



Redevelopment Authority/Common Council AGENDA BRIEFING MEMORADUM

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| AGENDA DATE: | April 3, 2018 – Common Council April 5, 2018 – Redevelopment Authority April 9, 2018 – Finance and Personnel April 17, 2018 – Common Council |
| SUBJECT: | RDA Resolution 18-08 RDA Legistar No. 0330-18 |
| PREPARED BY: | Amy Connolly, Director of City Development |
| SUMMARY: | <p>City staff requests approval to negotiate and execute a development agreement with Wild Root Market Cooperative for the construction of a cooperative grocery market and creation of jobs at 500 Walton Avenue resulting in a grant of \$390,000 from the City’s Intergovernmental Funds, inclusive of a challenge grant of \$100,000, if the terms of the development agreement are met.</p> |
| PROJECT BACKGROUND & ANALYSIS: | <p>Wild Root Market Cooperative has requested a grant from the City of Racine to support development of a community-owned grocery store. This grant would serve as a (non-required, but requested) match to the \$250,000 CDI grant recently applied for through the Wisconsin Economic Development Corporation. The grant will provide a portion of the capital required to ensure the co-op is well positioned to successfully operate a small business focused on meeting the needs of the community. The grant will contribute toward significant community impacts. Wild Root Market will revitalize the neighborhood through renovation of a vacant building, provide up to 40 new jobs, support local farmers and producers, improve food access by eliminating a food desert, strengthen the local economy, and promote healthy community.</p> <p>Wild Root Market Cooperative’s mission is to enhance the quality of life and economic vitality of southeastern Wisconsin through the sustainable operation of a full-service, cooperatively owned grocery store in Racine. The co-op will provide a mix of local, organic, and conventional foods and our store will be open to the public, everyone is welcome. Wild Root Market is strong and growing with 1,090 owners as of this writing, including households and local businesses.</p> <p>Wild Root Market will serve as an economic catalyst, spurring a dozen new micro businesses after the first year of operation. Co-ops are committed to empowering entrepreneurs and small business owners in the community, providing a reliable market for local products and often serving as incubators for local entrepreneurs.</p> <p>The anticipated Community Impacts from Wild Root Market in 2018 after the first year of operation are summarized below. (Assuming 7,700 square feet retail space,</p> |

based on sales projections from August 2017 Market Study by Dakota Worldwide)

- \$5 Million business purposefully anchored in the City of Racine
- 40 new jobs created – all above minimum wage
- over \$1 Million in sales of locally produced food/items from within 100 miles
- up to \$2 Million in regional food sales
- up to \$7.5 Million generated local economy - every \$1,000 spent at co-op yields \$1,500 locally
- up to 50 local farmers and producers selling items in the store
- 12 new local micro businesses created as direct effect of co-op
- over \$20,000 donated to local charities
- 50 classes offered with over 400 attendees
- 25 educational tours for students, scout troops, and more
- increased security and jobs for local farms
- innovative food access program

THE ROAD TO OPEN

Wild Root Market began as an idea in November of 2009 among a few community members gathered around a dining room table to talk about a community-owned grocery where they could buy natural, local and sustainably sourced foods right here in Racine. The initial vision for Wild Root Market still holds true today: to build a place which will become a community hub; a place where neighbors can find fresh, locally-sourced food and goods, where they can spend time together and learn more about sustainable living and other topics that might be of interest to them. It will be a welcoming environment incorporating a well-appointed and attractive grocery store, a deli/cafe with seating space and a community room for seminars and education.

Wild Root's initial membership launch in August 2011, where over 240 individuals bought Ownership shares during that month alone, showed the strong desire within the community to bring Wild Root Market to fruition. Grants from inside and outside the Cooperative community funded the cost of our initial feasibility study completed by the G2G Research Group. This feasibility study confirmed that our area exceeded the criteria for building and sustaining a successful cooperative grocery store.

Wild Root Market incorporated in 2011, formed the Board of Directors and began consulting with Food Co-op Initiative (FCI) and Cooperative Development Services Consulting Co-op (CDS CC) for guidance and support in starting a new food co-op. Pam Mehnert, General Manager of Outpost Natural Foods in Milwaukee and Founding Owner of Wild Root Market, has consulted and advised the Board from the beginning and has committed to continue this mentorship post-opening.

As Ownership grew past 500, Wild Root Market established a Site Selection committee responsible for identifying potential sites in the City of Racine. From late 2013 through early 2016, Wild Root Market vetted over 30 properties in Racine, completing thorough due diligence to assess market, financial, and design feasibility

on two properties which ultimately proved financially unfeasible. In May of 2016, Wild Root Market was chosen to receive a \$10,000 Seed Grant from the Food Co-op Initiative and was recognized as one of the strongest start-ups across the country.

Wild Root Market identified 500 Walton Avenue as a potential site in March 2016. The location is in a USDA recognized food desert. A grocery store at this location will bring a much-needed resource to the area and will revitalize an unused, empty building in the neighborhood. There is precedent for a grocery store in the neighborhood with many people sharing fond memories of shopping there. Wild Root Market intends to be an integral part of the community and a trusted neighbor.

A Market Study in April 2016 by Dakota Worldwide Corp. indicated a food co-op at 500 Walton Avenue would generate approximately \$5 to \$6 million in annual sales. Wild Root Market's Board of Directors approved the decision to locate the store at 500 Walton Avenue in October 2016 and secured an option to purchase the 11,603 square-foot building at 500 Walton Avenue and the parking lot directly south of the building at 2214 Wisconsin for \$175,000.

Due diligence on the site completed between August 2016 and March 2017 included a Phase 1 Environmental Site Assessment, Hazardous Materials Assessment, Roof Evaluation Report, Conceptual Architectural & Construction Assessments, and a Traffic Study. A second Market Study by Dakota Worldwide Corp. in August 2017 confirmed that sales projections for a 7,700 square-foot retail grocery operation at 500 Walton Avenue would generate approximately \$5 to \$6 million in annual sales.

Wild Root Market's requests to amend the City of Racine Comprehensive Land Plan, to rezone the property and secure a Conditional Use Permit for the site at 500 Walton Avenue was approved in June 2017.

Wild Root Market is working with a store designer from CDS Consulting Co-op to complete the preliminary design and fixture plans, and has contracted with Racine-based architect Butterfield, Rudie and Seitz and Bukacek Construction.

Wild Root Market retained an Outreach Coordinator in Summer 2017 and an Events Coordinator in December 2017 to continue to build community partnerships, increase awareness of the co-op and grow Ownership. In June 2017, the Board began a national search for a General Manager who is experienced in retail food co-op store management. We are confident that Wild Root Market will be an attractive employer based on our business plan and broad community support for the market. Wild Root Market concluded Phase 1 of its Capital Campaign in November 2017 raising nearly 40% of the \$1,125,000 goal from interest-bearing Owner loans and donations.

Phase 2 launched March 1, 2018. As of this writing, Wild Root Market has 1090 Owners and is expecting to open the store in fall of 2018.

FINANCING:

The proposed grant would be used to offset building renovation costs and purchase or equipment. Building renovation costs are currently assumed to be approximately \$1,762,453. Purchase of equipment is approximately \$1,160,300. The total cost to open the doors at Wild Root Market Cooperative is \$5,181,561.

A portion of the financing for Wild Root Market will be raised from Owners. \$1,125,000 will be raised from Owners in the form of loans in increments from \$1000 to \$100,000+. These loans range in terms from 5 to 10 years and in interest from 0% - 5%. Wild Root Market concluded Phase 1 of its Capital Campaign in November 2017 raising nearly 40% of the \$1,125,000 goal from interest-bearing Owner loans and donations. Phase 2 will launch March 1, 2018.

Owner shares make up an additional \$225,000 of capitalization. These shares do not appreciate and, although Owners may request to sell their shares back to the co-op, there is no payback associated with these shares.

First position financing of \$2,683,107 is expected to be a loan from a national cooperatively owned bank, with the terms currently in negotiation.

The rest of the financing, approximately \$1,108,597 is expected to come from community and private grants.

| Wild Root Market Sources & Uses Budget 3-5-18 | | |
|--|------------------|---------------|
| SOURCES | Amount | Percent |
| Benefits & Donations | 65,000 | 1.3% |
| Grants | 1,108,597 | 21.4% |
| Member-Owner Equity | 225,000 | 4.3% |
| Owner loans | 1,125,000 | 21.7% |
| Subtotal - Owners Contribution | 2,523,597 | 48.7% |
| City/Community Loan | 0 | 0.0% |
| Free Fill (inventory) | 38,500 | 0.7% |
| Subtotal - External, subordinated | 38,500 | 0.7% |
| Equipment Loan | 914,506 | 17.6% |
| Building improvement loan | 1,704,959 | 32.9% |
| Subtotal - 1st Position Debt | 2,619,465 | 50.6% |
| Total Sources | 5,181,562 | 100.0% |

| USES | | |
|--|------------------|----------------|
| Acquisition | 175,000 | 3.4% |
| Construction | 1,762,453 | 34.0% |
| Equipment | 1,160,300 | 22.4% |
| Inventory | 385,000 | 7.4% |
| Fees | 446,154 | 8.6% |
| Start-up promotion | 28,000 | 0.5% |
| Start-up staffing | 141,000 | 2.7% |
| Overhead/Admin prior to opening | 90,000 | 1.7% |
| Holding/Site Costs | 30,000 | 0.6% |
| Interest during project | 44,379 | 0.9% |
| Working Capital allowance | 627,000 | 12.1% |
| Subtotal Uses | 4,889,286 | 94.4% |
| Overrun Allocation (10% of construction/equipment costs) | 292,275 | 5.6% |
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| Total Uses | 5,181,561 | 100.00% |

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 Wild Root Market Cooperative grant meets all the criteria listed above. It is a capital project with private investment, the result of the grant would be taxable real estate development and 40 new jobs. The project is NOT tax exempt, but would eliminate blight (a long-vacant building within the neighborhood). The project would also result in tangible increases in taxable real estate in the area and would also contribute to job creation and retention in the community.

- 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 Wild Root Market Cooperative grant would also meet this requirement.

\$390,000 public investment in the form of a grant should result in \$1,950,000 of net new tax base, in order to meet this requirement.

Current Assessed value of property per 2017 Assessment: \$150,000
Current taxes paid: \$5,608.78

The City Assessor's office estimated the taxable assessed value of the 500 Walton Street property upon completion of the project, as estimated by Wild Root Market Cooperative, to range between \$2,168,000 - \$2,569,000, to be **a SEVEN-FOLD (70%) increase in net new tax base** as a result of the proposed grant investment.

- 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.**

Wild Root Market Cooperative grant meets this requirement. Wild Root Market would need to provide 7.8 full-time equivalent jobs to meet this requirement ($\$390,000/\$50,000 = 7.8$). Wild Root proposes to create 40 new jobs as a result of the market opening.

RECOMMENDED ACTION:

That the RDA recommends that the Common Council approve the use of Intergovernmental Revenue Funds for the purpose of a development agreement/grant to Wild Root Market Cooperative for the construction of a cooperative market at 500 Walton Avenue and, further, authorize the RDA Executive Director and the RDA Chairman to negotiate and execute a development agreement resulting in a \$390,000 grant if the terms of the development agreement are met.

FISCAL NOTE:

Funds for the grant would come from the City's Intergovernmental Revenue Funds. There are sufficient funds in the account to support the grant.