

DRAFT

TERM SHEET

June 14, 2004

HOLT PLAZA REDEVELOPMENT PROJECT

PROJECT:

The Holt Plaza Redevelopment Project ("Project") shall consist of the total redevelopment and reconstruction of approximately 20.56 acres. The Project includes demolition of existing buildings and site work to accommodate the construction of a new 75,975 square foot Pick N' Save Store; a new 102,733 square foot Home Depot home improvement center with a 27,988 square foot garden center, and a new 12,000 square foot mid-box space (the "Redevelopment Work"). In addition, approximately 19,000 square feet of additional retail space will be along the Holt Avenue frontage.

DEVELOPER:

MSSD ("Developer") is the current owner of Holt Plaza ("Property") and will undertake the Project and the Redevelopment Work, with the exception of the Home Depot home improvement store and garden center which will be constructed by Home Depot.

It is anticipated that all of the Property will be redeveloped by the end of 2006. The Redevelopment Work is described on Exhibit A attached hereto and incorporated herein.

**DEVELOPMENT
SCHEDULE:**

The schedule for the Project and the Redevelopment Work reflects the incremental nature of redeveloping this type of retail center. Construction of the Pick N' Save Store will commence in 2004 and the store will be open for business in 2005. The 12,000 square foot mid-box space, in-line with the Pick N' Save store, will be completed by 2005. Demolition of existing buildings will commence in 2004. A ground lease will be executed between Developer and Home Depot providing for the construction of the home improvement center and garden center. Construction of the Home Depot will commence in 2005 and the store will be open for business by the end of 2006. Approximately 4,000 square feet of retail space on an outlot at 3rd Street and Holt Avenue will be constructed by the end of 2005. Two added outlots, which will be improved with approximately 15,000 square feet of retail space, are planned along the Holt Avenue and Chase Avenue frontage and will be completed by the end of 2006.

**TAX
INCREMENT
DISTRICT:**

The City of Milwaukee ("City") has adopted a Tax Incremental District ("TID") Project Plan to assist in funding certain improvements necessary for the construction of the Project. The TID shall be known as TID No. 55 (Holt Plaza).

**PROJECT
FUNDING:**

Developer will advance all funding for the design, engineering, construction and administration of the Project, including the City Contribution, as set forth below. Any costs in excess of the current Project budget will be the sole responsibility of Developer.

**PROJECT
IMPLEMENTATION:**

Developer, City and the Redevelopment Authority of the City of Milwaukee ("RACM") will enter into a Cooperation, Reimbursement and Redevelopment Agreement providing for implementation of the Project in accordance with this Term Sheet.

**CITY
CONTRIBUTION:**

The City Contribution will consist of a limited and conditional Monetary Obligation to reimburse Developer an amount equal to TID No. 55 Project Costs, including City administration costs of \$140,000, in the maximum amount of \$1,800,000, plus interest at a rate equal to the actual rate of interest on Developer's construction loan during the period when the construction loan remains outstanding and thereafter at the rate of 5% per annum, calculated based upon a 360-day year consisting of twelve 30-day months, (the "Interest Rate"), but in no event more than the tax incremental revenue actually received by City from TID No. 55, less an amount not to exceed \$7,000 per annum for the annual audit of TID No. 55. The Monetary Obligation will be deemed "earned" by Developer upon completion of the Redevelopment Work. The amount of the Monetary Obligation shall be equal to the actual prepayment penalty incurred by Developer upon prepayment of the existing first mortgage on the Property plus \$145,000 in actual Developer expenditures, plus an amount not to exceed \$140,000 in City administration costs. Amounts set forth in various line items of the approved development budget for the Project may be reallocated by Developer to reflect actual costs incurred in the development of the Project. Payments are to be made annually but only in an amount equal to the tax incremental revenue actually received by City each year from TID No. 55, less an amount not to exceed \$7,000 per annum for the annual audit of TID No. 55. Tax incremental revenue will not be pledged to the payment of the

Monetary Obligation, and the Monetary Obligation shall not constitute a general obligation of City or count against its statutory debt limits. The City shall have the right to prepay the Monetary Obligation at any time, without penalty.

INTEREST:

The Interest Rate shall be applicable for installments covering the entire Monetary Obligation. Interest shall accrue on all funding advanced by Developer for TID No. 55 Project Costs, from the date that expenditures set forth in the approved development budget for the Project and the Development Work exceed [\$16,900,000] and are approved in writing or deemed approved by RACM.

MAXIMUM TERM:

The maximum term of TID No. 55 shall be December 31, 2021, at which time any unpaid principal and interest on City's Monetary Obligation shall be extinguished, provided that any tax incremental revenue received from the 2021 levy for the 2022 collection year or 2022 City budget shall be applied to the Monetary Obligation, if not previously paid in full. City may not otherwise terminate TID No. 55 unless the Monetary Obligation is paid in full, or a Material Disturbance exists, as provided below.

**MATERIAL
DISTURBANCE:**

If the Redevelopment Work is not substantially completed by March, 2006, subject to force majeure, or if, following completion of the Project, less than 85% of the square footage of the Project is used for commercial purposes and such failure continues for any 12-month period during the life of TID No. 55, then, following a reasonable opportunity to cure, future payments on the Monetary Obligation shall terminate.

**ACTIONS
APPROVALS AND
SUBMISSIONS:**

The Cooperation, Contribution and Redevelopment Agreement shall be consistent with the Development Incentive Zone applicable to the Project and shall address:

- A. Developer securing all necessary permits, licenses, consents, and approvals ("Approvals") for the Redevelopment Work to be done by Developer and Home Depot securing all necessary Approvals for the construction work to be done by Home Depot (including, but not limited to, any Approval for signage, demolition, and construction);

- B. RACM staff review and approval of all plans and specifications for, and the development budget for, the Project and all Redevelopment Work (including plans and specifications for Redevelopment Work to be done by Home Depot);
- C. RACM staff review and approval of the lease and operating agreement between Developer and Roundy's Inc., including the term thereof, (and any amendment thereto) for the Pick N'Save; and
- D. RACM staff review and approval of the lease and operating agreement between Developer and Home Depot, including the term thereof, (and any amendment thereto) for the Home Depot home improvement store and garden center; and
- E. Compliance with such other customary terms and conditions that may be set forth in the Cooperation, Contribution and Redevelopment Agreement, including provision for PILOT payments under certain circumstances in the event that the Project becomes tax-exempt, the Developer filing an annual financial statement for the Developer and the Project with City and RACM certified by Developer's chief executive officer and a participation in substantially the form set forth in a June 13, 2004 communication from Developer's counsel.

**HUMAN
RESOURCE
REQUIREMENTS:**

Developer shall enter into an Emerging Business Enterprise Agreement to utilize EBEs, as defined in Chapter 360, Milwaukee Code of Ordinances, for not less than 18% of the combined site improvement and construction cost of the Project work performed by Developer. Developer shall use best efforts to utilize unemployed residents of the Community Development Block Grant area for up to 21% of the total Project hours deemed eligible pursuant to Residents Preference Program guidelines.

GENERAL:

This Term Sheet does not constitute an agreement with Developer. The terms set forth herein, and other provisions customary for a transaction of this sort, shall be incorporated in the Cooperation, Contribution, and Redevelopment Agreement to be entered into by and among Developer, City and RACM.

TOG/kg
06-14-04
1031-2004-763:81289

-----Original Message-----

From: Bruce T. Block

Sent: Sunday, June 13, 2004 6:49 PM

To: 'mdaun@milwaukee.gov'

Cc: 'ifsnod@aol.com'; 'dcohen@midamericagr.com'; 'dmerrick@midamericagr.com'; 'james.scherer@medconline.com'; 'tgartn@hacm.org'; 'jenny.basile@mkedcd.org'; 'jcope@collateral.com'

Subject: revisions to term sheet

Mike: Following up on our meeting of Friday afternoon, I believe that we arrived at the following terms and conditions as modifications to the current term sheet--

1. The amount of the TID grant is \$1.345 million, subject to adjustment up or down based upon the final, actual Sun Life prepayment penalty; provided, however, that the amount in any event shall not exceed \$1.805 million. (This cap was arrived at as follows: the current term sheet caps the TID grant at \$2 million. This was fixed at a time when the prepayment premium was calculated at \$1.665 million. The \$2 million TID grant is reduced dollar for dollar for any decrease in the prepayment premium. Thus, there is currently a spread of \$335k between the TID grant and the prepayment premium. The \$1.345 million number assumes a prepayment premium of \$1.205 million--thus a spread of \$140k between the TID grant and the prepayment premium. The difference between the two spreads is \$195k--this represents the reduction in the amount of the TID grant based upon the City's most recent underwriting analysis. However, the City acknowledges that the prepayment premium is both an unavoidable cost and a variable cost. Thus, if rates were to drop on or before the expected date of prepayment (which seems highly unlikely) causing the premium to start to rise, on an "apples to apples" comparison of the new term sheet to the old, the maximum TID grant would be \$1.805--i.e., the original maximum prepayment premium of \$1.665 million plus the new, reduced "spread" of \$140k.)

2. The TID grant will be a developer funded grant--i.e., the developer will be repaid out of tax increments as currently provided in the existing term sheet. The City will have the right to prepay, also as provided in the existing term sheet.

3. The developer will grant to the City (or RACM, as the case may be), a right of participation in sale or refinance proceeds. As to a sale, this is a one time right of participation (i.e., it will not carry over to a successor owner). As to refinancing, the right shall continue until a sale. The participation shall work as follows:

a. A base value for the property shall be fixed by the appraisal that the developer procures in connection with its permanent financing. (It is expected that the appraised value will be approximately \$18.3 million, and that is the number we will use in the example below.)

b. The developer will be entitled to 1% of appreciation in value per year before any participation.

c. If the net proceeds (i.e., gross sale proceeds less market rate sales commission, capped at a mutually agreed upon number) exceeds the base price plus the 1% per year appreciation (not compounded), then the City shall receive 20% of the excess. If refinancing proceeds exceed the base price plus the 1% per year appreciation on a pro rata basis, then the City shall receive 20% of the prorated excess. 20% is derived from the amount of the City's TID grant in relation to all other equity provided by the developer, including the \$2.35 million currently invested.

d. Sale example: Assume sale in year 10 and an applicable sale price of \$22 million (i.e., gross sale price less commission equals \$22 million). The base is \$18.3 million and, with 1% per year appreciation, not compounded, the base value is increased by 10% (1% per year for 10 years) to \$20.13 million (\$18.3 million plus \$1.83 million). \$22 million minus \$20.13 million equals \$1.87 million. 20% of this number equals \$374k. This is the City's share.

e. Refinancing example: Assume refinancing in year 10, and the appraised value used by the lender for the refinancing is \$22 million. Also assume that the lender is advancing \$16.5 million on a 75% loan to value ratio.

As in the prior example, the increased base value is \$20.13 million. 75% of this number is \$15,097,500. The developer is therefore receiving "excess" loan proceeds of \$1,402,500 (the difference between \$16.5 million and \$15,097,500). 20% of this number is \$280,500, and this would be the City's participation. Since the refinancing right continues, then if there is any participation at the time of a refinancing, the base value of the property shall automatically be increased at the time of the refinancing to the appraised value used for the refinancing-- otherwise, there could be "double dipping" on the same values in a subsequent refinancing. Thus, in the above example, in year 10 the base value would be increased to \$22 million after the refinancing in order to account for the fact that a participation had already occurred at that value.

f. Given the relatively flat rents that are fixed for an extended period of time with the major tenants, it is difficult to project a sale or refinancing creating a participation event, at least over the foreseeable term. However, the participation rights do provide a potential benefit over the long haul if interest rates and leases for the mid box and outlots favorably beat expectations.

Mike, Ron San Felippo is seeing this concurrently with you. I believe that this accurately reflects our discussions, but if Ron sees something I'm missing or that needs to be corrected, then I'll let you know immediately. In short, this remains subject to his comments. I'm copying in those who attended at the meeting as well as Mr. Gartner, so everyone can weigh in as soon as they see this.

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