



CITY OF WAUWATOSA

COMMITTEE OF THE WHOLE

MINUTES • MAY 21, 2013

Regular Meeting

Common Council Chambers

6:30 PM

7725 West North Avenue, Wauwatosa, WI 53213

PRESENT: Alds. Wilke, Wilson, Berdan, Birschel, Causier, Donegan, Dubinski, Ewerdt, Hanson (7:25 p.m.), McBride, Moldenhauer, Pantuso, Roznowski, Tilleson, Walz-Chojnacki (7:20 p.m.)

EXCUSED: Ald. Organ

ALSO PRESENT: Mr. Archambo, City Administrator; Mr. Kesner, City Attorney; Mr. Ruggini, Finance Director; Phil Aiello, The Mandel Group

Ald. McBride in the Chair

COMMITTEE OF THE WHOLE ITEMS

1. Presentation pertaining to the proposed development of the residential section of Innovation Campus

Mr. Archambo began the presentation by outlining four scenarios that could occur within the residential development area of Innovation Campus: (1) new construction only, with demolition of Eschweiler buildings; (2) construction of a walled garden; (3) participation by the Forest Exploration Center; (4) full preservation of Eschweiler buildings as housing units. Mr. Archambo noted that these options were shaped by a number of factors, including the economics of this development, and the limitation on residential acreage.

New construction only would require the Historic Preservation designation to be removed from the subject buildings; estimated taxable value would be \$20,000,000; approximate annual TIF revenue is \$454,000; no tax incremental financing assistance is assumed; there is the risk of litigation from outside interests (e.g. State Historical Society, National Historic Trust, Milwaukee County).

The walled garden option would restore the administration building; two additional buildings would be converted to the walled garden, preserving important architectural features of those buildings. The engineering and power house buildings would be demolished. Estimated taxable value is again \$20,000,000 and TIF revenue annually is estimated at \$454,000, TIF assistance up to \$2,500,000 may be required, and the approximate TIF payback of that assistance is 6-8 years from time of completion. There is also the risk of litigation.

The Forest Exploration Center (FEC) option would see the restoration of all buildings except the non-Eschweiler power plant. The FEC would occupy all of the restored buildings except for the first floor of the administration building. Re-use would be consistent with the original plan and design of the historic buildings. The estimated tax value is once again \$20,000,000, and annual estimated TIF revenue is \$454,000. TIF assistance of up to \$2,500,000 is anticipated, with payback occurring in 6-8 from time of completion. This option requires considerable FEC fund-raising.

The fourth scenario calls for full preservation of the Eschweiler buildings as housing units; re-use of the power plan is uncertain. Estimated taxable value is again \$20,000,000, and annual TIF revenue is about \$454,000. This option calls for up to \$6.5 million dollars in TIF assistance; payback of that assistance from taxes is 22 years. This scenario risks the ability to achieve full build-out of the entire Innovation Campus because it would use all available TIF monies.

Mr. Archambo explained that the approval process, noting that design review will be conducted by the Historic Preservation Commission. The Planned Unit Development (PUD) Amendment will proceed through Plan

Commission, the Community Development Committee, and Common Council approval. The TIF financing assistance component will proceed through the Budget and Finance Committee and on to the Common Council.

Mr. Ruggini examined the TIF 6 financial pro forma, using value assumptions of \$13.6 million dollars for the land, \$6 million dollars for the Accelerator Building, and \$13.6 million dollars for the ABB Building. Assuming no development occurs with the Eschweiler buildings means that TIF 2 money can't be used for partial funding of Discovery Parkway; under this scenario, TIF 6 would need to borrow more. If TIF 6 runs for 27 years, there is not enough tax money to support debt service. There is a negative cash flow and it could not close early.

If a hotel (\$8 million dollars) were added to the estimated value assumptions above, the total estimated rises to \$41,125,000 (up from \$33,125,000); however, this is still insufficient to fund the TIF.

Adding a residential component (\$20,000,000) to the above-mentioned estimated value assumptions, and \$2.5 million dollars in TIF assistance, means that TIF 2 funding would be available for Discovery Parkway. This option provides additional TIF funding capacity of \$12,000,000 and assures excess debt coverage. It provides flexibility to potentially assist with structured parking on the Campus.

Mr. Ruggini summarized the debt coverage ratio while comparing the different scenarios, noting that minimum debt service coverage (100%) is not met until both the hotel and the apartments are included in the formula. The addition of just the hotel alone only creates debt coverage of 89%.

Phil Aiello, Senior Development Manager of The Mandel Group, and Barry Mandel, owner, were both present, as was Curtis Stang, UWM Real Estate Foundation.

Mr. Aiello stated that the residential component with the Forest Exploration Center (FEC) is an important piece of the development of Innovation Campus. The FEC's plan to create a charter school on the premises is a once-in-a-generation opportunity that may occur in the back yard of the Medical Complex and the Research Park. The Mandel Group has worked for the past two years to preserve the Eschweiler buildings and is very pleased the FEC has stepped forward to save them.

Mr. Aiello highlighted activities on the Innovation Campus thus far, noting ABB's intention to relocate here. Plans are underway to locate an extended stay hotel on the property. These activities will allow the UWM Real Estate Foundation to create more opportunities like ABB, or to grow small, incubator businesses.

There have been many barriers to the residential project's feasibility, the high cost of rehabilitation of the Eschweiler buildings being the primary barrier. There is an estimated \$6.5 million dollar financing gap to convert these buildings to apartments. Hard costs are estimated at \$8-11 million dollars, and have been independently verified by three contractors The Mandel Group engaged, as well as by a third-party contractor retained by the City. Despite their size, the Eschweilers have low revenue-producing square footage. They are about 51% efficient, where new apartments are about 83% efficient.

Mr. Aiello noted that the Historic Preservation Commission recently granted a Certificate of Appropriateness for the demolition of the buildings should the preservation effort fail. Another Certificate of Appropriateness will have to be granted if new construction commences. The FEC will be engaging in a vigorous fund-raising effort, which includes a philanthropic component, for the next many months.

Mr. Aiello confirmed Mr. Archambo's earlier remarks, noting that the FEC is seeking to repurpose all four buildings and remove the power plant building. Alternately, the walled garden approach will save the administration building and certain architecturally significant components (stairs, arches, fireplace) of those buildings that would be demolished (dorm and dairy building). The remaining buildings would be removed.

One year ago, Mr. Mandel stated that he would relinquish the Eschweiler buildings for \$1 to a compatible use. The FEC has the option to lease the buildings for \$1 per year from the UWM Real Estate Foundation. In the past 11-12 months, the FEC has begun their fund-raising and initiated the groundwork necessary to open a

school (hiring teachers, engaging an architect, developing a curriculum, etc.). In the next nine months the approval and financing process will be worked out.

Construction may begin in December 2013 if approvals and financing are secure, though a Spring 2014 date may be more realistic. Construction will take about 16 months and should be completed in 2015. The FEC's school will open for 6th - 8th graders.

If the FEC fails to secure financing by 12 months after construction commences (about December 2014), The Mandel Group has the right to implement the administration plan and convert the dairy and dorm buildings to the walled garden. This proposal has been approved by the Historic Preservation Commission. There is a will to preserve these buildings in whole or part.

Mr. Aiello stressed that the two plans are linked, and the FEC's portion represents the best hope for preservation. It enhances the residential development, and it is difficult for the FEC to proceed without the residential development. The Mandel Group cannot proceed without some certainty regarding the Eschweiler buildings. Without the residential portion of the development, the FEC would have to raise even more money for site acquisition. The Mandel Group will subsidize over \$1 million dollars in land and site development costs. Finally, without the residential development, there is no increased tax base to meet the financial obligations the UWM Real Estate Foundation has to the County.

Mr. Aiello stated that time is of the essence. Interest rates are favorable now. The FEC plan is a phased strategy. The administration building must be preserved inside and out and the other three buildings must be stabilized on the exterior. The first phase of the project will utilize \$8 million dollars from a variety of sources. Beginning in the period June - August 2013, The Mandel Group will seek various approvals and the FEC will be fundraising and securing approvals for the school. The interior of the administration building will be cleaned. The FEC will establish an ongoing structure to obtain construction tax credits.

In 2014 The Mandel Group will begin new building construction, with first occupancy occurring in 2015. The FEC will have Phase 1 construction in January - March 2014, and the school will open that September. Rehabilitation of the dorm and dairy buildings will occur before the end of next year. The tax increment created (in TIF 2) will be about \$20,000,000.

In response to a query by Ald. Donegan about the possible request for \$2.5 million dollars in TIF funding, Mr. Aiello stated that both options - preserving all of the buildings or converting the dorm and dairy buildings to the walled garden - will require this assistance.

Mr. Archambo addressed a second question about upcoming deadlines, stating that the UWM Real Estate Foundation (REF) has already paid to Milwaukee County \$5 million dollars of the \$13.5 million dollar purchase price for the Innovation Campus land. The remaining \$8.5 million dollars owed must be paid annually in February of 2014 - 2018. Each time the REF sells property, 75% of the gross proceeds must go to Milwaukee County to help pay that mortgage. It would help REF if sale of the proposed residential parcel occurs before February 2014. The worst case scenario would be if the property around the Eschweiler buildings reverts to County ownership.

Another deadline to consider is TIF 2. It is set to close on or before May 2015; to keep with this timeline, the City needs to determine to what extent TIF 2 is participating in TIF 6 costs. The City must know that level of participation three months prior, or the end of 2014. To enable the participation of TIF 2 monies in TIF 6 costs, a development plan must be approved so construction can start before the end of next year. Thus, six months prior, or by July 2014, the development plan must be approved. Mr. Ruggini added that the City must have certainty that development will occur and construction will start.

Mr. Kesner noted that the February 2014 deadline is the time by which UWM REF needs to be sure it has the money to spend to buy this land from the County. Almost all approvals (3-4 month process) must be done before they make this payment. Taking into account the Council's August recess, this means that approval must be obtained by mid-September 2013.

Responding to a question about the possible request for assistance from TIF 2, Mr. Archambo stated the process should start now. Options #2 and #3 (walled garden, FEC participation) have been formally proposed to the Historic Preservation Commission. None of the other options have credible financial backing. If the City does not feel the project is worth financial investment, then option #1 (demolition of all buildings) will unfold; that is the financial reality. No other proposal has been offered to fill the financial gap. Therefore, the \$2.5 million dollars from TIF 2 is needed. Option #4 (full preservation of the Eschweilers) will require \$6.5 million dollars in TIF assistance.

Ald. Donegan asked that a robust debate be held on this possible public subsidy with TIF money. The option to abandon this proposal must exist if this is what the Council decides. Do citizens want to take on this preservation so a charter school can be added to their tax bills?

Mr. Archambo confirmed that if either of the two pieces - the PUD amendment or the TIF assistance - is denied, options are pulled from consideration. When asked whether 190 apartments would still be created without TIF assistance, Mr. Archambo stated he believed so, but was not completely certain.

Mr. Aiello stated that the design approval process will start at the Historic Preservation Commission meeting the first week of June. The application for TIF funding will be made within the next few weeks.

The Mandel Group plans to utilize part of the administration building for a leasing office and for the creation of those uses (theater room, fitness room, community center) typically associated with competitive developments today. Were just the administration building to be preserved, the upper floor would be designated for non-professional office space.

Mr. Archambo reiterated that the question before the Council will be what level of preservation is desired and at what cost. If a determination is made that all Eschweiler buildings should be saved, then option #4 (with the \$6.5 million dollars in TIF assistance) should be chosen. The next surest option is the FEC option, followed by the walled garden.

Ald. McBride observed that there is TIF money available to spend if the hotel is constructed and the residential proposal proceeds. The \$20,000,000 of tax increment will be created. Some or all buildings will be preserved. Conversely, if no TIF money is invested, and no preservation is planned, residential uses may still yield the \$20,000,000 in value. That must not be jeopardized by an action of Council.

In answering a question about zoning, Mr. Archambo clarified that every time a parcel on Innovation Campus is proposed for development, an amendment to the Planned Unit Development will occur.

Discussion turned to the May 2010 Council resolution that approved the Preliminary Plan for this development. That approval identified 200,000 square feet for residential use. Ald. Hanson opined that the 2010 resolution specified that the 200,000 square feet included the rehabilitation of the Eschweilers for residential purposes. If this figure is no longer valid, Council needs to discuss the further shrinking of that footprint. Is 200,000 square feet of residential use needed or not in order to save the Eschweilers?

Mr. Kesner stated that this is the type of discussion that ought to occur as part of any amendment to the original planned development.

Ald. Ewerdt concurred that in 2010 the Council was told that 200,000 square feet of residential use was needed to preserve the Eschweilers. If none of the Eschweilers are preserved, will TIF money still be needed?

Mr. Aiello replied he was uncertain at present. He added that much has changed in three years; economic conditions are different. At that time, it was not known that it would take \$8-11 million dollars just to rehab the Eschweiler buildings. More density, as a result, may be needed.

Ald. Ewerdt noted that the FEC is tax-exempt. What if another business were to come forth with a rehabilitation plan? Mr. Aiello pointed out that this has not happened, however, in three years. No one has come forward because of the great expense involved, coupled with the Eschweilers' limited interior square footage to offset those costs.

When asked more about FEC leasing from REF for \$1 per year, Mr. Aiello explained that the administration building is part of The Mandel Group's development scope. The building will be shared, with the basement, second, and third floors being devoted to the FEC. The land and buildings will be 'condominiumized' such that Mandel is purchasing all the surrounding land and the first floor of the administration building. The REF will retain ownership of the basement, second, third and fourth floors and all other Eschweiler buildings. It will be leased to the FEC.

Ald. Ewerdt inquired whether the \$2.5 million dollar TIF funding would still be needed if the walled garden option were chosen and the power and engineering buildings were demolished. Isn't that a less expensive option? Mr. Aiello stated that there is actually more risk associated with the walled gardens because of the converting costs. He also noted that the FEC would not participate in the walled garden approach.

Mr. Mandel added that while the FEC will be involved in raising the funds necessary to save the buildings, it will cost more than \$2.5 million dollars to save them. The \$2.5 million dollars would be for the walled gardens and administration building preservation.

Ald. Donegan inquired whether the proposal (190 units, restoration of 4-5 buildings without TIF funding) approved three years ago has been abandoned. Mr. Archanbo responded negatively, but stated that things have changed because of the changed economic climate. The May 2010 plan has guidelines specific to the residential piece, but it may not specify new or old construction. The resolution is a guideline and Council is trying to get a developer to comply with those guidelines.

Ald. Donegan noted that The Mandel Group committing to save the Eschweilers was a substantial commitment in 2010, as it is now. Does the City have any obligation to them?

Mr. Kesner stated that they are like any other developer who wishes to purchase and develop a parcel. Every other developer has also had that opportunity. He cautioned that although The Mandel Group has discussed its plans in some detail, no formal proposal has yet been submitted. The Council will need to accept or deny it once submitted.

Mr. Archanbo stated that copies of the May 2010 resolution and a recording of that meeting will be made available to Council members.

The meeting adjourned at 8:10 p.m.

Carla A. Ledesma, CMC, City Clerk

Four Scenarios within the Residential District

1. New Construction Only/Demolition of Eschweiler Buildings
2. Walled Garden*
3. Forest Exploration Center*
4. Full Preservation of Eschweiler Buildings into Housing

*Certificate of Appropriateness Approved by Historic Preservation Commission (HPC)

New Construction Only/Demolition of Eschweiler Buildings

- Requires Historic Preservation to be Removed as a Condition of Development
- Loss of Listed Historic Buildings
- Estimated taxable value of \$20,000,000
- Approximate TIF Revenue of \$454,000 Annually
- Assumes No Tax Increment Financing (TIF) Assistance
- Risk of Litigation from Outside Interests

Walled Garden

- Administration Building fully restored
- Two additional buildings converted to “Walled Gardens”
- Engineering and Power House Demolished
- Estimated Taxable Value of \$20,000,000
- Estimated Annual TIF Revenue of \$454,000
- TIF Assistance of up to \$2,500,000
- Approximate TIF Payback of Assistance in 6 to 8 Years from Time of Completion
- Risk of Litigation from Outside Interests

Forest Exploration Center (FEC)

- All Buildings, Except the Non-Eschweiler Power Plant, Restored
- Forest Exploration Center (FEC) Occupies all Restored Buildings Except the First Floor of the Administration Building
- Reuse Consistent with Original Plan and Design of Historic Buildings
- Estimated Taxable Value of \$20,000,000
- Estimated Annual TIF Revenue of \$454,000
- TIF Assistance of up to \$2,500,000
- Approximate TIF Payback of Assistance in 6 to 8 Years from Time of Completion
- Requires FEC Fund-Raising

Full Preservation into Housing

- All Buildings fully restored for Housing
- Power Plant Reuse Uncertain
- Estimated Taxable Value of \$20,000,000
- Estimated Annual TIF Revenue of \$454,000
- Would Require TIF Assistance of up to \$6,500,000
- Approximate TIF Payback of Assistance in 22 Years
- Risks Ability to Achieve full Build Out of Innovation Campus

Approval Process

- Design Review
 - By Resolution conducted by the HPC
- Planned Unit Development Amendment
 - Plan Commission
 - Community Development Committee
 - Common Council
- Tax Increment Financing (TIF Assistance Review)
 - Budget and Finance Committee
 - Common Council

TIF 6 Financial Pro Forma

- Current Developments
 - Land \$13.6M
 - Accelerator \$6.0 M
 - ABB \$13.6 M

Scenario	Estimated Value	Additional TIF Funding Capacity	Debt Coverage	Years Below 100%	Years to Close TIF
Land+Accelerator+ABB No TIF 2	\$ 33,125,000	\$ (4,652,482)	72%	20	No

TIF 6 Financial Pro Forma

- Current Developments + **Hotel**
 - Land \$13.6M
 - Accelerator \$6.0 M
 - ABB \$13.6 M
 - Hotel \$8.0 M

Scenario	Estimated Value	Additional TIF Funding Capacity	Debt Coverage	Years Below 100%	Years to Close TIF
Land+Accelerator+ABB +Hotel - No TIF 2	\$ 41,125,000	\$ (841,282)	89%	19	No

TIF 6 Financial Pro Forma

- Current Developments + Hotel + Residential Development with \$2.5 million in TIF Assistance and TIF 2 funding of Discovery Parkway
 - Land \$13.6M
 - Accelerator \$6.0 M
 - ABB \$13.6 M
 - Hotel \$8.0 M
 - Apartments \$20.0M

Scenario	Estimated Value	Additional TIF Funding Capacity	Debt Coverage	Years Below 100%	Years to Close TIF
Land+Accelerator+ABB +Hotel+Apts w/\$2.5M	\$ 61,125,000	\$ 12,136,849	155%	-	18

Scenario Comparison

