



City of Racine, Wisconsin
AGENDA BRIEFING MEMORADUM

REPORT DATE:	May 22, 2019
AGENDA DATE:	May 28 - Finance and Personnel June 4 – Common Council
SUBJECT:	Brownfield Cleanup-Revolving Loan Fund (BC-RLF) Loan to Royal Capital Group, LLC for Brownfield Cleanup at 1129 N. Michigan Avenue
PREPARED BY:	Amy Connolly, Director of City Development
SUMMARY:	<p>Racine Harborside, LLC developer of the @NorthBeach Development within the City of Racine requests approval of a \$1,263,000 low interest loan to facilitate the brownfield cleanup of hazardous materials of the property at 1129 N. Michigan Avenue.</p> <p>The Brownfield Cleanup-Revolving Loan Fund (BC-RLF) was created by the City of Racine in 2010 to facilitate the remediation of contaminated properties. The program was funded through a grant from the U.S. Environmental Protection Agency (EPA) which seeded the loan pool. The loan program offers low interest loans to developers who seek loan funds to be used for brownfield remediation. The City’s program has assistance from both the Racine County Economic Development Corporation (RCEDC), who provides loan underwriting and preparation of loan documents, and the EPA, who provides technical assistance and approval of cleanup methodologies.</p> <p><u>City staff seeks approval of the terms of the loan and permission to execute loan documents to facilitate the \$1,263,000 BC-RLF loan: a loan agreement, a promissory note, and any other required agreements with may be necessary to protect City interests in connection with the loan.</u></p>
BACKGROUND:	<p><u>BC-RLF PROGRAM</u></p> <p>The City of Racine Brownfields Cleanup-Revolving Loan Fund Program provides below market rate loans and subgrants for the purposes of: (1) facilitating the safe cleanup and redevelopment of contaminated properties (brownfields), (2) promoting sustainable economic development and job growth, and (3) creating or preserving greenspace. The amount of a loan and/or subgrant for which an applicant will be eligible will be at the sole discretion of the City of Racine BC-RLF Program based on individual project and underwriting considerations.</p> <p>The BC-RLF program was created after the City received an awarded \$1,000,000 in 2010 to create a loan program. The City, RDA, and RCEDC developed a work plan to implement the loan program. Subgrants were awarded in 2015 and again in 2016. A total of approximately \$1,800,000 is now available for loans in both hazardous materials and petroleum categories. The stated goals of the program is to reduce environmental threats to the community, reduce sprawl and preserve greenspace through the reuse of properties, and generate job growth and expansion in the City.</p>

BC-RLF PROGRAM ORGANIZATION

The City has partners for this program to ensure its success:

1. Ramboll Environs currently serves as the City's Brownfield Consultant and provides fund management services and Davis Bacon Compliance contracting
2. Business Lending Partners (BLP), a division of RCEDC, conducts loan credit analysis, processing, closing, and servicing activities
3. City of Racine Finance Department provides financial bookkeeping, auditing, and provides reporting to the EPA, City of Racine Department of City Development identifies eligible developments for this program and provides assistance to developers in their application process
4. USEPA provides certification of eligible cleanup activities

Prior to loans being awarded, there is an extensive application process that ensures that all appropriate inquiry has been conducted related to the brownfield condition of the property and that the loan applicant has not caused any contamination on this property or any other property. The application also ensures that the loan request meets the "but for" test, common in economic development, to ensure that "but for" the low interest loan, the cleanup and redevelopment of a site would be economically unfeasible.

BC-RLF ACTIVITIES TO DATE:

- Harborside: Application was prepared for \$150,000 (0% loan to City of Racine Redevelopment Authority [RDA]) during second quarter 2013. A memorandum of understanding (MOU) was executed for the Harborside site. The loan was executed in March 2014. *This loan will require repayment prior to the closing of the property with Royal Capital.*
- Nelson Electric: A subgrant was issued for \$25,000 to the Redevelopment Authority of the City of Racine. The loan was executed in March 2014.
- Former Machinery Row: In December of 2014, the City and Financial District Properties (FDP) entered into a development agreement which committed \$4.5 million of City assistance from intergovernmental resources to aid in site acquisition, and earmarked RLF and other resources for environmental remediation. The City encumbered the remaining funds to FDP for the remediation of Phase I/II of the Machinery Row project. FDP's project and site eligibility determination was sent to USEPA and approved by USEPA on May 12, 2015. FDP failed to develop the Former Machinery Row site.
- Former Ajax Property: Loan application materials were delivered to Herman & Kittle Properties in June 2015. USEPA approved the site eligibility for Herman & Kittle, and loan documents, development agreement, and community involvement plan were generated. BLP processed the loan, and RCEDC's internal loan committee approved it. On May 9, 2016, the Analysis of Brownfields Cleanup Alternatives (ABCA) was approved. No comments were received during the public comment period and at the public meeting. A pre-construction meeting and weekly conference calls were scheduled. The loan was approved, but due to a financial gap on the project, the developer Herman & Kittle did not pursue this funding further. The RDA purchased the property in 2016 and a new developer has the property

under contract for multiple family residential buildings and is completing its due diligence. At this time a RLF loan is not anticipated for this property.

RATIONALE

It's in the best interest of the City of Racine to facilitate this loan to Racine Harborside, LLC. The City has, to date, been unsuccessful in using its BC-RLF funds to facilitate cleanup and redevelopment. These funds have been available for over 9 years. The EPA would like to City to expend these funds to facilitate brownfield cleanup. If the City can show progress in facilitating successful brownfield cleanup with these loans, then we may be eligible to receive more funding for our loan fund through the EPA.

Another, more important, reason to facilitate these loans is to ensure that brownfield cleanup is achieved and sites are redeveloped, which is the ultimate goal of the program. The monies do no good for the City or the EPA while sitting in a City Bank account. It is better that these funds are out in the community achieving cleanups and repayments being made so that the funds can “revolve” into other development projects. The low interest loan program serves as a local participation in financing commercial property redevelopment and this participation is helpful to developers seeking funds from private banks.

We note that this financing will be subordinate to primary construction financing and mortgage financing for the developer. This is because the City’s BCRLF program is mean to take on more risk and to leverage private monies to facilitate cleanup. While we note that this particular loan is not collateralized, we do believe that the end result (a site cleaned to residential standards) is worth this risk for the future of the City of Racine.

Terms, Conditions, Material Provisions of the Loan:

LOAN AMOUNT: \$1,263,000

INTEREST RATE 2.75% (2.25% interest with a 0.5% servicing fee)

REPAYMENT TERMS: 14-year term or term ending in August 2033, whichever is sooner; 36 months interest only converted at stabilization//30-year amortization

- 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.
- Borrower shall execute all loans or grant documents required by RCEDC in connection with the loan.

FISCAL NOTE:

The Brownfield Cleanup Revolving Loan of \$1,263,000 will be made from grant proceeds received from the USEPA. No City of Racine funds will be used to transact this loan. RCEDC will serve as the loan “servicer” and will make reports to the City of Racine Department of City Development as to the repayments of the loan. The City’s Brownfield Consultant, Ramboll Environs, will ensure that the project plan and project budget are met and that Davis Bacon requirements are also met and these costs to implement are paid for by the EPA grant program. The City of Racine is responsible for reports to the EPA on our loan program. If the loan is not repaid, the City of Racine is not responsible for repayment of the loan, but we will be unable to revolve our grant into new loans and we may be ineligible for additional grant funding.

A \$150,000 BC-RLF Loan, made to the City of Racine in 2013 for cleanup and site closure activities, is due to be paid by the City/RDA to the loan program before the City and Royal Capital Group closes on the property at 1129 Michigan Boulevard.

RECOMMENDATION:

City and RDA staff recommends that the Common Council approve the Brownfield Cleanup Revolving Loan Fund loan terms to Racine Harborside, LLC and direct Mayor, Clerk, and City staff to execute loan documents to facilitate the loan.