



Office of the Comptroller

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January 7, 2011

Members of the Zoning, Neighborhoods
& Development Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: TID 76 - 27th & Howard TID
Project

Dear Committee Members:

The file before the Committee approves the first amendment to TID 76 (27th & Howard Project) as well as the terms of the Development Agreement between the City/Redevelopment Authority and Developer (Frontline Real Estate Partners, LLC). The file also authorizes the expenditure of \$200,000 related to the Project.

In December 2009, the Common Council created TID 76 to assist in the redevelopment of several businesses located within the District, which is bounded by Kinnickinnic River on the north and east, Howell Avenue on the south, and South 27th Street on the west. The first phase of this redevelopment was the conversion of the former Foster Pontiac auto dealership into a 27,000 s.f. retail complex for a Buffalo Wild Wings and other retailers. That project has stalled due to outstanding issues between the original developer, Foster Endeavor, LLC, and its mortgage holder. In order to proceed, the former Foster Pontiac property will be conveyed through a deed in lieu of foreclosure to the current developer, Frontline Real Estate Partners, LLC, and in return Developer will assume the mortgage on the property.

The first amendment to TID 76 contemplates a scaled down version of the initial Foster Pontiac project, with 19,500 s.f. of retail space. The Project includes 8,000 s.f. of space for a Buffalo Wild Wings restaurant as well as 4,300 s.f. of retail space in a stand alone facility to be leased to one to two tenants. It is also contemplated that there will be an additional 7,200 s.f. of retail space at an outlot on the property, which is not considered part of this project and could result in up to \$2 million in additional investment. Other retailers could include a coffee shop, auto parts store and fast food outlet, but Developer only has a signed commitment for the Buffalo Wild Wings franchise at this time.

TID 76 - 27th & Howard TID Project; January 7, 2011

The City's participation in the project is a grant of \$175,000, which includes \$125,000 for the construction of a median cut for a turn lane and \$50,000 to reimburse Developer for a landscape buffer along the east side of 27th Street. TID project costs also include \$25,000 for TID administration. In total, private and public sources are \$3 million, of which the City's TID grant of \$200,000 is less than 7% of total project costs.

Is the proposed Tax Incremental Financing District likely to recover its costs?


We evaluated the ability of the TID to recover project and financing costs over time through incremental property taxes. Assuming a 12% cap rate (DCD assumed 9%) and assuming a 5% interest rate on City debt, the TID is projected to recover project and financing costs within 6 years, 2016. However, should the 7,500 s.f. of outlot retail space not be developed, the TID would recover project and financing costs in 18 years, or 2028.

Is the Proposed Level of City Assistance Required for Project Success?

In terms of calculating the return to Developer from the Project, Developer is contributing \$650,000 in equity in the project. With this equity contribution, the estimated internal rate of return (IRR) to Developer is 15.1% and average return on equity (ROE) is 12.4%. The IRR and ROE for the project as initially proposed in 2009, were 19.1% and 15.4%, respectively. Given the lower rate of return to Developer, which is more in line with projects of this nature, we do not object to the Committee approving this file.

Please contact me should you have questions.

Very truly yours,


W. MARTIN MORICS
Comptroller

Cc Richard Marcoux, James Scherer
CDK 12-28-10