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Department of Community Development

**Economic Development Board  
February 23, 2016  
7:30 AM  
North Conference Room  
Mequon City Hall  
11333 N Cedarburg Road**

**Minutes**

**1. Call to Order, Roll Call.**

Members present: Tim Carr, Jim Baka, Harry Kollman, Mason Holbrook, Rick Shneyder, Ald. Mark Gierl

Staff and City Representatives Present:

Kim Tollefson, Director of Community Development

**2. Approval of meeting minutes**

Correction was made to the spelling of Rick Shneyder's last name

Mr. Baka made a motion to approve the meeting minutes from February 2, 2016.

Mr. Shneyder seconded the motion.

***A voice vote was called.***

***All voted aye. (6-0)***

**3. Staff Updates**

- Ms. Tollefson stated that Children's Hospital medical clinic is having a ribbon cutting today.
- Ms. Tollefson stated that in February both the Planning Commission (PC) and the Common Council (COUNCIL) took action on two Town Center (TC) projects for final approval of site design. It is the area next to the Aster Memory Care. It will include an 81-unit apartment building which will be located behind Ivana's Trunk. There will also be a three-story, 60-unit assisted living facility that will be operated by the same group that operates Aster Memory Care Center located immediately behind this building. The PUD requires the removal of the structures on the front of that site. This area will be used as a construction staging area but does require improvements within a certain timeframe. The PUD project does require a commercial structure there which Lakeside Development will handle.

Ald. Gierl asked about how many apartments were approved and what the rent is going to be there. He asked about the total number of apartments in the TC area. He asked how many of

the TC apartments have been rented so far.

Ms. Tollefson answered that 81 apartments were approved. The rates will be between \$1,300 - \$2,000/month. There are 28 apartments in the TC WiRed/Shaffer project. Dermond has been approved for 33 apartments. Approximately half of the apartments have been rented in the WiRed/Shaffer project.

Mr. Kollman asked if Ms. Tollefson has seen an overall market survey showing the demand for apartments in this area.

Ms. Tollefson answered yes and that there is a larger demand than there is current supply especially on the North Shore. The analysis shows a demand of more than 400 apartments.

Ald. Griel asked for copies of the surveys. He stated that he does not believe the demographics support the demand for these apartments. He would like to do his own research. He doesn't want to vote for these projects unless he sees the studies that support these apartments.

Ms. Tollefson answered that the individual developers supplied the studies at the time and the City does not have the studies on file. She stated that at the upcoming Common Council Town Center workshop, the issue of supply and demand will be discussed. The zoning districts allow for the densities. The Council does have some control over the densities and projects. All of the projects have been approved by Council through PUD's. She stated that if there is concern from the workshop, she would recommend the City do its own market survey related to multiple family.

Mr. Carr stated that there are many residents that want to sell their homes and downsize. He stated that the Riverwalk Highlands apartments filled up very quickly and that it is at the developer's risk to build the apartments.

Ald. Gierl stated that the high density does not add to tax base. He stated that you need more services for high density properties. He stated that if children live in these units, it costs the City money to pay for each student to attend the public schools. He stated that the City will be hurt in the future. He feels that the residents will blame the Council. He says he has all the numbers on this, if anyone wants to look at it. He stated that if there are older people, then assisted living facilities should be built. He wants there to be thoughtful consideration.

Ms. Tollefson stated that the concept of a TC was created in 2000 based on a vision survey done by the City. The feedback from residents is that they want a neighborhood with gathering places and vitality in the city. There have been many years of planning analysis and consultant input in the planning process to execute. In 2007, the zoning districts were created. She stated that it is important for any policy analysis, to review and adjust accordingly. A necessary item is to create the demand for the commercial uses by creating additional rooftops. This was discussed by a number of consultants that worked with the city. The multi-family development is considered to be moderately dense. She stated that there is the option to pull back some and create a tighter district that is more compact. These policy discussions will occur over the next months in Council workshops. She stated that it is very important that the new TC development be successful. Prior to approving the TC zoning a traffic impact study was conducted and staff met with the fire and police chiefs to address city services.

Mr. Kollman stated he is concerned that Dermond will be in competition with the TC

apartments. He stated he would prefer to wait and evaluate how the other apartment developments do before approving additional apartment projects.

Mr. Tollefson stated that would be placing a moratorium and that is not a message that she feels the city wants to send to the developers. She added that developers will not commence construction if they do not feel that they will be successful. Private financing will be contingent on appropriate and necessary market analysis.

Mr. Shneyder stated that he feels that the types of apartments in the two projects are different in size and location. He feels that there are different renters that will be attracted for each project.

Ms. Tollefson reminded the Board that the Dermond project has already been approved. She also feels that the location of the projects lends two differences: Dermond has a much more residential feel than the TC apartments located above commercial buildings. She stated that the amenities and the pricing of the apartments are different and attract a different renter.

Mr. Gierl stated that millennials are not going to want to live here with an older crowd. He expressed doubt about the studies that were done. He said that the demographics need an in depth look.

Ms. Tollefson stated that a community development survey was recently completed and confirmed support for current policies that are in place. The initiative of Central Growth (CG) came out of an economic development summit. Creating 1-acre single family neighborhood densities was a specific strategy related to economic development. The proof that the market is responding and the market analysis was correct is that of the 380 potential sites, 250 have already been platted in less than a year of the City being proactive with rezoning. The market is responding. This is the execution phase and it is successful thus far.

Ald. Gierl stated that we have low taxes, low crime and great schools because the residents are better educated, they have solid values and they have large homes that keep the tax base down. He stated that increased densities lead to increased services and increased taxes. He advised Ms. Tollefson that she slow down and take a look at where we are going.

Ms. Tollefson responded that if the Council collectively choses to make policy decisions to that effect and modifies the regulatory requirements that have been in place since 2007 as it relates to Town Center, then she will follow the Council's lead. Ms. Tollefson indicated that otherwise she will not administer the regulations differently.

#### **4. Town Center TID No. 3 Incentive Application for Dermond Property Investments LLC**

Max Dermond, Managing Partner of Dermond Properties  
Nora Pecor, CFO of Dermond Properties, leads the development team  
Jim Mann from Elhers, City of Mequon financial advisor

Ms. Tollefson stated that Dermond Property Investments has been approved for a 33-unit multi-family development project on Buntrock. It was processed as a PUD project and they have achieved all necessary approvals. There have been ongoing discussions regarding TIF incentive opportunities. There was an incentive program created that is a very structured

formula in which the City covers the cost of the gap; defined as cost of removal of any base improvements values on the property, plus the cost to restore the site back to a green field site (removal of fill, removal of any infrastructure, legal papers related to easements). The formula also requires minimum new development value of \$3M above and beyond the base improvement value being taken away. The City offers anywhere from a 5%- 10% incentive on top of that. A slightly different criterion was created for the TC district in terms of the value that needs to be created as part of the program. It also requires that the payback period be 15 years or less.

- Pay as you go – low risk economic tool for the City
- No money returned until the project is constructed
- Full year of valuation (taxes paid)
- Return the portion of the tax base back to the owner of the project.

The City receives the taxes and then returns a portion of them. An important distinction is that the two TIF's on Port Washington Road receive 100% of the tax revenue back. There was no money borrowed for these two TIF districts and there were no public improvements made there.

Regarding the TC TIF, the City had borrowed money (about \$7M) to improve and expand infrastructure. Because money was borrowed and the City is paying back debt on that, it is not good financial practice to pay 100% of the tax base to the developers or the project owners. A portion of that tax base must be captured for the TIF.

New construction value in the TC TIF requires \$3 M value beyond the current improvement value. In this case, the current base improvement value is \$204,000. This project is estimated to have an \$8M value with a pay back period of 15 years or less (Ehlers is estimating about 5 years). Based on expenditures needed, the formula allows for an eligible incentive of \$647,000. The total tax base generated from this is approximately \$130,000 on an annual basis. The City could provide an incentive of \$50,000 per year to the developer and capture the \$80,000 for the TIF tax base.

Mr. Mann stated that the developer provided their cash pro forma for the project. Ehlers ran an analysis based on two metrics:

- Cash on cash basis – annualized return
- Internal rate of return – what is the profit margin, overall rate of return

Most developers look for a return in the 10% range. For this specific project, even with the development incentive, the cash on cash return was below 10% for about 5 years. It was about 3 – 5%. They also look at the longevity of a project, about 10 years out. When looking 10 years out, the internal rate of return, even with the incentive, is about 13%. He stated that this is a pretty thin project. Regarding the requested incentive of \$647,000, it seems reasonable to allow a return on the investment for the developer within market norms. Although it seems a bit high to subsidize each unit \$19,000, without the incentive from the City, the project will not happen.

Another aspect Ehlers evaluates is the bottom line, what happens to the tax increment. The analysis shows a positive impact on the tax increment district of about \$800,000. Of the \$5M deficit in the tax increment district, this project covers about 15% of it. This is a small project on 1 acre, so this is a positive. The project provides foot traffic for the TC district as well.

Mr. Baka asked about another developer that would have a higher IRR there. He asked how you compare this project with something else that may be out there.

Mr. Mann answered that there is not something else out there. Elhers compares this to other projects, not necessarily in Mequon, but other communities.

Ald. Gierl asked the developer about the demographic renter for these apartments. He also emphasized that the incentive is needed to build this development.

Mr. Dermond answered there will be mostly empty nesters. There are high end finishes with many amenities.

Mr. Kollman asked what happens if the assessed value is lower than the projected value.

Ms. Tollefson answered that the development agreement (DA) allows for the change of a few items:

- The expenditures on what it takes to clean up the site. A true up is allowed after construction occurs as well as a true up of the total development value.
- If it does not meet at least the minimum \$8M in project value, the City is not obligated to provide the incentive.
- If the assessed value is greater, the incentive can be paid off sooner, if the City chooses.

She stated that whenever staff meets with developers, they ask about incentives that may be made within the TIF. After the WiRed-Shaffer TC project was up and running, staff asked Council if they were still interested in providing developer incentives under a low risk scenario. Council stated they would review these on a case by case basis and not to turn away the option of an incentive. As long as it is low risk, they would most likely be receptive to the idea.

At the time the Council approved the resolution for incentives in TC, they made a certain dollar amount available for incentives of up to \$3M. With WiRed-Shaffer, Outpost and the Dermond project, that amount has not yet been met.

Mr. Shneyder asked if there are any contingencies regarding the expenditures and if additional work is needed. He asked who would pay for those costs.

Ms. Tollefson answered that no additional line item expenditures can be added. If it is a legitimate line item that is requested, it would need require an amendment and go through the approval process.

Ms. Pecor was asked about the rents and she stated that the rents start at:

- \$1,425 for an 837 sq. ft. 1 –bedroom (\$1.70 sq. ft.)
- \$1,700 for a 1,000 sq. ft. 1 –bedroom
- \$2,400 for 2-bedrooms
- \$2,850 for 3-bedrooms

Mr. Shneyder asked how the apartments will be marketed.

Ms. Pecor answered that the internet is a main source of marketing. She also stated they

would like some signage on Mequon Rd.

Mr. Dermond stated that they own and manage all their own properties and they keep them well maintained.

Ms. Pecor discussed the history of Dermond Properties and talked about some of the other properties they currently own and manage.

Mr. Dermond feels that the high end finishes and amenities (elevator, heated garage) lend to a higher end renter.

Ms. Tollefson stated that this has been looked at in two perspectives:

1. The TIF "But For Test" – would this project happen but for the incentives of the TIF
2. Low Risk Fast Track Formula used takes out the subjectivity of the decision making

The consultants and staff feel that both criteria are being met with this request.

Mr. Mann stated the developer would most likely not move forward without the incentive.

Mr. Carr stated that \$8M from this 1 acre property is a very good net return. It is much better than the current state of a dilapidated shed sitting on this property.

Ms. Tollefson stated that a recommendation is needed from EDB to Council and the Development Agreement would be issued before the Council meeting.

Ald. Gierl stated that he will be voting no because he feels that this is moving too quickly, he does not have the market survey he wants and he does not feel comfortable about who will be renting the apartments.

Mr. Kollman stated that he has qualms about this and he feels unenthused about it. He feels that he is locked into a vote. He will vote no.

Ms. Tollefson reminded the Board that they are suppose to evaluate the financial information presented and not the land use or design or density of project.

**Action:**

Mr. Baka made a motion to approve the item.

Ms. Holbrook seconded the motion

A voice vote was called.

***Voice passed 4-2 (No: Kollman, Gierl)***

**3. Staff Updates - continued**

Ms. Tollefson stated that the WiRed-Shaffer project was before the PC for an extension for their DA for the restaurant. It will not be completed in the original time frame. The amendment is June 30, 2016, which aligns with all the hardscaping and landscaping features. The developer suggests they will be done by mid May.

Mr. Gierl asked about the timing of the Shaffer project.

Ms. Tollefson answered that there is Council meeting regarding that project next week. Phase I could commence this fall which would be the townhomes along Buntrock. The City is not vacating the city owned buildings until April of 2017.

The Council approved the contract to sell the property to Shaffer. It will not be sold until all the developmental requirements have been achieved.

She stated that there were a few residential projects at the PC:

- Lakeside Development is proposing a conservation subdivision adjacent to Sarah Chudnow campus on Oriole Lane. There are some environmental issues there. This has not yet proceeded to Council. There is contention around this project.
- Oldenburg Farm on 220 acres is proposed as a 20-lot conservation subdivision. The Council chose not to approve the rezoning to allow for the conservation subdivision. If the project proceeds it will be 5-acre lots.
- Kohler Credit Union was before the PC for rezoning recommendation from B-3 to B-2 and did not receive approval.
- Ms. Tollefson discussed the differences between the B-2 and B-3 zoning districts. She stated that staff had recommended them to apply for a text amendment as opposed to rezoning recommendation.

Ald. Gierl asked about if the City needed to buy back the city owned property, who would pay the \$60,000 to Colliers. He asked if Shaffer could back out as a contingency if the environmental clean up is more than expected.

Ms. Tollefson answered that Colliers is not paid until the City closes on land regardless of who the developer is. Shaffer can walk away from the deal if the environmental issues are too much. The City is not responsible for the cost of the clean up or prepping the site to be ready for development. The owner is responsible for working with the DNR regarding any conditions identified. Ms. Tollefson stated that the environmental specialist is thus far reporting that there are not any significant issues on the site.

Ms. Tollefson stated that Ruby Tap was approved by the Council as well as Big Shot Sports, for loans with some conditions.

Mr. Carr stated that he would like to work on community outreach. He would like to discuss this further at the next meeting. He feels it is important to reach out and be in touch with the local businesses.

Mr. Baka reported that he has been in touch with the staff at Concordia regarding marketing help for the city. They are going through the channels there to get this approved. This would be a 1-2 year project.

## **5. Adjourn**

The next meeting is scheduled for March 22, 2016.

Mr. Kollman made a motion to adjourn.  
Mr. Baka seconded the motion.

The meeting adjourned 9:02 am.

