City of Milwaukee

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November 20, 2006

Members of the Zoning, Neighborhoods
& Development Committee
City of Milwaukee Common Council
City Hall, Room 205
Milwaukee, WI 53202

SUBJECT: File 060911, The Brewery Project

Committee Members:

File 060911 approves a Project Plan and creates a tax incremental district, the Brewery Project. The Project targets the redevelopment of the former Pabst Brewery site. This File also approves terms of a Development Agreement between the City and the Brewery Project, LLC (Brewery Project) and authorizes the Department of City Development to enter into the Agreement consistent with the term sheet included in the File. The proposed Project Plan anticipates development with approximately 573,000 s.f. of office space, 182,000 s.f. of retail space, 477 housing units and 3,600 parking spaces – all to be financed and built by entities other than Brewery Project.

The Term Sheet outlines an arrangement involving the City, Brewery Project and ultimately, individual property purchasers (Purchasers). Brewery Project is the current owner of the former Pabst property, and will use City TID funding to accomplish and manage demolition, abatement and public infrastructure activities at the site. As these Brewery Project activities are completed, sites would be sold to Purchasers who would finance and construct real estate improvements on the Pabst site through 2011. While the TID proposal contains no design plan, as the Project proceeds, DCD and the City Plan Commission do have the right to approve all project plans developed during the Project. The City's commitment totals $29.0 million, including a $13.45 million Initial Funding (up-front grant) to Brewery Project plus up to $15.5 million of additional grants to the Project. City grants would be reduced dollar-for-dollar by any Federal or State grants received. Also, the term sheet provides a process for a third level of as yet undefined City financial assistance based upon the potential future requests of the individual property Purchasers.

Preliminary engineering analysis has identified about $17.3 million of private property demolition, utilities, remediation, $13.5 million in property acquisition costs, $6.9 million in public infrastructure improvements, $2.1 million in Brewery Project fees-administrative costs and $2.3 million in contingencies/unallocated with the remaining $0.4 million expended for TID planning/administration and job training[1]

The detail sources and uses are shown below:

Sources:		Uses[2]	
City of Milwaukee up front grant	$13.5 million	Demolition, abatement, utililities	$17.3 million
City of Milwaukee additional grants	$15.5 million	Property acquisition	$13.5 million
Brewery Project Equity investment	$13.5 million	Public Infrastructure	$ 6.9 million
		Management fee, general conditions contingencies, unallocated	$ 4.4 million
		Job Training, TIF planning	$ 0.4 million
Total Project Financing	$42.5 million	Total Uses	$42.5 million

Is the Project Likely to be Successful?

To address this question properly, a definition of "Brewery Project success" is needed. The implied goal of the Brewery Project TID is to fully develop the now vacant Pabst Brewery site at a City cost not to exceed the proposed TID budget - $29.0 million. Full development of the site is indeed an ambitious goal given the size of the site, years of decline of its existing structures and lack of private sector interest in the site. As such, DCD and the Brewery Project propose a TID based on an initial City start up grant of $13.5 million for public improvements and site demolition to generate initial developer interest. This start up grant would prepare parcels for sale without a committed project,

[1] Based on a term sheet dated November 8th, the distribution of costs is being updated.

[2] Ibid, note 1.

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project developer, anchor tenant(s) or development plan for the former Pabst site. Actual private developer construction commitments would be secured while this initial grant is being spent. Following the start up grant but only after private commitments are secured for $55 million in new property value, the City would provide Brewery Project up to $15.5 million in additional grants as actual TID development and estimated property tax revenues are generated sufficient to pay off these TID costs utilizing a maximum 25 year TID life. This TID approach clearly exposes the City to substantial financial risks beyond the typical TID, but is proposed by DCD given the severely deteriorated condition of the site, long history of decline and lack of market interest. This approach-based on millions in up front grants without any development commitment-should be considered a clear exception to City TID guidelines and should only be used for future TIDs in exceptional circumstances.

Given the proposed full dedication of TID revenues over 25 years, there will likely be no direct taxpayer financial benefit from this TID until the years 2028-2032. Therefore, City benefits of reaching the goal of full site development must focus on an as yet undefined number of jobs created and development momentum generated by revitalizing the now vacant former brewery site. The nature of this proposal precludes quantification of these types of benefits now.

The strongest asset of this proposal is the commitment of the sole principal of Brewery Project, LLC. His investment in the existing property comes when serious interest in the site was lacking and in the wake of an earlier unsuccessful development proposal. This private Brewery Project financial commitment and the expertise of his real estate marketing and management professionals provide much needed impetus toward the development of the site. The long and successful track record of the of the organization will no doubt add momentum in attracting developers and other businesses to consider locating on the site of the former Pabst Brewery.

Fully developed, the former Pabst site would be a major source of residential and commercial activity to complement the developing Park East-Brewer's Hill area. But this major undertaking does not proceed without substantial City of Milwaukee financial risk. Aside from its unprecedented physical scale and cost, the proposed Brewery Project TID departs from other City TIDs in that the Brewery Project TID provides substantial funds to a property owner not responsible for the ultimate retail, housing and other commercial development. While the City has taken aggressive steps to mitigate risk, this approach increases the development risk. Here are the major financial risks to the City taxpayer regarding this proposal along with the contractual provisions intended to reduce these risks:

1. **Upfront $13,450,000 City grant**: As the largest single City financial commitment to the Brewery Project development, this grant is provided at the outset of the Project to "jumpstart" development. The goal is to generate a minimum of $55 million in new TID property tax revenue in no more than 25 years. With no property sales or development commitments in place currently, should demand for the initial sites not materialize, the City risks falling short of the targeted new development with the resulting failure to recover this grant with TID revenue. Should development sales falter at the outset of the Project, there is little recourse available to the City to reclaim its initial $13.45 million grant.
2. **Subsequent City Funding up to $15,552,000 City grants**: Following successful development from the above $13.45 million grants, subsequent City grants would be made to Brewery Project with a maximum additional $15.6 million in City grants. Even though it may be more difficult to sell the remaining properties at this stage, City development risks are much lower in this stage due to required development commitments as described in the term sheet. Should sufficient demand not materialize at this stage, the unsold parcels would remain vacant until sold to a developer or purchased by the City. At this stage, the City would withhold any City grant spending not supported by firm construction commitments – an important protection for the City.
3. **Potential City grants to property purchasers/developers:** In our judgment, a major development risk jeopardizing the success of the Project is the risk of substantial additional City of Milwaukee subsidies beyond the proposed $29 million TID. This City financial risk arises should a developer or company buy a parcel from Brewery Project, then subsequently approach the City for additional (unbudgeted) financial assistance beyond the $29 million TID. This risk is greatest after the buyer-developer has acquired/controls the parcel.

   To guard against the Purchaser appealing to the City later for additional subsidy, the term sheet includes three valuable pre-closing requirements:

   - For parcel sales exceeding $2 million, certification by the DCD Commissioner is required confirming that the resulting development project is financially feasible and that the financing of the project development is complete.
   - For all parcel sales, the purchaser must covenant to the City of Milwaukee before closing that it will not approach the City for additional subsidy for at least five years after the development is placed in service.
   - Should a valid request for direct City financial assistance be made by a Purchaser prior to property closing, the term sheet calls for "good faith" negotiations by Brewery Project with the City to reduce Brewery Project's property sale price to the Purchaser in an attempt to share with the City the cost of the added Purchaser subsidy. (Example: Purchaser justifies need for $500,000 grant – City provides $250,000,

Brewery Project lowers sale price of property by $250,000). The parameters for such negotiation are not defined in the term sheet.

Due to the very nature and scale of the effort, the proposed Brewery Project is both a substantial development opportunity as well as a substantial financial risk to the City. The term sheet has incorporated a number of important protections for the City which mitigate, but not eliminate, the Project risks. The proposed $29 million City TID investment could be sufficient for full Pabst site development, but without a site plan for the area and firm development commitments, we cannot confirm this. Alternatively, the $29 million TID may well be a solid initial installment toward full site development, but still insufficient to fully develop the site. Substantial additional City funding could be needed to achieve this goal. Accordingly, if TID success is indeed defined as full development of the former Pabst Brewery site, absent firm development commitments we cannot at this point determine the likelihood of Project success.

Is the Proposed $29.0 million in City grants to Brewery Project necessary to allow the Project to proceed to completion?

The history of decline of this site over the past 12-15 years provides a clear indication of the need for a substantial public investment in the site. The possibility achieving full development of the Pabst site with a budget substantially below the proposed $29 million is extremely small. We base this conclusion on our examination of the Friedman & Co Feasibility Study and the underlying TID financial data. The Friedman Feasibility Study yields a modest projected 4.1% to 6.4% internal rate of return to Brewery Project through 2010 depending on sales assumptions. Further, the term sheet requires profit sharing with the City once Brewery Project total sales exceed $21.7 million or its internal rate of return exceeds 8%. Even considering the considerable Project services Brewery Project related entities will be providing for compensation, these projected rates of return to Brewery Project are modest by any measure.

We conclude that the proposed level of TID investment is a necessary element to achieve full development of the site. The key question – unanswerable at this point - is whether this $29 million City investment will be sufficient to bring about full site development.

Summary

Given that no firm, substantial construction commitments are now in place, we cannot conclude as to the likely success of the proposed TID in terms of the goal of full development of the former Pabst site or the sufficiency of the $29 million City expenditure to achieve this goal. However, it is also clear that the proposed Brewery Project TID is now the only development alternative for the site. While substantial City risks accompany TID approval, significant and growing risks exist should the City do nothing as the site degrades further. Further, DCD and the City Attorney's staff have incorporated important provisions to reduce - but not eliminate - the risks of the TID proposal before you. We may expect to see significant development of the site should the City be willing to provide the start up grant of $13.5 million. How much development results from this investment and how much more will follow from the additional $15.6 million in TID spending cannot be determined at this point. Understanding these risks, if your Committee is comfortable accepting these risks and moving forward with this Project, we would have no objection to your proceeding.

Should your Committee and the Common Council decide to proceed with this TID proposal, we make two suggestions to promote a successful and cost effective TID project:

1. Eliminate the current term sheet provision that after nine years, the City has the option to acquire any undeveloped Brewery Project property on the site. Should property remain undeveloped after nine years, the City could offer to purchase parcels without the purchase price constraints imposed by the current term sheet. Alternatively, the current term sheet price constraints could be restated as "not to exceed" limits.
2. Allocate adequate calendar and staff time by DCD in administering this Project to allow its staff and other supporting departments to carry out final contract drafting and on-going Brewery Project management functions. This Project is an extremely complex arrangement, requiring substantial professional staff time to properly define and enforce contract provisions consistent with the term sheet. As DCD continues to propose large dollar, complex agreements, substantial staff time needs to be made available to properly construct contract documents, monitor and administer these arrangements over the life of the projects.

Should you have any questions or comment regarding this report, please contact me immediately.

Sincerely,

W. Martin Morics
Comptroller

Cc Commissioner Marcoux, Joel Brennan, James Scherer, Emma Stamps