

LRB – RESEARCH AND ANALYSIS SECTION ANALYSIS

JANUARY 31, 2006 AGENDA

ITEM 5, FILE 051108

ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE

Emma J. Stamps

File No. 051108 is a resolution approving Amendment No. 1 to the Project Plan for Tax Incremental District No. 41 (Time Warner Riverwalk), in the 3rd Aldermanic District.

Background

1. In 2000, the Common Council adopted Resolution No. 000428, creating TID No. 41 in the amount up to \$7,150,000 to redevelop the area generally bounded by N. MLK Dr., W. McKinley Ave., W. Pleasant St. and the Milwaukee River.
2. TID No. 41 provided \$4 million for the City's share of riverwalk improvements from McKinley to Cherry Streets and \$3 million for streetscaping, landscaping and plaza improvements to facilitate converting the former We Energies power plant into offices for occupancy by Time Warner, Inc., and redevelopment of the former Schlitz Brew House into a Harley-Davidson museum. The Brewery Works, Inc. and its affiliates own Schlitz Park.
3. The Time Warner operations and employees relocated 3 blocks north into the new 150,000 square foot office building in 2001. Harley-Davidson subsequently decided not to establish its museum in TID No. 41, instead opting to build at N. 6th and Canal Streets.
4. An economic feasibility study, prepared by S.B. Friedman & Co., indicates that TID No. 41 has incurred project costs, to date, of \$2,559,000, all for riverwalk improvements and interest expense, related to the Time Warner project, achieved an increase in incremental property value of \$38.5 million, and has a "surplus" balance of \$1.1 million. According to the Comptroller's Office, the "surplus" is equivalent to "excess revenues" whose expenditure controls are subject to Section 304-91 of the Milwaukee Code of Ordinance.
5. Effective May 15, 2005, increases to tax incremental district budgets are subject to Milwaukee Code of Ordinance 304-93-4. Expenditure authority may not exceed 110 percent of the original TID budget, not to exceed \$1 million. Funds released prior to May 15, 2005 are not affected.

Discussion

1. To accommodate a relocation of its corporate headquarters from Glendale to Milwaukee onto properties located in the existing TID No. 41 (Time Warner), Manpower and developer (i.e. Grunau, Schlitz Park, The Brewery Works, Inc., RiverBend, LLC) seeks various contributions from both the developer and the City of Milwaukee, including but not limited to the developer agreeing to contribute 4 acres of developer controlled land (owner Schlitz Park) to the project, build a 280,000 sq. ft. office building for lease to Manpower (17 year lease according to the Comptroller's letter), the City/RACM would finance, build and own a 1,270 space parking structure on N. King Dr. and Cherry St., lease the parking structure to the developer who in turn would sublease 1,010 (80%) of the stalls to Manpower for employees and patrons (free) parking while maintaining control over the remaining 260 for Time Warner and other Schlitz Park employee parking; also the City would install a new street and complete the riverwalk from McKinley to Cherry Street, redevelop the North Powerhouse, and the developer, the City, and

Manpower each would share any New Market Tax Credits. The City's contribution through a \$25.3 million TID amendment includes both a \$1.7 million grant and \$3 million loan to the developer, but also require a \$4 million developer guaranty to cover insufficient increments. The changes in project scope and funding are reflected in the Term Sheet, Amendment #1 to the Project Plan, an economic impact study prepared by MMAC, and Comptroller's letter on file. The Term Sheet and Amendment #1 do not address EBE and RPP requirements for the Manpower related developments.

The Project Plan Amendment is subject to review by the Joint Board of Review (other taxing jurisdictions including MPS, MATC, and Milwaukee County).

2. The developer would retain the 260 remaining parking spaces for use by Time Warner and other Schlitz Park employees and patrons.
3. The Developer, Riverbed Place LLC (whose sole member is the Brewery Works, Inc.) plans a \$4.7 million renovation of the North Powerhouse for office space based on conditions set forth by Manpower.
4. The Term Sheet, dated 1/13/2006, sets the agreements for all parties accordingly:

City of Milwaukee/RACM agrees to:

- Provide \$3 million subordinated developer loan structured as:
 - no interest accrues until Manpower occupies the building
 - 3% rate of interest for 3 year period as of Manpower occupancy date
 - interest first becomes payable in years 4 and 5 at 3% per annum
 - amortize loan fully over following 15 years at 3% per annum
 - no recourse to the developer
- Provide \$1.7 million grant to the developer
- Finance \$20.6 million for a 1,270 space parking structure, riverwalk and frontage road (the parking structure would be owned by RACM, leased to The Brewery Works, Inc. for sublease to RiverBend Place LLC (whose sole member is The Brewery Works, Inc.) for a 1,010 total space sublease to Manpower (Time Warner and other Schlitz Park tenants would use the 260 remaining spaces)

Developer agrees to:

- Invest at least \$1.5 million in cash into the project (must be fully drawn down before the City funds any disbursements on the parking structure)
- Provide \$4 million guaranty to cover any incremental shortages needed to cover various debt service
- Understanding that any advancement made by the developer on the guarantee will be treated as a contingent loan to the City/RACM to be repaid without interest
- Option to purchase the parking structure (to be owned by RACM) at any time for fair market value (fair market value comparisons are limited to **only** those structures in the Schlitz Park region)

In regards to New Market Tax Credits, if procured, the Developer, City of Milwaukee/RACM, and Manpower agrees to reduce the City's investment accordingly:

- One third of each new dollar up to the first \$1.5 million of new dollars (Manpower and the developer would each receive one third of the first \$1.5 million, or up to \$500,000 each)
- Two thirds of each new dollar up to the next \$1.5 million of new dollars (the developer receives the other one third)
- One half of each new dollar in excess of \$3 million of new funds (the developer receives the other one half)

5. The Term Sheet, dated 1/13/2006 does not:

- Define or establish monetary limits to "material charges" (pg. 5)
- Provide wage estimates for Manpower
- List conditions of the lease between developer and Manpower in terms including but not limited to (1) a definitive lease term, (2) compensations from Manpower to the developer under the parking sublease, (3) whether, for parking structure privileges during non business hours, distribution of 50/50 net parking revenues to the City would reduce City TID expenditures, and (4) estimate the cost to the city for demolishing or repairing the fireboat house and repair of the Cherry Street bridge using funds **outside of the \$25.3 million TID project investment** (p. 5).

6. The amendment is not expected to extend the tax incremental district maximum life, 2027.

Fiscal Impact

The fiscal impact of adopting File 051108 at least \$25.3 million (not including the City's responsibility to demolish the fireboat house and repair the Cherry Street bridge using funds outside of the \$25.3 TID). The \$25.3 million TID contribution may be subject to downward adjustments. This expenditure would support the following projects:

\$ 25.3 million -	TID No. 41 funding increase
• \$ 20.6 million	- Parking structure with skywalk, riverwalk and frontage road
• \$ 1.7 million	- Grant to the developer (RiverBend LLC)
• \$ 3 million	- Loan to the developer

Other Information

The financing structure includes a \$20,000 King Drive Business Improvement District #8 grant.

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