AMENDMENT NO. 1 to the PROJECT PLAN for
TAX INCREMENTAL DISTRICT NUMBER 46
CITY OF MILWAUKEE
(New Arcade)

Introduction

Section 66.1105(4)(h)(1), Wisconsin Statutes, permits the Redevelopment Authority, subject to the approval of the Common Council, to amend the project plan for a tax incremental district. Tax Incremental District Number 46 was created by the Common Council on September 5, 2001 for the purpose of facilitating redevelopment of the Grand Avenue retail center's New Arcade property. This amendment will allow the district to provide financial assistance for the redevelopment of the retail center's Plankinton Arcade. This amendment is submitted in fulfillment of the requirements of section 66.1105, Wisconsin Statutes.

Changes to the Project Plan

The following amendment is made to the project plan. All other sections of the plan remain unchanged.

Replace Table A in Section II.B.2."Detailed List of Estimated Project Costs" with the following:

Table A
List of Estimated Project Costs[1]

A	Capital: Grant to RACM - $5,750,000 Public improvements - $150,000	$5,900,000
B	Other: Administrative, professional, organizational and legal: $100,000 Capitalized interest: $540,000	$640,000
	Total Estimated Project Costs, excluding financing	$6,540,000
C	Financing:	$2,594,460

Replace Schedule A in section II.B.3. "Description of Timing and Methods of Financing" with the following:

[1] The City of Milwaukee and RACM reserve the right to make only those improvements and to undertake only those activities that are deemed economically feasible and appropriate during the course of project implementation and which are commensurate with positive growth tax increment. The improvements necessitated by this project may be modified as to kind, number, location, and the costs reallocated at any time during project execution based on more definitive architectural or engineering studies or construction plans without further amendment of this plan.

Schedule A
Estimated Timing of Project Costs

Year	Estimated Project Cost	Cumulative Total
2002	$760,000	$760,000
2003	$5,150,000	$5,910,000
2004	$360,000	$6,270,000
2005	$270,000	$6,540,000

In section II.B.3.b. "Estimated Method of Financing Project Costs", under "Sale of General Obligation Bonds", replace "$1,000,000" with "$6,540,000"

Add to section B.4. "Economic Feasibility Study":

The Economic Feasibility Study for Amendment No. 1 to this plan, prepared by the Department of City Development and titled *Economic Feasibility Study, Tax Incremental District No. 46, Amendment No. 1, November 2002*, is on file in the Office of the Redevelopment Authority, 809 North Broadway, Milwaukee, Wisconsin, and in the Office of the City Clerk of the City of Milwaukee, 200 East Wells Street, Room 205, Milwaukee Wisconsin. The study is incorporated herein by reference. The study establishes the dollar value of project costs which, based on certain general assumptions and a reasonable margin of safety, could be financed with the revenues projected to be generated by the proposed tax incremental district.

Based upon the anticipated tax incremental revenue to be generated by this project, the District shows a cumulative surplus in the 14th year (2015) and is expected to retire on schedule. Should incremental revenues be generated in excess of those currently anticipated, they will be used to offset the public costs of plan implementation.

ECONOMIC FEASIBILITY STUDY
AMENDMENT NO. 1
TAX INCREMENTAL DISTICT NO. 46, CITY OF MILWAUKEE
NOVEMBER 2002

I. Overview

TID No. 46 was created to assist in the redevelopment of portions of the Grand Avenue shopping area. When it opened in August of 1982, the Grand Avenue was uniquely positioned to take advantage of the growing number of retail venues that were being developed. The Grand Avenue was able to use its newness and the national relationships of its owner/manager to introduce several national retailers to the Milwaukee market. This gave the Grand Avenue a competitive advantage over its rivals and produced above average sale levels for its 245,000 s.f. of in-line store space, which is physically split between the New Arcade and the Plankinton Arcade properties. As the popular retail venues began to introduce their stores to other regional shopping malls, this competitive advantage disappeared. This along with the closing of one of two department store anchors caused sale levels at the Grand Avenue to plummet. These fundamentals have created an environment that requires a significant overhaul of the mall's common areas, the introduction of new stores and a general repositioning of the Grand Avenue in the retail market of southeastern Wisconsin. The desire to have this area remain a major retail environment was clearly demonstrated when the community developed the Downtown Milwaukee Master plan and made the redevelopment of W. Wisconsin Avenue one of its top priorities.

Over the past several years a number of strategic investments have occurred in the area surrounding the Grand Avenue. This includes a 45% increase in the area's hotel room supply, significant increases in the downtown and surrounding area's residential population and a substantial increase in the office space attached to the Grand Avenue. In addition the Boston Store (the Grand Avenue's remaining department store) recently agreed to a new ten-year operating covenant.

The Grand Avenue's management has also gone through a strategic change that has resulted in a fresh perspective on how to program, market and operate this urban retail opportunity. A public/private partnership that allowed the Grand Avenue to achieve its initial success is once again forming to make this repositioned retail property a success. TID 46 was created to assist in making a portion of the public contribution to this redevelopment effort.

II. Description of TID Improvements

The initial phase of the repositioning plan consisted of an $18 million investment. These funds have been used for such activities as the complete overhaul of the New Arcade common areas, the moving of tenants from the Plankinton Arcade to the New Arcade and the improvement of tenant spaces in the New Arcade for new retailers. Significant improvements to the Grand Avenue's parking garage have also taken place. Finally, numerous physical improvements to the entrance areas and to the development's signage have been undertaken. All of these improvements are being designed and implemented to once again position the Grand Avenue as a premier shopping area. The fresh, more modern appearance and store mix will more closely match what today's shoppers are looking for.

While the initial phase concentrated on the New Arcade area and the parking structures, the proposed amendment to TID No. 46 focuses on the Plankinton Arcade area of the Shops of Grand Avenue. The Plankinton Arcade was originally constructed in 1916. When the Grand Avenue Mall was opened in August 1982, the Plankinton Arcade consisted of approximately 121,000 s.f. of traditional in-line retail space and was supported by two department store anchors. The Gimbels Department Store, which was subsequently replaced with a Marshal Fields Department Store, was immediately adjacent to the Plankinton Arcade. When Marshal Fields close in 1997, the Plankinton Arcade lost its appeal as a location for traditional in-line retail establishments and significant vacancies and loss of lease revenue began to be realized. In the Fall of 2000 a repositioning strategy was conceived. The main focus of this strategy was to secure a new operating covenant with the remaining Boston Store department store (located at the retail center's west end) and to replace Marshall Fields with a number of "mini-anchors". These mini-anchors would be retailers that have store formats between 15,000 to 30,000 s.f. in size. By grouping these mini-anchors at the east end of the retail center, the remaining in-line store space located in the New Arcade would be leasable.

Since the Fall of 2000 a new ten-year operating covenant with Boston Store has been secured and three mini-anchor tenants have been identified. The mini-anchors consist of a Border's Books and Music store (located in a portion of the former Marshall Fields building), a 30,000 s.f. TJ Maxx and a 31,000 s.f. Linens N Things, which are proposed to be located on the ground floor of the Plankinton Arcade. These complimentary retailers form the critical mass necessary to fully implement the repositioning strategy.

A total of over $18 million of additional investment will be required to re-tenant the Plankinton Arcade. When we couple these investments with the improvements in the area's hotels, office and residential market segments, the chances for the retail center to be successful is significantly enhanced. The budget for the Plankinton Arcade project is contained in Exhibit "A".

III. Description of Developer's Financial Projections

A detailed description of the developer's financial projections for the Plankinton Arcade is contained in Exhibit "B". A review of the operating revenues and expenses was conducted and they are within industry norms for this type of retail development. The financial returns that the Plankinton Arcade will generate are modest. When the Grand Avenue was first developed a number of Milwaukee area corporations invested in it. Virtually all the income that the shopping center generated was put back into the mall in the form of additional improvements and related expenses. Therefore the investors have not received any return on the initial $26 million they invested in the entire shopping center. It is anticipated that once fully implemented, the repositioning strategy for both the New Arcade and Plankinton Arcade will require another $30 million of private investment. This proposed amendment focuses on the Plankinton Arcade which has a specific capital requirement of $18.2 million of which $13.2 million will be private investment. The average annual rate of return we estimate that this new capital will generate with the TID and other public investments is approximately 6.2%. Although this is a below market rate of return, the developer is willing to move forward with this investment as a civic gesture. Without the pubic investment the rate of return would dip to approximately 4.5%.

IV. Tax Incremental District Analysis

TID 46's anticipated performance is outlined in Exhibit "C". The base year for TID 46 was 2001. The base year value as established by the State of Wisconsin's Department of Revenue was $14,759,500

The 2002 value reflects the values as established by the City's Assessor's Office.

Future increases in district value are forecasted based in great part by the increases in leasing activity as outlined in Exhibit "B". This analysis provides for a slightly slower lease up period than outlined in Exhibit "B". Now that the Retail Center has secured an operating covenant from the Boston Store and ten-year leases from significant mini-anchor tenants, cap rates between 9 and 10 can be utilized in translating net operating income into real estate value. A constant tax rate of $27 per $1,000 of assessed value was maintained for the entire term of the TID.

Starting in 2003 the district's value is increase by $2,259,000 due to the leasing of approximately 20,000 s.f. of space in the Woolworth Building. The balance of the district remains at 2002 values. By the fourth quarter of 2003, Borders, TJ Maxx and Linens N Things are all open for business.

In 2004 the district's value increases dramatically. This increase value is caused by both increased retail leasing activity and the stabilization of the entire retail center through the presence of the mini-anchors. By having the mini-anchors sign ten-year leases, the cap rates that the assessor's office can utilize in valuing the project's net operating income is reduced to more conventional levels. Specifically the New Arcade's value is increase by approximately $14.0 million and the Plankinton Arcade by $700,000. A slight increase of $200,000 in personal property is also predicted due to increase in occupancy. The balance of the district is kept at 2003 levels. This results in a total district value of over $38.5 million.

In 2005 the Plankinton Arcade's value is increased by an additional $700,000 due to improving net operating revenues. During calendar 2005 the net operating income of the Plankinton Arcade increases significantly resulting in a 2006 assessment increase of $2.5 million. A similar improvement in operating revenues in 2006 and 2007 results in a final assessment increase of $2.5 million in 2008 for a total district value of nearly $44.5 million.

Assuming a 2003 city borrowing of $6.54 million, which accounts for two years of capitalized interest payments (4.5%) and $6.0 million for TID project expenditures, the annual debt service starting in the Spring of 2006 will be $608,964. By 2015 there should be sufficient surplus in the TID to pay the remaining debt service so the district can be closed out.

V. Joint Review Board Test

In this section we evaluate the 3 tests which the Joint Review Board must apply in determining whether or not to approve this amendment.

A. "But For"

The Joint Review Board must consider whether development would occur without the use of tax incremental financing. To evaluate this criterion, we look at whether this project would be feasible without TIF assistance. As was mentioned in a previous section of this analysis, the financial performance of the shopping center has been well below acceptable market levels. The end result is that there is no reasonable likelihood of any return on the original $26 million invested in the entire shopping center in the foreseeable future. Nevertheless the developer is prepared to invest another $13.2 in private capital into the Plankinton Arcade portion of this retail center. This is in addition to the $12 to $17 million that will be expended on the New Arcade. The average annual return of 6.2% we forecast for this investment is well below what a typical investor would require for this type of retail development. If the owner had to replace the TID grant with additional private capital the return would only be more diminished. We believe this project clearly meets the "but for" test.

B. Economic Benefits

The Joint Review Board is charged with determining whether the economic benefits are sufficient to justify the investment of public funds. This has been evaluated in several ways.

First, ability to retire TIF debt was considered. As structured the district should close by 2015, well short of its mandated termination date of 2024.

Second, there are significant benefits derived from the investment of over $18 million dollars into the local economy. These benefits include employment opportunities in the construction trades.

Finally, considerable new job creation will take place in the numerous retail operations that will rent space in the project.

C. Impacts On Other Jurisdictions

The Joint Review Board must also consider whether the benefits outweigh the anticipated tax increments to be paid by the owners of the property in the overlying taxing districts. The current shopping center is clearly struggling with a high vacancy rate. Without this TID district, this pattern is likely to persist and values are likely to continue to fall. The owners of property in the overlying taxing jurisdictions would need to make up this shortfall. This TID preserves the base value in the district and the revenue stream this generates for all the applicable taxing jurisdictions. The owners of the property in the overlying taxing districts also will benefit when TID No. 46 is terminated and its incremental tax revenues can be used for general purposes.

In our opinion, the project clearly meets the Joint Review Board tests.

EXHIBIT A

Plankinton Arcade Capital Budget Summary
10/30/2002
Plankinton Arcade Cash Flow 10/30/02

Project Title:	**The Plankinton Arcade**	GLA:	121,209
Date:	October 30, 2002		
Job Location	Milwaukee, WI		
Owner/Borrower:	New Arcade, LLC		
Development Manager:	Palisades/Grand Avenue, LLC		
Architect's Project Number:			
Northwestern Mutual Loan Number:			
Type of Building:	Retail		

SUMMARY - USES

	Description		**Plankinton Arcade Budget Amount**
I.	CONSTRUCTION COST		
	Environmental		340,000
	General Construction		7,712,850
	Construction Contingency		523,305
		SUBTOTAL CONSTRUCTION COST	8,576,155
II.	ARCHITECTURAL & ENGINEERING COST		
	A&E fees		830,360
	A&E reimbursibles		50,000
		SUBTOTAL ARCHITECTURAL & ENGINEERING COST	880,360
III.	TENANT IMPROVEMENTS		
	Tenant Space Improvements		1,795,650
	Extraordinary Tenant Allowances		0
		SUBTOTAL TENANT IMPROVEMENTS	1,795,650
IV.	INDIRECT PROJECT COST		
	Project Legal Services		191,770
	Project Marketing & Promotion		285,000
	Bonds/Permits		268,039
	Leasing Fees - Outside Broker		400,910
	Leasing Fees - Developer's In-House Staff		481,920
	Tenant Buy-Outs/Relocations		820,000
	Net Rent Abatement (noncash)		940,000
	Developer's Incentive Fee		405,579
	Development Management Fee		675,965
		SUBTOTAL INDIRECT PROJECT COST	4,469,183
V.	INTEREST DURING CONSTRUCTION		0
VI.	FURNITURE, FURNISHINGS & EQUIPMENT COST		63,250
VII.	LAND COST/VALUATION		1,280,000
VIII.	MISCELLANEOUS PROJECT COST		
	Reimbursables		250,000
	Project Contingency		868,518
		SUBTOTAL MISCELLANEOUS PROJECT COST	1,118,518
		TOTAL COST	**17,302,756**

EXHIBIT B

Plankinton Arcade 10 Year Proforma Summary

10/30/2002
Plankinton Arcade Cash Flow 10/30/02

Plankinton Arcade Square Footage: 121,209

For the Calender Year	Year 1 2004	Year 2 2005	Year 3 2006	Year 4 2007	Year 5 2008	Year 6 2009	Year 7 2010	Year 8 2011	Year 9 2012	Year 10 2013
Revenue										
Base Rental Revenue	846,858	1,172,907	1,172,907	1,172,907	1,172,907	1,106,994	1,134,435	1,227,785	1,227,785	1,227,785
Specialty Rent (3 units x $12k/yr)	36,000	37,080	38,192	39,338	40,518	41,734	42,986	44,275	45,604	46,972
	882,858	1,209,987	1,211,100	1,212,246	1,213,426	1,148,728	1,177,420	1,272,060	1,273,388	1,274,756
Retail Sales Percent Revenue	0	0	0	0	0	0	0	0	0	0
CAM & Tax Reimbursement Revenue	1,050,745	1,433,040	1,476,031	1,520,312	1,565,922	1,516,292	1,575,484	1,649,814	1,699,309	1,750,288
Marketing Income	77,250	79,568	79,568	81,955	81,955	84,413	84,413	86,946	86,946	89,554
JPB Condominium CAM Reimbursement	18,775	19,338	19,918	20,516	21,131	21,765	22,418	23,091	23,783	24,497
Ivory Tusk CAM Reimbursement	10,000	10,000	10,000	10,000	0	0	0	0	0	0
Interest Income	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439
Total Revenue	2,049,928	2,762,542	2,807,544	2,856,283	2,894,026	2,783,139	2,872,034	3,044,578	3,096,474	3,152,534
Vacancy Allowance (6% non-major)	(61,498)	(82,876)	(84,226)	(85,689)	(86,821)	(83,494)	(86,161)	(91,337)	(92,894)	(94,576)
Total Net Revenue	1,988,430	2,679,666	2,723,318	2,770,595	2,807,205	2,699,645	2,785,873	2,953,241	3,003,579	3,057,958
Operating Expenses										
Common Area Maintenance	632,417	651,389	670,931	691,059	711,791	733,144	755,139	777,793	801,127	825,160
Food Court Maintenance	0	0	0	0	0	0	0	0	0	0
General Expense	126,540	130,336	134,246	138,273	142,421	146,694	151,095	155,628	160,297	165,105
HVAC	87,596	90,224	92,931	95,719	98,590	101,548	104,594	107,732	110,964	114,293
Insurance	38,404	39,556	40,742	41,965	43,224	44,520	45,856	47,232	48,649	50,108
Management	108,000	111,240	114,577	118,015	121,555	125,202	128,958	132,826	136,811	140,916
Marketing	105,324	108,484	111,739	115,091	118,544	122,100	125,763	129,536	133,422	137,424
Security	89,600	92,288	95,057	97,908	100,846	103,871	106,987	110,197	113,503	116,908
Taxes	77,552	79,879	82,275	84,744	87,286	89,904	92,602	95,380	98,241	101,188
Utilities	194,511	200,346	206,357	212,547	218,924	225,491	232,256	239,224	246,400	253,792
Trash	36,682	37,782	38,916	40,083	41,285	42,524	43,800	45,114	46,467	47,861
Other	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	1,496,625	1,541,524	1,587,770	1,635,403	1,684,465	1,734,999	1,787,049	1,840,660	1,895,880	1,952,756
Net Operating Income	**491,805**	**1,138,142**	**1,135,548**	**1,135,192**	**1,122,740**	**964,646**	**998,824**	**1,112,581**	**1,107,699**	**1,105,202**
Leasing & Capital Costs										
Tenant Improvements (4)						195,400	191,725			
Repair & Replacement Reserve	20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
Leasing Commissions (5)						31,264	30,676			
Total Leasing & Capital Costs	20,000	20,600	21,218	21,855	22,510	249,849	246,282	24,597	25,335	26,095
Cash Flow Before Debt Service	**471,805**	**1,117,542**	**1,114,330**	**1,113,338**	**1,100,230**	**714,797**	**752,542**	**1,087,983**	**1,082,364**	**1,079,106**
Annual Return on $12,302,756 (2)	3.5%	8.6%	8.6%	8.6%	8.5%	5.5%	5.8%	8.4%	8.3%	8.3%
Ten Year Average 7.4%										
Annual Return on $17,302,756 (3)	2.5%	6.2%	6.2%	6.2%	6.1%	4.0%	4.2%	6.0%	6.0%	6.0%
Ten Year Average 5.3%										

Notes:
(1) Tenant Improvements and Leasing Commissions in Year 1 are funded from the project development budget.
(2) $12,302,756 is the total project budget of $17,302,756 less the $5,000,000 value of the City's participation.
(3) $17,302,756 is the total project budget before City participation.
(4) Assume 7,816 sf is replaced in Year 6 w/ $25 TI.
Assume 7,669 sf is replaced in Year 7 w/ $25 TI.
(5) Assume $4/sf commission for replacements above.

EXHIBIT C

FORECAST OF DISTRICT CASH FLOW

TAX INCREMENTAL DISTRICT NO. 46

AMENDMENT NO. 1

Yr.	Real Prop. Value	Personal Prop. Value	Est. District Value	Base Value	Incremental Value	Tax Inc. Revenue	Bond Payment	Annual Surplus (Deficit)	Cumulative Surplus (Deficit)
2001	$ 11,959,500	$ 2,800,000	$ 14,759,500	$ 14,759,500	$0	$0	$0	$ -	$ -
2002	$ 18,655,900	$ 2,800,000	$ 21,455,900	$ 14,759,500	$6,696,400	$0	$0	$ -	$ -
2003	$ 20,514,900	$ 3,000,000	$ 23,514,900	$ 14,759,500	$ 8,755,400	$ 180,803		$ 180,803	$ 180,803
2004	$ 35,277,600	$ 3,300,000	$ 38,577,600	$ 14,759,500	$ 23,818,100	$ 236,396		$ 236,396	$ 419,459
2005	$ 35,977,600	$ 3,500,000	$ 39,477,600	$ 14,759,500	$ 24,718,100	$ 643,089		$ 643,089	$ 1,067,791
2006	$ 38,477,600	$ 3,500,000	$ 41,977,600	$ 14,759,500	$ 27,218,100	$ 667,389	$ 608,964	$ 58,425	$ 1,139,563
2007	$ 38,477,600	$ 3,500,000	$ 41,977,600	$ 14,759,500	$ 27,218,100	$ 734,889	$ 608,964	$ 125,925	$ 1,279,732
2008	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 734,889	$ 608,964	$ 125,925	$ 1,421,653
2009	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 1,632,849
2010	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 1,846,684
2011	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 2,063,192
2012	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 2,282,407
2013	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 2,504,362
2014	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 2,729,091
2015	$ 40,977,600	$ 3,500,000	$ 44,477,600	$ 14,759,500	$ 29,718,100	$ 802,389	$ 608,964	$ 193,425	$ 2,956,629

NOTES:

Base Year per State DOR

Tax rate is $27 per $1000

Debt Service is based on $6.0 million, plus 2 years of capitalized interest

4.5% interest rate and 15 year level payment

Surplus earns 1.25% annually

Outstanding debt service in 2015 is $3,044,820