

Redevelopment Authority (RDA)
of the City of Racine, Wisconsin

AGENDA BRIEFING MEMORADUM

AGENDA DATE:	June 1, 2017
SUBJECT:	Item # 513-17 Resolution 17-18 Authorizing RDA Executive Director and Chairman to sign all documents, on behalf of the RDA, to enter into an option to purchase agreement for the former Ajax Property (1520 and 1536 Clark) with Cardinal Capital Management, Inc. of West Allis, Wisconsin for the purposes of redeveloping the property.
PREPARED BY:	Amy Connolly
EXECUTIVE SUMMARY:	<p>Cardinal Capital Management, Inc. of West Allis, Wisconsin has requested an opportunity to evaluate the RDA-owned property at 1520 and 1536 Clark Street for redevelopment and application to WHEDA for low income tax credits. Nick Jung, representative of Cardinal Capital, requests an option fee of \$100 and a purchase price of \$500. Term of the agreement proposed is approximately 13 months (June 1, 2017 to June 30, 2018.)</p>
BACKGROUND & ANALYSIS:	<p>Cardinal Capital Management, Inc. of West Allis is a developer of both market rate and low income housing. They have substantial experience developing properties in Wisconsin and in other states and have a focus on developing housing for veterans.</p> <p>After reading that the RDA was considering demolition or additional studies of the building, Cardinal Capital approached RDA staff about the possibility of approaching the RDA Board with an option to purchase the property. Cardinal Capital intends to use the option period to study the site and to develop their tax credit applications. Over the last two weeks, legal staff from Cardinal Capital (and their attorneys at Reinhart) have communicated with City Attorneys and RDA staff related to development of an option to purchase.</p> <p>The option to purchase provided for the RDA's consideration is nearly the same option agreement that was developed with the prior developer, Northpointe (they are using the same law firm) and contains the following elements:</p> <ul style="list-style-type: none">• Purchase price of \$500.• Option fee of \$100• Option period: June 1, 2017 through June 30, 2018• Title insurance must be provided to the buyer by July 1, 2017• Seller may expend up to \$1,000 removing exceptions to the title• Closing costs: Seller (RDA) pays recording fees, real estate transfer fees, and all broker's commissions due. Buyer (Cardinal) pays title insurance, recording fee for the deed. Parties pay any escrow closing fees in equal shares.

Herman and Kittle (Indianapolis, IN) was the original developer of the “veterans housing” concept plans and had approval in 2015 to implement a tax credit housing development. That developer was unable to move forward with their plans and withdrew their tax credits from WHEDA in July 2016. In December 2016, the RDA and Northpointe Development (Oshkosh, WI) entered into an option agreement for the property. Northpointe applied for tax credits in February 2017, but withdrew their application a week before WHEDA announced the tax credit awards due to concerns about the structural integrity of the building.

The option agreement would allow Cardinal Capital to work toward achieving tax credits and financing without being subjected to considerable environmental contamination liability and fees associated with carrying a building under contract for several months. The RDA can hold the property without being subjected to environmental liability under our local government exemption and can help facilitate the redevelopment of this property. Cardinal Capital intends to apply for low income housing tax credits in November 2017 and, if successful, hopes to be able to close on the purchase of the property by June 30, 2018. The RDA and City Council would execute a Development Agreement with Cardinal Capital prior to the final sale of the property.

BUDGETARY IMPACT:

RDA purchased the property in December 2016 for \$4,500. We expend approximately \$5,000 a year maintaining the property (grass, snow removal, security).

The option agreement would add \$100 to the RDA’s budget in 2017 and would add \$500 to the RDA’s budget in 2018. The RDA may incur attorney fees as part of this transaction, including the closing of the property.

According to recent estimates, the cost of demolishing the building would range:

RECOMMENDED ACTION:

Staff recommends that we enter into an option agreement with Cardinal Capital for a period of 13 months. We suggest the following terms:

- Purchase price of \$10,000 (\$4,500 purchase price plus \$5,500 in maintenance)
- Option fee of \$100
- Option period: June 1, 2017 through June 30, 2018
- Title insurance must be provided to the buyer by July 1, 2017
- Seller may expend up to \$1,000 removing exceptions to the title
- Closing costs: Seller (RDA) pays no closing fees and no brokerage fees. Buyer (Cardinal) pays all closing and recording fees. Buyer pays all brokerage fees.