

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: August 21, 2020

TO: Supervisor Marcelia Nicholson, Chair, County Board of Supervisors

FROM: Aaron Hertzberg, Economic Development Director, Department of Administrative Services

SUBJECT: An Action Report Requesting Approval of a New Amended and Restated Development Agreement for UWM Innovation Campus Related to Purchase and Proposed Development of Land by Irgens

REQUEST

Requesting authorization to enter into an Amended and Restated Development Agreement with Innovation Park Development Partners, LLC, acting on behalf of Irgens, with respect to the purchase and proposed development of Innovation Campus land owned by UWM Innovation Park, LLC. (UWM) and originally subject to the existing Development Agreement between Milwaukee County and UWM signed February 15, 2011.

BACKGROUND

File 09-14 – Resolution File approving a Development Agreement and accepting a Real Property Purchase Agreement from UWM Innovation Park, LLC (“UWM”) for approximately 88.9 acres of land in the Northeast Quadrant of the County Grounds for the development of a new College of Engineering and Applied Science Campus, known as Innovation Park

File 11-389; File 13-439; File 13-648; File 14-824 – First, Second, Third, and Fourth Amendments to Development Agreement, to modify terms and allow for a limited expansion of the scope of Permitted Uses in the original Development Agreement, to include an Industry Accelerator Facility (first amendment), an extended stay hotel (second amendment), a modification of the southern border of the Escheweiler Area (third amendment), and to include limited retail areas in “Ancillary Support Uses” (fourth amendment).

File 19-456 – An informational report providing updates on the northeast quadrant of Milwaukee County Grounds.

In February 2011, UWM entered into a Purchase Agreement and a Development Agreement for a large parcel of land north of Watertown Plank Road, generally between County Grounds Park and Interstate-41, known as Innovation Campus. The plan was to develop this land primarily as an academic research campus. The Development Agreement signed at that time specifically limited Permitted Uses to educational or research and technology focused uses, with minimal allowance for “Ancillary Support Uses.”

At the present time, some portions of the property have already been developed, through the existing agreement and prior amendments by the County Board. Existing development on the lands include a UWM Industry Accelerator Facility, an office building housing ABB, the Escheweiler Apartments and a Residence Inn extended stay hotel.

A portion of the land that Irgens is purchasing from UWM includes the current Parks Administration building. The Parks lease from UWM would be transferred to Irgens, but the sale will have no additional effect on the Parks Department lease terms.

REQUIREMENT FOR BOARD ACTION

The Development Agreement with UWM Real Estate Foundation states that a deviation from the agreement's Permitted Uses requires "advance written consent of the Milwaukee County Board." Corporation Counsel has opined that because the original agreements specifically states the authority of the "County Board" over permitted uses, only the County Board may consider amendment of that portion of the agreement. The entirety of the Amended and Restated Development Agreement is presented for consideration as the County Administration recognizes that potential amendments to permitted uses should be considered in the context of other proposed amendments to the agreement.

REPORT

UWM has been unable to further develop the "research scientists buildings," "Graduate Programs Buildings," or "interdisciplinary and inter-institutional research institutes" originally contemplated for the campus and do not foresee the likelihood for realizing those plans. As stated in the attached letter dated September 13, 2019 to Tom Irgens, UWM has decided to sell the bulk of the main parcel to Irgens. Irgens plans to develop the land as a "high-class" business park, similar in style to the Milwaukee County Research Park in the southeast quadrant of the Milwaukee County Grounds. Irgens developed several buildings in the Research Park. UWM will retain approximately 6.7 acres of land, south of Residence Inn along Watertown Plank Road, for a "yet to be determined academic-related use."

Irgens' plan for the portion of land they are purchasing is formulated to align with the City of Wauwatosa Life Science District Master Plans. A copy of Irgens' plans are attached to this report. Their plans will require a deviation from the Permitted Uses as specified in the original Development Agreement between Milwaukee County and UWM. As noted, the original development agreement with UWM required primarily academic or research uses for development at Innovation campus.

Amendment to the development agreement is required to accommodate Irgens' plans for more standard business park uses. The proposed amendment to the development agreement would allow permitted uses to align with those uses set locally by the City of Wauwatosa's Planned Unit Development ("PUD") zoning for the area. As noted, Wauwatosa recently completed a Life Science District Master Plan. The plan was completed after extensive public input and was funded in part by Milwaukee County.

The original PUD zoning approval was made at a conceptual phase and is specific to the UWM plans, any new buildings or development on the site are likely to require amendments to the

zoning, which will need to be reviewed and approved by the City of Wauwatosa. Local review would also confirm alignment with the City's Master Plan. The Amended and Restated Development Agreement specifies that Developer (including Irgens, UWM, or any third-party developer) is solely responsible for obtaining any zoning modifications or other approvals needed from the City of Wauwatosa as needed.

The proposed Amended and Restated Development Agreement includes three primary modifications to the terms of the original Development Agreement with UWM:

- (1) Developer UWM is replaced with Developer Innovation Park Development Partners (Irgens);
- (2) the new agreement removes the restrictive Permitted Uses limitation, allowing for any use permitted under Wauwatosa zoning and approved by the City of Wauwatosa;
- (3) the "Additional Purchase Price" section of the original Development Agreement is replaced with the "Density Payment" section found in the Amended and Restated Development Agreement; and
- (4) inclusion of Community Benefit requirements.

The "Additional Purchase Price" section of the original Development Agreement set a limit of 853,271 square feet of development by UWM or any successor or assign. Any development exceeding 853,271 would be subject to an additional purchase price to the County of at least \$12 per square foot (from a minimum of \$12 to a maximum of the assessed value per square foot), payable upon Developer obtaining the building permits for construction of any additional space. Of this, 487,830 square feet has already been constructed.

Irgens' development plans, while still uncertain in how many square feet of development are anticipated, are estimated to exceed the 853,271 limitation. The proposed language ("Density Payment," Section 2.9 of the Amended and Restated Development Agreement) from Irgens increases the limitation to allow development up to 1,053,271 square feet (adding 200,000 square feet to the original limitation), in consideration of an upfront payment from Irgens of \$5 per square foot (\$1,000,000 upfront payment), with any development exceeding the new limitation to be paid at \$12 per square foot.

Irgens made clear the minimum square foot payment of \$12 per square foot of additional development, beyond the original anticipated amount of 853,271, required by the development agreement was not financially feasible. The proposed agreement resulted from negotiations with the Developer to provide maximum upfront value to the County while retaining the ability to pursue the development. While the County potentially forgoes a higher per square foot payment from the development, that payment would only be received if and when a developer exceeded the square footage allotment of 853,271. The lower negotiated rate provides a guaranteed, up front payment to the County regardless of whether or when development occurs. Development beyond the original square footage allotment will still require local review and approvals by the City of Wauwatosa.

A new appraisal of the property was recently completed, providing an assessed value of \$24 per square foot above the 853,271 square feet of the original agreement. While this did provide Milwaukee County with some leverage for negotiation, Irgens maintained that any higher than the proposed cost would have made the development financially unworkable and prevent them from pursuing development on site.

The proposed Irgens business park development has the potential to benefit the City of Wauwatosa and Milwaukee County with an infusion of new employers and additional local jobs, but as an additional incentive, the new development agreement with Irgens will also include Milwaukee County Community Benefit goals. The development agreement includes Targeted Business Enterprise (TBE) participation goals of 25% of construction project costs and 17% of professional services project costs, as well as a residential hiring goal of 25% construction labor hours filled by Milwaukee County residents, and an apprenticeship/training goal of 10% of construction labor hours. Irgens is committed to achieving these goals, and a \$25,000 compliance deposit will help ensure compliance. UWM's original development agreement with Milwaukee County included no Community Benefit language.

ADDITIONAL INFORMATION

Irgens is a Milwaukee-based real estate development company that has previously worked with Milwaukee County to develop Milwaukee County Research Park just south of the Innovation Campus site. In this business park, Irgens attracted lucrative tenants, put together quality office space, and created a hub of industry in the same way they are looking to develop Innovation Campus. They are an experienced developer who can deliver a high-quality real estate project that will bring good-paying jobs to Milwaukee County and help create an additional tax base in an undeveloped area. More information on some of their other projects is included in their corporate resume.

Economic Development is providing a copy of the recent property appraisal and addendum letter, to provide some additional context on the \$24 per square foot estimate. As noted in the addendum letter, this appraisal doesn't entirely take into account factors such as potential remediation costs on the site and use restrictions related to Wauwatosa's Life Science District Master Plan and zoning approvals. Additionally, Irgens has put together their own Land Sale Analysis, which shows land sale costs on their other local projects averaging a lower range than the \$24 per food assessment. The "Additional Purchase Price" payment(s) to Milwaukee are separate from and in addition to the cost of the land itself, which Irgens is paying to UWM.

As noted above, the decision to agree to the \$1,000,000 upfront payment, with \$12 per square foot after the first 200,000 additional square feet, was a compromise based on Irgens' willingness to provide an upfront lump payment, the financial feasibility of the project, and the desire to see this project go forward and benefit the community.

Irgens has provided the following cost analysis to demonstrate their full costs on this project:

Innovation Park Analysis

Purchase Price to UWM \$5,250,000
Payment to Milwaukee County \$1,000,000
Land Cost \$6,250,000
Estimated Environmental Cost* \$1,150,000
All-In Land Cost \$7,400,000
Allowable Rentable SF to be Developed 465,000
Land Cost per RSF \$15.91

* Wauwatosa environmental remediation report performed by Symbiont indicates a potential cost of \$1,550,000 to \$3,650,000. The Sigma Group independently estimates cost for remediation of between \$510,000 and \$1,850,000 to address contamination from demolished buildings.

RECOMMENDATION

The Department of Administrative Services – Economic Development Division respectfully requests authorization to sign onto the new Amended and Restated Development Agreement with Innovation Park Development Partners LLC, to allow for development by Irgens of the Innovation Campus land.

- Attachments: A: Proposed Amended and Restated Development Agreement with Innovation Park Development Partners, LLC.
B: Original Development Agreement with UWM
C: Innovation Campus Map (Existing)
D: Innovation Campus Development Plans
E: Letter of Support from UWM Real Estate Foundation
F: City of Wauwatosa Life Science District Master Plan

Aaron Hertzberg
Economic Development Director, Department of Administrative Services

- cc: David Crowley, County Executive
Scott Manske, Comptroller
Guy Smith, Director, Department of Parks, Recreation and Culture
Economic and Community Development Committee Members
Julie Landry, Director, Department of Administrative Services
Mary Jo Meyers, Chief of Staff, Office of the County Executive
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Steve Cady, Research & Policy Director
Allyson Smith, Committee Coordinator
Ken Smith, Research Analyst