



City of Racine, Wisconsin

AGENDA BRIEFING MEMORADUM

AGENDA DATE: January 30, 2023 – Finance and Personnel Committee
February 7, 2023 – Common Council

SUBJECT: Communication sponsored by Mayor Mason seeking approval to enter into a second amendment to the development agreement with HOVDE Properties, LLC, regarding the Redevelopment Site at and near 233 Lake Avenue

PREPARED BY: Director Fischer
Reviewed By: Administrator Vornholt

EXECUTIVE SUMMARY:

In September of 2021 the Common Council approved a development agreement between the City of Racine and HOVDE Properties, LLC regarding the redevelopment of the Site at 233 Lake Avenue. The development agreement imagines approximately a 202-unit market rate residential development on the site. The Common Council authorized amendment #1 to the agreement in September of 2022. This second amendment will cover the item discussed below.

PROJECT BACKGROUND:

As contemplated in the original development incentive agreement, the developer will construct a multifamily residential building containing a total of approximately 202 units of market-rate rental housing. The building will boast beautiful views of Lake Michigan/Harbor. The project will incorporate many amenities including a community space overlooking the lake, a fitness center, a pet wash, and will be sustainable including a solar array. The development will include a mix of enclosed and surface parking. In addition, the project will include a public connection to the lakefront including public art, landscaping, sidewalks, benches and grassed areas.

Total original project costs were estimated in June of 2021 to be just over \$33,000,000. Due to inflationary increases in materials, labor, interest rates and unanticipated environmental costs the final bids reflect a hard construction cost of \$40,000,000. This leaves a \$7M gap in the project that needs to be absorbed for the project to move forward. The current agreement requires the City pay a grant to the developer in the amount of \$2.6M.

The amendment requests two item discussed below.

REQUEST:

1. An extension on the commencement date from 02/01/23-03/01/2023.
2. An additional \$3.5M developer incentive, for a total of \$6.1M, be paid to the developer over a three year period beginning **in the year of occupancy**. Funds will be paid as follows:

(1) DEVELOPER shall construct, at DEVELOPER's expense, the PROJECT. The CITY agrees to pay the DEVELOPER a Developer Grant over three years. Payments will be made as follows: \$3,600,000 within 30 days of the CITY's issuance of the final certificate of occupancy for the PROJECT. \$1,500,000 on 03/31/2025 and \$1,000,000 on 03/31/2026. The payments are conditional upon Developer being current on all taxes and outstanding debts owed to the CITY.

JUSTIFICATION:

1. Developer has agreed to equally share in the funding of the “gap”
2. Developer has proceeded in good faith obtaining DNR reports and extensive communication with WE Energies
3. This is one of the most challenging sites in the City of Racine, this developer has accepted the challenge and committed to the City of Racine for completion of the project.
4. Staff strongly believes that no other developer would be able to accomplish this project in the near term, nor has another developer expressed interest in the site.
5. Developer has their private financing secured and will be ready to begin March 1st
6. Development will produce much need market rate rental units in the downtown.
7. Development will produce approximately \$40M of NET NEW CONSTRUCTION giving the City flexibility in our general operations.
8. City funds will NOT be released until the building is FULLY CONSTRUCTED. If the developer does not perform, they don’t get paid.

RECOMMENDATION:

That the Mayor and City Clerk be authorized to enter into a second amendment to the development agreement with HOVDE Properties, LLC, regarding the Redevelopment Site at and near 233 Lake Avenue and execute all necessary documents.

FISCAL NOTE:

The \$3.5M of additional funds for this request are available in TID #14 and are allowed by the project plan to be shared with TID #21 (HOVDE). **These funds can ONLY be used for Development purposes and ONLY for project costs as delineated in both the TID 14 and TID #21 project plan.**