

TO: CITY OF RACINE FINANCE AND PERSONNEL COMMITTEE  
CITY OF RACINE COMMON COUNCIL

FROM: THOMAS VAN GENT, LOAN OFFICER

RE: LOAN APPLICATION PRESENTATION  
RACINE HARBORSIDE, LLC

DATE: MAY 28, 2019

## INTRODUCTION

- The purpose of this loan application is to request Committee's consideration to assist with the environmental clean-up of 1129 Michigan Boulevard in the City of Racine.
- The lead developer, Royal Capital Group has proposed a 247-apartment unit construction on the site as well as commercial lower units, underground parking and amenities to target new workers in the City of Racine.
- The project site is the former Walker Manufacturing site and has been environmentally contaminated for quite some time. Environmental clean-up is required for this project to move forward.
- The funds would assist in a larger scale of bringing a new supply of housing and the first-Class A mixed-use housing to be built in the City of Racine in 15 years.
- The BC-RLF already funded clean-up on the site in 2014. The 2014 loan will be satisfied when the property changes hands.
- The City of Racine has pledged incentives to the project, some detailed below.

<b>Loan Program:</b> Brownfield Cleanup- Revolving Loan Fund (BC-RLF)	<b>Company:</b> Racine Harborside, LLC
<b>Primary Owners:</b>	Royal Capital Group, LLC (50%); CDS Racine 2019 LLC (50%)
<b>Project Address:</b>	1129 Michigan Boulevard Racine, WI 53402
<b>Real Estate Ownership:</b>	Racine Harborside, LLC
<b>Real Estate Seller</b>	The City of Racine

## PROJECT SUMMARY

<b>Borrowing Entity</b>	Racine Harborside, LLC
<b>Total Project Cost</b>	\$65,998,189
<b>Freddie Mac (65.53%)</b>	\$43,250,000
<b>BC-RLF (1.9%)</b>	\$1,263,000
<b>City of Racine Parking Fund</b>	\$6,496,000
<b>City Infrastructure Fund</b>	\$1,049,112
<b>City Sellers Note</b>	\$3,250,864
<b>Investors Equity Contribution</b>	\$9,689,213
<b>Source of Equity</b>	Investor Cash
<b>Other costs</b>	N/A
<b>Term/Amortization</b>	14-year term or term ending in August 2033, whichever is sooner. 36 months interest only converted at stabilization (defined on page 3)/30-year amortization

<b>Rate</b>	2.75% (2.25% interest with a 0.5% servicing fee)
<b>Collateral</b>	2nd REM (Guarantee of construction completion).
<b>Collateral Coverage</b>	0% based on hard cost. Appraisal not complete yet
<b>Strengths</b>	
<ul style="list-style-type: none"> <li>Community Impact: The proposed project will remediate a brownfield site to meet a critical housing need, improving environmental conditions and is a critical part of the implementation of the City of Racine Development plan.</li> <li>The project helps address the current and projected housing shortage being faced by in Racine County.</li> <li>This project will be the first of its kind and will help create a community around North Beach in Racine which is branded “@North Beach”.</li> <li>All owners of the project site are experienced developers who have a proven track record of success.</li> </ul>	
<b>Weaknesses</b>	
<ul style="list-style-type: none"> <li>Collateral shortfall expected for this program. The BC-RLF is intended to be in a subordinate lender and take on more risk.</li> <li>Project assumptions hinge on the successful execution of the Foxconn project but is mitigated by the scope of the Market Study. The Market Study does not consider commuters who have other high paying jobs in Racine that would likely consider this place to live.</li> <li>The project is the first to market in the City of Racine and relies heavily on higher than average rents. Mitigated by the projected average rent increase over-time which is considered in-range once stabilized.</li> </ul>	

## ELIGIBILITY

Determination of eligibility for this project is subject to the City of Racine staff and its consultants review who are working closely with the EPA. RCEDC’s role in this is to conduct a credit review.

## SOURCES AND USES OF PROCEEDS

BC RLF Sources and Uses			BC RLF Uses	
BC-RLF	0.80	\$1,263,000	Soil Management Contamination	\$1,321,100
Borrower	0.20	\$315,750	Remediation Oversight	\$200,150
			Sub slab Vapor System	\$57,500
Total BC-RLF Sources		\$1,578,750	Total Uses	
<b>Contaminated Soil Management:</b> Excavation and disposal or excavation with placement, grading and compaction of contaminated soils on-site beneath capped areas to limit direct contact with soils.				
<b>Remediation Oversight Includes:</b>				
On-site Soil Placement and Grading				
Oversight and Documentation of Vapor Mitigation System Installation				
Soil Management Planning and Coordination				
Preparation and Submittal of Regulator Documentation				
Preparation of Quarterly Reports to Provide Documentation of Process to the City for the RLF				

*\*Loan is on interest only until it is converted at stabilization. Stabilization is defined as 90% physical occupancy for at least 90 consecutive days and meets the minimum debt service coverage requirements of 1.25x as determined by RCEDC staff. All documentation required by RCEDC must be submitted before loan is considered stabilized.*

The proposed use of funds includes the grading and removal of contaminated soil from the site as well as the development and implementation of a soil management plan, which includes testing and approval from the EPA. The project also includes the purchase and installation of a vapor mitigation system which includes on-going sampling, reporting and environmental consultant fees.

*\*Staff would also request flexibility to change the uses of the BC-RLF project as requested by the borrower so long as they are considered eligible project costs per the EPA and meet the loan policy guidelines.*

## HISTORY AND BUSINESS DESCRIPTION

The project proposal is to construct 247 apartments, 246 underground parking units and a 10,000 square foot lower unit in the City of Racine. This complex is branded “@North Beach”

The apartments being constructed are considered high-end luxury apartments, commonly referred to as Class A apartments, and will include the following amenities; granite countertops, luxury flooring, stainless steel appliances, balcony, in-unit washer/dry, central air-conditioning and other smart unit features. The proposed amenities are comparable or superior to everything that is planned or under construction right now.

In addition, common area amenities include a clubroom, fitness center, restaurant space, on-site management office, pool and access to the lake front/North Beach.

The project is considered unique and is expected to have a catalytic effect on North Beach area. The goal is to spur a community at North Beach and attract population and density right on Lake Michigan.



## **Contingencies**

- Development Agreement must be fully executed.
- Payoff of existing BC-RLF loan tied to the project site.
- City must confirm that all conditions precedent to its obligation to perform under the Development Agreement have been satisfied.
- Borrower must comply with the requirements of Wisconsin's Voluntary Cleanup Program and agrees to complete the project in accordance with the Remedial Action Plan, the application, the project schedule and the project budget.
- Borrower shall obtain from WDNR and provide documentation of cleanup completion following completion of the project.
- BC RLF funds must be spent in accordance with the Brownfields Law.
- All BC RLF out of pocket costs for processing and closing are to be paid by the Borrower.
- Borrower will meet all requirements of the BC RLF program as required by its funding source EPA, including but not limited to Davis Bacon and other federal regulations.
- Borrower to provide required documentation for all draws from the BC RLF including but not necessarily limited to a written disbursement request with copies of invoices for each cost incurred.
- Borrower shall maintain complete documentation for all BC RLF project costs.
- Borrower to provide required 20% matching funds towards the eligible BC RLF project costs with borrower equity in first.
- Borrower shall execute all loans or grant documents required by RCEDC in connection with the loan.

## **SUMMARY AND RECOMMENDATIONS**

Based upon the information reviewed, and the following strengths, BLP staff and the RCEDC Loan Advisory Committee recommend approval of the loan as presented.

The primary goal of this program is to address the barriers involved with developing a Brownfield site in the City of Racine. The project is considered high risk in nature but will result in the clean-up and development of the Brownfields site while addressing the housing need currently being faced in the community. Mitigating factors to the risk of this project include the experienced ownership group, favorable market-study and construction guarantee.

The loan was approved unanimously by BLP's Loan Advisory Committee on May 20<sup>th</sup>. The committee recognized the weaknesses addressed in the memo but saw the value to the community and the alignment the project has with the goals of the BC-RLF.