

City of Milwaukee  
Proposed Reed Street Yards TID (TID #X)

Economic Feasibility Study

**TABLE OF CONTENTS**

1. Project Description and Study Approach..... 1

2. Proposed Financial Assistance..... 3

3. Incremental Property Tax Revenues ..... 10

Appendix 1: Site Plans

Appendix 2: TID Assumptions

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## ***1. Project Description and Study Approach***

Based on information provided by Building 41, LLC (“Developer”) and direction provided by the City of Milwaukee’s Department of City Development (DCD), *S. B. Friedman & Company (SBFCo)* has produced a TID Feasibility Report for the proposed Reed Street Yards Project (“Project”).

### ***Project Description***

The site of the proposed Reed Street Yards Project is comprised of two distressed parcels abutting the south bank of the Menomonee River, roughly between South Second Street and South Ninth Street in Milwaukee’s Third Ward (“the Project Area”). The Developer has submitted three variations of a conceptual master plan to represent different build-out scenarios of new office development (see Appendix 1). Although the size of the Project is still under consideration, the program would likely include:

- **Office**—6 to 7 new buildings, with total gross square footage ranging from approximately 320,000 to 630,000.
- **Surface Parking**—1,003 spaces for smallest build-out scenario; 1,047 for medium build-out scenario; 851 for largest build-out scenario.
- **Lower Level Parking**—208 spaces for smallest build-out scenario; 171 for medium build-out scenario; 203 for largest build-out scenario.
- **Structured Parking**—0 spaces for smallest build-out scenario; 291 for medium build-out scenario; 847 for largest build-out scenario.

The Project is envisioned as an important component of the City of Milwaukee’s efforts to build on its existing concentration of water-related businesses. This initiative, complementing the efforts of the Milwaukee 7 Water Council and the proposed UW-Milwaukee School of Freshwater Sciences, seeks to expand and cluster Milwaukee’s water-oriented businesses to foster innovation, entrepreneurial activity, and economic development.

The Project would be part of the proposed Reed Street Yards Tax Increment District (TID), which would include 23 taxkeys. This boundary would include the Iron Horse Hotel and 234 Florida, two recent renovations that are expected to generate additional incremental assessed value as they moved towards full stabilized assessment. This boundary would also include several vacant parcels that could be redeveloped in the future. As proposed, the TID would have a water technology focus and would require that water technology companies occupy at least      % of its total office space for a period of      years following the execution of the development agreement. A total City TID contribution to the Project of up to **\$6.42 million** is proposed for public infrastructure and for cost relief for an initial 60,000 square foot building (the “Initial Building”). The Developer will construct all private infrastructure, will market applicable portions of the site to water technology companies and will either develop or sell

parcels for occupancy by the desired end users. Additional detail on the proposed City assistance parameters is included in the “Proposed TID Contribution” section in Chapter 2.

### ***Study Approach***

*SBFCo* reviewed and considered the following key factors affecting the TID feasibility of the proposed project:

- Pro forma information for the Initial Building of 60,000 square feet, provided by the Developer on July 1, 2009
- Key financing assumptions embedded in the Developer’s pro forma through review of industry sources
- Term Sheet between City of Milwaukee and the Developer
- Conceptual master plans by Kahler Slater, provided by the Developer
- Assessment techniques and assumptions likely to be used as a basis for property taxation, based on key informant interviews with the City of Milwaukee Assessor’s Office
- Real property assessment data from the City Assessor’s Office on existing properties within the proposed TID
- Real property assessment data for other comparable properties elsewhere in Milwaukee to validate the potential assessed valuation of the project
- Bonding assumptions to be used in evaluating financing capacity

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## ***2. Proposed Financial Assistance***

The proposed City TID contribution includes a total of \$6.42 million to the Project, comprised of the following elements:

- **Up to \$4,236,000 for Public Infrastructure:** the Infrastructure Grant would be disbursed through construction draws to pay for the installation of the public infrastructure as work progresses.
- **Up to \$900,000 for Remediation and Extraordinary Site Costs for Initial Building:** the Initial Building Grant will be reimbursed for funds expended or incurred by the Developer for the construction of the Initial Building. These funds will be disbursed upon completion of construction of the Initial Building, unless it is otherwise decided that a portion of the final draw will be funded through the building grant.
- **Up to \$1,020,000 for Grants or Loans to Water Technology Related Businesses:** the Initial Technology Fund will disburse grants or loans based on businesses' categorization as a "water related technology business," their lease term at Reed Street Yards, and other factors such as need, amortization of the TID, job creation, and overall security.
- **\$264,000 for City Administration Costs**

Per the Term Sheet between the City of Milwaukee (the "City") and the Developer, the City would also consider future requests for TID assistance to the extent that they are supportable by actual and projected TID revenues, and are required to facilitate future office and/or parking structures on the site. Additional assistance for such subsequent efforts would require Common Council approval, and are not evaluated in this Feasibility Study.

*SBFCo* reviewed key assumptions included in the Developer's pro forma for the Initial Building in the Reed Street Yards project, as well as the resulting implications on the need for TID assistance.

### ***Assistance Parameters***

The Developer's proposal for the Initial Building is conceptual, and is intended to represent a prototypical future office development project on the site. The size, configuration, and timing of the Initial Building will necessarily be driven by market leasing activity and the nature of the tenants the Developer ultimately identifies.

The rationale for putting a TID structure in place in advance of a refined concept for the Initial Building is to create a known, predictable framework within which the Developer can market the site and negotiate with prospective tenants.

The proposed assistance for the Initial Building is divided into two components:

**Initial Building Grant**

The Initial Building Grant would be provided at the completion of the first non-residential building on the Reed Street Yards site to compensate for site issues and extraordinary costs. Under this framework, up to \$15 per square foot of assistance would be provided by the City regardless of the final tenant mix, and is intended to compensate for factors that cause the Site to be more costly to develop than a comparable suburban “greenfield” location, including:

- The need for deep foundations and vapor barriers due to soil stability issues
- The differential between land costs for a typical suburban office development and the costs carried in the Project pro forma
- Allocated soft costs associated with the higher costs at the Project site

Due to the Project site’s location outside the core of Downtown Milwaukee and the relatively constrained rents observed in the Milwaukee region, these factors are unlikely to be compensated for by additional rent income as compared to greenfield locations, and therefore would likely serve as an impediment to development feasibility. Without compensation for these factors, it is unlikely that the Developer would emphasize office development to the level contemplated in the Project site plan and required by the proposed use restriction agreement with the City.

**Table 1** below shows a hypothetical pro forma for an office building on the Reed Street Yards site and a hypothetical pro forma for an equivalently sized office building on a greenfield site. This comparison illustrates the effect of the \$900,000 Initial Building Grant in compensating for the extraordinary development costs described above.

Reed Street Yards

Table 1: Initial Building Grant Analysis- Hypothetical 60,000 SF Building

	Reed Street Yards			Benchmark "Greenfield" Scenario		
	Total Cost \$	Per Bldg SF	Total Cost %	Total Cost \$	Per Bldg SF	Total Cost %
<b>HARD COSTS</b>						
<b>Land</b>	\$ 1,000,000	\$ 16.67	9.5%	\$ 485,544	\$ 8.09	4.6%
<b>Demolition and Abatement</b>						
Site Work	\$ 400,000	\$ 6.67	3.8%	\$ 400,000	\$ 6.67	3.8%
Deep Foundation Allowance	\$ 100,000	\$ 1.67	1.0%	\$ -	\$ -	0.0%
Vapor Barrier Allowance	\$ 40,000	\$ 0.67	0.4%	\$ -	\$ -	0.0%
Riverwalk/Dockwall Allocation	\$ 80,000	\$ 1.33	0.8%	\$ -	\$ -	0.8%
Site Work Cost Contingency	\$ 37,800	\$ 0.63	0.4%	\$ -	\$ -	0.3%
<b>Demo and Abatement Total</b>	\$ 657,800	\$ 10.96	6.3%	\$ 400,000	\$ 6.67	3.8%
<b>Building</b>						
Base, Core, and Shell	\$ 4,500,000	\$ 75.00	42.9%	\$ 4,500,000	\$ 75.00	42.9%
White Box/Office Improvements	\$ 3,061,347	\$ 51.02	29.2%	\$ 3,061,347	\$ 51.02	29.2%
Building Hard Cost Contingency	\$ 378,067	\$ 6.30	3.6%	\$ 378,067	\$ 6.30	3.6%
<b>Building Total</b>	\$ 7,939,414	\$ 132.32	75.7%	\$ 7,939,414	\$ 132.32	75.7%
<b>Soft Costs</b>						
Architecture	\$ 180,000	\$ 3.00		\$ 180,000	\$ 3.00	
Civil Engineering/Survey	\$ 65,000	\$ 1.08	0.6%	\$ 59,866	\$ 1.00	0.6%
Builders Risk Insurance	\$ 21,493	\$ 0.36	0.2%	\$ 19,795	\$ 0.33	0.2%
Construction Loan Fee/Costs	\$ 79,000	\$ 1.32	0.7%	\$ 72,760	\$ 1.21	0.8%
Permanent Loan Fee/Costs	\$ 86,900	\$ 1.45	0.8%	\$ 80,036	\$ 1.33	0.8%
Interim Interest	\$ 230,000	\$ 3.83	2.0%	\$ 211,833	\$ 3.53	2.2%
Legal Fees	\$ 50,000	\$ 0.83	0.4%	\$ 46,051	\$ 0.77	0.5%
Development Fee	\$ 220,000	\$ 3.67	1.9%	\$ 202,623	\$ 3.38	2.1%
Construction Mgmt. Fee	\$ 220,000	\$ 3.67	1.9%	\$ 202,623	\$ 3.38	2.1%
Owners Rep/Consultant	\$ 80,000	\$ 1.33	0.7%	\$ 73,681	\$ 1.23	0.8%
Brokerage Fee	\$ 240,000	\$ 4.00	2.1%	\$ 221,044	\$ 3.68	2.3%
Appraisals	\$ 10,400	\$ 0.17	0.1%	\$ 9,579	\$ 0.16	0.1%
Environmental	\$ 4,500	\$ 0.08	0.0%	\$ 4,145	\$ 0.07	0.0%
Geotechnical	\$ 15,000	\$ 0.25	0.1%	\$ 13,815	\$ 0.23	0.1%
Closings	\$ 5,000	\$ 0.08	0.0%	\$ 4,605	\$ 0.08	0.0%
Title Insurance	\$ 15,000	\$ 0.25	0.1%	\$ 13,815	\$ 0.23	0.1%
R.E. Taxes During Construction	\$ 100,000	\$ 1.67	0.9%	\$ 92,101	\$ 1.54	1.0%
Building Permit & Tap Fees	\$ 98,000	\$ 1.63	0.9%	\$ 90,259	\$ 1.50	0.9%
Soft Cost Contingency	\$ 77,015	\$ 1.28	0.7%	\$ 70,932	\$ 1.18	0.7%
<b>Total Soft Costs</b>	\$ 1,797,308	\$ 29.96	15.8%	\$ 1,669,564	\$ 27.83	15.9%
<b>Gross Project Costs</b>	\$ 11,394,522	\$ 189.91	108.6%	\$ 10,494,522	\$ 174.91	100.0%
<b>City TID: Initial Building Grant</b>	\$ (900,000)	\$ (15.00)	-8.6%	\$ -	\$ -	0.0%
<b>NET PROJECT COST</b>	\$ 10,494,522	\$ 174.91	100.0%	\$ 10,494,522	\$ 174.91	100.0%

Source: Building 41, LCC, General Capital, S. B. Friedman & Company

Per the Term Sheet, the Initial Building Grant would be subject to administrative review by the Commissioner of City Development to determine:

- General conformity with the parameters of the pro forma shown in Table 1
- Compliance with the water-technology businesses requirement described in “Project Description” above

### **Initial Technology Fund**

Up to \$1.02 million of assistance would also be available to the end tenants in the form of grants or loans to facilitate attraction of water-related technology businesses. This assistance in turn would allow the Project to be more flexible and competitive in its proposed rent or tenant buildout terms to provide a marketing advantage. The Term Sheet contemplates that the City would administratively review the particulars of any Technology Fund request, and determine the appropriate level and structure of assistance.

### **Subsequent Advances of City Assistance**

The Term Sheet also contemplates subsequent City assistance for purposes similar to the Initial Building Grant and Initial Technology Fund, and/or construction of parking structures to serve the Project site. It is anticipated that the Project will evolve over a number of years, based on market dynamics, leasing progress, and the end users that are ultimately identified. To the extent that the Developer believes additional assistance is needed:

- DCD would work with the Developer to evaluate the need for assistance and the appropriate amount/structure. This request would then be forwarded to the Common Council in the form of TID funding increases or amendments.
- Subsequent assistance would be underwritten such that the TID would at all times be projected to fully amortize.

To the extent the Developer constructs buildings within the TID that do not receive City assistance, (e.g., residential apartments or condominiums), these TID revenues may be used as a source to fund structured parking or to support building grant/technology fund assistance for future phases of development.

Because such factors as timing, phasing, cost, and tenant mix are not known at this time, this Economic Feasibility Study does not evaluate TID capacity to support these Subsequent Advances. Also, because these advances are fully within the discretion of the City of Milwaukee, *SBFCo* did not project or evaluate Developer returns associated with this portion of the Project.

### ***Projected Developer Returns***

Because the proposed building program is at the early conceptual stage, *SBFCo* did not have sufficient information to analyze Developer equity returns. The condition of the credit markets at

the time that buildings are proposed will have a substantial impact on the ultimate financing structure and equity returns the Developer may achieve. Further, additional financing tools such as New Markets Tax Credits, Recovery Zone Facility Bonds, or others may be used to provide lower-cost debt to future building phases.

In light of the unknown future financing parameters that would affect equity returns, *SBFCo* reviewed the Developer's potential returns on cost based on the hypothetical pro forma for the Initial Building. The potential returns were evaluated on a stabilized yield on cost basis, equal to the first year of stabilized Net Operating Income divided by Developer project costs net of TID assistance.

Additionally, since the entity that develops the proposed buildings on the Reed Street Yard Project site is likely to have at least partially different ownership from the current landowner, *SBFCo* evaluated the land acquisition cost included in the Initial Building pro forma.

**Table 2** below illustrates the potential returns on cost associated with the hypothetical Initial Building.

**Table 2: Hypothetical Return on Cost with Building Grant**

	PSF \$	Total \$
<b>INCOME</b>		
Base, core, and shell	\$16	\$960,000
CAM	\$3.50	\$210,000
Taxes	\$4.00	\$240,000
<b>Gross Potential Income</b>	<b>\$23.50</b>	<b>\$1,410,000</b>
Vacancy Loss	(\$0.47)	(\$28,200)
<b>Effective Gross Income</b>	<b>\$23.03</b>	<b>\$1,381,800</b>
<b>EXPENSES</b>		
CAM	(\$3.50)	(\$210,000)
Taxes	(\$4.00)	(\$240,000)
Insurance (owner's)	(\$0.08)	(\$4,800)
Accounting	(\$0.08)	(\$4,800)
Management Fee	(\$0.40)	(\$24,000)
Miscellaneous	(\$0.17)	(\$10,200)
Capital Reserves	(\$0.10)	(\$6,000)
<b>Total Expenses</b>	<b>(\$8.33)</b>	<b>(\$500,000)</b>
<b>NOI Available for Debt Service</b>	<b>\$14.70</b>	<b>\$881,800</b>
<b>Net Project Cost after TID Subsidy</b>	<b>\$174.91</b>	<b>\$10,494,522</b>
<b>Stabilized Yield on Net Cost</b>		<b>8.40%</b>

Source: Building 41, LLC; General Capital; *S. B. Friedman & Company*

Because of the conceptual nature of the pro forma, *SBFCo* used a stabilized yield on cost methodology (as opposed to a multi-year discounted cash flow analysis) to evaluate returns. Stabilized yield on cost is measured as the ratio of one year's net operating income divided by total project cost net of TID assistance. Based on the anticipated development costs, rents, and



TID Initial Building Grant assistance, *SBFCo* estimates stabilized yield of approximately 8.4% for the Initial Building developed within the Project. As noted in “Assistance Parameters” above, this pro forma and level of return are anticipated to serve as benchmarks against which DCD can evaluate and adjust the TID assistance to the first phase of development within the Project. Because the Initial Technology Fund is intended to assist water technology businesses that are end users of the Project real estate, it should not materially affect Developer returns.

*SBFCo* benchmarked these returns to PriceWaterhouseCoopers/Korpacz Investor Survey for the Fourth Quarter of 2008. The Korpacz survey indicates a national market average for Central Business District office of about 8.5% and an observed market range of 6.25% to 12%. In *SBFCo*'s experience with other public/private real estate transactions, stabilized pro forma yield on cost expectations of 8% to 9.5% are common. This suggests that the proposed City TID contribution is sized to allow the Reed Street Yards project to achieve modest returns that are within market parameters.

### **Revenues to Existing Landowner**

Based on discussions with the Developer, it is anticipated that the buildings on the Project site will be developed by an entity jointly owned by the current landowner and General Capital (“Vertical Development Entity”). This entity will purchase parcels within the Project site from the current landowner at the time that financing closes on each building or vertical development phase. The hypothetical initial building pro forma discussed above is from the perspective of the Vertical Development Entity. Therefore, the land purchase price (\$16.67 per square foot of building area) represents the anticipated revenue to the current landowner associated with each phase of development.

*SBFCo* reviewed this assumption to determine whether it appears to represent a reasonable land cost for this type of project. This involved translation of the land purchase price carried in the Initial Building pro forma to a price per square foot of land under the following analysis.

The Developer provided a preliminary site capacity analysis developed by Kahler Slater architects in order to assess the likely buildout of the Project with 3-story office development with surface parking at approximately 4 spaces per 1,000 square feet of leasable space. This analysis considered the vacant Reed Street Yards property (the Project site), and is included as Appendix 1 of this study. Based on these development assumptions, Project site capacity is approximately 320,000 square feet of building area. Further, the Kahler-Slater analysis suggested that of the approximately 16.67 acres of total site, about 14.2 acres remain available for buildings and/or parking after netting out the area to be dedicated as public rights-of-way. While denser buildouts might be achievable on the site, this would likely require development of structured parking, which in turn would trigger substantial additional development cost.

Using the site capacity described above, *SBFCo* calculated the equivalent land price per square foot of developable land represented by the Developer's assumption of \$16.67/building SF. This equates to about \$8.70 per square foot of developable land area.

This estimated price of \$8.70 per square foot relates to surrounding land values as follows:

- **Assessed Values of Nearby Properties.** *SBFCo* reviewed the Assessor’s land values for a group of properties located near the Project site, including properties located along Florida Street within the proposed TID boundary and properties located along 2<sup>nd</sup> Street between Virginia Street and Pittsburgh Avenue. Of the 49 properties reviewed, 42 are uniformly assessed at \$8.00 per square foot, suggesting that this value may be an appropriate “ballpark” for land served by infrastructure in this area.
- **Manpower Site.** This is a location where the City recently provided TID assistance to help attract a major employer to a newly-constructed medium-density office building along the Milwaukee River. The City recognized approximately \$18/sf of land value in calculating the Developer’s equity contribution for this transaction, and the current Assessor value attributed to land is approximately \$30/sf. This is a smaller site with a denser development program, off-site structured parking, and a more established office market context- therefore, it is reasonable to expect that the Manpower site would be valued higher than the Reed Street Yards property.
- **CoStar Listings.** *SBFCo* also reviewed property listings on CoStar to gain context as to asking prices for commercial/industrial land in the area. These include 954 S. Water Street and 1320 S. 1<sup>st</sup> Street, listed at \$9.18 and \$18.65 per square foot respectively. At 8 acres and 11 acres respectively, these sites are comparably sized to the Reed Street Yards property. The Water Street property is located on the Milwaukee Harbor in a more heavily industrial context with access that appears inferior to the proposed Reed Street Yards plan. The S. 1<sup>st</sup> Street site is located inland, and appears better-served by infrastructure. An additional nearby site- 412 N Plankinton- is listed at a substantially higher price of \$41 per square foot. While this site has more comparable waterfront adjacency and is less than ¼ mile from the Reed Street Yards property, this site’s small size (under ½ acre) makes it less relevant as a land price comparable.

The phasing, mix of uses, and density of the ultimate buildout of the Reed Street Yards Project site are not yet known and may ultimately affect the value of the property. However, based on available market data, the Developer’s current assumption of approximately \$8.70 in land cost to the Vertical Development Entity/revenue to the current landowner appears reasonable.

### ***3. Incremental Property Tax Revenues***

*SBFCo* projected incremental property tax revenues to evaluate the period in which the TID might reasonably be expected to generate sufficient cash flow to fully amortize the debt associated with the proposed City expenditures.

The scope of this projection included:

1. Limited incremental property tax revenues from inflationary growth in property values on parcels within the TID for which no redevelopment is assumed
2. Phase-in of additional value anticipated to result from stabilization of the Iron Horse and 234 Florida properties (discussed in additional detail below)
3. Projected TID revenues resulting from the hypothetical 60,000 square foot Initial Building

The assumptions used to develop these projections are described below.

#### ***TID Projection Assumptions and Methodology***

**Table A-1** in Appendix 2 of this study summarizes the key assumptions used to project TID revenues. These assumptions, as well as *SBFCo*'s methodology, are described below.

#### **Sources of TID Revenue**

The proposed TID includes a total of 23 parcels, comprised of non-redevelopment parcels, the Iron Horse Hotel, 234 Florida, and the Reed Street Yards Project. These different components of the projected TID revenue stream are described below:

- **Non-redevelopment Parcels.** The proposed TID includes 19 taxkeys for which no redevelopment is assumed to occur for the purposes of this study. This group of parcels includes undeveloped land, undeveloped shell buildings within the Tannery complex, and land adjacent to the railroad right-of-ways. *SBFCo*'s projections include tax increment only from the inflationary growth in these parcels' property values, not from any new development. It should be noted, however, that these parcels could be redeveloped in the future, even though the development program and projections do not include their hypothetical redevelopment.
- **Iron Horse Hotel.** The Iron Horse Hotel occupies one taxkey in the proposed TID. Formerly a warehouse building, the Iron Horse Hotel is a redevelopment project that adaptively reused a 100 year-old warehouse as a modern luxury boutique hotel. As of its most recent assessment on January 1, 2009, the Iron Horse was not yet fully complete, and its restaurant was not yet in operation. The Milwaukee Assessor excluded 13 guest

rooms and the restaurant from its valuation in the 2009 assessment year. Therefore, the projections include additional new value from the hotel as it reaches stabilization.

- **234 Florida.** The 234 Florida building occupies one taxkey in the proposed TID. In 2008 Pieper Properties acquired the former 100,000 square foot, seven-story factory and restored it to provide high-quality office space. Because renovations are not yet fully complete and the building is only minimally occupied, the projections include additional new value from 234 Florida as it reaches stabilization.
- **Initial Building in Reed Street Yards Project.** The Reed Street Yards Project site currently occupies two taxkeys in the proposed TID, and the Initial Building will occupy a portion of one of these existing taxkeys. As new office space, the Initial Building is assumed to be three stories and 60,000 square feet, consistent with the Developer's hypothetical Initial Building pro forma. The projections include tax increment from the additional value of this new office space.

### Valuation Assumptions

- **Iron Horse Hotel.** Based on conversations with the Assessor and a review of the assessed valuation of Downtown hotel properties, *SBFCo* developed an assessed value assumption of \$87,300 per hotel room (\$91 per square foot) to estimate the Iron Horse's value at stabilization. This value is in the lower mid-range for Downtown properties, and comparable to other boutique rehab hotels such as the Hotel Metro.
- **234 Florida.** Based on conversations with the Assessor, it appears that the higher quality space in the Tannery complex would be physically and locationally comparable to 234 Florida. To estimate the value of 234 Florida at full stabilization, *SBFCo* therefore used \$89 per square foot, commensurate with the Tannery's 720 West Virginia building. It appears that other potential comp properties in the Tannery are not fully built out as office, and therefore would yield low values when trying to approximate full stabilized value for the 234 Florida property.
- **Initial Building in Reed Street Yards Project.** Office properties in Downtown Milwaukee range considerably in assessed value, and their values have also decreased significantly from 2008 to 2009. The Honey Creek Corporate Center, which was completed in four phases between 1998 and 2003, is a comparable new office property. Its 2009 assessed values ranged from \$93 to \$118 per square foot, while its 2008 assessed values ranged from \$120 to \$133 per square foot. Anticipating that assessed values for 2009 are abnormally low due to current market and economic conditions, *SBFCo* projected an assessed value of \$115 per square foot, effectively splitting the difference between 2008 and 2009 values of comparable properties. This is below the range observed for many of the newer office properties in Downtown Milwaukee.

### Phasing and Timing of Assessments

- **Iron Horse Hotel.** Because hotels typically take multiple years to reach stabilization, the projections assume an additional two years for the Iron Horse to reach its full stabilized value in 2011. *SBFCo* projected that the Iron Horse Hotel would gain an additional \$2.5 million in assessed value in 2010 and another \$1.23 million in 2011, when it is expected to reach stabilization at a total value of \$8.73 million. The Term Sheet calls for the Developer to provide additional parking opportunities for the Iron Horse property, potentially enhancing its operations and thus its revenue/valuation potential.
- **234 Florida.** *SBFCo* assumed that a phase-in of the remaining value of 234 Florida would occur over three years for projection purposes, stabilizing in 2012. Since details on occupancy and leasing plans are unknown, this timeline is based on a fairly general assumption that it would take a significant amount of time for the building to reach its full projected stabilized value. The Term Sheet calls for the Developer to provide additional parking opportunities for the 234 Florida property, potentially improving its absorption opportunities. *SBFCo* projected that 234 Florida would gain an additional \$2 million in assessed value in 2010, 2011, and 2012, when it is expected to reach stabilization at a total value of \$8.97 million.
- **Initial Building in Reed Street Yards Project.** Development of this building would be subject to Developer leasing activity, and would likely occur after the infrastructure improvements occur. *SBFCo* assumed that this building would be completed in 2011 and fully assessed in 2012.

### Other TID Assumptions

- **Tax Rate.** Our analysis considered historical trends in the overall City of Milwaukee property tax rate over the past 5, 10, 15, and 20-year periods. The tax rate has trended downward over all of these analysis periods at compound annual rates ranging from about 1.4% (20-year history) to 3.6% (10-year history). For our analysis, *SBFCo* assumed a 2009 tax rate equal to the Assessor's estimate of 2.505% (\$25.05 per \$1,000 of value) and a subsequent annual decline in rate of 1.62%, the compound annual rate of decline for the past 10 years. This decline is assumed to continue through 2023, beyond which point the rate is assumed to remain level at 2%. Table A-1 in Appendix 2 shows this calculation.
- **Property Value Growth -- Remainder of Proposed TID.** *SBFCo*'s projections assume 1.5% annual growth in real property assessments for the existing properties within the boundary of the proposed new TID.

### Projected TID Revenues

**Table 3** on the following page shows projected TID revenues during the 27-year statutory life of the proposed TID.

City of Milwaukee

Reed Street Yards

Table 3: TID Projections

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Inputs and Assumptions:

2009 Base Value of TID	\$ 24,356,900
2009 Base Value of 60,000 Office Building Site	\$ 308,587
2009 Base Value of Iron Horse Hotel	\$ 5,000,000
2009 Base Value of 234 Florida	\$ 2,985,000
2009 Projected Net Tax Rate	2.5050%
Tax Levy Rate: 10 yr compound rate of decline	1.62%
Annual Inflation Rate	1.50%
Tax Collection Rate	100.00%

TID Year	Assmt Year	Inflation Factor	Tax Incremental Revenue due to Inflation of Non-Development Taxkeys					Incremental Revenue: Non-Development Taxkeys Inflation Only	Incremental Revenue: 60,000 SF Office	Incremental Revenue: Iron Horse Hotel	Incremental Revenue: 234 Florida	Total TID Incremental Revenue
			Frozen Base Value (less Taxkeys for Office portion, Iron Horse, and 234 Florida)	Actual/Inflated Value	Incremental Value	Property Tax Rate						
1	2009	1.00	\$ 16,063,313	\$ 16,063,313	\$ -	2.51%	\$ -	\$ -	\$ -	\$ -	\$ -	
2	2010	1.02	\$ 16,063,313	\$ 16,304,262	\$ 240,950	2.46%	\$ -	\$ -	\$ -	\$ -	\$ -	
3	2011	1.03	\$ 16,063,313	\$ 16,548,826	\$ 485,514	2.42%	\$ 5,938	\$ 114	\$ 63,460	\$ 50,392	\$ 119,904	
4	2012	1.05	\$ 16,063,313	\$ 16,797,059	\$ 733,746	2.39%	\$ 11,772	\$ 83,873	\$ 95,013	\$ 99,897	\$ 290,555	
5	2013	1.06	\$ 16,063,313	\$ 17,049,015	\$ 985,702	2.35%	\$ 17,502	\$ 166,157	\$ 96,666	\$ 148,230	\$ 428,555	
6	2014	1.08	\$ 16,063,313	\$ 17,304,750	\$ 1,241,437	2.31%	\$ 23,131	\$ 166,028	\$ 98,288	\$ 149,069	\$ 436,516	
7	2015	1.09	\$ 16,063,313	\$ 17,564,321	\$ 1,501,008	2.27%	\$ 28,661	\$ 165,897	\$ 99,879	\$ 149,889	\$ 444,326	
8	2016	1.11	\$ 16,063,313	\$ 17,827,786	\$ 1,764,473	2.23%	\$ 34,093	\$ 165,765	\$ 101,439	\$ 150,692	\$ 451,988	
9	2017	1.13	\$ 16,063,313	\$ 18,095,203	\$ 2,031,890	2.20%	\$ 39,428	\$ 165,631	\$ 102,970	\$ 151,477	\$ 459,506	
10	2018	1.14	\$ 16,063,313	\$ 18,366,631	\$ 2,303,318	2.16%	\$ 44,669	\$ 165,496	\$ 104,471	\$ 152,244	\$ 466,880	
11	2019	1.16	\$ 16,063,313	\$ 18,642,130	\$ 2,578,817	2.13%	\$ 49,816	\$ 165,359	\$ 105,944	\$ 152,995	\$ 474,114	
12	2020	1.18	\$ 16,063,313	\$ 18,921,762	\$ 2,858,449	2.09%	\$ 54,872	\$ 165,221	\$ 107,388	\$ 153,729	\$ 481,209	
13	2021	1.20	\$ 16,063,313	\$ 19,205,589	\$ 3,142,276	2.06%	\$ 59,837	\$ 165,081	\$ 108,805	\$ 154,446	\$ 488,169	
14	2022	1.21	\$ 16,063,313	\$ 19,493,672	\$ 3,430,360	2.03%	\$ 64,714	\$ 164,940	\$ 110,194	\$ 155,147	\$ 494,995	
15	2023	1.23	\$ 16,063,313	\$ 19,786,078	\$ 3,722,765	2.00%	\$ 69,503	\$ 164,798	\$ 111,555	\$ 155,832	\$ 501,689	
16	2024	1.25	\$ 16,063,313	\$ 20,082,869	\$ 4,019,556	2.00%	\$ 74,455	\$ 164,655	\$ 112,891	\$ 156,502	\$ 508,503	
17	2025	1.27	\$ 16,063,313	\$ 20,384,112	\$ 4,320,799	2.00%	\$ 80,391	\$ 167,217	\$ 116,079	\$ 159,742	\$ 523,429	
18	2026	1.29	\$ 16,063,313	\$ 20,689,873	\$ 4,626,561	2.00%	\$ 86,416	\$ 169,817	\$ 119,315	\$ 163,030	\$ 538,579	
19	2027	1.31	\$ 16,063,313	\$ 21,000,222	\$ 4,936,909	2.00%	\$ 92,531	\$ 172,457	\$ 122,600	\$ 166,368	\$ 553,956	
20	2028	1.33	\$ 16,063,313	\$ 21,315,225	\$ 5,251,912	2.00%	\$ 98,738	\$ 175,136	\$ 125,934	\$ 169,756	\$ 569,565	
21	2029	1.35	\$ 16,063,313	\$ 21,634,953	\$ 5,571,640	2.00%	\$ 105,038	\$ 177,855	\$ 129,318	\$ 173,195	\$ 585,407	
22	2030	1.37	\$ 16,063,313	\$ 21,959,478	\$ 5,896,165	2.00%	\$ 111,433	\$ 180,615	\$ 132,753	\$ 176,686	\$ 601,487	
23	2031	1.39	\$ 16,063,313	\$ 22,288,870	\$ 6,225,557	2.00%	\$ 117,923	\$ 183,417	\$ 136,239	\$ 180,229	\$ 617,808	
24	2032	1.41	\$ 16,063,313	\$ 22,623,203	\$ 6,559,890	2.00%	\$ 124,511	\$ 186,260	\$ 139,778	\$ 183,824	\$ 634,374	
25	2033	1.43	\$ 16,063,313	\$ 22,962,551	\$ 6,899,238	2.00%	\$ 131,198	\$ 189,146	\$ 143,369	\$ 187,474	\$ 651,188	
26	2034	1.45	\$ 16,063,313	\$ 23,306,989	\$ 7,243,676	2.00%	\$ 137,985	\$ 192,076	\$ 147,015	\$ 191,179	\$ 668,255	
27	2035	1.47	\$ 16,063,313	\$ 23,656,594	\$ 7,593,281	2.00%	\$ 144,874	\$ 195,049	\$ 150,715	\$ 194,939	\$ 685,577	
	2036		Collections for TID Year 27					\$ 151,866	\$ 198,067	\$ 154,471	\$ 198,756	\$ 703,160
<b>Total Proceeds, 2009-2036 (Not Discounted)</b>							<b>\$ 1,961,295</b>	<b>\$ 4,256,127</b>	<b>\$ 3,036,549</b>	<b>\$ 4,125,720</b>	<b>\$ 13,379,691</b>	

Based on the absorption, timing, phasing, and other TID assumptions described above, a total of **\$13.4 million** of total undiscounted TID revenues are projected during this period.

### ***Projected Amortization of TID Debt***

*SBFCo* evaluated the time frame over which the total requested TID funding could be amortized using projected incremental real property tax revenues. From a TID capacity/risk analysis perspective, the proposed City expenditures fall into two major categories:

- **Baseline/Up-Front TID Costs.** These expenses include the proposed public infrastructure package, as well as the City administrative costs, and total approximately \$4.5 million. These costs would likely be bonded close to the outset of the TID, in advance of any vertical development activity of office/water technology buildings on the Project site.
- **Contingent TID Costs.** These costs include the Initial Building Grant and the Initial Technology Fund, which would only be funded if a building meeting the City's funding parameters is completed on the Project site. For the purposes of assessing TID feasibility, *SBFCo* assumed these TID costs were fully funded at \$1.92 million. However, this represents the maximum authorized expenditure at this time under the proposed TID, and would require the development of a 60,000 square foot building with at least     % water technology tenants.

While it is unknown when the Initial Building might be completed, *SBFCo* assumed for the purposes of this study that the bonds would be issued for both categories of TID cost in 2011.

It should also be noted that, while the Term Sheet between the City and Developer contemplates potential future City TID expenditures to assist subsequent development phases or structured parking, this would require additional administrative review as well as Council approval. Further, additional TID revenues may be generated by rehab/redevelopment of one or more of the vacant buildings within the TID, thus improving cash flows and shortening the amortization period. Because the multiple City approval points (administrative and legislative) exist at every point beyond the Baseline/Up-Front TID expenditures, opportunities exist to regulate TID spending to be commensurate with generation of new property tax revenues.

### **Methodology**

These projections replicate the issuance of one or more bonds to support the TID subsidy and are based on the following key assumptions:

- **Bond Interest Rates.** *SBFCo* assumed an interest rate of 4.5% on the bonds, reflective of the City of Milwaukee's approximate cost of funds frequently used for TID feasibility analysis.
- **Term, Target Debt Service, and Carry Costs.** Reflecting discussions with the Office of the City Comptroller, the projections assume two years of interest-only payments,

followed by fifteen years of level principal and interest payments. The interest-only payments in the first two years of the financing are equal to the size of the assumed capitalized interest reserve, less available fund balances at the time of issuance.

For the fifteen level payment years following the interest-only period, a “TID Annual Debt Service Target” is defined. This amount is equal to the annual level-payment debt service on a 15-year amortization of the total bond issue. In each of the 15 amortization years, this Annual Debt Service Target is compared to the available Repayment Sources. Any shortfalls relative to this target are accrued and carry a 4% annual interest charge until they are repaid. Any surpluses versus the target are used to pay down the accumulated shortfalls.

- **Issuance Costs.** *SBFCo* assumed an issuance cost of 1.00%.

### **Projected Amortization**

Based on the underlying TID projection and amortization assumptions discussed earlier in this chapter, *SBFCo* projects that the proposed \$6.42 million City TID contribution to the Reed Street Yards project would likely be amortized by Year 25 of the TID, or 2033. This calculation is illustrated in **Table 4** on the following page. It should be noted that this reflects full disbursement of both the Initial Building Grant and the Technology Fund. Because of the triggers and discretion built into the City’s Term Sheet with the Developer, these funds may not be fully disbursed, thus requiring a lesser level of TID bonding.



City of Milwaukee  
 Reed Street Yards  
 TABLE 4: TID Amortization

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Funding Structure

	Assumed Year	Amount	Plus Issuance Costs	Capitalized Interest	Total Issuance
Assumed Bonding	2011	\$ 6,420,000	\$ 64,200	\$ 720,467	\$ 7,204,667

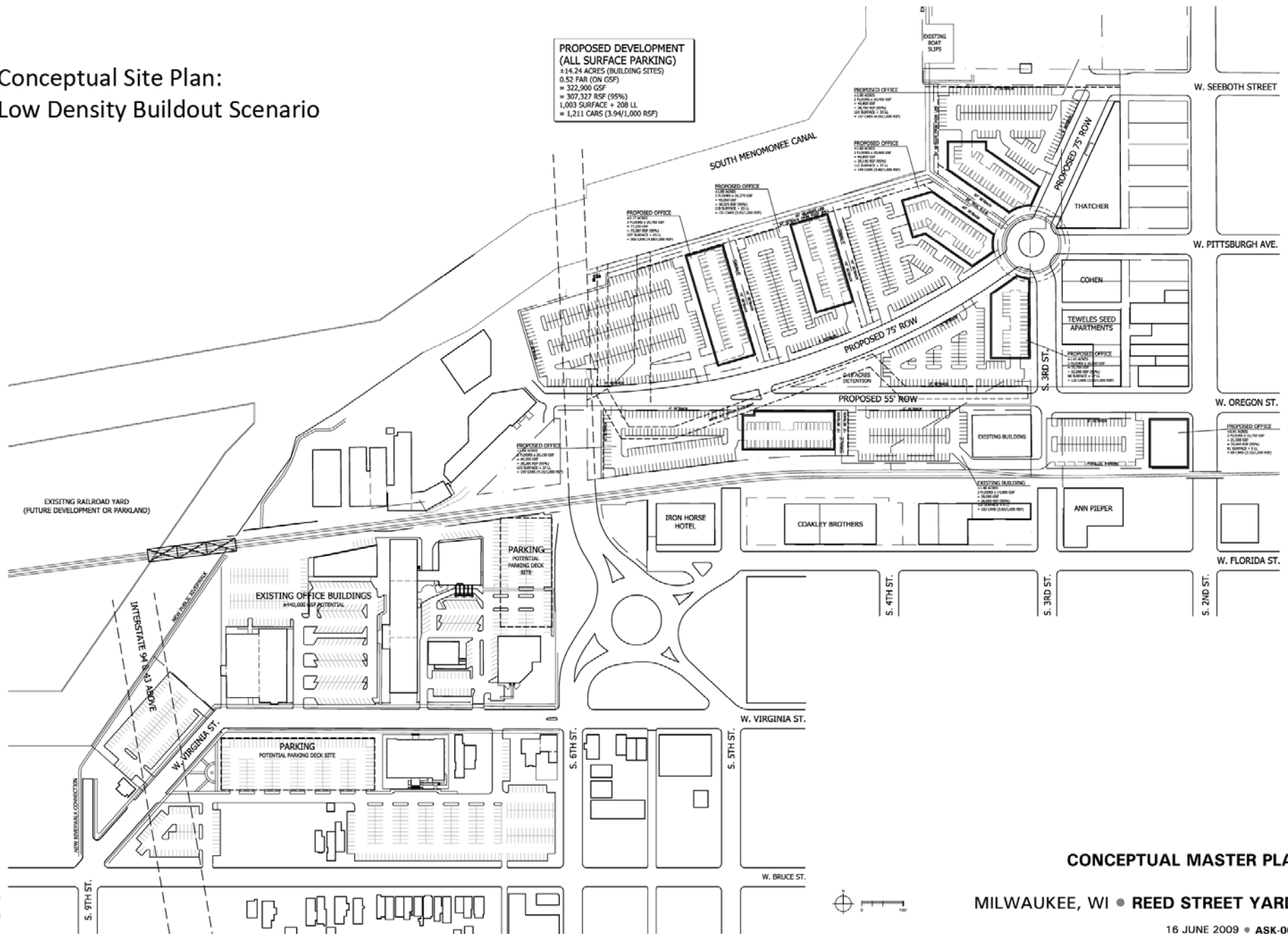
TID Year	Calendar Year	Projected Incremental Property Taxes	New Debt Service				TID Payoff Analysis					
			TID-Backed Bonds Issued	TID Annual Debt Service Target Payments	Principal Payment	Interest Payment	Principal Balance	Annual Surplus/ (Shortfall)	Cumulative Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance	TID Debt Retired	TID Could Repay Outstanding Princ.
1	2009	\$ -	\$ -					\$ -	\$ -	\$ -	NO	NO
2	2010	\$ -	\$ -					\$ -	\$ -	\$ -	NO	NO
3	2011	\$ 119,904	\$ 7,204,667					\$ 119,904	\$ 119,904	\$ 4,796	NO	NO
4	2012	\$ 290,555	\$ -					\$ 290,555	\$ 415,255	\$ 16,610	NO	NO
5	2013	\$ 428,555	\$ -	\$ 670,854	\$ (346,644)	\$ (324,210)	\$ 6,858,023	\$ (242,299)	\$ 189,566	\$ 7,583	NO	NO
6	2014	\$ 436,516	\$ -	\$ 670,854	\$ (362,243)	\$ (308,611)	\$ 6,495,780	\$ (234,338)	\$ (37,189)	\$ (1,488)	NO	NO
7	2015	\$ 444,326	\$ -	\$ 670,854	\$ (378,544)	\$ (292,310)	\$ 6,117,236	\$ (226,528)	\$ (265,205)	\$ (10,608)	NO	NO
8	2016	\$ 451,988	\$ -	\$ 670,854	\$ (395,578)	\$ (275,276)	\$ 5,721,658	\$ (218,866)	\$ (494,679)	\$ (19,787)	NO	NO
9	2017	\$ 459,506	\$ -	\$ 670,854	\$ (413,379)	\$ (257,475)	\$ 5,308,278	\$ (211,348)	\$ (725,814)	\$ (29,033)	NO	NO
10	2018	\$ 466,880	\$ -	\$ 670,854	\$ (431,981)	\$ (238,873)	\$ 4,876,297	\$ (203,974)	\$ (958,820)	\$ (38,353)	NO	NO
11	2019	\$ 474,114	\$ -	\$ 670,854	\$ (451,421)	\$ (219,433)	\$ 4,424,876	\$ (196,740)	\$ (1,193,913)	\$ (47,757)	NO	NO
12	2020	\$ 481,209	\$ -	\$ 670,854	\$ (471,735)	\$ (199,119)	\$ 3,953,142	\$ (189,644)	\$ (1,431,314)	\$ (57,253)	NO	NO
13	2021	\$ 488,169	\$ -	\$ 670,854	\$ (492,963)	\$ (177,891)	\$ 3,460,179	\$ (182,685)	\$ (1,671,252)	\$ (66,850)	NO	NO
14	2022	\$ 494,995	\$ -	\$ 670,854	\$ (515,146)	\$ (155,708)	\$ 2,945,033	\$ (175,859)	\$ (1,913,961)	\$ (76,558)	NO	NO
15	2023	\$ 501,689	\$ -	\$ 670,854	\$ (538,327)	\$ (132,526)	\$ 2,406,706	\$ (169,165)	\$ (2,159,684)	\$ (86,387)	NO	NO
16	2024	\$ 508,503	\$ -	\$ 670,854	\$ (562,552)	\$ (108,302)	\$ 1,844,154	\$ (162,351)	\$ (2,408,423)	\$ (96,337)	NO	NO
17	2025	\$ 523,429	\$ -	\$ 670,854	\$ (587,867)	\$ (82,987)	\$ 1,256,287	\$ (147,425)	\$ (2,652,185)	\$ (106,087)	NO	NO
18	2026	\$ 538,579	\$ -	\$ 670,854	\$ (614,321)	\$ (56,533)	\$ 641,966	\$ (132,275)	\$ (2,890,548)	\$ (115,622)	NO	NO
19	2027	\$ 553,956	\$ -	\$ 670,854	\$ (641,966)	\$ (28,888)	\$ (0)	\$ (116,897)	\$ (3,123,067)	\$ (124,923)	NO	NO
20	2028	\$ 569,565	\$ -					\$ 569,565	\$ (2,678,425)	\$ (107,137)	NO	NO
21	2029	\$ 585,407	\$ -					\$ 585,407	\$ (2,200,155)	\$ (88,006)	NO	NO
22	2030	\$ 601,487	\$ -					\$ 601,487	\$ (1,686,675)	\$ (67,467)	NO	NO
23	2031	\$ 617,808	\$ -					\$ 617,808	\$ (1,136,334)	\$ (45,453)	NO	NO
24	2032	\$ 634,374	\$ -					\$ 634,374	\$ (547,414)	\$ (21,897)	NO	NO
25	2033	\$ 651,188	\$ -					\$ 651,188	\$ 81,877	\$ 3,275	YES	YES
26	2034	\$ 668,255	\$ -					\$ 668,255	\$ 753,407	\$ 30,136	YES	YES
27	2035	\$ 685,577	\$ -					\$ 685,577	\$ 1,469,120	\$ 58,765	YES	YES
	2036	\$ 703,160	\$ -					\$ 703,160	\$ 2,231,045	\$ 89,242	YES	YES
<b>TOTALS</b>		<b>\$ 13,379,691</b>	<b>\$ 7,204,667</b>	<b>\$ 10,062,809</b>	<b>\$ (7,204,667)</b>	<b>\$ (2,858,143)</b>	<b>\$ 56,309,613</b>	<b>\$ 3,316,882</b>	<b>\$ 2,231,045</b>	<b>\$ (996,595)</b>		

*Appendix 1: Site Plans/Capacity Analyses*

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# Conceptual Site Plan: Low Density Buildout Scenario

**PROPOSED DEVELOPMENT  
(ALL SURFACE PARKING)**  
 ±14.24 ACRES (BUILDING SITES)  
 0.52 FAR (ON CSF)  
 = 307,327 GSF (95%)  
 1,003 SURFACE + 208 LL  
 = 1,211 CARS (3.94/1,000 RSF)



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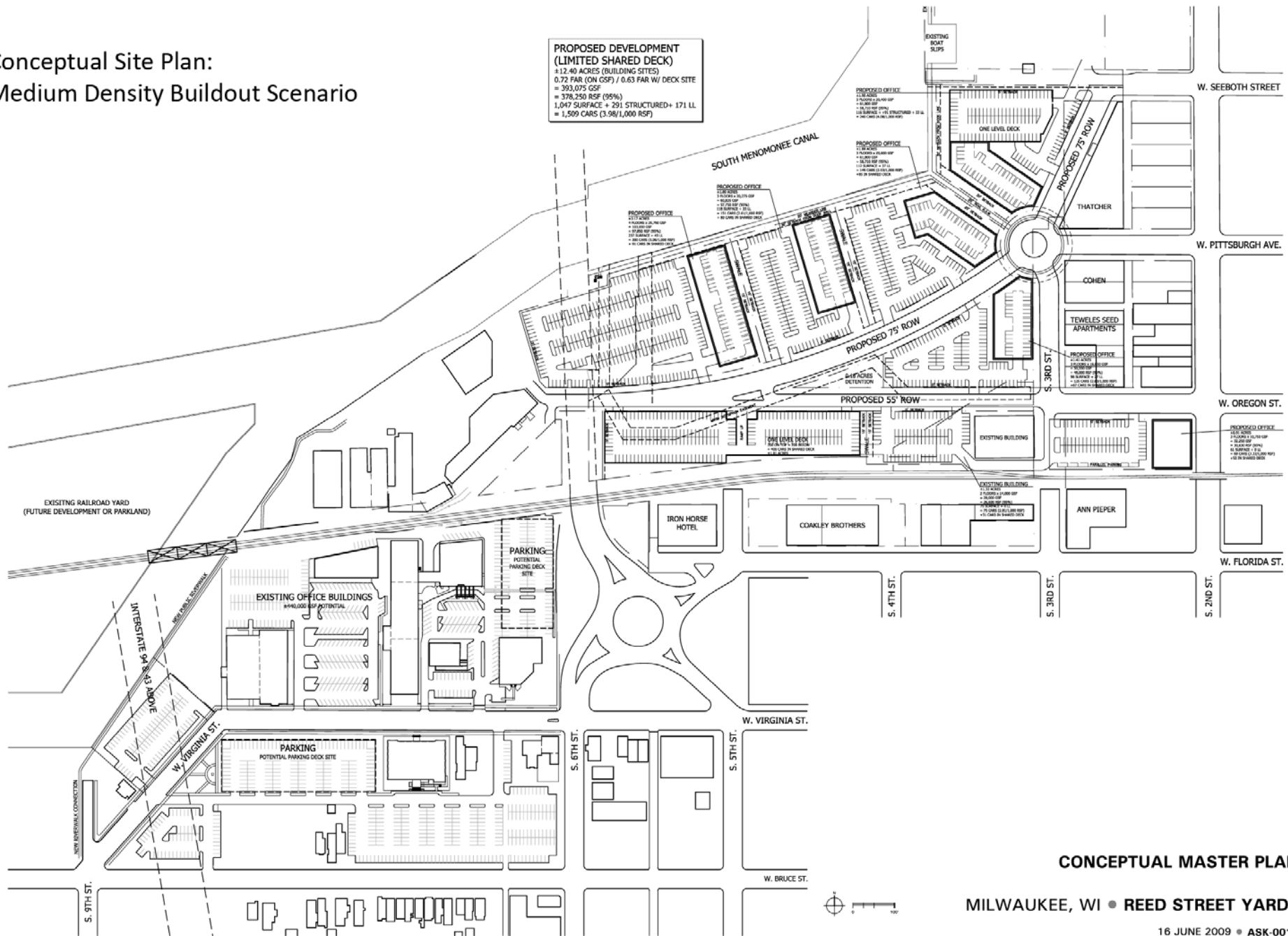
## CONCEPTUAL MASTER PLAN

MILWAUKEE, WI • REED STREET YARDS

16 JUNE 2009 • ASK-0013

# Conceptual Site Plan: Medium Density Buildout Scenario

**PROPOSED DEVELOPMENT  
(LIMITED SHARED DECK)**  
 +12.46 ACRES (BUILDING SITES)  
 0.72 FAR (ON CSF) / 0.63 FAR W/ DECK SITE  
 = 393,075 GSF  
 = 378,250 RSF (95%)  
 1,047 SURFACE + 291 STRUCTURED+ 171 LL  
 = 1,509 CARS (3.98/1,000 RSF)



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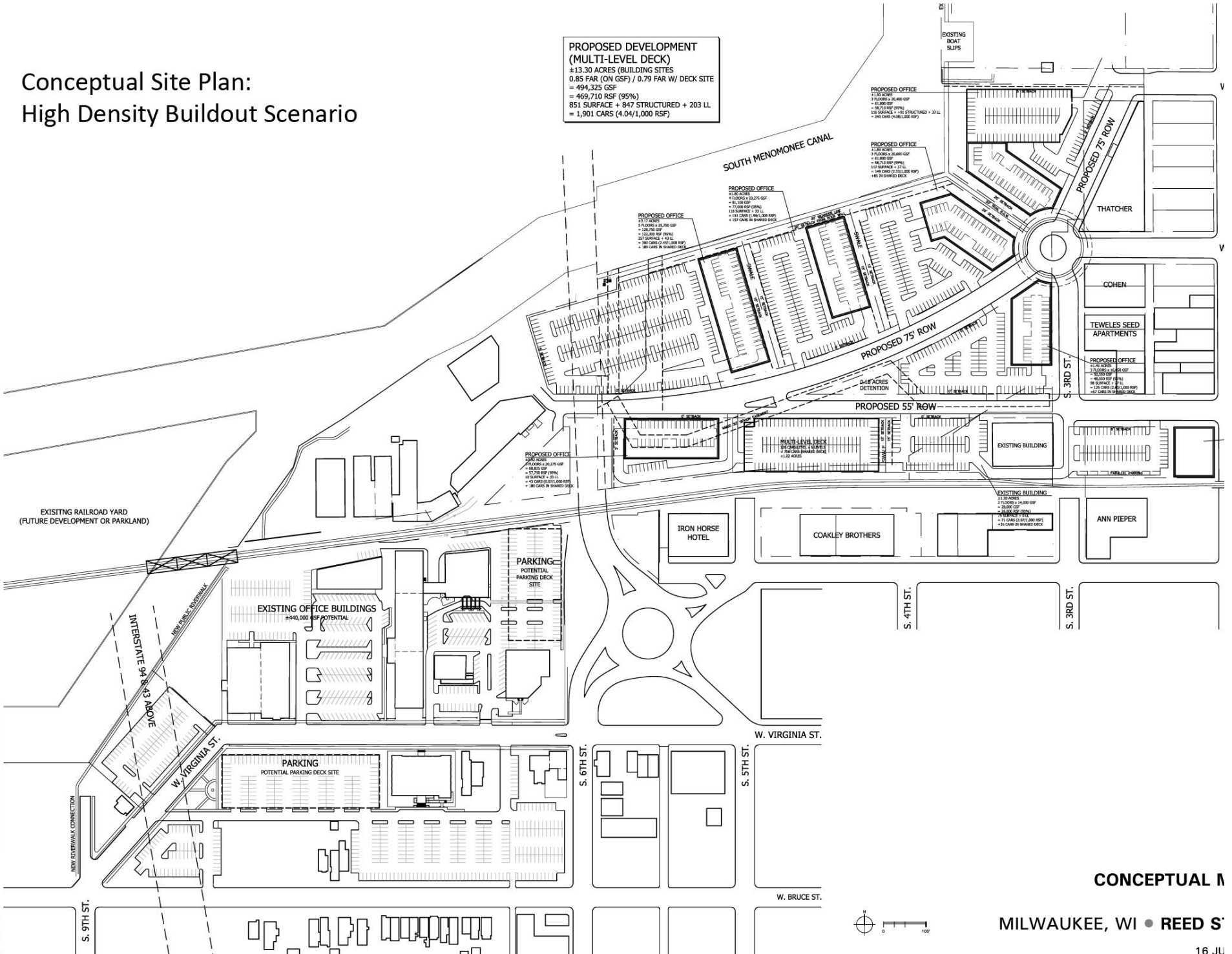
## CONCEPTUAL MASTER PLAN

MILWAUKEE, WI • REED STREET YARDS

16 JUNE 2009 • ASK-0014

# Conceptual Site Plan: High Density Buildout Scenario

**PROPOSED DEVELOPMENT  
(MULTI-LEVEL DECK)**  
 ±13.30 ACRES (BUILDING SITES)  
 0.85 FAR (ON GSF) / 0.79 FAR W/ DECK SITE  
 = 494,325 GSF  
 = 459,710 RSF (95%)  
 851 SURFACE + 847 STRUCTURED + 203 LL  
 = 1,901 CARS (4.04/1,000 RSF)



CONCEPTUAL M

MILWAUKEE, WI • REED S'



*Appendix 2: TID Assumptions*

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**City of Milwaukee**  
**Reed Street Yards**  
**Table A-1: Assumptions**

Bonding [1]

Interest Rate on Bonds	4.50%
Cost of Funds (Local Government Investment Pool)	4.00%
Issuance Costs @	1.0%
Capitalized Interest Allowance @	10.0%
Assumed Level P&I Payments	15
Bond Amount	\$6,420,000
Bonding Year	2011

Rates

General Inflation	1.50%
2009 Projected Net Property Tax Rate [2]	2.505%
10-year Compound Rate of Decline (property tax rate) [3]	1.62%
Tax Collection Rate	100%

Proposed TID [4]

Total 2009 Base Value of TID	\$24,356,900
------------------------------	--------------

Iron Horse Hotel [5]

2009 Base Value	\$5,000,000
Total Hotel SF	95,788
Number of Hotel Rooms	100
AV per Hotel Room (2009\$)	\$87,302
Projected Total New AV	\$8,730,159

Valuation Phasing:

Year	Actual/Projected New Additional Value	Actual/Projected Total Value	Percent Stabiliation
2009	\$2,750,000	\$5,000,000	57%
2010	\$2,500,000	\$7,500,000	86%
2011	\$1,230,159	\$8,730,159	100%

234 Florida Valuation [6]

2009 Base Value	\$2,985,000
Total Office SF	101,365
AV per SF Office (2009\$)	\$89
Projected Total New AV	\$8,972,507

Valuation Phasing:

Year	Actual/Projected New Additional Value	Actual/Projected Total Value	Percent Stabiliation
2009	\$1,084,000	\$2,985,000	33%
2010	\$2,000,000	\$4,985,000	56%
2011	\$2,000,000	\$6,985,000	78%
2012	\$1,987,507	\$8,972,507	100%

Initial Building [7]

Total Lot Square Footage	82,764
Percent of Project Taxkeys	12.07%
Portion of Project Base Value	\$308,587
Total Office SF	60,000
AV per SF Office (2009\$)	\$115
Projected Total New AV	\$6,900,000

Valuation Phasing:

Year	Actual/Projected New Additional Value	Actual/Projected Total Value	Percent Stabiliation
2011	\$3,450,000	\$3,450,000	50%
2012	\$3,450,000	\$6,900,000	100%

[1] All bonding assumptions per discussions with Comptroller's office; LGIP rate may require further refinement.

[2] City of Milwaukee website.

[3] Based on property tax history from Milwaukee Assessor; assumes 2.00% floor.

[4] Proposed TID includes 23 taxkeys. Finalized list provided by City on 7/23/2009.

[5] Hotel is expected to produce more value. Its assessed value at stabilization is based on tax comparables of downtown hotels.

[6] Building was recently remodeled and is expected to produce more value. Assessed value at stabilization is based on highest valued Tannery space, per discussions with the Milwaukee Assessor.

[7] 60,000 SF office building is based on Kahler Slater drawing ASK-0014 provided on 6/19/2009. Assessed value of new office at stabilization is based on the comparable Honey Creek development, per discussions with the Milwaukee Assessor.