

Overview of City Financing for:
Destination Convention Center with Private Hotel
Festival Hall Site
Racine, WI

Proposed Hotel Convention Center Public/Private Development Project:

A development consisting of a 171-room (107 lake view rooms), full- service, branded (likely a Sheraton, as owned by Marriott) hotel, with a roof-top restaurant and observation-deck/bar, located on the lands making up a portion of the Festival Hall grounds and integrally linked to a 52,775 gross square-foot (34,950 sq. ft. new construction; 17,825 sq. ft. renovation of Festival Hall’s existing space) Convention Center. The hotel would be developed and owned by a single-purpose, Limited Liability Corporation (Racine Hotel Convention Center, [RCCH], LLC) solely owned by Gatehouse Capital, of Dallas, TX and subject to property taxes and Wisconsin Room tax. The expanded/reconstructed Festival Hall-Convention Center would be financed and owned by the City of Racine and leased to the hotel developer/operator under the terms of a negotiated management agreement – to be managed as an integrated facility with the hotel and restaurant (Memorial Hall and Paul P. Harris Rotary Park would remain owned by the City and separate from this arrangement). The land on which the new, Sheraton hotel is to be constructed (approx.. 46,350 sq. ft. of current Festival Hall grounds, which also includes the 441 Lake Avenue [former Johnson Financial drive-through] property); as well as a second parcel (approx.. 27,385 sq. ft. along 4th St./ Kipikawe) set aside for a “Phase II Hotel”, will be sold/transferred to the hotel developer for \$1. The City-owned and expanded Convention Center will be leased to the hotel developer at a lease rate of \$279,000/year adjusted prospectively for inflation. The integrated facility would also feature a roof top observation deck available to the General public 360 days a year.

Public Purpose: In a purposeful effort to further the public interest and increase the public’s enjoyment of the existing Festival Park, Festival Hall, Pershing Park, and associated lakefront improvements, the City of Racine proposes to create a new, ‘Destination Convention Center with Hotel’ development that would better serve modern public needs by enhancing the existing public improvements at Festival Park with additional amenities in support of water recreation, and by expanding the capability of Festival Park into a full-service convention center. All proposed improvements are consistent with the Racine Downtown Plan (2005) and the Lakeshore Development Project Area Plan (1979). The proposed new amenities are all currently unavailable at the existing parks. Their presence would enhance the versatility and convenience of the existing parks and shoreline improvements, increase the ways in which the public may enjoy the parks, and attract more members of the public to enjoy the park and the shore.

Project Cost:

The total projected budget for the 171-room Hotel would be a minimum **\$27,500,000** Calculated as \$160,819/room all-in cost.

The 52,775 gross square-foot Convention Center “base” budget would be **\$15,990,825**. Calculated as \$303/sq. ft. all-in cost. (break-down shown below).

Publicly-developed & financed Convention Center:

Construction: 52,775/s. ft. @ \$215/s. ft. =	\$11,346,625
FFE:	@ \$ 60/s. ft. = \$ 3,166,500
Soft costs:	@ \$ 23/s. ft. = \$ 1,213,825
L.E.E.D. Certification	@ \$ 5/s. ft. = \$ 263,875
Total:	\$303/s. ft. = <u>\$15,990,825</u>

In addition to the “base” budget, the Convention Center project costs will include “Public Accommodation” payments for the Roof-top observation deck and elevator; roof-top restaurant and deck; coffee bar, and bar calculated at a cumulative \$115,000/year for the expected life of the facility, paid up-front, without interest or inflationary adjustment: **(\$115,000 x 50 = \$5,250,000)**

Combined (base and public accommodation) cost of Convention Center: **\$21,000,000**

Financing of Convention Center:

\$21,000,000 total project budget: Financed as (2) taxable NAN’s in 2020 and 2021 each at \$10,500,000; then refinanced at end of 2021 as Taxable G.O. Refunding Bond (w/accrued interest during construction) Total refinanced: ***\$21,920,000**.

*G.O. Refunding Bond: \$21,920,000 with 20-year amortization @ 3.50% interest = **\$1,525,526/year** level P. & I.

\$1,525,526 in yearly debt service (\$30,510,521 cumulative Total) covered by Revenue streams as follows:

- **Room Tax produced by Hotel:** 171 rooms @ 65% stabilized occupancy = 40,570 room nights @ \$170/avg.-night = \$6,896,900 times .08 = **\$551,752/year** (for 20 years)
- **Room Tax produced by (2nd) Hotel:** 80 rooms @ 62% stabilized occupancy = 18,104 room nights @ \$150/avg.-night = \$2,715,600 times .08 = \$217,248 @ 50% = **\$108,624/year** (for 20 years)
Room Tax Total: **\$660,376/year**
- **T.I.D (#9) Increment:** 2022-2036 (15 years) @ \$700,000/year = \$10,500,000 divided by 20 years = equivalent of: **\$525,000/year** (for 20 years)
- **Intergovernmental Fund Revenues:** \$200,000/year times 15-year life remaining (2019-2033) = \$3,000,000 divided by 20 years = equivalent of: **\$150,000 /year** (for 20 years)
- **Conference Center Lease Payments:** \$279,000/year = **\$279,000/year** (for 20 years)
- **TOTALS:** **\$1,614,376/year** (for 20 years)

Financing of Hotel:

\$27,500,000 total project budget:

First Mortgage financing	(65%): \$17,875,000
Developer Equity	(15%): \$4,125,000
<u>*Gap/other capital sources</u>	<u>(20%): \$5,500,000</u>
TOTAL:	\$27,500,000

***City will Aid in “filling gap”/”making economics work”, through the following ways:**

- Provide Land sale to Hotel at \$1 cost.
- Provide 145 parking spaces at Festival Hall ramp for exclusive use of Hotel/conf. center – Operator to receive 85% of revenues, City gets 15%: (likely charge \$7/day for use keeping \$6 and returning \$1 to City).
- City to create **T.I.D. #24 to include Hotel to provide 12-year, 95% developer-funded, “pay-as-you-go” incentive for hotel:** (i.e. \$12,375,000 assessed value @27.54 mil rate = \$340,807.50 total tax x .95 = \$323,767 yearly rebate) 10-years (post-stabilization) times \$323,767/year = \$3,237,670.

Summary of City Involvement & Contributions to Project Development:

- \$10,500,000 of T.I.D #9 Captured Tax increments (2022-2036) used to cover debt service on City-owned Convention center.
- \$3,000,000 of Intergovernmental revenue Funds used to cover debt service on City-owned Convention Center (contributed as \$200,000/year for years 2019-2033)
- All Room Taxes (100%) produced by this Hotel development, and (50%) of Room Taxes produced by 2nd Hotel (500 Main Ave.) over 20-year period dedicated to partially pay Debt Service on publicly-owned Convention Center.
- No property Tax burden of any kind on City or County taxpayers.
- Naming Rights opportunity exists to add revenue for project = (+/- \$500k/year) City shares 50/50 with Developer.
- Provide 145 parking spaces at Festival Hall ramp for exclusive use of Hotel/conv. center – Operator to receive 85% of revenues for use; City to receive 15%.
- City to create new stand-alone T.I.D. overlay to include Hotel to provide 12-year, 95% developer-funded, pay-as-you-go incentive for hotel: (i.e. \$12,375,000 assessed value @27.54 mil rate = \$340,807.50 total tax x .95 = \$323,767 yearly rebate) 10-years (post-stabilization) times \$323,767/year = \$3,237,670.
- Developer will lease and operate Convention Center for \$279,000/year.
- Developer will also manage Memorial hall on behalf of City for no added charge – City to fund all maintenance, up-keep, utility, and capital costs.

- Paul P. Harris Rotary Park: (all outdoor spaces East of Festival Hall) turned over to City parks department – Developer to coordinate scheduling and services for events; City to set pricing and collect usage fees.