

**LEGISLATIVE REFERENCE BUREAU FISCAL ANALYSIS**

**ZONING, NEIGHBORHOODS & DEVELOPMENT COMMITTEE**

**OCTOBER 27, 2009**

**Item 9b, File #090805**

File Number 090805 is a resolution approving the term sheet for a cooperation and development agreement among the City, the Redevelopment Authority and the developer for a loan guarantee to the developer of the proposed Bookends apartment project, to be located at 700 East Kilbourn Avenue .

**Background**

1. Bookends North, LLC, which is 50% owned by New Land Development, LP, and 50% owned by Wiechman Enterprises, has proposed the development of the Bookends project on property at the northeast corner of East Kilbourn Avenue and North Van Buren Street. The Bookends would be a 19-story high-rise structure containing 224 rental apartments, 292 above-ground, structured parking spaces and 3,000 square feet of street-level retail space.
2. The term sheet and economic feasibility study attached to this file indicate that the Bookends will have a total project cost of \$60.2 million, with funding from the following sources:
  - Approximately \$51.75 million from a HUD-guaranteed 221(d)4 “senior loan” funded by Love Funding. The term of the loan is the construction period plus 40 years. The interest rate is likely to be in the range of 6-7%.
  - Approximately \$5.0 million in developer equity (\$2.6 million in cash equity and \$2.4 million in deferred developer fees).
  - \$3.45 million in a “subordinate loan” guaranteed by the City. The developer has not yet secured this loan, but it is anticipated to be funded by Emerald Isle Investment Partners. The loan is likely to have a term of approximately 7 years (construction period plus 5 years) and an interest rate of about 9%.

**Discussion**

1. This resolution approves the term sheet for a cooperation and development agreement by and among the City, the Redevelopment Authority and Bookends North, LLC, for a City of Milwaukee loan guarantee for the Bookends project. Specifically, the City will negotiate a cooperation and development agreement with RACM and the developer to provide a loan guarantee of up to \$3.45 million to support a subordinate loan that the developer will obtain.
2. Under this term sheet, key terms of the City’s loan guarantee include the following:
  - The City guarantee applies solely to the original principal amount of the subordinate loan, not to any interest.

- Upon a substantive monetary default by the developer, the full amount of the City guarantee will be paid to the subordinate lender.
  - The City guarantee will be ultimately secured by the full faith and credit of the City of Milwaukee. However, any City payments under this guarantee will be secured by personal guarantees from Boris Gokhman, Vladimir Shuk and James Wiechmann, the developers, who will also provide the City with a senior mortgage on The Sterling (an 11-story, mixed-use development at 1815 N. Farwell Avenue) and other real property collateral acceptable to the City.
  - The developer shall not assume any indebtedness in addition to the senior loan and the subordinate loan.
  - The City shall have the right to impose a long-term special assessment on the property to recover any funds the City has paid out on its loan guarantee.
3. The term sheet indicates that construction of the project shall commence by June 1, 2010 and reach completion within 19 months of the start date.
  4. The resolution also directs the proper City officials to enter into a cooperation and development agreement with RACM and the developer for the purpose of executing loan guarantee provisions which are substantially in accordance with the provisions of the project term sheet.

### **Fiscal Impact**

1. In the event of a default by the developer of the Bookends project, this resolution could ultimately obligate the City to pay as much as \$3,450,000 to the subordinate lender for the project.
2. This resolution also reserves, during the term of the loan guarantee, up to \$3,450,000 of the City's contingent borrowing authority for payment of the City's loan guarantee obligation to the developer's subordinate lender.
3. The fiscal note for this file indicates that the Department of City Development intends to propose the creation of a new tax incremental district to provide a "backstop funding mechanism" in the event the developer defaults on the subordinate loan and the City is called upon to make good on its loan guarantee.

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October 26, 2009

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