



Office of the Comptroller

September 14, 2006

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kammholz
Special Deputy Comptroller

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

RE: Proposed TID 65 – North 20th/
West Brown Streets

Dear Committee Members:

Files 051278, 051275 and 051272 authorize the creation of Tax Incremental District (TID) 65 for the North 20th/West Brown Streets Project to support the development of up to 60 single family homes and 24 town homes located between North Avenue (north) and Brown Street (south), and 17th Street (east) and 24th Street (west). These files also authorize a cooperation agreement between the City and RACM to implement the Project Plan and approve the land disposition report for property affected by the Project Plan.

In supporting the construction of up to 84 single family and town home units, TID 65 seeks to continue the revitalization efforts of City Homes (TID 28), Lindsay Heights (TID 44), and 20th and Walnut (TID 58), all of which are in close proximity to the proposed district. Under the proposal, Legacy Development Partners (“Developer”), a for-profit LLC formed by Legacy Redevelopment Corporation, Williams Development Corporation and Irgens Development Partners will purchase City owned parcels for \$2,000 per parcel, develop up 24 town homes, and assemble, improve and market up to 60 single family homes sites. Williams and Irgens both have extensive experience in Milwaukee¹. This is the first major development project for the Legacy Redevelopment Corporation.

The development will occur in four clusters with the construction the town home units by the Developer in the northernmost cluster along Garfield Avenue. For the single family home sites, new home construction will be built by three pre-selected private builders as lots are sold by the Developer to homebuyers. The number of parcels ultimately sold and the timing of their sale will depend on the homebuyer interest and general market conditions. The Agreement anticipates marketing home sites in the three remaining clusters of approximately 20 home sites per cluster. The City will require that 50 percent of each of these cluster’s parcels be sold by the Developer before proceeding to parcels in the subsequent cluster. For the town homes and single family lots, the Developer is required to purchase a minimum 60 parcels over a period not to exceed four years from the City. For purposes of projecting the Project’s cash flows it was assumed that 18 town homes and 50 single family parcels would be sold. Based on these assumptions, the Developer’s

¹ TID developments in Milwaukee include North Avenue Commerce Center, Marshall Fields (Grand Avenue), and the 875 East Wisconsin Avenue office complex.

costs total \$3.8 million including Developer fees and return, which are financed by town home and single family lot sales.

In conjunction with this town home construction and land development project, the proposed TID will finance public works (primarily street) improvements, site acquisition demolition and forgivable loans for the rehabilitation of existing properties in the proposed district. Construction of public improvements is conditioned on the construction beginning on 15 units, either town home or single family home construction. City funding through the TID amounts to \$3.6 million, including capitalized interest. Single family home construction, which is estimated at \$8.75 million, will be constructed by private builders and those costs are not reflected below. The following shows the total City and private sources and uses of funds for this project.

USES	
Public Works and Park Improvements	\$2,800,000
Site Acquisition and Demolition	200,000
Forgivable Home Improvement Loans	100,000
Capitalized Interest and Administration	475,000
Developer Project Costs	3,362,720
Developer Compensation	447,280
TOTAL USES	\$7,385,000
SOURCES	
City Bond Proceeds	\$3,575,000
Town Home Sales	3,060,000
Single Family Lot Sales	750,000
TOTAL SOURCES	\$7,385,000

Is the Project Likely to be Successful?

We have reviewed the feasibility study conducted by S.B. Friedman and Company and have independently calculated the cash flow projections for the project to determine the TID's feasibility. Using relatively conservative assumptions regarding the number of newly constructed town homes and single family homes, absorption rates and assessed values, and reflecting the City's carrying costs for this TID, we have concluded that the TID is likely to recover project costs by 2028, the 23rd year of the project. In testing the sensitivity of the District to the amount of new development, it is estimated that no fewer than 56 homes must be constructed at a average value of \$171,000 for the TID to remain feasible.

One of the risks facing the Project could be a lack of demand for new housing in the area, particularly in a rising interest rate environment. The risk to the City is that after making the public improvements, fewer than 56 homes are constructed. Somewhat offsetting this risk is the City's commitment to constructing the public improvements only after the 15th unit begins construction. Another strength is the Developer has a strong incentive to sell the parcels since its compensation depends extensively on the number parcels sold. The Department of City Development asserts that Legacy Bank has pre-qualified approximately 30 potential buyers for new home purchases in the TID. Combined, all of these factors mitigate the risk that a lack of housing demand would pose. Given the factors identified and accepting expected market risk, it is reasonably likely that project costs will be recovered.

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

Most of the proposed \$3.6 million in City project costs are for public improvements. These expenditures are for facilities the Developer would typically require for new home site development, but not finance. Therefore, it can be argued that these public improvements are necessary to allow private development to proceed.

In addition to the above City cash outlays, the City is committed to transfer up to 74 City owned parcels to the Developer at a discounted price of \$2,000 per parcel. This provides the developer with a City land subsidy of \$220,000- \$300,000. To avoid an excessive Developer subsidy as properties are sold, the development agreement limits Developer compensation to 15% of costs incurred during the four year construction period, with a 50% sharing with the City for any revenue above the 15% threshold. Developer costs used to determine compensation are limited to its direct costs with Developer administrative costs further limited to \$2,000 per single family parcel and \$5,000 per town home. This is a significant improvement from an earlier proposal, which did not include any limitation on the return to the Developer. Assuming the construction of 18 town homes and the sale of 50 single family home lots at projected budget levels, total compensation to the Developer is 13.3%². Should actual sales prices surpass these assumptions and the 15% return on costs exceeded, the 50% City share of excess sales proceeds should flow to the City (not RACM) per resolution 030096. DCD staff has indicated their support for this disposition of funds to the City of Milwaukee. The same should apply to proceeds generated from the sale of any City owned parcels.

Conclusions and Recommendations

The project builds upon the development momentum established by prior private and City assisted residential projects on the near north side – an area in need of continuing revitalization. Accepting a reasonable degree of real estate market risk, the proposed TID is feasible and the proposed infrastructure is necessary for private development to proceed. We recommend the proposed TID be approved upon receiving confirmation from DCD that per the development agreement the 50% surplus revenue flows to the City, not RACM, and that proceeds from the sale of City owned real estate parcels also flow to the City per resolution 030096.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux, , Maria Priolella, James Sayers

CDK/MJD/9-14-06

² Total Developer compensation includes developer fees for administration and overhead. Excluding these items the return to Developer on a costs basis is 6.2%.