

COUNTY OF MILWAUKEE
Interoffice Memorandum

DATE: August 22, 2014

TO: Marina Dimitrijevic, Chairperson, Milwaukee County Board of Supervisors
Milwaukee County Board of Supervisors

FROM: O'Donnell Park Workgroup

SUBJECT: Report on the Fiscal Analysis Regarding the Disposition of the O'Donnell Park Facility

Request

The 2014 Adopted Budget established the O'Donnell Parking Structure Workgroup ("Workgroup") to "perform a cost-benefit analysis of the O'Donnell Parking structure to help policymakers determine a prudent course of action on the future of the facility." The Office of the Comptroller, working in conjunction with staff from the Department of Administrative Services, Parks Department and Corporation Counsel was charged with updating parking demand estimates, assessing potential deed and zoning restrictions and reviewing the appraised value of the O'Donnell Parking facility.

Current Northwestern Mutual Offer to Purchase

The Director of Economic and Community Development is working with Northwestern Mutual ("NM") on an agreement to purchase the O'Donnell Park facility that was presented to the County Board in July 2014 as an informational report (File No. 14-610). The Workgroup's report, while developed concurrently to the NM purchase proposal, is likely to provide information that will be helpful to policymakers in determining the future of the O'Donnell Park facility, but is not intended to be a complete analysis of the NM purchase agreement. Per the proposed agreement, NM is willing to pay the \$14 million appraised value for the O'Donnell Park facility with a "credit" of approximately \$1.3 million for needed repairs to the membrane between the roof and plaza. Further, NM would invest in a refurbishment of portions of the park plaza located on top of the parking facility, make enhancements within the parking garage and continue to operate it in a manner that would allow public access and enjoyment for at least the useful life of the facility. Finally, the sale of the facility to NM would be contingent upon the City of Milwaukee removing the deed restriction to permit the sale to a private entity. Further information about the proposed sale of the O'Donnell Park facility to NM can be found in the County Legislative Information Center (CLIC) attached to File 14-610.¹

¹ The contents of File 14-610 can be found in CLIC at: www.milwaukeecounty.legistar.com

Executive Summary

This report provides financial and related information to aid policymakers in their understanding of the net value of the facility by illuminating the current costs and revenues as well as future investment required in the operation of the facility. The Workgroup examined three alternatives: 1) sell the O'Donnell Park facility, 2) retain the facility and rebuild the structure around the year 2035, and 3) retain the facility and demolish the parking structure at the end of its useful life but retain the plaza and maintain the site as a park. The net present values of each of these alternatives are shown below in Table 1 and further analyzed in later sections of the report.

Table 1: Net Present Value of Three Alternatives

	SALE	COUNTY OWNED BUILD NEW	COUNTY OWNED DEMO
Sale Price	\$14,000,000	N/A	N/A
Offset for Repair	(\$1,300,000)	N/A	N/A
Net Income	\$12,700,000	N/A	N/A
Debt Payoff & Expense	(\$7,700,000)	N/A	N/A
Revenue	N/A	\$39,616,473	\$28,422,004
Expenses	N/A	(\$18,675,454)	(\$13,634,176)
Old Debt	N/A	(\$6,911,346)	(\$6,911,346)
New Debt	N/A	(\$27,389,350)	(\$5,398,831)
Net Funds	\$5,000,000	(\$13,359,677)	\$2,477,650

Public parks are “valued” based on many non-financial factors, but O'Donnell Park is a unique asset within the County park system in that it includes a parking facility with a roof-top park. The facility could require a significant public investment to rebuild or demolish the parking facility resulting in the diversion of resources that could be used to maintain other parks in the system. The structure, in its current state, is profitable and even demonstrates the potential for a continuing profit in the near future, but major capital investment is inevitable and would erode and potentially erase the profit being generated currently. Yet, this financial argument may not be the only consideration for those who view O'Donnell Park as an integral corridor to Milwaukee's lakefront amenities. Viewed in this manner, the retention of the O'Donnell Park facility may justify the County's stewardship and inevitable investment of \$57 to \$76 million to replace the facility or \$7 to \$12 million to demolish and potentially repurpose the facility around the year 2037.

ALTERNATIVE 1 - SALE OF O'DONNELL PARK

Table 2: Net Present Value of Sale of O'Donnell Park Facility

COUNTY SALE NET PRESENT VALUE	
Sale Price	\$14,000,000
Offset for Repair	(\$1,300,000)
Net Income	\$12,700,000
Debt Payoff	(\$7,700,000)
Net Funds	\$5,000,000

The Workgroup found that Alternative 1, selling the O'Donnell Park facility to NM under the proposed sale terms outlined in File No. 14-610, to be the most fiscally advantageous option to the County based on a net present value analysis of three potential options. The major components of Alternative 1 are summarized below and include an opinion on the reasonableness of the data reviewed.

Appraised Valuation

The Nicholson Group (TNG) appraised the O'Donnell Park facility for \$14 million in May 2013. There are three traditional methodologies for conducting a real property appraisal: cost approach, sales comparison approach, and income capitalization approach. TNG utilized the income capitalization approach, which estimates the value of a property by forecasting the income and expenses of the O'Donnell Park facility using historical operating data and current market trends, and calculating capitalization rates from the market. The largest revenue generator for the facility is the parking garage, with 1,332 total parking spots. Historical financial statements were used by the appraiser to project a net income value for the facility. Historical financials are attached as Attachment A. This method does not take into account the appraised value of similar properties or the cost of building a new, similar parking structure.

The Workgroup reviewed the appraisal and concluded that the valuation of \$12.7 million was reasonable given the factors that were used to calculate the estimate. The income capitalization methodology is an appropriate approach because the property, due to the current deed restriction and zoning as Parks and Recreation, cannot be sold for private development without the approval of the City of Milwaukee.

O'Donnell Park Facility Outstanding Repairs

The O'Donnell Park facility requires immediate repair to improve the plaza's waterproofing and drainage system. The County and NM independently retained consultants to estimate the extent and cost of O'Donnell's repair. The reports are summarized below.

Graef Report

In January 2012, Graef-USA Inc. submitted an estimate for repair to the parking structure's roof to the County. The consultants found the parking structure to be in generally good condition with

a usable service life of at least 25 years (until 2037) if the roof repairs were made. Graef estimated that approximately \$1 million was needed to replace portions of the rubber membrane between the plaza and the ceiling of the parking ramp to prevent leaks in an area that surrounds the pavilion. The total cost is \$1.3 million including an overhead fee of 20 percent for County Architectural and Engineering staff time.

Walker Report

NM received a repair estimate from Walker Restoration Consultants in March 2012. Walker identified similar repair needs as Graef, but estimated costs at approximately \$6.6 million, including \$4.5 million for repairs to the membrane between the parking structure roof and the public plaza. The Walker report recommended waterproofing repairs to a larger physical area around the pavilion and other security enhancements to the parking structure which accounts for the cost difference.

The Workgroup reviewed the repair estimates and found that NM is prepared to make more comprehensive repairs to the O’Donnell Park facility plaza that is likely to help improve the life of the structure.

County Debt Service

The County has issued debt over the years to construct and, more recently, to repair the O’Donnell Park facility. In addition, the County entered into a Master Capital Lease Agreement (Master Lease) with Chase Equipment Leasing, Inc. to finance lighting improvements in 2007. The estimated outstanding general obligation debt for the structure is \$6.5 million and the estimated lease payment is \$127,000 for a total of \$6.6 million. These amounts do not include the interest that would be paid at the time of redemption, defeasance or prepayment. Table 3 below illustrates the annualized debt service for O’Donnell Park until 2026.

Table 3: O’Donnell Park Debt Service Schedule

YEAR	PRINCIPAL	INTEREST	TOTAL DEBT SERVICE
2015	\$536,687	\$295,466	\$832,153
2016	\$584,422	\$277,582	\$862,004
2017	\$584,870	\$257,311	\$842,181
2018	\$514,092	\$234,940	\$749,032
2019	\$396,898	\$214,177	\$611,075
2020	\$388,329	\$197,187	\$585,516
2021	\$589,727	\$179,725	\$769,452
2022	\$612,583	\$152,557	\$765,140
2023	\$622,900	\$123,414	\$746,314
2024	\$647,917	\$92,838	\$740,755
2025	\$648,055	\$59,954	\$708,009
2026	\$476,882	\$26,229	\$503,111
Total	\$6,603,363	\$2,111,380	\$8,714,743

*The County has paid the interest due for 2014 and is scheduled to pay the 2014 principal payment in December 2014.

Defeating Outstanding County Debt

Both the Master Lease and the General Obligation Debt are a part of larger debt obligations that are tax-advantaged or tax-exempt obligations. To maintain the tax-advantaged status of the larger debt obligations, the County will have to redeem or defease all of the outstanding general obligation debt associated with the O'Donnell Park facility within 90 days of the executed purchase agreement with NM. This action is necessary to comply with the remedial action rules under Section 1.141-12 of the Treasury Regulations (the "Remedial Action Rules"). The basis of the Remedial Action Rules is that tax-exempt debt cannot be used for private purposes or private ownership. The "defeasance" would create a need to set aside funds with a trustee to provide enough funds to pay the interest and principal on the debt to the call date for the bonds. The call dates in some cases are three years from an estimated sale closing date of 2015. Table 4 below illustrates the cost of debt defeasance for the County.

The current proposal would use a portion of the proceeds of the sale of the O'Donnell Park facility to redeem or defease the outstanding general obligation debt and prepay the lease payments relating to the structure. Chase Equipment Leasing, Inc. has indicated that the County could prepay the lease, although whether and on what terms a partial prepayment would be permitted must still be negotiated. The Office of the Comptroller is working out the details with Chase and Bond Counsel to determine the steps that would be necessary to accomplish the prepayment.

Table 4: Payoff Charges based on 2015 as the Year of Finalization of Agreement

Payoff of Debt	
Outstanding GO Debt	\$6,476,000
Outstanding Lease Debt	\$127,000
Interest Owed Until Debt Call Date	\$1,097,000
Total	\$7,700,000

*These figures are estimates. The final payment will depend on the actual date and when principal payments occur.

Furthermore, the defeasance of the O'Donnell Park Facility debt could reduce the state-imposed County tax levy limit amount. The County tax levy limit calculation allows for the year over year change for debt service costs. Viewed in isolation of any changes in the components of the County tax levy limit calculation, if debt decreases the County tax levy limit will also decrease. The impact could be mitigated by an increase in other factors such as net new construction or the use of tax levy exemptions. The underlying assumption made in this analysis is that if the County defeases the debt on the O'Donnell Park facility, policymakers would utilize exemptions under the County tax levy limit to maintain the current total tax levy.

The Office of the Comptroller has reviewed the ability of the County to "defease" outstanding debt on the proposed sale of the O'Donnell Park facility to NM and concluded that the County could meet all of the requirements to do so and thus keep the larger debt obligations tax exempt.

Deed Restrictions

The parcel encompassing the O'Donnell Park facility has been subject to a significant number of deeds and easements. This information has been provided to the County Board as attachments to File No. 14-610 (Exhibits L-N) and reviewed by the Workgroup.

If the County agrees to the sale agreement of the O'Donnell Park facility, NM will have a six to eight-month period to complete all due diligence necessary for the facility's acquisition. The County will be responsible for the operation of the facility during this time and would issue the deed at the end of the due diligence period if NM remains interested in the purchase. The County will receive payment of \$12.7 million when it issues the deed to NM.

City Zoning

The O'Donnell Park facility is zoned by the City of Milwaukee as a Parks District and is included in the Lakefront Overlay Zone. The City of Milwaukee's code of ordinances outlines the restrictions for types of structures and services that can be provided on parkland and in the overlay zone. The owner of the O'Donnell Park facility may apply to amend the zoning map to change their property's zoning designation or request special permits for certain structures or activities on the property. If the owner seeks to amend the property's zoning designation, the amendment can be challenged by property owners of 20 percent or more of the land immediately adjacent to the subject property. If a challenge is submitted, the zoning amendment must have a favorable vote of three-fourths of the voting members of Milwaukee's Common Council. Milwaukee County currently owns more than 20 percent of the adjacent land, thus giving County officials the option to challenge any proposed future zoning changes to the O'Donnell Park facility property.

The Workgroup reviewed the deed restrictions and current zoning and concluded that the sale of the O'Donnell facility to NM could be effectuated if the City of Milwaukee grants the necessary approvals. Moreover, the zoning of the land could not be changed over the objection of the County without a three-fourths majority approval of the City of Milwaukee Common Council. As stated earlier, the appraisal methodology recognized that the County could not sell the land for development without the approval of the City of Milwaukee. Policymakers should be aware that if the County's ability to sell the facility to a private entity is legally challenged it may delay the final closing and payment. Until the sale is finalized, the County will be responsible for ongoing operation and maintenance of the O'Donnell Park Facility and for payment on the associated debt service.

Parking Demand Study

The Workgroup was tasked with commissioning an updated parking demand study “that reflects current and future demand for public parking in the vicinity in light of anticipated nearby development and changes in parking availability due to the I-794 ramp reconstruction.” The Workgroup retained one of the authors from a 2010 downtown parking study commissioned by the City of Milwaukee. The Workgroup requested updated information for the specific parking district (District D) that includes the O’Donnell Park facility because the original study did not predict the new development projects at 833 E. Michigan, 827 E. Clybourn and the redevelopment of the Downtown Transit Center.

The updated parking study provided three scenarios for potential parking demand post-2017 illustrated in Table 5. Scenario 1 is based on a model that *estimated* future parking demand, Scenario 2 extrapolates on *actual* parking data from District D, and Scenario 3 uses data from Scenario 2 but assumes the complete demolition of the nearby “Lake Lot” (a surface parking lot under the I-794 ramps that will be impacted by the interstate’s reconstruction and reconfiguration). Even the most conservative scenario predicts that parking demand in District D will exceed its supply by 2017.² The O’Donnell Park facility is already experiencing a rise in demand due, in part, to I-794 reconstruction and the related partial closure of the Lake Lot. There was a 46 percent increase in monthly contracts between July 2013 and July 2014, and the number of monthly contracts has seen positive growth for the past 13 months.

Table 5: Post-2017 O’Donnell Area Parking Occupancy Rate

	Demand	Spaces	Occupancy Rate³
Scenario 1	7,356	7,618	97%
Scenario 2	8,461	7,618	111%
Scenario 3	9,875	7,618	130%

The Workgroup reviewed the parking demand study and concluded that the demand for parking in the O’Donnell Park area is likely to increase, especially after 2017, which will likely maintain and potentially increase demand. Future increases in parking demand may also warrant higher parking rates. The parking demand provided a reasonable basis for the appraisal and future revenue projections.

ALTERNATIVE 2 - RETAIN O’DONNELL PARK AND FUTURE RECONSTRUCTION

Rebuilding

Staff from the Architecture, Engineering and Environmental Services Section (“AE&ES”) provided two methods to estimate the cost to rebuild the O’Donnell Park facility as it currently stands.

² An 85 percent occupancy rate is the industry’s standard for determining if a parking structure is at capacity. This rate is considered full capacity because at 85 percent it becomes difficult for arriving parkers to find the few empty spaces.

³ Occupancy rate is the percentage of demand for parking spaces compared to existing parking spaces.

- **\$68 million.** This method uses the 1995 construction cost (\$36 million) as its base and increased the amount to account for the time since O'Donnell's construction using an index provided by RS Means Construction and the Engineering News Record. The historical cost index of 1.9 percent indicates that the cost to construct a building now compared to 1995 has increased approximately 90 percent.
- **\$50 million.** This method uses the replacement cost of O'Donnell utilizing square foot costs. This method multiplies the number of stalls in O'Donnell's parking structure by the recommended number of square feet per stall. The square feet estimate is then multiplied by the estimated parking deck cost per square foot from RS Means Construction. The method also estimates the square footage of the plaza deck and the cost per square foot. The combined costs of square footage for the parking structure and plaza result in an overall cost of \$50 million to replace the O'Donnell Park facility.

Parking Decks (1332 vehicles x 325 s.f./each)	432,900 s.f.
Estimated Parking Deck Cost per s.f.	x \$64.30/s.f.
Parking Deck Estimated Cost	\$27,835,470
Plaza Deck	203,250 s.f.
Estimated Plaza Deck Cost per s.f.	x \$110.00/s.f.
Plaza Deck Estimated Cost	\$22,357,500
Total Parking Structure Cost	\$50,192,970

Therefore, based on the estimates provided, the total cost of demolishing and rebuilding a structure similar to O'Donnell is estimated to range from \$57 to \$76 million in 2014 dollars.

Table 6: Net Present Value of County Ownership and Rebuilding New

COUNTY OWNED (REBUILD NEW)		
	NET PRESENT VALUE	CASH FLOW
	2014-2055	2014-2055
Revenue	\$39,616,000	\$108,308,000
Expenses	(\$18,675,000)	(\$50,478,000)
Old Debt	(\$6,911,000)	(\$9,443,000)
New Debt	(\$27,389,000)	(\$117,762,000)
Net Funds	(\$13,359,000)	(\$69,375,000)

The Workgroup reviewed the estimates provided by County engineering staff and found the cost to replace the facility in its current form to be \$57 to \$76 million based on the engineering complexity that the plaza deck requires. Future parking and building lease revenues will not cover the additional cost to rebuild the facility in its present form. As shown in Table 6 above, the cost of the rebuild in today's dollars would be a loss of \$13.3 million. Of the three alternatives examined, retaining the O'Donnell Park facility and reconstructing a similar structure at the end of its useful life is the most costly to the County.

ALTERNATIVE 3 - RETAIN O'DONNELL PARK AND FUTURE DEMOLITION

One option that the Workgroup considered would be to retain the O'Donnell Park facility and at the end of its useful life demolish the parking structure, leave the pavilion in place, adjust the access to the art museum and redevelop the site as a park. As stated earlier, the cost to demolish the facility and maintain it as a park is approximately \$11 to \$12 million. The net present value for this option is approximately \$2.5 million as shown in Table 7 below.

Table 7: Net Present Value of County Ownership and Demolition/Retain Park

	NET PRESENT VALUE 2014-2055	CASH FLOW 2014-2055
Revenue	\$28,422,004	\$51,260,564
Expenses	(\$13,634,176)	(\$24,788,479)
Old Debt	(\$6,911,346)	(\$9,443,153)
New Debt	(\$5,398,831)	(\$20,152,087)
Net Funds	\$2,477,650	(\$3,123,155)

The Workgroup acknowledges that while this alternative may yield a “positive” net present value, it does not address the needs that may exist for parking when the life of the current facility is over. Moreover, the decision on whether to rebuild the parking structure at the end of its useful life is best made when that time is approaching, not more than 20 years away. It should be noted that the Workgroup did not commission any drawings as to what this option may look like, but rather focused on the option simply as an economic alternative.

Demolition Costs

AE&ES staff also provided the Workgroup with two preliminary estimates for demolition costs.

- **\$7 to \$8 million** to demolish the entire structure, pavilion, and pedestrian bridge to the transit building while making adjustments for the art museum’s bridge and the retaining wall.
- **\$11 to \$12 million** to demolish the parking structure, leave the pavilion in place, adjust the access to the art museum and redevelop the site as a park.

O'Donnell Park Operating Budget

Table 8 below illustrates the historical net income generated by the O'Donnell Park facility and predicted net income for three years into the future. Table 8 excludes 2010 and 2011 because the facility was closed for many months in both years due to a fatal accident in June 2010 which forced the immediate closure of the parking structure and subsequent assessment and repair. The outstanding debt rises in 2014 due to the amortization schedule of the repairs made to the facility after the accident.

Table 8: O'Donnell Park Revenue and Expenses 2012-2013 Actual and 2014 Projected

	2012	2013	2014
Revenue	\$1,600,167	\$1,631,116	\$1,871,800
Expenses	(\$713,026)	(\$653,427)	(\$707,876)
Major Maintenance	-	-	-
Debt	(\$633,421)	(\$711,864)	(\$728,408)
Total	\$253,720	\$265,825	\$435,516

Table 9 below illustrates the projected net income that will be generated by the O'Donnell Park facility for 2015 through 2017.

Table 9: O'Donnell Park Revenue and Expenses 2015-2017 Projected

	2015	2016	2017
Revenue	\$1,894,250	\$1,927,890	\$1,962,610
Expenses	(\$760,860)	(\$776,080)	(\$791,600)
Major Maintenance	\$0	\$0	(\$301,000)
New Debt	(\$168,356)	(\$168,356)	(\$168,356)
Debt	(\$832,153)	(\$862,004)	(\$842,181)
Total	\$132,881	\$121,450	(\$140,527)

- * New debt represents the ten-year payback of \$1.3 million needed in repairs for the park plaza roof membrane if the County were to continue to own the facility.
- * Periodic major maintenance is projected for the O'Donnell facility, including \$301,000 in 2017, \$259,000 in 2020, \$325,000 in 2021, \$163,000 in 2023, \$301,000 in 2029, \$259,000 in 2032, \$325,000 in 2033 and \$163,000 in 2035. These operating budget expenditures are embedded in the overall fiscal analysis outlined in this report.

The facility generated approximately \$1.6 million in revenue in 2013. Revenue is expected to increase for 2014 to \$1.8 million with the return of additional monthly contract parkers. If the current parking numbers hold, the facility will net approximately \$435,000 after making the debt service payments and paying annual facility expenses. The net income will decrease over the next few years, however, if the County maintains ownership because of new debt required for repairs to the parking structure roof. In 2017, it is projected that the facility will cost the County approximately \$140,000 primarily due to periodic major maintenance that must be performed to maximize the useful life of the structure. It should be noted that the facility operating costs and all parking revenues are budgeted in the Department of Parks and the annual debt service obligations on capital improvements are in the General County Debt Service budget. The Parks operating budget includes approximately \$707,000 in expenses to operate the O'Donnell Park facility and the greatest portion of this cost, or \$321,000, is for utilities.

The Workgroup concluded that the most expensive alternative for the County would be to retain the O'Donnell Park facility and reconstruct the structure in its present form at the end of its useful life, estimated to be around the year 2035. In 2014 dollars, the cost to rebuild the facility ranges from \$57 to \$76 million. The O'Donnell Park facility is currently generating positive net income to the County, but the amounts will be reduced or eliminated in future years by debt service payments and major maintenance costs.

Leasing Options

In response to inquiries about the ability of the County to lease the O'Donnell Park facility to NM or another entity, the Comptroller has engaged outside bond counsel as to the conditions that would first have to be met. In short, the County would not be able to lease the facility without first defeasing the outstanding debt on the facility, or the portions that were to be leased. Moreover, if the County wishes to lease the O'Donnell Park facility, it may require the removal of deed restrictions by the City of Milwaukee.

Maintaining County ownership of property and leasing the facility would be problematic since the outstanding debt would need to first be defeased, requiring a significant source of funds that annual lease payments are unlikely to provide.

Summary

The Workgroup was tasked with helping policymakers determine a prudent course of action on the future of the O'Donnell Park facility. After extensive analysis of the current and future costs and revenues related to the structure, the Workgroup determined the purchase offer from NM to be financially the most advantageous in the long run when compared to two other presented alternatives in which the County would retain the facility. Yet, the O'Donnell Park facility is a key access point to Milwaukee's lakefront amenities and policymakers will need to weigh the financial costs against the intrinsic benefits of public ownership.

ATTACHMENT A: Net Income of O'Donnell Park Facility (2008-2014)

ATTACHMENT B: Projected Net Income of O'Donnell Park Facility (2015-2021)

cc: County Executive Chris Abele

O'Donnell Workgroup Members

- Scott Manske, County Comptroller
- John Dargle, Director, Parks Department
- Paul Bargren, Corporation Counsel
- Teig Whaley-Smith, Director, DAS-Economic and Community Development
- Josh Fudge, DAS-Budget Director
- Daniel Laurila, Fiscal and Management Analyst 3, DAS
- Jim Keegan, Chief of Planning and Development, Parks Department
- Paul Kuglitsch, Principal Assistant Corporation Counsel
- Pam Bryant, Capital Finance Manager, Office of the Comptroller
- Justin Rodriguez, Budget and Management Coordinator, Office of the Comptroller
- Cynthia Pahl, Budget and Management Coordinator, Office of the Comptroller
- Jill Suurmeyer, Research and Policy Analyst, Office of the Comptroller
- Steve Cady, Research and Policy Director, Office of the Comptroller