



Office of the Comptroller

December 8, 2008

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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.

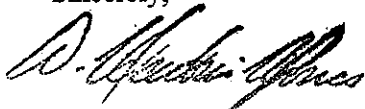
- The apartment developer's development fee totals \$1,200,000, or 12% of the total development cost. This is at the maximum of the Wisconsin Housing & Economic Development Authority standards for such a fee and contributes to the high per unit apartment costs. We need to understand more about the justification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

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