



Office of the Comptroller

May 19, 2004

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

RE: File 031366 Sub 2 – Traser Yds.  
Redevelopment (The Harley Davidson Project)

Committee Members:

File 031366 Substitute 2 would establish an agreement in principle between the City of Milwaukee, H-D Milwaukee, LLC (Developer) and the Harley-Davidson Motor Company, Inc. (H-D) leading to the development of a Harley Davidson Museum and other development. The Project would occur in on approximately twenty acres situated in the vicinity of North Sixth and West Canal Streets. The intent is to establish the Museum, retail area, restaurant and café in Phase I with proposed later phases including archival storage, a bike restoration shop and office or other commercial space for the H-D Company. The City would:

- Relocate the DPW Traser Yards maintenance facilities by February, 2006
- Create a Tax Increment District (TID) to finance up to \$7 million for site improvements. Some portion of required City demolition costs may also be recoverable from the TID
- Vacate certain streets and implement required zoning changes.

H-D Milwaukee, LLC would:

- Acquire the site from the City of Milwaukee
- Build the above planned developments in 2-3 phases over the period 2006 through 2013
- Secure the completion of Phase I (Museum) through a \$7 million letter of credit.

If all Phases are completed as now planned, the Developer estimates a \$95 million construction budget. In addition, the Master Term Sheet provides support for the fulfillment of Developer responsibilities through the corporate guarantee of the Harley Davidson Motor Company, Inc.

On January 30<sup>th</sup> of this year, I provided you with a letter assessing this proposal. See the enclosed. At that time I raised a number of financial questions and issues. At your Committee's request, our Office has participated in subsequent meetings with the Developer, the Mayor's Office, DCD and the City Attorney's Office on this Project. The purpose of this letter is to update you on the extent to which the issues as cited in our January 30<sup>th</sup> letter have been effectively addressed. I will highlight each issue below with our current assessment.

- 1) **Jan 30 Issue:** "To implement the Proposal as drafted would require the City to spend \$26,000,000 - \$30,000,000 (plus interest costs) during the next 2-2½ years." "...by itself the H-D Project cannot economically justify a City taxpayer expenditure of \$26 million to \$30 million including the DPW Traser move." "...a decision to move the DPW Traser facilities must be made for economic development purposes reaching beyond the proposed H-D Project."

In February, a City working group including representatives of our Office examined alternate sites for the Traser Yards, concluding that a newly identified site currently owned by Tower Automotive, Inc. was most suitable. DPW cost estimates to accomplish the move to the new site currently total \$14 million, a reduction of \$5 million from earlier estimates.

The decision to move the DPW Traser Yards facilities is a policy decision pursuant to the Menomonee Valley Plan. Therefore, future development as envisioned in the Menomonee Valley corridor beyond the Harley Davidson Project will need to occur to justify the expenditure of \$14 million for the move of the Traser Yards.

- 2) **Jan 30 Issue:** “In contrast to the City’s substantial “up-front” financial commitment, H-D construction activity and expenditures would not begin in earnest for two years, with no assurance of development beyond the Phase I museum Project. The proposed H-D development period allows for an additional nine years to 2013 for the Phase III office development.”

Since January 30, the Developer and H-D have agreed to provide a \$7 million letter of credit for Phase I (museum, retail, restaurant, etc.). This additional consideration by the Developer virtually assures that the Phase I Museum development will be successfully completed. The development of later phases is discussed in #3 below.

- 3) **Jan 30 Issue:** “...the City is exposed to substantial financial and jobs loss should H-D decide to curtail or cancel its development plans.”

As mentioned in #2) above, the City of Milwaukee can be assured of the benefits from the Phase I Museum development. These include property tax increments sufficient to fully pay off the estimated \$5,300,000 of City contributions for the Museum Phase I development. In addition, the economic activity generated by the Museum development will no doubt reach a number of City businesses.

Beyond the Museum Phase, the Developer is committing to construct 120,000 of undefined square feet of building space. In support of its plans for these later phases, H-D will provide a corporate guarantee, a strong incentive for completion of the additional square feet of proposed development. In addition, the proposed agreement provides the City with an option to repurchase portions of the site should later phases not proceed as contemplated. However, the Developer would not commit to specifics of these later Project Phases. H-D indicated its need to assess future corporate growth, the success of its new Museum and neighboring development before committing to any specific plan for later Phases. Also, since January 30<sup>th</sup>, changes were neither requested nor made to the original Project development period which extends through 2013. Given the seven-year exclusive development rights being granted to the Developer, the City is exposed to a risk of underdevelopment of this area should H-D curtail its development plans at the Traser Yards site.

- 4) **Jan 30 Issue:** “...needed...City funds are NOT included in the 2004 City budget.” “...If your Committee ultimately elects to approve this Project, we recommend the use of General Obligation (GO) borrowing authority already in the 2004 budget.”

The required \$7 million in City tax increment financing of this Project is currently available within the City’s budget as TID borrowing authority. The primary rationale for the proposed use of an off budget developer loan is that should the project not be completed or property tax increments fall short, the developer assumes the risk. However, with the proposed \$7 million H-D letter of credit to support the completion of Phase I, there is little reason to pay the higher interest rate associated with the developer loan to the City. If feasible, GO borrowing should be used to finance the City’s portion of the Project as it is the most cost-effective option available. This matter will be addressed when the Council considers creation of the TID.

Sincerely,



W. Martin Morics  
Comptroller

Cc Mayor Tom Barrett    Thomas O. Gartner  
Patricia Algiers        Steve Jacquart  
Joel Brennan            James Scherer  
Joseph Czarnetzki