



Department of City Development

Housing Authority
Redevelopment Authority
City Plan Commission
Historic Preservation Commission
NIDC

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

February 6, 2006

Alderman Michael J. Murphy
10th District
City Hall, Room 205
200 East Wells Street
Milwaukee, WI 53202

Dear Alderman Murphy:

Re: Common Council File No. 051108

In response to your January 27, 2006, letter regarding the proposed relocation of Manpower's headquarters from Glendale to Milwaukee, attached are responses to your questions.

Please contact me if you need additional information. Thank you for your attention to the best interests of our City and its citizens.

Sincerely,

Rocky Marcoux
Commissioner

Attachment

1. *What are the demographics of Manpower's 970 headquartered employees? For example, how many are City of Milwaukee residents? What is their average salary? What is the turnover rate for these Manpower employees? Do all 970 Manpower employees receive full health benefits?*

In constructing its new world headquarters in downtown Milwaukee, Manpower, Inc. ("Manpower") expects to relocate approximately 870 positions from its current Glendale facility and another 100 – 200 positions from outside the county. The company expects to add up to 400 additional jobs over the next several years at the site.

According to Manpower, approximately 32% of the employees at the Glendale location currently reside in the city of Milwaukee, and approximately 2/3 of their employees reside in Milwaukee County. These demographics, in addition to the fact that the profile of wages and salaries at Manpower reflects the breadth of a national or global headquarters, indicate to us that significant opportunities exist for city residents to keep and obtain good-paying jobs at all levels in the company – support staff, middle and upper management, etc.

Annually, the headquarters experiences between 15 –20% turnover, which would indicate that up to 150 to 200 jobs are available and would be accessible to city of Milwaukee residents. It is also likely that the individuals being replaced are moving up within Manpower's corporate ranks or moving up elsewhere in the local workforce. All Manpower headquarters employees are offered health insurance coverage.

2. *The MMAC and City have supported the Regional Economic Development Initiative. What implications do you see from a precedent being set of individual governments within the 7-county region competing for jobs by offering tax incentives?*

Like you, we believe that the Regional Economic Development Initiative is a giant step in the right direction toward competing on the global playing field. For the first time, the entire region is taking concrete steps toward working in a unified way to retain, attract and expand companies to this region. The five-year \$12 million campaign will result in specific outcomes like a single website to market the region and act as a single point of entry for prospects. Just as they do now, individual municipalities will be able to offer financial incentives once prospects are identified, but we will all compete on a relatively equal playing field with other regions.

We do not view this Manpower proposal as a precedent setting endeavor – it might be viewed as "keeping up with the Jones'" but this deal fairly accurately reflects the market for corporate relocations. One only need examine the GE Medical relocation to the County Research Park in Wauwatosa to see that other municipalities are

utilizing any number of incentives to relocate employers. The TIF for GE Medical in Wauwatosa included a \$15 million grant to a developer (mainly for a parking structure to provide "free" parking to the project), a \$10 million low-interest loan to the project developer and approximately \$2.7 million for the city to purchase land from Milwaukee County. That project consolidated three GE Medical operations within the region under one roof, which will facilitate future expansion at the site. These are exactly the same parameters under which Manpower will relocate from Glendale and Brookfield to our downtown.

The City of Milwaukee has been a member of the seven county Regional Economic Partnership since its creation over a decade ago. Under the terms of this partnership, participating communities which may be asked to provide incentives to a relocating company are required to inform the company that its home community should also be contacted regarding the project and any incentives available at its current location. When Manpower issued its RFP for a new location last May, the City of Glendale and its current landlord were made aware of the company's desire to seek a consolidated location in the Metro Area. In essence, this practice creates a level playing field for all communities and Milwaukee and Manpower have followed this principle.

Elsewhere in your letter you mention the relocation of Blue Cross / Blue Shield to West Allis. In this case, employees will park "free" on a parking lot funded by a TIF district. That development also received New Market Tax Credits from WHEDA to assist in financing the new facility for Blue Cross.

Within Milwaukee, the TIF created at the Stadium Business Park helped develop an industrial park whose tenants have relocated from elsewhere in Southeastern Wisconsin. Prospects for the Menomonee Valley include local businesses who are seeking to relocate or expand and will consider that site. In order to attract employers and create jobs within the region, it is likely that municipalities will continue to use the tools at their disposal to remain competitive both within and outside the region.

3. *Will the completed Manpower headquarters be considered Class "A" office space?*

We would consider the Manpower facility a B to B+ building, on a par with 875 E. Wisconsin, Cathedral Place, the GE building in Wauwatosa, and the NML building in Franklin.

4. *Could the number of parking spaces be reduced in anticipation of the transit connector being built, and to encourage the use of mass transit and carpooling in the meantime?*

Manpower issued a Request for Proposals (RFP) to developers throughout the region in May of last year regarding its search for a new global headquarters, and at least

1,000 parking spaces was an important aspect of that RFP. The parking arrangements included in Manpower's lease with Brewery Works represent Manpower's requirements for leasing space at this location.

If Manpower's new urban location results in better transit use, employees who are able to walk to work and other factors contribute to excess parking spaces, our master parking lease with the developer will provide that any freed-up spaces, as agreed to by Manpower, would be made available at market rents and any resulting revenue, after operating expenses, would accrue to the City.

5. *Manpower is allowed 1,000 free parking spots. Why is it necessary to offer other tenants an additional 250 free spots? Are they reserved for Time Warner employees who will lose their spaces?*

The land on which the structure will be built is currently owned by Brewery Works, utilized for surface parking and leased to tenants in the Schlitz Park Complex. Brewery Works is providing the land for the structure at no cost to the city, and the ground floor of the structure will include approximately 250 parking spaces to replace the surface spaces that will be lost.

6. *If Manpower, due to the cyclical nature of its business, does not need all 1,000 parking spaces, can the city charge other tenants for their use? If not, why?*

Any cyclical behavior in Manpower's business may not correspondingly affect the employment at the company's headquarters – particularly since economies across the U.S. and the rest of the world do not all grow or retract at the same times and to the same degree. Nevertheless, the office lease includes a provision that if Manpower's onsite employment falls below 900, the number of spaces can be reduced. Similarly, if employment increases, the number of spaces will be restored, up to the maximum of 1,010. Revenue could be generated off of those parking spaces. We view this possibility as unlikely, but we have sought to protect the main asset that the city has provided in the deal. We see far more likelihood in a future expansion on the site for Manpower. The city has no parking obligation for any future expansion on the site for Manpower.

7. *Since the City will own the parking structure, why is an RFP process not being used relative to its construction?*

The parking ramp will be owned by RACM and constructed on a turnkey basis in the same manner as the ramps for 1000 N. Water St., Cathedral Place and Milwaukee Center were constructed. The City will provide funds to RACM "in aid of redevelopment" and the debt service on the bonds used to provide those funds will be repaid using tax increment revenue generated by the TID. As in the cases cited above, the Manpower ramp is part of a larger development and needs to be completed on an expedited basis to achieve occupancy by mid-2007.

The Term Sheet refers to both RACM and the City "collectively as the 'City' " and anticipates a cooperation agreement to set forth the relationship. Typically term sheets and cooperation agreements also provide for conveyance of assets such as parking structures from RACM to the City upon City request and consequently title to the structure could be transferred to the City at a future date.

The budget for construction has been independently reviewed and determined reasonable, and a "not to exceed" price has been established for the Turnkey Agreement. In the event that an RFP were to be utilized, the cost to construct the parking structure could not be quantified until after proposals come in and an award made. A Turnkey Agreement was recently completed at the Tower Automotive site for the new DPW Facility, and the result was a project that was completed under budget and weeks ahead of schedule.

In the event that the parking structure is conveyed to a third party, either pursuant to the Developer option or otherwise before termination of the TID, the sale proceeds would constitute "project revenues" and would be applied to pay off the TID.

8. Was developer financing given consideration during the City's discussions with Manpower?

Yes. However, since the parking ramp and associated public improvements generate no revenue, they have little or no direct collateral value to a lender. Hence, the security for such a loan would be a subordinate collateral interest in the office project and a limited collateral assignment of incremental revenues. Most first mortgage lenders will not permit such a loan to be placed on their collateral. If available at all, the interest rate on such a borrowing would be materially higher than city borrowing. Consequently, the payoff period for the TID would be extended beyond the remaining life of the TID – making it impossible to obtain such a loan in the first place.

9. What are our obligations to the capital cost of replacing the parking structure after 20 years?

Under the terms of both the lease between the developer and Manpower and the Term Sheet between the developer and the City, capital costs are the responsibility of the developer.

10. The estimated time to repay the \$25.3 million is 20 years, one year before the statutory termination. As such, why is the lease with Manpower only 17 years?

Typically, the payback periods of most of our Districts extend beyond the initial lease term for most tenants. This is one of the longest commitments we have received before construction of the project has even started. Very few of the projects we have assisted have had 100% occupancy at this stage of development. Industry standards for leases like the one between Manpower and Brewery Works are often between 10 and 15 years, and almost never beyond 15 years; for example, the lease for GE

Medical at the County Research Park is 12 years. Manpower's lease exceeds industry norms and includes four 5-year options at the conclusion of the lease. Should it not exercise these options, Manpower is required to give advance notice such that the space can be leased to other tenants.

11. As part of the TIF agreement, the repair of the Fireboat and Cherry Street Bridge (with an estimated cost of \$1-3 million) is required, but not included as part of the TIF financing. What was the rationale for that decision?

The estimated costs for the Cherry Street Bridge and Fireboat House are a total of \$100,000 - \$200,000 and not \$1 - 3 million. The Redevelopment Authority will secure funding for the demolition or renovation of the Fireboat House, and the bridgework represents deferred maintenance, which properly belongs in the DPW budget. That work is estimated at \$40,000 - \$50,000.

12. One of the key strengths of the project is its promise to spur development of the restaurants, shops, housing and office development along Martin Luther King Drive. Please describe how this will occur.

Please refer to a study completed by the Metropolitan Milwaukee Association of Commerce regarding the economic benefits of this project. Within the study, the author cites annual spending of approximately \$2,100 per downtown worker, split between retail and food and beverage. That figure represents approximately \$8.40 per day per worker, assuming that worker will spend approximately 250 days per year at that downtown office. As you will agree, this appears to be a conservative estimate.

With 1,000 - 1,400 additional workers in this neighborhood, another \$2 - 2.5 million will be spent on retail and food each year. With housing already booming in the neighborhoods adjacent to the Manpower project, these additional daily consumers will provide a boost to nascent retail establishments along King Drive and help secure the city's investment in the Bronzeville Cultural District, in addition to contributing to the existing vitality of the Central Business District.

13. Manpower started in 1948 as a provider of day labor and has grown to two million temporary and contracted employees around the world. Revenue is expected to be \$17 billion for 2005 and is listed at #140 on Forbes Magazine's Fortune 500 list. As such, why is the job training provided by Manpower for people in the neighborhood - a key component of the Mayor's plan - only \$100,000.

One point of correction - Jeff Joerres and Manpower announced their job training efforts subsequent to the negotiations with the city. This is a Manpower initiative designed to ensure that area residents are job-ready for any new jobs that will result from the relocation and expansion of their headquarters. While the Mayor supports this initiative, it is an additional selling point that Manpower has added to this deal.

The Mayor and the Department of City Development believe that the presence of Manpower downtown and in the community will enhance job training opportunities for Milwaukee residents beyond the money they are willing to provide even before the construction is completed, since job training and job readiness are critical aspects of the Manpower business model.

14. How much money is being offered as the moving allowance, and is this amount consistent with other large TIF projects?

As with every TIF, this project has been analyzed by its total cost and the amount of conventional financing the project can bear. The gap that exists between project costs and the ability to secure conventional financing represents the city participation. The city participation can be attributed to any number of costs within the project.

The moving allowance for Manpower, per the SB Friedman Economic Feasibility Analysis (dated January 12, 2006) is \$560,000. Since most TIF projects have not been the result of a global headquarters relocation, we have little data to make a comparison. However, GE Medical's relocation to the Milwaukee County Research Park included a provision for a \$1.3 million moving allowance.

15. How much is the old lease buyout allowance, and why is it necessary to provide Manpower with an incentive payment of \$1.3 million, considering that the city is already providing an incentive of free parking for all of its employees?

The holdover premium cost, per the SB Friedman Economic Feasibility Analysis (dated January 12, 2006) is \$600,000. There is no incentive payment to Manpower of \$1.3 million.

16. Both the 1000 North Water Street office building and the Cathedral Square office development involved parking structures being built to leverage their development. In both cases, the City charges tenants for parking, generating \$2 million annually. What market condition changes have occurred that necessitate such a large subsidy to encourage growth at the Manpower site? Does this indicate a trend that will continue into the foreseeable future?

In the case of Manpower, the city's involvement is necessitated by the very fact that Manpower is not willing to pay a rental rate that would include structured parking. The city could assist in constructing a structure on the development site which is truly "public" and hope that the developer could land a tenant with the willingness to pay a rental rate that included the cost of parking, but Manpower would most certainly not be that tenant. And the developer would likely be unable to secure the necessary financing to construct the building without a signed lease with a tenant.

We doubt that this transaction will represent a trend, simply because a "stand-alone" office project does not generate enough assessed value to permit the city to amortize the cost of a parking ramp from incremental taxes, alone. The Manpower transaction

is possible only because of the additional incremental revenue already being generated in this District.

17. *The developer is RiverBend Place LLC, a Wisconsin limited liability company, and The Brewery Works, Inc. The Brewery Works and its affiliates are the owners of Schlitz Park. The Brewery Works is the sole member of RiverBend Place, LLC. Under the proposed terms of the Manpower project, the developer will construct the parking structure and then convey it (including the underlying land) to the City upon completion. The City will then lease the entire structure to the Brewery Works. Brewery Works shall sublease approximately 1,010 spaces in the parking structure to RiverBend, who will sub-sublease those spaces to Manpower. In consideration for the contribution of the land for the parking structure, Brewery Works shall retain the right to the remaining 250 spaces for use by tenants at Schlitz Park (including the Time Warner Building and the North Powerhouse). With respect to the Brewery Works' spaces, to the extent after-hour revenues can be generated from special event parking, net revenues shall be split 50/50 between the City and Brewery Works. Why does the City not retain 100% of the revenue from special event parking?*

All operations and maintenance costs for the parking structure are the responsibility of the developer. In addition, the land on which the structure will be constructed will be provided to the city at no cost. Based on these factors, the 50/50 split on revenues generated was deemed equitable by the negotiators of this proposed agreement.

18. *Please note the attached letter dated July 11, 2005, from Timothy Cullen, Chair of Government Health Services, Blue Cross Blue Shield of Wisconsin, to Mayor Tom Barrett, regarding Blue Cross Blue Shield's decision to move from its downtown Milwaukee location to West Allis. According to Mr. Cullen's letter, 300 of the 750 employees working at the 401 West Michigan Street location were City residents. Mr. Cullen indicates that a significant factor in relocating to West Allis was that its employees would receive free parking at the new location "compared to their current personal cost of parking downtown, which ranges between \$55 and \$105 per month depending on the location of their parking spot." Blue Cross Blue Shield was offered only a \$1million loan and a maximum \$100,000 job-training grant. Why was Blue Cross Blue Shield not offered a proposal similar to Manpower's? Given that the Manpower project would be the first time the City enters into a TID agreement involving the construction of a parking structure to provide free parking to employees of a private employer, how will you deal with future TID proposals which also include similar demands for construction of city-owned structures to provide such free parking? Specifically, what criteria will be used in evaluating future proposals?*

Blue Cross was offered assistance though tax increment financing. However, since its project in Milwaukee simply amounted to staying where they were, no new incremental taxes would have been generated by the project.

As you know, the assistance that is provided at the front end of any TIF project is repaid – in its entirety – by the increment generated by the project. No levy dollars are spent to support TIF debt. However, any upfront assistance requires a subsequent increment to generate the payment for all borrowing and interest costs. Because no increment was to be generated by the Blue Cross situation, any “free” parking assistance would have had to come from the tax levy or another source. In the end, parking issues, space needs and problems with the existing landlord caused the move of Blue Cross out of downtown. As you can see, however, from your letter, parking is a central issue when businesses are choosing where to locate.

In the future, as in the past, each potential application of city financial assistance will be examined thoroughly, and on a case-by-case basis.