

COMMUNITY DEVELOPMENT

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MEMO

To: Common Council
Kevin Lahner, City Administrator

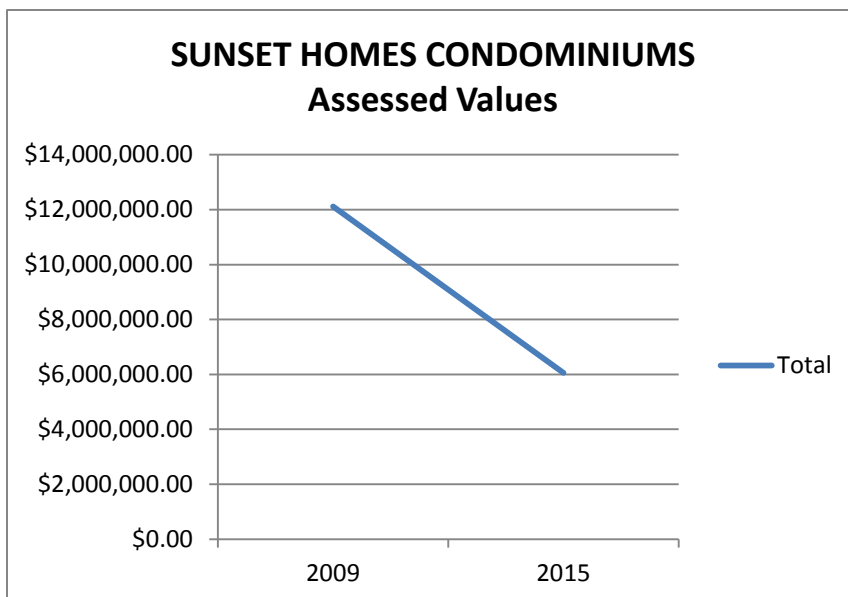
From: Jennifer Andrews, Community Development Director

Date: August 26, 2015

Re: TID 22 Amendment

On the September 1, 2015 Common Council agenda there is a resolution to amend Tax Incremental Finance District 22. TID 22 was created in 2013 and includes the former Kmart property and the new Meijer store on Sunset Dr. When the borders for the district were created the Sunset Homes Condominium property was included. This property was included because it had significant visible signs of decline. At the time it was felt that it was appropriate to include the property anticipating that at a future date there may be an opportunity to make improvements to the property. Although the property was included in the boundaries, no project costs were assigned to the improvement of the property.

Sunset Homes was built in 1973. In recent years the property has seen significant physical decline. The value of the property has also dropped dramatically since 2009. The assessed value in 2009 was \$12,112,800. In 2015 the assessed value had dropped to \$6,058,600. The staff feels it is important that this property not continue into blight as that would have a negative effect on the properties in the proximity.



The staff has had several discussions with the condo association regarding the condition of the property. There are a number of issues that have led to the decline of the property.

1. The loss of value has made it nearly impossible for owners to sell their properties without incurring significant losses.
2. A significant number of foreclosures occurred during the recession resulting in significant defaults in dues.
3. Mismanagement of the association by a previous management company resulted in reserves that are too low to make significant improvements to the property.



4. The materials of the buildings have exceeded their useful life. Since all the buildings were built at the same time, all of the buildings are in distress at the same time.
5. The association has not been able to qualify for an improvement loan from a private lending institution to make the improvements needed.
6. The condition of the property has resulted in a situation where lenders will not make mortgages on the property therefore any sale of units must be cash instead of financed. This has made it very difficult for owners to sell their units except to investment companies who desire to use the units for rental.

In the last 3 years the executive committee of the association has taken a number of steps to address the issues listed above.

1. Contracted with a new management company.
2. Reduced delinquencies from 33 units to 8 units.
3. Conducted a reserve study to determine improvements needed and the increase needed to their reserves to achieve this.
4. Attempted to secure an improvement loan with a lender.
5. Received approval from owners to increase monthly dues by \$100.

The City has often used TIF to eliminate blight. Recently the City has provided the following TIF grants:

- \$2,600,000 to a developer to redevelop the former Kmart property.
- \$3,500,000 to a developer to redevelop the former Spancrete site.
- \$7,000,000 in infrastructure improvements and grants to facilitate the redevelopment of the former Fleming property.

The purpose of the TID 22 Amendment is to provide a loan to the Sunset Homes Condominium Association for improvements to the common areas of the property. The common areas include roofs, siding and site improvements. The purpose of the loan is to facilitate the elimination of the growing blight on this property. If these improvements are not made, the staff strongly believes the property will further decline into a full blight condition and there will be a further decline in the assessed values resulting in lower tax collections and a greater drain on city resources and services. Furthermore, it will have significant negative impacts on the property values of the surrounding properties.

The property owners are eager to find a financial avenue that allows for the improvements needed to the common areas of the property. At this time, the association is proposing using the additional \$144,000 in dues it will be collecting from its owners for a loan payment. This would allow the City to provide a \$1,650,000 loan to the association. The city would borrow the \$1,650,000 and provide a loan to the association at the same interest rate and costs that the City would incur. The term of the loan would be 15 years. In addition, there would be a condition that the association contract with an owner's representative to oversee the work being done. The owner's representative will then ensure that the contractors chosen are of a high caliber and that the work being done is high quality. The City, through the Plan Commission, will have the final say on materials used.

In addition, with these improvements there is an expectation that the assessed values will rise and the City will collect additional tax dollars within the Tax Incremental Finance District (tax increment). The staff would also propose that the City would use that increased tax increment to cure a default if a default occurs. Usually tax increment is used to pay back the loan the City has incurred to provide a grant to a developer. In this case the increment generated would only be used if there was a default in payment for the loan by the condominium association.

The City has desired to maintain and increase home ownership in the City. The action of facilitating the improvements to this property is in line with that desire and will help preserve an entry level home ownership opportunity in the City. In addition, it preserves the property values of the surrounding properties and eliminates a growing blight condition. Often the City has provided an out right grant to facilitate the elimination of blight. In this case, the future increase in assessed value is uncertain and can not be guaranteed, as it often is with a developer. For that reason the proposal is to provide a loan instead of a grant and allow for the repayment over the natural life of the TID. Any loan agreement would come separately to the Council for approval.

This is a situation with a unique set of traits including but not limited too:

1. The property is located within a Tax incremental Finance district.
2. The property has lost 50% of its value in the last 6 years.
3. The entire property is in need of serious and substantial repairs.
4. The property is in a blighted condition.

It is this grouping of traits that make this project unlike most other residential properties in the city. Although providing this type of loan to a multi-family type development is new to the City, we have provided TIF loans to individual property owners in other districts to make improvements to homes in blighted areas. Combining TIF funding with CDBG funding has been an effective tool for several years to eliminate blight in central city neighborhoods one house at a time. In this case, blight would be eliminated for 120 homeowners on 12 acres of property.

Also attached to this memo is some general information regarding tax incremental financing. Please contact me or Kevin Lahner with any questions you may have regarding this project. Thank you for your consideration of this TIF blight elimination project.