



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: File 001778 Proposed Lindsay Heights TID #44

Dear Committee Members:

File 001778 would create Tax Incremental District (TID) 44, Lindsay Heights, and approve the terms of a supporting City Contribution Agreement. This TID targets City financial assistance to encourage the construction of 60 new homes and the external rehabilitation of 75 existing homes within the proposed TID boundaries. These boundaries range from West Locust north to West Walnut Streets, and North 20th Street east to North 12th Street. This proposal is intended to complement recent construction and rehabilitation efforts in the area that have provided some growth in the recent past. The proposal would also be part of a continuing effort including State and Community Development Block Grant assistance, other City funding and private renovation efforts led by the YMCA.

The City would establish a Neighborhood Improvement Fund by providing \$1,725,000 as follows:

- 60 grants averaging \$10,000 to buyers of newly constructed homes (\$600,000)
- 75 forgivable loans averaging \$15,000 for exterior renovation (\$1,125,000).

The City's Neighborhood Improvement Development Corporation (NIDC) and a similar YMCA operated entity would administer the loans and grants made under the Fund. There would be no income limits associated with this program. The purpose is to provide incentives for home ownership and development by whoever chooses to live in the area. It is estimated that these grants and loans would be made over a three-year period. Should this TID be approved, DCD has indicated that additional expenditures may be proposed at a later time depending on the development needs of two sites within the TID (Lloyd Street Playfield & a YMCA site). This additional spending would require a subsequent TID amendment.

The DCD presents an alternative to the City's typical funding method. The traditional method is the issuance of General Obligation (GO) bonds. The interest rate associated with this GO financing method would be an estimated 4.6 percent. DCD recommends raising the required \$1,725,000 through a loan from LISC (Local Initiatives Support Corporation), a New York based, private non-profit organization whose corporate objective is to expand housing opportunities in areas needing redevelopment assistance. Under this alternative, LISC would lend the City the necessary \$1.725 million, to be repaid over 13-17 years, based on the annual tax increments generated. These funds would be raised by LISC from participating banks. The proposed interest rate for the LISC loan is about 5.5 percent (or +20% above the City rate) in today's market.

Should the City issue General Obligation bonds, future City tax levy will support repayment to the extent that tax incremental revenue is insufficient. Should LISC do the lending, the property tax increments generated by this TID will also be the primary source of repayment. A secondary support would come from a LISC guarantee of about 25 percent of the loan.

Is the Project Likely to be Successful?

With the aid of projected growth in other already developed property within the proposed TID, this proposed district should be able to close by 2013-2014, well under the Statutory maximum life of the TID. Existing property within the proposed TID 44 boundaries totals \$31,100,000. Future growth of this existing property – aided by the TID sponsored improvements - is expected to nearly double that resulting from new TID construction activity. Thus **the proposed TID would close successfully.**

Our Office performed a life-cycle cash flow analysis of the project, considering the time value of money and the State aids lost as a result of development. Including these factors, the project produces a modest current dollar loss of \$332,000 over a 20-year life assuming the City issues General Obligation bonds. Even so, given conservative DCD tax increment projections and the need to promote other successful housing development in the area, this relatively small projected loss would not discourage our support of the project.

Should the higher rate LISC loan be utilized, the TID would still be able to successfully close by 2013-2014. The City's loss for the LISC financing alternative grows slightly from \$332,000 to \$361,000 – a plus 9%. The negative impact of the higher LISC interest rate is modest because it is partially offset by a faster repayment (13 yrs. vs. 17 yrs.). Also, although the LISC loan comes with a partial guarantee, it is not likely to be needed because of the projected growth in existing property within the proposed TID boundaries. For these reasons, the 4.6 percent General Obligation bond financing is preferable to a 5.5 percent LISC loan.

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

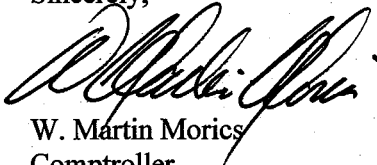
While there has been significant property value growth in this area over the past few years, much of this growth has come with the aid of public subsidy. Such public participation ranges from paint-up, fix-up grants to Wisconsin Housing Authority (WHEDA) and City discounted loans. Further, the above approach leverages private sector and other government sources by discounting – not replacing - private financing sources. While we are not aware of the specific terms of loan forgiveness, we believe the proposed grant and forgivable loan approach to be a sound one. We also believe that **without these or similar incentives, private housing financing in the area would not likely replace the proposed public financing.**

Conclusion

We believe **the proposed TID is a sound approach to continuing and indeed accelerating quality housing redevelopment and expansion in an area of severe need.** Further, we see the proposed level of City financial assistance prudent and wisely designed to encourage additional private sector participation.

The proposed LISC loan financing leaves the City taxpayer with annual interest payments at about 5 1/2 percent when the City of Milwaukee can raise these same funds at less than 4 3/4 percent. Therefore, from a taxpayer standpoint, the GO debt is less costly. If you have any questions about this letter, please call me.

Sincerely,



W. Martin Morics
Comptroller

Cc Julie Penman,
James Scherer
Mjd/6-7-01