



Incentive Request Summary

PROPERTY ADDRESS

Regency Mall – 5502 Durand Avenue

INCENTIVE REQUESTED

In exchange for a \$3,955,000 immediate rehabilitation investment in the Racine Mall property and another \$2,500,000 in tenant incentives (total minimum investment by developer is \$6,500,000), Racine Mall, LLC requests:

- Tax Increment District sharing totaling \$3,955,000 for eligible expenses related to a Phase I and Phase II investments (interior and exterior remodeling, tenant incentives)
- 100% of tax increment generated over the life of the Tax Increment District (27 years)
- Total minimum investment by the developer is \$6,500,000
- Minimum net assessed value for the property owned by Racine Mall, LLC would be \$8,954,000 over the next 27 years.

PROPERTY OWNER INFORMATION

Property Owner: Racine Mall, LLC -- a Georgia Limited Liability Company
Mailing Address: 1190 Interstate Parkway. Augusta, GA 30909
Primary Contact: Jim Hull, Owner and John Mulherin, Vice President Phone: 706.863.2222
Email: John Mulherin [jmulherin@hullpg.com]

Legal Entity LLC Corporation Partnership Other _____

PROJECT DESCRIPTION

The Developer, Racine Mall, LLC, is proposing four distinct improvement projects for the Regency Mall property, which would be completed in the following order:

PHASE	DATE	DESCRIPTION	PROJECT COSTS
Phase I	Immediate Fall 2017	Interior renovation of common spaces and restrooms and exterior entrance renovation of the existing Regency Mall	\$3,955,067
Phase II	Immediate Fall 2017	New tenant buildouts and proposed co-investments with existing tenants	\$3,500,000
Phase III	Yet to be Determined	Future redevelopment of outlot spaces (within the parking lot of the development)	\$3,250,000
Phase IV	Yet to be Determined	160 Unit Multiple Family Complex developed on property owned by Racine Mall, LLC to the northeast of the mall site	\$28,000,000

PHASE I: Interior and Exterior Renovations of Existing Regency Mall Building (Fall 2017)

The developer is proposing to renovate the interior common areas and the exterior entrances of the Regency Mall property (owned by Racine Mall, LLC) to provide a needed “refresh” that would assist the property owner in retaining customers and encouraging new tenants to locate within the renovated mall property.

The interior remodeling includes a improvement in the mall’s common spaces, such as:

- Drywall cover-up of vacant bays and installation of community photographs and murals
- New ceiling, including raising the existing height of the ceiling
- New lighting
- New flooring (carpet)
- Public restroom renovation
- Asbestos survey and removal (if necessary)

The exterior renovation work includes:

- Façade and entrance improvements for each mall entrance
- Pedestrian level lighting and plaza amenities
- Landscaping and irrigation improvements
- New mall signage

The developer has proposed a 5% project contingency as part of the project cost estimates.

Phase I: Regency Mall Interior & Exterior Renovation Estimated Project Costs

ITEM	#	UNIT	COST/UNIT	TOTAL COST
Interior Renovations				
Interior Common Area Renovations	65,712	SF	\$30.86	\$2,027,609
Mall Restroom Upgrades	2	EA	\$78,400	\$156,800
Drywall vacant bays + murals	1	LS	\$100,800	\$100,800
Asbestos Survey/Abatement	1	LS	\$11,200	\$11,200
Total Interior Renovations				\$2,296,409
Exterior Renovations				
Façade Improvements (Front Left)	105.0	SF	\$1,568	\$164,640
Façade Improvements (Front Right)	70	SF	\$1,568	\$109,760
Façade Improvements (Back left)	66	SF	\$1,568	\$103,488
Façade Improvement (Back left)	66	SF	\$1,568	\$103,488
Pedestrian Lighting	16	EA	\$3,640	\$58,240
Monument Signage @ Main Entrances	6	EA	\$50,400	\$302,400
Communication Board (reader board)	1	EA	\$403,200	\$403,200
Total Exterior Renovations				\$1,245,216
Site Work				
Landscaping & Irrigation	1	Estimate	\$151,200	\$151,200
Concrete and Asphalt Improvements	1	Estimate	\$112,000	\$112,000
Total Site Work				\$263,200
Project Contingency				
Based upon 5% of all Project Costs	5%			\$190,241
Total Contingency				\$190,241
TOTAL PHASE I COSTS				\$3,995,067

PHASE II: New Tenant Build-outs and Co-Investments (Immediate – Fall 2017)

In Phase II of the project, the developer would look to recruit new tenants by providing incentives for new tenant build-outs of 20,000 s.f. of space within the mall. Each specific new tenant has specific requirements, which are unknown until a lease is signed. According to the Hull Group, the new tenant buildouts cost approximately \$125/s.f. to “white box” and outfit a new tenant space, which include:

- \$80/s.f. for buildout costs (e.g., ceilings, walls, floor coverings, and entrance facades) to provide each tenant with a “white box.”
- \$45/s.f. for a tenant allowance (e.g., paid to tenant for fixtures, display cases, and signage).

The 20,000 total square feet will be divided into various stores of differing sizes. The Hull Group feels it must “jump start” the re-tenanting of the mall with aggressive lease terms and a minimum of 20,000 sq ft of shops to show positive momentum.

The co-investment applies to anchor stores. According to Hull Group, after the mall owners, with TID assistance, has made significant sacrificial investments into the transformation of Regency Mall, they wish to engage with the anchor stores and ask them to improve their stores. The Hull Property Group, through a TID incentive, will match their investment dollar-for-dollar, up to \$500,000 each. Specifically, Hull Group will require that lighting and flooring improvements be made as these are the most notable changes customers will notice.

The developer also wishes to encourage existing tenants to improve their spaces and re-invest in their rented spaces. Co-investments are another way of saying “developer incentives” to encourage existing stores to stay in their location. The developer believes that most of the anchor tenants will stay in their existing locations and would be encouraged to reinvest in their stores if there is an incentive provided to the companies.

Phase II: New Tenant Build-outs and Co-investment Estimated Project Costs

ITEM	#	UNIT	COST/UNIT	TOTAL COST
New tenant buildouts	20,000	SF	\$125.00	\$2,500,000
Co-investment #1	1	EA	\$500,000	\$500,000
Co-investment #2	1	EA	\$500,000	\$500,000
TOTAL PHASE II COSTS				\$3,500,000

PHASE III: Outlot Development (to be completed at a later date, yet to be determined)

Phase III of the project would involve the redevelopment of existing sites and the development of new sites to encourage restaurant outlot development around the mall property. The redevelopment of existing site (formerly Chi-Chi’s restaurant) would require demolition and site preparation in order to incentivize the development of a new restaurant. The development of new sites may be easier because the new development would occur within a parking lot, but the projects will still involve significant demolition and site preparation expenses in order to create a “pad ready” site for new restaurant users.

The developer currently anticipates redeveloping the old “Chi-Chi’s Site” into a 7,000 s.f. restaurant (likely a seated dining restaurant) and developing three (3) new outlots within the mall parking lot property for 4,500 s.f. restaurants (would likely be fast casual type restaurants, possibly with drive-throughs).

The total cost of developing the outlots would be accounted for in the Phase III project costs.

Phase III: Future Outlot Development Estimated Project Costs

ITEM	#	UNIT	COST/UNIT	TOTAL COST
7,000 s.f. restaurant	7,000	s.f.	\$143/s.f.	\$1,000,000
3 x 4,500 s.f. restaurants	13,500	s.f.	\$167/s.f.	\$2,250,000
TOTAL PHASE III COSTS				\$3,250,000

Phase IV: Multiple Family Development (To be completed at a later date, yet to be determined)

Phase IV of the project is the redevelopment of an area at the northeast corner of the subject site into a 160 unit multiple family development. We currently do not have plans or specific information relating to this project, except to say that it would be a market rate development and would be located within walking distance of major employers and a Racine County park (and the new SCJ outdoor aquatic center).

Phase IV: Future Multiple Family Development Estimated Project Costs

ITEM	#	UNIT	COST/UNIT	TOTAL COST
160 Unit Multiple Family Complex				\$28,000,000
TOTAL PHASE IV COSTS				\$28,000,000

TAX INCREMENT INCENTIVE REQUEST

The developer, Racine Mall, LLC has requested Tax Increment District sharing totaling **\$3,955,000**.

The proposed tax increment sharing is requested to reimburse the developer for expenses incurred during an interior and exterior renovation of the mall, including common area improvements (ceiling, lighting, flooring, covering vacant bays, public restroom renovations) and exterior improvements (façade, entrance improvements, pedestrian level lighting, plaza amenities, landscaping and site work). The tax increment sharing would also reimburse the developer for interior and exterior renovation expenses relating to new tenant buildouts and co-investments with existing tenants.

The developer has requested that \$3,955,000 would be paid upon verified expenditure by the developer of same amount toward taxable physical improvements on the site & presentation of evidence acceptable to City certifying all costs expended for completion of the project and lien free completion.

City Requested Obligations:

1. Create a tax increment district (completed).
2. Create and implement development agreement for the requested assistance
3. Engagement of a contractor to review actual construction expenses versus the guaranteed maximum price provided by the contractor.

Developer Requested Obligations:

1. Obtain all necessary zoning, permits, and approvals and complete construction of the project in accordance with plans approved by City.
2. Complete project in accordance with approved plans and invest and Phase I investment of \$3,995,000.
3. Developer shall guarantee a minimum net assessed value of \$8,954,000 for the Mall property as the baseline valuation for the project through a development agreement.
4. Developer warrants that it will invest up to an additional \$2,500,000 in increment generating, tenant assistance once Regency Mall is stabilized and tenants are recruited to the property.
5. Present evidence acceptable to the City certifying all costs expended for completion of the project and certification of lien-free completion.

TERM SHEET AGREEMENT

Tax Incremental Financing is a negotiation between the City and the developer, based upon policy set forth by the City. According to the new policies set forth by the City of Racine in its recently adopted TIF Assistance Policy, City staff recommends the following agreement terms with Racine Mall, LLC (Hull Property Group).

1. Amount of Request:

Provide a maximum incentive of **\$3,500,000** in the form of a cash funded “pay-as-you-go” annual payment for a maximum of 13 years equal to a maximum of 90% of tax increment generated on the following properties currently owned by Racine Mall, LLC and its successors:

- 5502 Durand Avenue (Parcel # 23876050; more or less 42.20 ac);
- 5230 Durand Avenue (Parcel # 23876020; more or less 5.165 ac);
- 5326 Durand Avenue (Parcel # 23876041; more or less 1.121 ac);
- 5200 Durand Avenue (Parcel # 23876031; more or less 2.494 ac); and
- 2721 S Green Bay Road (Parcel #23876037; more or less 0.4499 ac);

This incentive is calculated as the developer’s maximum request for reimbursement of eligible project costs (\$3,995,000) for Phase I Project expenses minus \$500,000 for the developer’s share of future road improvements (approximately 1/3) and transportation amenities plus \$40,000 for water system valve replacements for the property, both needed infrastructures anticipated within the TID Plan.

2. City Obligations:

- a. City agrees to manage and operate TID 20 (Regency Mall) for the full 13 years term of the development incentive project or until the maximum incentive amount has been fulfilled per the agreement. The TID will begin on January 1, 2018.
- b. Provide a “pay-as-you-go” annual tax increment incentive for thirteen (13) years in an amount, calculated as of September 30 of each calendar year, equal to 90% of the gross annual tax increment collected in such calendar year attributable to the gross annual tax increment produced by the project (on property five properties within TID 20 currently owned by Racine Mall, LLC or its successors) the immediately preceding calendar year. The term of 13 years was arrived at as a ten-year incentive period with a three-year “ramp up” period to allow property to redevelop.
- c. If the maximum incentive request of \$3,500,000 is provided to the developer before the maximum 13-year term of the agreement, the City is not obligated to share any additional TID revenues. If the maximum incentive request is not provided to the developer before the expiration of the development agreement, the City is not obligated to provide any additional or remaining incentive cash payments to the developer.
- d. If, at any time during the agreement, TID 20 does not generate positive increment or if there is not enough annual increment generated from all the properties within TID 20 to fund the sharing of an annual cash incentive within a given year, the City will not be obligated to share any tax increment with the developer.

3. Developer Obligations:

- a. The proposed Phase I improvements (interior and exterior renovations) will be complete within one (1) year and the proposed Phase II improvements (new tenant buildouts and co-investments) will be completed by the developer within seven (7) years of the date of the agreement.

- b. The developer agrees that if they challenge or protest the Assessors' determination of the property value to the Board of Review or Circuit Court for the property owned by Racine Mall, LLC for which the incentive is requested during the 13-year life of the development agreement, the developer will reimburse the City for all of the annual tax increment incentive that was paid to the developer during the year the assessment was challenged, and furthermore, agree that the development agreement will be null and void. Developer will be allowed to submit income, expense and other appraisal documentation prior to the Assessors said valuation of the property, thus ensuring an appraisal methodology consistent with Wisconsin statutes.
- c. The developer agrees to a minimum assessed value during the life of the agreement of \$8,954,000 for the property addressed 5520 Durand Avenue, Tax Parcel # 23876050.
- d. Developer and property owner shall agree to pay all outstanding City of Racine and Racine County property tax bills prior to the disbursement of any pay-as-you-go annual payments by the City of Racine.
- e. The developer must retain ownership of the project long enough to complete the Phase I project, stabilize the occupancy, establish proper facility management, and initiate payment of taxes based on the increased property value.
- f. The developer will ensure that project expenses are equal to the amounts equal to the City building permits pulled for the project. We would expect that the verification of project expenses would occur by verifying the project costs listed on building permits.
- g. The City will require an upfront fee of \$10,000, which may also be placed in escrow, for the review and consideration of the tax incentive. The City will use the fee to engage a financial advisor and legal counsel to conduct financial statement reviews, project estimates of tax increment revenues to be generated by investments, develop and negotiate a development agreement, and perform a due diligence credit and lawsuit check.
- h. The developer will submit a detailed Project Budget (including sources and uses of funds), financing methods, detailed pro forma, income and expense schedule, and analysis of financial need to the City's financial consultant for review.
- i. The developer will submit market assessment of retail conditions to assist the City of Racine in determining the market worthiness of the TID investment.
- j. The developer will not be required to submit an appraisal.
- k. Developer will submit a summary letter containing:
 - i. *Description of the project and project costs*
 - ii. *Project start and end dates*
 - iii. *Profitability*
 - iv. *Public benefits, including job creation and retention*
 - v. *Overview of private-sector financing*
 - vi. *Summary of increment projections*
 - vii. *"But for" analysis*

STAFF EVALUATION OF INCENTIVE REQUEST

CRITERIA	CRITERIA EXPLANATION	EVALUATION
Eligible Costs	The request for incentive is within the eligible costs as defined by Section 66.1105 (2) (e) of Wisconsin Statutes and the adopted TID Project Plan.	Request Meets Criteria – Proposed incentive is consistent with the TID #20 project plan.
TID Cap	The total amount of TID assistance should not exceed 30% of the proposed total project costs. This cap may be waived if the project involves redevelopment of existing or historic structures or the assembly or clearance of land upon which existing structures are located.	Request Does Not Meet Criteria – staff recommends a waiver of the TID Cap because the project is a redevelopment of a functionally obsolete existing building.
Minimum Developer Equity	The developer must provide a minimum 15% equity of total project costs. Either cash, unleveraged value in land, or prepaid costs attributable to the project may be counted as equity. Tax increment incentives cannot be used to supplant cash equity.	Request Meets Criteria
Maximum Increment Use	For “pay-as-you-go” incentive requests, up to 90% of the generated annual tax increment can be made available, if there are no other public infrastructure projects planned in the district. For loans, no more than 75% of the net present value of the tax increment generated by the private development will be made available to the project	Request Meets Criteria
Payback period	Ten years is the maximum payback or payout period. However, if there is a convincing demonstrated need, the payback period for a loan could match the amortization period but in no case should the payback/payout period exceed twenty years or the statutory life of the TID, whichever is less. “Pay-as-you-go” incentives may not exceed twenty years or the statutory life of the TID, whichever is less.	Request Does Not Meet Criteria – staff recommends a waiver of the 10-year maximum to take into account a three-year “ramp up period”, as the initial Phase I investments will likely not generate tax increment.
Self-Supporting Projects	Each project requesting assistance should generate sufficient tax increment to cover the requested tax increment assistance and a portion of any public infrastructure costs planned within the district. The increment from other private development projects within the district should not be used to supplement another project’s inability to generate sufficient tax increment to cover project costs.	Request Meets Criteria
Internal Rate of Return	The amount of assistance provided to a developer will be limited to the amount necessary to provide the developer a reasonable rate of return on investment in the project and the subject site. A developer’s return on equity, return on cost or internal rate of return, will be based upon current market conditions as determined by the City or the City’s financial advisor. In no case shall the internal rate of return exceed 20%.	Request Meets Criteria
“But For”/ Demonstrated Need	The fundamental principal and that which the City must determine through information provided by the developer is that the project would not occur “but for” the assistance provided through the TID. The burden is on the developer to make a case for the City to provide an incentive. Should this “but for” determination not be made, TID financing/incentive cannot be recommended. “But for” determinations can be made through showing the impact of the requested incentive on the project proformas before the incentive is received and after the incentive is received.	Request Meets Criteria

1. **Eligible Cost – Request Meets Criteria**

The developer is proposing to expend the proposed incentive requests for the following: 1.) Demolition, alteration, rehabilitation, repair and reconstruction of existing buildings and structures and 2.) Developmental incentives in the forms of loans or grants to businesses.

Both of these types of expenses are clearly defined as eligible per Section 66.1105 (2) (e) of Wisconsin Statutes. Additionally, the adopted TID 20 Plan for Regency Mall anticipated these types of expenses. Page 23 of the TID 20 Project Plan contains a table that the City is anticipating providing as much as \$13M in development incentives via cash funded from increment.

From Page 23 of the TID 20 Project Plan:

As part of the first phase of Plan implementation, the City expects to enter into a development agreement with the owners of Regency Mall (Area A) to provide TIF assistance on a “Pay as You Go” basis.

Payments shown within the Cash Flow exhibit are illustrations for purposes of establishing economic feasibility only. The City has not agreed to terms or conditions with the owners of Regency Mall or any other potential development or redevelopment site within the District with respect to public financial participation.

2. **TID Cap – Request Does Not Meet Criteria, recommend waiver**

The developer intends to spend approximately \$7,477,467 within the next five years for both Phase I – Interior and Exterior Renovations and Phase II – new tenant buildouts and co-investments.

The total incentive amount requested is \$3,955,000, which is more than 30% of total project expenses ($\$7,477,467 \times .30 = \$2,243,240$) as illustrated by the developer’s submittal.

Thus, the developer is asking to exceed the TID cap of 30% of total project expenses for Phases I and II.

Staff recommends that the TID Cap Criteria be waived because the project involves reinvestment/rehabilitation of a functionally obsolete existing building and a site that has not been updated in many years.

3. **Minimum Developer Equity – Request Meets Criteria**

The developer paid more than \$9,000,000 in cash to purchase the site from the previous owner. Based upon the review of this project by our financial analyst, the purchase investment as well as planned Phase II investments ensures that the developer invests far more than 15% of their own money as developer’s equity into the project.

4. Maximum Increment Use – Request Meets Criteria

A “pay-as-you-go” incentive has a limit of 90% of the generated annual tax increment, if there are no other public infrastructure projects planned in the district.

Phase	Developer Investment	Estimated Additional Value Created (Annual)	Annual Increment Created = Add’tl Value x .0307 (effective tax rate)
Phase I – Interior and Exterior Renovations	\$3,995,067	\$500,000	\$15,350
Phase II – New Tenant Build outs and Co-Investments	\$3,500,000	\$2,375,000	\$72,912.50
TOTAL	\$7,477,467	\$2,875,000	\$88,262.50

Yield on Annual Increment of \$88,262.50/Investment of \$7,477,467:

Payback Period	Percentage Increment	Total Increment Revenues Over Payback Period
10 YEARS	90%	\$794,360
15 YEARS	90%	\$1,191,544
20 YEARS	90%	\$1,588,725
27 YEARS	90%	\$2,144,779

Over a 27 year TID period, **90%** of the annual increment created by Phase I and Phase II investments would generate approximately **\$2,144,779** in total tax increment. This is less than the requested incentive amount.

The TID Plan anticipates the need for \$40,000 in water system valve replacement infrastructure investments for the Regency Mall property. The TID Plan also anticipates transportation amenities and road improvement infrastructure that could benefit the site in the amount of \$1,500,000. Land Use and other planning costs were also planned for the entire TID area for a cost of \$50,000.

If the City of Racine were to keep 10% of the annual increment created by Phase I and Phase I investments, the TID would maintain a fund balance of approximately \$8,826/year or \$238,307 over the 27-year course of the TID.

The requested incentive, if completed as a “pay-as-you-go” incentive sharing a maximum of 90% of the available TID revenues over 27 years, would not generate sufficient revenues to cover the request or to pay for the additional site infrastructure needs for the site.

5. Payback Period – Request does not meet criteria; recommend waiver

The TID criteria requires that ten years is the maximum payback or payout period. The applicant has requested to share the full tax increment created over 13 years.

The TID criteria allows for a waiver of the ten-year maximum payback/payout period, if there is a convincing demonstrated need. Hull Property Group/Racine Mall, LLC has requested an addition three years to accommodate the time it will take to have their investments in the property result in the generation of tax increment. Hull Property Group acknowledges that the Phase I investment will not likely generate as much additional increment as the proposed Phase II and future phases.

6. **Self-Supporting Project – Request meets criteria**

The TID criteria requires that each project should generate sufficient tax increment to cover the requested assistance as well as any public infrastructure costs.

As negotiated, the developer will receive tax incremental assistance in an amount that they are able to generate. We do not anticipate that the developer's investments will result in generating the full \$3.5M requested. However, the City of Racine will only share the tax increment that is generated by the property – no more and no less. Furthermore, if the TID #20 is not producing revenue, the City will not be required to share increment.

7. **Internal Rate of Return – Request meets criteria**

The developer was able to show, through a proforma analysis, that without the TIF assistance, their IRR is less than 1%. However, with the tax incremental assistance, their IRR is less than 20% (appears to be below 10%, actually), which is within the guidelines of our policy.

8. **“But For”/Demonstrated Need – Request meets criteria**

The developer has indicated that “but for” the tax incremental assistance, the further investment in the mall and the generation of jobs within the mall would likely not occur.

STAFF RECOMMENDATION

City staff recommends approval of a development agreement with terms agreed to between Regency Mall, LLC/Hull Property Group and the City of Racine.

City staff also recommend that the City should agree to waive two provisions within the new Tax Incremental Finance Assistance Policy:

1. The 30% TID Cap (only 30% of total project costs are eligible for reimbursement) and
2. The payback period (maximum 10 years)

Staff's opinion is that the complex nature of this redevelopment (updating an obsolescent building) and the future opportunities that a successful retail mall will generate for our city warrant flexibility in applying the policy.

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