

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: July 1, 2011

TO: Lee Holloway, Chairman, County Board of Supervisors

FROM: Pamela Bryant, Interim Fiscal and Budget Administrator, Department of Administrative Services

SUBJECT: Due Diligence Report for the allocation of funds from the Special Needs Housing Program (SNHP) to Milwaukee Center for Independence (MCFI)/ Transitional Living Services (TLS) for a supportive housing development.

Request

The Department of Administrative Services is recommending approval of a \$272,000 grant from the Special Needs Housing Capital Project to the Highland Commons Project in West Allis to provide 50 permanent supportive housing units for Milwaukee County Behavioral Health clients.

Background

Transitional Living Services (TLS), a non-profit organization and affiliate of the Milwaukee Center for Independence (MCFI), has provided support services in the community for over 40 years. ~~The~~ organization currently owns 22 group homes and supported apartments for people living with serious and persistent mental illness. For more than 20 years, TLS has worked with Milwaukee County to provide support services to BHD clients.

In 2007, WHEDA filed a foreclosure action against Tri-Corp Housing Inc. owner of New Samaria, which is a rooming house for people with mental illness and substance abuse problems. The company was also delinquent on its payments to WE Energies, who threatened to disconnect the utilities at this facility. Had this occurred, there would have been a loss of housing for 70 residents. To preserve the property and continue operations, New Samaria was placed under the receivership of Cardinal Capital Management, Inc. in 2008.

In order to provide better housing opportunities for mentally ill clients, Cardinal Capital Management, Inc. collaborated with Transitional Living Services (TLS) to construct Highland Commons, a 50 unit permanent supportive housing development for residents who have been diagnosed with severe and persistent mental illness. This will be the first supportive housing development outside the limits of the City of Milwaukee. TLS will provide services that offer mental health education, medication management, wellness recovery action plans (WRAP), community involvement, socialization and leisure activities, and functional literacy groups.

Review & Analysis

The Department of Administrative Services (DAS) - Fiscal Affairs has reviewed the project proposal from MCFI/TLS and prepared the analysis that follows:

The total project costs for the 50-unit permanent supportive housing development is \$9,426,375. The original request from MCFI/TLS was for an allocation of \$300,000 from the Special Needs Housing Fund (SNHF). At the beginning of 2011, there was approximately \$632,000 remaining in this fund. In March and April of 2011, the County Board approved the allocation of \$260,000 for the Autumn West Project and \$100,000 for UMCS Phase III, reducing the amount remaining in the SNHF to its current balance of \$272,000. As a result, the project will have a gap of approximately \$29,528. However, Cardinal Capital Management, Inc. has determined that developer fees would be reduced by \$29,528 in order to cover the remaining project balance. Deferring this fee will not have a negative impact on the developer. Once the facility is occupied, a portion of the net cash flow for the next couple of years would be used to pay the deferred developer fees.

The funding requested from Milwaukee County would be used to support the construction of the 50-units that will be located at the existing New Samaria development located at 6700 West Beloit Road in West Allis, Wisconsin. The organization will also receive funding from the following sources:

- \$8,239,847 in Tax Credits
- \$785,000 in permanent financing from the Wisconsin Housing and Economic Development Authority (WHEDA)
- \$100,000 from the City of West Allis' Neighborhood Stabilization Fund

Cardinal Capital Management, Inc., the primary developer on this project, has worked on several housing projects for people with special needs. In 2007, the County Board approved the allocation of \$500,000 for the construction of United House, a 24 unit supportive housing development for BHD clients, where Cardinal Capital Management, Inc. worked as the developer on this project with United Christian Church. The developer has also constructed other special needs housing facilities in Milwaukee County such as, Empowerment Village-National (Opened January 2011), Empowerment Village- Lincoln (Opens September 2011), and Veteran's Manor (Opened Memorial Day 2011).

Cash Flow Projection

The first years projected cash flow from this project is approximately \$28,536. This cash flow projection assumes that 100% of the units will be filled, with a monthly rent payment of \$690 resulting in annual rental income of \$414,000. All of the units will be subsidized through Section 8 housing vouchers, where residents pay 30% of their adjusted gross income as rent. The primary source of income for most of these residents would be social security disability income.

Although it is expected that all units will be filled, this projection also includes a 7% vacancy allowance resulting in a decrease in rental revenue of \$28,980, for a total annual rental income projection of \$385,020.

In addition to the vacancy allowance, this projection also assumes a project operating budget of \$261,251 and debt service costs of \$95,233 for a total net cash flow of \$28,536 for the first year. The table below illustrates the cash flow projection for the next 20 years.

Year	1	2	3	4	5	6	7	8	9	10
Net Rental/Other Income	385,020	392,720	400,574	408,585	416,757	425,092	433,594	442,266	451,111	460,133
Total Operating Expenses	261,251	269,089	277,162	285,477	294,041	302,862	311,948	321,306	330,945	340,873
Debt Service	95,233	95,233	95,233	95,233	95,233	95,233	95,233	95,233	95,233	95,233
Net Cash Flow	28,536	28,398	28,179	27,875	27,483	26,997	26,413	25,727	24,933	24,027

Year	11	12	13	14	15	16	17	18	19	20
Net Rental/Other Income	469,336	478,723	488,297	498,063	508,024	518,184	528,548	539,119	549,901	560,899
Total Operating Expenses	351,099	361,632	372,481	383,655	395,165	407,020	419,231	431,808	444,762	458,105
Debt Service	95,233	95,233	95,233	95,233	95,233	0	0	0	0	0
Net Cash Flow	23,004	21,858	20,583	19,175	17,626	111,164	109,317	107,311	105,139	102,794

Financial Impact

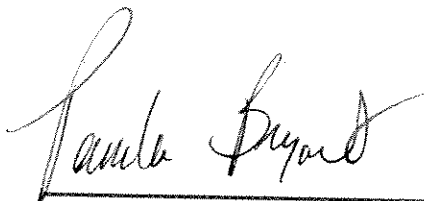
A total of \$3,000,000 has been allocated to the Special Needs Housing Fund since its inception in 2007. There is approximately \$272,000 remaining in this fund.

The County is currently paying approximately \$425,000 annually through 2017 to retire the loan from the State Trust Fund Loan Program. The annual amount decreases to \$278,000 each year for the two remaining years 2018 and 2019. Approval of the grant request from MCFI/TLS for \$272,000 will reduce the amount remaining in the SNFH to \$0.

Recommendation

The DAS is recommending approval of the \$272,000 grant to MCFI/TLS for the Highland Commons development with the following conditions:

- Cardinal Capital Management, Inc. and MCFI/TLS will provide formal documentation that all funds have been received prior to the release of the \$272,000 grant from Milwaukee County.
- Development agreement includes language that specifies that all 50 units will be designated for BHD clients.
- Development agreement includes language that specifies that if for some reason the building or land is sold, the County will recover 10% of the sale proceeds or \$272,000, whichever is greater.



Pamela Bryant, Interim Fiscal and Budget Administrator