

Prepared for the Redevelopment Authority by the Department of City Development, October, 2009

ECONOMIC FEASIBILITY STUDY
TAX INCREMENTAL DISTRICT NO. 44, CITY OF MILWAUKEE
AMENDMENT NO. 3

October, 2009

Overview

In June, 2001, the City of Milwaukee created TID No. 44 to assist in the redevelopment of the Lindsay Heights Neighborhood, generally bounded by North 12th Street, North 20th Street, West Walnut Street, and West Locust Street. The original plan provided a capital fund of \$1,755,000 for forgivable loans to property owners for the rehabilitation of existing homes and the construction of new single-family homes on vacant scattered site lots in the district. The Local Initiatives Support Corporation (LISC) and a consortium of local lenders provided financing for the capital fund under a Cooperation, Contribution and Redevelopment Agreement whereby increment generated in the district was applied as repayment of the financing provided.

In 2004, the Common Council approved Amendment #1 to the Project Plan to provide funding for infrastructure, site and green space improvements for 53 new owner occupied homes on a site bounded by North 12th, North 14th, W. Brown and W. Lloyd Streets - the "Josey Heights" development. Funding for Amendment #1 was provided through General Obligation borrowing and supported by projected increments from the new development, separate and apart from the LISC agreement.

In 2005, the Common Council approved Amendment #2 to the Project Plan to replenish the District's forgivable loan pool with an additional \$1,000,000 as the demand for both new homes and renovation of existing homes had far exceeded original projections.

In general, overall development goals for the District have been exceeded. Since its inception, the loans totaling \$2.8 million were approved leveraging over \$31 million in new investment and over 160 new homes were built.

District incremental values have exceeded expectations as well. Property values have risen from \$37 million in 2001 to \$112 million in 2009. Despite the downturn in the economy and the foreclosure crisis, overall property values in the district declined only 1.3% (compared to the City average of 7.2%).

<u>Year</u>	<u>Incremental Value</u>	<u>Increase</u>
2009	\$75,462,400	(2%)
2008	\$76,967,600	77%
2007	\$43,396,300	17%
2006	\$37,061,500	103%
2005	\$18,227,800	108%
2004	\$ 8,773,800	28%
2003	\$ 6,846,500	

Proposed Project

Amendment #3 is being proposed to support the past and present redevelopment efforts in the district, as well as to continue to provide a range of housing opportunities for area residents. Funding under Amendment #3 will provide a loan for the development of “Franklin Square,” the second phase of the Teutonia Gardens Project, located at 15th and Center Street. The first phase of the Teutonia Gardens Project was completed in 2008 and included the development of a 24 unit housing development with ground floor commercial space representing \$5.3 in new investment. Teutonia Gardens has performed well, with a 100% occupancy rate on the residential units and two of the three commercial store fronts currently leased out.

The proposed Franklin Square Project will consist of 37 affordable housing units contained in two buildings adjacent to the Teutonia Gardens Project. The project site was assembled with a combination of City and privately owned property. Connecting sidewalks and strategically placed green space will unify the two phases of the development. The project will include a combination of 2 and 3 bedroom units with rents ranging from \$585-\$625/month. Total project costs are \$8.7 million.

Pro Forma Summary

Sources of Funds	
LIHTC Equity	\$5,611,030
First Mortgage	\$ 585,000
TID	\$ 600,000
Deferred Fee	\$ 140,000
WHEDA Exchange Funds*	\$1,762,917
Total Sources	\$8,698,947
Uses of Funds	
Acquisition	\$ 313,000
Hard Costs	\$6,522,214
Soft Costs	\$ 656,941
Financing	\$ 175,000
Operating Reserves	\$ 114,736
Developer Fees	\$ 917,056
Total Uses	\$8,698,947

*WHEDA Exchange Funds are being provided to cover the differences that the market has caused in reducing the available funding sources for LIHTC projects. This includes tax credit pricing differences (between the time of the developer’s original application to WHEDA and the present) and lower amounts of debt because of more restrictive financing requirements.

A severely depressed low income housing tax credit market is reducing the level of available tax credit equity as well as conventional mortgage debt. The tax credits for the Franklin Square Project are being sold for 60 cents on the dollar (whereas 18 months ago, it was customary to see tax credit pricing in the 90 cents on the dollar range). Further, lender requirements have also become significantly more stringent, with more conservative assumptions being utilized for rent and income projections, and requirements for higher levels of reserves and operating expenses driving down the level of debt a project can assume. These factors have contributed to the financing gap and the need for TID assistance.

Overview of TID #44

An overview of TID #44, as summarized in the 2008 Annual Report of Milwaukee's Tax Incremental Districts, is summarized below. It should be noted that the remaining outstanding debt on the project is City G.O. Debt. The original loan pool for the District and additions thereto were funded by a consortium of local lenders through the Local Initiatives Support Corporation. The loan pool obligation to the lenders was paid off with incremental tax revenues in 2008, and the debt remaining for the district relates to borrowing for infrastructure improvements financed with Amendment No. 1:

Total funds appropriated for the District: \$5,471,312

Expenditures through 12/08: \$5,367,603

G. O. Debt issued for project costs: \$1,834,060

Additional costs for Amendment #3: \$630,000

Net to be recovered after 2008 levy (including new costs): \$2,103,476

Incremental value achieved through 2008: \$76,967,600

Incremental Revenue received in 2008: \$1,849,531

District Value reported to Department of Revenue for 2009: \$112,427,800

Projected Incremental Value for 2009 \$75,462,400

Projected Incremental Revenue for 2009 \$1,890,333

Based on the above, with the additional project costs for Amendment 3#, the District is expected to fully recover project costs in 2011 – seventeen years before the statutory end of the District. Therefore, we believe Amendment #3 is feasible.