

Martin Matson
Comptroller

Glenn Steinbrecher, CPA
Deputy Comptroller



Aycha Sirvanci, CPA
Special Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Office of the Comptroller

April 12, 2016

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

RE: File 151788, TID 86 – Germania Building

Dear Committee Members:

File 151788 would approve the creation of TID 86 (Germania Building) along with a corresponding project plan and term sheet. We have reviewed the project plan, feasibility study and term sheet, and have had discussions with Department of City Development (DCD) and Assessor's Office staff. Our analysis is based on the information provided.

The proposed district includes one property, totaling approximately 118,000 SF, located at 135 West Wells (the Germania Project). The property is bordered by West Wells Street, North Second Street and North Plankinton Avenue. The district is being created to partially fund the renovation and conversion of the Germania building from an office building to a residential property containing approximately 44 affordable apartments, 46 market-rate apartments, and first floor commercial space. The Project is being redeveloped by Germania Real Estate Venture II, LLC (the Developer).

Total estimated costs for the project are \$21.9 million. This file authorizes a \$1.5 million grant to the Developer to partially fund renovation costs. The Developer will advance the \$1.5 million. Upon substantial completion of the project, the District will make annual payments to the Developer equal to the incremental taxes collected in the District, less an annual administration charge of \$7,500, until such time as \$1.5 million is repaid at an interest rate of 4.5%. However, the term sheet limits payments to the Developer to 20 years (2035 tax levy). If final project costs are lower than the \$21.9 million budgeted, the City's obligation to the developer will be reduced by 50% of the cost savings. Any façade or white box grants received by the Developer from other governments will reduce the principal owed by an equal amount.

The "developer financing" approach of the proposed District shifts the risk of this TID not breaking even from the City to the Developer. As a developer-financed TID, the Developer assumes the risk that the proposed district will generate sufficient incremental revenue to recapture its \$1.5 million investment with interest.



Is This Project Likely to Be Successful?

From a financial perspective, the proposed TID will be successful given that the City's contribution is limited to a 20-year tax incremental revenue stream from the District. The Developer, Germania Real Estate Venture II, LLC, assumes the risk of recovering its \$1.5 million contribution.

DCD's feasibility study, which uses a constant 3% property tax rate over the life of the TID, forecasts that the Developer will fully recover the \$1.5 million plus interest, after receipt of the 2034 levy (year 19). However, substituting the 2016 tax rate of 2.935% into DCD's feasibility study changes the break-even date to levy year 2038. Nonetheless, because the developer, not the City, assumes the repayment risk on its contribution to the District's costs, the economic feasibility of the proposed TID to the City of Milwaukee is guaranteed.

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

This proposed TID allows the City to provide incentive to Germania Real Estate Venture II, LLC to redevelop the Germania building while minimizing the City's involvement and risk. While these expenditures may have occurred with or without this proposed TID, the conversion and renovation of the Germania building may increase the City's tax base.

Conclusion

The proposed TID provides the remaining funding necessary for Germania Real Estate Venture II, LLC to renovate an historic building which may increase the City's tax base, while the developer is assuming the risk of recovering their \$1.5 million investment.

Should you have any questions regarding this letter, please contact Melissa Fulgenzi at extension 2307.

Sincerely,



Martin Matson
Comptroller

CC: Lori Lutzka, Dan Casanova

MM/MRF