

Great Lakes Capital Fund

FOR INVESTORS, DEVELOPERS AND COMMUNITIES

29 March 2005

Daniel B. Casey Rochester Hills Economic Development Office Rochester Hills, Michigan

Mr. Casey:

Mr. Lou Prues of Lutheran Social Services of Michigan / Danish Village has been discussing the possibility of refinancing Danish Village in order to secure funds to upgrade Danish Village and extend its useful life as affordable housing for seniors.

As you know, Danish Village is a 150-unit, senior citizen apartment building that was constructed using a HUD mortgage, 25 years ago. It is a well built building on a beautiful site, but is currently in need of approximately \$3,750,000 in repairs and improvements. The most likely source for this size of funding would be the Low Income Housing Tax Credit program. Developers can apply for these Tax Credits on April 15, 2005 and if credits are awarded, the Great Lakes Capital Fund will purchase the credits, giving Danish Village Limited Dividend Housing Association-Limited Partnership (LDHA-LP) the funds necessary to make the improvements.

Through the Tax Credit program, Danish Village must maintain its affordable rents for a minimum of 15 years. However, to be competitive in the tax credit application process, Danish Village LDHA-LP must commit to an extended "affordability period" of an additional 30 years and have a commitment from the local taxing jurisdiction for a tax abatement. In order to assure affordability, Danish Village LDHA-LP is requesting a "Payment In Lieu of Taxes" (PILOT) for the entire 45-year period. According to State Law, a PILOT payment can range from Zero to 10% of the collected rents minus the project-paid utilities.

In the case of Danish Village LDHA-LP, we are requesting a 4% PILOT, which we anticipate will provide Rochester Hills with between \$26,000 and \$30,000 per year for the first 10 years, and increasing based on a gradual increase in rents during the next 35 years. Our projections are attached, but the actual amount paid each year would be determined by annual third-party audit of project income and utility expenses.

Unfortunately, the State of Michigan no longer makes up the difference between the PILOT payment and the full taxation rate, and we do recognize the fact that Rochester Hills will be making a significant contribution to affordable housing by granting this PILOT. However, the direct benefit will go to the Danish Village tenants and allow them to pay approximately \$50 per month less in rents.

At the end of the initial 15-year affordability period, the Great Lakes Capital Fund will make a charitable donation of our interest in the partnership back to Lutheran Social Services of Michigan who will continue to operate Danish Village under a Tax Credit Regulatory Agreement for an additional 30 years.

I am attaching our initial financial projections for Danish Village and a copy of the language recommended by MSHDA for PILOT ordinances.

A final service that Danish Village LDHA-LP is asking of Rochester Hills is that action on this request be expedited. The application process for Low Income Housing Tax Credits is very competitive and requires all applicants to score a number of "points" on MSHDA's scale. Five points are awarded for a project-specific PILOT ordinance. We anticipate needing these five points in order to be successful in our application, so we are asking Rochester Hills to pass this ordinance prior to the April 15, 2005 Tax Credit application deadline.

Sincerely,

Edward Bobinchak Regional President