

LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS

ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE

DECEMBER 15, 2009

Item 6a, File #090926

File Number 090926 is a resolution approving Amendment No. 3 to the Project Plan for Tax Incremental District No. 44 (Walnut/Locust) to authorize \$630,000 of additional borrowing for housing development in the District.

Background

1. On June 19, 2001, the Common Council adopted File Number 001778, a resolution creating Tax Incremental District No. 44 (Walnut/Locust) and approving its Project Plan. TID No. 44 encompasses the Lindsay Heights neighborhood and is generally bounded by Locust, Walnut, 12th and 20th streets. The original Project Plan called for \$1,755,000 in capital funding (provided by a consortium of local lenders) to be used for offering forgivable loans to property owners for rehabilitation of existing homes and construction of new single-family homes in this neighborhood. Incremental tax revenues were used to pay off the loan-pool obligation to lenders.
2. Amendment No. 1 to the Project Plan was approved by Common Council File No. 040391. This Amendment provided funding for infrastructure, site and green space improvements for 53 new owner-occupied homes in the area bounded by Lloyd, Brown, 12th and 14th streets (Josey Heights). Amendment No. 2 (CC File No. 041629) provided an additional \$1 million for the TID's forgivable loan pool. Incremental tax revenues completely paid off the loan pool in 2008.
3. Since TID No. 44 was created in 2001, forgivable residential loans totaling \$2.8 million have been awarded to property owners in the District. These funds have leveraged over \$31 million in private investment, and over 160 new homes have been built.
4. Total property value of District has increased from \$37 million in 2001 to \$112 million in 2009, for a property value increment of over \$75 million.
5. In 2008, a development team consisting of Maures Development Group, LLC, and Horizon Development Group completed the first phase of a project known as Teutonia Gardens, located at the intersection of Teutonia Avenue and Center Street within TID No. 44. Teutonia Gardens consisted of 24 units of affordable rental housing and ground-floor commercial space. Maures and a new partner, Brinshore Development Group, LLC, are now seeking gap financing to construct the second phase of Teutonia Gardens, to be known as Franklin Square.

Discussion

1. This resolution approves Amendment No. 3 to the Project Plan for TID No. 44. The Amendment provides an additional \$630,000 in funding for the District.
2. The additional funding will be used to provide a \$600,000 loan to the developer of the aforementioned Franklin Square project (the remaining \$30,000 is for City administrative costs). Franklin Square will include 37 units of affordable rental housing in 2 separate buildings – 27 units in a 4-story building on the northeast corner of 15th and Center streets and 10 units in a

building with 6 townhomes and 4 flats on the southwest corner of Teutonia Avenue and Hadley Street.

3. The total project cost for Franklin Square is \$8.7 million. The vast majority of the funding for the project comes from 2 sources: investor equity generated through Low Income Housing Tax Credits (over \$5.6 million) and WHEDA Exchange Funds (nearly \$1.8 million). The City's \$600,000 contribution through the TID represents gap financing intended to make up for the loss of available tax-credit equity and conventional mortgage financing in the currently-depressed housing market.
4. The term sheet for the Franklin Square project includes the following provisions:
 - The developer will assume all costs of storm water management, land division, site preparation and extension of sewer and water laterals to the properties.
 - The developer shall submit a final project budget and proof that all funding sources have been committed.
 - The developer commits to using 30% Emerging Business Enterprise participation for all contracted construction work.
 - The City/TID funds will be disbursed in 2 equal payments – the first when construction is 50% completed and the second upon full completion.
 - The developer, City and Redevelopment Authority shall enter into a Development Agreement that incorporates these and the other terms of the term sheet.

Fiscal Impact

1. Adoption of this resolution will authorize the expenditure of \$630,000 in City capital funding (borrowing) for development within TID No. 44.
2. While the \$600,000 in assistance to the developer of Franklin Square is being structured as a loan, the developer will not be required to make loan payments. Rather, the City will recover these funds through incremental tax revenues from TID No. 44.
3. The economic feasibility study and term sheet for Amendment No. 3 to TID No. 44 both indicate that the additional project costs for the District will be fully recovered in 2011, 17 years before the maximum term of the district (2028). The City Comptroller's analysis indicates that, even with the additional project and financing costs associated with Franklin Square, TID No. 44 will have sufficient tax incremental revenues to recover all project costs in 2012. The Comptroller also states that "...the Franklin Square Project has a non-material impact on the time required to recover all TID 44 project costs."

Prepared by: Jeff Osterman, x2262
LRB-Research & Analysis Section
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cc: Rocky Marcoux
Martha Brown
Joe' Mar Hooper
Clifton Crump
Marianne Walsh