City of Milwaukee

Office of the Comptroller

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July 19, 2007

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

RE: File 070500 - TID 40 Adjustment
Boulevard Commons

Dear Committee Members:

TID 40 – West North Avenue/North Sherman Boulevard was created in 2000 to assist in the redevelopment of properties within the District's boundaries by funding public improvements such as harp lights, new sidewalks and parking lot improvements, and by funding the North Avenue Economic Development Fund (NAEDF) to provide business development loans and grants. Initial TID project costs were $1.5 million, which included $400,000 for the NAEDF. In 2005, borrowing authority for TID 40 was increased by $400,000 to provide additional funding for the NAEDF. File 070500, authorizes an additional $300,000 of borrowing authority for TID 40 to provide a loan through the NAEDF to New Covenant Housing Corporation (Developer) for the development of the Boulevard Commons project.

The loan to Developer will assist in the development of the Boulevard Commons project, which will consist of 23 rental units of affordable housing along with approximately 6,777 s.f. of commercial space. The proposed project is located on North Avenue between 42nd Street and Sherman Boulevard, immediately east of the former Finney Library. In addition to the City's TID loan, the project will be financed in part by equity attracted to the project through Low Income Housing Tax Credits (LIHTC). The projects sources and uses of funds are as follows:

Sources:		Uses:	
Low Income Housing Tax Credit Equity	4,267,109	Construction and Environmental	$ 4,324,000
Developer Loan	1,070,000	Land Acquisition	497,500
Project Grants	320,000	Soft Costs	672,515
TID Funded Loan	286,906	Developer Fee	450,000
	$ 5,944,015	Total Estimated Costs	$ 5,944,015

Developer will be responsible for the construction of the project, managing the 23 rental units as low income affordable through the 15-year LIHTC compliance period, and leasing the 6,777 s.f. of commercial space to tenant(s). At the end of the 15 year term, Developer intends sell the units as condos to owner occupants. Proceeds from property sales will repay the Developer's first mortgage and the City TID loan. The City TID loan, which is at a 4.5% interest rate for a 15 year term, will be repaid by Developer from 50% of net proceeds from the residential unit sales.

Units may be sold to existing tenants with Developer providing a tenant equity allowance of 50% of the rent paid in years 11 to 15. The maximum tenant equity allowance ranges from $20,000 to $32,000 for units ranging from $100,000 to $200,000. The unit prices and the tenant equity allowances are based on the payment of rents set at various percentages of county median income. A similar "lease/purchase" approach was used as part of a LIHTC project in TID 68 – Metcalfe Park Homes.

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Is the Project Likely to be Successful?
We have reviewed DCD's forecast of cash flows for TID 40 and conclude that with the additional $300,000, TID 40 will recover all project costs in approximately 13 years, or 2020.

Is the Proposed Level of City Assistance Required for Project Success?
In assessing whether the TID assistance is necessary, we note that this is a LIHTC project and as such Developer has virtually no equity in the project. However, the borrower is assuming development risk through its $1,070,000 mortgage loan. Developer's equity in the project is .01 percent with the equity syndicate Great Lakes Capital Fund providing the remaining 99.99 percent through its tax credit purchase. Therefore, Developer's compensation is analyzed as a percent of cost rather than return on equity. In terms of total project costs, per unit development costs are $242,000 per unit, which is in line with comparable projects such as Fond du Lac Center (250,000 per unit).

The Developer's compensation is generated from a developer fee and property sales. The developer fee, which is deferred, is generated from the project's cash flows and amounts to 7.6% of net project costs. This compares to WHEDA's guideline of 12 percent for LIHTC projects. In addition, Developer will receive up to $847,000, or $37,000 per unit, for property sales that occur after the 15th year. In addition, Developer will receive property management fee of 6% of net revenues for property management and LIHTC compliance reporting, with half of this fee going to the equity investor. In terms of the equity investor, Great Lakes Capital Fund, the internal rate of return is 5.33%.

The developer fee, property management and rate of return to investor are comparable to those of TID 68 – Metcalfe Park Homes. However, the Developer's proceeds from property sales are greater than those for Metcalfe Park Homes, which are $10,000 per unit sold.

As this project received the maximum LIHTC allocation of 9% and there other subsidy sources funding the project, and given that "front end" Developer compensation is in line with similar projects, one could conclude that it is not likely for the project to proceed without the City TID loan of $300,000.

Conclusions and Recommendations
We conclude that the TID is likely to recover its expenditures with the addition of $300,000 of TID funds. In terms of the need for assistance, Developer compensation appears to be in line will similar projects, aside from that "back end" compensation generated from property sales after year 15. As the City TID loan repayment is dependent on unit sales after year 15, there is some risk that the loan will not be repaid. However this risk is mitigated by the tax increments generated from the project. We recommend the Committee approve the project understanding the risks associated. We also recommend DCD develop guidelines for Developer compensation for TIDs involving Low Income Housing Tax Credits as well as TIDs involving lease/purchase arrangements. Such guidelines should assist the City in determining whether developer compensation for such projects is appropriate.

Please contact me should you have any questions concerning this letter.

Sincerely,

W. Martin Morics
Comptroller

Cc Richard Marcoux, , James Sayers, Maria Prioletta