



Department of City Development
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MEMORANDUM

DATE: April 2, 2015
TO: Commissioners, Redevelopment Authority
FROM: Brian O'Connell, Director
SUBJECT: Request for creation of a REC Adjustment Grant for small businesses.

There have been several instances of small businesses wishing to open in long existing commercial buildings discovering that they must pay a fee to the Water Utility. This is the REC (Residential Equivalent Connection) fee.

The situation usually arises when the specific property has a history of low water usage, for example, a bookstore, and the new business has a higher (but still low) projected water use, such as a hair salon. The problem is that the REC fee is currently \$3,450, payable upon occupancy, which can be a hardship for a small business in a new location.

We have also seen friction, in some cases, between the building owner and the prospective tenant, because the tenant precipitated the fee and has the immediate need but, once the one-time fee is paid, the building keeps the higher REC threshold forever.

It is in the city's interest to remove barriers to increase occupancy of the existing commercial space in the city. I am requesting that a REC Adjustment Grant be created to do so. The characteristics of the grant program would be as follows.

The Grant Program:

When the Water Utility determines that a proposed commercial occupancy will exceed the historical water use in a commercial building with existing water service and that one or more REC fees are due, the building owner may apply for a grant for up to the cost of one REC fee (currently \$3,450). The program will make the grant as reimbursement to the building owner for the REC fee the owner has paid.

Eligibility:

Commercial buildings, built before 2004 (when the REC fee was initiated) are eligible. Mixed residential-commercial buildings are eligible, but only for the commercial portion of the building. The program is intended to facilitate new occupancies of existing space; it is not an assistance program for building renovations. Properties are limited to one grant.

Operation:

It is intended that the program operation be simple. REC fees are collected by the Building Inspection Department on behalf of the Water Utility. At the time the fee is paid, the property owner may submit a grant application/request for reimbursement. Building inspection will verify that the fee is paid and forward the application to the Department of City Development for verification of eligibility. Upon verification by City Development, the approved application will be sent to the Finance Department for creation of the reimbursement check, which will be mailed to the building owner.

Note that it is the building owner that pays the fee and receives reimbursement. This is because the new REC stays with the building – it does not diminish with subsequent changes in occupancy. However, the program has no objection to the owner and tenant reflecting the REC fee/grant in their lease agreement as appropriate to their specific arrangements.

Fiscal Impact:

City Development recommends that Intergovernmental Sewer Revenue Sharing funds be used for the program. A review of the REC fees since December 2012 shows that the program would have cost about \$41,400 over the period. Prorated for one year the annual cost would be about \$12,420. The department estimates that an allocation of \$25,000 annually for the program would ensure sufficient coverage. This estimate will be adjusted based on actual experience.

I respectfully ask that you recommend to the Common Council that this request be approved.

C: Tom Friedel, City Administrator

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