



Office of the Comptroller

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December 11, 2008

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

RE: File 081070 Proposed TID 72: Bishop's Creek –Common Bond Communities Projects

Dear Committee Members:

The File before the Committee authorizes the creation of Tax Incremental District (TID) 72, known as Bishop's Creek Project, and approves the related Project Plan and Term Sheets (2) for the proposed district. This proposed TID includes the 5.2 acre former Kaiser Tannery site located on 32nd and Hampton and the surrounding neighborhoods. TID 72 proposes funding for the following:

- Financial assistance to Bishop's Creek Community Development Corporation (CDC) for land demolition and remediation activities (\$335,000) and public sewer improvements (\$150,000) for the entire 5.2 acre site: *\$485,000*
 - Financial assistance to Common Bond Communities for the construction of a 55 apartment unit Low Income Housing Tax Credit Project on 1.6 acres of the CDC owned site; *\$650,000* (Common Bond is also planning to request an additional \$600,000 from the City of Milwaukee's Housing Trust Fund.)
 - Funding a forgivable loan pool for improvements by property owners in surrounding neighborhoods *\$300,000*
 - DCD Administration and capitalized interest. *\$308,500*
- Total Proposed TID Financing** ***\$1,743,500***

The proposed total cost of the Bishop's Creek CDC land remediation project is about \$3.0 million including \$241,400 in additional expenditures disclosed this week. The proposed total cost of the Common Bond Communities apartment project is \$10.3 million. Government driven sources would comprise over 75 percent of total project costs.

Are the Projects Likely to be Successful?

We have reviewed the cash flows prepared by the Department of City Development's (DCD) consultant, S.B. Friedman & Company and conclude that the consultant's projection – that the TID debt issued can be repaid by year 18, or 2026 – is reasonable. However, the development project projections also demonstrate that the apartment project will not pay for itself, that is, the development will not generate sufficient tax revenues to offset the proposed City financial assistance. The full recovery of project costs through future TID property tax growth is dependent upon the inclusion within the TID boundaries of properties from the surrounding neighborhood. The proposed loan pool will promote surrounding value growth. With the help of tax revenues generated by surrounding properties, the project will likely fully repay the City debt issued.

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

In our December 8th letter to you (Attachment 1), we indicated our support of the development team of Bishops Creek and Common Bond Communities and the clearly demonstrated need for the proposed low-moderate income apartment development at the project site. However, we also raised issues regarding the apartment costs (\$188,000 per unit for an average 933 sq ft unit) and related City of Milwaukee financial assistance. We cited the proposed City reimbursement of a \$350,000 loss in land value as an underlying issue. We also cited the apparent above market sale price of land between the two developers and a \$1,200,000 apartment development fee as issues.

Since sending our earlier letter we have had an extensive work session with, and received additional information from DCD staff. The information provided by DCD has had the effect of our recognizing an additional \$241,400 in land remediation costs already incurred by Bishop's Creek. Also, uncertainty associated with meeting projected land sale revenues, holding costs, etc. and Bishop's Creek plan to retain two major parcels for future development as a community center and dormitory have led to a \$297,500 reduction in estimated future Bishop's Creek land sale revenues. These changes materially reduce the expected return to Bishop's Creek. While recognizing these changes, we continue to believe that its \$350,000 loss in land value over the past four years should not be reimbursed by a City of Milwaukee taxpayer grant. We do support inclusion of the land's current market value (\$150,000) as an appropriate project development cost. Utilizing market value rather than a premium over market value would reduce the required City of Milwaukee TID grant to Bishop's Creek CDC from \$335,000 to \$109,000. See Attachment 2. Also, we support the additional \$150,000 request for TID funds to accomplish needed sewer work at the site and the proposed \$300,000 forgivable loan pool to promote home improvement loans to surrounding property owners.

Regarding the Common Bond Communities apartment project developer, we understand that Common Bond and the Department of City Development have been working diligently with Bishop's Creek for some time to accomplish this development. All are to be commended for bringing the apartment project to this stage. We have no way of knowing just how much effort by Common Bond has been expended. We do believe that as new construction, the apartment project does not face the greater development/construction risks associated with rehabilitation projects. While noting that a portion of its development fee is deferred, we would ask Common Bond Communities to re-examine its currently proposed \$1,200,000 million fee to determine if any reduction is possible. At a minimum we would expect Common Bond Communities to advance that portion of its \$700,000 land purchase price to Bishop's Creek if needed to assure timely completion of the land demolition and remediation.

Conclusions & Recommendations

1. Provide the requested \$150,000 in TID funds for Bishop's Creek sewer work. Provide \$300,000 to capitalize a forgivable loan pool for surrounding property owner home improvements. Reduce the requested TID grant to Bishop's Creek from \$335,000 to \$109,000.
2. Request that Common Bond Communities re-examine its \$1,200,000 development fee to explore the potential for some reduction. As necessary, Common Bond should advance a portion of its land purchase price to Bishop's Creek as necessary for timely completion of the Bishop's Creek remediation project.
3. The commitment of City TID funds should be contingent on a final plan of finance for the both land remediation and apartment projects to assure that all financing is in place prior to authorization of any expenditure of City of Milwaukee funds.

Given accomplishment of recommendations, we would recommend support of both the Bishop's Creek land remediation and Common Bond Communities apartment development projects. Additionally, the Common Council should request that DCD establish guidelines for considering future low income tax credit projects to address issues such as inclusion/exclusion of already incurred costs, developer compensation, permissible profit margins to not-for-profit developers, etc.

Sincerely,



W Martin Morics
Comptroller

Cc Commissioner Marcoux, Maria Prioletta, Marianne Walsh



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December 8, 2008

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

RE: File 081070 Proposed TID 72 – Bishop's Creek Project

Dear Committee Members:

The File before your Committee would authorize the creation of Tax Incremental District (TID) 72, known as Bishop's Creek Project, and approve the related Project Plan and Term Sheets (2) for the proposed district. This proposed TID includes the 5.2 acre former Kaiser Tannery site located on 32nd and Hampton and the surrounding neighborhoods. TID 72 proposes funding for the following:

- Financial assistance to Bishop's Creek Community Development Corporation (CDC) for demolition and remediation activities and construction of public sewer improvements for the entire 5.2 acre site; \$ 485,000.
- Financial assistance to Common Bond Communities ("apartment developer") for the construction of a 55 unit Low Income Housing Tax Credit Project on the former Kaiser Tannery site on 1.6 acres \$650,000. Common Bond is also planning to request an additional \$600,000 from the City of Milwaukee's Housing Trust Fund.
- Funding a forgivable loan pool for improvements by property owners in surrounding neighborhoods \$300,000.
- Capitalized interest and DCD Administration \$308,500.

This TID involves two independent developers and two development projects, both requesting City financial assistance. There is also a land sale between these two developers as well as separate equity investors and tax credit driven cash flows. Since the initial data for these projects was provided by DCD on November 18th, the Department of City Development staff and DCD consultant have been most cooperative in assisting our Office in our analysis. However, due to the complexity of the projects and the issues we have thusfar encountered, we are not at this time able to complete our TID examination for your Committee in time for its meeting of December 9th.

Both Bishop's Creek CDC as a not-for-profit land developer and Common Bond Communities as apartment developer are well respected entities with the former having longstanding ties to the community. Also, this five acre parcel is clearly in need of development. However, while our analysis at this time is incomplete, we have identified material issues which we need to further explore prior submitting our report to your Committee. Among the issues we need to examine more closely are the following:

- The average cost of the apartment units exceeds \$186,000/unit. The average apartment unit square footage is just over 900 sq ft. While such per unit costs are not the highest we have seen in the city for tax credit projects, there are costs in this development as mentioned below we do not yet adequately understand.

- Common Bond intends to purchase 1.6 acres of land from Bishop's Creek for the apartment project. The proposed sale price of \$700,000 is about 22 percent above market according to the DCD consultant feasibility study¹ as confirmed by the City Assessor's Office, adding \$135,000 to the cost of the apartment project. This above market sale price in turn increases City taxpayer funding of the apartment project from \$515,000 to \$650,000 (+\$135,000), with sale proceeds going to Bishop's Creek. In effect, Bishop's Creek would receive a City subsidy of \$135,000 as a "pass through" from the City through Common Bond. We need to understand why the City of Milwaukee should provide this apparent above market increment.
- In addition, Bishop's Creek is also requesting City assistance in the form of \$150,000 in sewer work and an additional \$485,000 TID grant. Bishop's Creek total revenues after sale of its entire 5.2 acre parcel are estimated by the DCD consultant to total about \$3.1 million. Bishop's Creek costs would total \$2.3 million including the current value of its land, yielding an \$800,000 profit (+33%). Even if an estimated \$350,000 loss of land value since Bishop's Creek assumed ownership were included as reimbursable costs, this land project would still yield a \$450,000 profit (+20%) – a profit generated solely by the City through its indirect subsidy of the apartment project (\$135,000) and its TID grant to Bishop's Creek (\$335,000).

As "gap" financing, City taxpayer grants through the TID are limited to an amount necessary to enable a project to proceed. In light of the above market land sale subsidy (\$135,000) and TID grant (\$335,000) as mentioned previously, we would like to further explore the City assistance to the not-for profit CDC (Bishop's Creek) to gain a better understanding of the need for the proposed \$470,000 of City taxpayer assistance to this land remediation project.

- The apartment developer's development fee totals \$1,200,000, or 12% of the total development cost. This is at the maximum of the Wisconsin Housing & Economic Development Authority standards for such a fee and contributes to the high per unit apartment costs. We need to understand more about the justification for this relatively high level of developer compensation compared to most other tax credit projects.

Our Office reports to your Committee regarding the financial feasibility of Tax Incremental Districts. Our reports provide answers to the following questions:

1. Is the proposed project likely to succeed?
2. Is the proposed level of City of Milwaukee taxpayer assistance needed to enable the project to proceed?

We have not yet received sufficient information to conclude affirmatively that this proposed district meets those financial tests. As a result we would therefore request that your Committee hold the File at your December 9th meeting. Should your Committee hold the file, we will continue to work on this proposal and it is our intent to make a full effort to provide your Committee with a complete analysis prior to the December 16th Common Council meeting.

Sincerely,



W. Martin Morics
Comptroller

Cc Richard Marcoux, Maria Prioretta

¹ "TID Economic Feasibility Analysis – Kaiser Tannery Site Redevelopment –DRAFT", November 17, 2008; S.B. Friedman & Company, page 4.

Attachment 2

Attachment 2			
Kaiser Tannery Land - Bishop's Creek CDC Land Development Project Revenues & Costs			
DCD Consultant Report 11-17-08 Table 2 pg 4.	Revised	Comment	
COSTS			
Land Value	\$ 500,000		
Environmental	\$ 725,334		
Demolition-Abatement	\$ 1,315,748		
Other Site Development	\$ 105,000		
Legal	\$ 65,000		
Total Development Uses	\$ 2,711,082		
added costs =	\$ -		
TOTAL COSTS	\$ 2,711,082		
Of the proposed \$2.7 million, \$1.4 million are costs incurred over the past four years.			
REVENUES			
DCD Consultant			
Report 11-17-08			
Table 2 pg 4.	\$ 750,000		
Department of Commerce Grant			
Land sale proceeds @ market (\$10.27/sqft)	\$ 700,000		
from Common Bond Communities	\$ 1,341,104		
Future Land sales - @ \$8.50/sqft	\$ 2,791,104		
TOTAL REVENUES	\$ 2,493,604		
PROFIT/LOSS			
	\$ 80,022		
	\$ (108,878)		
	\$ -		
TID grant amount =	\$ 335,000		
Sewer improvements - City TID financed	\$ 150,000		
Total TID financial assistance to the CDC project.	\$ 485,000		
	\$ 108,878		
	\$ 150,000		
	\$ 258,878		
Recommend adding costs as per DCD 12/08/08 letter.			
Recommend compensating the CDC developer based on current land value, excluding loss in value since its purchase in 2004.			
Recommend reducing revenues as per DCD 12/08/08 letter & the following: "Bishop's Creek's proposed future phases include non-profit uses...the CDC's actual revenues may well be significantly lower than those in Table 2." Friedman Rept pg5.			
Recommend TID grant amount sufficient to close financial gap.			
Comptroller's Office 12/10/08			