

Date: January 30, 2008
Subject: Preliminary Economic Feasibility Findings- Block 10/Aloft Project
From: S. B. Friedman & Company
To: James Scherer and Allison Rozek, Milwaukee Department of City Development

S. B. Friedman & Company (SBFCo) was engaged by the City of Milwaukee Department of City Development (DCD) to conduct an economic feasibility study for a proposed TID funding increase in TID #48 (Park East). Per your request, this memorandum summarizes our initial findings regarding:

- The potential level of incremental property taxes to be generated by the proposed Block 10/Aloft project over the remaining life of TID #48; and
- The estimate time frame over which this incremental revenue stream would amortize newly issued general obligation bonds supporting approximately \$1.3 million of increase in authorized TID expenditures for Riverwalk and related improvements

Context and Background

Block 10/Aloft is a mixed-use project located along the west bank of the Milwaukee River at the intersection of 3rd and Juneau. SBFCo's assumptions regarding the development program and timing of this project are based on e-mail correspondence with the developer, Ruvin Development, Inc/Gatehouse Capital Corp. ("Developer"). At completion, the anticipated program is as follows:

- An "Aloft" branded hotel comprising about 78,400 square feet
- 9 condominium units encompassing approximately 20,600 saleable square feet
- About 3,300 square feet of retail space

The project is anticipated to begin construction in March 2008 and reach completion in mid-2009.

DCD is seeking expenditure authority for a total of about \$1.3 million in public costs associated with the project, including:

- \$406,000 contribution toward Riverwalk construction
- \$162,000 contribution toward dock wall improvements
- \$350,000 in public open space construction

- \$278,000 in right-of-way acquisition; and
- \$114,000 in associated City administrative/soft costs

Projected Incremental Property Taxes

VALUATION

SBFCo's projections of incremental property tax revenue are based on the following key valuation assumptions, by project component:

- **Hotel.** Assumed valuation was estimated on a per-square foot basis using tax comparables from downtown Milwaukee. Key comparables are included in **Table 1** at the end of this memo, and yielded a 2007 equivalent value of about \$113 per square foot.
- **Retail.** *SBFCo* assumed a value for the retail space of \$100/sf (2007 dollars), based on reviews of retail assessment levels conducted for other projects.
- **Condominiums.** The Developer is projecting sales prices of about \$474 per square foot for condominium units, implying a product at the high end of the current Milwaukee Downtown market. Because *SBFCo* has limited information available about the character and market support for these units, we assumed an assessed valuation of \$350 per square foot, reflecting observed market ranges for higher-end product in Downtown Milwaukee.

These values were inflated at a rate of 2% per year from 2007 values for the purposes of estimating total project valuation. At completion in inflated dollars, the assumptions above give rise to an estimated total assessed value of about \$17.0 million.

These values were phased in assuming completion of the project in 2009 and full assessment as of January 1, 2010.

SBFCo's estimated project valuation is shown in **Table 2** at the end of this memo.

PROJECTED INCREMENT

Based on the valuation and phasing described above and the indicated base value of Block 10 in the original Park East TID Plan of \$590,000, *SBFCo* estimates an undiscounted TID revenue stream totaling **\$7.7 million** through the remaining anticipated life of TID #48.

This projection is shown in **Table 3** at the end of this memo.

This projection assumes a rate of decline in the applicable property tax rate of about 2.1% per year until stabilization at 2.0% (\$20 per \$1,000 of taxable value). This assumption is based on a review of historical trends in the overall City of Milwaukee property tax rate over the past 5, 10, 15, and 20-year periods. The assumption used for these projections is equal to the 10-year trailing rate of decline in the tax rate.

TID Debt Amortization

SBFCo calculated anticipated bond amortization assuming that the entire \$1.3 million of requested additional public expenditures is issued at the beginning of 2009. Our bonding assumptions included the following assumptions, per discussions with the Office of the City Comptroller:

- **Interest Rates.** General assumption of 4.5%
- **Term.** 17 years, including two interest-only payments in years 1 and 2 funded from capitalized interest reserves, followed by 15 years of level principal and interest payments. Shortfalls against the scheduled debt service (if any) would be covered by the local government investment pool and carry a 4.75% interest charge until paid off
- **Issuance Costs.** The projections assume an issuance costs allowance of 1.0% of net bond proceeds.

These assumptions result in a total bond issuance amount of about **\$1.47 million** to yield the net proceeds requested by DCD.

SBFCo estimates that the accumulated surpluses against scheduled annual debt service exceed the outstanding bond principal amount as early as **2015 (TID year 14)**, suggesting the potential for full amortization by this time if bond principal is prepaid. These estimates are shown in Table 4 at the end of this memo.

Preliminary Conclusions

Based on the assumptions and calculations described in this memo, *SBFCo* estimates on a preliminary basis that the proposed Aloft project could produce sufficient revenues to TID #48 to fully amortize the entire increase in TID expenditures as early as 2015 (TID Year 14).

It is important to note that this amortization estimate is independent of other existing or proposed debt obligations and incremental revenue flows of the full Park East TID, and solely considers the relationship between net new requested TID expenditure authority and increment from the Aloft project.

Further, *SBFCo* has not been provided with, nor have we reviewed detailed information regarding the feasibility of the Aloft project, such as market analysis, financing commitments, cost estimates, or pro formas. It is assumed that the City will structure any term sheet governing the proposed new expenditures such that public funds are provided in arrears upon completion of the proposed Riverwalk improvements, thus limiting potential that new expenditures will be incurred without completion of new taxable development in the TID.

Limitations of Our Engagement

The scope of our engagement included reviewing the developer's stated assumptions regarding project program, timing, and pricing, projecting the incremental property tax revenues likely to result from the project as proposed, and evaluating amortization of proposed new public costs provided by the Department of City Development.

Our projections are based on estimates, assumptions, and other information developed from our research, knowledge of the industry, and meetings with you and the developer during which certain information was obtained. Sources of information and bases of estimates and assumptions are cited in the report. We deem our sources of information to be reliable, but no guarantee can be offered as to the reliability of information obtained from others. 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 described in our report and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the report or associated financial analyses to reflect events or conditions which occur subsequent to the date of the report. These events or conditions include without limitation economic growth trends, governmental actions, acts of war or terrorism, additional competitive developments, construction delays, cost overruns, labor availability and costs, interest rates, and other market factors. However, we will be available to discuss the necessity for revision in view of these changes or market factors.

Our study did not ascertain the legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits, and licenses. No effort was made to determine the possible effect on this project of present or future federal, state, or local legislation, including any environmental or ecological matters. Further, we have not evaluated management's effectiveness, nor are we responsible for future marketing efforts, programming, and other management actions upon which actual results will depend.

Our report is intended solely for your information, the Joint Review Board, and the City Council, and should not be relied upon for any other purposes. Otherwise, neither the report nor its contents, nor any reference to our Firm may be included or quoted in any offering circular or registration statement, prospectus, loan, or other agreement or document.

Table 1: Tax Comparables: Selected Hotel Properties in Downtown Milwaukee

Hotel Name	Address	Taxkey	Year Built	Sq Ft	2007 Assessed Value (AV)			Total AV per Bldg SF
					Land	Imp	Total	
Hotel Metro	411 E Mason St	3920810000	1938	62,343	\$ 360,000	\$ 5,740,000	\$ 6,100,000	\$ 97.85
Courtyard-Milwaukee Downtown (Marriott)	300 W Michigan Ave	3970152100	1999	112,472	\$ 1,332,600	\$ 13,667,400	\$ 15,000,000	\$ 121.52
Residence Inn-Downtown (Marriott)	648 N Plankinton/101 W Wisconsin Av	3970333000	1916	133,188	\$ 473,900	\$ 13,126,100	\$ 13,600,000	\$ 98.55
Weighted Average								\$ 112.66

Source: Milwaukee City assessor and *S. B. Friedman & Company*

Table 2: Block 10 (Aloft) New Annual AV Additions

TID Yr	Assmt Yr	Inflation Factor		Annual Value Additions by Use [2]			Total Annual New Additions	Cumulative Additions [5]
		[1]		Commercial Retail-Total [3]	Commercial Hotel [3]	Residential-Condominium [4]		
		com.	res.					
5	2006	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
6	2007	-	-	\$ -	\$ -	\$ -	\$ -	\$ -
7	2008	1.00	1.00	\$ -	\$ -	\$ -	\$ -	\$ -
8	2009	1.02	1.02	\$ -	\$ -	\$ -	\$ -	\$ -
9	2010	1.04	1.04	\$ 350,407	\$ 9,189,480	\$ 7,508,567	\$ 17,048,453	\$ 17,048,453
10	2011	1.06	1.06	\$ -	\$ -	\$ -	\$ -	\$ 17,389,423
11	2012	1.08	1.08	\$ -	\$ -	\$ -	\$ -	\$ 17,737,211
12	2013	1.10	1.10	\$ -	\$ -	\$ -	\$ -	\$ 18,091,955
13	2014	1.13	1.13	\$ -	\$ -	\$ -	\$ -	\$ 18,453,794
14	2015	1.15	1.15	\$ -	\$ -	\$ -	\$ -	\$ 18,822,870
15	2016	1.17	1.17	\$ -	\$ -	\$ -	\$ -	\$ 19,199,328
16	2017	1.20	1.20	\$ -	\$ -	\$ -	\$ -	\$ 19,583,314
17	2018	1.22	1.22	\$ -	\$ -	\$ -	\$ -	\$ 19,974,980
18	2019	1.24	1.24	\$ -	\$ -	\$ -	\$ -	\$ 20,374,480
19	2020	1.27	1.27	\$ -	\$ -	\$ -	\$ -	\$ 20,781,970
20	2021	1.29	1.29	\$ -	\$ -	\$ -	\$ -	\$ 21,197,609
21	2022	1.32	1.32	\$ -	\$ -	\$ -	\$ -	\$ 21,621,561
22	2023	1.35	1.35	\$ -	\$ -	\$ -	\$ -	\$ 22,053,992
23	2024	1.37	1.37	\$ -	\$ -	\$ -	\$ -	\$ 22,495,072
24	2025	1.40	1.40	\$ -	\$ -	\$ -	\$ -	\$ 22,944,974
25	2026	1.43	1.43	\$ -	\$ -	\$ -	\$ -	\$ 23,403,873
26	2027	1.46	1.46	\$ -	\$ -	\$ -	\$ -	\$ 23,871,951
27	2028	1.49	1.49	\$ -	\$ -	\$ -	\$ -	\$ 24,349,390

[1] Assumed values inflated from 2007 base for tax comparables and assumed condo sales prices

[2] Program assumptions per developer

[3] New value based on SBFCo tax comp research.

[4] Condo sales assumed to be \$350 per net sq. foot

[5] 2% annual inflation due to reassessment is assumed.

Table 3: Block 10 (Aloft) TID Projections

TID Yr	Assmt Yr	Frozen Base Value (2002) : Aloft Site	Actual/Projected Future Value: Aloft Project	Net Annual New Additions: Aloft Project	Total AV of Project Site	Tax Increment	Tax Rate [1]	Tax Incremental Revenue [2]	
4	2005	\$ 590,000							
5	2006	\$ 590,000							
6	2007	\$ 590,000	\$ 1,229,600	\$ -	\$ 1,229,600	\$ 639,600	2.3%	\$ -	
7	2008	\$ 590,000	\$ 1,254,192	\$ -	\$ 1,254,192	\$ 664,192	2.3%	\$ 14,794	
8	2009	\$ 590,000	\$ 1,279,276	\$ -	\$ 1,279,276	\$ 689,276	2.2%	\$ 15,043	
9	2010	\$ 590,000	\$ 1,304,861	\$ 17,048,453	\$ 17,048,453	\$ 16,458,453	2.2%	\$ 15,287	
10	2011	\$ 590,000	\$ 17,389,423	\$ -	\$ 17,389,423	\$ 16,799,423	2.1%	\$ 357,420	
11	2012	\$ 590,000	\$ 17,737,211	\$ -	\$ 17,737,211	\$ 17,147,211	2.1%	\$ 357,236	
12	2013	\$ 590,000	\$ 18,091,955	\$ -	\$ 18,091,955	\$ 17,501,955	2.0%	\$ 357,048	
13	2014	\$ 590,000	\$ 18,453,794	\$ -	\$ 18,453,794	\$ 17,863,794	2.0%	\$ 356,854	
14	2015	\$ 590,000	\$ 18,822,870	\$ -	\$ 18,822,870	\$ 18,232,870	2.0%	\$ 357,276	
15	2016	\$ 590,000	\$ 19,199,328	\$ -	\$ 19,199,328	\$ 18,609,328	2.0%	\$ 364,657	
16	2017	\$ 590,000	\$ 19,583,314	\$ -	\$ 19,583,314	\$ 18,993,314	2.0%	\$ 372,187	
17	2018	\$ 590,000	\$ 19,974,980	\$ -	\$ 19,974,980	\$ 19,384,980	2.0%	\$ 379,866	
18	2019	\$ 590,000	\$ 20,374,480	\$ -	\$ 20,374,480	\$ 19,784,480	2.0%	\$ 387,700	
19	2020	\$ 590,000	\$ 20,781,970	\$ -	\$ 20,781,970	\$ 20,191,970	2.0%	\$ 395,690	
20	2021	\$ 590,000	\$ 21,197,609	\$ -	\$ 21,197,609	\$ 20,607,609	2.0%	\$ 403,839	
21	2022	\$ 590,000	\$ 21,621,561	\$ -	\$ 21,621,561	\$ 21,031,561	2.0%	\$ 412,152	
22	2023	\$ 590,000	\$ 22,053,992	\$ -	\$ 22,053,992	\$ 21,463,992	2.0%	\$ 420,631	
23	2024	\$ 590,000	\$ 22,495,072	\$ -	\$ 22,495,072	\$ 21,905,072	2.0%	\$ 429,280	
24	2025	\$ 590,000	\$ 22,944,974	\$ -	\$ 22,944,974	\$ 22,354,974	2.0%	\$ 438,101	
25	2026	\$ 590,000	\$ 23,403,873	\$ -	\$ 23,403,873	\$ 22,813,873	2.0%	\$ 447,099	
26	2027	\$ 590,000	\$ 23,871,951	\$ -	\$ 23,871,951	\$ 23,281,951	2.0%	\$ 456,277	
27	2028	\$ 590,000	\$ 24,349,390	\$ -	\$ 24,349,390	\$ 23,759,390	2.0%	\$ 465,639	
	2029	Collections for TID Year 27							\$ 475,188
Total Proceeds, 2008 - 2029 (Not Discounted)								\$ 7,679,265	

Note: These projections are based on estimates, assumptions, and other information developed from research of the market, knowledge 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.

[1] The tax rate is projected to decline at an annual rate of 2.1%, stabilizing at a tax rate of 2.0%.

[2] Tax revenue collected one year after the taxing year at a 100% collection rate.

Table 4: Projected Bond Amortization - Block 10

Interest Rate on Bonds [1]	4.50%
Cost of Funds- Local Gov't Investment Pool [1]	4.75%
Block 10 Project Costs	
Riverwalk	\$ 406,000
Dockwall	\$ 162,400
Public Open Space	\$ 350,000
M&I Right-of-way Acquisition	\$ 278,160
City Administrative and Consulting Cos	\$ 114,000
Net Proceeds to Project	\$ 1,310,560
Issuance Cost Percentage [1]	1.0%
Issuance Cost Allowance	\$ 13,106
Capitalized Interest Period (Years)	2
Capitalized Interest Allowance @ 10% [1]	\$ 147,074
Total Capitalized Interest Allowance	\$ 147,074
Total Bond	\$ 1,470,740
Assumed Level P&I Payments [1]	15

[1] Bonding assumptions per Comptroller's Office

Cap Interest Reserve

Year	Reserve	Payment
2009	\$ 147,074	\$ (73,537)
2010	\$ 73,537	\$ (73,537)

TID Year	Calendar Year	Projected Increment	Amortization of New Bonding			TID Payoff Analysis				
			TID Annual Debt Service Target	Principal Bal. After Current Year's Debt Svc.	Cap Interest Payment	Annual Surplus/ (Shortfall)	Cumulative Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance	New TID Debt Retired	TID Able to Prepay Prin Bal. of New Debt
0	2001		\$ -			\$ -	\$ -	\$ -		
1	2002		\$ -			\$ -	\$ -	\$ -		
2	2003		\$ -			\$ -	\$ -	\$ -		
3	2004		\$ -			\$ -	\$ -	\$ -		
4	2005		\$ -			\$ -	\$ -	\$ -		
5	2006		\$ -			\$ -	\$ -	\$ -		
6	2007		\$ -			\$ -	\$ -	\$ -		
7	2008	\$ 14,794	\$ -			\$ 14,794	\$ 14,794	\$ 703		
8	2009	\$ 15,043	\$ 73,537		\$ 73,537	\$ 15,043	\$ 30,540	\$ 1,451		
9	2010	\$ 15,287	\$ 73,537		\$ 73,537	\$ 15,287	\$ 47,277	\$ 2,246		
10	2011	\$ 357,420	\$ 136,946	\$ 1,399,977		\$ 220,474	\$ 269,997	\$ 12,825	NO	NO
11	2012	\$ 357,236	\$ 136,946	\$ 1,326,029		\$ 220,290	\$ 503,112	\$ 23,898	NO	NO
12	2013	\$ 357,048	\$ 136,946	\$ 1,248,755		\$ 220,101	\$ 747,111	\$ 35,488	NO	NO
13	2014	\$ 356,854	\$ 136,946	\$ 1,168,002		\$ 219,908	\$ 1,002,507	\$ 47,619	NO	NO
14	2015	\$ 357,276	\$ 136,946	\$ 1,083,616		\$ 220,330	\$ 1,270,455	\$ 60,347	NO	YES
15	2016	\$ 364,657	\$ 136,946	\$ 995,433		\$ 227,711	\$ 1,558,513	\$ 74,029	NO	
16	2017	\$ 372,187	\$ 136,946	\$ 903,281		\$ 235,240	\$ 1,867,783	\$ 88,720	NO	
17	2018	\$ 379,866	\$ 136,946	\$ 806,983		\$ 242,920	\$ 2,199,423	\$ 104,473	NO	
18	2019	\$ 387,700	\$ 136,946	\$ 706,351		\$ 250,753	\$ 2,554,649	\$ 121,346	NO	
19	2020	\$ 395,690	\$ 136,946	\$ 601,190		\$ 258,743	\$ 2,934,738	\$ 139,400	NO	
20	2021	\$ 403,839	\$ 136,946	\$ 491,298		\$ 266,893	\$ 3,341,031	\$ 158,699	NO	
21	2022	\$ 412,152	\$ 136,946	\$ 376,460		\$ 275,206	\$ 3,774,936	\$ 179,309	NO	
22	2023	\$ 420,631	\$ 136,946	\$ 256,455		\$ 283,685	\$ 4,237,931	\$ 201,302	NO	
23	2024	\$ 429,280	\$ 136,946	\$ 131,049		\$ 292,334	\$ 4,731,566	\$ 224,749	NO	
24	2025	\$ 438,101	\$ 136,946	\$ (0)		\$ 301,155	\$ 5,257,471	\$ 249,730	YES	
25	2026	\$ 447,099	\$ -			\$ 447,099	\$ 5,954,300	\$ 282,829		
26	2027	\$ 456,277	\$ -			\$ 456,277	\$ 6,693,407	\$ 317,937		
27	2028	\$ 465,639	\$ -			\$ 465,639	\$ 7,476,983	\$ 355,157		
28	2029	\$ 475,188	\$ -			\$ 475,188	\$ 8,307,328	\$ 394,598		
TOTALS		\$ 7,679,265	\$ 2,201,266	\$ 11,494,879	\$ 147,074	\$ 5,625,073	\$ 8,307,328	\$ 3,076,853		

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 market, knowledge 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.