



Office of the Comptroller

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

Re: File 021194 – Amendment #1 to TID
46 Grand Avenue Arcades

Committee Members:

File 021194 would amend the Project Plan for TID 46 to add a Plankinton Arcade improvement project. This would be the fifth major Grand Avenue improvement project initiated over the past five years following the departure of the Marshall Fields department store. The four earlier projects are:

- TID 37 - Marriott Courtyard Hotel
- TID 37 - Marshall Fields Building Redevelopment
- TID 37 - Boston Store Renovation
- TID 46 – New Arcade Project.

These projects involved a combination of private, City and State funding and other financial considerations including the transfer of a City owned parking structure and parking reserves as well as foregoing City rights to future mall income. In total, the City of Milwaukee has contributed an estimated \$27 million - \$29 million in loans, grants and asset transfers. This City investment has made possible an additional \$108 million in outside financing to complete the above projects.

Amendment #1 proposes a project to make improvements to the first two floors of the Plankinton Building (the arcade portion) including common areas and tenant spaces. Construction activity makes up about \$10.2 million or 59% of the proposed \$17.2 million budget. The remaining portion is to be used to pay predevelopment and property acquisition costs (\$1.8 million); marketing costs and leasing fees (\$1.2 million); tenant relocation or lease termination costs for five existing tenants (\$820,000); and architect fees, contingencies and other costs (\$3.2 million).

The City is proposing to provide a grant of up to \$5,000,000 with the developer and Mall operator, Palisades-Grand Ave. LLC, providing up to \$12,000,000. New Arcade LLC is the owner and a wholly owned subsidiary of Northwestern Mutual Financial Network (formerly Northwestern Mutual Life Insurance Co.). Funds would be provided on a pro-rata basis so that any project costs savings would be shared with the City in proportion to the above commitments. The Plankinton Arcade budget totals \$18.2 million including a non-cash item of \$940,000 in future rent abatements to two new tenants. These abatements were no doubt used to induce these tenants to locate in the Grand Avenue. Under the proposed TID amendment the City would also borrow an additional \$540,000 to cover interest costs for the initial two years.

Are the Proposed TID Revenues generated through Amendment #1 Sufficient to amortize the City's Proposed Investment?

The Comptroller's Office examined the projected TID 46 tax increments resulting from the already approved New Arcade as well as the proposed Plankinton Arcade improvement projects and concludes that the projections are reasonable. The feasibility study assumes a "steady state" annual property value increment of nearly \$30 million. Most of the projected tax increment is due to increased valuation of the New Arcade. Given the two major improvement projects whose cost exceeds \$34 million and the value of the now privately owned parking structure, this projection is achievable assuming the Grand Avenue maintains its economic viability. Given the above, TID 46 including Amendment #1 is likely to be successfully retired by 2015-2017.

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

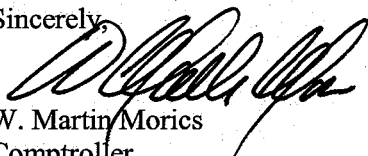
The Comptroller's Office examined the cashflow projections of the developer. These projections show an average cash-on-cash, before-taxes return on investment of about 7% excluding the sale proceeds from the development. This is by any measure a modest return on investment for a real estate investment of this nature. Any reduction in the proposed level of City financing would further reduce this return, leaving open the question of the developer's willingness to proceed.

The proposed Plankinton Arcade improvement project would bring total City financial assistance to upgrade the Grand Avenue Mall to an estimated \$32 million to \$34 million. When the original TID 46 Project – the New Arcade improvements – was adopted, the term sheet for that project envisioned "appropriate (City of Milwaukee) financial or other forms of assistance..." in the future¹. The proposed \$5.4 million in additional City assistance for the Plankinton Arcade project represents fulfillment (in part or in total) of that provision. It is unclear whether future appeals for additional City financial assistance will be made. What is clear is that the Plankinton Arcade project anticipated a significant level of City of Milwaukee financial assistance when the original TID 46 was established and that the proposed level of City assistance does not generate excessive returns to the private developer.

The proposed project as well as the four previous Grand Avenue improvement projects provide the opportunity to preserve and enhance the downtown's most visible retail shopping/commercial venue. The expectation is that with continued residential development downtown and effective marketing outside downtown, growing Grand Avenue business will return this center to its original vibrancy. We recommend that the Mayor, Common Council and RACM closely monitor both operator performance and overall retail performance of the Grand Avenue over the coming months and years. Attention should focus on generating and maintaining a quality experience for all Mall shoppers in terms of services, safety, appearance and marketing efforts for this venue.

Should you have any questions about this matter, please contact me immediately.

Sincerely,



W. Martin Morics
Comptroller

CC. Julie A. Penman
Daniel J. McCarthy

¹ See Comptroller's letter to the Zoning, Neighborhoods & Development Committee of August 30, 2001.