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Office of the Comptroller

April 22, 2013

Members of the Zoning, Neighborhoods
& Development Committee
City of Milwaukee
City Hall, Room 205
Milwaukee, WI 53202

RE: File 121429, TID 78 – Northwestern Mutual
Life Insurance Company

Committee Members:

File 121429 would approve the creation of TID 78 (Northwestern Mutual Life Insurance Company), and the related Project Plan and Term Sheet outlining the Development Agreement. In total, this Tax Incremental Project Plan calls for amortizing \$73.3 million of project costs, and associated financing costs, from tax incremental revenue generated by a proposed Northwestern Mutual (NM) office facility. We have reviewed the project plan, feasibility study and term sheet and are basing our analysis on this information, as well as discussions with Department of City Development staff.

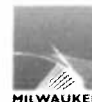
Northwestern Mutual Office Project

Tax Incremental District 78 consists of a roughly 4.4 acre site at 800 and 910 East Wisconsin Avenue that includes an approximately 450,000 square foot office building. Northwestern Mutual is proposing to demolish the existing office building, which would require significant structural repairs and renovation, and replace it with a building that would be not less than 1,114,000 square feet. This construction project will ensure that the 1,100 workers that occupied the 800 East Wisconsin Building will remain downtown, and will provide space for Northwestern Mutual Life to grow in the future. Northwestern Mutual projects that the total workforce located at the downtown Milwaukee campus will increase by 1,900 workers by 2030.

Constructing the office building downtown versus constructing a low-rise building outside the City on a vacant site creates several additional costs. Due to the high rise nature of the office project, the foundation, structure and other building systems are more costly. In addition, at the downtown location, campus-wide building systems must be temporarily relocated, and foundations of existing buildings must be protected. Estimated additional costs for the project, when compared to NM's alternative option, total over \$50 million, based on an analysis by construction consultants, the Concord Group.

Additional costs of the NM project include up to \$4 million expended under an out-of-program agreement with the City for public infrastructure and publicly-accessible amenities potentially including streetscaping and improvements to Cass, Mason and Van Buren Streets and Wisconsin Avenue. These improvements are supplemental to the "Gateway" infrastructure improvements to be directly funded by the City.

The District will fund an annual grant to Northwestern Mutual equal to 70% of any incremental property taxes, not to exceed an amount sufficient to repay \$54 million at 4.5% interest over 25 years. Through a Cooperation, Contribution and Development Agreement, funds will be advanced by Northwestern Mutual



under a pay-as-you-go approach, and be repaid by the City only through incremental revenue generated by the new office building. Payment will be conditioned on Northwestern achieving and maintaining a specified number of employees at its downtown campus. Should the employment numbers at the NM downtown campus fall short of estimates, the payment to the company would be reduced proportionately.

Lakefront Gateway Infrastructure Project

In addition to the Northwestern Mutual office project, \$19.3 million in public infrastructure, workforce and business development, and administrative costs will be funded by the District. The remaining 30% of incremental revenue will fund improvements to public infrastructure in the area around the Northwestern Mutual downtown campus. These improvements, included in the 2010 Downtown Plan Update, were identified as the Lakefront Gateway Catalytic Project. The Lakefront Gateway Project is expected to include reconfigured freeway ramps (funded by WisDOT), reconstructed and new city streets and pedestrian amenities. The City's portion of these infrastructure improvements is expected to total \$18 million.

Estimated TID Project Costs

Capital:	
City Contribution to NM Project	\$54,000,000
Gateway Public Infrastructure Project	\$18,000,000
Subtotal Capital Project Costs:	\$72,000,000
Other:	
Administrative	\$600,000
Workforce and Business Development	\$700,000
Total Project Costs (excluding financing):	\$73,300,000

Is This Project Likely to Be Successful?

From a financial perspective, the developer funded portion of the proposed TID will be successful given that the City's contribution is limited to a 25 year tax incremental revenue stream generated from the NM office project. As a "pay-as-you-go" TID, Northwestern Mutual Life assumes the risk that the proposed district will generate sufficient incremental revenue to recapture the \$54 million of costs through its share (70%) of future incremental revenue.

The proposed TID will also fund a catalytic public infrastructure project creating a new gateway to downtown, as set forth in the Downtown Area Plan 2010 Update, and further refined in the 2012 Lakefront Gateway Plan. The City will borrow for the "Gateway Project" street and other infrastructure improvements, and accept the risk that the City's share of incremental revenue will be sufficient to pay the project's debt service cost.

Based on the cash flow forecast provided in the Economic Feasibility Study for TID 78, the District is feasible and estimated to pay off before it is required to close. However, without any truly comparable property values available, it is difficult to determine whether the assumptions for the estimated assessed value used in the forecast are reasonable. For the office facility portion of the project, Northwestern Mutual is accepting the risk that the District will generate sufficient incremental value to recapture the \$54 million in costs it is advancing. For the Gateway public infrastructure portion of the project, the City is accepting the risk that its share of the incremental revenue will be sufficient to amortize the cost of the \$19.3 million it will borrow for the project. Although, there is some uncertainty regarding the potential value of the district

due to limited comparable properties, because the City's contribution to NM is limited to a 25 year tax incremental revenue stream, the project is likely to be successful.

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

This proposed TID allows Northwestern Mutual to recover \$54 million of the additional costs associated with constructing a high-rise office building in downtown Milwaukee. Because Northwestern Mutual does have options for building outside of the City, it is necessary to make the cost of building downtown comparable to building on an alternative site. Construction of a new office building in downtown Milwaukee will result in an increase in the City's tax base, and the creation and retention of jobs in the City. Northwestern Mutual is committed to maintain a larger employment level in the city of Milwaukee over the term of this TID by increasing its workforce at its downtown Milwaukee campus by 1,900 employees over 15 years. But for this TID, the City likely would not have been able to formalize this employment commitment. Without the City's financial participation to offset some of the additional costs of building this project in downtown Milwaukee, it is reasonable to assume Northwestern Mutual would choose an alternative site outside the City of Milwaukee.

The annual interest rate of 4.5% is payable from tax incremental revenue to Northwestern Mutual for any remaining balance of the \$54 million in project funding advanced by NM. If the City funded the \$54 million with general obligation borrowing, the City, instead of Northwestern Mutual would assume the risk that future tax incremental revenue would be sufficient to cover the debt service costs. In addition, the City's debt margin available for other public projects funded with City borrowing would also decrease. The City could currently borrow at a lower interest rate than 4.5%. However, to avoid the increased risk to the City, and the direct impact on the City's available debt margin, the 4.5% interest rate is reasonable.

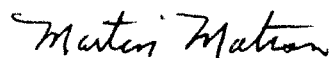
Currently, there is no alternative City funding sources available to finance the Lakefront Gateway project proposal. Without the City's 30% share of the TID 78 tax incremental revenue, this public infrastructure project would need to be delayed and negatively impact the Wisconsin Department of Transportation's reconfiguration of the freeway ramps within the Gateway Project.

Conclusion

It is clear that the TID #78 proposed Northwestern Mutual office building will be successful from the City of Milwaukee financial perspective and should be supported. The Gateway Infrastructure Project does present some risk for the City due to uncertainty regarding the district's future estimated assessed value. However, given the maximum term of payment to NM for their \$54 million advance to the office project will be 25 years, and the maximum life of the TID is 27 years, there will be two years where, if necessary, the entire increment would be available to repay the public infrastructure costs.

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

Sincerely,



Martin Matson
Comptroller

Cc Rocky Marcoux