



Redevelopment Authority/Common Council AGENDA BRIEFING MEMORADUM

AGENDA DATE:	December 6, 2018 – Redevelopment Authority December 10, 2018 – Finance and Personnel December 18, 2018 – Common Council
SUBJECT:	@ North Beach Incentive Agreements & Use of Intergovernmental Revenue Sharing Funds
PREPARED BY:	Amy Connolly, Director of City Development
SUMMARY:	<p>City staff requests approval of an Incentive Agreements with Royal Capital Group/Racine Harborside LLC to facilitate the redevelopment of the City-owned site at 1129 Michigan Blvd.</p>
PROJECT BACKGROUND	<p>Royal Capital Group, doing business in Racine as Racine Harborside LLC, proposes to purchase the City-owned property at 1129 Michigan Blvd. and build a multi-phase, market rate, residential development.</p> <p>While this development is still in conceptual form, the conceptual plans anticipate the development of as many as 498 residential units over two phases. Phase I of the development proposes 242 market rate apartment units, in two buildings (A & B) plus 4400 sq. ft. restaurant space, approximately 232 structured parking spaces and Phase II proposes 238 residential units in three buildings (C, D, & E) and 4400 sq. ft. retail space, and structured parking spaces.</p> <p>Phase I of the development is estimated to exceed \$50,000,000 in private investment, above and beyond any City incentive, and Phase II of the development will exceed \$90,000,000 in private investment.</p> <p>Property is owned by the City of Racine and was acquired by the City from the Racine Water and Waste Water Utility in March, 1999 for the purposes of redevelopment. The City demolished buildings on the site and worked with the Wisconsin Department of Natural Resources (WDNR) to obtain site closure to industrial standards relating to Brownfields.</p> <p>The site has long history of industrial development. Initial development of the site occurred around 1900. From approximately 1908 to 1978, site operations included iron foundry casting, machining, welding, carpentry, boiler making, annealing, and painting. Most notably, the site housed Walker Manufacturing who produced mufflers for the automobile industry. In 1978, manufacturing operations ceased by Walker Manufacturing and the property was used as a warehouse/office until acquisition by the City of Racine for redevelopment.</p>

The City of Racine began term sheet negotiations for the sale of the property and the incentives necessary for this site to receive private financing from a bank back in January, 2018. Since that time, staff and the developer have arrived at a set of agreements that allow the developer to achieve private financing of a significant residential development and proceed with developing construction plans for the site.

The incentives that are proposed as part of the residential redevelopment include:

1. Tax Increment District (TID) “Developer Funded TID Incentive” from TID#14 – 90% of increment over 14 years.
2. City will finance the purchase price of the property over 14 years (\$3,250,864) with annual payment of \$160,726 coming to the City’s general fund for the term of the promissory note and a balloon payment of \$1,000,000 due at the end of the term of the note.
3. Parking Facility incentive of \$6,496,000 to offset the costs of structured parking paid from TID #14 Reserves.
4. City Infrastructure Payment of up to \$1,049,112 from the City’s Intergovernmental Revenue Sharing Fund, repaying the IG Fund with the 10% of tax increment coming back to the City (dedicated city street and sidewalks).
5. Sanitary Sewer Lift Station Upgrade (estimated at \$1,185,000) from the City’s sanitary sewer surcharge fund to cover the full cost of a sanitary lift station upgrade to serve the neighborhood.
6. REC Fee incentive of up to \$58,000 for all phases to be paid from the City’s Intergovernmental Revenue Funds.
7. City will assist the developer in receiving a City/EPA Brownfield Cleanup Revolving Loan from the City’s established, EPA-funded BCRLF Loan fund.

In order to receive the above incentives, the developer is obligated to the following:

- a. Developer agrees to a minimum investment of \$50,000,000 of private debt and equity in Phase I of the development.
- b. Developer must have evidence of fully committed private financing and developer equity of at least 15%.
- c. Developer must operate, manage, and maintain the parking facility.
- d. Developer must pay for all “Developer” infrastructure on site.
- e. Developer must create buildings that are LEED Certified, achieving high energy efficiency goals.
- f. Developer must comply with the Racine Works Ordinance, requiring that 20% of construction work hours must be completed by qualified and eligible low income City residents.

REVIEW OF INTERGOVERNMENT FUND USE:

Section 46-266 of the City of Racine Ordinances provides for an Intergovernmental Revenue Sharing fund, which is created from revenue sharing contributions from wastewater customers of the Racine Area Intergovernmental Sanitary Sewer Service agreement (April, 2002). Eligibility of any project proposed to use Intergovernmental Revenue Sharing Funds (or, IG Funds) must be reviewed by the Redevelopment Authority and then recommended to Common Council, who ultimately administers the fund. The criteria for project eligibility is:

- 1. The project must be a capital project and associated costs and expenses where such project have private investment and result in taxable real estate development or job creation/retention, or are unique tax exempt projects that eliminate blight and result in tangible indirect increases in taxable real estate or job creation/retention.**

The incentive agreement anticipates two uses of the City's Intergovernmental Revenue Fund: (a) a City Infrastructure Payment (for public infrastructure) of up to \$1,049,112 and (b) a REC Fee (water connection fee) incentive of up to \$58,000.

These two incentives are BOTH capital project costs (infrastructure and water connection fees) and they are expenses that both result in taxable real estate development AND job creation.

- 2. Project resulting in tax base creation shall have a minimum ratio of \$5 in net new tax base for every \$1 of public investment (where there is not a loan payback).**

The incentive proposed from the City's Intergovernmental Fund also meet this minimum ratio criteria. To test this:

\$1,107,112 (\$1,049,112 of infrastructure incentive plus \$58,000 in REC fee incentive) of public investment in the form of an IG incentive should result in at least \$5,535,560 of net new tax base, in order to meet this requirement.

Current Assessed value of property per 2017 Assessment: \$0
Current taxes paid: \$0 (exempt)

The City Assessor's office estimated the taxable assessed value of the City-owned property upon completion of just Phase I of the project to be in a range of \$28,717,000 at build-out (beginning in 2022).

Thus, the minimum ratio is significantly greater (about 1:26) as a result of the proposed incentive using IG funds.

- 3. Commercial and industrial projects shall be eligible if the project creates a minimum of one full-time equivalent job for every \$50,000 of non-loan capital granted or one full-time equivalent job for every \$100,000 of loan capital provided.**

This development is not required to meet this requirement, as it is a primarily residential development. The developer does expect that the project will provide up to 350 construction jobs in various phases of the project. Royal Capital will also create a management office on site

and will be adding new, long-term facility management jobs to our community as a result of this investment.

RECOMMENDED ACTION:

City staff recommends that the Redevelopment Authority recommend that the use of Intergovernmental Revenue Shared Funds meets the project eligibility requirements set forth in City Policy.

Further, City staff recommends that the Redevelopment Authority recommend the incentives proposed for the project be approved by the Finance and Personnel Committee, and the Common Council AND recommend that Mayor, Clerk, City Attorney, and Finance Director sign documents implementing the proposed incentives to support the development of @ North Beach by Royal Capital Group/Racine Harborside, LLC.

FISCAL NOTE:

The development incentives and partnerships are fully supported within the City's IG and CIP budgets, and not do exclude other planned economic development projects. The following fiscal impacts are noted:

Tax Increment District (TID) Incentives (developer generated - no impact to the taxpayer):

- "Developer TID Incentive" from TID#14 over 14 years
- Parking Facility incentive of \$6,496,000 to offset the costs of structured parking paid from TID #14 Reserves

Intergovernmental Revenue Funds (no impact to the City's General Fund):

- City Infrastructure Incentive of up to \$1,049,112 from the City's Intergovernmental Revenue Sharing Fund, repaying the IG Fund with the 10% of tax increment coming back to the City;
- REC Fee incentive of approximately \$58,000 for all phases to be paid from the City's Intergovernmental Revenue Funds;

Sanitary Sewer Fund (no impact to the City's General Fund):

- Sanitary Sewer Lift Station Upgrade (estimated at \$1,185,000) from the City's sanitary sewer surcharge fund to cover the cost of a sanitary lift station to serve the neighborhood;

City's General Fund (Revenues coming to the General Fund):

- City will finance the purchase price of the property over 14 years (\$3,250,864) with annual payment of \$160,726 coming to the City's general fund for the term of the promissory note and a balloon payment of \$1M due at the end of the 14 years.