

February 14, 2007

Mr. Robert K. Weber
City Attorney
City Hall
730 Washington Avenue
Racine, Wisconsin 53403

Re: Properties of Racine County Housing Authority
Payment In Lieu of Taxes ("Pilot") Review

Dear Mr. Weber:

We have continued our PILOT payment review of the various properties owned by the Racine County Housing Authority ("RCHA"). This letter contains a summary of the information obtained from RCHA.

RCHA has indicated that it owns the following properties in the City of Racine:

1616 Prospect Street (single family)
1911 Linden Avenue (single family)
107 Riverside Drive (single family)
602 Randolph Street (single family)
1619 Franklin Street (four family – handicapped occupancy)
2900 Russet Street (four family – handicapped occupancy)
837 Main Street (RCHA main offices)

PILOT PAYMENTS FOR SINGLE FAMILY PROPERTIES

Each of the single family properties owned by RCHA is subject to a rent to purchase agreement, copies of which are enclosed herewith. The PILOT payment formula for the single family properties is set forth in a Cooperation Agreement dated December 20, 1977 between the City and RCHA, a copy of which is enclosed herewith ("Cooperation Agreement"). In summary, the PILOT formula for each single family property is ten (10%) of the difference between the yearly rentals paid by the tenant of each property to RCHA minus the cost of any utilities paid by RCHA for said property.

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Enclosed is a copy of a spreadsheet, based on information provided by RCHA, that shows the calculation of the PILOT payments that RCHA claims were made to the City for the single family properties from 2000 through 2006. RCHA indicated that it does not pay any utility expenses for the single family properties. The tenant of each single family property pays all the utility expenses for the property occupied by the tenant. Thus, the PILOT payments for each single family property, based on the Cooperation Agreement, would be simply 10% of the yearly rental payments received by RCHA.

Mr. Charles Smith of the Milwaukee office of the United States Department of Housing and Urban Development ("HUD") indicated to us that in order for RCHA to receive HUD funds for the purchase of low income housing, the PILOT payments must be based on the actual rent received by RCHA from the occupant of the property. Mr. Smith further indicated that the operating subsidy received by RCHA from the federal government is not to be considered as "rent" received by RCHA in determining the PILOT amount.

Based on our review of the rent to purchase agreements and the PILOT payments that RCHA claims it has made to the City, it appears that RCHA has paid the total PILOT payments on the single family properties required under the Cooperation Agreement from 2000 through 2006. The above conclusion assumes that the City can verify that it actually received the PILOT payments that RCHA claims were made on the single family properties from 2000 through 2006 (as shown in the above-referenced spreadsheet).

PILOT PAYMENTS FOR MULTI-FAMILY PROPERTIES

The Cooperation Agreement also expressly applies to eight (8) units constructed for handicapped individuals. That would include the properties on Franklin and Russet Streets. RCHA indicates that it has been making PILOT payments to the City on the Franklin and Russet Street properties using the formula in the Cooperation Agreement. A spreadsheet prepared by RCHA showing the PILOT payment calculations for the years 2001 through 2006 is enclosed. RCHA directly pays the utility expenses on the multi-family properties (unlike the single family properties).

Based on our review of the information provided to us by RCHA, it appears that RCHA has paid the PILOT payments to the City on the multi-family properties

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required under the Cooperation Agreement from 2001 through 2006. The above conclusion assumes that the City can verify that: (i) from 2001 through 2006 it actually received the PILOT payment amounts that RCHA claims were made on the multi-family properties, and (ii) the actual leases for the multi-family properties contain the lease rates that RCHA has provided to us. We have not reviewed the actual leases for the units in the Franklin and Russet Street properties to verify that the revenue shown in the above-referenced spreadsheet for those properties approximates the rental rates in said leases. Let us know if the City desires that we review the leases.

PILOT PAYMENTS FOR OFFICE OF RCHA

RCHA does not make any property tax or PILOT payments on its office at 837 Main Street. Wisconsin Statutes Section 66.1201(22) sets forth the tax exemption for RCHA's properties. That section provides:

The property of an authority is public property used for essential public and governmental purposes and the property and an authority are exempt from all taxes of the state or any state public body, except that the city in which a **project or projects** are located may fix a sum to be paid annually in lieu of taxes by the authority for the services, improvements or facilities furnished to the **property** of the authority by the city ... (emphasis supplied)

Housing projects are essentially defined in Wisconsin Statutes Section 66.1201(3)(j) as housing to provide dwellings for low income persons.

The language of Section 66.1201(22) expressly indicates that payments in lieu of taxes may be fixed for services, improvements or facilities furnished to the "property" of the authority by the City. Note that the statute, in describing the PILOT exemption, uses the broader word "property" instead of the words "project" or "projects". That leads to the conclusion that PILOT payments can be fixed for all "property" of an authority, not just the authority's "projects". Based on the foregoing, it is our opinion that PILOT payments can be fixed for RCHA's office property. If the City desires to obtain PILOT payments for RCHA's office property, it should enter into negotiations with RCHA for an agreement to fix the

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amount of the PILOT payments for the office property. If requested, we would be willing to assist the City in such negotiations.

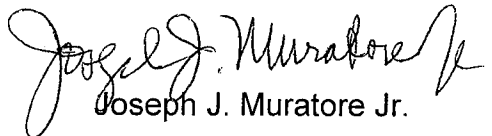
When we were originally assigned this matter, the City was not aware that the Cooperation Agreement existed. In calling for a review of the PILOT payments made by RCHA, there was also a desire to negotiate a PILOT agreement with RCHA using the formula contained in PILOT Agreements executed by the City in the relatively recent past. It is our opinion that the Cooperation Agreement is a continuing binding obligation of the City and governs the PILOT payments for the housing projects currently owned by RCHA.

Please let us know if the City desires further assistance from our firm in regard to this matter.

If you have any questions, please contact us.

Yours very truly,

Law Offices, Joseph J. Muratore, S.C.


Joseph J. Muratore Jr.

enclosures

Single Family Properties

Payment in Lieu of Taxes (PILOT)
Housing Authority of Racine County
2000 - 2006

Year	1616 Prospect			1911 Linden			107 Riverside			602 Randolph			Totals	
	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total		
2000	2,719.83	2,481.82	5,201.65	2,194.90	1,851.50	4,046.40	2,027.61	1,654.54	3,682.15	2,280.90	1,930.26	4,211.16	17,141.36	
2001	2,804.96	2,396.27	5,201.23	2,258.04	1,787.69	4,045.73	2,084.63	1,597.51	3,682.14	2,347.40	1,863.77	4,211.17	17,140.27	
2002	2,983.80	2,307.24	5,291.04	2,323.96	1,721.27	4,045.23	2,143.98	1,538.16	3,682.14	2,416.64	1,794.53	4,211.17	17,229.58	
2003	2,546.25	2,214.57	4,760.82	1,765.58	1,652.15	3,417.73	1,577.76	1,476.39	3,054.15	1,840.72	1,722.45	3,563.17	14,795.87	
2004	2,665.90	2,118.17	4,784.07	1,983.94	1,580.23	3,569.07	1,777.26	1,412.12	3,189.38	2,073.49	1,647.45	3,720.94	15,263.46	
2005	2,347.31	2,233.21	4,580.52	2,052.65	1,505.36	3,558.01	1,708.91	1,345.21	3,054.12	1,993.30	1,569.42	3,562.72	14,755.37	
2006	2,667.82	1,913.40	4,581.22	1,990.29	1,427.44	3,417.73	1,778.54	1,275.60	3,054.14	2,074.40	1,488.18	3,562.58	14,615.67	
	18,735.87	15,664.68	34,400.55	14,574.26	11,525.64	26,099.90	13,098.69	10,289.53	23,388.22	15,026.85	12,016.06	27,042.91	110,941.58	
Total Collected														
Yrs 2000-2006														
@ 10% PILOT Rate														
			\$ 34,400.55			\$ 26,099.90			\$ 23,388.22			\$ 27,042.91		
												x 10%		
			\$ 3,440.06			\$ 2,609.99			\$ 2,339.82			\$ 2,704.29		
												x 10%		
												\$ 2,704.29		

Year	1616 Prospect			1911 Linden			107 Riverside			602 Randolph			Totals	
	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total	Mtg Prin	Mtg Int	Total		
2000	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2001	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2002	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2003	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2004	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2005	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
2006	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	727.80	727.80	1,455.60	5,836.80	
Total Paid														
City of Racine														
			\$ 5,094.60			\$ 1,576.05			\$ 1,737.12			\$ 2,579.64		

Multi-Family Properties

HARC
In Lieu of Taxes (PILOT)
2001

		1619/1621 Franklin Dollars	Consumed	2900 Russet Dollars	Consumed
January	Gas	\$270.45	272	\$269.69	261
	Electric	\$57.81	726	\$46.59	555
	Sewer/Water				
February	Gas	\$470.35	463	\$448.11	449
	Electric	\$100.49	1213	\$83.65	993
	Sewer/Water				
March	Gas	\$358.51	421	383.34	453
	Electric	\$98.89	1173	87.37	1026
	Sewer/Water				
April	Gas	\$251.86	291	\$251.68	289
	Electric	\$102.02	1213	\$89.26	1050
	Sewer/Water			\$129.60	40
May	Gas	\$109.54	127	\$98.12	114
	Electric	\$72.26	829	\$61.68	694
	Sewer/Water	\$177.69	61		
June	Gas	\$78.98	105	\$77.83	105
	Electric	\$72.65	828	\$88.01	1022
	Sewer/Water				
July	Gas	\$48.02	69	\$35.40	47
	Electric	\$94.68	1106	\$60.43	674
	Sewer/Water			\$379.21	149
August	Gas	\$23.85	28	\$48.02	75
	Electric	\$104.19	1226	\$78.98	908
	Sewer/Water	\$147.92	48		
Sept.	Gas	\$28.84	41	\$11.77	5
	Electric	\$79.77	918	\$71.45	813
	Sewer/Water				
Oct.	Gas	\$47.21	96	\$49.15	103
	Electric	\$47.67	513	\$81.04	934
	Sewer/Water			\$151.87	41
Nov.	Gas	\$93.14	185	\$80.01	147
	Electric	\$80.25	924	\$63.60	714
	Sewer/Water	\$161.98	24		
Dec. ~ Incl Accr	Gas	\$321.23	252	\$345.94	249
	Electric	\$152.89	1134	\$132.46	952
	Sewer/Water	\$144.42	45	\$139.78	43
TOTAL	Gas	\$2,101.98	2350.0	\$2,099.06	2297
	Electric	\$1,063.57	11051.0	\$944.52	10335
	Sewer/Water	\$632.01	1351.0	\$800.46	273
GRAND TOTALS		\$3,797.56	14752	\$3,844.04	12905

	1619 Franklin Dollars	2900 Russet Dollars
RENTAL INCOME		
January	652	628
February	652	628
March	652	628
April	652	628
May	652	628
June	652	628
July	652	628
August	652	628
September	652	628
October	652	628
November	652	628
December	681	609
RENT TOTAL BY UNIT	7853	7517
RENT - UTILITIES	4055.44	3672.96
x 10% = PILOT	\$405.54	\$367.30

HARC
In Lieu of Taxes (PILOT)
2002

		1619/1621 Franklin Dollars	Consumed	2900 Russet Dollars	Consumed
January	Gas	\$157.60		\$186.53	
	Electric	\$55.71		\$52.05	
	Sewer/Water				
February	Gas	\$234.91	224	\$245.29	396
	Electric	\$91.10	1061	\$83.42	964
	Sewer/Water				
March	Gas	\$242.98	399	247.18	403
	Electric	\$100.70	1182	83.98	971
	Sewer/Water				
April	Gas	\$190.45	278		
	Electric	\$111.64	1320		
	Sewer/Water			\$226.42	80
May	Gas	\$127.75	190	\$315.07	462
	Electric	\$83.27	962	\$127.51	1432
	Sewer/Water	\$138.30	42		
June	Gas				
	Electric				
	Sewer/Water				
July	Gas	\$99.22	150	\$80.92	117
	Electric	\$167.08	1931	\$137.91	1563
	Sewer/Water			\$374.48	140
August	Gas	\$25.25	33	\$24.58	32
	Electric	\$63.20	709	\$67.18	759
	Sewer/Water	\$144.13	43		
Sept.	Gas	\$29.78	43	\$28.96	41
	Electric	\$79.45	914	\$57.41	636
	Sewer/Water				
Oct.	Gas	\$44.98	69	\$64.42	106
	Electric	\$71.13	809	\$72.08	821
	Sewer/Water			\$127.26	36
Nov.	Gas	\$128.36	189	\$93.34	132
	Electric	\$99.27	1143	\$56.16	608
	Sewer/Water	\$129.67	37		
Dec. - Incl Accr	Gas	\$414.84	343	\$469.65	390
	Electric	\$163.64	1249	\$149.61	1138
	Sewer/Water			\$140.31	41
TOTAL	Gas	\$1,696.12		\$1,755.94	
	Electric	\$1,086.19		\$887.31	
	Sewer/Water	\$412.10		\$868.47	
GRAND TOTALS		\$3,194.41	0	\$3,511.72	0

	1619 Franklin Dollars	2900 Russet Dollars
RENTAL INCOME		
January	681	609
February	681	609
March	681	609
April	670	456
May	670	456
June	670	691
July	670	691
August	670	691
September	670	691
October	577	652
November	577	691
December	610	690
RENT TOTAL BY UNIT	7827	7536
RENT - UTILITIES	4632.59	4024.28
x-10% = PILOT	\$463.26	\$402.43

HARC
In Lieu of Taxes (PILOT)
2003

		1619/1621	Consumed	2900	Consumed
		Franklin Dollars		Russet Dollars	
January	Gas	\$156.48		\$184.21	
	Electric	\$58.93		\$70.60	
	Sewer/Water				
February	Gas				
	Electric				
	Sewer/Water	\$125.85	35		
March	Gas	\$650.61	744	684.91	779
	Electric	\$201.75	2301	188.54	2138
	Sewer/Water				
April	Gas	\$202.59	212	\$249.26	250
	Electric	\$83.07	912	\$88.57	978
	Sewer/Water			\$189.10	60
May	Gas	\$132.44	168	\$95.14	120
	Electric	\$94.91	1054	\$68.64	739
	Sewer/Water	\$172.94	53		
June	Gas	\$94.01	118		
	Electric	\$84.07	924		
	Sewer/Water				
July	Gas	\$35.99	37	\$39.69	118
	Electric	\$41.79	417	\$121.52	1289
	Sewer/Water			\$144.30	40
August	Gas	\$31.48	33	\$21.38	18
	Electric	\$62.97	671	\$66.72	716
	Sewer/Water	\$151.18	42		
Sept.	Gas				
	Electric				
	Sewer/Water				
Oct.	Gas	\$117.79	149	\$93.09	131
	Electric	\$135.30	1453	\$115.47	1215
	Sewer/Water			\$135.94	36
Nov.	Gas	\$129.72	176	\$104.26	135
	Electric	\$78.56	855	\$63.66	677
	Sewer/Water	\$151.18			
Dec. - Incl Accr	Gas	\$392.18	281	\$665.54	740
	Electric	\$144.45	1045	\$203.74	1582
	Sewer/Water	\$162.80		\$127.24	31
TOTAL	Gas	\$1,943.29		\$2,137.48	
	Electric	\$985.80		\$987.46	
	Sewer/Water	\$763.95		\$596.58	
GRAND TOTALS		\$3,693.04	0	\$3,721.52	0

	1619- Franklin Dollars	2900- Russet Dollars
RENTAL INCOME		
January	610	692
February	610	691
March	610	691
April	505	690
May	705	692
June	605	456
July	605	594
August	505	595
September	705	454
October	605	677
November	448	678
December	645	729
RENT TOTAL BY UNIT	7158	7639
RENT - UTILITIES	3464.96	3917.48
x 10% = PILOT	\$346.50	\$391.75

HARC
In Lieu of Taxes (PILOT)
2004

		1619/1621 Franklin Dollars	Consumed	2900 Russet Dollars	Consumed
January	Electric	\$56.92		\$65.93	
	Gas	\$190.27		\$281.79	
	Sewer/Water				
February	Electric	\$102.41	1140	\$91.61	1011
	Gas	\$380.10	420	\$426.62	472
	Sewer/Water				
March	Electric	\$86.43	949	134.25	1371
	Gas	\$259.70	287	349.28	391
	Sewer/Water				
April	Electric	\$85.25	935	\$65.83	703
	Gas	\$181.75	204	\$167.51	188
	Sewer/Water			\$137.60	33
May	Electric	\$78.25	841		
	Gas	\$112.48	129		
	Sewer/Water	\$126.34	28		
June	Electric	\$83.08	883	\$123.68	1282
	Gas	\$70.57	77	\$159.52	177
	Sewer/Water				
July	Electric	\$73.26	769	\$56.71	577
	Gas	\$40.57	40	\$38.79	38
	Sewer/Water			\$133.57	29
August	Electric	\$70.15	725	\$51.57	511
	Gas	\$32.10	30	\$32.87	31
	Sewer/Water	\$187.42	47		
Sept.	Electric	\$69.17	710	\$56.11	562
	Gas	\$33.06	33	\$35.63	37
	Sewer/Water				
Oct.	Electric	\$75.33	793	\$64.20	606
	Gas	\$59.59	72	\$69.02	85
	Sewer/Water			\$153.10	35
Nov.	Electric	\$82.40	902	\$13.77	91
	Gas	\$140.28	152		
	Sewer/Water	\$155.96	36		
Dec. ~ Incl Accr.	Electric	\$169.63	1133	\$198.92	1698
	Gas	\$519.87		\$632.26	497
	Sewer/Water	\$150.24			
TOTAL	Electric	\$1,032.28		\$922.58	
	Gas	\$2,020.34		\$2,193.29	
	Sewer/Water	\$619.96		\$424.27	
GRAND TOTALS		\$3,672.58	0	\$3,540.14	0

	1619 Franklin Dollars	2900 Russet Dollars
RENTAL INCOME		
January	488	729
February	488	727
March	488	707
April	751	727
May	751	727
June	761	727
July	751	783
August	751	783
September	599	783
October	903	585
November	751	585
December	773	564
RENT TOTAL BY UNIT	8255	8427
RENT - UTILITIES	4582.42	4886.86
x 10% = PILOT	\$458.24	\$488.69

HARC
In Lieu of Taxes (PILOT)
2005

		1619/1621 Franklin Dollars	Consumed	2900 Russet Dollars	Consumed
January	Electric	\$63.91		\$57.74	
	Gas	\$231.38		\$293.52	
	Sewer/Water				
February	Electric	\$107.89		\$94.80	1019
	Gas	\$348.90		\$418.96	442
	Sewer/Water	\$167.40			
March	Electric	\$103.25	1117		
	Gas	\$351.48	367		
	Sewer/Water				
April	Electric	\$101.41	1042		
	Gas	\$222.84	224		
	Sewer/Water			\$155.63	33
May	Electric	\$86.05	871	\$145.56	1486
	Gas	\$159.88	165	\$521.21	534
	Sewer/Water	\$172.51	37		
June	Electric	\$82.36	809	\$119.50	1147
	Gas	\$84.94	93	(\$114.26)	235
	Sewer/Water				
July	Electric	\$70.46	680		
	Gas	\$40.99	39		
	Sewer/Water			\$188.66	42
August	Electric			\$50.58	467
	Gas			\$37.28	34
	Sewer/Water	\$182.20	40		
Sept.	Electric	\$132.53	1270	\$105.57	981
	Gas	\$75.42	60	\$80.20	64
	Sewer/Water				
Oct.	Electric	\$74.85	727	\$55.90	524
	Gas	\$89.63	68	\$95.79	72
	Sewer/Water			\$240.34	
Nov.	Electric	\$84.38	829	\$67.87	652
	Gas	\$183.39	135	\$248.02	185
	Sewer/Water	\$195.12	44		
Dec. ~ Incl Accr.	Electric	\$236.71	2375	\$208.24	907
	Gas	\$835.96	758	\$305.73	273
	Sewer/Water				
TOTAL	Electric	\$1,143.80		\$905.76	
	Gas	\$2,624.81		\$1,886.45	
	Sewer/Water	\$717.23		\$584.63	
GRAND TOTALS		\$4,485.84	0	\$3,376.84	0

	1619 Franklin Dollars	2900 Russet Dollars
RENTAL INCOME		
January	759	745
February	766	750
March	766	745
April	593	745
May	834	750
June	844	748
July	757	745
August	757	750
September	757	740
October	757	736
November	757	750
December	773	679
RENT TOTAL BY UNIT	9120	8883
RENT - UTILITIES	4634.16	5506.16
x 10% = PILOT	\$463.42	\$550.62

HARC
 n Menu of Taxes (PILOT)
 2006

		1619/1621 Franklin Dollars	Consumed	2900 Russet Dollars	Consumed
January	Electric	\$117.66	1179	\$92.12	907
	Gas	\$414.24	372	\$305.73	273
	Sewer/Water				
February	Electric	\$108.94	1013		920
	Gas	\$385.49	340	\$464.71	409
	Sewer/Water	\$193.21	39		
March	Electric	\$116.35	1055	200.51	1813
	Gas	\$414.92	362	406.26	1203
	Sewer/Water				
April	Electric	\$108.62	972	\$80.82	707
	Gas	\$269.73	238	\$308.97	275
	Sewer/Water			\$288.13	67
May	Electric	\$90.42	803	\$62.14	528
	Gas	\$156.64	144	\$142.37	131
	Sewer/Water				
June	Electric	\$80.10	700	\$58.32	483
	Gas	\$93.22	89	\$59.65	54
	Sewer/Water	\$155.92	28		
July	Electric	\$88.36	720	\$49.75	405
	Gas	\$55.81	51	\$32.87	27
	Sewer/Water				
August	Electric	\$69.85	603	\$116.21	960
	Gas	\$32.16	27	\$30.22	25
	Sewer/Water	\$176.26	34	\$233.89	\$51.00
Sept.	Electric	\$72.69	628	\$80.23	160498
	Gas	\$33.40	29	\$34.79	30
	Sewer/Water				
Oct.	Electric	\$83.11	852	(\$7.64)	561
	Gas	\$100.59	118	\$74.45	88
	Sewer/Water			\$186.43	37
Nov.	Electric	\$104.22	937	\$80.35	705
	Gas	\$173.35	204	\$168.52	192
	Sewer/Water	\$166.09	31		
Dec. ~ Incl Accr	Electric	\$112.47	1012	\$100.46	890
	Gas	\$324.36	300	\$332.78	306
	Sewer/Water			\$163.70	30
TOTAL	Electric	\$1,152.79		\$913.27	
	Gas	\$2,453.91		\$2,361.32	
	Sewer/Water	\$691.48		\$872.15	
GRAND TOTALS		\$4,298.18	0	\$4,146.74	0

	1619 Franklin Dollars	2900 Russet Dollars
RENTAL INCOME		
January	768	673
February	769	676
March	784	676
April	806	676
May	801	676
June	801	539
July	636	539
August	794	704
September	800	705
October	800	480
November	800	932
December	869	739
RENT TOTAL BY UNIT	9428	8015
RENT - UTILITIES	5129.82	3868.26
x 10% = PILOT	\$512.98	\$386.83