

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : November 22, 2010
TO : Chairman Lee Holloway
FROM : Steven Kreklow, Fiscal & Budget Administrator
SUBJECT : O'Donnell Parking Structure Cost Benefit Analysis

During the September 2010 County Board cycle the Department of Transportation and Public Works (DTPW) staff submitted a report on the various repair options that were evaluated for the O'Donnell Parking Structure. INSPEC was hired to do an evaluation of the facility and provided seven remediation options for the structure. DTPW staff recommended narrowing the options to either number 1, 6 or 7. The County's Executive 2011 Recommended Budget included funding for Option #1, which involves removing the precast panels from the parking structure, apply cosmetic treatments to the underlying parapets and complete other necessary repairs. During the 2011 Budget process the County Board requested additional information on the costs and benefits for each of the three options.

Option #1

The first option involves removing the precast panels from the parking structure, apply cosmetic treatments to the underlying parapets and complete other necessary repairs. This option was included in the 2011 CEX Recommended Budget at a cost of \$6,560,231. The 2011 Budget assumes the parking structure will be repaired and reopened by July 2011.

In order to evaluate the benefit of maintaining the parking structure the chart below shows the projected debt service costs (including principal and interest) for the repairs, compared to the net revenue and present value. The O'Donnell Park annual expenditures and revenue includes both the parking structure and the pavilion. The chart below provides the data for the first five years. The data for the full fifteen-year term of the debt is attached to this report.

| OPTION #1 - 15 YEAR NET REVENUE ANALYSIS | | | | | | |
|--|---------------------|---------------------|--------------------|------------------------------------|--------------------|----------------------------|
| | Annual Revenues | Annual Expenditures | Debt Service Costs | Cash Financing for Capital Project | Net Revenue | PV of Net Revenue (Annual) |
| Year 1 | \$1,149,344 | \$662,000 | \$937,092 | \$540,382 | (\$449,748) | (\$952,048) |
| Year 2 | \$1,781,744 | \$700,760 | \$687,328 | | \$393,656 | \$363,957 |
| Year 3 | \$1,817,379 | \$714,775 | \$674,878 | | \$427,726 | \$380,247 |
| Year 4 | \$1,853,726 | \$729,071 | \$662,428 | | \$462,228 | \$395,114 |
| Year 5 | \$1,890,801 | \$743,652 | \$649,978 | | \$497,171 | \$408,638 |
| Year 6 | \$1,928,617 | \$758,525 | \$632,528 | | \$537,564 | \$424,845 |
| Year 7 | \$1,967,189 | \$773,696 | \$618,178 | | \$575,316 | \$437,193 |
| Year 8 | \$2,006,533 | \$789,170 | \$603,315 | | \$614,049 | \$448,679 |
| Year 9 | \$2,046,664 | \$804,953 | \$581,995 | | \$659,716 | \$463,508 |
| Year 10 | \$2,087,597 | \$821,052 | \$559,240 | | \$707,305 | \$477,830 |
| Year 11 | \$2,129,349 | \$837,473 | \$535,870 | | \$756,006 | \$491,087 |
| Year 12 | \$2,171,936 | \$854,223 | \$511,885 | | \$805,828 | \$503,318 |
| Year 13 | \$2,215,375 | \$871,307 | \$487,080 | | \$856,988 | \$514,685 |
| Year 14 | \$2,259,682 | \$888,733 | \$461,865 | | \$909,084 | \$524,973 |
| Year 15 | \$2,304,876 | \$906,508 | \$436,240 | | \$962,128 | \$534,236 |
| Total | \$29,610,812 | \$11,855,897 | \$9,039,900 | \$540,382 | \$8,715,016 | \$5,416,261 |

The year one expenditures and revenues continue the assumption included in the 2011 Adopted Budget that the O'Donnell Parking Structure would be closed until July 2011 with an estimated revenue loss of \$620,000 and expenditure savings of \$36,000. After including payment of anticipated debt service costs the first year includes a net loss of approximately \$934,000. However, the remaining years include positive net revenue. **The total net present value of the revenue over the fifteen-year term of the debt is equal to approximately \$5.4 million.**

It is important to note that the debt service costs are not paid for directly out of the Parks Department budget. However, the debt service costs were included as a comparison to determine if net revenues would exceed annual debt service payments. The debt service costs do not include any existing debt payments that are being made for the O'Donnell Park.

Option #6

Option number six involves removing the parking structure, but leaving the pavilion in place, at an approximate cost of \$6 million, or \$6.9 million if a new pedestrian bridge to the Art Museum is constructed as part of the project. The parking structure area would be redeveloped into a park and/or surface parking lot. In order for the project to be eligible for bond financing the parking structure would need to be replaced with a new asset.

The chart below identifies the approximate revenues and expenditures associated with the pavilion and the anticipated debt service costs associated with removal of the parking structure.

| OPTION #6 - 15 YEAR NET REVENUE ANALYSIS | | | | | |
|--|--------------------|---------------------|---------------------|-----------------------|----------------------------|
| | Annual Revenues | Annual Expenditures | Debt Service Costs | Net Revenue | PV of Net Revenue (Annual) |
| Year 1 | \$289,850 | \$350,000 | \$1,012,145 | (\$1,072,295) | (\$1,031,053) |
| Year 2 | \$295,647 | \$357,000 | \$789,806 | (\$851,159) | (\$786,944) |
| Year 3 | \$301,560 | \$364,140 | \$775,556 | (\$838,136) | (\$745,100) |
| Year 4 | \$307,591 | \$371,423 | \$761,306 | (\$825,138) | (\$705,331) |
| Year 5 | \$313,743 | \$378,851 | \$747,056 | (\$812,164) | (\$667,540) |
| Year 6 | \$320,018 | \$386,428 | \$732,806 | (\$799,216) | (\$631,632) |
| Year 7 | \$326,418 | \$394,157 | \$716,181 | (\$783,920) | (\$595,715) |
| Year 8 | \$332,947 | \$402,040 | \$698,963 | (\$768,056) | (\$561,211) |
| Year 9 | \$339,605 | \$410,081 | \$674,263 | (\$744,738) | (\$523,243) |
| Year 10 | \$346,398 | \$418,282 | \$647,900 | (\$719,785) | (\$486,261) |
| Year 11 | \$353,326 | \$426,648 | \$620,825 | (\$694,148) | (\$450,905) |
| Year 12 | \$360,392 | \$435,181 | \$593,038 | (\$667,827) | (\$417,123) |
| Year 13 | \$367,600 | \$443,885 | \$564,300 | (\$640,585) | (\$384,719) |
| Year 14 | \$374,952 | \$452,762 | \$535,088 | (\$612,898) | (\$353,934) |
| Year 15 | \$382,451 | \$461,818 | \$505,400 | (\$584,767) | (\$324,700) |
| Total | \$5,012,497 | \$6,052,696 | \$10,374,633 | (\$11,414,832) | (\$8,665,410) |

The removal of the parking structure would result in first year loss of approximately \$1.1 million in net revenue. The on-going revenue received from the pavilion is less than the sum of the annual expenditures and debt service payments. The anticipated revenue may increase if the parking structure is replaced with an asset that generates revenue.

The total net present value of the revenue over the fifteen-year term of the debt is equal to approximately a negative \$8.7 million.

Issues Related to the Demolition or Sale of O’Donnell Park

In order to tear down both the parking structure and pavilion there are a number of issues that would need to be resolved.

Leases

The County currently leases the pavilion to the Coast Restaurant and the Betty Brinn Children’s Museum. The lease with the Coast Restaurant expires in 2015 and the lease with Betty Brinn expires in 2033. Both leases have similar language and do not allow the County to unilaterally terminate the leases except in cases of “Damage and Destruction”, “Condemnation” or “Default. According to the Parks Department under the current circumstances, only “Condemnation” and/or “Default” could potentially apply. If the building is condemned, and the lease terminated, there are provisions for compensation to the Lessee, which is based on the value of fixtures and improvements that the Lessee provided, among other things. If the Lessee is found to be in default of the lease, the lease provides for a 45-day cure period before the County may terminate the lease and re-enter the premises. Any settlement related to termination of the leases may take years to resolve.

Air Rights and Easements

During the 2011 Budget deliberations an “air rights restriction” on the O’Donnell parcel was brought up. In 2002 the County signed an easement agreement for the benefit of the parcel at 875 E. Wisconsin Avenue. The easement provides a minimum setback of 30 feet from the east wall of the 875 building, as well as a pedestrian connection and plaza easement. The easement does not limit air rights for the O’Donnell parcel, but places some minimal restrictions on the parcel. Staff was unable to find any recorded document that placed “air right restrictions” on the parcel.

Grant Conditions

The County received a Department of Natural Resources (DNR) grant, in the amount of \$2.8 million, to construct the terrace on top of the parking structure and the pedestrian bridge. The grant requires that the County reimburse the DNR for any and all funds the Department deems appropriate if the sponsor fails to comply with the conditions of the grant. If the property is sold or the building demolished the County would be in violation of the grant conditions and would be responsible for paying back a portion or the full amount of the grant. There may be other grants that the County received to develop the O’Donnell Park that may have similar conditions.

Outstanding Debt

The County currently has approximately \$3.0 million in outstanding debt on the O’Donnell parcel. If the County opted to sell the land, then this debt would need to be paid off.

Option #7A

Option number seven involves removing both the parking structure and pavilion at a cost of approximately \$4.8 million.

In order to be eligible for bond financing the demolished parking structure and pavilion need to be replaced with a new asset, however no specific proposal for a replacement for the structure has been identified. The chart below identifies the net revenue after accounting for the annual expenditures, revenues and debt service costs. The chart below assumes similar revenue and expenditure levels as the O’Donnell Pavilion. This analysis does not include costs related to the termination of leases at O’Donnell or other legal encumbrances.

| OPTION #7 - 15 YEAR NET REVENUE ANALYSIS | | | | | |
|--|--------------------|---------------------|--------------------|----------------------|----------------------------|
| | Annual Revenues | Annual Expenditures | Debt Service Costs | Net Revenue | PV of Net Revenue (Annual) |
| Year 1 | \$289,850 | \$350,000 | \$790,514 | (\$850,664) | (\$817,946) |
| Year 2 | \$295,647 | \$357,000 | \$540,394 | (\$601,747) | (\$556,349) |
| Year 3 | \$301,560 | \$364,140 | \$530,644 | (\$593,224) | (\$527,374) |
| Year 4 | \$307,591 | \$371,423 | \$520,894 | (\$584,726) | (\$499,826) |
| Year 5 | \$313,743 | \$378,851 | \$511,144 | (\$576,252) | (\$473,637) |
| Year 6 | \$320,018 | \$386,428 | \$501,394 | (\$567,804) | (\$448,744) |
| Year 7 | \$326,418 | \$394,157 | \$490,019 | (\$557,758) | (\$423,850) |
| Year 8 | \$332,947 | \$402,040 | \$478,238 | (\$547,331) | (\$399,930) |
| Year 9 | \$339,605 | \$410,081 | \$461,338 | (\$531,813) | (\$373,645) |
| Year 10 | \$346,398 | \$418,282 | \$443,300 | (\$515,185) | (\$348,040) |
| Year 11 | \$353,326 | \$426,648 | \$424,775 | (\$498,098) | (\$323,555) |
| Year 12 | \$360,392 | \$435,181 | \$405,763 | (\$480,552) | (\$300,151) |
| Year 13 | \$367,600 | \$443,885 | \$386,100 | (\$462,385) | (\$277,696) |
| Year 14 | \$374,952 | \$452,762 | \$366,113 | (\$443,923) | (\$256,355) |
| Year 15 | \$382,451 | \$461,818 | \$345,800 | (\$425,167) | (\$236,080) |
| Total | \$5,012,497 | \$6,052,696 | \$7,196,430 | (\$8,236,629) | (\$6,263,179) |

The total net present value of the revenue over the fifteen-year term of the debt is equal to approximately negative \$6.2 million.

Option #7B

The County may also choose to sell the parcel and have the purchaser pay for removal of the parking structure and pavilion.

In order to look at the potential value of the O’Donnell Park parcel the DTPW staff reviewed a sample of nearby parcels located in downtown Milwaukee and assembled the current land assessment values as determined by the City of Milwaukee. The table below provides information on the assessed value and the equivalent value per acre, which is an average of \$3.6 million per acre.

| Parcel | Land Assessment | Acres | Per Acre Land Assessment |
|------------------------------|-----------------|-------|--------------------------|
| 875 E. Wisconsin Avenue | \$6,201,600 | 1.42 | \$4,367,324 |
| 910 E. Wisconsin Avenue | \$2,904,400 | 0.67 | \$4,334,925 |
| 815 – 821 E. Michigan Avenue | \$5,232,600 | 1.50 | \$3,488,400 |
| 925 E. Wells | \$2,268,000 | 0.75 | \$3,024,000 |
| 1024 – 26 E. State Street | \$1,134,300 | 0.37 | \$3,049,194 |
| AVERAGE PER ACRE | | | \$3,652,769 |

The O'Donnell parcel is 7.15 acres and based on the average assessment per acre the land could potentially be valued at \$26 million. However, there are many factors that could affect net proceeds from the sale of the O'Donnell parcel. If the parcel were sold as is the sale price would have to factor in the costs to the purchaser of demolition of the parking structure and pavilion or their renovation. Lakefront or zoning restrictions could impact the type of structure that could be placed on the parcel and therefore affect the value of the property.

The chart below provides a list of the outstanding issues that will complicate the demolition of the structures or the sale of the property. Many of the issues could impact the value of the property and/or reduce the sale proceeds that the County would receive.

| Total Potential Value of Parcel | \$26.0 million |
|---|------------------------|
| Issues | Impact on Value |
| Outstanding Debt on O'Donnell Parking Structure | (\$3.0 million) |
| Cost for removal of the structures | (\$4.8 million) |
| DNR Grant (may need to be paid back in full or partial) | (\$2.8 million) |
| Other Grants associated with the property | Undetermined |
| Potential settlement costs associated with Betty Brinn and Coast Leases | Undetermined |
| Total Potential Value After Resolving Known Issues | \$15.4 million |

If the County Board and County Executive decided to pursue either option 7A or 7B more due diligence would need to be done in order to determine any limitations on the parcel and the legal ramifications associated with the sale of the parcel and/or demolition of the parking structure and pavilion, as well as negotiations regarding the termination of leases with Betty Brinn and Coast. Following completion of this due diligence process the County would likely wish to issue an RFP to identify potential buyers of the property and determine actual market value.

Steven Kreklow, Fiscal & Budget Administrator

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