



Office of the Comptroller
July 15, 2010

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Members of the Zoning, Neighborhoods
& Development Committee
200 East Wells Street, Room 205
Milwaukee, WI 53202

RE: TID 59 – 642 W. North Avenue Project

Dear Committee Members:

TID 59 – Bronzeville – was created in 2005 to assist in the development of an African American cultural and entertainment district, to be accomplished through residential and business grants and loans as well as public improvements in the area bounded by Garfield Avenue, Center Street, 7th Street and Martin Luther King Drive. The TID Project Plan totaled \$3.3 million, of which \$1 million was set aside for business grants and loans. File 100361 would approve a \$171,000 forgivable loan to Developer, Inner City Arts LLC, for the 642 W. North Avenue Project. The loan amount of \$171,000 is within the Project Plan amount of \$3.3 million originally approved by the Common Council in 2005.

The Project, the first in the District, would restore the exterior of the former Inner City Arts Council building at 642 W. North Avenue to its original façade and renovate the interior into approximately 4,800 s.f. of office space, which includes a plan review room available for public use. This plan review room will house construction plans contractors can use to bid on projects. This space will be managed and operated by the building owner/tenants. Owner/tenants include Vanguard Group, LLC and Endeavour Corp, two local development firms, both of which will lease space at \$9.50 per s.f. triple net, which is slightly above market rents of \$9 per s.f. for the area. Osprey Inc., located in Almena, Wisconsin, is also owner, but primarily involved in underwriting the project.

Total project costs are \$501,000, supported by a \$262,000 primary loan from Impact Seven, Inc., \$171,000 TID forgivable loan, \$37,500 Developer equity and \$30,000 in grants. Developer has secured the loan commitment from Impact Seven, Inc., which has a WHEDA guaranty. The grant sources, which include three separate identified grant sources, have yet to be secured. To the extent that New Market Tax Credits or grant sources above the \$30,000 are secured, the TID loan would be reduced by 75% of those additional sources. The \$171,000 TID forgivable loan would have no interest and would be forgiven at the end of seven years assuming the project is retained by Developer. If the property is sold at any time before the end of seven years, the full amount of the loan would be repaid with funds reverting to the TID.

Is the Project Likely to be Successful?

We have reviewed the feasibility projections conducted in 2005 and have verified that the increment generated by TID 59 to date has thus far exceeded the then projected tax increment. This is due to the inclusion of extensive existing real property within the TID boundaries. Assuming that this rate of tax increment continues, the TID can support the original Project Plan for the TID, including the forgivable loan.

Is the Proposed Level of City Assistance Required for Project Success?

In assessing whether TID assistance is necessary for this project we examined whether the return to Developer is reasonable given the risks associated with the Project. In making this assessment, we evaluated both Developer fee and rate of return. The initial pro forma showed a \$48,000 developer fee and a 37.2% calculated internal rate of return (IRR). We noted that developer fee was relatively high at 10.6% of total project costs and would exceed Developer's initial equity contribution of \$37,500. With a planned construction period of less than two months, the private equity contribution would likely be returned in full to Developer within that time period. As a result, the Developer has agreed to limit the developer fee to \$34,400 and increasing the contingency by \$14,000, to \$29,000, a more conservative 7.9 percent of project costs. Also, the term sheet has been modified so that any unspent contingency be split on a 75%/25% basis between the City and Developer. As currently structured the developer fee is less than Developer's equity contribution. In addition to this modification, other changes have reduced the calculated rate of return to a high, but more reasonable 22.8% IRR.

Comments and Conclusions

We note that reasonable assurances have been put in place to protect the City. First, the TID loan would be disbursed at completion after Developer's equity contribution, primary loan and grant funding have been disbursed and permanent financing is in place. The conservative construction contingency and disbursement of the TID loan upon project completion minimizes construction risk for the City. In addition, the project has little lease up risk as the two owner/tenants are already established.

We do note a provision in the term sheet whereby additional funding sources beyond what has been identified in the current plan of finance to be split on a 75%/25% basis between City and Developer. While applicable for this project with a near final plan of finance, we ask that the Department of City Development to clarify the instances where this approach should be applied, to ensure that the City only provide gap financing.

Despite the concern noted above and the relatively high rate of developer return on investment in this Project (22.8%), we do not object to this TID forgivable loan to the Developer, given the protections afforded the City in the term sheet and the net positive impact the Project has on TID 59.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux, Jim Scherer, Deshea Agee