



Office of the Comptroller

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

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kammholz
Special Deputy Comptroller

January 26, 2006

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

RE: File 051108 TID 41 Amendment-Manpower Project

Committee Members:

File 051108 would amend the Time Warner Riverwalk TID for the purposes of assisting the Manpower Project ("MP Project"). To be developed by RiverBend Place, LLC ("Developer"), the MP Project is to include a 280,000 sq ft office building and a 1,270 stall parking structure; renovation of a 55,000 sq ft north powerhouse building; and riverwalk/road improvements adjacent to the Manpower facility. The entire office building and 1,000 parking stalls would be dedicated to MP use through a 17 year lease. The remaining 270 stalls replace the surface parking now on site and used by Schlitz Park tenants. Ownership of the parking structure will be transferred to the City by the developer upon construction completion though all operations and maintenance costs will be paid by the developer.

The Project would result in Manpower Inc. moving its corporate headquarters to downtown Milwaukee, and with it 970 full time jobs. Manpower expects to add 300 additional jobs over the next five years. The Developer is an established Milwaukee based developer and current principal owner of the Schlitz Park development of which this project will be a part.

The MP Project is located in an existing TID (#41) created in 2000. This TID now generates approximately \$900,000 per year in incremental property revenue, and has repaid all the costs incurred by the City for prior TID expenditures. The proposed MP Project budget includes various soft costs including moving expenses, existing lease holdover costs, broker commissions, the present value of tenant space upgrades and space planning expenses. These costs constitute significant financial incentives to Manpower. The MP Project costs including all hard and soft development costs, public improvements and other costs total \$78 million. The City's share of TID financing is \$25.3 million. In addition, a fireboat and Cherry Street bridge repair also included in the agreement would be funded by the City outside TID funding. DCD and DPW estimate these costs at \$100,000 to \$200,000. The City would utilize General Obligation bonds to finance its contribution at an estimated 5.1% per year.

The City's contribution to the project represents the difference or "financial gap" between the \$78 million in project costs and the amount of those costs financed with conventional debt and equity, given the rent Manpower has agreed to pay. This City contribution is generally associated with the following construction or funding sources:

Parking garage	\$18.7 million ¹
Loan to Developer.....	\$ 3.0 million
Grant to Developer.....	\$ 1.7 million
Riverwalk & Road Improvements.....	<u>\$ 1.9 million</u>
Total City TID Contribution.....	\$25.3 million
Estimated City Public Improvements - Bridge and Fireboat.....	<u>\$ 0.1 million</u>
TOTAL CITY OF MILWAUKEE CONTRIBUTION.....	<u>\$ 25.4 million</u>

¹ Includes both hard and soft costs and \$397,000 for a skywalk, and \$41,000 for retail space.



The term sheet attached to the TID Amendment provides that the City's contribution to the project may not exceed \$25.3 million; however, savings in one category (e.g. the parking structure) may be reprogrammed to fund cost overruns in another cost category (e.g. riverwalk). The Developer is responsible for all costs in excess of the City's contribution and will provide a completion guarantee for all components of the project.

IS THE PROPOSED MANPOWER PROJECT LIKELY TO BE SUCCESSFUL?

FINANCIAL PERFORMANCE

TID 41 including the proposed MP Project is likely to fully repay the \$25.3 million in City TID debt required for this project within the permitted 22 year remaining TID life. The proposed MP Project will generate additional property taxes and project revenue to cover about \$16.9 of the total \$25-\$26 million City cost. The balance of the funds needed to repay the remaining City debt for the MP project will come from excess incremental revenues from development already existing within TID 41, primarily the Time Warner property. Without the proposed MP Project these existing tax revenues would revert to the general benefit of the five area local governments beginning this year.

The MP Project falls short of paying for itself because the \$18.6 million parking structure paid for by the City generates no significant new parking revenue. This is due to the 17 year free parking provision for Manpower and the developer encompassing all of the structure's 1,270 spaces.

Uncertainties exist regarding the City's continued ability to tax the Time Warner personal property.² Should the taxation of Time Warner personal property be pre-empted by the State, City property tax increments could fall below the amount needed to retire TID 41. However, developer repayments on its \$3 million loan together with a \$4 million developer guarantee against certain TID revenue shortfalls provide adequate security to the City against such shortfalls.

IS THE PROPOSED CITY ASSISTANCE REQUIRED FOR THE MP PROJECT TO PROCEED?

The proposed location for MP corporate headquarters offers some unique benefits to MP and its employees in terms of increased corporate visibility as well as convenient cultural and entertainment venues.

MP has a number of options as it considers how to proceed with the consolidation of its corporate headquarters. The downtown Milwaukee location is but one of those options. In other suburban options, parking may well be available at little if any material cost to MP. According to the DCD, Manpower requires a package including free parking, below market office lease rates, a \$1.9 million refurbishment reserve, substantial moving allowance, old lease holdover allowance and other reimbursements. Both the DCD and Developer believe this package is necessary to attract MP downtown.

Given the Developer guarantee to cover certain TID shortfalls, the Developer's projected annual (internal) rate of return of 16.6% is within an acceptable range. Construction cost review verifies that the construction budget is reasonable.

JOBS/EMPLOYMENT – OPPORTUNITIES & RISKS

The proposed MP Project is not a typical City assisted real estate development. The proposed level of City assistance would probably not be entertained were it not for the substantial downtown Milwaukee jobs benefits. Hence, the realization and continuation of these intended jobs benefits is essential to Project success.

² The State of Wisconsin could collect this tax should Time Warner be classified as a "telco" (telecommunications company) at any time in the future.

Manpower Inc. is the world's second largest temporary staffing company, with offices in 72 countries, including France, the US and the UK. The firm has an excellent reputation in this industry as its brand name is well recognized and highly valued by its wide and diverse client base.

The MP project as it is proposed by the DCD would result in 970 full time jobs located in downtown Milwaukee from its current corporate locations in Glendale (870) and Brookfield (100). Manpower officials have indicated that they expect to add three hundred additional employees over five years. This infusion of professional and paraprofessional workers downtown will no doubt have a positive impact on downtown housing and retail activity, while enhancing the attractiveness of downtown Milwaukee to other high profile employers.

The proposed City of Milwaukee – Developer agreement provides all City financial assistance at the outset of the project. As tenant, Manpower is not a party to this agreement. The tenant lease between the Developer and MP does provide for a reduction of parking spaces in the event present employment levels decrease. However, there is no direct guarantee of employment levels or financial penalties should MP not maintain its original 1,000 employment level. Accordingly, City approval of the MP Project as it relates to jobs benefits would need to assume successful financial performance by Manpower Inc. over the 17 year lease term. This does not appear to be an unreasonable assumption.

MP completed a five million share repurchase program for \$204 million in the first half of 2005. This demonstrates MP leadership's confidence in the financial future of MP. According to Moody's Investors' Service, for the first nine months of 2005, MP sales grew at an impressive 7.8%, with long term growth prospects for the industry remaining healthy. MP's bond rating (BBB-S & P; Baa3-Moody's, the lowest corporate investment grade), reflects the highly cyclical, intensely competitive nature of the temporary employee placement industry. According to Moody's, the need to maintain Manpower's services and branch locations during down cycles would likely result in earnings reductions. This could in turn lead to pressures to reduce corporate office operations during major cyclical downturns.

SUMMARY AND CONCLUSIONS

With the existing Time Warner property and other existing TID 41 property, the TID will likely repay all MP project costs within its statutory deadline of 2027. By itself the MP project supports about 2/3 of the required City costs. The cyclical nature of the MP business brings with it risks of employment maintenance over the life of the lease term, as discussed earlier. City approval of the proposed MP project based on its jobs benefits needs to assume continued successful financial performance by Manpower Inc. over the 17 year lease term.

The approval of the proposed MP Project brings a major, Fortune 500 company to downtown Milwaukee. The 970 full time jobs will enhance the cultural, entertainment and retail opportunities for both the related businesses and the MP employees. With it would come a further reinvigoration of the downtown as a place where important, growing businesses are willing to locate and expand. The momentum created by this move in terms of future business relocations and expansions is significant. None of these "spin-off" effects to the local economy have been factored into our analysis.

Should you have any questions regarding this letter, please contact me at your convenience.

Sincerely,



W. Martin Morics

Comptroller

Cc Mayor Tom Barrett, Common Council members, Richard Marcoux, James Scherer, Emma Stamps