From: Bauman, Robert
To: Lee, Chris
Subject: FW: Milwaukee Urban Stable Project
Date: Monday, July 30, 2018 11:32:44 AM

Please include in the horse stable file.

From: Bauman, Robert
Sent: Friday, July 27, 2018 8:10 AM
To: Mckenzie, Jeremy; Perez, Jose; Rainey, Khalif; Stamper II, Russell; Coggs, Milele
Cc: Misky, David; Haessly, Matt; Timm, Benjamin; Kovac, Nik; Murphy, Michael (Alderman); Owczarski, Jim; Witkowski, Terry; Lewis, Chantia
Subject: RE: Milwaukee Urban Stable Project

This seems to be a departure from what you told the committee, namely that the lease was going to be "tweaked" to indicate that the lease payments were contingent on annual budget appropriations, in effect converting the lease to a year-to-year tenancy. We held the file to enable those "tweaks" to be made. I do not recall anyone saying they wanted a cost/benefit analysis of a 30 year lease.

Now it appears that the city will be liable for a 30 year lease (and rent) commitment which will require annual budgets for 30 years to appropriate funds to make these payments whether we have a horse patrol or not and whether we even occupy the building. This is a bad deal.

Regarding the point about equine therapy and the private donations, I see no reason that these uses could not be included in this facility if the city owned it. The city could certainly lease space for this purpose. The lease could be $1 a year. Why would that impact the private donations: therapy would be included and the donations would be tax deductible—the same situation as presently proposed.

Regarding the last point you make, it may be true that if the city directly developed the building (and contributions were withdrawn) our costs could be greater BUT we would own land and a building that could be sold or leased to others if the city decides in say 2025 to cease funding a horse patrol. We would have an asset. Under the proposed arrangement we do not have an asset. We merely acquire a liability.

The Riverwalk comparison makes no sense. Yes the city spent capital funds through TIF to create riverwalks on private property but, as a result of the easement, this essentially created public right-of-way governed by development agreements. There was no long term lease and rent commitment involved.

I am not aware of any other situation where the city has committed to a 30 year lease of private property to house a city operation that is not a core function—a horse patrol is not a core function. We may have some capitalized leases (sales and lease backs) and vehicle/equipment leases out there, but I am not even aware of that. Moreover, I doubt any vehicle/equipment lease runs for 30 years.

I think it is fundamentally bad public policy to bind future common councils for the next 30 years to a significant lease payment.

At minimum this file needs to go back to a regular committee meeting rather than the abbreviated format prior to a council meeting.

Finally, would this not have to go to the Finance Committee as well since we are being asked to commit to $3M in lease payments not to mention the cost of all maintenance, capital repairs, insurance, operating costs (utilities, etc), and taxes (if not exempt) since this is a triple net lease. BTW, the file has no estimate of what these other costs could be. These other costs could easily equal another $1M over 30 years.

Sent from Mail for Windows 10

From: Mckenzie, Jeremy
Sent: Friday, July 27, 2018 6:42 AM
To: Bauman, Robert; Perez, Jose; Rainey, Khalif; Stamper II, Russell; Coggs, Milele
Cc: Misky, David; Haessly, Matt; Timm, Benjamin
Subject: Milwaukee Urban Stable Project

All,

At Monday's meeting of the Zoning, Neighborhoods, and Development meeting, the committee asked for some analysis of the cost/benefit of proposed lease for the community stable project. Below is a list of points related to that topic.

- As proposed, the City's annual cost is approximately $100K. As Capt. Rowe mentioned on Monday, the current fixed cost to stable the horses is $60K. As she mentioned, this does not include the added costs of officer time to and from Racine, as well as fuel and other vehicle maintenance costs associated with the added mileage. In her estimation, the $100K cost is nearly a wash over current costs when everything is added together.
- The $100K in lease costs go to cover a $1.5MM loan from Forward Community Investments ("FCI"), towards the total cost of the facility of $5.6MM. The lease payments leverage $4.1MM in private donations to cover the balance of the costs. In other words, the City will receive a $5.6 million facility for $1.5 million, amortized through the rent over thirty years. (For point of comparison, the City covers 70% of the costs of privately owned riverwalks—encumbered by public access easements—to leverage a private sector investment of 30% of the riverwalk costs. That ratio is flipped in this transaction. Here, the City's investment of 26% of the project costs leverages a private investment of 74% of the project costs.)
- In discussions with the development team, FCI will very likely decline to make the $1.5MM loan if the proposed amendment is made. The lender's primary collateral for the $1.5 million loan is the City lease. If that lease can be terminated by the City in any year, then the collateral value of that lease is equal to one year's rent.
- While donations to the City are tax deductible, there is no guarantee that the private citizens would make the same level of donation to the City. The project steering committee, which has been working on fundraising for this project for almost four years, informs me that the

non-profit ownership of the facility coupled with the shared usage of the facility for equine therapy and community outreach programs were essential elements of the fundraising storyline. Without those elements, very little money would have been raised.

- Per a conversation with the City Budget office, if the City financed the entire facility as currently designed on its own, debt service payments would be approximately $475,000 per year, given a 15 year amortization.

I will be out of the office today, but I am happy to discuss this matter with any of you on Monday should you wish.

Jeremy R. McKenzie
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