



Office of the Comptroller

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

RE: TID 44 -Amendment #3: Franklin Square Project

Dear Committee Members:

File 090926 is a resolution approving a third amendment to TID 44 – Walnut/Locust and an amended Project Plan and Development Agreement Term Sheet. The TID is bounded by West Locust Street on the north, West Walnut Street on the south, North 12th Street on the east and North 20th Street on the West. The TID was initially created in 2001 to support the Lindsay Heights initiative, a forgivable loan pool which assisted with new “infill” construction of single family homes and the rehab of existing vacant properties. Amendment #1, approved in 2004, provided funding for the Josey Heights initiative, which consisted of the construction of 53 new single family homes in the vicinity of North 12th Street and West North Street. Amendment #2, approved in 2005, provided an additional \$1 million in funding for the initial Lindsay Heights forgivable loan pool.

This File for Amendment #3 would authorize an additional \$630,000 to provide a \$600,000 loan to assist in the development of the Franklin Square Project and \$30,000 for City TID administration. The loan is to be made to the Developers, Maures Development Group, LLC and Brinshore Development Group, LLC, to help finance the construction of 37 affordable housing units in two buildings - a 27 unit apartment complex and a ten unit building with six town homes and four flats. These structures are within a tenth of a mile of each other in the general location of North Teutonia Avenue and West Hadley Street. The term of the City TID loan is for 15 years with simple interest of 3% and payment upon maturity.

Total project costs are \$8.7 million. The primary funding source is investor equity generated through Low Income Housing Tax Credits (LIHTC). This program provides a dollar for dollar tax credit reduction against federal income tax liability to investors providing equity into qualified projects. In exchange for receiving the equity generated by these credits, the Project must remain a qualified low income rental property for 15 years. The uses and sources of funds are provided below:

<u>Uses</u>		<u>Sources</u>	
Hard Costs	\$ 6,522,000	Tax Credit Equity	\$ 5,611,000
Developer Fees	917,000	WHEDA Exchange Funds	1,763,000
Soft Costs	832,000	City TID - Project Loan	600,000
Land Acquisition	313,000	First Mortgage	585,000
Reserves	115,000	Deferred Developer Fee	140,000
City TID - Administration	30,000	City TID - Administration	30,000
	\$ 8,729,000		\$ 8,729,000

In terms of total project costs, per unit development costs are \$235,000 per unit, which is above comparable projects such as Bishop's Creek at \$186,000 per unit. Another comparable LIHTC project, New Covenant Housing, had project costs of \$242,000 per unit, slightly above the total per unit costs for the Franklin Square project

There are two developers in partnership on this project - Maures Development Group, LLC (Maures) with a 35 percent partnership stake and Brinshore Development Group, LLC (Brinshore) with a 65 percent partnership stake. Maures is the local partner that put the deal together, assembled the land, obtained City approvals and worked with the neighborhood. Brinshore is the lead partner given its past experience with LIHTC projects. Brinshore has assembled the financing for the project, including the equity and the first mortgage commitments. Brinshore will also be responsible property management, LIHTC compliance, accounting and record keeping responsibilities during the 15 year compliance period.

As Brinshore brings significant experience to the Project and is taking the lead in overseeing the Project, its ownership share is greater at 65 percent. According to DCD, Maures is participating in the Project, in part, to develop its experience in LIHTC project development and its capacity to develop similar projects in the future. As building local developer capacity is an important component of the City's TID participation in the Project, DCD provided a draft operating agreement between both Developers. While the agreement sets the roles, responsibilities and rights of both partners, it does not identify required deliverables that would demonstrate Maures' building of capacity.

Is the proposed Tax Incremental Financing District likely to recover its costs?

In evaluating TID the ability of the proposed TID to recover project and financing costs over time through incremental property taxes, we evaluate the incremental value of the proposed district relative to its base year value to determine whether projected tax rates generate sufficient property tax revenue. In this instance, the \$630,000 of proposed project costs and an estimated \$315,000 of financing costs are to be recovered through incremental property tax revenue over the remaining 19 years of the 27 year life of the TID. Life-to-date, TID 44 has generated \$6.5 million of incremental tax revenue and continues to generate an additional \$1.9 million annually. Given this TID 44 will repay its existing costs by 2012. **With the additional \$945,000 in project and financing costs associated with this Franklin Square, TID 44 would still have sufficient increment to repay all TID costs in 2012.**

In terms of the impact that this specific project will have on the overall TID, assuming a \$9 million incremental value due to Franklin Place and an assumed 2.2 percent property tax rate, the incremental property tax revenue due to the Project is \$198,000 per year. This amount is sufficient to repay the \$945,000 in TID costs associated with the Project over five years. **Therefore, the Franklin Square Project has a non-material impact on the time required to recover all TID 44 project costs.**

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

The amount of the developer fee is driven by the inclusion of two developers and the related Department goal of expanding the capacity of local community based developers. The developer fee totals \$917,000, of which \$140,000 is deferred and generated from the Project's operating cash flows. The \$917,000 fee is 11 percent of total project costs, within the State (WHEDA) maximum guideline of 12 percent for LIHTC projects. On a per unit basis, the developer fee amounts to \$25,000 per unit which is well above the \$21,000 per unit developer fee for the recent City assisted Bishop's Creek project. DCD concludes that the potential for Project cost reduction is minimal. Therefore, to accomplish the DCD goal of expanding the capacity of local community based developers, the proposed City loan is required.

While the Developers are assuming some development risk via its first mortgage loan of \$585,000, as a LIHTC project they have virtually no equity in the project. As is typical of LIHTC projects, a tax credit equity syndicate - Red Stone Equity Partners for this Project - is providing the required equity through its purchase of the available tax credits.

Conclusions & Recommendations

The proposed Franklin Square Project budget should be adequate to complete the Project. Assuming on-going Project management consistent with Federal low income housing tax credit requirements, the Project should also be expected to generate property tax increments sufficient to repay the City loan within five or six years.

Should your Committee support the Department goal of expanding community based developer capacity and its associated TID costs, **we recommend that DCD include in the operating agreement measurable deliverables to be met by both developers toward achieving the desired community based developer training and experience with LIHTC Projects.**

We are also concerned that in spite of the numerous LIHTC projects approved by the City (TID, Housing Trust Fund or federal grant supported), there are limited project guidelines on which the City bases its approval. Therefore, we reiterate our earlier recommendations to your Committee (Comptroller letters of December 11, 2008 - Bishop's Creek (TID 72) and July 19, 2007 - Boulevard Commons (TID 40)):

"The Common Council should request ... for future low income tax credit projects" ...including limits on "...already incurred costs, developer compensation, permissible profit margins to not-for-profit developers, etc."

"We also recommend DCD develop guidelines for Developer compensation for TIDs involving Low Income Housing Tax Credits ..."

We further recommend that these guidelines be established were City participation is being considered, TID or otherwise, for all LIHTC projects seeking City Assistance.

Please contact me should you have any questions concerning this letter

Sincerely,


W. Martin Morics
Comptroller

Cc Richard Marcoux, Maria Prioletta; Clifton Crump

CK/Mjd/12-11-09