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September 10, 2010

Honorable Common Council Members  
City of Milwaukee, Wisconsin  
City Hall, Room 404  
200 East Wells Street  
Milwaukee, Wisconsin 53202

Re: The Moderne Project

Dear Council Members:

We are writing to provide the Common Council with an update on the current status of the Moderne Project ("Project"). On August 27, 2010, the U.S. Department of Housing and Urban Development ("HUD") provided a firm commitment (the "Commitment") for insurance of the first mortgage for the apartment and retail components of the Project (the "Senior Loan"). The Commitment expires sixty (60) days from the date of issuance and a closing for the Project financing has been tentatively scheduled for October 22, 2010.

On September 2, 2010, we met with staff from the Department of City Development and Comptroller's Office to discuss the current status of the Project and the finalization of documentation necessary for closing. In the interim since Common Council approval of the substitute Term Sheet providing approval for the origination of Mezzanine and Completion Loans for the Project (the "City Loans") the overall structure for the Project and Project financing has changed somewhat from the structure anticipated when the Term Sheet was finalized. These changes are principally attributable to HUD's requirements and regulations applicable to projects for which financing is insured under the 221 (d)4 program. While we do not believe that these structural changes result in a material change to the City's risk on the City Loans or require substantive changes to the documentation which was anticipated for the transaction as presented to the Common Council and Redevelopment Authority, we agree with staff from the Comptroller's Office and Department of City Development that it is important to update the Common Council as to the nature of these changes.

Changes to the Project structure are generally as follows:

1. **Project Ownership.** Two separate entities have been created to own and undertake the Project. The "Developer" will be a combination of Milwaukee Moderne, LLC, which is the entity which has been created to construct and own the retail and apartment components of the Project and Milwaukee Moderne Residences, LLC, which will be the initial owner of the 14 condominium units to be constructed on floors 28-30 of the Project. The City Loans will be secured by first mortgages on the condominium units to be constructed by Milwaukee Moderne Residences, LLC and second mortgages in the amount of approximately \$4.6 million on the apartment and retail components of the Project. As anticipated by the Term Sheet the second mortgages on the apartment and retail units will be subordinated to the Senior Loan in accordance with HUD regulations.
2. **Project Commencement.** The Term Sheet provided for Project commencement by June 1, 2010 and Project completion within 24 months of construction commencement. In order to comply with those Term Sheet requirements the Developer has taken out building permits and initiated construction activities on the Project site. However, the formal commencement date for the Project must be adjusted to the HUD commencement date as specified in the Commitment which cannot occur until a current wage determination is in effect and a pre-construction conference has been conducted. The completion date will be likewise adjusted to a date which is 24 months after the HUD commencement date.
3. **Amount of the Senior Loan.** The Term Sheet states that the "primary financing for the Project will be a HUD 221(d)4-enhanced Senior Loan...in an amount to be determined through final sizing, but not to exceed \$41.4 million..." The firm commitment issued by HUD specifies that the Senior Loan will be in the amount of \$42,357,800. This final amount represents an increase of \$957,800, or roughly 2%.

Total Project costs are currently \$57.3 million. The total Project budget anticipated at the time of Term Sheet approval was approximately \$55.24 million. The increases in Project costs are primarily attributable to time delays and HUD requirements, such as increased reserves. These cost increases do not impact the level of City of Milwaukee financial participation previously authorized by the Common Council.

The "not to exceed" limitation respecting the amount of Senior Loan was primarily intended to protect potential cash flow by limiting the Senior Loan debt service. Given that the Developer has secured a lower interest rate, the increase in the principal amount of the Senior Loan is not likely to have a significant impact

on cash flow. In addition, although a higher Senior Loan amount arguably makes the value of the City's second mortgage less attractive, it is unlikely that the disposition of the City's second mortgage in a foreclosure action would be impacted by such a relatively marginal change in the Senior Loan amount.

4. **"Available Cash" vs. "Surplus Cash"**. Pursuant to the Term Sheet, the Mezzanine Loan is repayable with first priority on net proceeds from condominium sales and with second priority on the "Available Cash" from the apartment/retail component of the Project. The Completion Loan is repayable with second priority on condominium proceeds and with third priority on "Available Cash." The Term Sheet recognizes that the senior lender will have first priority on "Available Cash" for scheduled debt service or other required payments on the Senior Loan.

Pursuant to HUD regulations, HUD may not permit a claim or lien against project assets, except for "Surplus Cash" as that term is defined in the HUD Regulatory Agreement. A comparison of the term "Available Cash" as defined in the Term Sheet and the term "Surplus Cash" as defined in the HUD Regulatory Agreement has been provided to the Comptroller's Office.

Although the terms use different terminology they are, for the most part, functionally equivalent. There is a potential for deviation in that the Term Sheet limits the subtraction for Developer's operating reserves to the lesser of HUD minimums or Developer's pro forma amounts. HUD's definition of "surplus cash" subtracts from distributable cash "all amounts required [by HUD] to be deposited in the reserve fund for replacements." In the event HUD were to require additional reserves during the course of the Project, then that would reduce the amount of cash available to repay the City Loans. HUD representatives have informed us that HUD typically would not take this type of action within the first ten (10) years of a project.

One additional matter which we bring to your attention is the status of the height approval for the variance to allow construction of the 30-story project. On February 19, 2009, the Redevelopment Authority approved a 12-month extension to the maximum height variation for the Project and due to the time required for HUD's issuance of the Commitment, that variance must once again be extended. A resolution authorizing a further 12-month extension is to be scheduled for consideration by the Redevelopment Authority on September 16, 2010.

Honorable Common Council Members

September 10, 2010

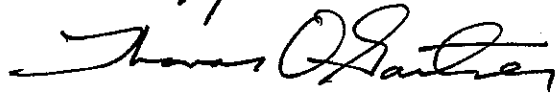
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Please contact us at your convenience in the event that there are any further questions or comments with respect to the foregoing or if additional information concerning the Project is required.


Very truly yours,



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TOG:lmc

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