



Office of the Comptroller
February 20, 2002

W. Martin Morics, C.P.A.
Comptroller

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Special Deputy Comptroller

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Special Deputy Comptroller

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

Re: Files 011302 & 011471: Creation of TID 47 -
875 East Wisconsin & Agreement Authorization

Committee Members:

These Files approve the creation of TID 47, the 875 East Wisconsin project (the Project) and authorize City officials to enter into a development and co-operation agreement. The Project would involve the construction of an eight-story office building and a four level, 580 stall parking structure on the southeast end of Wisconsin Avenue, just west of O'Donnell Park. The City of Milwaukee, through the Redevelopment Authority, would contribute about \$1.5 million, or about three percent of total development costs. The Project Plan indicates that the City/RACM could entertain the commitment of additional funds to the Project in the future at its discretion. However, this would require additional Common Council approval. The entire development would be privately owned and operated.

Together with Grand View "up front" developer fees and City administrative costs, the project is expected to total about \$49.8 million. The developer/investor is Grand View Development Partners, Limited Liability Corporation (Grand View). Irgens Development Partners LLC is a co-managing member of another LLC which in turn manages the Grand View LLC. Together with US Bank, Grand View comprises the equity investor group. Their proposed equity totals \$8.6 million (excluding deferred compensation for development services). First mortgage financing totals \$39.7 million. The City would provide the remaining \$1.5 million including administrative costs and capitalized interest.

About \$800,000 of the City of Milwaukee's contribution will be expended on streetscape improvements, utility relocation and the enhancement of a public plaza on the southeast portion of the development. It is also proposed that the City make a \$380,000 second mortgage loan to finance the installation of additional electrical, communications and other facilities to promote the accommodation of technology oriented tenants. The loan interest rate charged the Project would be equal to the City's cost of funds over a 20 year period with level repayment. About \$0.3 million would be expended by the City in capitalized interest and administrative costs.

Construction is expected to begin within the next 60 days and, under the terms of the proposed agreement, must begin by December first and completed within 19 months of start.

Is the Project Likely to Be Successful?

The DCD has incorporated a number of safeguards in the proposed development term sheet toward the goal of **making sure that once started, the Project proceeds to completion.** In addition, RACM will not enter into the Funding Agreement until the following has occurred:

- all planned private equity and construction loan proceeds have been made available;
- "Pre-committed space" in the building has in fact been leased at market rates for at least five years;
- **RACM will not fund its commitment until the Project is substantially complete.** Thus the City funding will be the last funds drawn upon to complete the Project.

As a major downtown office development, the **property tax increments generated from the Project are expected to offset the City's cost of borrowing its \$1.5 million financing in a relatively short time.** Our Office estimates that if the Project is completed as planned by mid-2003, tax increments and developer loan repayments should be sufficient to **successfully close this District by the 2008.** In addition, even after factoring in the time value of money and a State aids penalty resulting from tax base expansion, the Project would still show a substantial \$600,000 positive value to the City over a 24-25 year period. Excluding the State aids penalty, the value of the Project would grow to over \$5 million.

Is the Proposed Level of City Participation Necessary to Allow the Project to Proceed?

Assuming the Project will indeed be successful, the other critical question is whether the proposed \$1.5 million of City financial participation is truly necessary for the Project to proceed. The analysis below concludes that **it is unclear if the City's proposed financial participation is required.** Grand View's cash-on-cash return from this project would be only slightly affected if the \$380,000 City loan had to be replaced with additional equity. Alternatively, as owner-developer, Grand View could simply lower its development fee by \$380,000.

There are two types of equity investors for this Project. The 1st mortgage bank-investor is making the 1st mortgage loan and contributing the land for the Project (estimated at \$3 million). The Grand View developer-investor is providing development services and investing cash totaling \$5.589 million.

Grand View assesses \$1.8 million in development fees as a part of the budget and an additional \$1.8 million development fee as subordinated equity. This \$3,600,000 in development services¹ to Grand View is about seven percent of the total budget. This is the highest development fee for a City assisted project that our Office can recall and about two and one-half times the requested total City financial assistance. We were not made aware of any extraordinary services in assembling the Project team or related financing package that would merit this level of

¹ One-half of this fee is to come from available cashflow generated by the development after the primary investor group (US Bank affiliate) has received its preferred return.

compensation. We were told that the City's ability to negotiate this fee is limited given the limited extent of the City's participation. If the "up front" development fee was reduced from \$1.8 million to \$1.4 million, the City loan would not be needed.

The Grand View could lower its "up front" development fee or provide additional cash equity to substitute for the \$380,000 City loan. Providing additional cash equity would reduce the developer's cash-on-cash return by about 0.5%. This would seem a very modest reduction, especially in light of the current seven percent total compensation for development services. In the current environment for the City of Milwaukee, it may be worth pursuing the limitation of City financial participation to its \$797,000 proposed City grant without the proposed \$380,000 loan.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Martin Morics', written in a cursive style.

W. Martin Morics
Comptroller

Cc Julie A. Penman
Daniel J. McCarthy