

**LRB-FISCAL REVIEW SECTION ANALYSIS - REVISED**

**MAY 21, 2004 AGENDA**

**ITEM 1, FILE 031366**

**ZONING & NEIGHBORHOOD DEVELOPMENT COMMITTEE**

**EMMA J. STAMPS**

File #031366 is a resolution relative to the redevelopment of the Traser Yards site at North 6<sup>th</sup> and West Canal Streets as well as properties adjacent thereto. (DCD)

**Background**

1. The Department of Public-Works and Department of City Development are collaborating to complete development along Canal Street in the Menomonee Valley.
2. The Menomonee Valley Plan adopted by the Common Council in 1998 assumes the transfer of DPW facilities out of the Menomonee Valley. Currently, the DPW Traser Yards and Central Garage are located along Canal Street at 6<sup>th</sup> and 21<sup>st</sup> Streets in the Menomonee Valley.
3. In recent years, various Council Committees have debated the economic and development feasibility of relocating these city facilities. To date, no plan for moving the Central Garage has been presented to the Common Council. However, on May 12, 2004, the Public Improvements Committee recommended adoption of File #040025, resolution relocating the DPW Traser Yards to a newly constructed facility to be co-located with Water Works distribution facilities on the old Tower Automotive plant near North 35<sup>th</sup> Street and West Keefe Avenue in the 7<sup>th</sup> Aldermanic District.
4. File #031366 proposes the redevelopment of the 6<sup>th</sup> and Canal Traser Yards site via acceptance of the Harley-Davidson Motor Corporation's (HD or "the developer") offer to purchase approximately 20 acres of city-owned property at 6<sup>th</sup> and Canal Streets.
5. **No closing date has been determined, at the time of this writing.**
6. An analysis of risks and benefits to the City, incorporating feedback and assessments by the Comptroller's Office and other documents contained in the file indicate the following:

Benefits

- Partnership with a respected, successful local business
- Potential catalytic project to spur further development and redevelopment in the east and west ends of the Menomonee Valley
- Minimizes City risk for Phase I developments (museum, café, etc.) through a \$7 million letter-of-credit
- Potential to create and retain construction, retail, and commercial jobs
- Potential to increase future tax base in the Menomonee Valley after tax increments obligations are satisfied

- Expanded property tax base by placing current exempt property on the tax roll

### Risks

- HD's \$7 million letter-of-credit applies **only** to Phase I developments, i.e. the guarantee does not extend to Phases II (archives and shop) and III (office/commercial)
  - City must market undeveloped land if all phases are not completed
  - No firm limits to the financial risks were determined at the time of this writing
  - Possibly several non-financial and/or financial risks that are to be determined
  - City recovery of demolition costs can be paid by TID increments **only after** all principal and interest debt
7. The Term Sheet which accompanies this resolution, provides for significant city assistance, including:
- Prior to February 15, 2006, City must provide evidence that it has acquired free-and-clear control of all parcels in the project site
  - City shall create a \$7 million developer financed Tax Incremental District for the HD Project areas
  - City shall lease the Traser Yards from HD at \$1 per year, ending February 28, 2006. At the end of the lease term, HD can either:
    - (1) **extend the city lease** up to 1 year at a base rent of **\$10,000 per month** or \$120,000 per year,
    - (2) “put” the site back to the city at a **repurchase price of \$150,000 per acre** if only 7.1 acres of the total 10.2 is developed, and/or
    - (3) **sue the city for actual damages to HD for the city's failure to vacate** the Traser Yards (This Committee may benefit from a City Attorney opinion whether statutes limit the city's risk for actual damage payouts.)
8. If approved, the HD Project will enjoy the benefits of a new \$7,000,000 Tax Incremental District to assist in funding extraordinary site development costs. The “extraordinary site development costs” are not defined in the term sheet and could potentially result in cost overruns which, according to the term sheet dated 5/12/2004, may have to be recovered in future amendments to the TID. In return, the City can expect HD to:

***Development of a 3-Phase Project over a 7-Year Period:***

- (1) Phase I development of a 110,000 sq. ft. Harley Davidson Museum, café, retail space, banquet and restaurant facilities, and related office and technical support facilities at an estimated TID cost of \$5.3 million.
- (2) Phase II development of a 20,000 sq. ft. expansion of Harley-Davidson Museum at an estimated TID cost of \$0.3 million.
- (3) Phase III development of a 100,000 sq. ft. office and/or commercial building(s) at an estimated TID cost of \$1.4 million

***HD Assumes Ownership of Streets, Riverwalk, and Walkways***

- Except South 6<sup>th</sup> Street, West Canal Street located west of South 6<sup>th</sup> Street
- HD may, based upon future determination, grant public access to HD owned areas, including riverwalks

***Employment/Job Creation and Transfers:***

- Phase 1 – estimated 500 on-site construction jobs, 70 full time museum jobs, 15 part-time museum jobs, 40-70 restaurant jobs
- Phase 2 – estimated 10 jobs at archives, restoration shop and exhibits
- Phase 3 – estimated 280 – 400 employees transfer from crowded Juneau Avenue facility to a new Menomonee Valley technical training and office building
- EBE compliance requirement for not less than 18% of the combined site improvement and construction costs; HD is also to use its best efforts to hire up to 21% of total Project hours from a pool of unemployed workers in the block grant areas
- Note: according to s. 309-41-2-a, if city contracts were involved in the construction of the HD facilities, contracts would require that 25% of the worker hours would be performed by unemployed residents of the CDBG area

***HD Assumes Extraordinary Responsibilities for:***

- Paying up to \$50,000 of costs to vacate the former 6<sup>th</sup> and W. Canal Streets rights-of-way (The language implies that the City is responsible for cost overruns.)
- Determining whether to reconfigure the Project into two phases instead of three, so that Phase I measures 110,000 sq. ft. and the remaining phase(s) measure an aggregate 120,000 sq. ft.

9. According to DCD, the HD Project estimated development cost, including the purchase price, totals approximately \$95,000,000 (Phase 1 - \$60 million, Phase 2 - \$15 million, and Phase 3 - \$20 million).
10. This project is contingent upon satisfactory review of city departments, HD, the Common Council and the mayor.

**Fiscal Impact**

The most recent fiscal note, dated January 28, 2004, does not specify total expenditure and total revenue amounts, due in part to the uncertainty of future costs related to this project including, (1) creation of the proposed Tax Incremental District, (2) the final decision of whether to finance the HD project as developer financed or general obligation borrowing, as recommended in the Comptroller’s letter dated May 17, 2004, (3) total demolition costs, (4) final costs for vacating the former 6<sup>th</sup> and W. Canal Streets right-of-way, and (5) costs of contract breach by either party.

In the event that Phases I, II, and II of the Project are not substantially completed within the periods outlined in the Master Term Sheet, then the Common Council may adopt a resolution terminating any further payments on any incomplete phase development.

**Other Information**

Under (c) of the Traser Yards Lease section of the Term Sheet, if the City has not vacated the Traser Yards by January 15, 2006, HD can sue the City for HD’s actual damages as a result. Statutory limits for actual damage payout data were not part of this file, at the time of this writing.

This matter, File 031366, refers to developable Traser Yards land measurements as 7.1 acres, while the file pertaining to relocating the Traser Yards, File 040025, reports the land measures 10.2 acres. Details related to the 3.1-acre variance and its significance to the City’s repurchase option are forthcoming from city departments.

In addition, the Comptroller’s letter dated May 19, 2004, indicates that anticipated tax increments may be able to pay off the estimated \$5.3 million of city contributions for the museum Phase I but, it should not be assumed that the increments will justify the \$14 million expenditure to the move the Traser Yards to 35<sup>th</sup> and W. Nash Streets. Those new facilities are expected to cost \$24 million, and will be funded by property tax levy borrowing and user fee supported enterprise Water Works funding.

Moreover, if HD corporate strategy changes and no longer considers this Project a “corporate growth” opportunity, it may curtail its development plans; TID payments will be eliminated for those phases, requiring future Common Council action. Hence, HD curtailing development plans, after being granted 7-year exclusive development rights, exposes the City is to a risk of the land being underdeveloped, according to the Comptroller.

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