

**CITY OF MUSKEGO
Staff Report to COW
April 27, 2010 Meeting**

To: Committee of The Whole

Subject: Bring Back The Lake Financing Discussion

Date: April 23, 2010

As we approach finalizing a decision to move forward with officially negotiating with local Little Muskego Lake landowners for “Bringing Back The Lake” (BBTL), we need to start having the background discussions and asking the questions of how this planning effort might be financed. Please find herein some discussion points regarding BBTL financing.

Possible Costs

Below please find a list of anticipated costs that the BBTL project may take to make a reality. Note that the numbers provided by staff are conservative, shown higher than what should actually happen (+15% of the assessments for the land values). This was done intentionally so we make our decisions about moving forward based on a worst-case scenario. The anticipated park/pad development costs are based on our consultant’s projections.

Possible Costs		
Parcel #	Assessment 2010	x 15%
1	\$ 631,200.00	\$ 725,880.00
2	\$ 420,000.00	\$ 483,000.00
3	\$ 400,000.00	\$ 460,000.00
4	\$ 1,304,500.00	\$ 1,500,175.00
5	\$ 1,788,400.00	\$ 2,056,660.00
6	\$ 1,864,900.00	\$ 2,144,635.00
7	\$ 1,965,100.00	\$ 2,259,865.00
Total	\$ 8,374,100.00	\$ 9,630,215.00
Park/Pad Development	\$ 3,004,000.00	\$ 3,004,000.00
Grand Total	\$ 11,378,100.00	\$ 12,634,215.00

*-Parcel# corresponds to the parcel map attached to this document
-Last column multiplies the 2010 assessed values by 15% (The 15% assessed amounts are used below for forecasting)*

For the purpose of this document it is prudent to also know the timing of when the BBTL costs could be expended. This table is found below. Staff also included the timeframes and costs anticipated for the two other large borrowing needs of the community in the near future: Durham Drive & Janesville Road.

Costs Over Time						
Borrowing Year	BBTL Project	Janesville Road		Durham Drive	Yearly Totals	
2011	\$ 12,634,215.00	\$	1,385,900.00	\$	3,775,000.00	\$ 17,795,115.00
2012	~	\$	3,147,990.00	~		\$ 3,147,990.00
2013	~	\$	1,500,000.00	~		\$ 1,500,000.00
Total	\$ 12,634,215.00	\$	6,033,890.00	\$	3,775,000.00	

It should be stressed that the yearly totals above are not what will be required to be borrowed that year. The city has certain funds that can be allocated to the above projects up front that affect what the potential borrowing needs may be. The following table reflects the potential borrowing needs from year to year along with the potential offsetting funding sources.

NOTE: One single borrowing may be prudent due to interest rates and financing terms. However, that would be addressed at the time of the first borrowing deadline for the three discussed projects, which shouldn't be until early 2011.

Borrowing Needs/Funding Sources			
Year	Yearly Totals	Potential Sources	Possible Borrowing Need
2011	\$ 17,795,115.00	\$ (2,572,000.00)*	\$ 15,223,115.00
2012	\$ 3,147,990.00	\$ (500,000.00)**	\$ 2,647,990.00
2013	\$ 1,500,000.00		\$ 1,500,000.00
Total Over Time			\$ 19,371,105.00

*2011 Potential Sources: Landfill Fund (2 mil), TIF 8 Funds (372K), TIF Residual funds (200K)

**2012 Potential Sources: Landfill Fund

Lastly, a variety of funding sources are anticipated to help reduce the future debt for the BBTL project. These sources should limit the actual debt service of the project over time. Having these future funding sources is not common in a traditional borrowing for a city project and should be considered as a huge advantage.

Possible Future BBTL Project Paybacks	
City sells 4+ acres for mixed-use development	\$ 600,000.00 ~ \$ 1,000,000.00 +
Sell 1 acre for lake frontage mixed use	\$ 250,000.00 ~ \$ 350,000.00 +
Sell Moorland Park Parcel	\$ 750,000.00 ~ \$ 850,000.00
Sell Park Arthur West	\$ 300,000.00 ~ \$ 340,000.00
Sell Commercial Land in front of Library	\$ 125,000.00 ~ \$ 150,000.00
Sell Pioneer Drive Land in front of Parks Maint. Building	\$ 75,000.00 ~ \$ 80,000.00 +
Stewardship Funds	\$ 200,000.00 ~ \$ 700,000.00 +
Urban Forestry Grants	\$ 25,000.00 ~ \$ 35,000.00
Park Dedication Funds	\$ 50,000.00 ~ \$ 200,000.00 +
Total Possible	\$ 2,375,000.00 ~ \$ 3,705,000.00

Note: Other revenue sources could take place to help out park maintenance and/or borrowing payback (Shelter/event rental fees, parking fees, beach fees, etc.)

Possible Cost Consideration #1: *The costs anticipated are very conservative and actual numbers should be lower than anticipated. Actual property costs would be based on appraisals and negotiations per WI Statutes.*

Possible Cost Consideration #2:*Budgeting for the BBTL project would include the costs to actually complete the construction of the lakefront park in year 1.*

Possible Cost Consideration #3:*Debt requirements could be reduced by sources specifically reserved for city projects (Landfill funds, etc.).*

Possible Cost Consideration #4:*There are other borrowing needs of the community upcoming, however, the BBTL Project is the only one that could have paybacks earmarked for future debt service along with possible revenue sources to further the paybacks. It should be pointed out again that this is not the case for most borrowing projects. Roads and buildings that are paid for don't have revenues to help out in most cases and further, road/building projects need to be replaced over time whereas the park development wouldn't.*

Debt Service

Some of the questions that have arisen in regards to financing the BBTL project are:

1. How will the spending affect the city's yearly debt service?
2. How will the spending affect a resident's yearly taxes?

The following table shows the projected impact to the city's debt service fund if the BBTL project takes place. Also included are the borrowing effects of the Durham Drive and Janesville Road reconstruction projects. Due to sufficient reserves, it is anticipated the additional debt issues would not require any increase to the debt service tax levy.

Debt Service 10-Year Projection			
Year	Funding Sources	Principal & Interest	Fund Balance
2010			1,476,349
2011	3,210,426	3,249,616	1,437,159
2012	3,518,014	3,547,243	1,407,930
2013	3,450,033	3,462,290	1,395,673
2014	3,471,370	3,508,741	1,358,302
2015	3,467,546	3,585,030	1,240,817
2016	3,470,879	3,505,833	1,205,864
2017	3,423,029	3,450,683	1,178,211
2018	3,428,301	3,645,659	960,853
2019	3,491,818	3,627,379	825,293
2020	3,487,396	5,157,579 *	617,871
* 2020 P&I includes a balloon payment for Commerce East-TID #10 GO Note (Moorland Gateway).			

Debt Service Consideration #1: *The City of Muskego has been able to minimize the need to borrow large amounts of money for community wide related projects. Investing in the BBTL project is a venture that could affect the community as a whole and should be seen as an investment for the future of Muskego.*

General Obligation Debt Comparison

It should be noted to Council that Muskego has a comparable amount of debt for a community its size. Of communities having a population of 15,000-30,000 Muskego is below the average in general obligation debt.

City Debt Capacity Consideration #1: The City of Muskego has not needed to invest in projects like other communities have had to. The city's infrastructure is still relatively new and well maintained and city's building facilities are still adequate for current and future service.

City Debt Capacity Consideration #2: Having debt in a community is not uncommon especially when the debt is an investment in the future of the community.

Tax Base

Below please find a list of taxes that the BBTL project area generates today:

Taxes Generated 2009	
Parcel #	Taxes
1	\$ 10,067.00
2	\$ 6,591.00
3	\$ 6,843.00
4	\$ 20,883.00
5	\$ 28,657.00
6	\$ 29,803.00
7	\$ 31,496.00
Total	\$ 134,340.00

Based on the site plan alternatives provided by the consultant a variety of supporting land uses are anticipated as part of the BBTL project. These supporting uses will be key to bringing people to the lake all four seasons of the year and to ensure that the area becomes a destination. We know that supporting use actual details (amounts of units/building footprints) are subject to change. However, it is very probable that the supporting uses can generate a tax base above and beyond the existing tax base in time (see table below that conservatively demonstrates this calculation).

Yearly Tax Generation Possibility	
Parcel #	Taxes
48 units residential	\$ 192,000.00
24,000 sq ft commercial	\$ 35,000.00
5,000 sq ft commercial	\$ 12,500.00
Total	\$ 239,500.00

-Forty-eight (48) residential units were considered for this calculation. The concept plans show that anywhere from 40 to 60+ units could feasibly work in the confines of the concept.
-Residential units are based on \$4,000/year in taxes; very conservative as lake view condos are at \$6,000+/year in Bay Breeze.
-Commercial taxes based on two (2) 12,000 sq. ft. structures and one (1) 5,000 sq. ft. structure. Again, very conservative comparable projections and only improvement values were used, not land, which would add more tax base.

Tax Base Consideration #1: Replacing the existing tax base should be of no issue over time. In fact, the tax generation for the city and other taxing authorities could more than double. The two tables above show an addition of over \$100,000 in tax base possibility.

Tax Base Consideration #2: Obviously it may take time to replace the tax base as it isn't anticipated that all commercial/residential structures would be built in year 1. However, it should be pointed out that even one mixed-use structure of 12,000 sq.ft. commercial and twenty-four (24) units residential could come close to making up the tax base (less than 40% of the proposed supporting development shown on the concept maps).

Tax Base Consideration #3: How the lakefront development affects the businesses up and down Janesville Road and Pioneer Drive cannot be determined. However, creating a destination use like the Lakefront Park will have some inherent value in increasing the surrounding uses tax bases once the community embraces the lake development and businesses in turn look to invest themselves. An example of this can already be found in Pewaukee.

Property Values

A few concerns have arisen that residential property values would decrease for those properties that would now be found next to the future proposed development and park. It should be noted that there is no basis to suggest that property assessments would decrease as a result of a park and recreation land use being found next to a residential land use. Land value assessments are strictly based upon acreage and comparable requirements to like-kind land uses only. A recent example of not finding a change in land values is with the city's Park Arthur. This land has just recently been changed to a park and recreation land use and no changes to surrounding residential land values were found.

