



Office of the Comptroller

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

SUBJECT: File 061021 – North End Project

Committee Members:

File 061021 would authorize up to \$8,459,000 spending for the purpose of supporting a proposed North End Project (“the Project”). Of this total, \$6.0 million would be new TID authorization while \$2.4 million was authorized for TID 48 by prior amendment. The File also approves the terms of a Development Agreement with USL Land LLC (“the Developer”) and the City of Milwaukee to construct the required riverwalk and other public infrastructure as well as complete right of way demolition and remediation. The above authorization would also include \$500,000 for job training, \$300,000 for City administration and a \$1 million contingency.

The DCD expectation is that the above infrastructure and riverwalk improvements will spur private development in the North End Project. The North End Project encompasses an eight acre site, currently planned for an estimated \$175,000,000 development including condominium, apartment and retail development including a two level parking structure. With the exception of the funds for required sewer-water utility work and job training, the City of Milwaukee would transfer TID funds to the Developer and the Mandel Group as co-project manager to construct or contract for construction of the planned improvements.

Concurrent with the above infrastructure work, the proposed North End real estate development would be staged in four sequential Phases over the years 2007-2012. Phase I includes two parts to be completed in 2007-2008. Phase I part one includes the construction of 73 condominiums, 12,500 sq ft of retail and a 326 stall parking structure including one floor of underground parking. Phase I part two adds 36 condominiums, 88 apartments and an additional 12,500 sq ft of retail. If the Project proceeds beyond Phase I, Phases II through IV would be completed by 2012 according to the Developer’s plan, adding 286 condominiums and 15,000 sq ft of retail space. Phase I would total \$64.2 million – 37% of the total North End Project.

Should the Project proceed to completion, the Developer estimates that 800-960 construction jobs would be created over the 5-6 year duration of the Project with 90-120 permanent retail jobs and at least 10 permanent property management jobs also created. The funding sources and uses for the infrastructure support work are shown below. Sources of private financing for building construction have not been finalized.

<u>Sources</u>	<u>Uses</u>
Developer plan ¹\$ 5.9 mil	Demolition/Environmental.....\$4.4 mil
City of Milwaukee up front grant..... \$ 2.4 mil	Public & Private infrastructure.....\$3.7 mil
City of Milwaukee additional grants ² .. \$ 5.3 mil	Riverwalk & Street Ends.....\$2.7 mil
City of Milwaukee administered..... \$ 0.8 mil	Dockwall, relocation, contingency...\$2.3 mil
	Utility – sewer relocation..... \$1.3 mil
Total infrastructure rvrwlk sources.....\$14.4 mil	Total infrastructure rvrwlk uses.....\$14.4 mil

¹ Developer evidences a \$4.7 million line of credit to support his land acquisition and certain site preparation costs.

² Additional City TID grants would be subject to Common Council approval.

Is the Project Likely to be Successful?

For the above infrastructure and riverwalk costs to be recovered through TID property tax increments, substantial private development must occur. There are important factors supporting the promise of future private development of the Project site. The Mandel Group involvement in the Project as its Developer and co-manager is a key strength. A pre-eminent locally based real estate developer, the Mandel Group is most recently identified with the luxury University Towers development. The Mandel Group has established itself as an outstanding residential and commercial developer in this area whose successes have reshaped the face of Milwaukee's downtown area. The Developer also indicates that it has already invested over \$5 million to acquire and maintain the North End site, with another \$4-5 million to accompany the City's initial TID grant. Therefore, recovering these "sunk" costs provides a strong Developer incentive to fully develop the site. In addition, the Developer has created a well conceived, four phase conceptual plan of its targeted \$175 million mixed use development.

Letters of interest from financial institutions have also been submitted. However, there are currently no building construction nor related financing commitments to support completion of the North End conceptual plan. This uncertainty prevents a conclusion regarding the likely implementation of the full conceptual plan. The Developer asserts that in order to obtain construction financing, it needs at least \$1.4 million in City funds now to clean up the site along with \$1 million infrastructure expenditures by the City.

The prior version of the Common Council resolution and Term Sheet resembled the approach used for the Brewery Project in that it required no initial construction commitments or Common Council approval once actual building construction commitments were acquired. The revised resolution and Term Sheet do retain the use of current borrowing authority to expend up to \$2.4 million to clean up and install initial infrastructure improvements without any firm construction commitment. However, the \$2.4 million has already been authorized for TID 48 and the clean-up work supported by these funds (and an additional \$4-5 million in Developer spending) is likely to amortize most if not all of the \$2.4 million in City TID costs even if development does not occur in the near future. In addition, the revised resolution and Term Sheet now require Common Council approval of subsequent City funding subject to a set of criteria that the Developer must meet. These criteria include sufficient TID tax increments, the consistency of the planned construction with the overall North End development plan as well as firm financing commitments and executed construction contracts. Should you approve this File, your Committee and the Common Council will have an opportunity to review and approve at a later time any TID spending beyond the initial \$2.4 million up to a maximum total TID expenditure of \$8.5 million.

Is the Proposed \$8.5 million in City TID Assistance needed to allow the Project to Proceed?

There is little doubt that the proposed \$8.5 million in infrastructure, riverwalk and other TID work as described above is reasonably matched to this \$175 million development. Since proposed TID funds are principally applied to streets, water-sewer and other public improvements or private improvements accessible to the general public, it is unlikely that the Developer would be in a position to substitute private funding for a significant portion of the proposed City TID funds.

As in the Brewery Project proposal your Committee recently approved, the predominant business risk to the City is not whether the proposed \$8.5 million will be needed, but whether it will be sufficient to accomplish the entire North End development as now envisioned. With no firm development or financing commitments, issues affecting the ultimate outcome of the Project cannot be answered. Yet unresolved are the possible acquisition of Federal New Market and Section 42 tax credits which could bring millions to the Project. Should these credits materialize, the nature of the Project and/or needed City participation could change. The extent and terms of investor and debt financing are also unknown. Adverse financing results here could lead the Developer back to the City.

Regarding Developer compensation, S.B. Friedman projects an \$18.8 million Developer fee and profit (10.7% of gross revenues)³. In the event of a private financing shortfall, whether the Developer would be willing to defer or reduce any of these fees, whether the Project would be downsized or whether the City would be approached for additional assistance to fill the gap is unknown. But because the requested TID funds are predominantly used for public infrastructure and other publicly accessible rights of way, these issues were not a part of the contract negotiations.

³ This Developer compensation level is within industry norms according to SB Friedman Co, the DCD development consultant. While past development fees/fee ratios for City assisted projects have at times been well below this level for smaller projects, we have no reason to disagree with the DCD consultant conclusion in this matter.

As the presentation unfolded at your prior meeting, the message was that should the City of Milwaukee grant the requested \$8.5 million, the North End Project mixed use development totaling about \$175 million would result. The Developer's excellent track record and North End investment to date speaks well of his commitment, ability and intent to perform. Unfortunately, the Developer has not as yet finalized any phase of its building construction financing. The possibility of private financing difficulties or tax credits altering the City's needed TID contribution exists. As a result, at this point no one can determine how much City assistance will be required to make full development a reality. However, the proposed Term Sheet limits the City's financial exposure to \$2.4 million. Any additional amounts would need to be approved by the Common Council based on specific, fully financed construction plans consistent with the conceptual development plan presented at your last meeting.

Conclusions & Recommendations

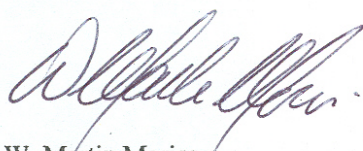
Our Office supports the impressive urban design plan authored by a leading Milwaukee developer in the Mandel Group and its USL LLC. In spite of the Project's lack of Developer construction financing commitments and a final plan of finance, the proposed Term Sheet limits the City exposure to \$2.4 million – an amount already authorized for TID 48, and requires Common Council approval beyond that point based on sound financial performance criteria. Based on the above, our Office supports the substitute resolution and this approach to the North End development.

We also make three recommendations for your consideration.

1. The DCD should closely monitor and periodically report to your Committee the actual extent and payroll impact of all construction and permanent jobs created by this Project.
2. Based on the prior ZND presentation, it is assumed that the requested \$8.5 million in City assistance will be sufficient to complete the North End conceptual plan. Should any additional future requests for City financial assistance be made for this Project, these requests would be made focusing on the *minimum* City funds needed ("financing gap")—that which the private sector and other grant sources cannot fill. Analysis would focus on the adequacy of proposed private debt and investor equity financing. Any such requests would need to be approved by the Mayor and Common Council.
3. As a \$6+ million addition to TID costs, this proposal seems sufficient to merit a TID amendment, requiring Joint Review Board approval. Currently there are no City policies to determine under what conditions a TID amendment should be required. While State TID laws are silent on this matter, a past City Attorney opinion suggested that a City policy be developed to guide this decision. This matter should be among those TID practices analyzed by your Committee in 2007.

Should you have any questions regarding the above, please contact me.

Sincerely,



W. Martin Morics
Comptroller

Cc Commissioner Marcoux, Joel Brennan, Tom Gartner, Allison Rozek, James Scherer, Emma Stamps