



Office of the Comptroller

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November 17, 2011
REVISED

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

RE: File #090688 TID 75 – Reed Street Project

Dear Committee Members:

TID 75, Reed Street Project was established in 2009 to assist in the development of a “Water Technology Business Park” on a 20 acre vacant parcel located within the District boundaries, which are generally, the Menomonee River Canal to the North, Florida Street on the South, 2nd and 3rd Streets to the East and the properties adjacent to the West of 6th Street.

Although the TID was established in 2009, no funding authority was authorized at that time. The TID was created to: demonstrate the City’s commitment to redeveloping the area; allow time for a specific project development to materialize; and further assess the infrastructure needs and placement within the District. To date no additional incremental value has accrued to the District.

File #090688 is the first amendment to TID 75, authorizing the expenditure of \$5.86 million for infrastructure and public improvements in two sequential phases, and approving the terms of the Development Agreement between the City and Developer, Building 41, LLC. Associated with the Phase I capital spending, the Water Council is committed to the renovation of a seven story, 88,000 s.f. warehouse facility into the Milwaukee Water Council Office Building. The \$21 million renovation will provide office and research space to A.O. Smith, Gannett Fleming, Pave Drain, and Veolia, who have signed letters of intent for leasing space in the facility.

Developer owns and controls the entire 20 acre site and will provide easements to the City for the placement of infrastructure, which will include: streets, sidewalks, lighting, landscaping, sanitary sewers, storm water systems as well as 70 percent of eligible riverwalk costs and 50 percent of dockwall costs as allowed per Resolution #060578.

In addition to the TID expenditures, a BID will be established to cover the Developer’s portion of riverwalk and dockwall costs of \$354,000. The BID will allow Developer to distribute riverwalk and dockwall costs to new businesses locating within the District as the site attracts new development. Including the BID expenditures, total City investment in the District is \$6.12 million.

City investment in the Project will occur in two phases. The first Phase includes \$3.58 million for infrastructure, environmental remediation, administration and a 10% contingency. The second phase includes an additional \$2.28 million in additional infrastructure and environmental remediation. The feasibility study considers only Phase I expenditures as Phase II would not begin until sufficient tax increment value is generated to recover the additional \$2.28 million in Project costs.

Before any Phase 2 funds are released, the City will conduct a feasibility study confirming that sufficient increment will be generated to fully amortize the additional TID costs. The Comptroller is required to perform an independent review of that study, and must concur with the study’s finding before the City funds are released. Also, any increase in Phase 2 funding or additional future funding requests will require Common Council approval. The table below, from Exhibit B of the Term Sheet, shows the phasing the City’s investment.

Reed Street Project Costs			
<u>Infrastructure</u>	<u>TID Phase 1</u>	<u>TID Phase 2</u>	<u>Loan to BID</u>
Paving - Pittsburgh	440,000	-	-
Paving - River Trail	66,500	-	28,500
Dockwall	225,000	-	225,000
Parking	135,000	-	-
Street Lighting	165,000	-	-
Landscaping	94,200	-	-
Bioretention Zones	305,000	-	-
Environmental Remediation	200,000	574,000	-
Stormwater Management	500,000	1,500,000	-
Sanitary Sewer	636,000	-	-
Water Main	250,000	-	-
Total Infrastructure	3,016,700	2,074,000	
Contingency (10%)	301,670	207,400	
Administration	264,000	-	
TOTAL TID COSTS	3,582,370	2,281,400	253,500
TOTAL TID & BID COSTS			6,117,270

Is the Project Likely to be Successful?

We have reviewed the Department of City Development’s (DCD) consultant’s cash flow projections prepared by S.B. Friedman & Company. Those projections that show that the TID will likely retire the initial \$3.94 million (\$3.58 million of project costs plus capitalized interest) in City debt issued for Phase 1 of the TID in 2029, the 21st year of the TID. We believe the feasibility analysis is reasonable, including the assumptions on existing and new value in the District, projected growth in property values (assumed to be 1%) and declining property tax rates. We did not evaluate the consultant’s feasibility analysis of Phase II project costs based on a hypothetical development scenario. Under the terms of the proposed Amendment, our Office will have an opportunity to perform a detailed analysis of an updated Phase 2 feasibility study at the conclusion of Phase 1. The consultant’s preliminary analysis of Phase 2 indicates recovery in year 24, or 2032, based on the addition of \$5.2 million of additional property value.

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

Most of the proposed TID 75 expenditures are for basic infrastructure, public improvements, and environmental remediation. These expenditures for public facilities are essential to the development, and would not be expected to be privately financed through the Project. Therefore, the vast majority of the Phase I expenditures, with the possible exception of the \$132,000 for parking improvements, are necessary to allow private development to proceed.

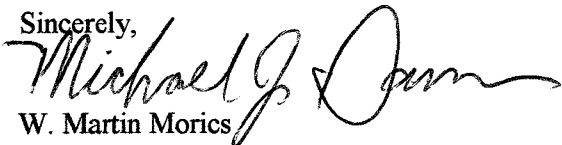
While there is no direct assistance to the Water Council from the TID, we reviewed the Water Council's cash flows, which indicate a 23.1% return on equity (ROE) and 24.4% return on investment (ROI). These returns are within an acceptable range for this type of investment. We have also reviewed lease agreements and letters of intent of lessees to verify the assumed rental income of the project. Currently, Water Council has leases and letters of intent for 60 percent of the facility. Even if additional space was not leased, the project would have positive cash flow through the 14 year projection period. Given these factors, we conclude that the project is likely to succeed.

Conclusions

In bringing together major water related industries in a production and research environment, this Project holds great potential for enhancing the current leadership position of Milwaukee in the future of this critical resource. Clearly there is a need for the public investment that is being proposed to improve the 20 acre site. As such there is no doubt that the improvements are needed for the Project to proceed. The costs for Phase I of the Project will likely be recovered over the 27 year life of the TID. In addition, the contingencies placed on proceeding with Phase 2 including an independent feasibility review and confirmation of Phase 2 feasibility by the Comptroller's Office speak well for the proposal before your Committee. Given these factors we recommend the Committee approve File#090688.

Please contact me should you have questions.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux, James Scherer, Lori Lutzka, Dan Casanova
CDK/Mjd 11-18-11