

TO:               Redevelopment Authority of the City of Milwaukee

FROM:           *S. B. Friedman & Company*

DATE:           June 30, 2011

RE:               **Cathedral Place TID Amendment Economic Feasibility Study**

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*S. B. Friedman & Company (SB Friedman)* was engaged by the City of Milwaukee Department of City Development (DCD) to conduct an economic feasibility study for the Cathedral Place Tax Increment District (TID #49). This study analyzes the capacity of the district to support additional debt obligations related to the proposed streetcar line serving downtown Milwaukee. The assumptions, methodology, and results of this analysis are outlined in the following sections.

## **Background and Understanding**

The City of Milwaukee is pursuing development of a streetcar line connecting the Amtrak intermodal station with the central business district. The total proposed line is 3.5 miles long and is composed of a baseline route of 2.0 miles and two potential expansion areas totaling 1.5 miles. The baseline route passes through the Cathedral Place TID along its northern boundary at Wells Street as shown in Map 1 on page 4. The City has indicated that it wishes to use funds from this TID to contribute \$9.7 million towards the required Local Match for the project.

The Cathedral Place TID currently has an existing debt obligation of approximately \$25.4 million to fund a public parking garage. An amendment to the Project Plan will be required to authorize additional obligations. DCD has requested an update to previous incremental property tax and debt amortization projections to determine if the district can support the targeted contribution of \$9.7 million, and when these additional obligations are projected be retired via TID cash flow.

## **Assumptions**

Our analysis relies upon information provided by DCD, the Comptroller's Office, and the Assessor's Office. *SB Friedman* reviewed the assessment status of the Cathedral Place TID, and the Cathedral Place Parking Facility operating pro forma and debt service schedule. Our key assumptions for this analysis include:

- **Current Value and Personal Property.** As a conservative measure, personal property value has been excluded from this analysis. Personal property value accounted for approximately 5% of the district's value in 2010 and is assumed to be minimal throughout the life of the TID. The total 2010 assessed value of real property in the TID was approximately \$52.3 million. The proposed total 2011 assessed value of the TID is approximately \$47.6 million. Per the City's direction, we have assumed that approximately \$2.7 million of this value represents personal property.. Therefore, *SBFCo* assumed a \$44.9 million real property valuation for 2011 for the purposes of this analysis.
- **Property Tax Rates.** The City of Milwaukee property tax rate has generally trended downwards over the past 10 and 20-year periods, but has shown a pattern of increasing in the 2008-2011 period due to maintenance of the City's property tax levy during a time of declining real estate values. The tax rate for taxation of 2010 assessed property value (2011 budget cycle) is 2.657% (\$26.57 per \$1,000 of value) and represents the most current available data. The projections for this feasibility study assume a 2011 tax rate equal to the 2010 tax rate. Beyond 2011, the projections assume an annual decline in the tax rate of 0.53%, the compound annual rate of decline for the past 10 years.
- **Property Value Change Over Time.** This analysis assumes that the real property value of the TID will remain constant from 2011 to 2012, reflecting continued stagnation in the general real estate market, and then begin inflating at a rate of 1.0% per year through the balance of the life of the TID.
- **Existing Obligations.** The Redevelopment Authority of the City of Milwaukee (RACM) owns the Cathedral Place parking garage and issued variable rate interest bonds totaling \$25.4 million in 2003 to finance its construction. TID revenue and net operating income from the garage (respectively, approximately \$1.1 million and \$900,000 per year after maintenance reserves) are available for repayment of these bonds. The current outstanding principal is approximately \$13.6 million. Full retirement of the Cathedral Place bonds is anticipated by 2019 based on the following assumptions:
  - **Variable Interest Rate- Additional Spread to Reflect Interest Rate Risk.** The bonds currently carry a variable short-term interest rate and are remarketed weekly. Although the current variable rates are extremely low, *SB Friedman* applied an equivalent fixed-rate assumption of 3.5% based on conversations with the City Comptroller's Office to compensate for the risk of volatility in short-term interest rates. The current remarketing agent costs and letter of credit costs are also assumed to apply annually, bringing the all-in-future-year rate to 4.85%. While the bonds will likely remain variable-rate until retired, *SB Friedman* assumed a constant cost of funds for all future payments until retirement equal to this higher figure to account for interest rate risk.
  - **Sequence of Repayment.** All available net increment is assumed to be available towards first paying down the annual interest and outstanding principal balance of existing Cathedral Place bonds until the bonds are paid in full. Following this repayment, revenues are assumed to be available to fund some portion of the bonds for the Local Match portion of the streetcar project.

- **Debt Service Reserve Fund (DSRF).** The DSRF of \$2,450,000 for existing Cathedral Place bonds will be maintained until they are fully retired, and these funds are assumed to be available for the final year bond payment.
- **Local Match Bond Interest Rate.** *SB Friedman* assumed an interest rate of 4.5% on general obligation bonds issued upfront by the City to fund the TID Local Match, reflective of the City's approximate long-term cost of funds frequently used for TID analyses.
- **Local Match Bond Term, Target Debt Service, and Other Costs.** Local Match bonds are assumed to be issued in 2012. Reflecting conversations with the City Comptroller's Office, the projections assume two years of interest-only payments followed by 15 years of level principal and interest payments. Interest-only payments over the first two years are equal to the size of the assumed capitalized interest reserve, less available fund balances at the time of issuance. Issuance costs of 1.0% are also assumed.
- **Parking Garage Ongoing Revenues.** Per City officials, the Redevelopment Authority of the City of Milwaukee has agreed to allow parking garage revenues to continue to be dedicated to TID debt service for the Streetcar Local Match after retirement of the associated bonds. Per DCD, the Development Agreement provides an option for the Developer to purchase the garage at any time for the greater of a) outstanding principal of the Cathedral bonds, or b) the appraised value of the structure. *SB Friedman* analyzed this possibility to determine whether it would be more conservative to assume a sale at the point where the outstanding bond principal is less than the approximate value of the garage. For this analysis, *SB Friedman* assumed a cap rate of 10% on the net operating income of the garage after maintenance reserves. Based on this side analysis, it appears slightly more conservative with respect to TID capacity analysis to assume the parking structure remains unsold. Therefore, after retirement of Cathedral debt service, this analysis assumes re-purposing of parking cash flows to amortize Streetcar Local Match, with no sale to the Cathedral developer.

## Results and Conclusion

Based on the key assumptions outlined above, total undiscounted TID revenue is projected as approximately \$22.5 million between 2011 and 2029, when the TID expires. Net parking operating revenues after maintenance reserves over this time are estimated at \$17.3million. Appendix A at the end of this memo provides detailed incremental tax revenue projections for the Cathedral Place TID.

*SB Friedman* also evaluated the timeframe over which the targeted Local Match contribution of \$9.7 million could be amortized based on projected TID revenues, existing obligations, and the amortization assumptions outlined above. The Cathedral Place TID appears to have sufficient capacity to support this contribution and retire projected debt service on additional bonds issued to fund the Local Match by 2026 (the 25<sup>th</sup> year of the TID). Appendix B at the end of this memo provides detailed amortization projections for the Cathedral Place TID.

Map 1: Proposed Streetcar Route and Cathedral Place TID Boundary



Inputs and Assumptions:

2002 Base Value of TID	\$	2,052,700
2010 Assessed Value of TID	\$	52,383,416
2011 Assessed Value of TID	\$	44,888,426
2010 Net Tax Rate		2.657%
Tax Levy Rate: 10 yr compound rate of decline		0.53%
Annual Inflation Rate		1.00%
Tax Collection Rate		100.00%
Personal Property Discount Rate		0.00%

TID Year [1]	Assessment Year [2]	Inflation Factor [3]	Tax Incremental Revenue						
			Frozen Base Value [4]	Property Tax Rate [5]	Actual/Inflated Assessed Values			Real Property Incremental Value [9]	Real Property TID Incremental Revenue [10]
					Real Property [6]	Personal Property [7]	Total Property [8]		
1	2002		\$ 2,052,700	2.73%	\$ 2,031,430	\$ 21,270	\$ 2,052,700	\$ -	\$ -
2	2003		\$ 2,052,700	2.62%	\$ 2,052,700	\$ -	\$ 2,052,700	\$ -	\$ -
3	2004		\$ 2,052,700	2.59%	\$ 4,260,866	\$ 1,135,534	\$ 5,396,400	\$ 2,208,166	\$ -
4	2005		\$ 2,052,700	2.45%	\$ 36,623,386	\$ 3,765,814	\$ 40,389,200	\$ 34,570,686	\$ 57,103
5	2006		\$ 2,052,700	2.24%	\$ 44,415,842	\$ 3,438,058	\$ 47,853,900	\$ 42,363,142	\$ 846,982
6	2007		\$ 2,052,700	2.31%	\$ 53,765,713	\$ 3,516,587	\$ 57,282,300	\$ 51,713,013	\$ 949,358
7	2008		\$ 2,052,700	2.40%	\$ 55,946,494	\$ 3,213,706	\$ 59,160,200	\$ 53,893,794	\$ 1,196,122
8	2009		\$ 2,052,700	2.60%	\$ 47,717,974	\$ 3,368,026	\$ 51,086,000	\$ 45,665,274	\$ 1,295,068
9	2010		\$ 2,052,700	2.66%	\$ 52,383,416	\$ 2,922,584	\$ 55,306,000	\$ 50,330,716	\$ 1,186,384
10	2011	1.00	\$ 2,052,700	2.66%	\$ 44,888,426	\$ 2,695,974	\$ 47,584,400	\$ 42,835,726	\$ 1,337,287
11	2012	1.01	\$ 2,052,700	2.64%	\$ 44,888,426	\$ 2,695,974	\$ 47,584,400	\$ 42,835,726	\$ 1,138,145
12	2013	1.02	\$ 2,052,700	2.63%	\$ 45,337,310	\$ 2,695,974	\$ 48,033,284	\$ 43,284,610	\$ 1,132,154
13	2014	1.03	\$ 2,052,700	2.62%	\$ 45,790,683	\$ 2,695,974	\$ 48,486,657	\$ 43,737,983	\$ 1,137,996
14	2015	1.04	\$ 2,052,700	2.60%	\$ 46,248,590	\$ 2,695,974	\$ 48,944,564	\$ 44,195,890	\$ 1,143,863
15	2016	1.05	\$ 2,052,700	2.59%	\$ 46,711,076	\$ 2,695,974	\$ 49,407,050	\$ 44,658,376	\$ 1,149,754
16	2017	1.06	\$ 2,052,700	2.57%	\$ 47,178,187	\$ 2,695,974	\$ 49,874,161	\$ 45,125,487	\$ 1,155,670
17	2018	1.07	\$ 2,052,700	2.56%	\$ 47,649,969	\$ 2,695,974	\$ 50,345,943	\$ 45,597,269	\$ 1,161,610
18	2019	1.08	\$ 2,052,700	2.55%	\$ 48,126,468	\$ 2,695,974	\$ 50,822,442	\$ 46,073,768	\$ 1,167,576
19	2020	1.09	\$ 2,052,700	2.53%	\$ 48,607,733	\$ 2,695,974	\$ 51,303,707	\$ 46,555,033	\$ 1,173,567
20	2021	1.10	\$ 2,052,700	2.52%	\$ 49,093,810	\$ 2,695,974	\$ 51,789,784	\$ 47,041,110	\$ 1,179,584
21	2022	1.12	\$ 2,052,700	2.51%	\$ 49,584,749	\$ 2,695,974	\$ 52,280,723	\$ 47,532,049	\$ 1,185,626
22	2023	1.13	\$ 2,052,700	2.49%	\$ 50,080,596	\$ 2,695,974	\$ 52,776,570	\$ 48,027,896	\$ 1,191,693
23	2024	1.14	\$ 2,052,700	2.48%	\$ 50,581,402	\$ 2,695,974	\$ 53,277,376	\$ 48,528,702	\$ 1,197,786
24	2025	1.15	\$ 2,052,700	2.47%	\$ 51,087,216	\$ 2,695,974	\$ 53,783,190	\$ 49,034,516	\$ 1,203,905
25	2026	1.16	\$ 2,052,700	2.45%	\$ 51,598,088	\$ 2,695,974	\$ 54,294,062	\$ 49,545,388	\$ 1,210,050
26	2027	1.17	\$ 2,052,700	2.44%	\$ 52,114,069	\$ 2,695,974	\$ 54,810,043	\$ 50,061,369	\$ 1,216,221
27	2028	1.18	\$ 2,052,700	2.43%	\$ 52,635,210	\$ 2,695,974	\$ 55,331,184	\$ 50,582,510	\$ 1,222,418
	2029		Collections for TID Year 27						\$ 1,228,642
<b>Total Proceeds, 2002-2029 (Not Discounted)</b>									\$ 28,064,563
<b>Total Proceeds, 2011-2029 (Not Discounted)</b>									\$ 22,533,547

[1] The TID was created in 2002.  
 [2] TID Year 11 corresponds with Assessment Year 2012.  
 [3] Annual inflation is assumed to be 1.0%  
 [4] TID 49 Periodic Repoert dated 12/31/09. The Frozen Base Value is \$2,052,700.  
 [5] Property Tax Rates are actual through 2010 and the 2010 rate is held constant for 2011. Future Property Tax Rates are based on property tax history from Milwaukee Assessor with the assumption of a 2.00% floor  
 [6] Real Property Value determined by deducting Personal Property Value from Total Property Value. Values are actual through 2010. The total value of 2010 step 2 adjustments is assumed to be real property value  
 Estimated 2011 values are per Assessor's data and are held constant for 2012. Future years are inflated by 1.0 percent annually.  
 [7] Personal Property only, provided by City. Values are actual through 2010, estimated in 2011, and assumed to remain flat over future years  
 [8] Total Property Value is the sum of Real Property and Personal Property Values.  
 [9] Real Property Value less Frozen Base Value  
 [10] Real Property Incremental Value against total Frozen Base Value multiplied by Tax Rate.

**Bonding**

Interest Rate on Bonds	4.50%
Cost of Funds (Local Government Investment Pool)	4.00%
Issuance Costs @	1.00%
Capitalized Interest Allowance @	10.00%
Assumed Level P&I Payments	15

**Funding Structure**

	Assumed Year	Amount	Plus Issuance Costs	Capitalized Interest	Total Issuance
City Bonding - Baseline	2012	\$ 9,700,000	\$ 97,000	\$ 1,088,556	\$ 10,885,556

TID Year	Calendar Year	Parking Revenue (less Maintenance Reserves) [1]	Projected Incremental Revenue	Existing Debt Service Obligations		Available Funds to Service New Debt	Debt Service for Streetcar Local Match		TID Payoff Analysis					
				Interest Payments and Fees on Cathedral Bonds	Principal Payments on Cathedral Bonds (from TID Revenues) [2]		TID-Backed Bonds Issued	TID Annual Debt Service Target Payment	Annual Surplus/Shortfall after Payment of Current Bonds	Annual Surplus/Shortfall after Payment of Current and	Cumulative Fund Balance	Interest Earnings (Carry Cost) on Cumulative Fund Balance	TID Able to Repay Principal Balance	
1	2002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2	2003	\$ 54,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
3	2004	\$ 749,238	\$ 1,529	\$ (508,101)	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
4	2005	\$ 815,833	\$ 64,854	\$ (750,194)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5	2006	\$ 844,762	\$ 848,531	\$ (881,883)	\$ (1,445,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6	2007	\$ 923,532	\$ 927,547	\$ (870,995)	\$ (1,160,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
7	2008	\$ 932,700	\$ 1,154,939	\$ (510,628)	\$ (2,290,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
8	2009	\$ 941,027	\$ 1,285,913	\$ (163,842)	\$ (2,200,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
9	2010	\$ 918,388	\$ 1,157,541	\$ (298,802)	\$ (1,800,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
10	2011	\$ 920,000	\$ 1,340,169	\$ (294,230)	\$ (1,400,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
11	2012	\$ 920,000	\$ 1,141,235	\$ (676,130)	\$ (1,300,000)	\$ -	\$ 10,885,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
12	2013	\$ 918,650	\$ 1,135,228	\$ (612,769)	\$ (1,400,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
13	2014	\$ 917,280	\$ 1,141,025	\$ (544,524)	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
14	2015	\$ 915,889	\$ 1,146,847	\$ (471,394)	\$ (1,500,000)	\$ -	\$ -	\$ (1,013,596)	\$ -	\$ (1,013,596)	\$ (1,013,596)	\$ (40,544)	\$ -	NO
15	2016	\$ 914,477	\$ 1,152,695	\$ (398,267)	\$ (1,600,000)	\$ -	\$ -	\$ (1,013,596)	\$ -	\$ (1,013,596)	\$ (2,067,735)	\$ (82,709)	\$ -	NO
16	2017	\$ 913,044	\$ 1,158,568	\$ (320,256)	\$ (1,700,000)	\$ -	\$ -	\$ (1,013,596)	\$ -	\$ (1,013,596)	\$ (3,164,040)	\$ (126,562)	\$ -	NO
17	2018	\$ 911,590	\$ 1,164,467	\$ (237,360)	\$ (1,800,000)	\$ -	\$ -	\$ (1,013,596)	\$ -	\$ (1,013,596)	\$ (4,304,197)	\$ (172,168)	\$ -	NO
18	2019	\$ 910,114	\$ 1,170,391	\$ (149,580)	\$ (355,000)	\$ 1,575,925	\$ -	\$ (1,013,596)	\$ 1,575,925	\$ 562,329	\$ (3,914,036)	\$ (156,561)	\$ -	NO
19	2020	\$ 908,616	\$ 1,176,341	\$ -	\$ -	\$ 2,084,957	\$ -	\$ (1,013,596)	\$ 2,084,957	\$ 1,071,361	\$ (2,999,236)	\$ (119,969)	\$ -	NO
20	2021	\$ 907,095	\$ 1,182,317	\$ -	\$ -	\$ 2,089,412	\$ -	\$ (1,013,596)	\$ 2,089,412	\$ 1,075,816	\$ (2,043,389)	\$ (81,736)	\$ -	NO
21	2022	\$ 905,551	\$ 1,188,319	\$ -	\$ -	\$ 2,093,870	\$ -	\$ (1,013,596)	\$ 2,093,870	\$ 1,080,275	\$ (1,044,850)	\$ (41,794)	\$ -	NO
22	2023	\$ 903,985	\$ 1,194,347	\$ -	\$ -	\$ 2,098,331	\$ -	\$ (1,013,596)	\$ 2,098,331	\$ 1,084,736	\$ (1,908)	\$ (76)	\$ -	NO
23	2024	\$ 902,394	\$ 1,200,401	\$ -	\$ -	\$ 2,102,795	\$ -	\$ (1,013,596)	\$ 2,102,795	\$ 1,089,200	\$ 1,087,215	\$ 43,489	\$ -	NO
24	2025	\$ 900,780	\$ 1,206,482	\$ -	\$ -	\$ 2,107,262	\$ -	\$ (1,013,596)	\$ 2,107,262	\$ 1,093,667	\$ 2,224,370	\$ 88,975	\$ -	NO
25	2026	\$ 899,142	\$ 1,212,589	\$ -	\$ -	\$ 2,111,731	\$ -	\$ (1,013,596)	\$ 2,111,731	\$ 1,208,994	\$ 3,522,339	\$ 140,894	\$ -	YES
26	2027	\$ 897,479	\$ 1,218,723	\$ -	\$ -	\$ 2,116,202	\$ -	\$ (1,013,596)	\$ 2,116,202	\$ 1,215,127	\$ 4,878,360	\$ 195,134	\$ -	YES
27	2028	\$ 895,791	\$ 1,224,884	\$ -	\$ -	\$ 2,120,675	\$ -	\$ (1,013,596)	\$ 2,120,675	\$ 1,221,288	\$ 6,294,782	\$ 251,791	\$ -	YES
28	2029	\$ 894,078	\$ 1,231,071	\$ -	\$ -	\$ 2,125,149	\$ -	\$ (1,013,596)	\$ 2,125,149	\$ 1,227,476	\$ 7,774,049	\$ 310,962	\$ -	YES
<b>TOTALS</b>		\$ 23,435,759	\$ 28,026,954	\$ (7,688,956)	\$ (22,950,000)	\$ 22,626,310	\$ 10,885,556	\$ (15,203,933)	\$ 22,626,310	\$ 7,875,886	\$ 7,774,049	\$ 209,125		

[1] Assumes parking structure is not sold after Cathedral Bonds are retired, and that future net operating income is available to service streetcar local match bonds.

[2] Note: Actual Principal Payments also to be sourced from \$2.45MM Debt Service Reserve Fund on Final Payment