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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000
HOUSING AUTHORITY
CITY OF MILWAUKEE

OFFICE OF PUBLIC AND INDIAN HOUSING

MAR 15 2019

Mayor Tom Barrett
City of Milwaukee
200 East Wells Street, Room 201
Milwaukee, WI 53202

Mr. Antonio M. Perez
Secretary/Executive Director
Housing Authority of the City of Milwaukee
P.O. Box 324
Milwaukee, WI 53301-0324

SUBJECT: Approval of Choice Neighborhoods Development Proposal & RAD Conversion
Westlawn Renaissance III
Westlawn Choice Neighborhoods Grant #WI5I523CNG114

Dear Mayor Barrett and Mr. Perez:

The Department of Housing and Urban Development (HUD) hereby approves the Development Proposal submitted by the Housing Authority of the City of Milwaukee (HACM) for Westlawn Renaissance III (WRIII), which is the third phase of the Choice Neighborhoods grant for redevelopment of the Westlawn public housing development. This submission satisfies the programmatic requirements of the Choice Neighborhoods program. In addition, HUD also hereby approves the conversion of 84 units to be constructed at WRIII to Section 8 Project Based Voucher assistance under the Rental Assistance Demonstration (RAD) program.

HACM submitted a Development Proposal for WRIII, along with supplementary RAD materials, as required by the HUD "Protocol for Review and Approval of RAD Projects Awarded Choice Neighborhoods Grants." These materials have been determined by both the Office of Public Housing Investments (OPHI) and the Office of Recapitalization (Recap) to meet the requirements of the Choice Neighborhoods program and RAD. Therefore, the WRIII project is approved for redevelopment under Choice Neighborhoods and for conversion under RAD, subject to the conditions contained in this letter and other program requirements.

Background

On September 28, 2015, the City and HACM received a Choice Neighborhoods Implementation Grant for the redevelopment of the Westlawn public housing project. Redevelopment will be done in eight phases, as described in the Choice Neighborhoods Transformation Plan. As part of this redevelopment, all 394 existing public housing units will be converted to Section 8 Project Based Voucher assistance under RAD. A RAD Multi-Phase Conversion Award letter was issued on September 19, 2016. All 394 public housing units have been demolished. Demolition was approved by OPHI on September 19, 2016, subject to

multiple Converted Awaiting Transfer (CAT) agreements issued by Recap, which provide for transfer of assistance under RAD at closing. Of the 94 new units to be built at WRIII, 84 will be converted under RAD. A Commitment to Enter into a Housing Assistance Payment (CHAP) was issued by Recap for 84 units at WRIII on March 1, 2017.

Project Description

WRIII includes development of two 3-story buildings on the corners of 66th and Silver Spring Drive. There will be a total of 94 units designed to serve general occupancy and families. Each building will have 47 apartments. The unit configuration is shown in Attachment 1.

Of the 94 units, 84 will convert under RAD to Project Based Section 8 assistance and also be subject to the requirements of the Low-Income Housing Tax Credit (LIHTC) program. The remaining ten units will subject to the LIHTC program requirements only. All 84-public housing/RAD units will count as Choice Neighborhoods Replacement Units. Families relocated as part of the redevelopment process will have the first right to return to the redeveloped units in accordance with Choice Neighborhoods and RAD requirements.

WRIII will be constructed to comply with the standards of the Wisconsin Green Built Home program. It will be built in accordance with Section 504 of the Rehabilitation Act, the Architectural Barriers Act, Title II of the Americans with Disabilities Act, the Fair Housing Act, and the Authority's obligation under its Choice Neighborhoods application to provide accessibility, adaptability, and visitability. A minimum of 5% of the units must be accessible for mobility impaired persons and 2% of the units must be accessible for hearing and sight impaired persons. Accessible units will be spread across all unit types in this phase. For additional information regarding accessibility, refer to PIH Notice 2010-26 at: <http://www.hud.gov/offices/pih/publications/notices/06/pih2010.26.pdf>.

The City conducted an environmental assessment under 24 CFR part 58, which covered the entire Westlawn redevelopment, including WRIII. The HUD Milwaukee Field Office authorized the use of grant funds (HUD-7015.16) on December 5, 2016.

Key Development Partners

WRIII will be developed by HACM. The Ownership Entity will be Westlawn Renaissance III LLC, whose Managing Member is WR Development III LLC. HACM is the sole member of the Managing Member. The Investor Member is PNC Bank. The Wisconsin Housing & Economic Development Authority (WHEDA) is the construction and permanent lender. Friends of Housing Corporation is the property manager. Travaux, Inc., an instrumentality of HACM, is the general contractor. Because this is an "identity of interest" issue, HACM submitted an independent cost estimate prepared by Catalyst Construction for each of the two buildings to be constructed. The construction cost reflected in Attachment 2 to this letter is less than the independent estimates and therefore the HUD identity of interest requirements have been satisfied.

Project Financing

As shown in Exhibit F of the Development Proposal Calculator, the total construction period budget is \$29,252,710 (Attachment 2) and the total permanent budget is \$34,964,439 (Attachment 3). There is an additional \$7,013,366 of "Part B" expenses incurred directly by

HACM for resident services, relocation, administration, demolition, and related soft costs, which are separate from other project construction costs.

Total Development Cost (TDC) Limits

Although the 84 Replacement Units being developed are not public housing, HUD still used the total development cost limits specified in HUD Notice PIH 2011-38 to ensure that the cost of development is within acceptable limits. Public Housing funds, which includes Choice Neighborhoods and public housing Capital Funds, in the amount of \$19,634,231, results in a Total Development Cost (TDC) that is within the TDC limits imposed on public housing development projects in the city of Milwaukee, Wisconsin. The project costs are at 99% of the TDC limit and 99% of the Housing Construction Cost (HCC) limit (Attachment 4).

Subsidy Layering Review

The subsidy layering review for the RAD units was undertaken by WHEDA on November 9, 2018. In addition, OPHI staff conducted a detailed review of all sources and uses of funds, development costs and fees, and project revenues and expenses, and found them to be reasonable and within HUD's Cost Control and Safe Harbor Standards (released by the Office of Public Housing Investments on April 9, 2003) and within the TDC and HCC limits imposed by HUD. In addition, the amount of public housing funds committed to the project meets the HUD pro rata test, in that the proportion of public housing funds does not exceed the proportion of RAD/Replacement Units.

Finally, as the project includes LIHTCs as part of the financing, the project was reviewed by HUD to ensure that the sale of these tax credits would result in an amount of net tax credit equity that is consistent with amounts generally contributed by investors to similar projects and under similar market conditions, and not less than 51 cents per dollar of tax credit allocation. Our review indicated that the gross equity contribution per dollar of LIHTC allocation is \$.91 and the net syndication proceeds to the Equity Investor is \$.84 per dollar of tax credit allocation (Attachments 5, 6 and 7).

Change to the Approved Proposal

After approval of the Development Proposal, should a change be required, HUD must first approve any material change. HUD defines material change as:

- (1) A change in the number of units;
- (2) A change in the number of bedrooms by an increase/decrease of more than 10 percent;
- (3) A change in cost or financing by an increase/decrease of more than 10 percent; or
- (4) A change in the site.

In the event of a material change, HACM must submit a letter informing HUD of the nature of the change. A new subsidy layering review may be required.

Next Steps

Upon receipt of this letter, please execute the enclosed RAD Conversion Commitment (RCC) and return the document to the Office of Recapitalization, as indicated on the signature page of the RCC. Upon receipt of the executed RCC, the project will be assigned to a RAD Closing Coordinator. The Closing Coordinator will manage both the RAD and Choice

Neighborhoods closings, which will take place simultaneously. A list of all required closing documents, including the Choice Neighborhoods documents, which must be submitted to HUD prior to closing, will be provided.

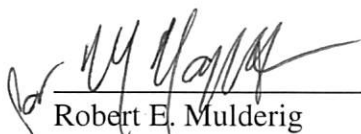
After execution and recordation of the Choice Neighborhoods evidentiary documents, HACM must submit to HUD for its review and approval two USB flash drives containing the following:

- copies of all executed and recorded Choice Neighborhoods documents previously approved by HUD in draft form. An index of the documents should be included, and each document should be copied as a discrete file;
- the required HUD opinions of counsel;
- a certification from counsel attesting that no material changes to the documents previously submitted to and approved by HUD have been made, or if changes have been made, a list of all changes, and;
- the final title insurance policy that reflects the recordation of all documents in the order approved by HUD.

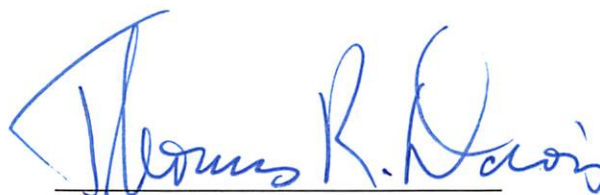
The executed Choice Neighborhoods documents should be sent to Luci Blackburn at HUD Headquarters within 30 days of the date of closing. No Choice Neighborhoods funds will be authorized for expenditure in the HUD Line of Credit Control System (LOCCS) until the executed evidentiary documents have been approved by HUD and HACM has submitted to HUD a Choice Neighborhoods Budget revision (HUD-53236) requesting authorization of Choice Neighborhoods funds approved for WRIII.

Congratulations on reaching this major milestone in the redevelopment of Westlawn. We look forward to working with you as you move towards completion of WRIII. Should you have any questions, please feel free to contact Luci Blackburn, Choice Neighborhoods Team Coordinator, at (202) 402-4190, or Pat Amerson, RAD Transaction Manager, at (202) 402-6041.

Sincerely,



Robert E. Mulderig
Deputy Assistant Secretary
Office of Public Housing Investments



Thomas R. Davis
Director
Office of Recapitalization

Enclosures

cc: Shirley Wong, HUD Milwaukee Program Center