Department of City Development
MEMORANDUM

TO: City of Racine Finance and Personnel Committee
FROM: Amy Connolly, Director of City Development
SUBJECT: Veteran's Home/Herman & Kittle Project – 1520 and 1536 Clark Street
FOR MEETING DATE: June 13, 2016

City staff presents a Development Agreement for your review and recommendation to the Common Council between Herman & Kittle Properties, Inc.; Lutheran Social Services of Wisconsin and Upper Michigan, Inc.; and the City of Racine.

The development agreement is for financial assistance in the form of **a Brownfield Cleanup Revolving Loan Fund Loan** (BC-RLF) to the developer for the purposes of conducting environmental response activities at approximately 3.07 acres at 1520 and 1536 Clark Street for a multi-family residential development. The subject property is currently a large industrial building that requires environmental clean-up and incentives to facilitate an historic, adaptive reuse of the property. The City views this development as a *catalyst* development within the Uptown Neighborhood Business Improvement District.

Project Overview:

% of Median Income	Studio	One Bdrm	Two Bdrm	Three Bdrm	Total Units /Beds
30%		*10*	*9*		19
50%		*2*	*8*	*16*	26
60%		*5*	*1*	*14*	20
Subtotal Low Income Housing Units	0	17	18	30	65
Market Rate Units		*3*	*6*		9
Total Units	0	20	24	30	**74**

- The redevelopment will result in new **65 rental units** targeted to low and moderate income veteran households, and **9 market rate units** for a total of **74 units**.
- There is a veteran's preference for rental tenants, but non-veterans may also be tenants in the building.
- The total investment proposed by the developer is over **$18 Million**.
- The total resulting real property tax and personal property tax assessment from this investment is estimated to be **$2.8 Million** for the properties.
- The proposed investments will Increase the taxable value by a factor of **587%.**

Project Budget:

Sources	Amount
Property Acquisition	$251,000
Demolition	$189,000
Environmental	$1,363,000
Rehab/Construction	$12,805,000
Soft costs	$2,507,000
Other (Fees, Permits)	$1,389,000
Total Development Costs:	**$18,505,000**

Sources	Amount	Use	Public or Private
WEDC Brownfield Grant	$436,382	Grant	Public
BC-RLF Funds*	$611,000	Loan	Public
Seller's Note	$100,000	Loan	Private
Historic Tax Credits	$5,912,031	Equity	Private
General Partner Contribution	$101	Equity	Private
Federal Home Loan AHP Grant	$850,000	Grant	Private
Deferred Developer Fee	$49,121	Loan	Private
Permanent Loan/Mortgage	$1,250,000	Loan	Private
*Racine HOME #1	$146,333	Loan	Public
*Racine HOME #2	$146,333	Loan	Public
*Racine HOME #3	$146,333	Grant	Public
LIHTC Equity	$8,813,843	Equity	Private
Financing:	**$18,461,477**		

Financing mechanisms that are covered within the Development Agreement between Herman & Kittle and the City of Racine. While the HOME funds are referenced in the Development Agreement they have already been approved by the City of Racine and are subject to an existing Written Agreement.

A draft Development Agreement was reviewed and approved, as to general form, by the Development Authority on June 6, 2016. The resolution from the RDA notes a total incentive package of up to $655,000. Note that the $655,000 amount is inaccurate because it did not include the capitalized interest within the Brownfield Loan. We will circle back to the RDA in July to ensure that they approve the incentive amount of up to $676,000, which we are proposing for Finance Committee and, also, the Common Council.

The $611,000 BC-RLF loan is proposed to be repaid at 1% interest starting 2022 by Tax Increment Finance District Number 19. The payback period is 10 years and interest is capitalized during until 2022. Evaluation of the project financials show that this project cannot support additional direct debt to cover the extraordinary $1.3 brownfield cleanup costs associated with this project.

City staff also recommends considering an optional $75,000 of financial assistance through the BC-RFL, for a total of $676,000, to reimburse a subgrant fund for the development through the TIF District increment.

BC-RLF Loan Details:

- $611,000 @1% over 10 years with capitalized interest = $67,594 per year
  - ***BC RLF – Hazardous Cleanup*** $ 397,500
  - ***BC RLF – Petroleum Cleanup*** $182,500
- Payments start in 2022, re-payed through TID19
- Total financial assistance amount, including capitalized interest: $676,000

Based upon staff's underwriting analysis of the project, The Developer's proposal meets our standards of feasibility and long term sustainability. Legal staff, RCEDC staff, and City Development staff have both reviewed the proposed Development Agreement and the BC-RLF Loan proposal and believe that these incentives protects the City from any financial liability, yet facilitates a catalytic investment in the Uptown Neighborhood.

The City of Racine will be protected by provisions in the development agreement to insure payment of the Brownfield Loan through the TID, such as a minimum assessed value and a requirement for a Payment in Lieu of Taxes (PILOT) in case the minimum assessed value is not reached.

Recommended Motion:

……That the "*Finance and Personnel Committee recommend that the Development Agreement between the City, the Redevelopment Authority of the City, Herman & Kittle Properties, Inc., 1520 Clark Street, L.P. and Wisconsin Social Services of Wisconsin and Upper Michigan, Inc. be approved in substantially the form as presented and that the Mayor, City Clerk, and Director of City Development be authorized to execute the agreement providing up to $676,000 in financial assistance and an optional $75,000 of financial assistance to reimburse a subgrant fund for the development (both from TIF District Increment) at 1520 and 1536 Clark Street through the Brownfield Cleanup Revolving Loan Fund as set forth under the terms of the development agreement.*"

A draft of the Development Agreement and an amortization schedule for the BC-RLF Loan is attached for your review.

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