

Economic Feasibility Report

PROPOSED AMENDMENT OF REED STREET YARDS TAX INCREMENTAL DISTRICT (TID #75)

Prepared for:

City of Milwaukee

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1. Project Description and Study Approach

Based on information and direction provided by the City of Milwaukee's Department of City Development (DCD), S. B. Friedman & Company (*SB Friedman*) has produced an updated Feasibility Study for proposed development in the Reed Street Yards Tax Increment District (TID), also known as TID #75. In 2009, *SB Friedman* conducted an initial feasibility study for the Reed Street Yards TID, based on the projected development of new office space in the TID. This updated feasibility replaces the hypothetical office development in the 2009 study with a currently proposed office development, integrates the City of Milwaukee's estimated costs for infrastructure improvements in the TID and updates property values and phasing assumptions for existing development.

Project Description

The Milwaukee 7 Water Council ("Water Council") has proposed an office development ("Water Council Building") that would accommodate a mix of water-related tenants in the Reed Street Yards TID. The site of the Water Council Building consists of one parcel with a currently vacant structure at the southeast corner of South Third Street and West Pittsburgh Avenue in Milwaukee's Fifth Ward. The Project is envisioned as an important component of the City of Milwaukee's efforts to build on its existing concentration of water-related businesses and spur further redevelopment in the Reed Street Yards TID. This initiative, complementing the efforts of the Milwaukee 7 Water Council and the University of Wisconsin-Milwaukee (UW-Milwaukee) School of Freshwater Sciences, seeks to expand and cluster Milwaukee's water-oriented businesses to foster innovation, entrepreneurial activity and economic development. Expected tenants at the Water Council Building include the Water Council, UW-Milwaukee, Incubator Space and a Flow Lab.

In conjunction with development of the Water Council Building, the City of Milwaukee ("City") seeks to develop approximately \$6.12 million in infrastructure and publicly funded improvements in the TID, in the area abutting the south bank of the Menomonee River, roughly between South Second Street and South Ninth Street ("the Project Area"). The development of the Water Council Building and accompanying infrastructure development comprise the Project, as described below:

- **Office**—rehabilitation of currently vacant warehouse building into office space for water-related tenants, with total gross square footage of approximately 88,025
- **Infrastructure**—extension of West Pittsburgh Avenue from South Third Street to South Sixth Street, RiverWalk and dockwall improvements, parking, lighting, landscaping, construction of a stormwater management system and sanitary sewer and water main construction

The Project Area is included in the Reed Street Yards TID, which consists of 23 taxkeys. Many of the taxkeys are vacant warehouses or vacant land. The Iron Horse Hotel and 234 Florida are two recent renovations that have not yet reached full stabilized assessment. Assessment assumptions for these two properties have been updated from the original feasibility study prepared in 2009 at the time of the TID's initial adoption.

Study Approach

SB Friedman reviewed and considered the following key factors affecting the TID feasibility of the proposed project:

- Pro forma information for the 88,000 square foot Water Council Building, provided by DCD on August 25, 2011
- Term Sheet between City of Milwaukee and the Developer
- Conceptual Site Plan for Reed Street Yards by Madisen Architects, provided by the City
- Assessment techniques and assumptions likely to be used as a basis for property taxation, based on key informant interviews with the City of Milwaukee Assessor's Office
- Real property assessment data from the Assessor's Office on existing properties within TID #75
- Real property assessment data for comparable properties elsewhere in Milwaukee to validate the potential assessed valuation of the Project
- Bonding assumptions, as provided by DCD and the Office of the City Comptroller, to be used in evaluating financing capacity

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2. Proposed TID Expenditures

The proposed City TID expenditures total \$6.22 million in net proceeds, comprised of the following elements:

Phase I Expenditures

- **Up to \$3,318,000 for Phase I Public Infrastructure:** Public infrastructure improvements include parking and street paving, remediation, RiverWalk and dockwall improvements, stormwater management, sanitary sewer and water main improvements, street lighting and landscaping, including a 10% contingency allowance.
- **\$354,000 loan to Business Improvement District (BID):** This loan will cover the BID's portion of infrastructure costs (30% of RiverWalk costs and 50% of dockwall costs) and will be repaid by a BID property tax levy.
- **\$264,000 for City Administration Costs**

Phase II Expenditures

- **Up to \$2,281,000 for Phase II Public Infrastructure:** Improvements include additional site remediation and stormwater management, including a 10% contingency allowance.

Per the Term Sheet between the City and the Developer, the City's financing of infrastructure development is contingent upon construction proceeding on the Water Council Building. Furthermore, the City's financing of Phase II infrastructure costs is contingent upon additional incremental assessed TID valuation being generated beyond the baseline that is currently projected, as described in Chapter 3.

The City would also consider future requests for TID assistance to developers to defray adverse environmental conditions, construction cost premiums attributable to adverse site conditions, and/or technology requirements of end users, to the extent that these costs are supportable by actual and projected TID revenues and are required to facilitate future development of water business-related office and/or parking structures on the site. Additional assistance for such subsequent efforts would require Common Council approval; such assistance is not evaluated in this Feasibility Study.

3. Incremental Property Tax Revenues

SB Friedman projected incremental property tax revenues to evaluate the period in which the TID might reasonably be expected to generate sufficient cash flow to fully amortize the debt associated with the proposed City expenditures of \$3.94 million in Phase I infrastructure and associated costs and \$2.28 million in Phase II infrastructure. These projections are an update of the original projections *SB Friedman* conducted for the Reed Street Yards TID in 2009.

The scope of this projection included:

- Limited incremental property tax revenues from inflationary growth in property values on parcels within the TID for which no redevelopment is assumed
- Phase-in of additional value anticipated to result from stabilization of the Iron Horse Hotel and 234 Florida properties (discussed in additional detail below)
- Projected TID revenues resulting from the 88,000 square foot Water Council Building

The assumptions used to develop these projections are described below.

TID Projection Assumptions and Methodology

Table A-1 in the Appendix of this study summarizes the key assumptions used to project TID revenues. These assumptions, as well as *SB Friedman's* methodology, are described below.

SOURCES OF TID REVENUE

The Reed Street Yards TID includes a total of 23 parcels, comprised of non-redevelopment parcels, the Iron Horse Hotel, 234 Florida, and the Water Council Building. Incremental property tax revenues resulting from the increased value of these properties comprise the revenue stream for the TID. The repayment of the BID loan represents another minor source of revenue for repayment of TID bonds; the BID loan is discussed in the "Other TID Assumptions" section below. These different components of the projected TID revenue stream are described below:

- **Non-redevelopment Parcels.** The Reed Street Yards TID includes 20 taxkeys for which no redevelopment is assumed to occur for the purposes of this study. This group of parcels includes undeveloped land, undeveloped shell buildings within the Tannery complex and land adjacent to the railroad rights-of-way. *SB Friedman's* projections include tax increment only from the inflationary growth in these parcels' property values, not from any new development. It should be noted, however, that these parcels could be redeveloped in the future, thus generating incremental TID revenues beyond those projected in this feasibility analysis. Likewise, the City may need to incur additional TID costs to facilitate this additional development. We anticipate that the feasibility analysis for the TID would be updated at that time in conjunction with the City Council action that would be required to allow such additional expenditures.
- **Iron Horse Hotel.** The Iron Horse Hotel occupies one taxkey within TID #75. Formerly a warehouse building, the Iron Horse Hotel is a redevelopment project that adaptively reused the 100 year-old

structure as a modern luxury boutique hotel with a high-end restaurant. As of its most recent assessment on January 1, 2011, the Iron Horse was not yet fully complete. The Milwaukee Assessor excluded 16 planned but un-built guest rooms from its valuation in the 2011 assessment year. Therefore, the projections include additional new value from the hotel as it reaches stabilization.

- **234 Florida.** The 234 Florida building occupies one taxkey in the TID. In 2008 Pieper Properties acquired the 110,000 square foot, seven-story former factory and has undertaken restoration to provide high-quality office space. Because renovations are not yet fully complete and the building is only minimally occupied, the projections include additional new value from 234 Florida as it reaches stabilization.
- **Water Council Building.** The proposed Water Council Building occupies one taxkey in the Reed Street Yards TID. The Water Council space currently consists of a vacant 88,000 square foot warehouse. This space will be rehabilitated into office and incubator space for water-related tenants. The projections include tax increment from the additional value of the new office space.

VALUATION ASSUMPTIONS

- **Iron Horse Hotel.** Based on conversations with the Assessor's Office and a review of the assessed valuation of Downtown Milwaukee hotel properties, *SB Friedman* developed an assessed value assumption of \$75,000 per hotel room (\$78 per square foot) to estimate the Iron Horse's value at stabilization. This value is commensurate with other Downtown Milwaukee-area properties.
- **234 Florida.** Based on conversations with the Assessor's Office, it appears that the higher quality space in the Tannery complex would be physically and locationally comparable to 234 Florida. To estimate the value of 234 Florida at full stabilization, *SB Friedman* therefore used \$75 per square foot, commensurate with the average estimated value per square foot for the Tannery buildings at full occupancy and a review of assessed valuations for other Class B office space in the area.
- **Water Council Building.** As with the 234 Florida building and the Tannery buildings, the Water Council Building is the rehabilitation of a former warehouse into office space. Valuation is based on tax comparables within the higher end Tannery space, with the assessed value per square foot adjusted upward to reflect the higher rents expected to be achieved at the Water Council Building, per the Developer's pro forma. Based on these parameters, the assessed value at full occupancy was estimated at \$86 per square foot.

PHASING AND TIMING OF ASSESSMENTS

- **Iron Horse Hotel.** According to the Assessor's Office, the Iron Horse Hotel was only partially assessed in 2011, with 16 additional rooms expected to be developed in coming years. Based on this discussion, *SB Friedman* projects that the Iron Horse would ultimately stabilize at \$7.5 million in assessed value. For the purposes of this feasibility analysis, this additional value is assumed to be realized in 2013. The City of Milwaukee's Term Sheet with the Water Council Building Developer calls for the Developer to construct temporary parking that would be made available (among other users) to the Iron Horse property, potentially enhancing the hotel's operations and thus its revenue/valuation potential.

- **234 Florida.** The rehabilitation and leasing of this building has been slower than originally anticipated at the time of initial TID adoption, with the property only 12% occupied as of the 2011 assessment. The phasing of rehabilitation and lease-up has been adjusted to reflect the slow economy and the developer's expectations for reaching stabilized occupancy. The TID projections supporting this feasibility analysis assume that 15,000 square feet of office space will be leased each year from 2013 to 2016, with the property reaching a stabilized assessed value of \$5.67 million in 2017. The Term Sheet calls for the Developer to provide additional parking opportunities for the 234 Florida property, potentially improving its absorption opportunities.
- **Water Council Building.** Based on information provided by DCD and tenants identified by the Developer, the Water Council Building is expected to be rehabilitated in 2012, achieving partial occupancy in 2013 and stabilized occupancy in 2014. The full stabilized value of the property is estimated to be \$7.55 million.

OTHER TID ASSUMPTIONS

- **Tax Rate.** Our analysis considered historical trends in the overall City of Milwaukee property tax rate over the past 5, 10, 15, and 20-year periods. The tax rate has trended downward over the 10, 15, and 20-year analysis periods at compound annual rates ranging from about 0.53% (10-year history) to 1.96% (15-year history). The tax rate has trended up over the past five years due to the decline and stagnation of property values; over the long term, the tax rate has tended to decline. For our analysis, *SB Friedman* assumed that the tax rate applicable to 2011 assessed values will equal the 2010 tax rate of 2.657% (\$26.57 per \$1,000 of value) and will subsequently decline annually by 0.53%, the compound annual rate of decline for the past 10 years. This decline is assumed to continue through 2035.
- **Personal Property.** The assessed value of and tax revenue generated by personal property in the TID is not accounted for in this analysis. Personal property currently represents an insignificant proportion of assessed value in the Reed Street Yards TID, totaling approximately 0.4% of real property value in 2011. Higher amounts of personal property in the future could generate additional incremental value in the TID.
- **Equalization and Base Value.** The State of Wisconsin has declared a base value for the Reed Street Yards TID (TID #75) of \$26,470,500. Based on discussions with the State Department of Revenue, this value is intended to reflect the equalized assessed value of property in the TID as of the year of the TID's adoption. The equalization factor has increased from 92.82% up to 95.66% since initial TID adoption. Based on the state's formula for calculating incremental TID revenues, which compares equalized values in the current year versus the TID's base value, this would drive incremental revenues downwards as compared to a pure comparison of un-equalized current year and base year assessed values. Based on discussions with the City of Milwaukee, *SB Friedman's* projections do not take the equalization factor into account for the TID's base year. Instead, the base real property value of \$24,356,900 that existed in the TID's initial adoption year was used as the TID's base value for these projections. Likewise, un-equalized assessed values are used for all subsequent years for the purposes of calculating incremental revenues. This methodology was selected due to the unpredictability of the equalization factor, and the fact that a comparison of un-equalized values is a more accurate analysis of the true increases in tax productivity within the TID over its life.

- **Property Value Growth – Remainder of TID.** *SB Friedman's* projections assume 1.0% annual growth in real property assessments for the existing properties within the TID boundary.

Projected TID Revenues

Table 1 at the end of this memo shows projected TID revenues during the 27-year statutory life of the Reed Street Yards TID.

Based on the absorption, timing, phasing and other TID assumptions described above, a total of about **\$9.2 million** in undiscounted TID revenues are projected over the life of the TID.

Projected Amortization of TID Debt

SB Friedman evaluated the time frame over which bonds issued to fund the first phase of proposed TID expenditures described in Chapter 2 of this report could be amortized using projected incremental real property tax revenues. These expenses include the proposed Phase I public infrastructure package, as well as the City administrative costs and BID loan, and total approximately \$3.94 million plus associated capitalized interest and allowances for bond issuance costs. These costs would likely be bonded in 2012, when both infrastructure development and the rehabilitation of the Water Council Building are anticipated to begin.

It should also be noted that additional TID revenues may be generated by new construction on the vacant Reed Street Yards property and/or rehabilitation or redevelopment of one or more of the vacant buildings within the TID, thus improving cash flows and shortening the amortization period as compared to the projections in this report or providing additional revenue for additional TID costs. *SB Friedman* analyzed the additional incremental property value that would need to be generated to amortize the proposed Phase II infrastructure costs of approximately \$2.28 million plus associated capitalized interest and bond issuance costs.

METHODOLOGY

These projections replicate the issuance of one or more bonds to support the TID subsidy and are based on the following key assumptions:

- **Bond Interest Rates.** *SB Friedman* assumed an interest rate of 4.5% on the bonds, reflective of the City of Milwaukee's approximate cost of funds frequently used for TID feasibility analysis.
- **Term, Target Debt Service and Carry Costs.** Reflecting discussions with the Office of the City Comptroller, the projections assume two years of capitalized interest, followed by fifteen years of level principal and interest payments. For the fifteen level payment years following the interest-only period, a "TID Annual Debt Service Target" is defined. This amount is equal to the annual level-payment debt service on a 15-year amortization of the total bond issue. In each of the 15 amortization years, this Annual Debt Service Target is compared to the available Repayment Sources. Any shortfalls relative to this target are accrued and carry a 4% annual interest charge until they are repaid. Any surpluses versus the target are used to pay down the accumulated shortfalls.

- **Issuance Costs.** *SB Friedman* assumed an issuance cost of 1.0% of the total bond principal amount.
- **BID Loan Repayment.** Repayment of the BID loan for infrastructure development is projected as an additional source of funds beyond incremental property tax revenues to pay TID debt service. Based on information from DCD, this loan is expected to have a repayment term of 10 years and an interest rate equal to the City's cost of funds (modeled at 4.0% interest and level annual debt service in this projection).

PROJECTED AMORTIZATION – PHASE I INFRASTRUCTURE

Based on the underlying TID projection and amortization assumptions discussed earlier in this chapter, *SB Friedman* projects that the \$3.94 million City TID contribution for Phase I infrastructure, administrative costs and the BID loan for the Reed Street Yards Project could be amortized in Year 21 of the TID, or 2029. This calculation is illustrated in **Table 2** at the end of this memo.

ADDITIONAL VALUE NEEDED TO AMORTIZE PHASE II INFRASTRUCTURE COSTS

Using the same baseline TID projection and amortization assumptions described above, *SB Friedman* projected the additional incremental property value that would need to be generated in the Reed Street Yards TID to produce sufficient additional TID capacity to finance Phase II infrastructure development costs of \$2.28 million.

It is our understanding that the proposed TID amendment would allow for contingent authorization of the Phase II infrastructure costs, provided additional value is introduced to the TID over and above that generated by the development and assessment change assumptions described in the baseline TID scenario and Phase I amortization analysis above.

SB Friedman performed a sensitivity analysis to determine the level of additional development required to amortize the Phase II bond by Year 24 of the TID, or 2032. Conservatively estimating that the Phase II infrastructure expenditures are bonded in 2012, *SB Friedman* estimates that **\$5.2 million** of additional assessed TID value beyond the baseline projection shown in Table 1 would need to be introduced to the TID by **assessment year 2014** from new programmed development or reassessment of existing property to achieve Year 24 TID amortization. This \$5.2 million assessed value target for 2014 is adjustable as follows based on variations in timing and Phase II infrastructure budget, while still maintaining a projected TID closeout in approximately Year 24:

- If the additional valuation is initially assessed in a year other than 2014, the valuation target would need to be approximately 10% greater for each year later than 2014 and 10% less for each year earlier than 2014
- If the Phase II infrastructure budget is decreased from its \$2.28 million baseline, the 2014 assessed value target could be reduced by about \$3.00 for every \$1.00 of Phase II infrastructure expenditure reduction

Table 3 at the end of this memo shows projected TID revenues during the 27-year statutory life of the Reed Street Yards TID with the additional \$5.2 million hypothetical development value introduced in

2014. In this hypothetical scenario, total undiscounted revenues of approximately **\$12.3 million** are projected over the life of the TID. **Table 4** at the end of the memo illustrates the amortization of Phase I and Phase II infrastructure bonds, including the incremental revenue generated by the hypothetical \$5.2 million in assessed value.

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City of Milwaukee
Reed Street Yards Feasibility Update
Table 1: TID Projections - Inflationary Growth and Water Council Building Development

Inputs and Assumptions:

2009 Base Value of TID	\$ 24,356,900
2010 Net Tax Rate	2.657%
Tax Rate: 10 yr compound rate of decline	0.53%
Annual Inflation Rate	1.00%
Tax Collection Rate	100.00%

TID Year	Assmt Year	Inflation Factor	TID Actual /Projected Valuation								Total TID Incremental Revenue
			Frozen Base Value	Non-Development Taxkeys	Value: Iron Horse	Value: 234 Florida	Value: Water Council Bldg	Total TID Value	Incremental Value	Property Tax Rate [1]	
1	2009	n/a	\$ 24,356,900	\$ 15,387,900	\$ 5,000,000	\$ 2,985,000	\$ 984,000	\$ 24,356,900	\$ -	2.60%	\$ -
2	2010	n/a	\$ 24,356,900	\$ 15,090,900	\$ 6,000,000	\$ 2,985,000	\$ 976,000	\$ 25,051,900	\$ 695,000	2.66%	\$ -
3	2011	1.00	\$ 24,356,900	\$ 15,090,900	\$ 6,500,000	\$ 3,079,000	\$ 976,000	\$ 25,645,900	\$ 1,289,000	2.66%	\$ 18,466
4	2012	1.01	\$ 24,356,900	\$ 15,241,809	\$ 6,565,000	\$ 3,177,149	\$ 985,760	\$ 25,969,718	\$ 1,612,818	2.64%	\$ 34,249
5	2013	1.02	\$ 24,356,900	\$ 15,394,227	\$ 7,650,750	\$ 3,826,273	\$ 1,924,164	\$ 28,795,414	\$ 4,438,514	2.63%	\$ 42,627
6	2014	1.03	\$ 24,356,900	\$ 15,548,169	\$ 7,727,258	\$ 4,488,062	\$ 7,773,621	\$ 35,537,110	\$ 11,180,210	2.62%	\$ 116,693
7	2015	1.04	\$ 24,356,900	\$ 15,703,651	\$ 7,804,530	\$ 5,162,704	\$ 7,851,357	\$ 36,522,243	\$ 12,165,343	2.60%	\$ 292,392
8	2016	1.05	\$ 24,356,900	\$ 15,860,688	\$ 7,882,575	\$ 5,850,391	\$ 7,929,871	\$ 37,523,525	\$ 13,166,625	2.59%	\$ 316,481
9	2017	1.06	\$ 24,356,900	\$ 16,019,294	\$ 7,961,401	\$ 6,015,237	\$ 8,009,170	\$ 38,005,102	\$ 13,648,202	2.57%	\$ 340,726
10	2018	1.07	\$ 24,356,900	\$ 16,179,487	\$ 8,041,015	\$ 6,075,389	\$ 8,089,261	\$ 38,385,153	\$ 14,028,253	2.56%	\$ 351,329
11	2019	1.08	\$ 24,356,900	\$ 16,341,282	\$ 8,121,425	\$ 6,136,143	\$ 8,170,154	\$ 38,769,004	\$ 14,412,104	2.55%	\$ 359,211
12	2020	1.09	\$ 24,356,900	\$ 16,504,695	\$ 8,202,640	\$ 6,197,504	\$ 8,251,855	\$ 39,156,694	\$ 14,799,794	2.53%	\$ 367,098
13	2021	1.10	\$ 24,356,900	\$ 16,669,742	\$ 8,284,666	\$ 6,259,479	\$ 8,334,374	\$ 39,548,261	\$ 15,191,361	2.52%	\$ 374,988
14	2022	1.12	\$ 24,356,900	\$ 16,836,439	\$ 8,367,513	\$ 6,322,074	\$ 8,417,718	\$ 39,943,744	\$ 15,586,844	2.51%	\$ 382,884
15	2023	1.13	\$ 24,356,900	\$ 17,004,804	\$ 8,451,188	\$ 6,385,295	\$ 8,501,895	\$ 40,343,181	\$ 15,986,281	2.49%	\$ 390,783
16	2024	1.14	\$ 24,356,900	\$ 17,174,852	\$ 8,535,700	\$ 6,449,148	\$ 8,586,914	\$ 40,746,613	\$ 16,389,713	2.48%	\$ 398,688
17	2025	1.15	\$ 24,356,900	\$ 17,346,600	\$ 8,621,057	\$ 6,513,639	\$ 8,672,783	\$ 41,154,079	\$ 16,797,179	2.47%	\$ 406,598
18	2026	1.16	\$ 24,356,900	\$ 17,520,066	\$ 8,707,267	\$ 6,578,776	\$ 8,759,511	\$ 41,565,620	\$ 17,208,720	2.45%	\$ 414,513
19	2027	1.17	\$ 24,356,900	\$ 17,695,267	\$ 8,794,340	\$ 6,644,563	\$ 8,847,106	\$ 41,981,276	\$ 17,624,376	2.44%	\$ 422,433
20	2028	1.18	\$ 24,356,900	\$ 17,872,220	\$ 8,882,283	\$ 6,711,009	\$ 8,935,577	\$ 42,401,089	\$ 18,044,189	2.43%	\$ 430,359
21	2029	1.20	\$ 24,356,900	\$ 18,050,942	\$ 8,971,106	\$ 6,778,119	\$ 9,024,933	\$ 42,825,100	\$ 18,468,200	2.42%	\$ 438,291
22	2030	1.21	\$ 24,356,900	\$ 18,231,451	\$ 9,060,817	\$ 6,845,900	\$ 9,115,182	\$ 43,253,351	\$ 18,896,451	2.40%	\$ 446,229
23	2031	1.22	\$ 24,356,900	\$ 18,413,766	\$ 9,151,425	\$ 6,914,359	\$ 9,206,334	\$ 43,685,884	\$ 19,328,984	2.39%	\$ 454,173
24	2032	1.23	\$ 24,356,900	\$ 18,597,904	\$ 9,242,940	\$ 6,983,503	\$ 9,298,397	\$ 44,122,743	\$ 19,765,843	2.38%	\$ 462,123
25	2033	1.24	\$ 24,356,900	\$ 18,783,883	\$ 9,335,369	\$ 7,053,338	\$ 9,391,381	\$ 44,563,971	\$ 20,207,071	2.37%	\$ 470,080
26	2034	1.26	\$ 24,356,900	\$ 18,971,721	\$ 9,428,723	\$ 7,123,871	\$ 9,485,295	\$ 45,009,610	\$ 20,652,710	2.35%	\$ 478,044
27	2035	1.27	\$ 24,356,900	\$ 19,161,439	\$ 9,523,010	\$ 7,195,110	\$ 9,580,148	\$ 45,459,706	\$ 21,102,806	2.34%	\$ 486,014
	2036		Collections for TID Year 27								\$ 493,992
Total Proceeds, 2009-2036 (Not Discounted)											\$ 9,189,461

[1] 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.

City of Milwaukee
 Reed Street Yards Feasibility Update
 Table 2: TID Amortization - Phase I Infrastructure

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
Assumed Bonding	2012	\$ 3,936,370	\$ 39,364	\$ 441,748	\$ 4,417,482

TID Year	Calendar Year	Projected Incremental Property Taxes	BID Loan Repayment	Debt Service			TID Payoff Analysis			TID Could Repay Outstanding Princ.
				TID-Backed Bonds Issued	TID Annual Debt Service Target Payments	Annual Surplus/ (Shortfall)	Cumulative Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance		
1	2009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	NO
2	2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	NO
3	2011	\$ 18,466	\$ -	\$ -	\$ -	\$ 18,466	\$ 18,466	\$ 739	\$ 739	NO
4	2012	\$ 34,249	\$ -	\$ 4,417,482	\$ -	\$ 34,249	\$ 53,454	\$ 2,138	\$ 2,138	NO
5	2013	\$ 42,627	\$ 43,645	\$ -	\$ -	\$ 86,272	\$ 141,864	\$ 5,675	\$ 7,813	NO
6	2014	\$ 116,693	\$ 43,645	\$ -	\$ -	\$ 160,338	\$ 307,876	\$ 12,315	\$ 20,128	NO
7	2015	\$ 292,392	\$ 43,645	\$ -	\$ 411,329	\$ (75,292)	\$ 244,899	\$ 9,796	\$ 30,124	NO
8	2016	\$ 316,481	\$ 43,645	\$ -	\$ 411,329	\$ (51,203)	\$ 203,493	\$ 8,140	\$ 38,264	NO
9	2017	\$ 340,726	\$ 43,645	\$ -	\$ 411,329	\$ (26,958)	\$ 184,675	\$ 7,387	\$ 45,651	NO
10	2018	\$ 351,329	\$ 43,645	\$ -	\$ 411,329	\$ (16,355)	\$ 175,707	\$ 7,028	\$ 52,679	NO
11	2019	\$ 359,211	\$ 43,645	\$ -	\$ 411,329	\$ (8,472)	\$ 174,263	\$ 6,971	\$ 59,650	NO
12	2020	\$ 367,098	\$ 43,645	\$ -	\$ 411,329	\$ (586)	\$ 180,648	\$ 7,226	\$ 66,876	NO
13	2021	\$ 374,988	\$ 43,645	\$ -	\$ 411,329	\$ 7,305	\$ 195,179	\$ 7,807	\$ 74,683	NO
14	2022	\$ 382,884	\$ 43,645	\$ -	\$ 411,329	\$ 15,200	\$ 218,186	\$ 8,727	\$ 83,410	NO
15	2023	\$ 390,783	\$ 0	\$ -	\$ 411,329	\$ (20,545)	\$ 206,368	\$ 8,255	\$ 91,665	NO
16	2024	\$ 398,688	\$ -	\$ -	\$ 411,329	\$ (12,641)	\$ 201,982	\$ 8,079	\$ 99,744	NO
17	2025	\$ 406,598	\$ -	\$ -	\$ 411,329	\$ (4,731)	\$ 205,330	\$ 8,213	\$ 107,957	NO
18	2026	\$ 414,513	\$ -	\$ -	\$ 411,329	\$ 3,184	\$ 216,728	\$ 8,669	\$ 116,626	NO
19	2027	\$ 422,433	\$ -	\$ -	\$ 411,329	\$ 11,104	\$ 236,501	\$ 9,460	\$ 126,086	NO
20	2028	\$ 430,359	\$ -	\$ -	\$ 411,329	\$ 19,030	\$ 264,992	\$ 10,600	\$ 136,686	NO
21	2029	\$ 438,291	\$ -	\$ -	\$ 411,329	\$ 26,962	\$ 302,553	\$ 12,102	\$ 148,788	YES
22	2030	\$ 446,229	\$ -	\$ -	\$ -	\$ 446,229	\$ 760,884	\$ 30,435	\$ 181,223	YES
23	2031	\$ 454,173	\$ -	\$ -	\$ -	\$ 454,173	\$ 1,245,492	\$ 49,820	\$ 231,043	YES
24	2032	\$ 462,123	\$ -	\$ -	\$ -	\$ 462,123	\$ 1,757,435	\$ 70,297	\$ 301,340	YES
25	2033	\$ 470,080	\$ -	\$ -	\$ -	\$ 470,080	\$ 2,297,812	\$ 91,912	\$ 393,252	YES
26	2034	\$ 478,044	\$ -	\$ -	\$ -	\$ 478,044	\$ 2,867,768	\$ 114,711	\$ 507,963	YES
27	2035	\$ 486,014	\$ -	\$ -	\$ -	\$ 486,014	\$ 3,468,493	\$ 138,740	\$ 646,703	YES
	2036	\$ 493,992	\$ -	\$ -	\$ -	\$ 493,992	\$ 4,101,225	\$ 164,049	\$ 810,752	YES
TOTALS		\$ 9,189,461	\$ 436,450	\$ 4,417,482	\$ 6,169,928	\$ 3,455,983	\$ 4,101,225	\$ 809,291		

City of Milwaukee

Reed Street Yards Feasibility Update

Table 3: TID Projections - Inflationary Growth, Water Council Building and Hypothetical Development

Inputs and Assumptions:

2009 Base Value of TID	\$ 24,356,900
2010 Net Tax Rate	2.657%
Tax Rate: 10 yr compound rate of decline	0.53%
Annual Inflation Rate	1.00%
Tax Collection Rate	100.00%

Hypothetical Development:

New Development Value	\$ 5,200,000
Development Year	2014

TID Year	Assmt Year	Inflation Factor	TID Actual / Projected Valuation									Property Tax Rate [1]	Total TID Incremental Revenue
			Frozen Base Value	Value: Non-Development Taxkeys	Value: Iron Horse	Value: 234 Florida	Value: Water Council Bldg	Value: Hypothetical Development	Total TID Value	Incremental Value			
1	2009	n/a	\$ 24,356,900	\$ 15,387,900	\$ 5,000,000	\$ 2,985,000	\$ 984,000	\$ -	\$ 24,356,900	\$ -	2.60%	\$ -	
2	2010	n/a	\$ 24,356,900	\$ 15,090,900	\$ 6,000,000	\$ 2,985,000	\$ 976,000	\$ -	\$ 25,051,900	\$ 695,000	2.66%	\$ -	
3	2011	1.00	\$ 24,356,900	\$ 15,090,900	\$ 6,500,000	\$ 3,079,000	\$ 976,000	\$ -	\$ 25,645,900	\$ 1,289,000	2.66%	\$ 18,466	
4	2012	1.01	\$ 24,356,900	\$ 15,241,809	\$ 6,565,000	\$ 3,177,149	\$ 985,760	\$ -	\$ 25,969,718	\$ 1,612,818	2.64%	\$ 34,249	
5	2013	1.02	\$ 24,356,900	\$ 15,394,227	\$ 7,650,750	\$ 3,826,273	\$ 1,924,164	\$ -	\$ 28,795,414	\$ 4,438,514	2.63%	\$ 42,627	
6	2014	1.03	\$ 24,356,900	\$ 15,548,169	\$ 7,727,258	\$ 4,488,062	\$ 7,773,621	\$ 5,200,000	\$ 40,737,110	\$ 16,380,210	2.62%	\$ 116,693	
7	2015	1.04	\$ 24,356,900	\$ 15,703,651	\$ 7,804,530	\$ 5,162,704	\$ 7,851,357	\$ 5,252,000	\$ 41,774,243	\$ 17,417,343	2.60%	\$ 428,385	
8	2016	1.05	\$ 24,356,900	\$ 15,860,688	\$ 7,882,575	\$ 5,850,391	\$ 7,929,871	\$ 5,304,520	\$ 42,828,045	\$ 18,471,145	2.59%	\$ 453,111	
9	2017	1.06	\$ 24,356,900	\$ 16,019,294	\$ 7,961,401	\$ 6,015,237	\$ 8,009,170	\$ 5,357,565	\$ 43,362,667	\$ 19,005,767	2.57%	\$ 477,996	
10	2018	1.07	\$ 24,356,900	\$ 16,179,487	\$ 8,041,015	\$ 6,075,389	\$ 8,089,261	\$ 5,411,141	\$ 43,796,294	\$ 19,439,394	2.56%	\$ 489,242	
11	2019	1.08	\$ 24,356,900	\$ 16,341,282	\$ 8,121,425	\$ 6,136,143	\$ 8,170,154	\$ 5,465,252	\$ 44,234,257	\$ 19,877,357	2.55%	\$ 497,771	
12	2020	1.09	\$ 24,356,900	\$ 16,504,695	\$ 8,202,640	\$ 6,197,504	\$ 8,251,855	\$ 5,519,905	\$ 44,676,599	\$ 20,319,699	2.53%	\$ 506,306	
13	2021	1.10	\$ 24,356,900	\$ 16,669,742	\$ 8,284,666	\$ 6,259,479	\$ 8,334,374	\$ 5,575,104	\$ 45,123,365	\$ 20,766,465	2.52%	\$ 514,848	
14	2022	1.12	\$ 24,356,900	\$ 16,836,439	\$ 8,367,513	\$ 6,322,074	\$ 8,417,718	\$ 5,630,855	\$ 45,574,599	\$ 21,217,699	2.51%	\$ 523,399	
15	2023	1.13	\$ 24,356,900	\$ 17,004,804	\$ 8,451,188	\$ 6,385,295	\$ 8,501,895	\$ 5,687,163	\$ 46,030,345	\$ 21,673,445	2.49%	\$ 531,957	
16	2024	1.14	\$ 24,356,900	\$ 17,174,852	\$ 8,535,700	\$ 6,449,148	\$ 8,586,914	\$ 5,744,035	\$ 46,490,648	\$ 22,133,748	2.48%	\$ 540,522	
17	2025	1.15	\$ 24,356,900	\$ 17,346,600	\$ 8,621,057	\$ 6,513,639	\$ 8,672,783	\$ 5,801,475	\$ 46,955,555	\$ 22,598,655	2.47%	\$ 549,096	
18	2026	1.16	\$ 24,356,900	\$ 17,520,066	\$ 8,707,267	\$ 6,578,776	\$ 8,759,511	\$ 5,859,490	\$ 47,425,110	\$ 23,068,210	2.45%	\$ 557,679	
19	2027	1.17	\$ 24,356,900	\$ 17,695,267	\$ 8,794,340	\$ 6,644,563	\$ 8,847,106	\$ 5,918,085	\$ 47,899,361	\$ 23,542,461	2.44%	\$ 566,269	
20	2028	1.18	\$ 24,356,900	\$ 17,872,220	\$ 8,882,283	\$ 6,711,009	\$ 8,935,577	\$ 5,977,266	\$ 48,378,355	\$ 24,021,455	2.43%	\$ 574,869	
21	2029	1.20	\$ 24,356,900	\$ 18,050,942	\$ 8,971,106	\$ 6,778,119	\$ 9,024,933	\$ 6,037,039	\$ 48,862,138	\$ 24,505,238	2.42%	\$ 583,478	
22	2030	1.21	\$ 24,356,900	\$ 18,231,451	\$ 9,060,817	\$ 6,845,900	\$ 9,115,182	\$ 6,097,409	\$ 49,350,760	\$ 24,993,860	2.40%	\$ 592,095	
23	2031	1.22	\$ 24,356,900	\$ 18,413,766	\$ 9,151,425	\$ 6,914,359	\$ 9,206,334	\$ 6,158,383	\$ 49,844,267	\$ 25,487,367	2.39%	\$ 600,723	
24	2032	1.23	\$ 24,356,900	\$ 18,597,904	\$ 9,242,940	\$ 6,983,503	\$ 9,298,397	\$ 6,219,967	\$ 50,342,710	\$ 25,985,810	2.38%	\$ 609,359	
25	2033	1.24	\$ 24,356,900	\$ 18,783,883	\$ 9,335,369	\$ 7,053,338	\$ 9,391,381	\$ 6,282,167	\$ 50,846,137	\$ 26,489,237	2.37%	\$ 618,006	
26	2034	1.26	\$ 24,356,900	\$ 18,971,721	\$ 9,428,723	\$ 7,123,871	\$ 9,485,295	\$ 6,344,988	\$ 51,354,599	\$ 26,997,699	2.35%	\$ 626,662	
27	2035	1.27	\$ 24,356,900	\$ 19,161,439	\$ 9,523,010	\$ 7,195,110	\$ 9,580,148	\$ 6,408,438	\$ 51,868,145	\$ 27,511,245	2.34%	\$ 635,329	
	2036		Collections for TID Year 27										\$ 644,006
Total Proceeds, 2009-2036 (Not Discounted)												\$ 12,333,144	

[1] 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.

City of Milwaukee

Reed Street Yards Feasibility Update

Table 4: TID Amortization - Phases I and II Infrastructure with Hypothetical Development, Phase II Bond Year 2012

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 Bonding	Assumed Year	Amount	Plus Issuance Costs	Capitalized Interest	Total Issuance
Phase I	2012	\$ 3,936,370	\$ 39,364	\$ 441,748	\$ 4,417,482
Phase II	2012	\$ 2,281,400	\$ 22,814	\$ 256,024	\$ 2,560,238

TID Year	Calendar Year	Projected Incremental Property Taxes [1]	BID Loan Repayment	Debt Service				TID Payoff Analysis			
				PHASE I INFRASTRUCTURE		PHASE II INFRASTRUCTURE		Annual Surplus/ (Shortfall)	Cumulative Fund Balance	Interest Earnings/ (Carry Cost) on Cuml. Balance	TID Could Repay Outstanding Princ.
				TID-Backed Bonds Issued	TID Annual Debt Service Target Payments	TID-Backed Bonds Issued	TID Annual Debt Service Target Payments				
1	2009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	NO
2	2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	NO
3	2011	\$ 18,466	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,466	\$ 18,466	\$ 739	NO
4	2012	\$ 34,249	\$ -	\$ 4,417,482	\$ -	\$ 2,560,238	\$ -	\$ 34,249	\$ 53,454	\$ 2,138	NO
5	2013	\$ 42,627	\$ 43,645	\$ -	\$ -	\$ -	\$ -	\$ 86,272	\$ 141,864	\$ 5,675	NO
6	2014	\$ 116,693	\$ 43,645	\$ -	\$ -	\$ -	\$ -	\$ 160,338	\$ 307,876	\$ 12,315	NO
7	2015	\$ 428,385	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (177,692)	\$ 142,499	\$ 5,700	NO
8	2016	\$ 453,111	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (152,966)	\$ (4,766)	\$ (191)	NO
9	2017	\$ 477,996	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (128,081)	\$ (133,038)	\$ (5,322)	NO
10	2018	\$ 489,242	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (116,835)	\$ (255,194)	\$ (10,208)	NO
11	2019	\$ 497,771	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (108,307)	\$ (373,708)	\$ (14,948)	NO
12	2020	\$ 506,306	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (99,771)	\$ (488,428)	\$ (19,537)	NO
13	2021	\$ 514,848	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (91,229)	\$ (599,193)	\$ (23,968)	NO
14	2022	\$ 523,399	\$ 43,645	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (82,678)	\$ (705,840)	\$ (28,234)	NO
15	2023	\$ 531,957	\$ 0	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (117,766)	\$ (851,839)	\$ (34,074)	NO
16	2024	\$ 540,522	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (109,200)	\$ (995,112)	\$ (39,804)	NO
17	2025	\$ 549,096	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (100,626)	\$ (1,135,542)	\$ (45,422)	NO
18	2026	\$ 557,679	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (92,043)	\$ (1,273,007)	\$ (50,920)	NO
19	2027	\$ 566,269	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (83,453)	\$ (1,407,380)	\$ (56,295)	NO
20	2028	\$ 574,869	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (74,853)	\$ (1,538,529)	\$ (61,541)	NO
21	2029	\$ 583,478	\$ -	\$ -	\$ 411,329	\$ -	\$ 238,393	\$ (66,244)	\$ (1,666,314)	\$ (66,653)	NO
22	2030	\$ 592,095	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 592,095	\$ (1,140,871)	\$ (45,635)	NO
23	2031	\$ 600,723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600,723	\$ (585,784)	\$ (23,431)	NO
24	2032	\$ 609,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 609,359	\$ 144	\$ 6	YES
25	2033	\$ 618,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 618,006	\$ 618,156	\$ 24,726	YES
26	2034	\$ 626,662	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 626,662	\$ 1,269,544	\$ 50,782	YES
27	2035	\$ 635,329	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 635,329	\$ 1,955,655	\$ 78,226	YES
	2036	\$ 644,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 644,006	\$ 2,677,888	\$ 107,116	YES
TOTALS		\$ 12,333,144	\$ 436,450	\$ 4,417,482	\$ 6,169,928	\$ 2,560,238	\$ 3,575,902	\$ 3,023,763	\$ 2,677,888	\$ (238,760)	

Appendix 1: TID Assumptions

DRAFT

City of Milwaukee
Reed Street Yards Feasibility Update
Table A-1. Assumptions

Bonding [1]

Interest Rate on Bonds	4.50%
Cost of Funds (Local Government Investment Pool)	4.00%
Issuance Costs @	1.0%
Capitalized Interest Allowance @	10.0%
Assumed Level P&I Payments	15
Bond Amount, Phase I Infrastructure	\$3,936,370
Bond Amount, Phase II Infrastructure	\$2,281,400
Bonding Year; BID Loan Year	2012

Rates

General Inflation	1.00%
2010 Net Property Tax Rate [2]	2.657%
10-year Compound Rate of Decline (property tax rate) [3]	0.53%

TID 75 - Reed Street Yards

Total 2009 Base Value of TID [5]	\$24,356,900
2010 Assessed Value	\$25,051,900
2011 Assessed Value	\$25,645,900

Iron Horse Hotel Valuation [6]

2009 Base Value	\$5,000,000		
Total SF	95,788		
Number of Hotel Rooms at Full Buildout	100		
AV per Hotel Room (2011 \$)	\$75,000		
Projected Total AV (2011 \$)	\$7,500,000		
Valuation Phasing:			
Year	Actual/Projected New Additional Value	Actual /Projected Total Value	Percent Stabilization
2009		\$5,000,000	67%
2010		\$6,000,000	80%
2011		\$6,500,000	87%
2012		\$6,500,000	87%
2013	\$1,000,000	\$7,500,000	100%
2014		\$7,500,000	100%

234 Florida Valuation [7]

2009 Base Value	\$2,985,000		
Total SF	109,727		
Support Area SF (not assessed)	34,172		
AV per SF (2011 \$)	\$75		
Projected Total New AV (2011 \$)	\$5,666,625		
Valuation Phasing:			
Year	Projected New Additional Value	Actual /Projected Total Value	Percent Stabilization
2009		\$2,985,000	53%
2010		\$2,985,000	53%
2011		\$3,079,000	54%
2012	\$66,692	\$3,145,692	56%
2013	\$605,189	\$3,750,880	66%
2014	\$605,189	\$4,356,069	77%
2015	\$605,189	\$4,961,258	88%
2016	\$605,189	\$5,566,446	98%
2017	\$100,179	\$5,666,625	100%
2018	\$0	\$5,666,625	100%

Water Council Building Valuation [8]

Total Lot Square Footage	16,380		
2009 Base Value	\$984,000		
Total Office SF	88,025		
AV per SF Office (2011\$)	\$86		
Projected Total New AV	\$7,545,000		
Valuation Phasing:			
Year	Projected New Value	Actual /Projected Total Value	Percent Completed Per Year
2009		\$984,000	0%
2010		\$976,000	0%
2011		\$976,000	0%
2012		\$976,000	0%
2013	\$1,886,250	\$1,886,250	25%
2014	\$5,658,750	\$7,545,000	75%
2015	\$0	\$7,545,000	0%

[1] All bonding assumptions per discussions with Comptroller's office; LGIP rate may require further refinement.

[2] City of Milwaukee website.

[3] Based on property tax history from Milwaukee Assessor.

[4] SB Friedman assumption.

[5] 2009 Annual Report, Milwaukee Tax Incremental Finance Districts, May 2010; reflect un-equalized value

[6] Hotel is expected to produce more value with addition of 16 rooms. Assessed value at stabilization based on tax comparables of downtown hotels and Assessor interview.

[7] Renovation is underway and is expected to produce more value. Assessed value at stabilization is based on valuation of Tannery space and other comparable office space per discussions with the Milwaukee Assessor.

[8] Based on Water Council Accelerator Stabilized Pro Forma received from City 8/25/2011. AV/SF based on Assessor interview and rents from pro forma.

Appendix 2: Limitations

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LIMITATIONS OF ENGAGEMENT

Our report is based on estimates, assumptions, and other information developed from research of the market, knowledge of the industry, and meetings/teleconferences 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 terms of this engagement are such that we have no obligation to revise the report 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, changes in assessment practices, changes in the TIF statute, interest rates and other factors. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our report is intended solely for your information, for purposes of amending a Tax Incremental Financing district. It should not be relied upon by any other person, firm or corporation or for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors.