City of Milwaukee

Office of the Comptroller

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December 20, 2007

Members of the Public Works Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: 724 N 2nd Street Parking Structure Lease

Dear Committee Members:

File 071222 authorizes the Department of Public Works to enter into Agreement for the long-term lease of parking spaces in the City-owned structure on the corner at 724 N. 2nd Street. The Agreement is with Milwaukee Hotel Associates, LLC (Developer), which plans to purchase and redevelop the Posner Building at 152 W. Wisconsin Avenue. The $21 million planned redevelopment is a mixed-use project including a 160 unit mid scale hotel as well as ground level retail and restaurant space. Developer requires parking for hotel patrons and is seeking 50 "24 hour hotel" spaces, within the 473 space structure. The term of the Agreement is 25 years.

The rates for the "24 hour hotel" spaces are based upon the average market rate charged for parking by limited service hotel operators in the downtown. Since these rates are set at market, there is no apparent subsidy associated with the "24 hour hotel" spaces. As these spaces provide hotel patrons with "in and out" privileges, market rate for limited service hotels in downtown are approximately 36% above the City set rate for daily parkers. As the lease of 50 "24 hour hotel" spaces will result in greater utilization of the structure and given the higher premium paid for "24 hour hotel" spaces than daily parkers, it is likely that the lease agreement could result greater revenue without displacing current parkers. DPW estimates an increase of $70,000 to $270,000 in additional revenue annually, depending upon the hotel's occupancy.

The lease Agreement constitutes a private use of a public asset. As such, Federal tax laws require the City take certain actions when the Private Use exceeds a certain threshold amount in order to maintain the tax-exempt status of the City's debt. The proposed lease will not cause the City to exceed that threshold amount, so there is no debt issuance related cost to the proposed lease. It should be noted however, that once the aggregate number of parking spots under this and other leases exceed 235 spaces (currently at 150 spaces), then the City would have to refinance $2.1 million of outstanding debt related to the structure. Refinancing the debt would add approximately $40,000 per year of interest expense or approximately $100 per space per year. In addition, future debt for the structure would need to be issued on a taxable basis which would depend on the future capital needs of the structure.

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My staff reviewed the terms of the lease and made recommended changes, which were subsequently addressed by DPW. As the terms of this lease agreement largely mirror the lease agreement at the 4th & Highland Structure, which was recently approved, the issues we raised that were addressed concerning that lease were also addressed in this lease at the 2nd Street Parking Structure.

Overall, the proposed lease agreement will result in greater utilization of a City owned asset. The lease of the 50 "24 hour hotel" spaces is at market and the lease agreement does not affect the current taxability of City debt issued or to be issued for the structure. Given these two factors we find the proposed Lease Agreement acceptable assuming the City is willing to bear any anticipated future cost of the subsidies disclosed above.

Please contact me should you have any questions concerning this letter.

Sincerely,

Michael J. Daun

W. Martin Morics
Comptroller

Cc Jeffrey Mantes
Richard Marcoux
Dorinda Floyd

CDK/MJD/12-20-07