

COUNTY OF MILWAUKEE
Inter-Office Communication

DATE: July 3, 2014

TO: Marina Dimitrijevic, Chairwoman, Milwaukee County Board of Supervisors

FROM: Héctor Colón, Director, Department of Health and Human Services
Prepared by James Mathy, Housing Administrator

SUBJECT: **Report from the Director, Department of Health and Human Services (DHHS), requesting authorization for the Housing Division, in conjunction with Corporation Counsel, to revise a promissory note with the West Allis Community Development Authority**

Issue

In 1994, Milwaukee County authorized \$400,000 in HOME funds to the Community Development Authority (CDA) of West Allis to fund 11 units of a 63-unit senior housing project located at 11425 W. Greenfield Avenue in West Allis (Resolution File No. 94-592). The project is owned and developed by MSP Real Estate.

The development is currently experiencing an average vacancy rate of 13 percent which is creating a negative cash flow for MSP Real Estate. For this reason, MSP is seeking to refinance its debt in order to make improvements to the development.

Background

A promissory note was signed by the CDA in December 1994 and HOME funds were issued to MSP to finance a portion of the development. The promissory note reflects a loan of \$400,000 plus interest of 1.78 percent. The total interest over the life of the loan is \$200,000 for a total debt of \$600,000.

The terms of the loan require annual payments of \$40,000 starting in March of 2011 with the final payment of \$40,000 due in March 2025. MSP is current on its loan payments and has made four payments to the CDA which in turn has issued checks totaling \$160,000 to the Housing Division. These checks were deposited as program income into the HOME trust account.

MSP is seeking to refinance the debt on the project to address its negative cash flow. The development is nearly 20 years old and lacks the features of competing senior developments in the area. If the outstanding interest is forgiven, MSP would use these freed up funds to make improvements to the property to increase the development's marketability.

HOME project loans made by the Housing Division generally provide a 0 percent interest loan and deferred payment. In 1994, however, loans issued by the HOME Program included

interest. In addition, of the projects that were approved at that time, this is the only development that continues to operate.

The HOME Program has a 20-year affordability requirement for newly constructed housing. During this period, units must meet income and rent limits or the initial HOME investment must be recaptured. If this project fails or goes into foreclosure prior to 2016 causing the 20-year affordability requirement to be unmet, the County may need to repay HOME funds to HUD.

The 11 senior units are one-bedrooms and are leased for \$686 per month or below. The 11-units are in compliance with HOME regulations, have passed inspections as well as a rent audit conducted by the Housing Division.

The Housing Division is recommending waiving the interest which will reduce HOME program income by approximately \$200,000 over the next 10 years. The initial investment of \$400,000 from 1994 will still be recovered for reinvestment into other affordable housing developments.

Recommendation

The Director, Department of Health and Human Services (DHHS), requests authorization for the Housing Division to work in conjunction with Corporation Counsel to revise a December 14, 1994 promissory note with the Community Development Authority of West Allis to reflect the waiver of \$200,000 in interest for a senior housing project located at 11425 W. Greenfield Avenue.

Fiscal Impact

A fiscal note form is attached.



Héctor Colón, Director
Department of Health and Human Services

cc: County Executive Chris Abele
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