

Martin Matson
Comptroller

Aycha Sawa, CPA, CIA
Deputy Comptroller



Toni Biscobing
Special Deputy Comptroller

Rocklan Wruck, CPA
Special Deputy Comptroller

Office of the Comptroller

April 23, 2019

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

RE: File 190070, TID 98 – The Ikon

Dear Committee Members:

File 190070 would approve the creation of Tax Incremental District (TID) 98, The Ikon (the District), along with a corresponding project plan and term sheet. The Comptroller's office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD) staff. The preliminary nature of this project has prevented a more detailed analysis due to insufficient information. This analysis is based on the information provided to date.

The proposed District includes ten properties, totaling 325,195 square feet, bounded by West North Avenue, North 24th Street, West Oak Street, and West Fond du Lac Avenue (the Property). The District is being created to assist in the redevelopment of the former Sears and Milwaukee Mall building into an 80-room boutique hotel, restaurant, retail/commercial space, parking, and adjacent 24,600 square foot conference center (the Project). The Project will be undertaken by HG Sears, LLC (the Developer). Future amendments to this TID are anticipated prior to completion of the initial Project. Later phases of development on the remaining portions of the Property (after the initial Project) could include housing, offices, a fitness center, retail space, and additional parking.

Total costs for the Project are currently estimated to be \$30,000,000. However, the total scope and cost of the Project are still being finalized. This file authorizes a \$4,000,000 loan to the Developer and \$15,000 for administrative costs. Of the \$4,000,000 loan to the Developer, \$2,000,000 will be paid at closing, which the Developer will use to repay a creditor that currently has a mortgage lien on the Property. Upon payment to said creditor the City will take a first mortgage lien on the Property. The remaining \$2,000,000 of the loan may be drawn by the Developer for pre-development activities for the Project, such as architectural/engineering expenses, legal expenses, environmental remediation, interior demolition, holding costs, and other direct costs. No developer fee shall be paid from the City's loan.



After substantial completion of the project, the Developer will repay the loan to the City at 4.50% interest over the course of 20 years. For the first two years, after substantial completion, the loan will be interest free. For the subsequent three years the Developer will repay interest only on the loan. For the remaining 15 years of the loan the Developer will repay principal and interest until the loan is fully amortized in Year 20.

The City is assuming the full risk that the Developer will not be able to repay the \$4,000,000 loan to the City. If the Developer does not generate sufficient income to repay the loan, the proposed TID will not breakeven and the City will take possession of the Property. In the past, for this type of project, the City has utilized a “developer-financed” approach, which would shift the risk of this TID not breaking even from the City to the Developer.

Is This Project Likely to Succeed?

From a financial perspective, there is significant risk the proposed TID will not breakeven and the City will not recover its \$4,000,000 investment. The recovery of the City’s investment hinges on the Developer’s ability to repay the loan to the City. The Comptroller’s office has not received a net operating income projection, therefore it is indeterminable whether the Developer will have the ability to repay the loan.

Additionally, the Project has yet to secure the necessary funding to complete the Project. If the Developer is not able to secure complete financing, the Project would be modified, delayed, or canceled altogether. With a modified version of the Project, the Developer may not generate sufficient income with which to repay the City. This leaves the City at risk if the Developer is not able to secure financing to complete the Project, not only in relation to the \$4,000,000 loan but ultimately the possible ownership of the Property. At the time of this letter, the Comptroller’s Office is not aware of the Developer having secured any financing above the City’s investment. This leaves a significant financing gap of at least \$26,000,000 before the Project can be completed as currently planned. If the Project is completed in full and on time, revenues derived from the Project may still be insufficient for the Developer to repay the City’s loan.

DCD’s feasibility study, which uses a constant 2.785% property tax rate and 1% inflation rate over the life of the TID, forecasts the TID will fully recover the project costs, plus interest, after receipt of the 2036 levy. DCD’s feasibility study also assumes the Developer will be able to repay the City in full for the \$4,000,000 loan, with interest.

Without net operating income projections, it is not possible to properly analyze the feasibility of the District at this time. Once a development plan is in place and net operating income projections are available we would be pleased to provide a more detailed analysis. To date, no information has been provided to the Comptroller’s office which indicates that this Project is likely to succeed.

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

This proposed TID allows the City to provide incentive to the Developer to complete the Project. It appears the Project would likely not be completed without the City’s financial participation. The redevelopment of the Property would increase the City’s tax base.

Conclusion

The proposed TID provides incentive for the Developer to redevelop the former Sears and Milwaukee Mall building, which would increase the City's tax base. However, there is significant risk the City will not recover this \$4,000,000 investment in the proposed TID, and the proposed TID will not be able to breakeven. No information has been provided to the Comptroller's office which indicates the proposed TID is likely to succeed, and there is significant risk the City will pay \$4,000,000 and ultimately take possession of the Property if the Developer is unable to repay the loan.

Should you have any questions regarding this letter, please contact Joshua Benson at extension 2194.

Sincerely,


For Martin Matson
Comptroller

CC: Dan Casanova
Lori Lutzka

MM/JB