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November 29, 2022

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

RE: File 221126, TID 114 – Five Points

Dear Committee Members:

File 221126 would approve the creation of Tax Incremental District (TID) 114, Five Points (the District), along with a corresponding project plan and term sheet. The Comptroller's office has reviewed the project plan, feasibility study, term sheet, and has had discussions with Department of City Development (DCD). Based on the information presented by DCD, our analysis is as follows.

The proposed District is located on North Dr. Martin Luther King Jr. Drive, between West Concordia Avenue and West Keefe Avenue (the Property). The Property is comprised of five vacant lots currently owned by the City and the Redevelopment Authority of the City of Milwaukee (RACM). The development plan for the Property includes construction of a mixed-use building with 55 apartments and 7,500 square feet of ground floor commercial space (the Project). 46 of the apartment units will be affordable to families with incomes less than 60% of the area median income. The remaining nine apartment units will be market rate. The developers for the site are Martin Luther King Economic Development Corporation and KG Development (the Developers).

Total estimated costs for the Project are \$16,353,800. This file authorizes a \$737,000 grant to the Developers to partially fund these costs. After substantial completion of the Project, the District will make annual payments to the Developers equal to the incremental taxes collected in the District, less an annual administration charge of \$3,000, until the \$737,000 plus 6.25% interest is repaid. This interest rate reflects the preliminary interest rate on the Developers' underlying financing and is subject to change based on the final closing date of the project. Any upward adjustment to the interest rate may result in a corresponding decrease in the City's obligation to the Developers. If final Project costs are lower than the \$16,353,800 budgeted, the City's obligation to the Developers will be reduced by 50% of the cost savings attributable to the housing component of the Project.

As a developer-financed TID, the Developers assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their \$737,000 investment with interest.

Is This Project Likely to Succeed?

From a financial perspective, the proposed TID is viable given that the City’s contribution is limited to a 20-year tax incremental revenue stream from the District. The Developers assumes the risk of recovering their \$737,000.

DCD’s feasibility study, which uses a constant 2.783% property tax rate and 1% inflation rate over the life of the TID, forecasts the Developers will fully recover the \$737,000 plus interest, in 2043 after receipt of the 2042 levy (the final year of the City’s obligation to the Developers). However, if the tax rate does not remain constant or the forecasted 1% annual appreciation is not realized, the Developers may not recover the entire \$737,000, plus interest. Nonetheless, because the Developers, not the City, assumes the repayment risk on their contribution to the District’s costs, the economic feasibility of the proposed TID to the City is guaranteed.

Sensitivity Analysis

There is inherent risk in every projection of future results. One common way to alleviate this risk is to provide sensitivity analysis, which forecasts the impact that different assumptions have on the projection. Below is a table, which summarizes several scenarios to show the sensitivity of DCD’s projected incremental revenues within the District.

Sensitivity Analysis	
Percentage of DCD Projected Revenue	District Payback Year
90%	2043*
95%	2043*
100% (Base Case)	2043
105%	2042
110%	2041

** 2043 is the final year of the monetary obligation. The Developers would not fully recover their investment, plus interest, in this scenario.*

It is important to note that the payback year relates to the expected year in which the Developers will recover their investment. Since the Developers will finance the Project, the City is not at risk of losing the \$737,000.

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

This proposed TID allows the City to provide incentive to the Developers to redevelop the Property while minimizing the City’s involvement and risk. While these expenditures may have occurred with or without this proposed TID, the redevelopment of the Property should increase the City’s tax base.

Conclusion

The proposed TID provides incentive for the Developers to construct a new mixed-use building with affordable and market rate apartment units and ground floor commercial space. The Developers will assume the financial risk, and the Project should and increase the City's tax base.

Should you have any questions regarding this letter, please contact Joshua Benson at x2319.

Sincerely,



Aycha Sawa, CPA, CIA
Comptroller

CC: Maria Prioletta

AS:JB