ECONOMIC FEASIBILITY STUDY
TAX INCREMENTAL DISTRICT NO. 44, CITY OF MILWAUKEE
AMENDMENT NO. 1

June, 2004

I. Overview

In May, 2001, the City of Milwaukee created TID No. 44 to assist in the redevelopment of the Lindsay Heights Neighborhood, generally bounded by North 12th Street, North 20th Street, West Walnut Street, and West Locust Street. The original plan provided a capital fund of $1,755,00 for grants for forgivable loans to property owners for the rehabilitation of existing homes and the construction of new single-family homes on vacant scattered site lots in the district. The Local Initiatives Support Corporation (LISC) and a consortium of local lenders provided financing for the capital fund under a Cooperation, Contribution and Redevelopment Agreement whereby increment generated in the district was applied as repayment of the financing provided.

The plan also designated two areas within the TID containing sites with significant development potential, where infrastructure, in the form of new or improved streets and alleys were necessary to make developable home sites. The first amendment to the project plan adjusts the budget for the project to add $2,000,000 to fund infrastructure associated with the redevelopment of one of the areas located between North 12th, North 14th, West Brown and West Lloyd Streets.

This area is currently the site of the Lloyd Street Playfield, immediately across the street from Lloyd Street Elementary School. The original TID plan contemplated that, as market conditions were appropriate, the site could be redeveloped as a high quality single-family development.

Over the past five years, and spurred by the creation of the TID in 2001, over 100 new homes have been built on vacant scattered site lots in the district. Sales prices have averaged in the $130,000-$135,000 range. Additional priority development clusters have been designated within the district as lots in the original clusters have been sold and built on. In addition, the TID has assisted 75 existing homeowners with grants to rehabilitate their homes.

Building on the momentum created by the new investment in the area, in 2003, the Department of City Development issued a Request for Proposals for the Lloyd Street Playfield site for the construction of a high quality single-family development.
Seven proposals were received and Josey Development Partners, a local development partnership was selected to develop the site. Their proposal would create 37 single-family homes and 16 owner occupied townhomes with preliminary pricing estimated in the $175,000-$225,000 range.

II. Description of TID Improvements

In consultation with the City of Milwaukee's Department of Public Works, the infrastructure necessary to support the new development is estimated at $1,500,000. In addition, $500,000 has been budgeted for potential soil removal costs relating to some fill soils on a portion of the site, as well as some enhancements to the adjacent playground at Lloyd Street School.

The latter is being done in conjunction with the School and local neighborhood residents, to enhance the recreational space given the loss of the subject site as neighborhood green space.

The proposed development will not receive the benefit of the new construction grants that continue to be funded under the original Tax Incremental District. One of the goals of the Lindsay Heights initiative is to create a normally functioning market over time and lessen or eliminate the need for subsidies. It is also the goal of this specific development to not adversely compete with the scattered site infill activity in the neighborhood.

The estimated tax base added from the development site is conservatively expected to total almost $8 million. In addition, the successful development of the site will further continue the momentum in the Lindsay Heights Tax Incremental District and positively reinforce the existing infill market.

III. Tax Incremental District Analysis

An overview of projected financial performance of TID 44, City of Milwaukee (Walnut-Locust Neighborhood Improvement Fund) is contained in Exhibit "A".

The analysis is divided into two sections. Consistent with the original plan and the underlying Cooperation Contribution and Redevelopment Agreement with LISC, Phase I financed the creation of a neighborhood development fund to provide grants to encourage single family new construction and the rehabilitation of existing properties within the district. Funding of $1,755,000 was provided by LISC. LISC, in turn, borrowed these funds from a consortium of local lenders.

The agreement specifically carved out the Lloyd Street playfield as an "excluded parcel". Tax increments generated from the development of this site are not required to be paid to LISC in payment of the monetary obligation incurred by LISC's funding of the original TID grant pool.

While this amendment does not include any changes to Phase I of the Plan, updated financial analysis for this phase is being provided for informational purposes to reflect the performance of the TID to date. Table I reflects the revised assumptions for Phase I based on the average annual new construction starts in the district since its inception. Table II contains the revised district cash flow forecast. The district's base value has been calculated using current and accurate assessment information. The analysis has also been updated to reflect the actual interest rate that was negotiated with LISC and the lender consortium, (4.92%). Based on the revised projections, the district should generate sufficient revenues to retire Phase I debt from LISC in 2010.

Tables III and IV summarize the assumptions and forecasts associated with this amendment and the redevelopment of the Lloyd Street Playfield site. Costs associated with this phase will be financed through the issuance of a general obligation bond issue. Based on projected expenses, including two years of capitalized interest, $2,200,000 is borrowed at 4.5% with a 15-year level debt service repayment schedule. It is anticipated that $500,000 of this is borrowed at the end of 2004, and the balance ($1,700,000) is borrowed in 2005.

Table III reflects the assumptions for the redevelopment of the Lloyd Street Playfield site. The assumptions include 3 houses being built in 2004, with the balance being absorbed in the following three years. The assumptions also reflect the lag time between the when the houses are constructed and when the full value is placed on the tax rolls. While it is estimated that houses will be sold in the $175,000-$250,000 price range, for the purposes of this analysis, conservative estimates are used – with an average assessed value of $150,000.

Table IV reflects the overview of the projected financial performance and cash flow forecast for the redevelopment of the Lloyd Street Playfield site. Using the projected absorption rates, and an annual appreciation for property values in the project of 2.5%, this phase of the district is expected to achieve a cumulative surplus so that the associated debt can be retired in 2020.

Should the Phase I obligation to LISC be retired as projected, it would be possible that surplus revenues could be used to accelerate the repayment for Phase II general obligation debt. However, for the purposes of this analysis, Phase II is being viewed as a "stand alone" project. Under either scenario, all TID debt can be retired prior to termination of the district.

IV. Joint Review Board Test

In this section we evaluate the 3 tests, which the Joint Review must apply in determining whether or not to approve this amendment.

A. "But For"

The Joint Review Board must consider whether the development can occur without the use of tax incremental financing. To evaluate this criterion, we look at whether this project would be feasible without TIF assistance. Without TIF assistance, costs of the public infrastructure would have to be passed on to buyers of homes in the development – which would add $40,000 to the sales prices of individual homes. Currently, scattered site lots in the district being sold by the City for $1 for single-family home construction. This is being done to encourage an average new home investment of $135,000 in a neighborhood where the average existing home value is in the $20,000-$30,000 range. CityHomes (TID 28) originally provided $1 lots plus direct subsidies in the $30,000 range. Current Lindsay Heights scattered site infill buyers receive $1 lots plus a $10,000 incentive. The proposed Josey Heights buyers will receive no direct incentives. While much progress has been made in the past several years in reducing direct development subsidies for construction of single family homes in the area, the market has not reached the point where it could absorb lot sales in the $40,000 range. We believe the "but for" test has been met.

B. Economic Benefits

The Joint Review Board is charged with determining whether the economic benefits are sufficient to justify the investment of public funds. This has been evaluated in several ways.

First, the ability to retire TIF debt was considered. As structured, the district will close in 2020, prior to its 2023 termination.

Second, there are significant benefits derived from the $8+ million in new investment and 53 new single family homes in the neighborhood. The homes will further spur redevelopment in the area, as well as strengthen the market for new single-family infill construction, as well as the resale market for these homes.

Third, the project will create construction jobs and opportunities for emerging business enterprises.

C. Impacts on Other Jurisdictions

The Joint Review Board must also consider whether the benefits outweigh the anticipated tax increments to be paid by the owners of the property in the overlying taxing districts. The property is currently tax-exempt and generates no property tax revenue. The TID creates a new revenue stream for all applicable taxing jurisdictions. The owners of the property in the overlying taxing districts also will benefit when TID 44 is terminated and its incremental tax revenues can be used for general purposes.

In our opinion, the project clearly meets the Joint Review Board tests.

Table I

REVISED ASSUMPTIONS AND ASSESSMENT INFORMATION
PHASE I NEW HOME CONSTRUCTION
TAX INCREMENTAL DISTRICT #44

	Housing Starts	New Units Assessed Jan. 1	Cumulative Units Assessed	Cumulative Assessment
2001	15			
2002	15			
2003	15	15	15	$1,537,500
2004	15	15	30	$3,151,875
2005		15	45	$4,307,563
2006		15	60	$6,461,344
2007				$6,622,877
2008				$6,788,449
2009				$6,958,161
2010				$7,132,115
2011				$7,310,417
2012				$7,493,178
2013				$7,680,507
2014				$7,872,520
2015				$8,069,333
2016				$8,271,066
2017				$8,477,843
2018				$8,689,789
2019				$8,907,034
2020				$9,129,710
2021				$9,357,952
2022				$9,591,901
2023				$9,831,699
2024				$10,077,491

New Housing Starts in 2001	15
New Housing Starts in 2002	15
New Housing Starts in 2003	15
New Housing Starts in 2004	15
Average Assessed Value of new home:	$100,000
New Housing Esc. Rate:	2.5%

Table II

FORECAST OF DISTRICT CASH FLOW
TAX INCREMENTAL DISTRICT NO. 44
Phase I - funded under Cooperation, Contribution and Redevelopment Agreement with LISC

Yr.	New Housing Value	Remaining Property Value	Total District Value	Base Value	Tax Incremental Revenue	Tax incremental Payment	Interest @ 4.92%	Principal Reduction (Addition)	Principal Balance
2001	$0	$39,435,100	$39,435,100	$39,435,100	$0	$0			$1,755,000
2002	$0	$39,265,200	$39,265,200	$39,435,100	-$169,900	$0	$86,346	(86,346)	$1,841,346
* 2003	$1,537,500	$42,274,400	$43,811,900	$36,965,400	$6,846,500	$0	$90,594	(90,594)	$1,931,940
2004	$3,151,875	$43,331,260	$46,483,135	$36,965,400	$9,517,735	$184,856	$95,051	$89,804	$1,842,136
2005	$4,307,563	$44,414,542	$48,722,104	$36,965,400	$11,756,704	$256,979	$90,633	$166,346	$1,675,790
2006	$6,461,344	$45,524,905	$51,986,249	$36,965,400	$15,020,849	$317,431	$82,449	$234,982	$1,440,808
2007	$6,622,877	$46,663,028	$53,285,905	$36,965,400	$16,320,505	$405,563	$70,888	$334,675	$1,106,133
2008	$6,788,449	$47,829,603	$54,618,053	$36,965,400	$17,652,653	$440,654	$54,422	$386,232	$719,901
2009	$6,958,161	$49,025,343	$55,983,504	$36,965,400	$19,018,104	$476,622	$35,419	$441,202	$278,699
2010	$7,132,115	$50,250,977	$57,383,092	$36,965,400	$20,417,692	$513,489	$13,712	$499,777	$0
2011	$7,310,417	$51,507,251	$58,817,669	$36,965,400	$21,852,269	$551,278	$0	$551,278	
2012	$7,493,178	$52,794,933	$60,288,111	$36,965,400	$23,322,711	$590,011	$0	$590,011	
2013	$7,680,507	$54,114,806	$61,795,313	$36,965,400	$24,829,913	$629,713	$0	$629,713	
2014	$7,872,520	$55,467,676	$63,340,196	$36,965,400	$26,374,796	$670,408	$0	$670,408	
2015	$8,069,333	$56,854,368	$64,923,701	$36,965,400	$27,958,301	$712,119	$0	$712,119	
2016	$8,271,066	$58,275,727	$66,546,794	$36,965,400	$29,581,394	$754,874	$0	$754,874	
2017	$8,477,843	$59,732,620	$68,210,463	$36,965,400	$31,245,063	$798,698	$0	$798,698	
2018	$8,689,789	$61,225,936	$69,915,725	$36,965,400	$32,950,325	$843,617	$0	$843,617	
2019	$8,907,034	$62,756,584	$71,663,618	$36,965,400	$34,698,218	$889,659	$0	$889,659	
2020	$9,129,710	$64,325,499	$73,455,209	$36,965,400	$36,489,809	$936,852			
2021	$9,357,952	$65,933,636	$75,291,589	$36,965,400	$38,326,189				
2022	$9,591,901	$67,581,977	$77,173,879	$36,965,400	$40,208,479				
2023	$9,831,699	$69,271,527	$79,103,225	$36,965,400	$42,137,825				
2024	$10,077,491	$71,003,315	$81,080,806	$36,965,400	$44,115,406				

Borrowing rate: 4.92%
City Tax Rate: 27%
District Value and New Housing Escalation Rate: 2.5%
*Base value corrected in 2003 due to reporting error

Table III

ASSUMPTIONS FOR NEW HOME CONSTRUCTION AND SALES
PHASE II DEVELOPMENT OF LLOYD STREET PLAYFIELD SITE
TAX INCREMENTAL DISTRICT #44

	Housing Starts	New Units Assessed Jan. 1	Cumulative Units Assessed	Cumulative Assessment
2004	3			
2005	20			
2006	20	3	3	$461,250
2007	10	20	23	$3,624,656
2008		20	43	$6,945,945
2009		10	53	$8,775,312
2010				$8,994,695
2011				$9,219,563
2012				$9,450,052
2013				$9,686,303
2014				$9,928,461
2015				$10,176,672
2016				$10,431,089
2017				$10,691,866
2018				$10,959,163
2019				$11,233,142
2020				$11,513,970
2021				$11,801,820
2022				$12,096,865
2023				$12,399,287
2024				$12,709,269

Estimated Assessed Value of New Home: $150,000

New Housing Starts in 2004 3
New Housing Starts in 2005 20
New Housing Starts in 2006 20
New Housing Starts in 2007 10

New Housing Esc. Rate: 2.5%

Table IV

FORECAST OF DISTRICT CASH FLOW
TAX INCREMENTAL DISTRICT NO. 44
Phase II - Redevelopment of Josey Playfield

	Yr.	New Housing Value	Est. District Value	Base Value	Incremental Value	Tax Incremental Revenue	Bond Payment	Annual Surplus (Deficit)	Cumulative Surplus (Deficit)	Bond Balance
	2004	$0	$0	$0	$0	$0	-	-	-	
	2005	$0	$0	$0	$0	$0	-	-	-	
	2006	$461,250	$461,250	$0	$461,250	$0	-	-	-	
	2007	$3,624,656	$3,624,656	$0	$3,624,656	$12,454	$205,000	-$192,546	-$192,546	$2,094,149
	2008	$6,945,945	$6,945,945	$0	$6,945,945	$97,866	$205,000	-$107,134	-$299,681	$1,983,536
	2009	$8,775,312	$8,775,312	$0	$8,775,312	$187,541	$205,000	-$17,459	-$317,140	$1,867,945
1.025	2010	$8,994,695	$8,994,695	$0	$8,994,695	$236,933	$205,000	$31,933	-$285,207	$1,747,152
	2011	$9,219,562	$9,219,562	$0	$9,219,562	$242,857	$205,000	$37,857	-$247,350	$1,620,923
	2012	$9,450,051	$9,450,051	$0	$9,450,051	$248,928	$205,000	$43,928	-$203,422	$1,489,015
	2013	$9,686,303	$9,686,303	$0	$9,686,303	$255,151	$205,000	$50,151	-$153,270	$1,351,170
	2014	$9,928,460	$9,928,460	$0	$9,928,460	$261,530	$205,000	$56,530	-$96,740	$1,207,122
	2015	$10,176,672	$10,176,672	$0	$10,176,672	$268,068	$205,000	$63,068	-$33,672	$1,056,592
	2016	$10,431,088	$10,431,088	$0	$10,431,088	$274,770	$205,000	$69,770	$36,098	$899,288
	2017	$10,691,866	$10,691,866	$0	$10,691,866	$281,639	$205,000	$76,639	$112,738	$734,906
	2018	$10,959,162	$10,959,162	$0	$10,959,162	$288,680	$205,000	$83,680	$196,418	$563,126
	2019	$11,233,141	$11,233,141	$0	$11,233,141	$295,897	$205,000	$90,897	$287,316	$383,617
	2020	$11,513,970	$11,513,970	$0	$11,513,970	$303,295	$205,000	$98,295	$385,610	$196,029
	2021	$11,801,819	$11,801,819	$0	$11,801,819	$310,877	$205,000	$105,877	$491,488	0
	2022	$12,096,865	$12,096,865	$0	$12,096,865	$318,649				
	2023	$12,399,286	$12,399,286	$0	$12,399,286	$326,615				
	2024	$12,709,268	$12,709,268	$0	$12,709,268	$334,781				

Interest rate on bonds of 4.5%
Estimated assessed values of new homes - $150,000
Expenditures of $500,000 in last quarter of 2003 and $1,500,000 in 2004
Tax rate at $27 per $1,000 of assessed value
Average appreciation rate of 2.5% per year.