



Office of the Comptroller

July 16, 2004

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

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

Michael J. Daun
Special Deputy Comptroller

Anita W. Paretti, C.P.A.
Special Deputy Comptroller

Members of the Zoning, Neighborhoods
& Development Committee
City Hall, Room 205
Milwaukee, WI 53202

RE: File #040391, Amendment #1-TID 44
Project Plan, Josey Heights Development

Committee Members:

Tax Incremental District #44 - Walnut-Locust Neighborhood Improvement Fund - was established in 2001 to provide grants to support the construction and purchase by owner-occupants of affordable housing. TID 44 is located in a 312 acre area bounded by West Locust and Walnut Streets on the north and south, and North 12th and North 20th Streets on the east and west. The initial focus of the TID was a demonstration project known as Lindsay Heights to provide new and rehabilitated housing on scattered sites within the TID. An amount of \$1,755,000 was appropriated to provide \$10,000-\$15,000 grants to buyers for this purpose. By year-end, sixty housing starts will have been generated by this initial phase.

File #040391 would appropriate an additional \$2,000,000 for infrastructure and green space improvements, \$200,000 for capitalized interest and administrative costs and allow the sale of a 7.3 acre City owned site (currently a playfield) to the developer. The value of this City land is estimated at \$500,000 - \$650,000. The City's developer - The Josey Heights Development Partners, LLC - would design the development, construct the improvements, co-ordinate all construction activities and sell the housing units built. Assuming the development proceeds as planned, the developer would construct the necessary street, sidewalk and green space and sell 53 single family homes and townhouses and improvements. Planned sale prices range from \$175,000 to \$250,000. The City's anticipated sale price of the land totals \$75,000 or \$10,300 per acre. The estimated total project development cost is \$11.6 million.

Is the Proposed Josey Heights development likely to be successful?

As street, sewer-water and other public improvements proceed, the developer would build two model homes within the first six months as a basis for selling the remaining properties. Next, the developer would be required to complete 50% of the development within two years of the land purchase from the City and 100% within three years. DCD expects the planned 53 housing units to be built over a four-year period through 2007. Should sales move according to this plan the TID would fully repay the \$2 million in City bonds issued for the development together with interest by 2018-2021.

This housing development project does involve significant risk related to the projected sale of single family homes in the proposed price range - risk primarily borne by the City. Even with the \$40,000 per household subsidy provided by the City through its infrastructure grant to the developer, the price of the projected homes will average about \$213,000. According to DCD, to promote an effective customer response and a lower overall development cost, construction of the \$2 million in infrastructure work financed by the City grant must be completed prior to actual housing construction. In contrast, the

developer will look to actual sales commitments to determine the pace of household construction – that portion of project costs financed by the developer. Therefore, should customer demand fall far below expectations, the City will bear the brunt of the financial risk.

Considering the above, the DCD has incorporated various controls in the proposed development agreement to mitigate these risks. The developer must have a firm financing commitment prior to work beginning. DPW must examine and approve the public improvements budget to assure its is sufficient but not excessive. DPW will also approve all infrastructure specifications and related bids. All payments for public improvements will also be approved by DPW. As housing construction and sales proceed, the developer will provide quarterly progress reports to DCD. Finally, the City of Milwaukee retains reversionary rights to the land it will have sold to the developer if the developer fails to perform.

Considering the above and recognizing the significant risk associated with housing sales at the expected prices, we believe the proposed Josey development project has a reasonable opportunity for success.

Is the proposed \$2.6 million City financial participation necessary to make the Project happen?

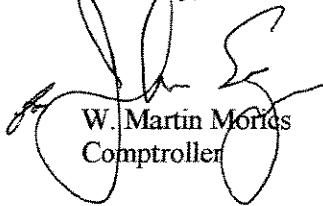
Proposed City financial participation totals about \$2.6 million - \$2.2 million for project costs and an estimated \$400,000 discount in the sale price of the City land.

The Walnut-Locust area included in TID 44 has made significant progress since the original TID was created. In the last five years, over 100 new homes have been built on vacant lots in the TID, most within the \$130,000-\$150,000 range. While the initial TID made direct grants to home buyers on scattered site lots, this amendment would only provide the necessary streets, water-sewer, etc. infrastructure with no direct buyer subsidy. Such a “no-buyer-subsidy” approach would not have been conceivable for a development project 4-5 years ago in this area.

Still, there were no developers proposing this level of housing development on or near this site on their own. DCD had to initiate a Request-for-Proposal to receive developer responses, from which it chose the proposed Josey Heights development approach. Were the City to simply subdivide this site and sell lots, some housing development would no doubt result. However, it is highly doubtful that the level and quality of housing units proposed in this project could be achieved in this lot-by-lot approach. It is therefore clear that without financial assistance in the range of what is being proposed, the 53 quality homes planned for this project and the new home-owners who would locate in this neighborhood would not be possible.

This proposed project brings with it significant opportunities and risks. We believe that barring a substantial increase in mortgage interest rates, this high quality housing project has a reasonable opportunity for success - an opportunity not possible without a significant City subsidy.

Sincerely,



W. Martin Morics
Comptroller

Cc Martha Brown
Maria Prioletta
James Sayers

Mjd/7-14-04