Memorandum

Milwaukee County, Wisconsin – Domes Business Plan Analysis

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To: Milwaukee County Department of Administrative Services

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Introduction

In October of 2019, the Domes Task Force ("Task Force") submitted a Business Plan and Conceptual Design ("Plan") to Milwaukee County, which outlined the Task Force's recommendation for the renovation of the Milwaukee County Horticultural Conservatory (the "Domes") and a larger placemaking effort surrounding Mitchell Park ("Park"). At that time, the financial situation of Milwaukee County was not conducive to using cash on hand or solely issuing debt to renovate the Domes. This being the case, the Task Force developed a plan that targeted outside sources of capital, created new revenue sources and expanded the scope of development from restoration of the Domes to the Park beyond in an effort to appeal to a wider audience (such development is referred to herein as the "Domes Redevelopment Project").

The capital sources for the proposed Domes Redevelopment Project include New Markets Tax Credits, Historic Tax Credits, PACE financing, Opportunity Zones capital, private donations and County financing (collectively "Capital Sources"). The Capital Sources and their associated requirements create a complex capital stack and legal structure. The County has engaged the authors of this memorandum to review the proposed capital stack and organizational structure to determine the viability of the Task Force's proposal with respect to these components. Because the Capital Sources and legal structure are intertwined, Baker Tilly and Husch Blackwell worked closely to combine their respective professional evaluation into one memorandum. This memorandum will review each of the Capital Sources both on an individual basis and in combination with the other sources, discuss repayment methods for each, and examine the legal and organizational structure proposed in the Plan.

The summary of the preliminary findings is that while certain Capital Sources likely could be used in the Domes Redevelopment Project, it is highly unlikely (a) that all of the Capital Sources would be available to the Domes Redevelopment Project, and (b) that the Capital Sources that may be available would be available in the amounts required to execute the Domes Redevelopment Project as a whole.

The Plan

The Plan proposes doing much more than simply renovating the Domes. It proposes turning the Park into a destination and creates a model that includes more revenue generating activities in hopes that the Park will become self-sustaining. The Domes Redevelopment Project includes rehabilitating the Domes and creating the 'Mitchell Park Learning, Wellness and Horticulture Campus', which would house workspace for classrooms, learning labs, outdoor areas for summer camps, research space, a wellness clinic and more.

The Plan proposes a total funding need of $66 million for the Domes Redevelopment Project, though we note that there are various components of the Domes Redevelopment Project that are not included in this initial figure (page 55 of The Plan.) The funding sources used to fill the $66 million gap include Historic Tax Credits (HTC), New Markets Tax Credits (NMTC), Opportunity Zone (OZ) capital, Property Assessed Clean Energy (PACE) financing, a private sector capital campaign, and County bond financing. The breakdown of the funding amount for each portion of the stack can be seen below in figure 1.

Figure 1. Capital Stack proposed in 2019 Business Plan	
Historical Tax Credits	$7,000,000
New Market Tax Credits	$15,000,000
Opportunity Zone Investment	$12,000,000
PACE Loan	$5,000,000
Private Sector Capital Campaign	$13,500,000
County – Bond Financing	$13,500,000
Total	**$66,000,000**

The chart above shows the breakdown of the Capital Stack as shown in the Plan.

In support of the Domes Redevelopment Project and the proposed capital stack, the Plan proposes the creation of various legal entities with various responsibilities. Additional discussion of these entities is provided in a June 13, 2019 Task Force power point titled "Task 1 Summary Recommendations and Update from May 7 Presentation" (the "PowerPoint") and the document entitled "Assumptions Informing the Business Plan and Conceptual Design Report to Milwaukee County Mitchell Park Domes Task Force Addressing Questions from the DPRC" ("Summary of Assumptions"). The proposed entities and their roles are summarized as follows:

- **Mitchell Park and Domes Conservancy** ("Conservancy"). The proposed Conservancy is a fund development, fiscal management and operational entity whose board has 15 to 30 members made up of County Supervisors, equity investors, representatives from partner organizations and service providers, and members elected by the Conservancy. According to the Summary of Assumptions, it is a 501(c)(3) "responsible for managing County assets and services and for working together with the County in operations." The specific duties proposed for the Conservancy are set out on page 72 of the Plan. Additionally, the Conservancy will support the Friends of the Domes ("Friends"), accepting gifts of $250 and above, while smaller gifts go to Friends.

- **Mitchell Park Partners LLP** ("MPP"). MPP is proposed to manage programming and educational partnerships within the Park. The Plan contemplates that MPP will make payments to the Conservancy in exchange for the provisions of "utilities, maintenance, marketing and service population synergies" that the Conservancy will provide to MPP. MPP is also positioned as "less capital intensive or risk intensive than [the Conservancy]". It will "maintain long-term shared equity investment partnerships to further the Park's missions and that of its mission-aligned partners, in areas of conservation, health, education and community economic development."

- **Domes Services Corporation** ("DSC"). DSC is proposed to manage the enterprise elements of the Park and Domes (Plan, pg. 7). It provides "exhibit design and fabrication, events and food services sub-leases and operations, retail, floral design and other services". It is also positioned as an "entrepreneurial start up revenue center for the Park" (Plan, pg. 72).

- **Historic Domes LLC** ("Historic Domes"). Historic Domes is identified in the Summary of Assumptions as the proposed developer of the Domes Redevelopment Project. The Summary of Assumptions assumes that there will be an agreement between Historic Domes and the County pursuant to which Historic Domes is responsible for the redevelopment of the Domes and Park/buildings.

Other than references in the Summary of Assumptions to the need for "agreements" between the County and these entities and, in some cases, between and among the entities themselves, there is little detail in the Plan and the supporting documents relating to the assets and liabilities of each of these entities or the flow of funds between these entities and from these entities to the County. As it relates to the Capital Sources, it is unclear which entity the Plan conceives as being primarily liable for the debt portions of those Capital Sources; which entity, in the case of Opportunity Zone capital, would serve as the Qualified Opportunity Zone Business; or which entity, in the case of Historic Rehabilitation Tax Credits, would incur Qualified Rehabilitation Expenses.

Capital Stack Analysis

Historic Rehabilitation Tax Credits (HTC)

Overview: HTC are intended to help the funding of rehabilitation or re-use projects on structures listed on the National Register of Historic Places or certified as contributing to a registered historic district. The total benefit of the tax credits is generally equal to 20% of qualified rehabilitation expenditures ("QREs") for federal credits and 20% of QREs for state credits up to $3,500,000, totaling a maximum of 40% of qualified rehabilitation expenditures. QREs are broadly defined but do not include expenditures relating to additions onto or expansions of historic structures. Other requirements for receiving the credits are (i) that the project meet the "substantial rehabilitation test", which means that the QREs made in either a two- or five-year period exceed the adjusted basis of the historic structure, (ii) that the historic structure was placed in service prior to rehabilitation, and (iii) that depreciation is allowable with respect to the historic structure. All rehabilitation must be done to the Secretary of the U.S. Department of the Interior's standards, and the building must be used for income purposes after rehabilitation.

HTCs are generally not granted to tax exempt entities or governments. Exceptions to this rule are provided if the tax-exempt entity is using the historic structure in a manner that makes it subject to the unrelated income rules of Internal Revenue Code Section 511, or if the historic structure is leased to a tax-exempt entity provided that the property is not deemed "tax-exempt use property". Additionally, a tax-exempt entity could lease the property to a for-profit entity that incurs the QREs to the property and then (under certain conditions) takes the tax credits.

Plan Proposal: The Plan proposes $7 million worth of the total funding come from HTCs, which are to be received in year 1 of the Domes Rehabilitation Project. Although the graph on pages 64 and 65 show the funding coming in during year one, there is a statement on pages 67 and 68 of the Plan about HTCs not being released until the building is in service. As stated in the Plan, this would require bridge financing for the construction/rehabilitation phase. It's assumed the credits are received upon building opening and then capitalized.

To receive the HTCs, the Domes would have to be added to the National Register of Historic Places. A draft application is included as an exhibit to the Plan. HTCs would then be used to help fund the repair of the Domes themselves, the total cost of which is estimated at $30 million.

Preliminary Findings: The use of HTCs as laid out in the Plan is possible, but there are several structuring hurdles that could cause issues.

- **Placement on National Register**. We feel it is reasonable to anticipate that the Domes would qualify for listing on the National Register of Historic Places.
- **Planned Amount**. If the total cost of rehabilitating the Domes is projected to be $30,000,000 it is likely that a significant portion of this will be QREs, though without a breakdown of that $30,000,000 we cannot be certain of the exact proportion. For the sake of this Memorandum, we will assume that 90% of the total expenditures are qualified rehabilitation expenditures. This would mean that the project could generate $5,400,000 in federal HTCs and another $3,500,000 in state HTCs (20% of $27,000,000, subject to the state cap) for a total possible credit of $8,900,000. Because a likely structure would involve an investor purchase of the HTCs (discussed in more detail below), the total benefit to the project will be reduced to reflect investor pricing. If we estimate investor pricing at $0.800[1] per credit, we obtain a total benefit to the project of $7,120,000. This being the case, $7,000,000 appears to be a reasonable estimate of the HTC benefit to the project.
- **Organizational Structure**. The Plan is silent as to the party incurring the QREs and the party taking the tax credits. In addition to the general unavailability of HTCs to tax-exempt entities, neither the County nor the Conservancy, which is planned as a 501(c)(3), would be able to use the HTCs because they have no tax liability to offset. This being the case, it is likely that a new, for-profit entity ("FPE") would need to be created to bring in a federal HTC investor. The federal HTC investor would typically be a 99% member of this new FPE with the 1% member being related to the County or Conservancy. There are various means by which the state HTC investor could come into the project but they would generally also become a member of the FPE or a member of a member of the FPE. The FPE would likely need to have a long-term lease for the Domes (not less than 39 years after completion of the rehabilitation), enabling it to incur the QREs and claim the HTCs. While there are different ways to structure entities so that the project can benefit from HTCs, it is far more complicated than simply applying for placement on the National Register and then monetizing the tax credits.

[1] This credit price was taken from a recent HTC/NMTC transaction. Credit pricing fluctuates based on the project, the strength of the sponsor and market forces, and could be higher or lower than the amount referenced here.

- **Timing**. The Plan anticipates that the HTCs will be taken the year the project is placed in service. In actuality, HTCs are taken over five years, beginning on the date the Project is placed in service. The impact of this extension on a project that is monetizing the HTCs is lower investor pricing. Regardless, the project will require a bridge loan to monetize the tax credit investor equity at the commencement of the rehabilitation. This loan would be repaid from investor equity as it comes into the project (typically in tranches through the course of reconstruction).

New Markets Tax Credits (NMTC)

Overview: New Markets Tax Credits are federal income tax credits used to encourage private investment in low-income communities. A community development entity (CDE) must apply through a competitive process for an NMTC allocation from the Community Development Financial Institutions Fund, a division of the U.S. Treasury Department. A project seeking NMTCs needs to bring together at least one CDE with an NMTC allocation from which it can receive a sub-allocation, one NMTC investor and generally one debt provider to leverage the NMTC investor's equity and take advantage of the full amount of the NMTC sub-allocation. Just as obtaining an allocation is highly competitive for CDEs, attracting a sub-allocation, investor and debt provider can be extremely challenging for a project. CDEs and investors typically look for projects in "severely distressed" census tracts rather than just low-income census tracts. Additionally, both CDEs and investors are often looking for projects that result in job creation or new services to the community.

Projects that successfully obtain an NMTC sub-allocation and investor and are able to line up either a leverage debt provider or otherwise raise a source of leverage funds receive, in essence, two loans that are generally at below market interest rates and are interest only for the first seven years. The first loan represents the leveraged debt and the second loan represents the tax credit equity. The total amount of the loans is generally just under the total amount of the sub-allocation the project receives. At the end of seven years, generally speaking, the loan representing the tax credit equity is forgiven and the loan representing the leveraged debt is refinanced.

Proposed Use: The Plan proposes $15 million from NMTC which will be used to support the workforce development and new quality jobs created by the enterprises listed in the Plan. Per pg. 78 of the Plan, the NMTC would be deployed as a seven-year loan on roughly $11 million, with the final payment of $6.7 million in the seventh year. The Plan assumes that the remaining balance of the NMTC loan is refinanced at the end of seven years. The Plan contemplates that $3,150,000 of the NMTCs would be used for working capital expenses to address moving plants and ramping up new partnership and enterprise subsidiaries (Plan, pg. 59).

Preliminary Findings: The use of NMTCs for the Domes Redevelopment Project is possible; however, there are significant challenges to accessing this incentive and the Plan does not correctly characterize the use and repayment of the NMTC proceeds.

- **Qualifying Census Tracts**. The Domes and the Park are located in a census tract characterized as "severely distressed". This is a threshold qualification matter for NMTC financing.

- **Securing a Sub-Allocation**. Unlike HTCs that are available to the project so long as the project meets the technical requirements of the tax credits, NMTCs are highly competitive. While the Plan seems to contemplate that the NMTCs will be secured before the partnerships and revenue generating activities are in place, CDEs, NMTC investors and leveraged debt providers will want to see that the revenue sources required to pay debt service on the NMTC loans and to position the project for refinancing after the end of the seven-year interest-only period are known and committed. Generally, this would mean subleases with service providers, contracts with restaurant operators, management companies, etc. are in place. It is also important to note that even a fully structured Domes Redevelopment Project will compete with other worthy projects for an NMTC sub-allocation. The Plan promises 300 new jobs by the time the Domes Redevelopment Project is complete, but these jobs may be low wage service-type jobs. NMTC investors are looking for projects that will retain or create jobs with a living wage and benefits, with a high school degree or equivalent requirement that would provide opportunities to provide a significant impact in underserved communities. The Domes Redevelopment Project is unlikely to obtain an NMTC sub-allocation in any amount until it is fully-structured and its partnerships and revenue sources are committed. Even with that in place, however, the Domes Redevelopment Project will still have to compete with other impact projects, meaning that there is no guaranty that an NMTC sub-allocation will be secured.

- **Repayment Terms**. As noted in the Plan, the NMTC loans are interest only for the first seven years. Unlike the Plan, however, interest is paid on the full amount of the NMTC loans during that period (likely to be just under $15,000,000 for a $15,000,000 allocation not on only $11,000,000 of the total). This increases the projected carrying cost of the NMTC loans.

- **Working Capital Expenses**. The Plan states that approximately $3,000,000 of the NMTC financing will be used for working capital. While it is correct that NMTC financing can be used for working capital expenses in the qualified census tract, any such funds would generally be required to be expended with twelve months of the NMTC closing. It is highly unlikely that the Domes Redevelopment Project would be able to absorb that much working capital in such a short amount of time when the majority of the operations will not have begun. It is far more likely that NMTC financing would be used on construction expenses, either for the Domes renovation or the new and expanded portions of the Domes Redevelopment Project.

- **Organizational Structure**. The Plan does not discuss what entity would be the borrower under the NMTC loans or what entity would guaranty the loans. The borrowing entity would have to have an interest in the subject property—either outright ownership of the Domes and the affected areas of the Park or a leasehold interest. It is also highly likely that the NMTC loans would need to be secured by a mortgage on that ownership or leasehold interest. Unlike HTCs, 501(c)(3)s commonly obtain NMTC financing, which means that the Conservancy could potentially serve as the borrower so long as it held an interest in the property. This, however, raises structuring issues with HTCs.

Opportunity Zone Investment (OZ)

Overview: Opportunity Zone Investment is a way for investors to defer capital gains taxes through 2026 by investing them into a Qualified Opportunity Fund (“QOF”) that then invests in qualifying projects or businesses in designated communities called Opportunity Zones (such projects or business are known as Qualified Opportunity Zone Businesses (“QOZBs”)). In addition to tax deferment, Investors who hold their investments in a QOF for ten years or more (assuming the

QOF correctly maintains its investment in QOZBs), upon exit from the QOF will realize any appreciation on that investment tax-free. This incentivizes investors to find the best return on their investment in addition to simply deferring capital gains.

Proposed Use: The Plan includes $12 million of OZ investment in the capital stack. This is to be achieved by the newly created Conservancy launching a QOF as soon as possible. The Plan assumes that all $12 million would be received within the first year. The Plan references the repayment of OZ investments at the end of ten years (Plan, p. 78). The repayment revenues are to come from net operation income generated by the enterprise activities.

Preliminary Findings: While the Domes Redevelopment Project could qualify for Opportunity Zone Investment, the OZ scenario proposed in the Plan is unlikely to be successful.

- **Qualifying Census Tracts**. The Domes and the Park are located in a census tract that has been designated as an Opportunity Zone. This is a threshold qualification matter for Opportunity Zone Investments.

- **Timing**. The Plan called for the full $12,000,000 of OZ investment to be made prior to December 31, 2021. Had investments been made prior to that date, investors would qualify for what is generally a 10% forgiveness of the amount of capital gains taxes they would have paid had they not invested those gains in the QOF. This incentive to invest in QOFs is no longer available to investors, thus reducing the benefits of OZ investments to only deferral through 2026 and tax-free appreciation after a ten-year hold. The loss of the partial forgiveness component will likely decrease the interest of Opportunity Zone investors in the Domes Redevelopment Project.

- **Investor Appetite**. OZ Investors are generally looking for projects that are going to provide for double digit returns on their investments. A typical QOF might promise an annual preferred return of 6% with an IRR at the end of the ten-year hold period of 12% to 18%. The critical factor for OZ investors is generally the ability of the investment to appreciate over time. This is even more critical when, as discussed above, the partial tax forgiveness element of the OZ program is no longer available. When looking at the Domes Redevelopment Project through the lens of an OZ investor, it is difficult to see where that appreciation or growth will occur. Is it reasonable to think that a restaurant or other for-profit business at the Domes or the Park will increase in value sufficiently to achieve the returns from competitive OZ investments? If the real estate portion of the Domes Redevelopment Project could be structured such that a QOF could own an interest in the entity that owns or leases the real estate, is it reasonable to believe that the real estate would increase in value? Without further information, the answer to these questions is likely no. This means that for investors who want to see their investment grow in value over time, the Domes Redevelopment Project is unlikely to be a good investment. If this is the case, the Domes Redevelopment Project will have a very difficult time raising OZ capital in any amount.

  It is also important to note that Opportunity Zones investors only benefit from the program if they are investing capital gains. While it is certainly possible that investors could sell stocks or some other asset for the purpose of investing into the QOF, a more typical OZ investor would be a taxpayer who finds himself or herself with gains and seeks to invest those gains to benefit from the program. This means that the universe of available dollars to be invested in a QOF is generally more limited than those available for non-OZ investments. Additionally, investors have less control over the timing of those investments because the realization of capital gains is tied to disposition of an asset, which may not occur when or how desired for the purposes of the project. These factors cast further doubt on the availability of OZ investments in the amounts (or even close to the amounts) proposed in the Plan.

- **The Exit**. One of the most important questions any OZ investor will ask of a project is how the investor will exit out of the project at or after the end of ten years. An exit would typically be accomplished either through a buy-out of the investor or through the sale of the asset and a liquidation. In the case of the Domes Redevelopment Project, it is highly unlikely that the Domes or the portion of the Park included in the Domes Redevelopment Project would be sold. If the OZ investment is in an operating business at the property, the business could be sold, but the long-term plan for the Domes Redevelopment Project is likely that the partners will stay in place. The Plan suggests that the investors will be repaid, which appears to contemplate a buy-out from the business that is the recipient of the OZ investment. While this is certainly possible, ensuring an exit after ten years for any OZ investor would be a significant burden on the Domes Redevelopment Project.

- **Organizational Structure**. Opportunity Zone investments require that the investor invest in a QOF that then invests in a QOZB. The Plan provides no specifics around who would organize and manage the QOF or what entity (or entities) would be the QOZB. A QOF is simply a partnership or corporation that is organized to serve as a Qualified Opportunity Fund. The County could organize a QOF and solicit private funds for investment, though it should be noted that soliciting investments in a QOF is subject to securities laws and requires disclosures and the filing of exemptions from registration (if available). Additionally, a QOF that is holding $12,000,000 in private investment must manage those investments—a role that is unaccounted for in the Plan. The QOZB could be (i) a real estate entity that leases and improves the Domes or other areas of the Park included in the Domes Redevelopment Plan, and then sub-leases those areas out to operating companies; (ii) an operating entity such as a restaurant or event venue that leases an area in the Domes or the Park, improves the area and operates its business from that area, or (iii) an operating entity that leases an already improved area and operates its business from that area. There are various requirements of a QOZB as well as prohibited acts with which any QOZB would need to comply. These organizational structures could be put into place to create an opportunity for OZ investors in the Domes Redevelopment Project but at much expense and with an added regulatory and administrative burden.

PACE Loan

<u>*Overview*</u>: A property assessed clean energy (PACE) Loan is a mechanism for financing energy efficiency or clean energy improvements on property. The loans are sourced from the open lending market and secured through a voluntary PACE special charge, which acts as a lien on the subject property enforceable through the tax foreclosure process. PACE loans are tied to the property and not the owner; thus, if property is sold, the PACE special charge would remain on the property to be paid by future owners. Terms for PACE loans can be 20 years or more, tracking

to the useful life of the equipment purchased with the financing. Property owned by local, state or federal government is generally not eligible for PACE financing in Wisconsin.

Proposed Use: The Plan proposed receiving a $5 million PACE loan. The Plan states proceeds would be used for renovation activities such as reglazing, installing energy efficient heating/cooling systems, and lighting systems.

Preliminary Findings: Public ownership of the Domes and Park make PACE financing an unlikely option.

- **Organizational Structure**. The Plan does not state which entity would secure the PACE financing. While the Wisconsin PACE statute is silent on the ability to place a PACE special charge on public property, the City of Milwaukee's PACE Financing Ordinance (304-26.5) specifically refers to private property and the City's PACE Program Guidelines state that PACE financing is only available to commercial properties including non-governmental, tax-exempt properties. This would exclude the Domes and Park from eligibility for PACE financing. One solution might be to create a condominium structure allowing for private ownership of a portion of the property, but, in addition to the lack of political will to transfer the Domes or any other portion of the Park to a private entity, this would be a dramatic restructuring for a relatively small amount of financing.

- **Financing Amount**. By statute, PACE financing can only be used to finance a "brownfield revitalization project, or for making or installing an energy efficient improvement, a water efficiency improvement, or a renewable resource application." The amount of financing is based on the cost of these qualifying improvements. It is reasonable to assume that a $60,000,000 project would have $5,000,000 in eligible PACE improvements but the unique nature of the Domes Redevelopment Project means that there is no certainty in that amount without a PACE engineering study of the detailed project plans and specifications.

Private Sector Capital Campaign

Overview: Private sector funds can come from a number of sources such as individuals or companies looking for a way to give back. These funds do not require repayment or a return on investment.

Proposed Use: The Plan proposed $13.5 million worth of private sector funds coming in over a 4-year period (2021 – 2025), most of it flows in the first 2 years. The Plan also includes several naming opportunities for larger donations as well as a "campaign giving pyramid." The giving campaign is assumed to reach a pool of national donors and foundations that are not being approached for other Milwaukee-based fundraising campaigns.

The Plan also stipulated that during the consultants' analysis they found no interest in paying for just "fixing up" the Domes. Donor interest was focused on new programs and job creation.

Preliminary Findings:

- **Organizational Structure**. The Plan anticipates that the Conservancy will be the entity that performs the capital campaign and raises private funds for the Domes Redevelopment Project. It is unclear whether the Conservancy would then contribute those funds to the County or would actually have an interest in the Domes, potentially through a long-term lease, that would allow the Conservancy to raise the private funds and direct their use.

- **Campaign Amount**. The Taskforce performed various focus groups with community partners to determine an estimated campaign amount. It does not, however, appear that this was a full capital campaign feasibility study. Any plan should include a full study before proceeding.

Bond Funds

Overview: The Plan proposed $13.5 million to come from the County in the form of bonds.

Proposed Use: The Plan proposed $13.5 million to come from the County in the form of bonds. It is assumed that the funds are to be used for the renovation of the Domes themselves, but it is unclear. It is also unclear as to what type of bonds would be issued. There is mention of a general obligation bond, revenue bond, or a mix of both.

Preliminary Findings:

- **Organizational Structure**. Generally speaking, County bonding for construction projects is limited to public projects. Thus, in order to qualify for County funds, the Domes would have to remain under public ownership and control. Public ownership and operation of the Domes while qualifying the Domes for County funds, may disqualify the Domes from other funding sources discussed in this memorandum.

- **Financing Amount**. The Plan appears to back into the financing request from the County by first attempting to determine what might be available from other sources and then using the County to fill the remaining amount. There is no indication that the proposed $13,500,000 was reached in conversation with the County or whether the County gave any indication of the availability of those funds for the Domes Redevelopment Project. The County has a finite amount of bonding capacity. Any decisions about use of the County's bonding capacity or priorities would be discussed by the Milwaukee County Board within the context of current market conditions, project priorities, and financial commitments.

Conclusion

While certain Capital Sources likely could be used in the Domes Redevelopment Project, it is highly unlikely (a) that all of the Capital Sources would be available to the Domes Redevelopment Project, and (b) that the Capital Sources that may be available would be available in the amounts required to execute the Domes Redevelopment Project. OZ capital may be the most doubtful capital source. While it is certainly possible that some OZ capital could be raised to support the Domes Redevelopment Project, we find it highly unlikely that the total OZ funds raised would come close to $12,000,000. Additionally, the fact that various Capital Sources require varied organizational structures means that pursuing one Capital Source may make it impossible to pursue another. This may be the case when we look at County bonding, which must support a public entity, and PACE financing which requires a non-public entity. Similarly, fundraising requires a 501(c)(3), but 501(c)(3)s are generally not eligible for HTCs. While each Capital Source may be available in some amount in isolation, we find it highly unlikely that all Capital Sources will be available in the amounts needed to pursue the Domes Redevelopment Project as envisioned in the Plan.

Next Steps

While the Capital Sources set forth in the Plan are unlikely to support the Task Force's vision, the intention of this Memorandum is not to poke holes in the Task Force's work and then move on. Rather, we hope to set the County on a viable path to the restoration and maintenance of the Domes. To see this path requires a clearer picture of the following:

- The cost of the restoration of The Domes – It is our understanding that the County expects to receive an analysis of the expense to repair and renovate the core structure of the Domes in the fall or early winter of 2022. Having a realistic budget for the essential work that needs to be done to restore the Domes (as well as the cost of ongoing maintenance) is critical and will serve as a basis for forward planning.

- Anticipated revenue from the Domes – An analysis of the anticipated revenues set forth in the Plan was outside the scope of our work. Generally, however, the revenue assumptions in the Plan are unsupported by factual analysis. We would like to see a realistic projection of revenues from a fully restored facility based on historical data. The exploration of additional revenue sources and partnerships will be critical to the future of the Domes, but it's also important to understand what kind of debt service and operating costs the Domes will be able to confidently support upon restoration.

- Structure and initial leadership of a sponsor entity – The Plan envisions several layers of entities and partnerships to achieve its service and revenue goals. We agree that a 501(c)(3) should likely be created to lead capital campaign efforts, and potentially take a leasehold interest in the Domes and serve as the obligor under any financing for the restoration of the Domes. The Milwaukee Public Museum's organizational structure is an example of how this might work. Alternatively, Friends of the Domes could step into this role, which would be a large expansion of the scope of that organization. In either case, if the County is unable to finance the entirety of the restoration, focusing on the formation and leadership of one organization that will lead the project going forward, in conjunction with the County, will be critical.

With these pieces in place, the County can meaningfully review the financing options in front of them. For example, if the total restoration budget was $30 million, a simplified capital stack might be $15 million in private contributions, $5 million in NMTC equity (requiring a total NMTC allocation of $20 million) and $10 million in County bonding. In this scenario, the private contributions serve as the leverage for the NMTC investment, meaning that at the end of seven years, the Domes have no outstanding debt relating to the NMTC financing. With a realistic budget, a reliable revenue projection, and a plan for committed private-sector leadership in place, the County can reframe the Task Force's efforts into a viable and meaningful plan for the future of the Domes.

Glossary – Key Terms

Plan – Business Plan and conceptual Design presented to the County by The Domes Task Force in October 2019.

Domes Redevelopment Project – describes the renovation of the Domes, new revenue sources created, and the capital needed to do so.

Capital Sources – represents the multiple funding sources needed to complete the Domes Redevelopment Project. Includes NMTC, PACE, OZ Investment, HTC, and Private Donations.

NMTC – New Market Tax Credits

OZ – Opportunity Zone

HTC – Historic Tax Credits

PACE – Property Assessed Clean Energy

Conservancy – Mitchell Park Domes Conservancy

MPP – Mitchell Park Partners

DSC – Domes Services Corporation

Historic Domes – Historic Domes LLC

QRE – Qualified rehabilitation expenditures

FPE – For-profit entity

CDE – Community development entity

QOF – Qualified Opportunity Fund

QOZBs – Qualified Opportunity Zone Businesses

Milwaukee County, Wisconsin - Domes Business Plan Analysis Summary

Capital Stack Funding Source	Amount in Plan	Debt vs Equity	Estimated Interest Rates	Typical Payback Period	Transaction Structure	Proposed Ownership Structure	Plan Inaccuracy	Summary Finding
Historical Tax Credits	$7,000,000	Equity - but likely need a short term loan to bridge portions of the equity that will come in over time. Total benefit is therefore reduced by loan fees and interest.	Bridge Loan - 5%	Approx 2 yr construction bridge loan; paid back through capital contributions made by HRC investor during and upon completion of construction.	Tax credits are earned for Qualified Rehabilitation Expenses (QRE) incurred by the project and monetized by a tax credit investor.	New for-profit entity; Federal HTC investor 99%/ County 1% - This entity could be the fee owner of the Domes or lease the Domes.	No accounting for required for-profit status of entity that incurs the QRE's.	Possible, but may conflict with other funding sources and entity requirements
New Market Tax Credits	$15,000,000	Approximately : 80% - Debt 20% - Equity	3.50%	7 years, refinance for 10 additional years	CDEs make loans to businesses operating in low-income communities on better rates and terms and more flexible features than the market. Generally structured as loans. The allocation proposed in the plan would be interest only on $15 million for 7 years. Then refinance $12 million for approximately 10 additional years and the remaining $3 million becomes equity in the project.	Could be for-profit or not-for-profit entity. There are tax advantages to a not-for-profit structure.	Understatement of interest expense - use as working capital to the extent represented is unlikely - no reference to competitive nature of inventive - not "only available" if the whole $66 million project is developed.	Possible
Opportunity Zone Investment	$12,000,000	Equity - with a preferred return	The preferred return to investors is an ongoing project expense in the same way interest would be. Estimate of 6%.	Not sooner than 10 years	Investors, in the form of Qualified Opportunity Zone Funds, purchase (generally) partnership interest in a qualified business. That purchase Price is equity into the project. Investors then exit after 10 years and gains on their qualified investment are tax free. This exit generally requires a sale of the business or a buy out of the investors (i.e. assuming an increase in value, a payout of everything originally invested plus any appreciation on that investment).	For profit entity; subject to securities laws and reporting	Ongoing costs not conveyed in plan. Likely lack of investor interest	Unlikely
PACE Loan	$5,000,000	Debt	5.75%	20 years	Commercial loan paid back through a special assessment (property taxes).	Under Milwaukee's ordinance and guidance, it must be a public entity.	Interest rate is too low (projected at 4% in plan); no consideration to the nature of the borrowing entity	Unlikely, unless Domes are privatized
Private Sector Capital Campaign	$13,500,000	Equity	N/A	N/A	The funds from the capital campaign are donations and do not need to be paid back	Not-for-profit entity	Likely double counting philanthropic donors with OZ "mission-driven" investors	Possible
County – Bond Financing	$13,500,000	Debt	4%	10-20 years	Obligor will need to pay back principal & interest on the entire bond issuance through debt service payments over the life of the bond.	Not for profit entity - Tax status depends on use of funds	Unclear if the bonds described in the Plan are general obligation or revenue bonds	Possible