

June 21, 2005

Rocky Marcoux
Commissioner
City of Milwaukee
Dept. of City Development
809 N. Broadway
Milwaukee, WI 53202

Dear Commissioner Marcoux,

Pursuant to your request, this letter addresses statements regarding DCD's review of the proposed PabstCity redevelopment made in the introduction of the University of Wisconsin-Milwaukee Center for Economic Development's June 6, 2005 report on the project to the Milwaukee Common Council Committee on Zoning, Neighborhoods, and Development.

The report's introduction states that the TIF Feasibility Report produced by *S. B. Friedman & Company* on behalf of DCD relies on market study information provided by the developer, and thus does not reflect an independent market analysis. Implicit in this statement is the conclusion that DCD has not conducted an adequate level of review of the project.

In light of the size and complexity of the proposed project, the Comptroller's Office, DCD, and their respective consultants collaborated extensively on the PabstCity review to evaluate the risks and potentials of the project. The City intentionally structured *S. B. Friedman & Company* and C. H. Johnson's roles to be complementary and to jointly provide a comprehensive review. C. H. Johnson's scope of review included analysis of:

- Market viability of the proposed PabstCity concept
- Potential transfer of sales revenues from existing Milwaukee business to PabstCity

S. B. Friedman & Company's review and recommendations to DCD primarily focused on:

- The amount of public subsidy required by the proposed project in order to achieve financial feasibility
- The amount of incremental property tax revenues likely to be generated by the project, and the resulting amortization of City debt
- Appropriate financial structures and deal terms for potential agreements between the City and the developer

In order to develop sufficient background information on the project for the firms' respective reviews, *SBFCo* and C.H. Johnson jointly produced several series of follow-up information requests related to market analysis, overall project concept, tenant mix, and management

strategy. C. H. Johnson's report to the Office of the Comptroller identifies a number of potential risks, which are inevitable in a project of this type at this stage in the planning process. In recognition of these factors, certain terms of the proposed deal are specifically designed to control and minimize the City's exposure, including:

- A TID debt service guarantee provided by the developer
- Provisions restricting the release of City funds until certain retail pre-leasing thresholds are met
- A "reset" mechanism allowing the City to recapture a portion of the benefits if certain conditions are ultimately more favorable than currently assumed in the pro forma

As stated in the City Comptroller's June 2, 2005 letter to the Zoning, Neighborhoods, and Development Committee, "DCD staff and its consultants have done a thorough job of limiting City financial risk in the proposed term sheet..." The TIF Feasibility Report, C.H. Johnson report, Comptroller's letter, and proposed term sheet collectively present the potential risks, costs, and benefits of the PabstCity project for consideration by the Zoning, Neighborhoods, and Development Committee.

Sincerely,



Stephen B. Friedman, AICP, CRE
President