

**COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION**

DATE : December 5, 2014  
TO : County Executive Chris Abele  
FROM : Scott B. Manske, Comptroller  
RE : Review of the Proposed Sale of the Downtown Transit Center

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**Introduction**

Per the request of the County Executive, the Office of the Comptroller has reviewed the proposed sale of the Milwaukee County ("County") Downtown Transit Center ("DTC") to Barrett Visionary Development ("Developer") in the amount of \$500,000 for the development of the Couture Project ("Project"). The DTC property was declared surplus and negotiations with the Developer were authorized by County Board action in 2012. The actual sale of this property to the Developer would now be authorized pursuant to County Board approval of File # 14-827 (currently scheduled before the Committee on Economic and Community for December 2014). This action would authorize the County to enter into an Option Agreement ("Agreement") with the Developer as well as any subsequent deliverables required to close on the sale.

The main issue reviewed was whether a land markdown is necessary by the County to make this project feasible and therefore, allow the Developer and County to move forward with closing on the sale of the property. This analysis does not attempt to project whether another project could move forward without a land markdown, nor does it attempt to rate the merits of the infrastructure being proposed. This review also summarizes the factors associated with the success of the Project and the potential financial risks as identified by the Comptroller.

Our review was substantially based on an evaluation of the "Preliminary Financial Review of the Couture Project" provided by SB Friedman. According to their website, SB Friedman "is among the leading experts in public development finance" and "advises a variety of clients with regard to the best means to maximize the value and stewardship of real estate." SB Friedman is commonly commissioned by the City of Milwaukee to conduct TIF analyses and other studies.

Based on the most current information available, we find SB Friedman's assessment that the land markdown is necessary to move the Project forward to be reasonable given the inherent uncertainties in the Project. In addition to the required land markdown, there are other factors that could prevent the Project from commencing, which include:

- Establishment of the County's title and rights to the DTC property.
- Approval of the DTC site disposition plan by the Federal Transit Administration ("FTA") for disposition plans for the DTC site.

- Approval of tax incremental financing expected through the creation of TID No. 82 (E. Michigan Street). This financing will support the construction of \$17.5 million in public infrastructure in the Project.
- Approval of the zoning change required by the City of Milwaukee.
- Approval of traditional financing (loans) to fund a majority of the Project costs.
- Securing of equity partners to fund nearly 25 percent of the Project costs.

This review was based on information obtained from a variety of sources, which was considered true and accurate as of the date published. However, it is extremely important to note that although review of these documents indicates that the Project could not move forward without a significant land markdown, the current data is extremely preliminary in nature and final financial details will not be known for months. Because the Developer does not have control of the land, many of the documents generally used to determine the success of a project and the necessity for government assistance were not yet available. Therefore, although the necessity for the land markdown appears reasonable despite the inherent uncertainties, this determination could ultimately change as the Project details are finalized.

### **Project Details**

The Project is a proposed 44-story mixed use skyscraper, to be located at the southwest corner of Lincoln Memorial Drive and Michigan Street in the City of Milwaukee on the existing site of the Milwaukee County Downtown Transit Center. The Project is estimated to cost \$122 million which includes an estimated \$17.5 million for public infrastructure and a land acquisition cost of \$500,000. The Project as currently proposed has been modified from previous designs to now consist of:

- 302 apartments
- 50,000 square feet of restaurant and retail space
- 570 parking units (147 public)
- Public areas, consisting of a pedestrian visitor plaza, common space, transportation concourse, visitor walkways, rooftop park, and transit curb cut

### **Need for Financial Assistance**

A typical measure of determining the necessity of government assistance is analyzing the unleveraged internal rate of return (IRR) on the Project. The objective is to determine what the minimum level of financial assistance is needed to produce the necessary return to induce the Developer to move the project forward to completion. SB Friedman conducted an analysis which reviewed the need for financial assistance. The SB Friedman review concluded that “without a land writedown to \$500,000 and the \$17.5 million in TID assistance, the Project appears to fall significantly short of market return benchmarks, and therefore would be very unlikely to proceed.”

## **Pre-Construction Project Deliverables**

The Director, Department of Administrative Services – Economic Development Division (DAS – ED) indicates that in order for the Project to proceed, the County must make an initial determination as to whether it will discount the land price. Such approval would allow the County and Developer to move forward with clearing other matters necessary to commence construction. These matters are discussed below.

### **Land Title**

The County is requesting authority under separate action to establish the County's title and rights to the DTC property. The transfer of title is necessary for the Developer to proceed with securing financing and eventually commencing construction. Since it is likely that no change of land ownership will occur without the transfer of a clear title, there is little risk to the County should the transfer not happen.

### **Zoning**

The property is currently zoned as "PK", Parks District. It is our assumption that the Developer will be required to apply for a change to the zoning through the City of Milwaukee. It does appear likely that the City of Milwaukee would be willing to rezone the subject parcel to accommodate this development consistent with its Downtown Area Plan.

### **FTA Approval of Disposition Plan**

The FTA maintains specific criteria for disposal of land that was funded with FTA dollars. Under the current proposal, it is assumed that the newly constructed public infrastructure in the Project would be sufficient under the FTA disposal rules that additional reinvestments occur in other transportation projects in an approved amount. The typical FTA processing time on this type of issue is between six and nine months.

The Director of DAS – ED has indicated that minimal discussions with the FTA have occurred on the current plan because the County Board has not yet approved the sale. Upon approval, the Director of DAS – ED will commence discussions with the FTA to obtain the necessary approval.

### **Project Financing (non-TIF)**

Generally, government-provided financial assistance on a development project would not be granted until a reasonable assurance was received that a project was adequately financed. Because the Developer does not have control of the land, the Developer has not yet secured a preliminary term sheet from any lending or equity source. No traditional financing has been committed or secured.

## **Project Financing (TIF)**

The Redevelopment Authority of the City of Milwaukee recently approved the creation of TID #82, which includes \$17.5 million in funding for public infrastructure components of the Project. It is anticipated that the City of Milwaukee Common Council will vote on TID #82 sometime in the next few weeks. Due to the preliminary nature of the Developer's plans, if the TID were approved, it is assumed that the City would require additional approvals in later stages of the Project to ensure that the City was participating in a project that was likely to succeed and that required City assistance to move forward.

## **Streetcar Implications**

Mayor Barrett recently announced a plan to move the \$123.9 million streetcar project ("Streetcar") forward with funding to be provided from:

- \$54.9 million in already allocated federal aid,
- \$9.7 million in already approved tax incremental financing,
- \$10.0 million in newly requested federal funding, and
- \$49.3 million in newly requested tax incremental financing.

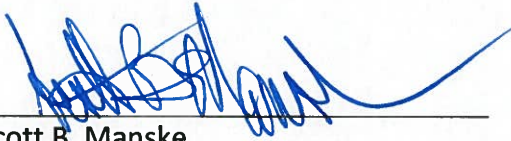
The Streetcar now includes funding for a route extension to the lakefront, using the Couture's public transportation concourse to move the streetcar from Michigan Avenue to Clybourn Avenue. The newly requested \$49.3 million in tax incremental financing would come from creation of a TID #82 (E. Michigan Street) and amendment of TID #56. TID #82 includes both the Couture property and the 833 East Michigan Project being developed adjacent and would provide financing for both the Streetcar in the amount of \$31.0 million and financing for the Couture in the amount of \$17.5 million. Remaining financing for the Streetcar would come through TID #56.

Per the SB Friedman report commissioned by the City for the creation of TID #82, sufficient taxes would be generated by the 833 East Project alone to fund the necessary improvements for the Streetcar. Therefore, the success of the Couture Project would have no impact on the City's ability to fund the Streetcar through the TID. Furthermore, assuming the TID is successful and that the appraised values are similar to those projected in the SB Friedman report, the TID would be paid off in the year 2036, at which point the additional property taxes generated by the Couture project and the 833 East project could be back on the tax roll if no other future improvements are paid for with the TID financing.

## **Summary**

Based on our review of SB Friedman's report, we find SB Friedman's conclusion that the likelihood of the Project moving forward without City and County financial assistance reasonable given the inherent uncertainties in the Project. If the County Board chooses to financially assist the Project, the Comptroller has identified areas of the Agreement that should be more fully vetted within

the Development Agreement. The Comptroller has communicated these concerns to Corporation Counsel and the Director of DAS – ED and they are being addressed with additional information in the Development Agreement.



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Scott B. Manske  
Comptroller

Cc: Supervisor Marina Dimitrijevic, Chairwoman, Milwaukee County Board of Supervisors  
Supervisor Patricia Jursik, Chairwoman, Committee on Economic and Community Development  
Supervisor David Bowen, Vice-Chair, Committee on Economic and Community Development  
Supervisor Jim "Luigi" Schmitt, Committee on Economic and Community Development  
Supervisor Willie Johnson, Jr., Committee on Economic and Community Development  
Supervisor Steve F. Taylor, Committee on Economic and Community Development  
Supervisor Khalif Rainey, Committee on Economic and Community Development  
Supervisor Martin Weddle, Committee on Economic and Community Development  
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Kelly Bablitch, Chief of Staff, Milwaukee County Board of Supervisors  
Paul Bargren, Corporation Counsel  
Don Tyler, Director, Department of Administrative Services  
Teig Whaley-Smith, Department of Administrative Services, Economic Development Division  
Steve Cady, Policy and Research Director, Office of the Comptroller  
Jill Suurmeyer, Policy Analyst, Office of the Comptroller  
Shanin Brown, Committee Coordinator, Office of the County Clerk