certainty one probably would not. Unfortunately, the level of risk is more subjective to determine and requires thoughtful incisive analysis. In practice the City minimizes this risk through its assessment of project financing and project feasibility analysis. And if one is relatively certain of project success, one would opt for the increased investment scenario.

As measuring the level of risk and leverage plays a key role, the impact and risks of development in the Park East TID are best analyzed as actual projects come before the Common Council. As the above is a hypothetical illustration one needs to look at the deal specifics to assess the true need of a project and the likelihood of success. My Office will continue to analyze the risk of the proposed projects as well as the overall need of the TID subsidies requested. We will also continue to analyze TID feasibility as we have in the past. However, the conclusion drawn from this analysis is that future potential projects warrant further analysis.

Should you have any questions regarding this letter, please feel free to contact me.

Sincerely,



W. Martin Morics
Comptroller

Cc: Mayor Tom Barrett,
Rocky Marcoux,
Joel Brennan,
Jim Scherer,
Allison Rozek

CDK/4/4/07

² Discount rate is assumed to be 5.25%.

..Number

070158

..Version

SUBSTITUTE 1

..Reference

011182

..Sponsor

ALD. D'AMATO

..Title

Substitute resolution directing the proper City officials to prepare the documents necessary for an adjustment to the Project Plan for Tax Incremental District No. 48 (Park East).

..Analysis

This resolution directs the proper City officials, including the City Comptroller, the City Attorney and the Commissioner of City Development, to prepare the documents necessary for an adjustment to the Project Plan for Tax Incremental District No. 48 (Park East) to provide tax incremental financing for a project proposed by RSC & Associates Inc. for Block 26 in the Park East Redevelopment Plan Project Area. These documents shall include, but not be limited to, a Term Sheet for a Development Agreement between RSC & Associates Inc. and the City of Milwaukee for this project, as well as an updated Economic Feasibility Study for Tax Incremental District No. 48.

..Body

Whereas, On March 5, 2002, the Common Council passed File Number 011182, a resolution creating Tax Incremental District No. 48 to support redevelopment efforts in the Park East Freeway corridor; and

Whereas, RSC & Associates Inc. has proposed construction of a \$78 million commercial and residential development on Block 26 in the Park East Redevelopment Plan Project Area; and

Whereas, RSC & Associates Inc. is seeking approximately \$9 million in tax incremental financing to secure all the funding needed to undertake this project; and

Whereas, RSC & Associates Inc. also has an option to purchase land on Block 22 in the Park East Redevelopment Plan Project Area and, if the purchase is completed, intends to develop that site without any public financial assistance; now, therefore, be it

Resolved, By the Common Council of the City of Milwaukee, that the proper City officials, including but not limited to the City Attorney, the City Comptroller and the Commissioner of City Development, are directed to prepare the documents necessary for an adjustment to the Project Plan for Tax Incremental District No. 48 to provide tax incremental financing for a project proposed by RSC & Associates Inc. for Block 26 in the Park East Redevelopment Plan Project Area; and, be it

Further Resolved, That these documents shall include, but not be limited to, a Term Sheet for a Development Agreement between RSC & Associates Inc. and the City of

Milwaukee for this project, as well as an updated Economic Feasibility Study for Tax Incremental District No. 48; and, be it

Further Resolved, That the update Economic Feasibility Study shall include an analysis of the tax increment impacts of RSC & Associates Inc.'s proposal to develop Block 22 in the Park East Redevelopment Plan Project Area without City financial assistance; and, be it

Further Resolved, That the documents required by this resolution shall be submitted to the Common Council within 30 days of the date of adoption of this resolution.

..Requestor

..Drafter
LRB07229-2
JDO
04/23/2007



Richard S. Curto
Chief Executive Officer

rcurto@rscrealestate.com
www.rscrealestate.com

April 11, 2007

Alderman Michael S. D'Amato
3rd Aldermanic District
City of Milwaukee
City Hall, Room 205
200 East Wells Street
Milwaukee, WI 53202

Dear Alderman:

In reference to the discussions at the ZND Committee Meeting on April 4, 2007 on TIF policy and procedure for the City of Milwaukee, I am sorry I was unavailable to answer any questions about RSC & Associates' Park East Square project and how this development relates to the future plans for the Park East Corridor.

The ZND agenda did not specifically include our project but much of the discussion about the TIF application process centered on our efforts to develop Block 1 of the Park East Redevelopment Plan. There were a number of representations about our project that I wanted to clarify for your benefit. Also, I know a number of you have been visited by the DCD staff who may have confused the facts regarding our proposal and whether or not we comply with the Park East Master Plan or the established "Milwaukee Tax Incremental Financing District Guidelines" (attached) as presented by DCD.

We believe RSC & Associates' proposed development, Park East Square, on Block 1, meets Milwaukee TIF guidelines. We have attached as a reference those guidelines, which the DCD follows in deciding which projects may come before the Common Council for your consideration. The four guidelines, which we meet or exceed, are:

1. Attract and retain family-supporting jobs in the City of Milwaukee.

Our project as originally proposed estimated the creation of approximately 250 construction jobs and approximately 50-75 permanent jobs. The expanded project will create approximately 310 construction jobs and approximately 200 permanent jobs, which would be an increase of 24% in construction jobs and a 166%-300% increase in permanent jobs.

2. Increase the City's tax base by facilitating development of underutilized properties or promoting development in emerging neighborhoods.

Currently, Block 1 is not on the tax roll. The expanded project, in which we have increased private investment by \$28 million, and have requested the City of Milwaukee to assist with a \$9.5 million, will provide an additional \$40 million in tax revenues over the next 20 years.

3. Improve blighted properties or clean up Brownfields in the city by making redevelopment economically feasible.

The entire Park East corridor is in a Redevelopment Plan Area and, as such, was declared blighted by the Redevelopment Authority and the Common Council. The dynamic \$77 million mixed-use project will certainly improve the empty site as it stands today.

4. Support City planning initiatives by advancing catalytic projects identified in neighborhood plans, providing public amenities or infrastructure, strengthening neighborhoods in need of investment, and increasing home-ownership.

The Park East redevelopment is among the top catalytic priorities for the City of Milwaukee and is identified as such regularly by the Mayor and the Common Council. A project of this scope and size will always encourage additional development and act as a catalyst to other developments in the area. Park East Square is in a transitional area between both neighborhoods and downtown and as such will serve to spur other growth of all types. Although there are other proposed projects on County owned land, none of the projects have been able to put a shovel in the ground. No one is more excited or prepared to break ground and develop this public land for the greater public benefit. It is our strong belief that our larger project will act as an immediate catalyst to additional development in the Park East Corridor and surrounding area. Our project is the first step in unleashing several projects on public land that will add hundreds of millions of dollars to the city tax base and create thousands of jobs.

Although it is not required that a project meet all four criteria, we have argued to DCD, as above, that the Park East Square Project exceeds all four of the TIF guidelines. As an added indication of our commitment to Milwaukee and to exceed TIF guidelines, we have and will continue to incorporate an aggressive RPP and EBE effort. We anticipate those efforts resulting in over \$17.8 million going to EBE firms thereby improving support for family job creation. Further, our project will pay prevailing wages on all construction contracts and will institute a program of apprenticeship and mentoring to encourage minority participation. In addition to these employment efforts, we will not take current tenants away from the Grand Avenue shops as we intend to add rather than reallocate value to the downtown.

The expanded \$77 million project meets the design and use guidelines set forth in the Park East Redevelopment Plan as did our original submittal. We achieved these design guidelines with the assistance, review, and approval of the City Planner, Robert Greenstreet, the City's internal design review team, and our Alderman, Mike D'Amato. In addition, our design requires no variances under the Park East Corridor Redevelopment Plan. RSC has spent time, money and diligence to

design a project that complies with the Park East Redevelopment Plan; however, there have been claims voiced to the contrary.

To this end, we welcome the opportunity to state our case in front of the ZND Committee and the Common Council. We respect that DCD has not supported our proposal, but we believe that this project is too critical not to be heard by the City's elected policy makers. To date, DCD has not engaged RSC in the TIF process. We respectfully request the Common Council have the Park East Square project reviewed by DCD, the Comptroller, and SB Friedman & Company so the Council can gain the full benefit of that analysis in order to engage in an educated public discussion as to whether granting TIF dollars to the Park East Square project is in the best interest of the City of Milwaukee.

Thank you for your time and consideration. I will be available to meet with you upon your request and provide you with any additional information that you may need.

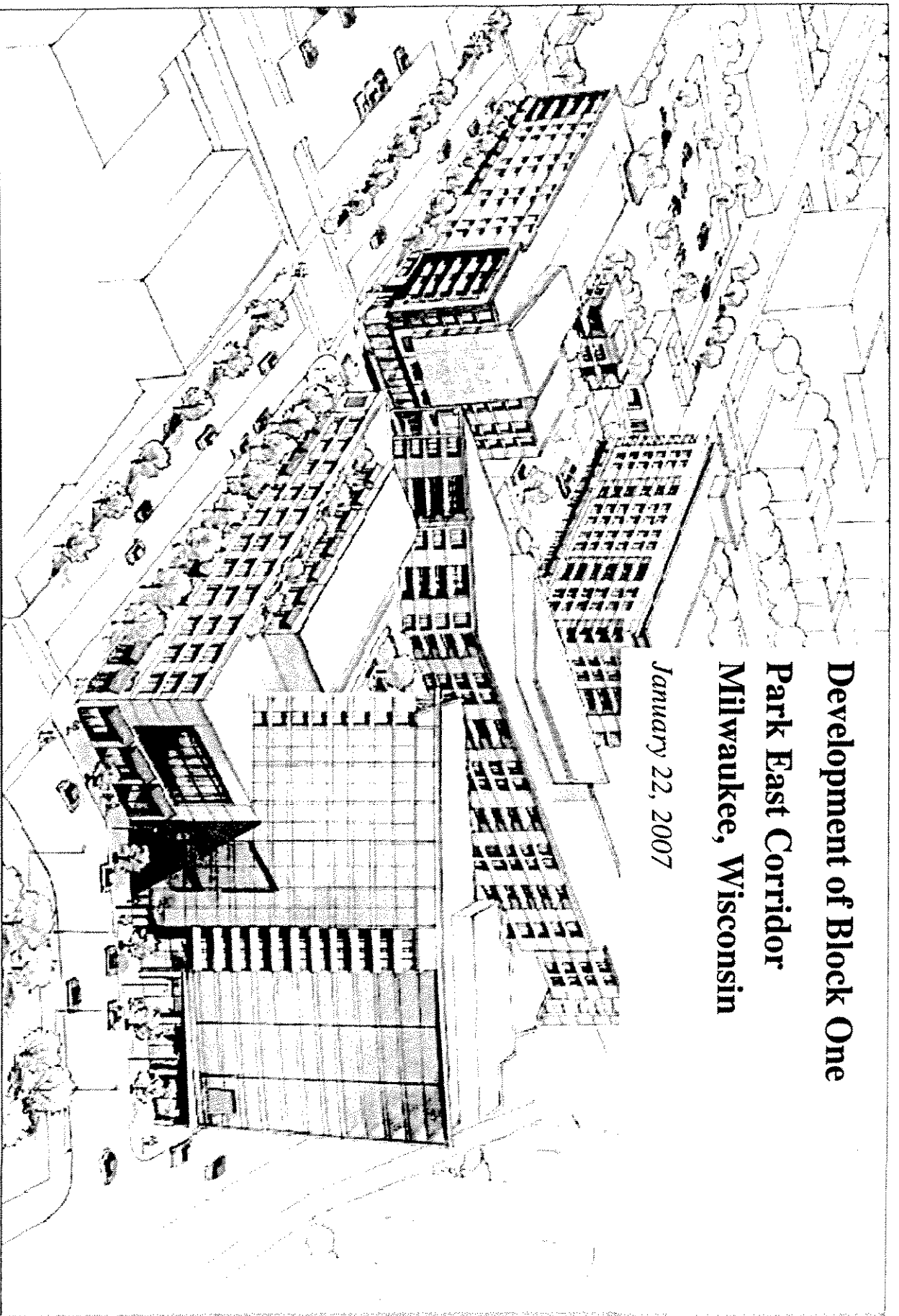
Sincerely yours,

A handwritten signature in cursive script that reads "Richard S. Curto".

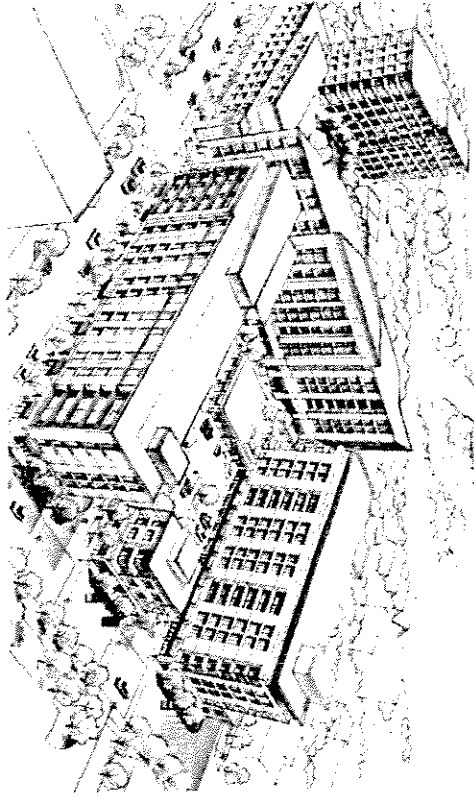
Richard S. Curto
Chief Executive Officer

Enclosure(s)

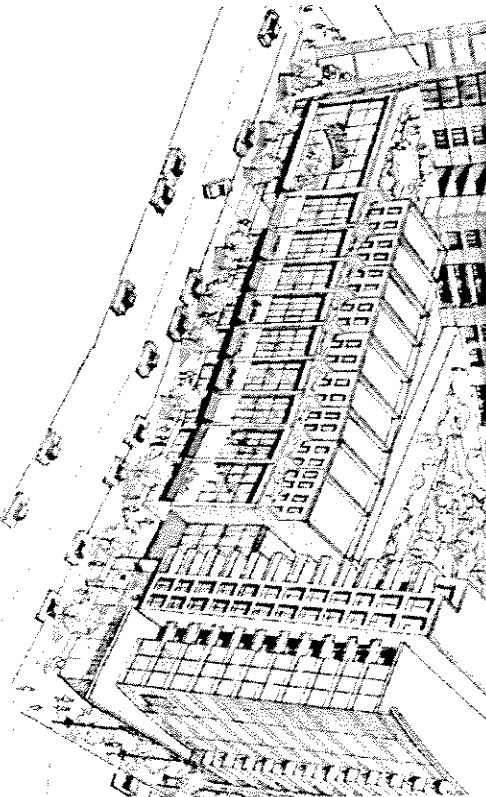
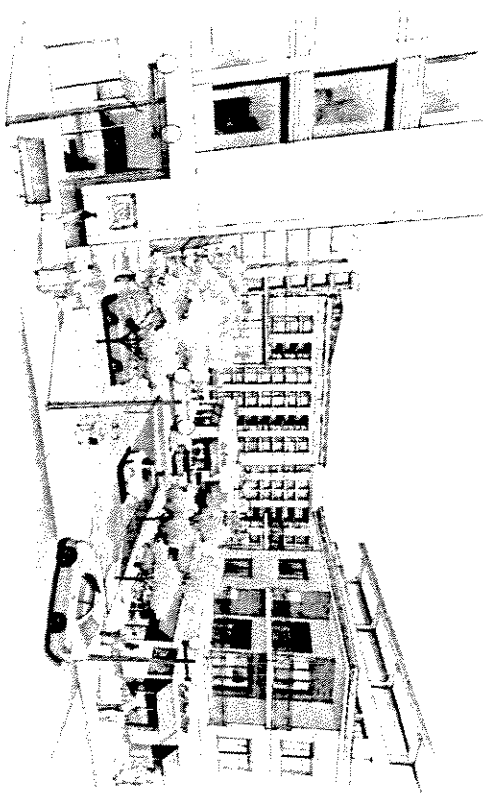
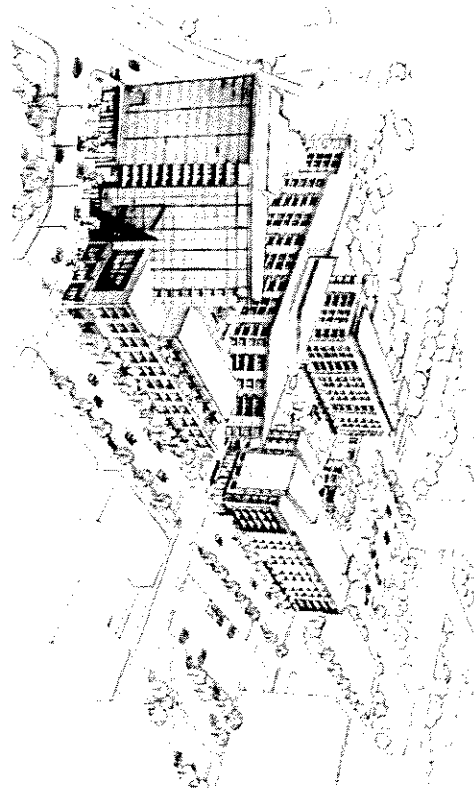
**Development of Block One
Park East Corridor
Milwaukee, Wisconsin**
January 22, 2007



Block 1



Block 2



Significant Project Enhancements that benefit Milwaukee

	Original Design	Current Design	Variance
Residential Units	134	129	(5)
Retail / Commercial (Square Feet)	26,800	81,393	54,593
Hotel Rooms	None	148	148
Project Cost	\$40,093,216	\$77,734,258	\$37,641,042
Real Estate Tax Revenue:			
10 Year	\$10,667,000	\$15,409,395	\$4,742,395
20 Year	\$23,284,183	\$40,565,406	\$17,281,223
Permanent Jobs Created	50-75	200	125-150
Construction Jobs Created	250	310	60
Targeted DBE Goal*	\$8,138,690	\$17,851,141	\$9,712,451
Lane Costs:			
Milwaukee County**	\$1,580,500	\$1,580,500	\$0
State of Wisconsin	\$98,100	\$98,100	\$0
Federal Highway Administration	\$1,046,400	\$1,046,400	\$0
Total Land Cost	\$2,725,000	\$2,725,000	\$0

* Assuming DBE requirement of 25% Hard Costs & 17% Soft Costs

** Milwaukee County donates 50% (\$790,250) to the CED Fund (Community Economic Development Fund) which reinvests the money in the County.

Significant Project Enhancements that benefit Milwaukee

Specific Enhancements with Expanded Project:

- Sales tax revenue will be about 3 times as large
- There will be hotel occupancy tax generated by the new design
- For every direct job created, there will be 1-2 indirect jobs created*
- Expected payback of a \$9.54 million T.I.D. Grant is approximately 9.5 years
- The County and its partners will receive the same \$2,725,000 purchase price with both the smaller and expanded projects

* Per S.B. Friedman Study

Bringing Jobs and increased tax revenues to Milwaukee

New Jobs

- 310 new construction jobs
- 150 to 200 new permanent full time equivalent jobs. (These jobs serve a variety of levels from housekeeping to general manager.)
- For every one direct job created another one or two indirect jobs are created in the immediate market area (S.B. Friedman).

Tax Revenues

- We expect the city to collect an average of \$2.03 million per year in property tax revenue over 20 years, totaling \$40.6 million.
- With the addition of the project's 81,000 square feet of retail space and 148 room hotel there will be a substantial increase in revenues from sales and hotel occupancy tax to the City and County of Milwaukee.
- Bringing a continuation of the downtown feel to the Park East Corridor, consequently increasing surrounding property values and resulting in increased tax revenues.

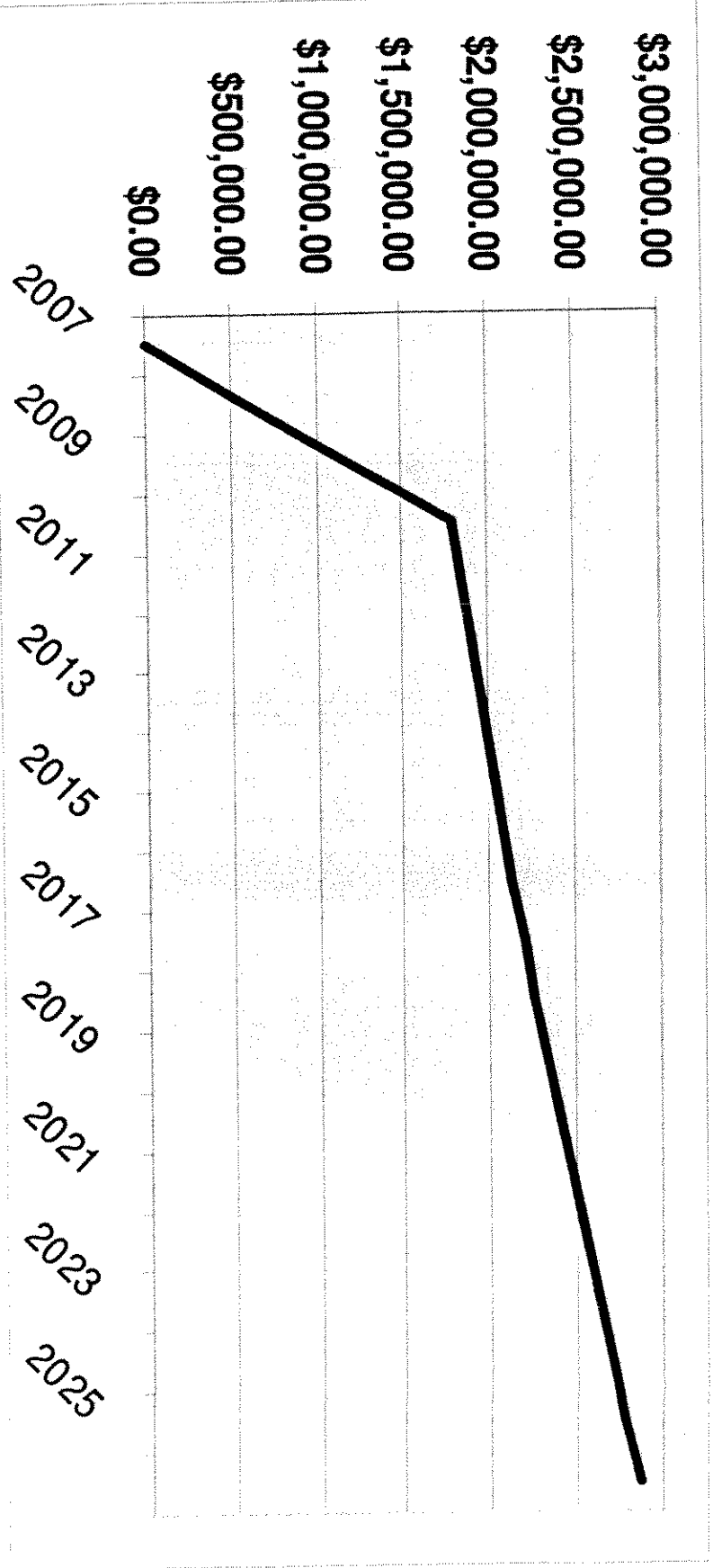
Tax Revenue Benefits

- Anticipated 9.5 years to fully pay off T.I.D. grant from the tax revenue generated by the development (includes interest payments).
- Average annual property tax revenue over 20 year period: \$2.03 million
- 10 year projected real estate taxes: \$15.4 million
- 20 year projected real estate taxes: \$40.6 million

Tax Revenue Proforma

Total 20 yr tax revenue	\$40,565,406
Total Principal	\$(9,544,872)
Total Interest @ 6%	\$(4,011,385)
<hr/> Total 20 yr Net Tax Revenue	<hr/> \$27,009,150

Block 1 Tax Revenue to City of Milwaukee (20 years)



Total Property Tax Revenue (20 yrs): \$40.6 million