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Office of the Comptroller

April 1, 2020

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

Re: File 191900, TID 104 – 37th Street School

Dear Committee Members:

File 191900 would approve the creation of Tax Incremental District (TID) 104, 37th Street School (The District), along with a corresponding project plan and term sheet. The Comptroller's Office has reviewed the project plan, feasibility study and term sheet, and has had discussions with Department of City Development (DCD). This analysis is based on the information provided.

The proposed District includes one property, totaling 69,130 square feet, located on North 37th Street between West Walnut Street and West Roberts Street, in the Washington Park neighborhood (the Property). The District is being created to partially fund the redevelopment of the former 37th Street School, creating 49 housing units; including a mix of efficiency, one and two bedroom units for elderly residents. Of the 49 units, 43 units will be affordable to households with incomes less than 60% of area median income and 6 units will be market rate (the Project). The Project is being developed by Heartland Housing Inc. and Community First (the Developer).

The total estimated costs for the Project are \$13,337,600. The proposed financing sources for the Project are shown in the table below.

Estimated Project Costs & Financing Sources	
First Mortgage	\$580,300
Historic Tax Credit Equity	4,031,000
Low Income Housing Tax Credits	7,136,300
City Tax Incremental District	460,000
City Housing Trust Fund	135,000
City HOME Funds	200,000
Federal Home Loan Bank	645,000
Deferred Development Fee	150,000
Total	\$13,337,600



This file authorizes \$460,000, to the Developer, to partially fund the redevelopment of the Property. The Developer will advance \$460,000 of costs. After substantial completion of the Project, the District will make annual payments to the Developer equal to the incremental taxes collected in the District, less annual expenses of \$3,000, until the \$460,000 plus 5.5% interest is repaid. However, the term sheet limits payments to the Developer to 20 years (2040 tax levy). If final Project costs are lower than the \$13,337,600 budgeted, the City's obligation to the Developer will be reduced by 50% of the cost savings.

The "developer financing" approach of the proposed District shifts the risk of this TID not breaking even from the City to the Developer. As a developer-financed TID, the Developer assumes the risk that the proposed District will generate sufficient incremental revenue to recapture their \$460,000 investment with interest.

Is This Project Likely to Succeed?

From a financial perspective, the proposed TID is viable given the City's contribution is limited to a 20-year tax incremental revenue stream from the District. The Developer assumes the risk of recovering their \$460,000 contribution.

DCD's feasibility study, which uses a constant 2.783% property tax rate and 1% inflation rate over the life of the TID, forecasts the Developer will fully recover the \$460,000, plus interest, after receipt of the 2040 levy (the final year of the City's obligation to the Developer). However, if the assessed valuation does not meet current projections, if the tax rate does not remain constant, or if the forecasted 1% annual appreciation is not realized, the Developer may not recover the entire \$460,000, plus interest. Nonetheless, because the Developer, not the City, assumes the repayment risk on their contribution to the District's costs, the economic feasibility of the proposed TID to the City is guaranteed.

Is the Proposed Level of City Financial Participation Required to Implement the Project?

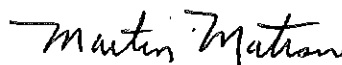
The proposed TID allows the City to provide incentive to the Developer to redevelop 37th Street School into a new residential building while minimizing the City's involvement and risk. While these expenditures may have occurred with or without this proposed TID, the redevelopment of the Property should increase the City's tax base.

Conclusion

The proposed TID provides the remaining funding necessary for the Developer to construct a new building on underutilized land, while assuming the financial risk, and increasing the City's tax base.

Should you have any questions regarding this letter, please contact Melissa Fulgenzi at extension 2307.

Sincerely,



Martin Matson
Comptroller

cc: Maria Prioletta, Lori Lutzka

MM/MRF