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Date: February 9, 2007

Subject: New Avenue Commerce Center Economic Feasibility Study

From: *S. B. Friedman & Company*

To: James Scherer, City of 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 new Tax Increment District (TID) that is under consideration to support the proposed New Avenue Commerce Center (NACC) retail development. This document outlines *SBFCo*'s methodology and preliminary findings regarding New Avenue's need for TID assistance as well as the feasibility of the potential new TID to amortize any up-front City assistance that may be necessary.

Context and Background

Williams Development Corporation ("Williams"), Irgens Development Partners ("Irgens"), and Lena's Foods ("Lena's") have partnered to develop the New Avenue Commerce Center on North Avenue, between 24th and 25th Streets. The site is currently vacant and owned by the Redevelopment Authority of the City of Milwaukee (RACM). Williams and Irgens have an option to purchase the NACC site from RACM for $0.50 per square foot, as part of a Development Agreement related to the North Avenue Commerce Center developed by Williams/Irgens immediately west of the proposed project site.

The first phase of the proposed development program for NACC includes a 44,000-square-foot grocery store and 31,000 square feet of inline retail space. Two additional retail outlots may be sold to one or more third-party entities as a second phase of the development. The proposed shopping center would add new retail facilities to a neighborhood that is currently underserved, while also nearly doubling the size of the existing Lena's store located one block away.

The project is structured such that Lena's will buy the land required for its grocery store from Willams and Irgens, who hold the option to the entire site, and own the grocery store once its construction is completed. All three partners will also hold equal shares in the balance of the shopping center.

The NACC site is located in TID 21, and the NACC partnership ("the developer") has submitted to the DCD a Tax Incremental Financing (TIF) Application seeking a total of $2.5 million in assistance for the project: $1.475 million for the grocery store and $1.025 million for the balance of the shopping center. In addition to approximately $700,000 of estimated extraordinary site and infrastructure costs, the partnership's application cites poor market conditions resulting in low retail rents as the driving force behind the requested assistance.

TID 21 has experienced only modest growth in assessed value since its establishment in 1994. The district's fund balance is such that the developer's request for TID assistance will need to be supportable by the incremental property tax revenues generated by the project itself (i.e., out-of-taxkey incremental revenues cannot be committed). To facilitate this, DCD is considering creating a new, project-specific TID for NACC to maximize the number of years of incremental revenue collection available to support the project.

SBFCo has been asked by DCD to review the developer's request for assistance to determine the project's need for assistance, as well as its ability to generate sufficient incremental property tax revenues to support the requested assistance amount.

Overall Approach

SBFCo has based its financial review, incremental property tax projections, and debt amortization schedules on the following sources of information:

- Initial TIF Application submitted to DCD by the developer in the fall of 2006;
- Current pro forma sources and uses prepared by the developer (dated January 29, 2007);
- Soft cost estimates and cash flow projections prepared by the developer for Lena's and the balance of the shopping center (dated December 21, 2006);
- Assessment methodology likely to be applied to the grocery store and inline buildings, per the City Assessor's Office; and
- Real property assessment data obtained from the City Assessor's Office.

Project Need for TID Assistance

PUBLIC AND PRIVATE DEVELOPMENT COMPONENTS

The current NACC pro forma includes a total of $9.7 million in project costs. This total includes $700,000 of City Off-Site Costs and $72,240 of Site Work costs corresponding to public infrastructure improvements and extraordinary site preparation work (demolition/excavation of existing site improvements).

For the purposes of this analysis, *SBFCo* separated these public costs from the balance of the developer's pro forma. This approach allows for clear differentiation between the public and private portions of the project and evaluation of the need for true gap financing. In order to create this distinction, *SBFCo* removed this $772,240 of costs from the developer's uses of funds. We also reduced the TIF component of the sources of funds by an equal amount. These adjustments resulted in a reduction of total developer project costs to approximately $8.9 million as outlined in the Private Development Sources and Uses outlined in Figure 1.

Figure 1
City of Milwaukee-New Avenue Commerce Center
Private Development Source & Use of Funds
Developer's Estimates as of January 29, 2007

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		Lena's Foods	Inline Retail	Total NACC
Uses of Funds	Land[1]	$ 286,448	$ 66,352	$ 352,800
	Site Work[2]	$ 969,377	$ 673,636	$ 1,643,013
	Construction & Architecture[2]	$ 2,834,127	$ 1,962,412	$ 4,796,539
	White Box Finish[2]	$ -	$ 524,545	$ 524,545
	Soft Costs	$ 865,500	$ 717,000	$ 1,582,500
	Working Capital	$ 15,000	$ 13,362	$ 28,362
	Total Uses	$ 4,970,452	$ 3,957,307	**$ 8,927,759**
Sources of Funds	TIF Funds[3]	$ 1,019,378	$ 708,381	$ 1,727,759
	NMTC Loan	$ 4,100,000	$ 2,500,000	$ 6,600,000
	Equity	$ 306,000	$ 294,000	$ 600,000
	Total Sources	$ 5,425,378	$ 3,502,381	**$ 8,927,759**

[1] Land Division: Lena's = 59% (190,965 SF) at $1.50/SF; Shopping Center = 41% (132,704) at cost $0.50/SF.

[2] MSI Estimates; site work excludes on-site demolition/excavation of foundations, alley, and trees.

[3] Reduced by developer's estimate of $700,000 in City Off-Site costs and $72,240 of demolition/excavation of existing site improvements; 59% allocated to Lena's and 41% allocated to the Shopping Center

ADJUSTMENTS TO PRIVATE DEVELOPMENT PRO FORMA

Based on our current understanding of the NACC project, *SBFCo* adopted the approach described below for specific line items and overall evaluation of the private development portion of the project:

- **Analysis on a Combined Basis.** For the purpose of this preliminary analysis of the project's overall need for TIF gap financing, *SBFCo* analyzed the transaction on an aggregate basis as a generalized real estate transaction (i.e., irrespective of the returns to individual partnership members or the Lena's operating entity).

  The combined shopping center and grocery store transaction would ideally be evaluated in terms of the returns achieved by each member of the partnership participating in the transaction: Williams, Irgens, and Lena's. Additionally, the returns to Lena's operating company could be considered in addition to the pure real estate returns on the grocery store building.

  However, insufficient information related to some aspects of the transaction precludes this type of analysis at this stage of our review process. Clarifications of the partnership structure and the non-real estate investments made by Lena's in the start-up of the grocery store would be necessary to further refine the analysis.

- **Land Cost.** Because the project is being approached as a single combined transaction, *SBFCo* reduced the land cost for both the shopping center and the grocery store to the cost paid by the Williams/Irgens partnership to exercise its purchase option with the City ($0.50/square foot). Any premium paid by Lena's to Williams/Irgens for purchase of the grocery would constitute an internal transfer of funds among members of the partnership, and would not affect the aggregate project returns or TIF need.

- **Soft Costs.** The total soft costs estimate included in the developer's 1/29/07 pro forma is identical to the detailed estimate provided in the 12/21/06 developer pro forma. However, the assumptions listed in the 12/21/06 pro forma indicated that four of these line items are scaled off of other components of the overall sources and uses (e.g., hard costs, loan amount, etc.). *SBFCo* re-calculated these five soft cost line items to reflect the developer's stated assumptions:

  – Finance fees
  – Construction interest
  – Construction management fee
  – Developer's fee

  These recalculations resulted in a reduction of approximately $102,000 in project soft costs relative to the developer's 1/29/07 pro forma.

ANALYSIS OF RETURNS

After adjusting the private development sources and uses as outlined above, *SBFCo* evaluated the returns on the aggregate real estate transaction. Inputs into the analysis were derived from the cash flow analysis provided by the developer for the shopping center and pro forma financial statements provided for Lena's (both dated 12/21/06). Assumptions incorporated into the analysis by *SBFCo* include projected levels of rent, CAM charges, and real estate taxes; allowances for reserves; the stated terms of the $6.6 million New Markets Tax Credits (NMTC) loan; the likely terms of the permanent loan refinancing in Year 7; and the sales costs and cap rate estimated to be in effect at the time of the property's disposition by the developer. The investment was evaluated over a ten-year timeframe, including a refinance of the NMTC loan to market-rate debt in Year 7 and disposition of the property in Year 10.

SBFCo used this investment analysis approach to further adjust the balance of equity and TIF Funds (holding the NMTC Loan constant) to generate a market-level rate of return for the overall private development project. The results of this analysis are displayed in Figures 2 (Sources and Uses of Funds-Adjusted) and 3 (Real Estate Investment Analysis).

At a nearly 8.5% combined internal rate of return (IRR) on cost and an 18.0% combined IRR on equity, *SBFCo*'s analysis suggests that the public and private components of the NACC project demonstrate a need for approximately **$1.7 million in total TID assistance**. This figure includes approximately **$850,000 in gap financing** for the private portion of the project and approximately **$850,000 of TID funding for the public components** of the project, including City-funded infrastructure and extraordinary site work, as well as TID administrative costs.

Figure 2A
City of Milwaukee-New Avenue Commerce Center
Source & Use of Funds-Adjusted

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		Lena's Foods	Inline Retail	Total NACC
Uses of Funds	Land[1]	$ 95,483	$ 66,352	$ 161,835
	Site Work[2]	$ 969,377	$ 673,636	$ 1,643,013
	Construction & Architecture[2]	$ 2,834,127	$ 1,962,412	$ 4,796,539
	White Box Finish[2]	$ -	$ 524,545	$ 524,545
	Soft Costs[3]	$ 748,936	$ 731,549	$ 1,480,485
	Working Capital	$ 15,000	$ 13,362	$ 28,362
	Total Uses	$ 4,662,923	$ 3,971,855	**$ 8,634,778**
Sources of Funds	TIF Funds	$ 501,500	$ 348,500	$ 850,000
	NMTC Loan	$ 4,100,000	$ 2,500,000	$ 6,600,000
	Equity	$ 699,019	$ 485,759	$ 1,184,778
	Total Sources	$ 5,300,519	$ 3,334,259	**$ 8,634,778**

		Public
Uses of Funds	Public Infrastructure	$ 560,000
	Demolition/Excavation	$ 72,240
	Contingency	$ 64,836
	TID Administration	$ 150,000
		$ 847,076
Sources of Funds	TIF Funds	$ 847,076
		$ 847,076

Total TIF Funding	**$ 1,697,076**

[1] Land Division: Lena's = 59% (190,965 SF); Shopping Center = 41% (132,704); all land at cost ($0.50/SF).

[2] MSI Estimates; site work excludes on-site demolition/excavation of foundations, alley, and trees.

[3] See attached detail (Figure 2B)

Figure 2B

City of Milwaukee-New Avenue Commerce Center

Soft Cost Detail-Adjusted

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	Lena's Foods	NACC Shopping Center	Total
Legal & Organization[1]	$ 120,000	$ 80,000	$ 200,000
Finance Fees[2]	$ 20,500	$ 12,500	$ 33,000
Construction Interest[3]	$ 156,620	$ 95,500	$ 252,120
Leasing Fee[4]	$ -	$ 166,296	$ 166,296
Construction Management Fee[5]	$ 95,088	$ 79,015	$ 174,102
Developer's Fee[6]	$ 206,729	$ 178,238	$ 384,966
Contingencies[7]	$ 150,000	$ 120,000	$ 270,000
Total Uses	**$ 748,936**	**$ 731,549**	**$ 1,480,485**

[1] 59% Lena's; 41% Shopping Center

[2] 0.5% of respective NMTC loans

[3] Based on NMTC loan amounts; 100% out for 12 months at 5.32% and 3% arbitrage on 50% of balance for 12 months

[4] Shopping Center only; 27,716 SF at $6/SF

[5] 2.5% of Site Work, Construction/Architecture, and White Box Finish

[6] 5.0% of Land, Site Work, Construction/Architecture, White Box Finish, Legal & Organization, Finance Fees, Construction Management Fee, and Leasing Fee

[7] Per Developer's 1/29/07 pro forma

Figure 3
City of Milwaukee-New Avenue Commerce Center
Real Estate Investment Analysis

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Assumptions

Development Program

Square Feet-Inline	30,796
Square Feet-Grocery	43,683

Operating Expenses

Annual Growth in CAM/Taxes (Inline)	2.00%
Reserves PSF (Grocery and Inline)	$ 1.00

Sale Parameters (Year 10)

Cost of Sales @ Reversion	3.50%
Terminal Cap Rate	8.50%

Financing Parameters-Years 1-7

Interest Rate on NMTC Loan	5.32%
Interest Rate on Sinking Fund	4.50%
Recipient of Sinking Fund Interest	Project
Principal Repayment, Y3-7 (% Prin.)	4.00%

Refinancing Parameters-End of Year 7

Interest Rate on Conventional Loan	7.5%
Term of Conventional Loan (Years)	25
Supportable Debt @ Refi = Min of:	$ 6,106,715
80% LTV	$ 6,187,341
1.2 Debt Coverage	$ 6,106,715

Annual Rent and Operating Expenses

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	(YEAR 11)
Inline Retail											
Gross Rent/SF (incl. CAM & Taxes)	$ 17.50	$ 17.50	$ 17.50	$ 18.50	$ 18.50	$ 18.50	$ 19.00	$ 19.00	$ 19.00	$ 19.50	$ 19.5
Less CAM and Taxes/SF	$ 5.00	$ 5.00	$ 5.00	$ 5.31	$ 5.41	$ 5.52	$ 5.63	$ 5.74	$ 5.86	$ 5.98	$ 6.0
Net Rent/SF	$ 12.50	$ 12.50	$ 12.50	$ 13.19	$ 13.09	$ 12.98	$ 13.37	$ 13.26	$ 13.14	$ 13.52	$ 13.4
Grocery											
Gross Rent/SF (incl. CAM & Taxes)	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.00	$ 12.0
Less CAM/SF	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.0
Less Taxes/SF	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.0
Net Rent/SF	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.0

Figure 3
City of Milwaukee-New Avenue Commerce Center
Real Estate Investment Analysis

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Operating Pro Forma

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	(YEAR 11)
REVENUES												
Gross Rent												
Inline		$ 538,930	$ 538,930	$ 538,930	$ 569,726	$ 569,726	$ 569,726	$ 585,124	$ 585,124	$ 585,124	$ 600,522	$ 600,52
Grocery		$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,196	$ 524,19
10% Vacancy & Collection Loss (Inline Only)		$ 53,893	$ 53,893	$ 53,893	$ 56,973	$ 56,973	$ 56,973	$ 58,512	$ 58,512	$ 58,512	$ 60,052	$ 60,05
Reserves at $1/SF [1]		$ 124,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,479	$ 74,47
Net Revenues		**$ 884,754**	**$ 934,754**	**$ 934,754**	**$ 962,470**	**$ 962,470**	**$ 962,470**	**$ 976,329**	**$ 976,329**	**$ 976,329**	**$ 990,187**	**$ 990,18**
OPERATING EXPENSES												
CAM & Taxes		$ 285,029	$ 285,029	$ 285,029	$ 294,454	$ 297,722	$ 301,055	$ 304,455	$ 307,924	$ 311,461	$ 315,069	$ 318,75
Misc. Professional Fees		$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 11,000	$ 11,000	$ 11,000	$ 11,001	$ 11,002	$ 11,00
Total Operating Expenses		**$ 295,029**	**$ 295,029**	**$ 295,029**	**$ 304,454**	**$ 307,722**	**$ 312,055**	**$ 315,455**	**$ 318,924**	**$ 322,462**	**$ 326,071**	**$ 329,75**
Net Operating Income		**$ 589,725**	**$ 639,725**	**$ 639,725**	**$ 658,017**	**$ 654,748**	**$ 650,415**	**$ 660,873**	**$ 657,405**	**$ 653,866**	**$ 664,115**	**$ 660,43**
REVERSION INCOME												
Reversion Revenue											$ 7,769,812	
Less Sales Costs											$ 271,943	
Less Mortgage Balance [2]											$ 5,816,495	
Net Reversion Income											**$ 1,681,374**	
DEBT SERVICE												
NMTC Loan												
Debt Service	5.32%	$ 351,120	$ 351,120	$ 615,120	$ 615,120	$ 615,120	$ 615,120	$ 615,120				
Principal Reduction (paid to sinking fund)		$ -	$ -	$ 264,000	$ 264,000	$ 264,000	$ 264,000	$ 264,000				
Outstanding Balance (End of Year)	6,600,000	$ 6,600,000	$ 6,600,000	$ 6,336,000	$ 6,072,000	$ 5,808,000	$ 5,544,000	$ 5,280,000				
Cumulative Principal Reduction		$ -	$ -	$ 264,000	$ 528,000	$ 792,000	$ 1,056,000	$ 1,320,000				
Annual Interest Earned on Sinking Fund [2]	4.50%	$ -	$ -	$ -	$ 11,880	$ 24,295	$ 37,268	$ 50,825				
Sinking Fund Balance [2]		$ -	$ -	$ 264,000	$ 539,880	$ 828,175	$ 1,129,442	$ 1,444,267				
Market-Rate Debt (Refinance Year 7)												
Debt Service	7.50%								$547,837	$547,837	$547,837	
Principal Reduction									$89,834	$96,571	$103,814	
Outstanding Balance (End of Year)								$ 6,106,715	$ 6,016,881	$ 5,920,309	$ 5,816,495	
Equity Distributions to Partnership								$ 950,982				
Net Cash Flow Before Taxes		**$ 238,605**	**$ 288,605**	**$ 24,605**	**$ 42,897**	**$ 39,628**	**$ 35,295**	**$ 996,735**	**$ 109,567**	**$ 106,029**	**$ 1,797,652**	

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
Equity Cash Flow	$ (1,184,778)	$ 238,605	$ 288,605	$ 24,605	$ 42,897	$ 39,628	$ 35,295	$ 996,735	$ 109,567	$ 106,029	$ 1,797,652
Annual Cash-on-Cash Return		20.1%	24.4%	2.1%	3.6%	3.3%	3.0%	84.1%	9.2%	8.9%	
IRR on Equity (Leveraged IRR)	**18.0%**										
Total Cost Cash Flow	$ (7,607,658)	$ 589,725	$ 639,725	$ 639,725	$ 658,017	$ 654,748	$ 650,415	$ 660,873	$ 657,405	$ 653,866	$ 8,161,984
Annual Yield on Cost		7.8%	8.4%	8.4%	8.6%	8.6%	8.5%	8.7%	8.6%	8.6%	
IRR on Total Cost (Unleveraged IRR)	**8.4%**										

[1] Additional Reserves of $50,000 added in Year 1 to cover operations
[2] Assumes sinking fund interest is accrued and used to reduce outstanding mortgage balance at refinance in Year 7

TID Capacity

ASSUMPTIONS

SBFCo's projections of incremental property tax revenue are based on the assumptions outlined in the following paragraphs.

- **Inflation.** Assessed value of the grocery store, inline retail, and future outlot developments are assumed to increase at an annual rate of 2.5 percent.

- **Property Tax Rate.** The property tax rate for assessment years 2007 and beyond is projected to continue to decline at a rate of approximately 5.4 percent per year (compound annual rate of change, 2001-2006), with a floor value of 2.0 percent. The tax rate is projected to attain this floor value in the 2009 assessment year and remain constant thereafter.

- **Assessed Values. T**he City Assessor's Office has indicated that the components of NACC will be assessed, at least initially, using an income-based valuation approach. The assumptions conveyed to *SBFCo*, and used in the TID feasibility analysis, are summarized in the following table:

Project Component	Rent/Sq. Foot	CAM and Taxes/ Sq. Foot	Vacancy Allowance	Non-Reimbursed Expenses	Initial Cap Rate	Assessed Value/Sq. Foot
Grocery Store	$9.00 Net	$0	0%	3%	10%	$87.30
Inline Retail	$17.50 Gross	$5.00	10%	15%	10%	$93.75

- **Development Phasing.** NACC's TIF Application indicates that the first phase of the project (grocery store and inline retail) will be constructed during 2007 and fully assessed in 2008. Currently, the timeframe and parameters for sale and development of the two outlot parcels are unknown, and the developer's most recent pro forma does not carry any income from this project component. *SBFCo* has therefore not included any value from these parcels in the projections of incremental property tax revenue.

INCREMENTAL PROPERTY TAX PROJECTIONS

SBFCo has assumed that a 27-year blighted area TID will be established in 2007, expiring in 2033 (final year of collections in 2034). Based on this timeframe and the assumptions outlined above, the new TID is projected to generate approximately $**5 million in incremental property tax revenues**. The projected stream of incremental property tax revenues is attached as Figure 4.

Figure 4
City of Milwaukee - New Avenue Commerce Center
Incremental Property Tax Projections

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Inputs and Assumptions		
2007 Base Value of Project Site	$	-
Annual Growth in Real Property - Commercial		2.50%
Tax Collection Rate		100.00%

Year of TID	**Assessment Year (Jan. 1) [1], [2]**	**Cumulative AV Additions [3] Retail**	**Cumulative AV Additions [3] TOTAL**	**Total AV of TID Parcels [4]**	**AV Above Base AV [5]**	**Tax Rate [6]**	**Total AV Collected (Jan. 31) @ 100% [7]**
0	2006	$ -	$ -			2.24%	
1	2007	$ -	$ -	$ -	$ -	2.12%	$ -
2	2008	$ 6,868,167	$ 6,868,167	$ 6,868,167	$ 6,868,167	2.01%	$ -
3	2009	$ -	$ 7,039,871	$ 7,039,871	$ 7,039,871	2.00%	$ 137,777
4	2010	$ -	$ 7,215,868	$ 7,215,868	$ 7,215,868	2.00%	$ 140,797
5	2011	$ -	$ 7,396,265	$ 7,396,265	$ 7,396,265	2.00%	$ 144,317
6	2012	$ -	$ 7,581,171	$ 7,581,171	$ 7,581,171	2.00%	$ 147,925
7	2013	$ -	$ 7,770,701	$ 7,770,701	$ 7,770,701	2.00%	$ 151,623
8	2014	$ -	$ 7,964,968	$ 7,964,968	$ 7,964,968	2.00%	$ 155,414
9	2015	$ -	$ 8,164,092	$ 8,164,092	$ 8,164,092	2.00%	$ 159,299
10	2016	$ -	$ 8,368,195	$ 8,368,195	$ 8,368,195	2.00%	$ 163,282
11	2017	$ -	$ 8,577,400	$ 8,577,400	$ 8,577,400	2.00%	$ 167,364
12	2018	$ -	$ 8,791,835	$ 8,791,835	$ 8,791,835	2.00%	$ 171,548
13	2019	$ -	$ 9,011,631	$ 9,011,631	$ 9,011,631	2.00%	$ 175,837
14	2020	$ -	$ 9,236,921	$ 9,236,921	$ 9,236,921	2.00%	$ 180,233
15	2021	$ -	$ 9,467,844	$ 9,467,844	$ 9,467,844	2.00%	$ 184,738
16	2022	$ -	$ 9,704,540	$ 9,704,540	$ 9,704,540	2.00%	$ 189,357
17	2023	$ -	$ 9,947,154	$ 9,947,154	$ 9,947,154	2.00%	$ 194,091
18	2024	$ -	$ 10,195,833	$ 10,195,833	$ 10,195,833	2.00%	$ 198,943
19	2025	$ -	$ 10,450,729	$ 10,450,729	$ 10,450,729	2.00%	$ 203,917
20	2026	$ -	$ 10,711,997	$ 10,711,997	$ 10,711,997	2.00%	$ 209,015
21	2027	$ -	$ 10,979,797	$ 10,979,797	$ 10,979,797	2.00%	$ 214,240
22	2028	$ -	$ 11,254,292	$ 11,254,292	$ 11,254,292	2.00%	$ 219,596
23	2029	$ -	$ 11,535,649	$ 11,535,649	$ 11,535,649	2.00%	$ 225,086
24	2030	$ -	$ 11,824,040	$ 11,824,040	$ 11,824,040	2.00%	$ 230,713
25	2031	$ -	$ 12,119,641	$ 12,119,641	$ 12,119,641	2.00%	$ 236,481
26	2032	$ -	$ 12,422,632	$ 12,422,632	$ 12,422,632	2.00%	$ 242,393
27	2033	$ -	$ 12,733,198	$ 12,733,198	$ 12,733,198	2.00%	$ 248,453
	2034	$ -	$ 13,051,528	$ 13,051,528	$ 13,051,528	2.00%	$ 254,664
Total Proceeds, 2007 - 2034 (Not Discounted)							**$ 4,947,103**
Present Value ($2007), 2007 - 2034 @:		5.0%					**$ 2,320,572**

Source: *S. B. Friedman & Company*

[1] The TID is assumed to be established in 2007 with a base year of 2007.
[2] Properties in the City of Milwaukee are reassessed every year as of January 1.
[3] Additions resulting from new development, adjusted for inflation.
[4] AV after all adjustments, adjusted for inflation.
[5] Total AV (adjusted for inflation) less Base AV.
[6] The assessed value tax rate is projected to decline at an annual rate of 5.4%, stabilizing at a tax rate of 2.0%.
[7] Tax revenues are collected one year after the taxing year at a 100% collection rate.

AMORTIZATION OF DEBT

For the purposes of this analysis, *SBFCo* assumed the following debt amortization parameters:

- Bond issuance in 2007 for all project costs;
- 4.5% annual interest rate on bonds;
- Capitalized interest in years one and two;
- Fifteen level principal and interest payments;
- 5.21% cost of funds through the local government investment pool used to cover any shortfalls in annual TID revenue versus target debt service; and
- 1.0% bond issuance costs.

The $1.5 million of TID project costs to be amortized include:

- $850,000 of developer gap financing;
- $697,076 of public infrastructure and extraordinary site work costs (including contingency); and
- $150,000 of TID administration costs.

SBFCo's analysis suggests that under the bond parameters outlined above, the $1.7 million in debt can be retired in **TID Year 17** (2023), and the TID can achieve a positive fund balance in **TID Year 19** (2025). Figure 5 provides the detailed amortization schedule.

Conclusions

SBFCo's initial analysis suggests that the NACC project can yield a market rate of return with TID gap financing of $850,000 plus $850,000 of public improvements, extraordinary site work costs, and TID administration costs also funded by the TID. Furthermore, a new TID created to support this project is projected to retire the $1.7 million in bonds by TID Year 17 (2023) and achieve a positive fund balance by approximately TID Year 19 (2025).

As the City and developer negotiate the term sheet for the New Avenue project, the City should consider incorporating mechanisms for upside participation in the project. City sharing provisions may be appropriate (a) as a percentage of the revenue received at the time that either of the outlot parcels is sold for development and/or (b) if the project exceeds a pre-determined IRR threshold at the time the NMTC loan is refinanced or the project is sold. Revenue from sale of the outlots is not currently included in the developer's pro forma, and therefore would primarily represent up-side not currently factored into SBFCo return calculations. Under approach (b), the City would participate in potential above-pro forma returns that may be achievable if market conditions improve more than expected over the life of the project. City participation in this case appears appropriate because the City is providing gap financing to the project primarily to address the revenue-related challenges inherent in a less established market.

Figure 5

City of Milwaukee- New Avenue Commerce Center

Projected Bond Amortization- Net Proceeds of $1.7 Million

DRAFT

Issuance Year			2007
Interest Rate on City Bonds			4.50%
Cost of Funds- Local Gov't Investment Pool			5.21%
Net Proceeds to Project		**$**	**1,697,076**
Issuance Costs @	1.0%	$	16,971
Cap Interest Allowance	2 Years	$	169,521
Less Projected Available Up-Front Cash		$	-
Cap Interest Allowance		**$**	**169,521**
Total Bond		**$**	**1,883,568**
Assumed Level P&I Payments			15
Assumed Debt Coverage Requirement			1.0

Cap Interest Reserve

Year	**Reserve**	**Payment**
2007	$ 169,521	$ (84,761)
2008	$ 84,761	$ (84,761)

		Repayment Sources	**TID Payoff Analysis**					
Year of TID	**Calendar Year**	**Annual Inc. Tax Revenues Collected (Jan. 31) @ 100%**	**TID Annual Debt Service Target**	**Cap Interest Payment**	**Annual Surplus/ Shortfall**	**Cumulative Fund Balance**	**Interest Earnings/ (Carry Cost) on Cuml. Balance**	**TID Positive Fund Balance**
0	2006	$ -	$ -	$ -	$ -	$ -	$ -	
1	2007	$ -	$ 84,761	$ 84,761	$ -	$ -	$ -	NO
2	2008	$ -	$ 84,761	$ 84,761	$ -	$ -	$ -	NO
3	2009	$ 137,777	$ 175,386	$ -	$ (37,609)	$ (37,609)	$ (1,959)	NO
4	2010	$ 140,797	$ 175,386	$ -	$ (34,589)	$ (74,157)	$ (3,864)	NO
5	2011	$ 144,317	$ 175,386	$ -	$ (31,069)	$ (109,089)	$ (5,684)	NO
6	2012	$ 147,925	$ 175,386	$ -	$ (27,461)	$ (142,234)	$ (7,410)	NO
7	2013	$ 151,623	$ 175,386	$ -	$ (23,763)	$ (173,407)	$ (9,035)	NO
8	2014	$ 155,414	$ 175,386	$ -	$ (19,972)	$ (202,414)	$ (10,546)	NO
9	2015	$ 159,299	$ 175,386	$ -	$ (16,087)	$ (229,046)	$ (11,933)	NO
10	2016	$ 163,282	$ 175,386	$ -	$ (12,104)	$ (253,084)	$ (13,186)	NO
11	2017	$ 167,364	$ 175,386	$ -	$ (8,022)	$ (274,292)	$ (14,291)	NO
12	2018	$ 171,548	$ 175,386	$ -	$ (3,838)	$ (292,421)	$ (15,235)	NO
13	2019	$ 175,837	$ 175,386	$ -	$ 451	$ (307,205)	$ (16,005)	NO
14	2020	$ 180,233	$ 175,386	$ -	$ 4,846	$ (318,364)	$ (16,587)	NO
15	2021	$ 184,738	$ 175,386	$ -	$ 9,352	$ (325,599)	$ (16,964)	NO
16	2022	$ 189,357	$ 175,386	$ -	$ 13,971	$ (328,592)	$ (17,120)	NO
17	2023	$ 194,091	$ 175,386	$ -	$ 18,705	$ (327,007)	$ (17,037)	NO
18	2024	$ 198,943	$ -	$ -	$ 198,943	$ (145,101)	$ (7,560)	NO
19	2025	$ 203,917	$ -	$ -	$ 203,917	$ 51,256	$ 2,670	**YES**
20	2026	$ 209,015	$ -	$ -	$ 209,015	$ 262,941	$ 13,699	**YES**
21	2027	$ 214,240	$ -	$ -	$ 214,240	$ 490,880	$ 25,575	**YES**
22	2028	$ 219,596	$ -	$ -	$ 219,596	$ 736,051	$ 38,348	**YES**
23	2029	$ 225,086	$ -	$ -	$ 225,086	$ 999,485	$ 52,073	**YES**
24	2030	$ 230,713	$ -	$ -	$ 230,713	$ 1,282,272	$ 66,806	**YES**
25	2031	$ 236,481	$ -	$ -	$ 236,481	$ 1,585,559	$ 82,608	**YES**
26	2032	$ 242,393	$ -	$ -	$ 242,393	$ 1,910,559	$ 99,540	**YES**
27	2033	$ 248,453	$ -	$ -	$ 248,453	$ 2,258,552	$ 117,671	**YES**
	2034	$ 254,664	$ -	$ -	$ 254,664	$ 2,630,886	$ 137,069	**YES**
TOTALS		**$ 4,947,103**			**$ 2,316,310**			

Source: *S. B. Friedman & Company*

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.

Limitations of Our Engagement

The scope of our engagement included reviewing the developer's application for TIF assistance, projecting the incremental property tax revenues likely to result from the identified projects as proposed, and determining the size of bond issue that TIF revenues from the identified projects could support.

Our projections are based on estimates, assumptions, and other information developed from our research, knowledge of the industry, and meetings with you and the developers of the identified projects 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 the identified projects, including zoning, other state and local government regulations, permits, and licenses. No effort was made to determine the possible effect on these projects 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.