



Office of the Comptroller
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Members of the Zoning, Neighborhoods
& Development Committee
City of Milwaukee
City Hall, Room 205

RE: Files 010322 & 010542
TID 46 - Grand Avenue New Arcade

Committee Members:

These files would approve the creation of TID 46 including the terms of a Development Agreement. Included for action with these files is the transfer of the Grand Avenue parking structure currently owned by the City of Milwaukee to the project developer-owner. The files would also authorize City officials to enter into agreements with New Arcade LLC (LLC), the developer-owner. New Arcade LLC was established by Northwestern Mutual Financial Network (NML), the major private financing partner and major owner of the Grand Avenue Mall.

The proposed project involves about \$13.6 million of physical improvements to the Grand Avenue New Arcade Project, \$1 million TID expenditures including a \$750,000 grant to the developer-owner and \$250,000 in City infrastructure expenditures. The City will dedicate \$2.5 million in Grand Avenue City parking reserves and transfer the parking structure to the developer-owner.

Last year, a subsidiary of the Wisconsin Energy Corporation (WISPARK) with City financial assistance was successful in getting Saks Inc and its Boston Store to remain as the single anchor retailer in the Mall and likewise maintain its corporate offices at the Grand Avenue. A total of \$33 million was required to purchase and make improvements to the Boston store building and adjoining parking structure including a \$5 million grant from the City. This work is currently underway. During negotiations with Saks, Inc. it was agreed that at least \$12 million in additional mall common area and retail improvements would be funded by the owner (NML) with another \$5 million to be contributed by the City¹, to be accomplished in 2001-2002 as part of the deal.

Under the proposal, investments would be made as follows:

NML LLC	Arcade Improvements ²	\$13,600,000
City	TID Expenditures	\$ 1,092,000
City	Parking Reserves ³	\$ 2,500,000
Total Project Plan Costs		<u>\$17,192,000.</u>

¹ The City is also required to make \$2 million in streetscape improvements along Wisconsin Avenue. DCD has indicated that required funding has been accomplished through a State transportation grant.

² DCD indicates that the NML is spending an additional \$3 million on retail store and other improvements not a part of the Arcade proper.

³ Of the \$2.5 million in reserves, \$1.235 million will be expended by the City for improvements to the Grand Avenue parking Structure prior to its transfer to the private owner.

Currently the City of Milwaukee has certain ownership interests and cashflow participation rights in the Arcade. Under the proposed agreement, the City would relinquish its cashflow participation rights in the Arcade. The City also holds title to a 1,773 stall parking structure adjoining the Mall. This parking structure was financed with \$8-8.5 million in City debt as part of the original Grand Avenue TID in the early 1980s, and expanded in 1992 with an additional \$4.9 million in City debt. Currently, \$2.2 million of this debt remains outstanding. **Based on year 2000 operations, this City parking ramp has a market value of approximately \$8-10 million.** As discussed below, as an inducement to attract customers to the New Arcade, the LLC has committed to deeply discount parking rates, severely reducing parking revenues, and therefore the value of the structure. The effect of these lower rates reduces the value of the parking structure by an estimated \$6 - \$6.5 million based on DCD projected cashflows.

LLC would expend an estimated \$13.6 million on the Arcade to fulfill its responsibilities under the agreement and also assume the \$2.0 million remaining City of Milwaukee debt obligation. In return, this agreement would leave the New Arcade LLC (the NML entity), with sole ownership of the Grand Avenue Mall and its adjoining parking structure and parking reserves, with all associated operation and maintenance responsibilities and cashflow benefits.

Is This Project Essential to the City Downtown Development?

The accomplishment of the common area and parking improvements called for in the proposal is indeed essential to the future of downtown Milwaukee. As mentioned in our previous letter on the Boston Store project⁴, “Substantial risks accompany this project, including uncertainty given the general decline in Grand Avenue retail activity over the past few years.” We added that the projected benefits “...should not be viewed in terms of substantial additional property tax base growth, but rather in preserving the existing employment and retail base.” There are no guarantees. However, without the improvements proposed, the City could lose the Boston Store and its corporate employment location (950 jobs) within a short time. Such a loss would indeed threaten the continued viability of the Mall and the related investments to date.

This proposal is unique in that it is a “tie in” to an agreement made last year with Saks Incorporated to retain the Boston Store and its corporate offices and jobs. In that agreement, the City was able to leverage its \$5 million TID commitment with nearly \$28 million of financing from WISPARK and the State of Wisconsin. However, that agreement also called for an additional \$5 million from the City and \$12 million from the Grand Avenue owner to enhance the common areas and parking structure. The files now before your Committee fulfill the conditions of the Saks agreement and further enhance the Grand Avenue as an attractive retail venue.

This proposal is also unique in that the proposed TID 46 is but a minor part of the City’s investment – about \$1 million. The major City contribution to this project is the transfer of its ownership of the Grand Avenue Parking structure and \$2.5 million in parking reserves (see footnote 3) to NML which would also continue to own and operate the Mall through its New Arcade LLC.

⁴ See Comptroller letter of October 24, 2000 to the ZND Committee – Boston Store Renovation Project.

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

Our analysis shows that the value of the City's contribution to this project totals \$9.8 - \$11.8 million including NML repayment of the City's remaining \$2.0 million in outstanding Grand Avenue Parking Structure debt. The total economic value of the City contribution to the Grand Avenue Arcade project is summarized in the attachment.

The vast majority of this contribution is effected through the transfer of the ownership and cashflow rights for the City parking ramp to the LLC. As an inducement to attract customers to the renovated Mall, the LLC plans to deeply discount parking rates, which severely reduce parking revenues and therefore, the value of the parking structure. The cost of this reduced value is being passed on to the City in the form a discounted price over and above the \$3 million discount referred to in the proposal. **In return for transferring the value of \$2.5 million of City parking reserves to the LLC owner (see footnote 3) and transferring a parking structure worth \$8-10 million, the City's remaining debt obligation of \$2.0 million is repaid over five years by the LLC with a five year note.**

The necessity for the level of City of Milwaukee contribution to this project is to raise NML's return on it's investment in the Grand Avenue Mall. NML has stated that in the nearly 20 year history of the Grand Avenue Mall, it has not received any return on its original \$26 million investment. The TID Feasibility Study for this project estimated a cash on cash return to the NML LLC of 7.9 percent annually based on \$13.6 million of new investment. When the additional investment and cashflow from the parking structure is added, this return increases to \$1.5 million annually, or 9.8 percent per year on their \$15.6 million investment. Without the proposed level of City participation, NML's return on it's investment is reduced by approximately 25 percent or greater depending on whether the City would discount its parking rates as proposed. A legitimate argument can be made that return computations should take into account the original \$14 million which NML had already invested in the arcade (or \$26 million in the entire shopping center). Taking NML's total arcade investment into account produces an annual return of approximately 2 ½ percent according to DCD.

Our conclusions on this point are twofold. **First, it appears that City financial participation is required to implement the project. Without such participation, it is doubtful that returns would be sufficient to proceed. Second, although projected returns to NML are not outstanding, we cannot determine if this is the minimum amount necessary to make the project happen.**

Are the Proposed TID Revenues Sufficient to Amortize the City's Investment?

Currently the City has \$2.0 million in debt outstanding related to the Grand Avenue. The project proposes an additional \$1 million in new TID debt issuance. DCD projections show the City receiving \$250-300,00 per year in added tax incremental revenues – enough to retire the newly issued \$1 million TID debt in nine years. The City's return for transfer of its Grand Avenue parking structure and parking reserves to the Grand Avenue owner is limited to the assumption by the NML LLC of the remaining \$2.0 million GO debt obligation.

The proposed term sheet also contemplates further City contributions to the Grand Avenue. At the developer's request, a "Future Development" section was included in the term sheet indicating that "The City...will consider appropriate financial or other forms of assistance if...such assistance is warranted". The City has to date committed over \$16,900,000 in grants and developer loans to improve the Grand Avenue over the past three years. With this project, the City's commitment will rise to \$26,700,000-\$28,700,000.

Should you have any questions or comments regarding this letter, please contact me immediately.

Sincerely,



W. Martin Morics
Comptroller

Cc. Julie A. Penman
Daniel J. McCarthy
mjd/8-30-01

City Subsidy to Grand Avenue - New Arcade Project						
City Subsidy: Sale of Parking Structure with a market value of					\$6,000,000	-
	\$8-\$10 million 1) for \$2.0 million					\$ 8,000,000
Loss of City Parking Reserves 2)					\$2,500,000	
City Contribution through TID 46 3)					\$1,092,000	
Estimated Loss of City Financial Participation in Original						
	Grand Avenue Operations Agreement - thru 2001 4)				\$192,000	
Consideration of Future City Subsidy 5)						?
Total City Subsidy to Arcade Project					\$9,784,000	-
						\$11,784,000
1) Based on actual 2000 operations only, parking structure would be valued at about \$9,600,000.						
2) Of the \$2,500,000 in City parking reserves transferred to the Developer, the Developer must spend \$1.25 million on Parking Structure improvements in this project.						
3) Of the \$1,092,000, \$750,000 is provided to developer as grant. The remainder is applied toward infrastructure, capitalized interest and City administrative costs.						
4) This subsidy includes only estimated 1999 through 2001 payments to City. No future year payments are included.						
5) Excluding the above proposal, over the past four years, the City of Milwaukee has provided \$16,900,000 in City grants and loans for Grand Avenue redevelopment.						
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