

Project Plan for
City of Milwaukee
Tax Incremental District
(735 N. Water St. Redevelopment Project)

Public Hearing Held: January 18, 2007
Redevelopment Authority Adopted: January 18, 2007
Common Council Adopted:
Joint Review Board Approval:

I. DESCRIPTION OF PROJECT

A. Introduction

Section 66.1105(4)(d), Wisconsin Statutes, requires the “preparation and adoption...of a proposed project plan for each tax incremental district.” This Project Plan is submitted in fulfillment of this requirement and the related provisions of section 66.1105, Wisconsin Statutes.

B. District Boundaries

The 735 N. Water Street Tax Incremental District (“District” or “TID”) is comprised of two properties in downtown Milwaukee. The District is shown in Map No. 1, “Boundary and Existing Land Use,” and described more precisely in **Exhibit 1, “Boundary Description.”** The area consists solely of whole units of property as are assessed for general tax purposes and which are bounded on one or more sides by railroad rights-of-way, highways or rivers. A complete list of properties in the District is provided in **Exhibit 2, “Property Characteristics.”**

The District contains property totaling 36,130 square feet (.83 acres), exclusive of public streets and alleys. 100% percent (36,130 square feet) of the real property located within the District was found to be blighted within the meaning of Section 66.1105(4)(gm)(4)(a) Wisconsin Statutes. **Exhibit 2** illustrates how the properties in the District meet the statutory criteria for Tax Incremental Districts.

Over the last seven years, the assessment of improvements in the District has always exceeded the land assessment. Accordingly, the District contains no “vacant” property, as provided in Section 66.1105(4)(gm)(1).

C. Project Plan Goals and Objectives

Downtown Milwaukee has experienced a resurgence in the past decade. Since 2000, over 2,489 residential condominiums have been constructed, thousands of people have moved downtown and dozens of restaurants have opened. Over the last decade, however, the office market has lagged behind the residential market.

This District will :

- 1) Provide \$1.5 million of gap financing to assist in redeveloping the 735 N. Water Street office structure. This office building consists of 291,000 s.f. and currently has a 41% vacancy rate. All funding for this component of the TID will be advanced by the developer / owner of the building and be repaid, with interest at

the City's cost of funds from an allocation of 46% of the future incremental revenue generated by the project. For an analysis of the sources and uses of funds, and the forecast return on investment from this project, see the Economic Feasibility Study, attached; and,

2) Provide \$1,553,992 of funding for the renovation of 480 feet of riverwalk, including the funding of ADA access improvements to the riverwalk. Funding for this component of the project will be advanced by the City and be repaid from 54% of the future incremental revenue generated by the project. Since this Riverwalk segment was built before City legislation passed in 1994, it currently remains wholly private without any public access granted. In return for City assistance with its repairs, the property owner will grant a public access easement over a 12-foot wide path along the entire Riverwalk segment. This easement is an important link to provide continuous connection of the downtown Riverwalk system.

Other objectives of this Project Plan are to:

1. Attract and retain jobs in downtown Milwaukee.
2. Promote the coordinated development of vacant or underutilized space within buildings appropriate for retail, residential and commercial uses. In this regard, the developer plans to redevelop the long vacant 731 N. Water Street building into seven condominium units. Incremental revenue generated from this component of the redevelopment project, as well as the office structure is forecast to retire the tax increment project costs associated with this District.
3. Encourage adaptive reuse of historic and architecturally significant buildings that are structurally sound but functionally obsolete.
4. Eliminate obsolete conditions and blighting influences that impede development and detract from the functionality, aesthetic appearance and economic welfare of this important section of the City.
5. Insure public access to the Milwaukee River with improvements to the existing, currently private, Riverwalk.

D. Proposed Public Action

The City of Milwaukee may, on its own initiative or through a cooperation agreement with the Redevelopment Authority and/or other entities, undertake any and all project and site improvements and activities considered necessary to achieve project objectives and the commitment of private investment.

This District will provide gap financing for the office component of a historically significant building on a major downtown arterial. This District will also partially

fund the improvement of approximately 480' feet of Riverwalk for aesthetic, public access and handicap accessibility gains.

II. PLAN PROPOSALS

A. Statutory Requirements

Section 66.1105(4)(f), Wisconsin Statutes, requires that a Project Plan for a Tax Incremental District shall include:

“...a statement listing the kind, number and location of all proposed public works or improvements within the district or, to the extent provided in subsection (2)(f)1.k., outside the district, an economic feasibility study, a detailed list of estimated project costs, and a description of the methods of financing all estimated project costs and the time when the costs or monetary obligations related thereto are to be incurred. The plan shall also include a map showing existing uses and conditions of real property in the district; a map showing proposed improvements and uses in the district; proposed changes of zoning ordinances, master plan, if any, map, building codes and city ordinances; a list of estimated non-project costs; and a statement of a proposed method for the relocation of any persons displaced. The plan shall indicate how creation of the tax incremental district promotes the orderly development of the city.”

B. Compliance with Statutory Requirements

The statements, maps and exhibits are provided in compliance with the statutory requirements.

1. “Statement of the Kind, Number, and Location of All Proposed Public Works or Improvements.”

a. This plan includes public improvements described in general below. The specific kind, number, and locations of public improvements will be based on detailed final plans, specifications and budget estimates as approved by the Department of City Development for project and site development. While not anticipated at this time, improvements such as vacation of existing public rights-of-way, site clearance, environmental remediation, and reimbursement to owners of abutting property for costs directly related to the project also may be undertaken if necessary for the implementation of the plan for the District.

1. Gap financing for the office component of a historically significant building located in the Central Business District.
2. Improvements to approximately 480' of Riverwalk for aesthetic, public access and handicap accessibility gains.

b. The number and location of proposed public works and improvements are shown in **Map No. 3, "Proposed Uses and Improvements**

2. "Detailed List of Estimated Project Costs."

The costs included in this subsection and detailed in Table "A" which follows are, without limitation hereof because of enumeration, claimed as eligible Project Costs as defined under Section 66.1105(2)(f) and, if appropriate, in any Cooperation Agreement(s) presently or subsequently entered into by and between the City of Milwaukee, the Redevelopment Authority of the City of Milwaukee, and/or eligible designated redeveloper(s), which agreements are incorporated herein by reference, provided further that such expenditures are necessitated by this Project Plan.

These costs and cost estimates are more fully described as follows:

a. Capital Costs

A statement of the kinds of activities proposed for the project is included in subsection III.B.1. of this Plan

b. Other Costs

This category of Project Costs includes estimates for administrative, professional, organization and legal costs.

c. Financing Costs

Financing costs include estimated gross interest expense on bonds that will be issued to pay for Project Costs. Estimates of bond interest are based on interest rates as set forth in the Economic Feasibility Analysis for this Project.

Table A
Lists of Estimated Project Costs

A	<u>Capital:</u> 1) Gap Financing funded by the Developer at the City's cost of funds; 2) Riverwalk improvements and ADA improvements funded by the City	\$1,500,000 \$1,554,000
B	<u>Other:</u> Administrative, professional, organizational and legal	\$120,000
C	<u>Contingency</u>	62,000
	Total Estimated Project Costs, excluding financing	\$3,236,000
D	<u>Financing:</u> Interest payment on bonds (Incl. capitalized interest)	\$1,710,000

3. "Description of Timing and Methods of Financing."

a. Estimated Timing of Project and Financing Costs

Year	Estimated Project Costs	Cumulative Total
2007-09	\$3,236,000	\$3,236,000

b. Estimated Method of Financing Project Costs

As discussed above, the Gap Financing component will be funded by the developer, at the City's cost of funds. The riverwalk component, administration and contingency will be funded by General Obligation Bonds.

4. "Economic Feasibility Study."

The Economic Feasibility Study for this District, prepared by SB Friedman & Company and titled *Economic Feasibility of 731-735 North Water Street Project* dated May 4, 2007, is attached hereto.

Based upon the anticipated tax incremental revenue to be generated by this project, the District is financially feasible and is likely to be retired on or before the year 2024.

5. "Map Showing Existing Uses and Conditions."

Please refer to **Map No. 1, "Boundary and Existing Land Use,"** and **Map No. 2, "Structure Condition"** and **Exhibit 3, "Parcel Owners"** in the Exhibits Section which follows.

6. Map Showing Proposed Uses and Improvements.”

Please refer to **Map No. 3, “Proposed Uses and Improvements,”** in the Exhibits Section which follows.

7. “Proposed Change of Zoning Ordinances, Master Plan Building Codes and City Ordinances.”

Please refer to **Map No. 4, “Existing Zoning,”** in the Exhibits Section which follows. The proposed project is consistent with the existing zoning, and the existing master plan, map, building codes, and other city ordinances. The project should not require amendments to their provisions.

8. “List of Estimated Non-Project Costs.”

Please see Tables 1 and 5 of the May 4, 2007 Feasibility Memo by S.B. Friedman & Co., attached.

9. “Proposed Method for Relocation.”

This Plan does not anticipate the acquisition of property by the City of Milwaukee or by the Redevelopment Authority. Accordingly, no relocation activities or expenditures for relocation payments or services are provided herein.

10. “Statement Indicating How District Creation Promotes Orderly City Development.”

This District will assist with the continued revitalization of the downtown area, preserve historic architecture and enhance access along the existing Riverwalk system. This District is consistent with the objectives of the Downtown Plan.

11. “Opinion of the City Attorney.”

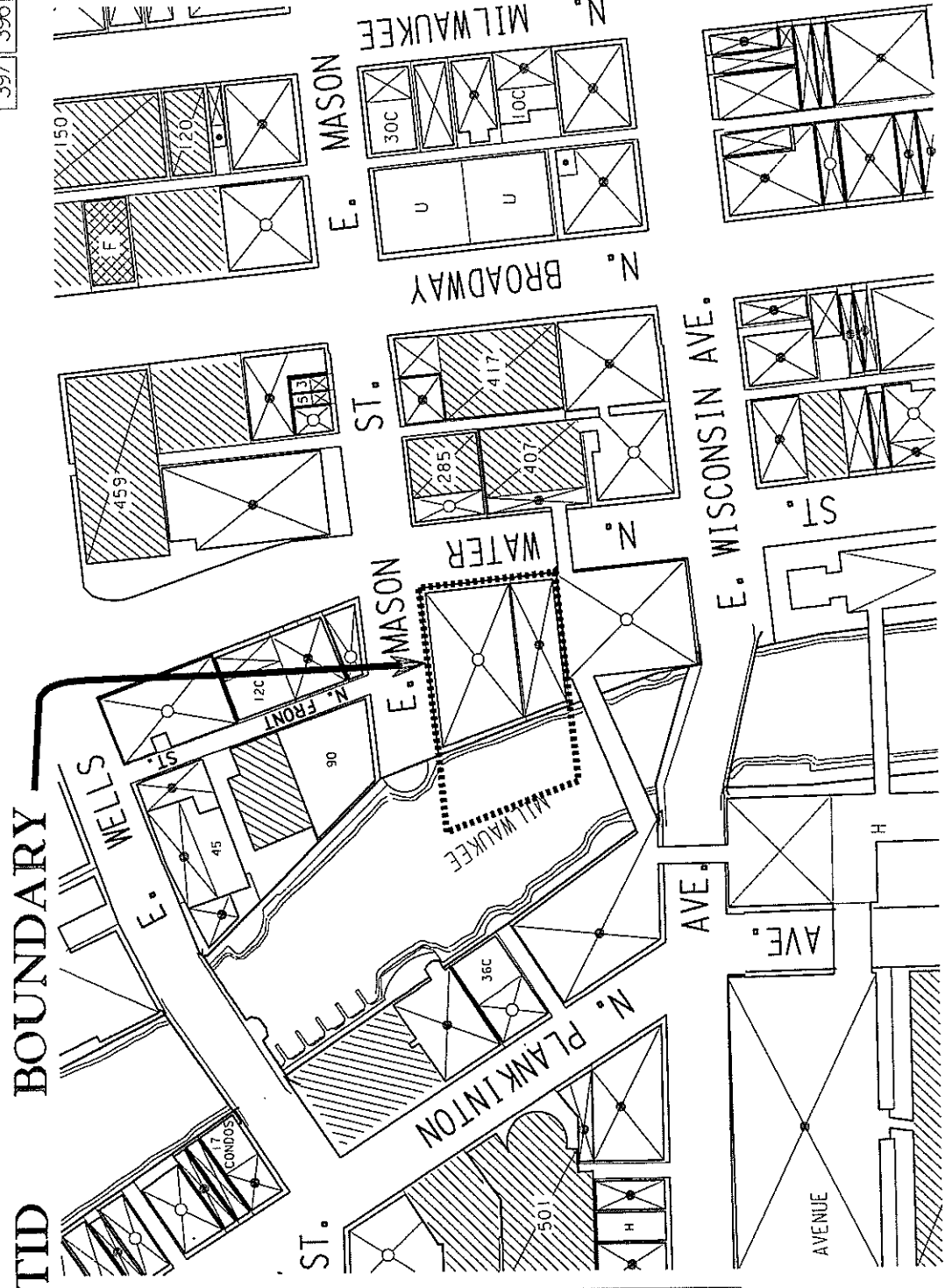
Please refer to **Exhibit 4.**

12. Term Sheet

The City, Redevelopment Authority, and Developer shall enter into a Development Agreement for the Project consistent with the terms set forth in the Term Sheet, attached as **Exhibit 5**.

392 393
397 396

5. EXISTING LAND USE



LEGEND

---	PROJECT BOUNDARY
T	CHURCH
H	HOTEL
R	ROOMING HOUSE
P	POLICE STATION
F	FIRE STATION
+	HOSPITAL
C	CONDOMINIUM
U	UTILITY COMPANY
Y	STORAGE TANK
■	PARK
□	PUBLIC SCHOOL
P.S.	PARKING LOT
P.C.	PARKING STRUCTURE
□	SINGLE OR DUPLEX RESIDENTIAL
□	MULTI-FAMILY RESIDENTIAL
□	MIXED COMMERCIAL / RESIDENTIAL
□	COMMERCIAL OR LOCAL BUSINESS
□	OFFICE / PROFESSIONAL SERVICES
□	MIXED COMMERCIAL
□	SKILLED CARE FACILITY
□	VACANT PARCEL
□	NON - PUBLIC EDUCATION
□	PUBLIC BUILDING
□	MANUFACTURING AND WAREHOUSING
□	ACCESSORY BUILDING
□	CEMETERY
□	TENNIS COURT
□	BASKETBALL COURT
□	DORMITORY

MP NO. 1

TID - Street

North Water Street

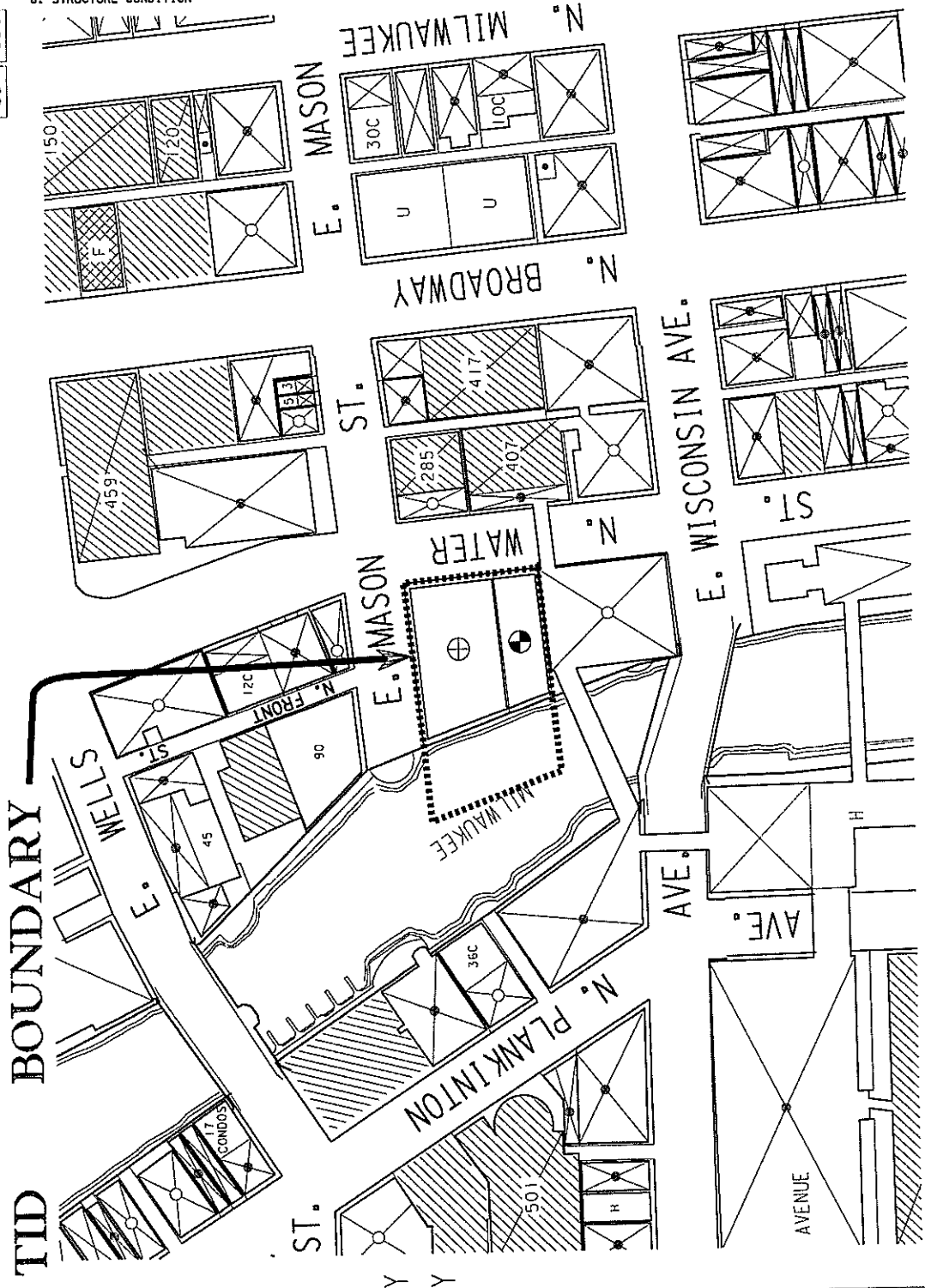
BOUNDARY AND EXISTING LAND USE

DATE: 11/09/2006



392 393
397 396

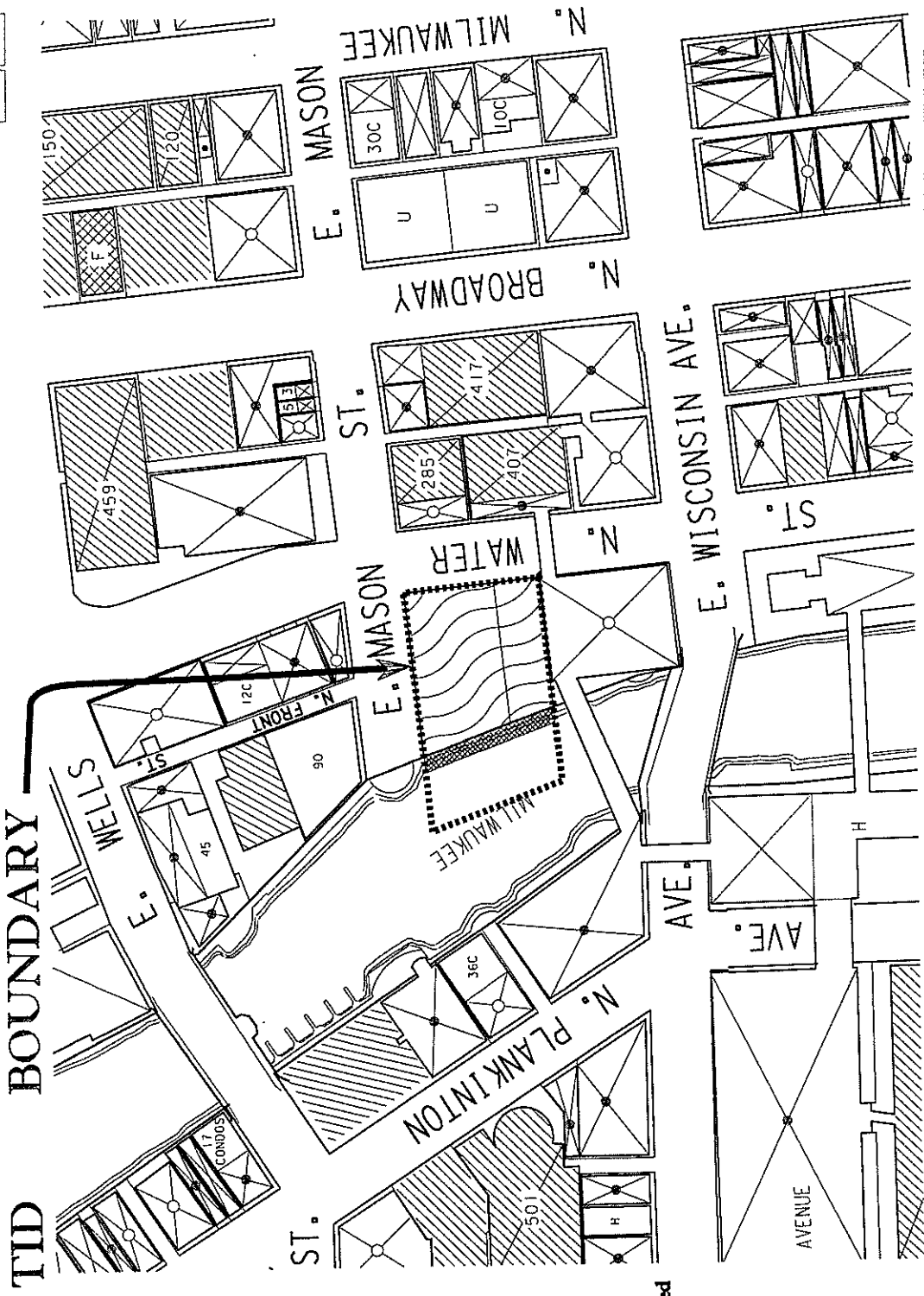
6. STRUCTURE CONDITION



- LEGEND
- STANDARD
 - ⊕ MINOR DEFICIENCY
 - ◐ MAJOR DEFICIENCY
 - SUBSTANDARD

MAP NO.	2
TID - North Water Street	
STRUCTURE CONDITION	
<small> PREPARED BY: TID CONSULTANTS, INC. 1100 N. WATER STREET, MILWAUKEE, WI 53233 DATE: 11/08/2006 </small>	

TID BOUNDARY



- PROPOSED IMPROVEMENTS AND USES**
- Riverwalk
 - Buildings to be Rehabed

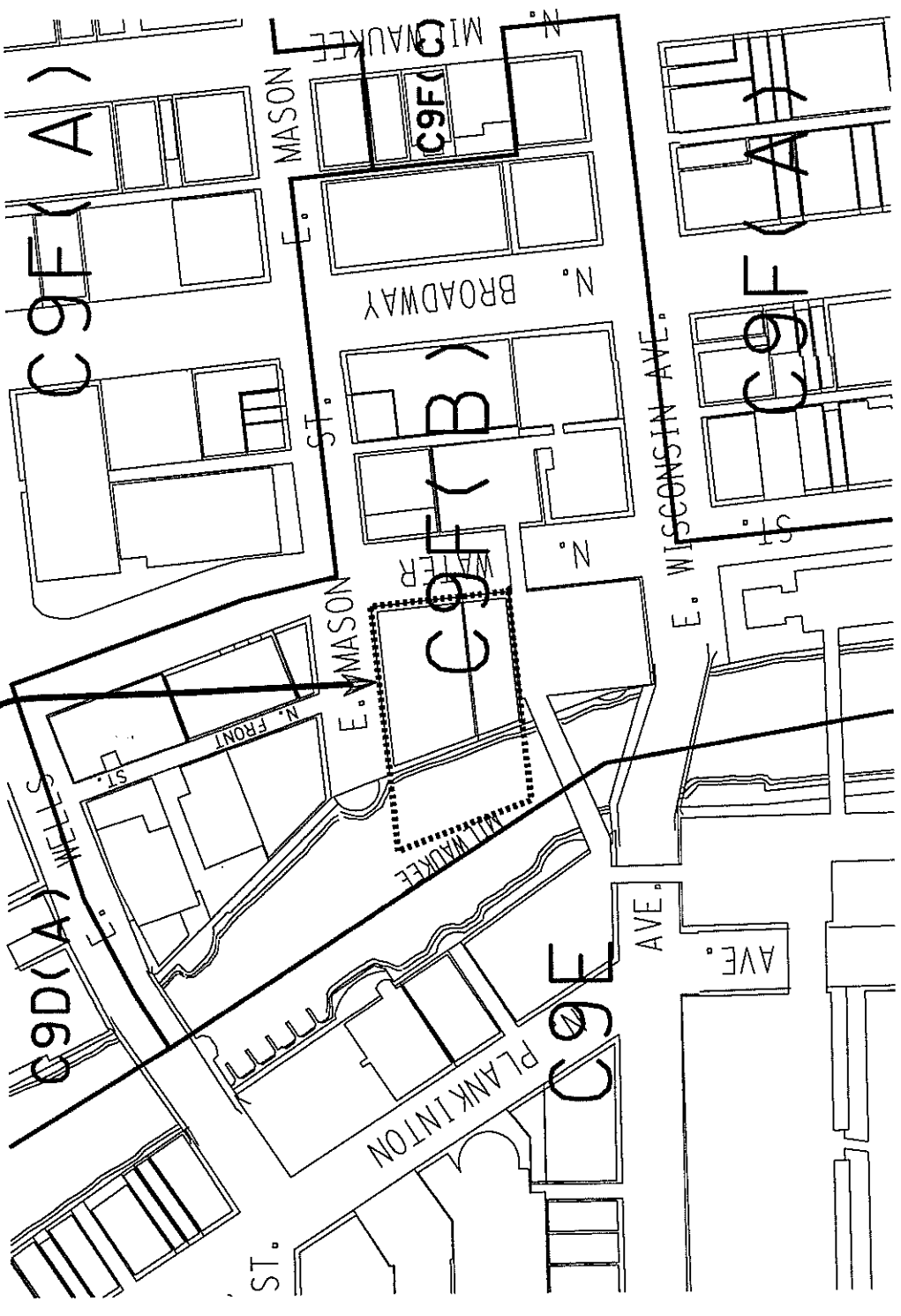
MAP NO.	3
TID - Street	North Water Street
PROPOSED USES AND IMPROVEMENTS	
DATE	11/08/2006

NOTES: IN ORDER TO CONFORM WITH SPECIFIC REDEVELOPMENT PROPOSALS AND WITH ENGINEERING DESIGN REQUIREMENTS ESTABLISHED BY THE CITY ENGINEER AND THE COMMISSIONER OF PUBLIC WORKS OF THE CITY OF MILWAUKEE, THIS MAP NO. 3, WHICH ILLUSTRATE BASIC PROJECT OBJECTIVES, MAY BE MODIFIED OR RETIRED AS NECESSARY BY PLAN DURING THE COURSE OF PROJECT EXECUTION WITHOUT NECESSARY NOTICE, AS PROVIDED IN SECTION 21.07 OF THE ORDINANCE.



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TID BOUNDARY



Zoning Legend	
RESIDENTIAL	RES1, RES2, RES3, RES4, RES5, RES6, RES7, RES8, RES9, RES10, RES11, RES12, RES13, RES14, RES15, RES16, RES17, RES18, RES19, RES20, RES21, RES22, RES23, RES24, RES25, RES26, RES27, RES28, RES29, RES30, RES31, RES32, RES33, RES34, RES35, RES36, RES37, RES38, RES39, RES40, RES41, RES42, RES43, RES44, RES45, RES46, RES47, RES48, RES49, RES50, RES51, RES52, RES53, RES54, RES55, RES56, RES57, RES58, RES59, RES60, RES61, RES62, RES63, RES64, RES65, RES66, RES67, RES68, RES69, RES70, RES71, RES72, RES73, RES74, RES75, RES76, RES77, RES78, RES79, RES80, RES81, RES82, RES83, RES84, RES85, RES86, RES87, RES88, RES89, RES90, RES91, RES92, RES93, RES94, RES95, RES96, RES97, RES98, RES99, RES100
COMMERCIAL	C9D(A), C9E, C9F(A), C9F(B), C9F(C)
INDUSTRIAL	I1, I2, I3, I4, I5, I6, I7, I8, I9, I10, I11, I12, I13, I14, I15, I16, I17, I18, I19, I20, I21, I22, I23, I24, I25, I26, I27, I28, I29, I30, I31, I32, I33, I34, I35, I36, I37, I38, I39, I40, I41, I42, I43, I44, I45, I46, I47, I48, I49, I50, I51, I52, I53, I54, I55, I56, I57, I58, I59, I60, I61, I62, I63, I64, I65, I66, I67, I68, I69, I70, I71, I72, I73, I74, I75, I76, I77, I78, I79, I80, I81, I82, I83, I84, I85, I86, I87, I88, I89, I90, I91, I92, I93, I94, I95, I96, I97, I98, I99, I100
OFFICE	O1, O2, O3, O4, O5, O6, O7, O8, O9, O10, O11, O12, O13, O14, O15, O16, O17, O18, O19, O20, O21, O22, O23, O24, O25, O26, O27, O28, O29, O30, O31, O32, O33, O34, O35, O36, O37, O38, O39, O40, O41, O42, O43, O44, O45, O46, O47, O48, O49, O50, O51, O52, O53, O54, O55, O56, O57, O58, O59, O60, O61, O62, O63, O64, O65, O66, O67, O68, O69, O70, O71, O72, O73, O74, O75, O76, O77, O78, O79, O80, O81, O82, O83, O84, O85, O86, O87, O88, O89, O90, O91, O92, O93, O94, O95, O96, O97, O98, O99, O100
PARKING	P1, P2, P3, P4, P5, P6, P7, P8, P9, P10, P11, P12, P13, P14, P15, P16, P17, P18, P19, P20, P21, P22, P23, P24, P25, P26, P27, P28, P29, P30, P31, P32, P33, P34, P35, P36, P37, P38, P39, P40, P41, P42, P43, P44, P45, P46, P47, P48, P49, P50, P51, P52, P53, P54, P55, P56, P57, P58, P59, P60, P61, P62, P63, P64, P65, P66, P67, P68, P69, P70, P71, P72, P73, P74, P75, P76, P77, P78, P79, P80, P81, P82, P83, P84, P85, P86, P87, P88, P89, P90, P91, P92, P93, P94, P95, P96, P97, P98, P99, P100
UTILITIES	U1, U2, U3, U4, U5, U6, U7, U8, U9, U10, U11, U12, U13, U14, U15, U16, U17, U18, U19, U20, U21, U22, U23, U24, U25, U26, U27, U28, U29, U30, U31, U32, U33, U34, U35, U36, U37, U38, U39, U40, U41, U42, U43, U44, U45, U46, U47, U48, U49, U50, U51, U52, U53, U54, U55, U56, U57, U58, U59, U60, U61, U62, U63, U64, U65, U66, U67, U68, U69, U70, U71, U72, U73, U74, U75, U76, U77, U78, U79, U80, U81, U82, U83, U84, U85, U86, U87, U88, U89, U90, U91, U92, U93, U94, U95, U96, U97, U98, U99, U100
OTHER	OT1, OT2, OT3, OT4, OT5, OT6, OT7, OT8, OT9, OT10, OT11, OT12, OT13, OT14, OT15, OT16, OT17, OT18, OT19, OT20, OT21, OT22, OT23, OT24, OT25, OT26, OT27, OT28, OT29, OT30, OT31, OT32, OT33, OT34, OT35, OT36, OT37, OT38, OT39, OT40, OT41, OT42, OT43, OT44, OT45, OT46, OT47, OT48, OT49, OT50, OT51, OT52, OT53, OT54, OT55, OT56, OT57, OT58, OT59, OT60, OT61, OT62, OT63, OT64, OT65, OT66, OT67, OT68, OT69, OT70, OT71, OT72, OT73, OT74, OT75, OT76, OT77, OT78, OT79, OT80, OT81, OT82, OT83, OT84, OT85, OT86, OT87, OT88, OT89, OT90, OT91, OT92, OT93, OT94, OT95, OT96, OT97, OT98, OT99, OT100

MAP NO. 4

TID North Water Street

EXISTING ZONING MAP

DATE 11/02/2006

N.J.

EXHIBIT 1
Boundary Description

735 N. Water Street Tax Incremental District

Lots 1, 2 and 3, in Block 2, in the Plat of Milwaukee, in Sections 28, 29 and 33,
Township 7 North, Range 22 East, in the City of Milwaukee, County of Milwaukee,
State of Wisconsin..

EXHIBIT 2
Property Characteristics

Findings substantiating that not less than 50%, by area, of the real property within the proposed district is a blighted area within the meaning of Section 66.1105(4)(a), Wisconsin Statutes.

Assessed Valuation 1/1/06				Blighted Area/Influence								
Parcel No.	Tax Key No.	Land	Improvements	Total	Total Area (sq. ft.)	Explanatory Note	Sound or In Need of Voluntary Repair/Rehabilitation (sq. ft.)	Predominately Open or Underdeveloped Publicly-Owned Parcels (sq. ft.)	Deteriorated Structures/Other Improvements (sq. ft.)	Obsolete Platting/Faulty Lot Layout (sq. ft.)	Conditions Endangering Life (sq. ft.)	Vacant Property/Property Standing Vacant (sq. ft.)
1	392-0601-120	\$436,700	\$563,300	\$1,000,000	10,925	Building	0	0	10,925	0	0	0
2	392-0601-110	\$1,007,600	\$9,992,400	\$11,000,000	25,205	Building	0	0	25,205	0	0	0
Total		\$1,444,300	\$10,555,700	\$12,000,000	36,130		0	0	36,130	0	0	0
Percentage					100%		0%	0%	100%	0%	0%	0%

**Exhibit 3
Parcel Owners**

<u>Parcel Number</u>	<u>Tax Key</u>	<u>Low</u>	<u>High</u>	<u>Dir</u>	<u>Street</u>	<u>ST</u>	<u>Owner Name</u>
1	392-0601-120	731	731	N	Water	ST	COMPASS PROPERTIES 731 NORTH WATER ST LLC
2	392-0601-110	733	743	N.	Water	ST	COMPASS PROPERTIES NORTH WATER ST LLC

Exhibit 5

Term Sheet 735 N Water Development Agreement

Project: The “Project” consists of substantial renovations/retrofits to the existing 731 and 735 North Water Street buildings. The improvements to 735 North Water Street include installation of fire suppression systems, a connection to the Milwaukee Skywalk system, façade renovations, preservation of the building’s cornice, and the creation of a new restaurant space. The program for 731 North Water Street includes asbestos removal and abatement, conversion of the building to an elevator-driven parking garage, construction of seven luxury condominiums above the existing building, and the creation of four boat slips along the Milwaukee River. The total cost of these improvements is approximately \$21.2 million.

This Tax Incremental District (“the District”) will fund the repair of a riverwalk of approximately 480 feet in length, including retrofits for ADA-accessible facilities. The design will be consistent with the Riverlink Design Guidelines and may include railings, harp lights, and medallions in the walking surface. The estimated cost for this repair is approximately \$1.55 million.

In addition, the District will provide gap financing for the office component of the Project in the amount of \$1.5 million. The entire Project will be constructed by the Developer.

Project Budget: Total estimated project costs for the Project, excluding financing, are approximately \$23.8 million.

Developer: Compass Properties

City Contribution: The City shall provide a contribution from the Tax Incremental District in the amount not to exceed \$3,054,000, excluding financing costs and City administration and inspection costs. Of this total:

- \$1.5 million will be financed by the Developer, and repaid by the City from 46% of the actual incremental property taxes generated annually by the Project, with an interest rate equal to the City’s cost of funds for General Obligation bonds at the time of

execution of the Development Agreement;

- Up to \$1,554,000 will be funded by the City from bond proceeds, and made available to the Developer to reimburse actual costs incurred pursuant to the proposed Riverwalk repairs and ADA upgrades. Annually, the City shall receive 54% of the incremental revenue from the Project for the purposes of amortizing this portion of the TID Project costs.

Disbursements:

Prior to disbursement of City funds to the Developer, the following actions must occur.

- A. A final budget for the Project, including total costs of the riverwalk and the proposed improvements to 731 and 735 N Water Street (hard and soft costs) shall have been approved in writing by City's Commissioner of City Development, (the "Commissioner").
- B. The Developer shall have received all federal, state and local agency approvals that are necessary to undertake the construction of the Project.
- C. The Commissioner shall have approved the final plans and specifications for the Project.
- D. The Commissioner shall have approved all the contracts to be entered into by the Developer to undertake the construction of the riverwalk and the office redevelopment.
- E. The architect or engineer shall have certified in writing to the Commissioner that the work that is subject to the draw request has been completed in accordance with the Commissioner-approved plans and specifications and the riverwalk and the office redevelopment costs have been fully substantiated by the Developer on appropriate AIA forms, such as AIA Document G702.
- F. The Commissioner shall have received and approved a signed EBE Agreement for the entire Project.
- G. The City shall have received all necessary Grants of Easement, in the approved form for the Riverwalk.
- H. Payment requests shall be presented to the Commissioner by Developer no more frequently than once a month and City Contribution shall be disbursed pursuant to procedures approved by the Commissioner.

Responsibilities: Developer will construct the Project, pay its portion of construction costs, own, operate and maintain those portions of the Riverwalk located on its property, including the public Riverwalk, dock wall, and handicap accessible facilities either through BID #15 allocation or on its own.

Developer will deliver and the City will accept a permanent public access easement for the Riverwalk.

Competitive Bidding: Contracts for work funded by the City shall be bid out by the Developer and the bidder chosen by the Developer must be reasonably approved by the Commissioner.

Prevailing Wages: The Developer and Developer's contractors shall pay prevailing wages for construction of the Riverwalk and agree to provide reports specified by the Commissioner.

Development Agreement: The City, Developer, and RACM shall enter into a development agreement ("Development Agreement") containing terms consistent with this Term Sheet and customary for such development agreements. The Development Agreement may not be collaterally assigned to a third party without the written consent of the Commissioner. A clause shall be included that allows the City to recapture a portion of the Historic Tax Credit proceeds (if they are ever claimed) to recoup the City's "gap financing" grant to the project.

PILOT Payments: The Development Agreement will require payments in lieu of taxes with respect to any parcel or building within the District that subsequently becomes exempt from real property taxes. This provision shall be incorporated into a covenant running with the land.

Financial Statements: Developer shall provide internally generated financial statements for the Project, certified as to accuracy. At its discretion, the City may request independently audited financial statements to be provided within ninety days of the close of any fiscal year. The City shall pledge to hold such records confidential to the greatest extent permitted by law.

Design Review: The Commissioner shall have the right to approve all plans and specifications for all work funded in whole or in part by the City.

Human Resource Requirements: The Developer shall enter into an EBE agreement that places a mandatory 18% EBE requirement and a 21% Residents Preference requirement on the Project.

**Developer
Financing:**

City, RACM and Developer shall structure the City contribution based on the parameters described in “City Contribution” above. The Development Agreement shall be structured as a Cooperation Contribution and Redevelopment Agreement in a form customary for a transaction involving a Developer Financed TID component, and shall provide for the payment of interest on the Developer-financed component at the City’s cost of funds as determined by the City Comptroller at the time of execution of the Development Agreement.

**Cash Flow
Participation**

Distribution of cash flow from the Project and / or the sale of the Project, or a portion thereof, shall be distributed 12% to the City and 88% to the Developer, after the Developer realizes an 18% Internal Rate of Return (IRR). IRR shall be computed using Excel spread sheet software.

General:

This Term Sheet does not constitute a binding agreement. The terms set forth herein and other provisions customary for a transaction of this sort shall be incorporated in one or more agreements, including the Development Agreement mentioned above, among the City, RACM, and Developer. Resolutions approving the Term Sheet will also provide for the execution of all additional documents and instruments necessary to implement the Project.

All other customary provisions (Comptroller audit rights, DCD Commissioner review and approval of project budget and design, etc.) will also be included in the Development Agreement.

AR 5/4/07

Date: May 4, 2007
To: Jim Scherer and Allison Rozek, Milwaukee Department of City Development
From: *S. B. Friedman & Company*
Subject: **Economic Feasibility of 731-5 North Water Street Project**

This memorandum presents updated estimates of developer economic returns and projected TID amortization in conjunction with Compass Properties' proposed redevelopment of 731 & 735 North Water Street. It builds on prior economic feasibility analyses of this project performed by *S. B. Friedman & Company (SBFCo)*, the most recent of which was submitted on 1/29/07.

The City is currently contemplating providing a total of about \$3.05 million in TID assistance (plus City administration and inspection costs) consisting of:

- The projected cost of Riverwalk repair and ADA improvements up to a maximum of about \$1.55 million, to be financed via City bonding and provided to the Developer as a reimbursement for actual construction costs
- \$1.5 million in gap financing to be internally financed by the Developer at a rate equal to the City's cost of funds for General Obligation bonding

Further description of the proposed assistance package is included in the "Projected TID Amortization" section of this memo.

Analysis of Project Returns

SBFCo tested the impact of City assistance on Developer rates of return by evaluating scenarios with and without the proposed \$1.5 million gap financing component. Both of these scenarios assume City assistance for the Riverwalk repairs.

Tables 1 to 4 on the following pages illustrate sources and uses of funds, projected cash flows, and estimated returns on equity for the proposed project with and without gap financing.

The projected internal rate of return (IRR) on equity with the \$1.5MM gap financing is about **11.5%**. The projected IRR without gap financing is about **8.6%**. Both of these results represent returns substantially below typical market expectations for projects involving purchase and substantial rehabilitation (office component) and new speculative construction (residential component).

City of Milwaukee: 731-735 N. Water Street

Table 1: Non-Residential Sources and Uses- City Funding of Riverwalk and Gap Financing of \$1.5MM

USES		SOURCES	
Land			
Total Land Value- Assessment for 2006	\$ 12,000,000	Developer's Equity	\$ 5,851,139
Less Residential Project Land Allocation	\$ (1,887,712)	Construction Loan	\$ 16,452,262
Commercial Land Cost	\$ 10,112,288	TIF Gap Financing	\$ 1,500,000
		TOTAL SOURCES	\$ 23,803,401
Hard Costs			
Base, Core, & Shell	\$ 2,893,204		
Tenant Improvements	\$ 100,000		
Lobby	\$ 824,500		
Parking	\$ 2,203,376		
Abatement	\$ 1,551,737		
Cornice Repair	\$ 2,776,186	Max Supportable Debt- LTC Approach	
Riverwalk Repair/Accessibility	City Financed	Total Development Costs (excl. cornice)	\$ 21,027,215
HC Contingency	\$ 301,054	Loan to Cost	80%
Total	\$ 10,650,057	Max Supportable Debt	\$ 16,821,772
Soft Costs			
Arch & Engineering Fees	\$ 361,265	Max Supportable Debt- LTV Approach	
Development Services	\$ 561,791	NOI First Stabilized Yr	\$ 1,893,392
Sales/Leasing Commissions/Marketing	\$ 736,956	Capped at	8.00%
Construction Holding Costs/Interest/Fees	\$ 421,344	Value	\$ 23,667,397
Legal Fees	\$ 130,000	Loan to Value	75%
Professional Services	\$ 35,000	Max Supportable Debt	\$ 17,750,548
City Fees	\$ 20,000	Max Supportable Debt (\$2007s)	\$ 16,452,262
Real Estate Taxes During Const.	\$ -	Max Supportable Debt- DCR Approach	
Retail Lease-Up Carry	\$ 493,804	NOI First Stabilized Yr	\$ 1,989,245
Total	\$ 2,760,160	DCR	1.2
		Max Annual Pmt	\$ 1,657,704
		Interest Rate	7.50%
		Term	30
Developer Fee/Profit	\$ 280,896	Max Supportable Debt	\$ 19,756,740
TOTAL USES	\$ 23,803,401		

City of Milwaukee: 731-735 N. Water Street

Table 3: Non-Residential Sources and Uses- City Funding of Riverwalk Only (no TID Gap Financing)

USES		SOURCES	
Land			
Total Land Value- Assessment for 2006	\$ 12,000,000	Developer's Equity	\$ 7,351,139
Less Residential Project Land Allocation	\$ (1,887,712)	Construction Loan	\$ 16,452,262
Commercial Land Cost	\$ 10,112,288	TIF Gap Financing	\$ -
		TOTAL SOURCES	\$ 23,803,401
Hard Costs			
Base, Core, & Shell	\$ 2,893,204		
Tenant Improvements	\$ 100,000		
Lobby	\$ 824,500		
Parking	\$ 2,203,376		
Abatement	\$ 1,551,737		
Cornice Repair	\$ 2,776,186		
Riverwalk Repair/Accessibility	City Financed	Max Supportable Debt- LTC Approach	
HC Contingency	\$ 301,054	Total Development Costs (excl. cornice)	\$ 21,027,215
Total	\$ 10,650,057	Loan to Cost	80%
		Max Supportable Debt	\$ 16,821,772
Soft Costs			
Arch & Engineering Fees	\$ 361,265	Max Supportable Debt- LTV Approach	
Development Services	\$ 561,791	NOI First Stabilized Yr	\$ 1,893,392
Sales/Leasing Commissions/Marketing	\$ 736,956	Capped at	8.00%
Construction Holding Costs/Interest/Fees	\$ 421,344	Value	\$ 23,667,397
Legal Fees	\$ 130,000	Loan to Value	75%
Professional Services	\$ 35,000	Max Supportable Debt	\$ 17,750,548
City Fees	\$ 20,000	Max Supportable Debt (\$2007s)	\$ 16,452,262
Real Estate Taxes During Const.	\$ -		
Retail Lease-Up Carry	\$ 493,804	Max Supportable Debt- DCR Approach	
Total	\$ 2,760,160	NOI First Stabilized Yr	\$ 1,989,245
		DCR	1.2
		Max Annual Pmt	\$ 1,657,704
		Interest Rate	7.50%
		Term	30
Developer Fee/Profit	\$ 280,896	Max Supportable Debt	\$ 19,756,740
TOTAL USES	\$ 23,803,401		

In addition, it should be noted that although *SBFCo* did not include specific calculations of this type in the above scenarios, the Developer will likely experience additional costs due to negative arbitrage on the \$1.5 million gap financing portion of City assistance. The current proposal calls for the Developer to fund the \$1.5 million up front, with eventual repayment from the City at rate of interest equal to the City's GO bond rate of approximately 4 to 4.5%. The Developer's cost of funds is likely to be substantially higher than the City rate.

RETURN CALCULATIONS: ANALYSIS FRAMEWORK AND KEY ASSUMPTIONS

The framework and key assumptions used for the return calculation scenarios described above are as follows:

- **Analysis Framework.** In order to evaluate returns for the proposed project, this analysis separates the proposed development activities from Compass Properties' longer-term acquisition and operation of the property. To accomplish this, the development pro forma must carry an assumed land acquisition cost, despite the fact that Compass Properties purchased the property in 2002 and has subsequently operated it with substantial cash losses. This approach is consistent with *SBFCo's* previous economic feasibility analyses (the most recent submitted on 1/29/07) and the Compass Properties application for TID assistance.
- **Land Acquisition Cost Assumption.** In order to set a hypothetical land purchase price under the analytical framework described above, *SBFCo* used the 2006 assessed value of the project properties of \$12 million. This acquisition cost was further divided between the residential and commercial components of the proposed project based on *SBFCo's* analysis of the residual land value of the residential component. Based on this analysis, *SBFCo* assigned a land purchase price of about \$1.9 million to the residential component (see Table 5 on the following page) and the remaining \$10.1 million to the commercial component.
- **Integration of Residential and Commercial Cash Flows.** In order to calculate the Developer's overall returns, *SBFCo* integrated the pro formas for the residential and commercial component into a single cash flow model. This was accomplished by estimating the equity requirement to fund construction of the residential component and the likely equity distribution after closing of residential unit sales (see Table 5). These amounts were then integrated into the equity cash flow projection for the commercial component of the project to calculate combined equity returns for both components.

731-735 North Water Street Gap Analysis

Table 5: Residual Land Value Calculation, Residential Component

Sales Revenues	
Condominium Sales	\$10,486,875
Parking Sales	\$282,000
Boat Slip Sales	\$120,000
Total Revenues	\$10,888,875
Costs	
Hard Costs	\$5,311,265
Soft Costs	\$2,219,900
Total Expenses	\$7,531,165
SBFCo Adjusted Developer Overhead & Profit	\$1,469,998 13.5% of Gross Revenues
Residual Land Value	\$1,887,712

Source: Compass Properties, *2001 Costs of Doing Business* by NAHB, City of Milwaukee and *S. B. Friedman & Company*.

Assumed Residential Financing Structure for Return Calculation

Total Project Cost	\$9,908,876
Debt at 80% LTC	\$7,927,101
Equity Required	\$1,981,775
Net Profit (excl developer overhead)	\$979,999

- **Lease-up Rates for Office Component.** The 1/29/07 economic feasibility analysis did not include a projection of a specific rate of return for the proposed project. Therefore, although *SBFCo* commented that the Developer's assumptions regarding office lease-up appeared aggressive, we did not adjust these assumptions for the purposes of projecting project cash flows. For the current analysis, *SBFCo* assumed that lease-up of vacant office space after renovation would occur over a three-year period at an average annual absorption rate of approximately 40,000 square feet per year. This approach is consistent with *SBFCo*'s 1/29/07 incremental property tax projections, which phased in incremental assessed value from the newly leased office space over a multi-year period.

Similarly, *SBFCo* increased the Developer's relatively aggressive assumption of stabilized vacancy from 7% to 10%. This appears justified in light of overall Downtown Milwaukee office market vacancy rates for Class A and B space, which are currently reported to be in excess of 18% (RFP Commercial report for 4th Quarter 2006).

- **Interest Rate on Permanent Financing.** The interest rate on the permanent loan was increased from the 7% assumption used in the Developer's initial assumptions and *SBFCo*'s 1/29/07 memorandum to 7.5% in the current analysis to reflect current observed market conditions.
- **Construction Loan Sizing.** Because many of the development costs included in the proposed project are remedial investments to address existing building issues, *SBFCo* refined prior calculations of debt capacity for the project based on projected loan-to-value at stabilization, as opposed to loan to cost. Because stabilization is projected to occur in 2010 under the lease-up assumptions described above, *SBFCo* discounted the 2010 value of the building to 2007 dollars at a 2.5% inflation rate for the purposes of sizing construction debt.

The balance of the assumptions used for the current analysis are consistent with those used and described in greater detail in the 1/29/07 economic feasibility analysis narrative.

Projected TID Amortization

As described in the introduction to this memo, it is currently proposed that the City assistance be split into two components:

- General Obligation bonding to support the projected Riverwalk repair and ADA improvement cost up to a maximum of about \$1.55 million
- \$1.5 million in gap financing to be initially funded by the Developer and ultimately reimbursed by the City from available incremental property taxes plus interest at a rate equal to the City's cost of funds for General Obligation bonding

City of Milwaukee: 735 N Water Street Project
 Table 6: Projected Amortization of TID under City GO Financing and Developer Financing at GO Bond Interest Rate

Standard City Financing Assumptions		Developer Financing Assumptions	
Year	Reserve	Year	Payment
2007	\$ 173,408	2007	\$ 86,704
2008	\$ 86,704	2008	\$ 86,704

Issuance Date	1/17/2007
Interest Rate on Bonds	4.50%
Cost of Funds- Local Gov't Investment Pool	5.21%
Riverwalk Cost Including Contingency	\$ 1,553,992
Administration Fee	\$ 120,920
City Inspection Fee	2%
City Inspection Fee	\$ 61,080
Net Proceeds for City GO Financed Improvement	\$ 1,735,992
Issuance Costs @ 1.0%	\$ 17,360
Cap Interest Allowance 2 Years	\$ 173,408
Less Projected Available Up-Front Cash	\$ -
Cap Interest Allowance	\$ 173,408
Total Bond	\$ 1,926,760
Assumed Level P&I Payments	15
Assumed Debt Coverage Requirement	1.0

Year of TID	Standard City GO Bond Financing Analysis										Developer Financing Analysis				
	Annual Inc. Tax Revenues Collected (Jan. 31)	Annual Increment Available to City 54%	TID Annual Debt Service Target	Cap Interest Payment	Annual Surplus/ (Shortfall)	Cumulative Fund Balance	Interest Earnings/(Carry Cost) on Cum. Fund Balance	17-Year Bonds Amortized	Fund Bal Exceeds Remaining Debt Svc	Annual Increment Available to Developer -46%	Present Value of Cumulative Revenues	Developer Front Funding Amortized			
1	\$ -	\$ -	\$ -	\$ 86,704	\$ -	\$ -	\$ -	NO	\$ -	\$ -	NO				
2	\$ -	\$ -	\$ -	\$ 86,704	\$ -	\$ -	\$ -	NO	\$ -	\$ -	NO				
3	\$ 55,425	\$ 29,733	\$ 179,408	\$ -	\$ (149,675)	\$ (149,675)	\$ (7,798)	NO	\$ 25,691	\$ 22,513	NO				
4	\$ 230,626	\$ 123,722	\$ 179,408	\$ -	\$ (55,686)	\$ (213,138)	\$ (11,106)	NO	\$ 106,903	\$ 112,158	NO				
5	\$ 333,003	\$ 178,644	\$ 179,408	\$ -	\$ (764)	\$ (225,028)	\$ (11,724)	NO	\$ 154,359	\$ 236,024	NO				
6	\$ 386,944	\$ 207,582	\$ 179,408	\$ -	\$ 28,174	\$ (208,579)	\$ (10,867)	NO	\$ 179,363	\$ 373,756	NO				
7	\$ 391,760	\$ 210,165	\$ 179,408	\$ -	\$ 30,757	\$ (188,689)	\$ (9,831)	NO	\$ 181,595	\$ 507,197	NO				
8	\$ 400,914	\$ 215,076	\$ 179,408	\$ -	\$ 35,668	\$ (162,832)	\$ (8,485)	NO	\$ 185,838	\$ 637,875	NO				
9	\$ 416,472	\$ 223,422	\$ 179,408	\$ -	\$ 44,014	\$ (127,322)	\$ (6,653)	NO	\$ 193,050	\$ 767,779	NO				
10	\$ 432,418	\$ 231,977	\$ 179,408	\$ -	\$ 52,569	\$ (81,387)	\$ (4,240)	NO	\$ 208,018	\$ 1,025,030	NO				
11	\$ 448,764	\$ 240,746	\$ 179,408	\$ -	\$ 61,326	\$ (24,290)	\$ (1,265)	NO	\$ 215,785	\$ 1,152,270	NO				
12	\$ 465,518	\$ 249,733	\$ 179,408	\$ -	\$ 70,326	\$ 44,770	\$ 2,333	NO	\$ 223,745	\$ 1,278,523	NO				
13	\$ 482,691	\$ 258,946	\$ 179,408	\$ -	\$ 79,538	\$ 126,641	\$ 6,598	NO	\$ 231,904	\$ 1,403,745	NO				
14	\$ 500,293	\$ 268,389	\$ 179,408	\$ -	\$ 88,981	\$ 222,220	\$ 11,578	NO	\$ 240,267	\$ 1,527,896	YES				
15	\$ 518,336	\$ 278,068	\$ 179,408	\$ -	\$ 98,660	\$ 332,458	\$ 17,321	NO	\$ 248,840	\$ 1,650,940	YES				
16	\$ 536,829	\$ 287,989	\$ 179,408	\$ -	\$ 108,581	\$ 458,360	\$ 23,881	NO	\$ 257,626	\$ 1,773,843	YES				
17	\$ 555,785	\$ 298,158	\$ 179,408	\$ -	\$ 118,750	\$ 600,991	\$ 31,312	NO	\$ 266,633	\$ 1,893,574	YES				
18	\$ 575,214	\$ 308,582	\$ -	\$ -	\$ 308,582	\$ 940,884	\$ 49,020	YES	\$ 275,864	\$ 2,013,107	YES				
19	\$ 595,130	\$ 319,265	\$ -	\$ -	\$ 319,265	\$ 1,309,170	\$ 68,208	YES	\$ 285,327	\$ 2,131,415	YES				
20	\$ 615,543	\$ 330,216	\$ -	\$ -	\$ 330,216	\$ 1,707,594	\$ 88,966	YES	\$ 295,025	\$ 2,248,478	YES				
21	\$ 636,466	\$ 341,441	\$ -	\$ -	\$ 341,441	\$ 2,138,001	\$ 111,390	YES	\$ 304,967	\$ 2,364,274	YES				
22	\$ 657,913	\$ 352,946	\$ -	\$ -	\$ 352,946	\$ 2,602,337	\$ 135,582	YES	\$ 315,157	\$ 2,478,786	YES				
23	\$ 679,896	\$ 364,739	\$ -	\$ -	\$ 364,739	\$ 3,102,658	\$ 161,648	YES	\$ 325,601	\$ 2,591,998	YES				
24	\$ 702,428	\$ 376,827	\$ -	\$ -	\$ 376,827	\$ 3,641,134	\$ 189,703	YES	\$ 336,307	\$ 2,703,898	YES				
25	\$ 725,524	\$ 389,217	\$ -	\$ -	\$ 389,217	\$ 4,220,054	\$ 219,865	YES	\$ 347,280	\$ 2,814,473	YES				
26	\$ 749,197	\$ 401,917	\$ -	\$ -	\$ 401,917	\$ 4,841,836	\$ 252,260	YES	\$ 358,528	\$ 2,923,713	YES				
27	\$ 773,462	\$ 414,934	\$ -	\$ -	\$ 414,934	\$ 5,509,030	\$ 287,020	YES	\$ 370,057	\$ 3,031,611	YES				
2034	\$ 798,334	\$ 428,277	\$ -	\$ -	\$ 428,277	\$ 6,224,328	\$ 324,287	YES	\$ 634,171	\$ -	NO				
TOTALS	\$ 13,664,884	\$ 7,330,713	\$ 2,691,120	\$ -	\$ 4,639,593	\$ -	\$ -		\$ -	\$ -					

Source: S. B. Friedman & Company, Milwaukee Department of City Development
 Note: These projections are based on estimates, assumptions, and other information developed from research of the industry, and meetings during which we obtained certain information. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those shown here and the variations may be material.

The table below summarizes the costs to be financed via these two mechanisms:

Summary of Proposed City TIF Assistance by Type of Financing

	Developer Financed at City GO Rate	City GO Bond Financing
Developer Gap Financing	\$ 1,500,000	
Estimated Riverwalk Repair Cost including contingency [1]		\$ 1,553,992
Allowance for City Inspections [2]		\$ 61,080
Allowance for City Administrative Costs [2]		\$ 120,920
Total Net Proceeds to Project	\$ 1,500,000	\$ 1,735,992
Percentage of Total TID Financing	46%	54%

[1] Source: Concord Group

[2] Source: City of Milwaukee

The revised amortization projections shown in Table 6 on the following page are based on the assumption that incremental property tax revenues would be shared between the City and Developer with equal priority allocated on a pro rata basis between the two entities based on the respective principal amounts financed. Using this formula, approximately 54% of projected increment is allocated to amortize City GO bonds, and 46% is assumed to be available to repay the Developer.

The projections of incremental property tax revenues underlying Table 6 are unchanged from those presented in the 1/29/07 Economic Feasibility Analysis.

As shown in Table 6, the projected TID cash flow is projected to fully amortize the City's General Obligation bonds for the Riverwalk Improvement by 2024, or TID Year 18. Based on projected TID fund balances, the potential for accelerated payback by Year 16 (2022) appears to exist for these bonds. The developer-funded obligation for the gap financing is projected to be fully amortized by 2021, or TID year 15.