



**CITY OF WAUWATOSA**  
**COMMITTEE OF THE WHOLE**  
**MINUTES • JANUARY 22, 2013**

**Regular Meeting**

**Common Council Chambers**

**7:00 PM**

**7725 West North Avenue, Wauwatosa, WI 53213**

PRESENT: Alds. Berdan, Causier, Donegan, Dubinski, Ewerdt, Hanson, McBride, Moldenhauer, Organ, Pantuso, Roznowski, Walz-Chojnacki, Wilke, Wilson -14

EXCUSED: Alds. Birschel and Tilleson

ALSO PRESENT: Mr. Archambo, City Administrator; Mr. Kesner, City Attorney; Mr. Ruggini, Finance Director; Ms. Enders, Development Director; Mr. Brown, Asst. to Administrator

Ald. McBride in the Chair

**COMMITTEE OF THE WHOLE ITEMS**

- 1. Presentation of updated TIF 6 financial projection and status, including the draft Eschweiler building rehabilitation feasibility report as prepared by Springsted, Inc., and presented to the Historic Preservation Commission on January 9, 2013

Mr. Archambo stated that this meeting is a result of a development concept for the county grounds that was first discussed ten years ago. The Common Council adopted a plan in May 2010 with the purpose of advancing that concept. This meeting will give an overview of TIF's in general - what they are, how they help development - and the status of TIF 6 as it relates to this development. The presentation will also include the Springsted report as it relates to the two informal options proposed by the Mandel Group for the housing piece of this development.

A TIF uses property tax revenue generated by (re)development within a given site in excess of the base value for needed improvements to enable that development to occur. Development would not otherwise occur but for the TIF. All revenue from the base level during the life of the TIF goes back to the taxing jurisdictions. Once the TIF is closed, taxing jurisdictions benefit from the increased property tax revenue. TIF's do not use existing property tax revenue; increment is derived from taxes paid by property owners in the TIF District whose property values have increased since its creation.

The base value of a TIF is what the value was as of January 1 after creation. TIF 6 includes what had been tax-exempt property, so the base value was zero. Any subsequent value goes into the TIF funding and no other property tax payers pay those costs.

Mr. Archambo reviewed the Innovation Campus property, pointing out the location of the proposed residential piece of the development (around the Eschweiler buildings), the green space set aside for butterfly habitat, and the commercial development areas. Property available for at-grade parking is extremely limited at 6.7 acres.

Mr. Ruggini reviewed updated financial assumptions about the Innovation Campus project as follows:

Project	2010 Springsted Report	Updated 01/21/2013
	Value, Sq. Ft./Units	Value, Sq. Ft./Units
Improved Land	\$ 13,550,000	\$ 13,550,000

Accelerator Building	\$ 3,000,000	\$ 6,000,000
Academic Buildings	400,000	400,000
Residential	\$ 16,150,000 190 units	\$ 19,855,000 190 units
Office Research	\$ 54,506,250 475,000	\$ 71,325,000 475,000
Retail	\$ 14,407,500 113,000	\$ 7,000,000
Total Increment Value	\$101,613,750	\$117,730,000

Mr. Ruggini explained that the 2010 Springsted Report was a required feasibility study that was performed prior to the creation of TIF 6. As soon as the TIF was created, the value of the previously tax-exempt property went to nearly \$13.6 million dollars. Taxes began to be collected on it in 2013. If all seven building pads on the Campus are built out, it is anticipated that over \$71.3 million dollars in value will be created over the life of the TIF.

Mr. Ruggini then reviewed projected Discovery Parkway costs totaling \$12,630,829; monies from both TIF 2 and TIF 6 are involved as the Innovation Campus encompasses both districts. The awarded bid for the construction of this street came in at \$7.3 million dollars. Participation by TIF 2 is predicated on the assumption that residential development occurs at the Eschweiler buildings' site (located within the TIF 2 boundary). Infrastructure is an eligible TIF cost, enabling the city to use \$5.8 million dollars as the TIF 2 contribution, and reducing the amount TIF 6 has to borrow.

(Ald. Ewerdt present 7:20 p.m.) -14

The split of costs between the two TIF districts is based on the cost of the road to serve the demand caused by the proposed residential development at the Eschweiler site.

Mr. Archambo added that the construction of Discovery Parkway allows the State to use this street and Swan Boulevard as alternate routes when Watertown Plank Road is reconstructed. And, as a result, the State is willing to assume the Watertown Plank Road construction costs - something that would otherwise have come out of TIF 2. Discovery Parkway needs to be completed by August, prior to the butterflies' nesting period. Work on Watertown Plank Road is expected to begin next spring.

Mr. Archambo reported that construction of the UWM 'Accelerator' building will begin any day now. When complete, it will have an estimated value of \$6 million dollars. It will be paid for by a US Economic Development Administration (EDA) grant, with additional investments by the UWM Real Estate Foundation and by the City, per the EDA contract. The 'Accelerator' building is already 100% leased.

The first commercial development, a 3-story building, will be by ABB, Inc., and Zilber Group. ABB is an international company in power and automation technologies. It is estimated 350 jobs will be located there. ABB has submitted a TIF application that is currently under review.

Mr. Ruggini reminded the Committee that TIF's can be used for many things and as the city's financial officer, his task is to provide recommendations with the best financial outcomes for TIF's.

Mr. Ruggini stated that the land, 'Accelerator' building and the ABB development are projected to produce a property value of \$33.1 million dollars. He reminded the Committee that TIF 6 started with a \$0 value base since it was tax exempt. All the property tax revenue goes back to the TIF. Prior to its creation, this land was

not earning any property tax revenue. Multiplying the property tax rate times the projected \$33.1 million dollar value yields an increment of \$17.6 million dollars over the life of the TIF. Administrative costs of about \$1 million dollars will be charged against it. Total debt service is \$13.1 million dollars, principal and interest. The goal is for a positive fund balance, debt coverage, and no years below 100% debt service coverage. Value from the ABB building ensures debt coverage for Discovery Parkway costs.

In his calculations, Mr. Ruggini stated he is assuming residential development will occur at the Eschweiler site. There is no specific proposal under consideration at present, so there is no assumption of any TIF funding at present. It is further assumed when development occurs, a road leading to the Eschweiler site will be needed.

Mr. Ruggini also clarified that the ability to access the surplus TIF 2 funds, development must occur within the TIF 2/TIF 6 overlap area in the northwest quadrant of the property that requires a similar amount of infrastructure costs (i.e., roadway of a certain size, water and sewer pipes of a certain size, etc.) that residential development does.

Ald. Donegan pondered that those areas given over to development come at a high cost in some people's minds in terms of the green space lost. Given that costs appear to be covered with the current development commitments, the driving reason for development within TIF 2 seems to be the ability to access TIF 2's surplus funds. Must the eight acres around the Eschweiler buildings be developed? There is some support in the community not to develop them.

Mr. Archambo responded that every time there is a new proposed project, possible resulting scenarios will be evaluated.

Ald. McBride pointed out that to cover the debt, TIF 2 funds must be accessed. To do that, there must be activity in the Eschweiler area. The UWM Real Estate Foundation needs to make a \$4 million dollar mortgage payment to Milwaukee County in 2014. If nothing happens there, the Foundation won't be able to pay its mortgage. If no building is done in the residential district, the city will need to replace \$4 million dollars in the formula.

Mr. Ruggini stressed that a Real Estate Foundation problem becomes a TIF problem eventually.

Ald. Dubinski reviewed UWM's options for making its mortgage payment: Sell the Eschweiler site to the Mandel Group for \$4 million dollars or replace it with some other funding source, i.e., donations, larger TIF payments, etc.

Ald. Donegan questioned whether Milwaukee County would be willing to reconsider this \$4 million dollar payment figure.

Mr. Ruggini pointed out it is in the County's best interest to have the city maximize the TIF 6 value. The County will benefit when TIF 6 closes because of the larger property tax base that will have been created. To the extent that the Eschweiler site prevents the City from providing funding for enough structured parking to other parts of the development to support 475,000 square feet of commercial development, the County will be impacted by a possible lower TIF value upon its closing. (That assumes the City would divert money from structured parking construction to cover costs that the surplus TIF 2 money was originally intended to cover.) When the City considers providing TIF assistance, it must consider opportunity costs. In the future, this means the structured parking to support the aforementioned commercial development.

In response to a query, Mr. Ruggini stated that redevelopment of the Eschweiler buildings and their refurbishment as office space could satisfy TIF 2 requirements. The challenge is the \$4 million dollar amount. About \$20 million dollars worth of commercial development (about 100,000 square feet) is required to provide enough increment to pay the \$4 million dollar land purchase price. Two challenges exist: the higher cost of rehabbing the historic Eschweiler buildings and the land's price.

Mr. Archambo stated that Springsted, Inc., was retained to provide an analysis of the Eschweiler buildings and the TIF 2/6 residential district. They evaluated the Mandel Group options of rehabbing five buildings, or demolishing four of the five buildings and combining the remaining building with more new construction.

Mikaela Huot, Springsted, Inc., stated that the analysis helps determine if a proposal to rehabilitate existing historic buildings is feasible as opposed to demolition and subsequent construction. Concord Group, experienced in dealing with historic projects, was retained to provide independent verification of estimates of project costs submitted by the Mandel Group. Mandel had also provided sources and uses funds for the financing of the project. Testing of these revenue and cost assumptions was performed. Concord determined that the estimated costs provided by the Mandel Group are within normal range to rehabilitate historic buildings.

The analysis indicates that the projected financial gap is significantly higher in the scenario where the Eschweiler buildings are preserved. Thus, rehabilitation may be considerably more infeasible than demolition. Ms. Huot added that the project was limited in the analysis to costs that can be financed by debt due to projected value upon completion. The developer had indicated that minimum returns are necessary for equity investors to consider investing in the project; thus available equity amounts are limited. Further, conventional financing only up to \$30,776,899 would be available. Total estimated project costs are \$46,143,985; total estimated building costs are \$36,175,248.

There are four options for closing the financial gap: Reduce total project costs; increase projected market value of the project for increased debt financing; decrease desired returns, allowing for increased equity; secure additional funding sources.

Yet to be determined is whether it is financially feasible for the developer to rehabilitate the historic building with public participation and, if public participation is necessary, what amount is appropriate? Public participation could range from fund-raising to TIF funding.

Ald. McBride observed that each option comes with the discussion of 'opportunity costs.' The more the City opts to spend in one area, the less it has to spend in others. TIF money is available; the question is where and how to spend it.

Ald. Donegan noted that the City has \$12.5 million dollars in infrastructure costs to pay for. The incremental value will be returned to the TIF to pay for infrastructure costs.

Mr. Ruggini added that any increment generated above the infrastructure costs is available to spend on some other project need.

The observation was made that it appears restoration of the Eschweiler buildings may require additional funds from the City.

Ms. Huot stated that estimates for rehabilitating the historic buildings (thereby creating 41 rental units), and constructing 168 new rental units with 226 underground parking spaces projects a financial gap of about \$6.5 million dollars. By contrast, demolishing 4 of the 5 buildings (preserving the administration building), developing a walled garden concept, and constructing 192 new rental units yield a projected financial gap of \$2.5 million dollars. Ms. Huot explained part of the reason for the differing financial gaps, noting that rehabbed rental rates would be lower than rental rates for new construction; new construction provides amenities that command higher rates. Ms. Huot reiterated that Mandel Group has not made any formal request for financial assistance to date.

Ms. Huot further stated that Springsted's analysis included review of operating pro formas (projected sources/uses of funds and projected revenues and operating expenses) and testing and calculating the internal rate of return. She reiterated that Concord Group found that their own cost estimates were within reasonable range (10%) of the developer's. In verifying costs, the pricing assumed competitive bidding would occur, and reflects construction costs comparable to the project and area. Thus, several questions need to be answered: What does feasibility mean? Is the project self-sustainable? Will revenues support project costs? Will the

market support the proposed project? Is there ability/willingness for public participation? What is driving the potential financial gap?

In addressing the last question, Ms. Huot noted that expenses (projected cost estimates, operating expenditures) and revenues (lease rates, slower market absorption) are two factors. Closing upfront financial gaps could include reducing project costs, increasing equity, attracting other funding sources, and increasing the mortgage. The developer has suggested that the project will not proceed without public participation.

Mr. Ruggini stated that the property as proposed would provide enough property tax value to support a \$6.5 million dollar contribution. However, to the extent that the City spends all of the increment on this project, monies will be unavailable to support structured parking or Discovery Parkway.

Ald. McBride noted that different policy decisions are possible. Ald. Donegan concurred, noting that TIF 2 surplus could be returned to the taxing jurisdictions, as originally intended, rather than spent. Ald. Wilson opined that earlier councils may have seen value in rehabilitating the Eschweiler buildings - hence their inclusion in TIF 2.

Mr. Ruggini stressed that TIF 2's life is not being extended longer than necessary.

Ms. Huot continued her presentation, noting that projected available revenues do not indicate the amount available for a project around the Eschweiler buildings. The developer, providing two development scenarios, has indicated that the project is not possible without assistance. Consideration must be given to future funding commitments, other outstanding financial obligations and what is financially feasible based on entire TIF 6 needs.

Bill Aiello, the Mandel Group, noted that a major challenge with a development around the Eschweiler buildings deals with the rehabilitation component. New construction has an efficiency rate of 82-83%, whereas rehabilitation projects are only about 50% efficient. Only 41 units (7-8/building) could be created from the existing buildings because of the need to work with pre-existing construction limitations. That affects revenue.

Continuing his comments, Mr. Aiello stated that assuming the buildings remain intact, four 3-story buildings and two 4-story buildings would be constructed behind them. Mr. Aiello added that the buildings were a school originally; the Forest Exploration Center is interested in reusing the buildings as a school. This option would also require a great deal of fund-raising.

In response to a query, Mr. Aiello stated that square footage of the Eschweiler buildings is about 60,000. Ald. Organ noted that some time ago, the Council was told that 200,000 square feet had to be developed to pay for the Eschweilers' rehabilitation. So if the Eschweilers are not re-developed, how does that affect the project?

Mr. Aiello stated that they need to construct 192 units to enable a project without public assistance. A critical amount of rentable square footage is needed to make the project 'a go' - to cover costs and allow for an adequate rate of return for investors. In answering a question, Mr. Aiello opined that the number of units could possibly be reduced if the land acquisition cost (\$4 million dollars) were reduced.

Ald. Organ expressed concern that this project was always presented to the Council with the rehabilitation component; now, it seems that may be taken out of the picture.

Mr. Archambo pointed out no one, aside from the Mandel Group, was willing to even tour the buildings, perform a detailed analysis, and develop a proposal. The city is at the point where it needs to consider the options based upon the \$2.5 million dollar and the \$6 million dollar financial gaps. If Milwaukee County were to reduce the land cost, this would reduce a gap.

Ald. Ewerdt noted that the Eschweiler buildings have been in poor condition for 20 years. A few years ago, the Council was sold the rehabilitation idea; however, the Springsted report seems to indicate that the buildings need to come down. Is there a point in spending money on trying to save them? The option to save one of the

buildings is simply an effort at appeasement. While he supports historic preservation, the city needs to get the TIF rolling.

Ald. Pantuso concurred, noting that short of a miracle, there don't seem to be a lot of alternatives. The tour of the Eschweiler buildings was enlightening, as he expected them to be in better shape. There are holes in the roofs; visitors' feet were going through the floors. It would be cheaper to demolish them and build replica buildings using modern design and materials. He cannot justify spending tax payer dollars on this project. In response to a question, Ald. Pantuso was informed that no study on the Eschweiler buildings has been done in the last 20 years that could be adjusted for cost. He noted that it would have been helpful in May 2010 to have had real numbers in front of them when they were trying to save the butterflies, the Eschweilers, and still have new construction.

Ald. McBride commented that it was his understanding that the original sale price of the entire 88-acre parcel was to have been \$8.5 million dollars, but that at the last minute, the County increased that figure by \$5 million dollars. He opined that the UWM Real Estate Foundation had intended to use the Eschweilers for educational purposes; it had experience renovating other Eschweiler buildings on the UWM campus. Perhaps the Foundation had underestimated the condition of the Eschweiler buildings on the county grounds, however. He suggested perhaps it would be worthwhile to approach the County for some relief with the \$4 million dollar payment due next year.

In response to Ald. Donegan's comment that the Mandel Group needs a decision by March concerning the two options, Mr. Archambo pointed out that there is no formal proposal yet before the Historic Preservation Commission (HPC). The Commission is charged with deciding whether to issue a Certificate of Appropriateness if the buildings are to be removed. Mr. Kesner concurred, noting that Mandel has brought forth *options*. Historic Preservation Commission rules provide that since the Eschweiler buildings are historic buildings, and historic district alteration can't occur unless it is proven to be economically infeasible to preserve them, the HPC must determine whether to preserve or demolish. The HPC still doesn't have anything formal in front of it; if Mandel doesn't feel any funding is forthcoming, it may opt not to submit a formal proposal. Once a proposal is submitted, the HPC has 45 days in which to render a decision. Ald. McBride suggested that it may aid the HPC's deliberations if the Council determined whether it is comfortable offering financial assistance.

Mr. Kesner explained that the March decision date comes up because the Real Estate Foundation payment of \$4 million dollars is due next year and if movement on the Eschweiler project is to occur, Mandel needs a decision to meet deadlines.

Mr. Archambo next reviewed the scenario analysis in an effort to clarify the Council's options. Full residential preservation of the Eschweilers requires \$6.55 million in TIF assistance; partial preservation requires \$2.5 million in TIF assistance. Both scenarios assume issuance of 20-year general obligation bonds.

Mr. Kesner added that the Council will need to decide whether to alter the Planned Development plan to permit specific development, and will need to decide whether or not to amend the TIF if a funding request is made.

Mr. Archambo again reviewed the base scenario:

Land/Accelerator bldg/ABB yields an estimated value of \$33,125,000 with a total increment of \$17,601,580; administrative expenses are \$1,031,425, total debt service is \$13,161,120. There is adequate debt service coverage at 116%, with no years below 100%. The updated fund balance is \$3,409,035. The fund balance can go towards other TIF expenses, or can be returned to other taxing jurisdictions.

The option exists to spend \$6.5 million dollars to save the Eschweiler buildings (full residential preservation). The scenario then becomes: Land/Accelerator bldg/ABB + full residential preservation which yields an estimated value of \$52,980,000, total increment of \$27,517,167, total administrative expenses of \$1,488,090, and total debt service of \$22,738,723. Projected fund balance is \$3,290,354, with debt service coverage at 105% and no years below 100%. Under this scenario, the revenue cannot be used to close the TIF early or pay taxing jurisdictions, or fund structured parking.

The next option is to provide a \$2.5 million dollar TIF contribution to partially save the Eschweiler buildings. The scenario then becomes: Land/Accelerator bldg/ABB + partial residential preservation which yields an estimated value of \$52,980,000, total increment of \$27,517,167, total administrative costs of \$1,488,090, and total debt service of \$16,816,692. Projected fund balance is \$9,212,385, with debt service coverage at 143%, and no years below 100%. The TIF can be closed, or monies can be distributed to taxing jurisdictions, or fund structured parking.

Parking is an opportunity cost to consider. There are 6.7 acres allocated for shared parking, 108 spaces per acre. Surface parking would yield 724 stalls on the allocated acreage. However, the 475,000 square feet approved for commercial use on the Campus needs 1,663 stalls, or 3.5 stalls/1,000 square feet. In order to develop 475,000 square feet to generate \$115,000,000 in value for the TIF, structured parking is needed (at \$15-20,000/stall). It is possible developers could carry part of this cost.

The Kubala-Washatko Plan from 2004 recognized the need for structured parking in order to maintain green space. The Plan offered both an 'advanced conservation' option and a 'conservative conservation' option. The current master plan for the Innovation Campus provides a *greater* level of conservation compared to the 'advanced conservation' plan. In addition, structured parking is also necessary to compete with suburbs that can provide less expensive surface parking options to developers.

Future commercial build-out assumes one building will be constructed every three years between 2013 and 2031 at \$150/value/square foot. If one assumes 3.5 stalls per 1,000 square feet for remaining commercial development (plus the ABB parking requirement) and 40% is structured parking, \$90,875,000 in value is projected, total increment is projected at \$34,206,630, administrative expenses are \$1,820,675 and total debt service is \$28,183,074. Projected fund balance is \$4,202,881; debt coverage is 112%, with 10 years being below 100%.

A ratio of 2.5 stalls per 1,000 square feet sees a total debt service increase by another \$10 million dollars, and the TIF ending with a deficit of \$5,930,372. There is adequate debt coverage 81% of the time, with 15 years below 100% coverage.

With 1.5 stalls per 1,000 sq. ft. of commercial development, the value from the land, the Accelerator building, 745,000 square feet of commercial development, and a TIF-neutral requirement for assumed residential development could yield a \$4 million dollar fund balance at the end of TIF 6.

Mr. Ruggini added that TIF 6 could realize a value of \$110,730,000 at the end of 27 years without any specific assumption about structured parking; adequate parking, however, will have to be available to facilitate the development and the City will need flexibility to accommodate that need.

Ald. Ewerdt opined that the city *chose* to preserve a considerable amount of green space; in doing so, it created the situation where one option under consideration is to build structured parking at a cost of approximately \$18,000/stall.

In response to a question by Ald. McBride, Mr. Ruggini explained that a \$2.5 million dollar contribution towards residential development and the TIF being responsible for funding 1.5 stalls/1000 sq. ft. will result in a fund balance of \$9.7 million dollars.

Ald. Donegan suggested that another meeting be scheduled where the parking sensitivity analysis can be further discussed. Years ago the focus was more on developing the county grounds to pay for more municipal services; it now seems more focused on paying for parking.

In response to a question by Ald. Causier, Mr. Archambo stated he did not know whether Milwaukee County would entertain a payment below \$4 million dollars for the Eschweiler parcel. The County sold the property to avoid rehabilitating those buildings; to avoid getting them back, perhaps the County would consider a lower price.

Several council members addressed the complexity of this project, and the many decisions that will be needed on an on-going basis. Concern was expressed that if financial assistance is given to Mandel, future developers will all come to expect that. There was some interest in approaching the County to see whether it would accept a payment of less than \$4 million dollars, the reasoning being that the sooner development can occur on the Campus, the sooner the TIF can close, and the sooner the County will begin to reap the benefits of the increased tax base.

Ms. Huot again stressed that Concord Group's analysis of the figures submitted by The Mandel Group should serve to reassure the City that Mandel's figures are realistic. The variations that occurred can be attributed to different analysis methods. While Mandel's figures were higher in some areas, Concord's figures were also higher in different areas. Springsted's purpose in having the analysis performed is to mitigate risk to the city. If Mandel does ultimately submit a firm proposal for consideration, the city will need to balance the overall needs of the district against that proposal's funding gap - should there be one.

There being no further business, the meeting adjourned at 10:10 p.m.

  
Carla A. Ledesma, CMC, City Clerk