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August 24, 2015

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

RE: File 150383, TID 84 – West McKinley & West Juneau

Committee Members:

File 150383 would approve the creation of TID 84 (West McKinley & West Juneau), and the related Project Plan and Term Sheet. We have reviewed the project plan, feasibility study and term sheet and have had discussions with the Department of City Development (DCD), Budget Office and Assessor's Office staff. Our analysis is based on the information provided.

The proposed Tax Incremental District (TID) comprises 70 properties covering approximately 45 acres. The District boundary overlaps TID 48 (Park East) and includes 31 properties located within that TID. The current (2015) assessed value of the District area is \$51.7 million. Properties within the district include the Bradley Center, the City-owned 4th & Highland parking garage, several Milwaukee County-owned sites and a majority of the Old World Third Street commercial district.

Milwaukee Bucks, LLC (Bucks), Head of the Herd, LLC and its affiliates (Developers) are proposing to construct a new arena along with new retail, residential, office and hotel development. The current proposal consists of two projects; the Arena (Arena Project) and the Ancillary developments. The estimated cost of the Arena Project is \$500 million, of which the City will contribute \$35 million towards the Parking Structure and \$12 million towards the Plaza, for a total of \$47 million. The Arena Project includes an approximately 17,000 seat arena (Bucks Arena), a 130,000 square-foot outdoor public plaza (Plaza) adjacent to the arena, and a 1,243-space public parking structure (Parking Structure). The Parking Structure is part of a larger complex that includes approximately 98 units of mid-range apartments, 10,000 square feet of convenience retail and 30,000 square feet of general office space.

The Ancillary development includes a 50,000 square-foot practice facility along with a mix of retail, residential apartments, and both general and medical offices and will be built in three phases, the timing of which is dependent on market conditions.

City Obligations

In addition to the \$47 million TID contribution for the Parking Structure and Public Plaza, the City is required to construct public infrastructure improvements funded from other sources. Per the Term Sheet, the City is obligated to make the public infrastructure improvements shown in Table A. The TID 84 project plan does not identify the costs or funding source of these improvements. However, the Department of Public Works (DPW) estimates these infrastructure projects will cost between \$4.1 and \$4.6 million over the life of the project.

Table A: Estimated City Costs for Infrastructure Improvements Required by Term Sheet ¹	
Term Sheet	
Item #2	Description
E. 1.	Vacate N. 4th & N. 5th Streets between W. Juneau Ave. & W. Highland Ave.
E. 3.	Resurface Juneau Ave. between 3rd & 6th Streets
E. 4.	Resurface Highland Avenue between 3rd & 4th Streets and between 5th & 6th Streets
E. 5.	Complete streetscaping on Juneau and Highland, between 4th & 6th Streets
E. 6.	Construct N. 5th Street between Juneau & McKinley and State & Highland
Total estimated cost of items above is \$4.1 - \$4.6 million.²	
E. 2.	Rehab sewer work in Highland Avenue - DPW has determined this work will not be necessary.
F.	Coordination between Bucks, Milwaukee County, the State of Wisconsin, MMSD, and the City of Milwaukee to remove footings in the Park East Land and to relocate a sewer in the Park East Land to Juneau Avenue - A cost estimate cannot be determined at this time.
¹ Based on Project Plan Term Sheet (Exhibit 4, page 2) and discussions with DPW as of August 18, 2015.	
² DPW estimates as of August 13, 2015.	

City Land Contributions

The Term Sheet requires the conveyance of the City's 4th & Highland parcel to the Bucks by quit claim deed. The parking structure located on this parcel, recently appraised at \$7.4 million, will be demolished. Over last the five years the parking structure earned average annual revenues of \$834,366 while incurring average annual operating expenses of \$409,465 and capital expenses of \$148,519, resulting in net annual revenue of \$276,381. The City will receive half of the net revenues from the new parking structure.

In addition to the 4th & Highland parcel, the City is required, by the term sheet, to convey the Park East Parcel located at 300-318 West Juneau Avenue (southeast portion of Block 5) to the Bucks by quit claim deed within 30 days after Milwaukee County conveys the Park East Land (Blocks 5, 6, 7 and 8) to Head of the Herd, LLC. This parcel has an estimated land value of approximately \$198,000.

Plaza Grant

A \$12 million cash grant will be provided to the Bucks for construction of the Plaza outside and adjacent to the Bucks Arena. The City will receive 100% of the incremental taxes collected in the District until such time as the \$12 million plus the City's borrowing costs, is repaid over a period not to exceed 25 years.

Parking Structure Grant

The Bucks will contribute \$8 million towards construction of the Parking Structure. This developer contribution will accrue 4.5% interest. After the City has fully recovered the Plaza grant including interest, the City will make annual payments to the Bucks equal to 100% of the incremental taxes collected from the District, until the developer contribution including accrued interest has been repaid. These annual payments to the Bucks will be made over a period not to exceed year 25 of the TID or 2040. Therefore, the total anticipated City contribution to the Parking Structure will be \$35 million; \$8 million from TID 84 and \$27 million from TID 22.

As described above, the proposed TID 84 will provide \$20 million towards the City's \$47 million contribution toward the Arena Project. The remaining \$27 million will be funded the proposed Amendment #4 of TID 22. Estimated TID 84 expenditures, including financing costs, are outlined in Table B below.

Table B: List of Estimated TID 84 Project Costs		
Capital		
Grant to the Plaza	\$12,000,000	
Grant to the Bucks (Parking Structure)	<u>8,000,000</u>	
Total Estimated Project Costs		20,000,000
Financing		
Plaza Interest ¹	5,194,943	
Parking Structure Interest ²	<u>11,275,657</u>	
Total Estimated Financing Costs		16,470,600
Total Estimated Project Costs, Including Financing		<u><u>\$36,470,600</u></u>
¹ Assumes 17-year, G.O. taxable bond, 3.8% average annual interest rate, 10% capitalized interest, 1% issuance fee. ² Developer contribution accruing 4.5% interest, payments beginning after full amortization of City bonds used to fund Plaza grant.		

Is This Project Likely to Be Successful?

Before the Arena Project, including construction of the parking structure, can proceed, numerous preconditions, listed within the Term Sheet, Exhibit 4 of the Project Plan, must be met. These preconditions include:

- A. Passage of State legislation in a form that is satisfactory to the parties. (2015 WI Act 60 became effective on August 14, 2015)
- B. Formation of new Wisconsin Center District (WCD) Board.
- C. Transfer Agreement between Bradley Center and WCD and conveyance of Block 1 to WCD.
- D. Negotiation and execution of master arena lease, management and operations agreement between Bucks and WCD approved by NBA.
- E. Negotiation and execution of master development/construction oversight agreement between Bucks and WCD, approved by NBA.
- F. Engagement of Architectural Engineer and Contractor by Bucks on terms consistent with WCD and NBA requirements.
- G. Park East Land optioned to Head of Herd LLC.
- H. Detailed planned development zoning approval for Blocks 1 and 4.
- I. WCD passes resolutions to issue necessary debt.
- J. City approves TID and development agreement with the Bucks.

In addition, given the conceptual nature of Phases II and III of the Arena Project, the DCD feasibility study provided for this TID analyzed only the ability of a modified version of Phase I development to amortize the \$20 million in planned TID expenditures. Therefore, the DCD feasibility study only included the following assumptions.

- Construction of the parking structure including general office, convenience retail and 98 units of mid-range apartments.
- Construction of the practice facility including medical offices.
- Demolition of the 4th & Highland parking structure and subsequent construction of the Plaza including destination retail.
- Demolition of the Bradley Center.
- 1% annual appreciation in property value for entire district.

The 48-unit mid-range apartments, to be located on the same site as the Plaza, were excluded from the feasibility analysis. Since future development is predicated on favorable market conditions, we find the modified version analysis of the DCD feasibility study to be reasonable.

The DCD feasibility study projects full amortization, of the \$12 million in City bonds used to fund the Plaza grant, in year 17 of the TID or 2032. If prepayment of the bonds is allowed, the projected cumulative cash flows would be adequate to repay remaining debt service payments in year 15 or 2030. The study also projects that following repayment of the City bonds, the \$8 million developer contribution could be repaid by year 25 of the TID or 2040.

Based on the financing assumptions from the Comptroller's Office footnoted in Table B above, and assuming that the projected property valuations will be realized, we project that the \$12 million in City bonds will be fully amortized in 2032, after receipt of the 2031 levy. Moreover, we project that cumulative cash flows would be adequate to repay remaining debt service in 2029, one year earlier than the feasibility study. In addition, we find that the \$8 million developer contribution, including accrued interest, may be repaid in 2039, after receipt of the 2038 levy. However, since the developer, not the City, assumes the repayment risk on the \$8 million contribution, the economic feasibility of this portion of the financing is not crucial to the success of the proposed TID.

Is the Proposed Level of City Financial Participation Required to Implement the Project?

This proposed TID allows the City to provide \$20 million towards its proposed commitment to the Arena Project. Without this TID, the City would have to find an alternate source to fund the proposed \$12 million contribution to the Plaza and \$8 million contribution (of which the City will provide \$35 million) to the Parking Structure.

Conclusion

Assuming that the projected property valuations of the feasibility study are realized, estimated TID 84 tax incremental revenue should support the \$12 million City contribution to the Plaza. After repayment of the City's debt, estimated tax incremental revenue may also be sufficient to repay the developer loan with interest. Since repayment of the \$8 million developer financing does not start until after recovery of the City's \$12 million contribution and ceases after year 25, the economic feasibility of the TID is not dependent on the successful payback of that portion of the financing.

Please note that any modifications to the assumptions provided in the project plan or corresponding feasibility study may change the outcome of the current review of the Comptroller's Office. Should you have any questions regarding this letter, please contact the Comptroller's Office.

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Sincerely,



Martin Matson
Comptroller

CC: Lori Lutzka, Dan Casanova

MM/MRF