



City of Racine, Wisconsin

## AGENDA BRIEFING MEMORADUM

<b>REPORT DATE:</b>	May 20, 2019
<b>AGENDA DATE:</b>	May 20 - Redevelopment Authority May 28 – Finance and Personnel June 4 - Common Council
<b>SUBJECT:</b>	<b>REPORT TO RDA AND COMMON COUNCIL REGARDING THE LEASE OF PROPERTY AT 233 LAKE AVENUE TO HOVDE PROPERTIES, LLC</b>
<b>PREPARED BY:</b>	Amy Connolly, Director of City Development
<b>SUMMARY:</b>	<p>City/RDA staff are seeking final RDA and Common Council approval of resolutions effectuating the lease of property at 233 Lake Avenue to Hovde Properties, LLC (Hovde).</p> <p>These documents requiring approval include:</p> <ol style="list-style-type: none"><li>1. Resolution Approving and Recommending Option to Lease for 233 Lake Avenue</li></ol> <p>Wisconsin Statutes § 66.1333(9) requires that before the sale or lease of any property that the RDA provide a <b><u>Report to Common Council</u></b> on the terms, conditions and other material provisions of the transaction. This Agenda Briefing Memo will describe the proposed development and lay out the terms, conditions and material provisions of the lease to ensure full transparency and serves as the <b><u>Official Report</u></b>.</p> <p>Hovde is seeking a 98 year lease. In order to ensure proper transparency, we are treating this option to lease exactly like a sale of property for the purpose of complying with Wisconsin Statutes related to an RDA selling property for redevelopment.</p>
<b>BACKGROUND and PROJECT FINDINGS:</b>	<p>The RDA currently owns this vacant 3.542 acre property (233 Lake Avenue) subject to extensive encumbrance by easements, restrictive covenants and agreements with the former owner, We Energies, which has a large amount of infrastructure beneath the surface of the Property and rights to install more infrastructure and the obligation to use the infrastructure to control the groundwater in the area. The RDA staff and City staff have discussed this property with Hovde in consultation with We Energies and the Wisconsin Department of Natural Resources, to execute a contract that would allow Hovde to construct its proposed development at the Property, beginning with collection of samples and data needed to refine its engineering designs and produce a reliable estimate of construction costs. Hovde's proposal includes ground level parking on which a hotel, and two market rate housing buildings and a central green space would be constructed. The total estimated cost of the development is approximately \$50M.</p>

The developer is seeking an option agreement with the Redevelopment Authority to have exclusive rights to lease the property from date of approval to April 30, 2020 and also seeks access to the property for the purposes of due diligence studies, such as geotechnical investigations and engineering studies. Hovde plans to spend approximately \$200,000 in due diligence explorations on the site.

The option fee for the property is \$40,000, which is refundable under certain circumstances. The final lease terms have yet to be negotiated for the property because of a need to further explore due diligence. The Common Council and RDA will have the opportunity to review the lease price as part of a yet-to-be-negotiated Incentive Agreement, which will require both RDA and Common Council approval.

There are several benefits for the RDA to sell/lease the property:

1. The vacant site will be used for private development, adding residents and commercial development to the downtown area -- creating substantial economic growth
2. The proposed parking structure "podium" provides a very stable and long-term environmental "cap" to the site which will not only provide additional downtown parking but will reduce the RDA's cost of fulfilling its obligation to We Energies to maintain a cap at the property.
3. The property is in a tax increment district and will now be a property tax producing property that creates tax revenue for the City and the TID
4. The RDA has certain responsibilities and liabilities that are inherent in owning property and it is in the best interest of the City and the RDA to lease property held by the RDA for the purposes of redevelopment, particularly because this redevelopment meets the spirit and intent of the Downtown Master Plan.

**Findings of the Executive Director:**

1. The lease of the property for continued use a residential and hospitality use is in keeping with the intent and spirit of the City's Downtown Plan and the recently approved tax increment finance district and aids the prevention or reoccurrence of blighted areas.
2. The end uses proposed contribute favorably to the economic development and tourist-oriented development of the downtown.
3. The use of the property as a "mixed use" development will require a conditional use permit but is generally permitted through the City's existing Zoning ordinance.
4. The objectives of the both the approved Downtown Master Plan and the approved Tax Increment District Plan will be furthered by leasing the Property in accordance with the option agreement.

**Terms, Conditions, Material Provisions of the Sale/Lease:**

1. Lease of property addressed as 233 Lake Avenue, within the City's Downtown and Tax Increment District 21, currently owned by the RDA but intended for redevelopment.
2. Total parcel size of the property is 3.523 acres.
3. The property is subject to extensive encumbrances by easements, restrictive covenants and agreements with the former owner, We Energies.

4. Encumbrances include a large amount of infrastructure and an obligation of We Energies to use the infrastructure to control groundwater in the area, according to agreements with We Energies and the Wisconsin Department of Natural Resources.
5. The negotiated price for the property lease has yet to be negotiated because of the need to conduct full due diligence studies. The negotiated lease price may be below the market rate price for vacant land because the negotiated price would take into account both the value of the property and the value of the environmental, geotechnical, and legal encumbrances on the property that limit its redevelopment or require extensive investment to overcome.
6. The negotiated option fee is \$40,000, which is refundable to the developer under certain conditions.
7. The developer intends to spend approximately \$200,000 in the due diligence stage to determine if the site has suitable geotechnical stability for the proposed development.
8. The property is currently tax exempt and has not been appraised. The property will not remain tax exempt once development occurs on the site.

**FISCAL NOTE:**

This \$40,000 in option fee monies will provide the RDA access to funds to further leverage and support quality private-sector investment in economic development and redevelopment in the City of Racine. The lease terms will be negotiated as part of an incentive agreement that requires both RDA and Common Council approval. If the option fee is refunded, the RDA will obtain approximately \$200,000 worth of geotechnical information about the site that Hovde will acquire.

**RECOMMENDATION:**

City and RDA staff recommends the RDA and Common Council approve (through resolution) this Executive Director's Report on the terms, conditions, and material provisions of the sale/lease of the property and also adopt the findings of fact and conclusions of the Report.