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Office of the Comptroller

October 14, 2004

Members of the Zoning, Neighborhoods  
& Development Committee  
Milwaukee Common Council  
200 East Wells Street, Room 205  
Milwaukee, WI 53202

RE: File # 040781 TID 57 Harley  
Davidson Project

Committee Members:

File No. 031366, adopted in May of this year, set forth the terms and conditions under which the City and an affiliate of Harley-Davidson, Inc. would redevelop a site at 6<sup>th</sup> and W. Canal Streets, with a Harley-Davidson museum, and related retail, office and commercial projects. That resolution contemplated the creation of a tax incremental finance district to assist the redevelopment project.

File 040781 would approve a project plan and create TID 57, the Harley Davidson Project. The project plan provides that the City would sell the site at 6<sup>th</sup> and Canal (approximately 20 acres) and provide up to \$7,000,000 of funding through the TID for extraordinary site improvements, including environmental remediation, dockwall construction, the cost of deep foundations and other extraordinary site costs. Harley would advance all funding and recover this expense only through future tax incremental revenue generated by its project. The City would also absorb the cost of demolishing existing facilities on the site, estimated at \$1,250,000, by deducting this cost from the sale price of the site. Actual demolition bids recently received may lower this amount. When administration costs of \$200,000 are included total City costs of the planned project are estimated to be \$8,450,000.

H-D Milwaukee LLC (H-D) would acquire the site from the City for \$150,000 per acre, build planned improvements in three phases from 2006 through 2013. The development phases are as follows:

Phase I: Harley Davidson museum, retail and restaurant facilities –110,000 sqft.; 2006-2008

Phase II: Harley Davidson archive and restoration facilities-20,000 sqft; 2008-2010

Phase III: One or more office and/or commercial buildings-100,000 sqft; 2010-2013.

The current estimated H-D cost of these improvements total \$95 million.

H-D would secure completion of the Phase I H-D Museum with a \$7 million letter of credit. H-D will be contractually obligated to complete Phases II and III. H-D would advance the City funds needed, charging the City of Milwaukee an annual interest rate of 5% per year. The City would repay H-D only to the extent that TID tax increments are available each year.

Your Committee and the Common Council have previously approved File 031366-Sub 2, an agreement in principle between the City, H-D Milwaukee, LLC (H-D) as developer and the Harley-Davidson Motor Company, Inc. The terms of the proposed TID 57 are consistent with this earlier Council action. Our Office comments on the agreement in principle, File 031366-Sub 2, were provided on May 19<sup>th</sup>. See the attached.

***Is the Harley Davidson Project likely to succeed? Will the TID be sufficient to repay the City expenses incurred?***

In approving File 031366 in May of this year, your Committee heard extensive testimony regarding the expected economic benefits to downtown and the entire Milwaukee area from this project including comment from the DCD, the Metropolitan Milwaukee Association of Commerce and others. Thus, the potential benefits are well documented. In addition, the advance of the required City funding by H-D and its corporate guarantee to secure the completion of Phase I provides adequate assurance that the Phase I (museum) development will in fact be constructed. The company will contractually guarantee the completion of Phase II (archive and restoration facilities) and Phase III (office-commercial space). However, there is no H-D letter of credit or other support to secure the construction of either Phase II or Phase III.

In order for the H-D development to proceed, the original agreement required that the City vacate the site - currently occupied with Public Works Traser yards maintenance operations - by February, 2006. The City is contracting with a separate developer to acquire a new site and construct the needed DPW facilities. Both this new developer and the DPW indicate that **up to 18 months may be required to complete the necessary DPW facilities construction and subsequent move.** Hence, the original timetable posed a potential conflict with the H-D February, 2006 deadline for City vacation of the Traser site. Should the City not meet the February 2006 deadline, H-D had the option to "put" the land back to the City of Milwaukee at its original price and terminate the H-D project. **While the target for vacating Traser remains February, 2006, DCD staff have indicated that H-D recently agreed to defer its "put" option start date to May 31, 2006. The City would still incur financial penalties (passed on to the Tower project developer) should Tower construction extend beyond February, 2006, but H-D's ability to terminate the project would not be available for an additional three months. If work at the Tower site can commence next month, the developer of the Tower facilities indicates that the new Tower facilities can be completed by February, 2006 and certainly before May 2006. DPW concurs with this assessment.**

The maximum \$7,000,000 in City provided site improvements, plus up to \$200,000 in City administrative costs, are to be advanced by H-D to the City at an interest rate of five percent per annum, being repaid by the City only to the extent that TID property tax increments are available. About \$5.4 million of this amount is to be incurred by the City as a part of Phase I, with the remaining \$1.6 million incurred for Phases II and III. Once the TID is established, property tax increments would be available for repayment to H-D for a period of 27 to 31 years. As such, there is no outstanding City obligation for repayment of its \$7,000,000 beyond dedication of future tax increments from the project. **Estimates of the time required for full H-**

**D loan repayment and TID closing range from 23 to 29 years depending on whether all three project phases are completed as planned.**

The DCD would also like tax increments to cover the additional \$1,250,000 in demolition costs after the Harley loan to the City has been repaid. However, for these costs to be recovered, at a minimum both Phases I and II of the H-D project would have to be completed as planned.

**In summary, the above H-D financing of the City's \$7,000,000 contribution assures that the TID will cover this obligation over an estimated 23 to 29 years, with the developer absorbing any tax increment shortfall. Regarding the \$1.45 million in demolition and administrative costs, these costs are likely to be totally recoverable from the TID only if at least two of the three H-D project phases are completed as planned.**

***Is the proposed City \$8,450,000 necessary to enable the Harley Davidson project to proceed?***

Harley Davidson, Incorporated is a well capitalized company with sufficient financial capacity to finance the entire project. However, to provide H-D with a site ready for development, the Mayor and Common Council have agreed in principle through File 031366 to the above activities and financial participation. After many months of negotiation between the City and H-D, it is highly unlikely that any material reduction to the City of Milwaukee's financial participation would be acceptable to H-D. Therefore, **we would conclude that the proposed \$8.45 million of City of Milwaukee financial participation is needed to enable the Museum development to occur.**

**The recent accommodation by Harley Davidson to defer the effective date of its "put" option three months to May 31, 2006 together with the Tower developer-DPW concurrence that the Tower project can be completed before this date removes our major concern regarding the risks associated with this proposed TID.**

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

Sincerely,



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Comptroller

Cc Thomas O. Gartner  
Jeffrey J. Mantes  
Richard Marcoux  
Mark Nicolini  
James P. Purko  
James Scherer  
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