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City of Racine, Wisconsin
COMMON COUNCIL

AGENDA BRIEFING MEMORADUM (ABM)

COMMITTEE: Finance & Personnel **LEGISLATION ITEM #:**

AGENDA DATE: January 27, 2020 Finance & Personnel Committee
February 4, 2020 Common Council

DEPARTMENT:

Prepared By: James M. (Jim) Palenick, City Administrator

Reviewed By: Cory Mason, Mayor

SUBJECT:

A request to approve the Purchase, Sale and Development Agreement between the City of Racine and Racine Convention Center Hotel, LLC (RCCH), for the Public/Private Development of a 171-Unit, first-class, full-service, Hotel and Convention Center which shall include the City of Racine funding \$21 Million in additional convention, meeting, break-out, pre-function, banquet, and “back-of-house” support space associated with the publicly-owned Festival Hall property.

EXECUTIVE SUMMARY:

The City’s announced plans for a destination Hotel/Convention Center as a redevelopment of the Festival Hall property originally included the proposal to build the expanded convention center in the parking lot south of Festival Hall, and to have the privately-owned Sheraton Hotel constructed to occupy the 5 levels, within deeded “air rights”, immediately above the new convention space. However, since those plans were announced it was concluded jointly by both the City and our Development partner, Gatehouse Capital of Dallas, TX., that there was simply too much risk in relying on new state legislation to first get passed by the Legislature and signed by the Governor; and then to preclude any legal challenge to our proposed use of the “lakebed” by organized environmental groups. As such, we have instead opted for an alternative development plan which takes all private development entirely out of the historically-identified “lakebed” area.

30 To that end, what is now proposed for approval is a development consisting of a 171-room (107 lake
31 view rooms), full- service, branded (likely a Sheraton, as owned by Marriott) hotel, with a roof-top
32 restaurant and observation-deck/bar, located on the lands making up a portion of the Festival Hall
33 grounds and integrally linked to a 52,775 gross square-foot (34,950 sq. ft. new construction; 17,825 sq.
34 ft. renovation of Festival Hall’s existing space) Convention Center. The hotel would be developed and
35 owned by a single-purpose, Limited Liability Corporation (Racine Hotel Convention Center, [RCCH],
36 LLC) solely owned by Gatehouse Capital, of Dallas, TX and subject to property taxes and Wisconsin
37 Room tax.

38 The expanded/reconstructed Festival Hall-Convention Center would be financed and owned by the
39 City of Racine and leased to the hotel developer/operator under the terms of a negotiated
40 management agreement – to be managed as an integrated facility with the hotel and restaurant
41 (Memorial Hall would be also managed by Gatehouse without operational charge, but Paul P. Harris
42 Rotary Park would remain owned by the City and separate from this arrangement).

43 The land on which the new, Sheraton hotel is to be constructed (approx.. 46,350 sq. ft. of current
44 Festival Hall grounds, which also includes the 441 Lake Avenue [former Johnson Financial drive-
45 through] property); as well as a second parcel (approx.. 27,385 sq. ft. along 4th St./Kipikawi) set aside
46 for a “Phase II Hotel”, will be sold/transferred to the hotel developer for \$1. The City-owned and
47 expanded Convention Center will be leased to the hotel developer at a lease rate of \$279,000/year
48 adjusted prospectively for inflation. The integrated facility would also feature a roof top observation
49 deck available to the General public 360 days a year.

50 The City will fund the \$21Million cost of the new convention center as described in the “budgetary
51 Impact” section below; while the Developer, Gatehouse Capital will fund the expected \$27.5Million
52 cost of the Hotel under a single-purpose LLC (Racine Convention Center Hotel, LLC) it is creating to
53 own and operate the facility. The City will provide incentives for the Hotel as also described below.

54

55 **BACKGROUND & ANALYSIS:**

56 In order for Gatehouse Capital (RCCH) to secure and complete its debt financing for the construction
57 of the privately-owned Sheraton Hotel, there must first be certainty that the City will commit to:

- 58 1.) Funding and building the integrated Convention Center improvements
- 59 2.) Selling the land (for the incentivized sale price of \$1) on which the Hotel will be constructed
60 (as well as including and selling the parcel of land for a second, proposed hotel)
- 61 3.) Agreeing to provide a Developer-funded, pay-as-you-go T.I.D. incentive for the Sheraton
62 Hotel.
- 63 4.) Leasing (under a long-term lease) the to-be-developed Convention Center to the Hotel
64 Operator to be managed as an integrated whole.
- 65 5.) Leasing (under a long-term, incentivized agreement) sufficient public parking spaces
66 proximate to the Hotel and Convention Center to assure adequate parking to serve the
67 facilities.

68 The “Purchase, Sale, and Development Agreement” as submitted for approval herewith accomplishes
69 each of items #1 - #5 as detailed. Once approved, it would be expected that Gatehouse/RCCH will

70 promptly move to complete the necessary architectural design and engineering work to acquire a
71 “guaranteed maximum price” from their construction manager – which will, in turn, allow them to
72 then finalize their budget and lock in the necessary financing. From there, materials will be ordered
73 and construction will follow. It is anticipated that the project could break ground by November 1,
74 2020 and total construction would then take 14 -16 months. A spring, 2022 opening would be
75 anticipated.

76 Activities could be booked and continue to be held (inside) at Festival Hall through December, 31,
77 2020. Thereafter, construction would halt use until the new Convention center was open and
78 available. There will be no impact, however, on the continuing use of Memorial Hall throughout the
79 construction phase of the project.

80

81 **BUDGETARY IMPACT:**

82 **\$21,000,000 total Convention Center project budget: Financed as (2) taxable NAN’s in 2020 and 2021**
83 **each at \$10,500,000; then refinanced at end of 2021 as Taxable G.O. Refunding Bond (w/accrued**
84 **interest during construction). Total refinanced: *\$21,920,000.**

85 ***G.O. Refunding Bond: \$21,920,000 with 20-year amortization @ 3.50% interest = \$1,525,526/year**
86 **level P. & I.**

87 **\$10,500,000 of T.I.D #9 Captured Tax increments (2022-2036) used to cover debt service on City-**
88 **owned Convention center.**

89 **\$3,000,000 of Intergovernmental revenue Funds used to cover debt service on City-owned Convention**
90 **Center (contributed as \$200,000/year for years 2019-2033)**

91 **All Room Taxes (100%) produced by this Hotel development, and (50%) of Room Taxes produced by**
92 **2nd Hotel (500 Main Ave.) over 20-year period dedicated to partially pay Debt Service on publicly-**
93 **owned Convention Center.**

94 **No property Tax burden of any kind on City or County taxpayers.**

95 **Naming Rights opportunity exists to add revenue for project = (+/- \$500k/year) City shares 50/50 with**
96 **Developer.**

97 **City will provide 145 parking spaces at Festival Hall ramp for exclusive use of Hotel/conv. center –**
98 **Operator to receive 85% of revenues for use; City to receive 15%. Upon construction of Phase II,**
99 **second Hotel, City will provide 120 parking spaces at Lake Ave. ramp for exclusive use of second hotel.**

100 **City to create T.I.D. #24 to include Hotel to provide 12-year, 95% developer-funded, pay-as-you-go**
101 **incentive for hotel: (i.e. \$12,375,000 assessed value @27.54 mil rate = \$340,807.50 total tax x .95 =**
102 **\$323,767 yearly rebate) 10-years (post-stabilization) times \$323,767/year = \$3,237,670.**

103 **Developer will lease and operate Convention Center for \$279,000/year payment to City.**

104 **Developer will also manage Memorial Hall on behalf of City for no added operations charge – City to**
105 **fund all maintenance, up-keep, utility, and capital costs.**

106 Paul P. Harris Rotary Park: (all outdoor spaces East of Festival Hall) turned back over to City Parks
107 department – Developer to coordinate scheduling and services for events; City to set pricing and
108 collect usage fees.

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110 **OPTIONS/ALTERNATIVES:**

111 1.) To recommend and approve of the Purchase, Sale and Development Agreement between the
112 City of Racine and Racine Convention Center Hotel, LLC. (RCCH); for the Public/Private
113 Development of a 171-Unit, first-class, full-service Hotel and Convention Center which shall
114 include the City of Racine funding \$21 Million in additional convention, meeting, break-out,
115 pre-function, banquet, and “back-of-house” support space associated with the publicly-owned
116 Festival Hall property.

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118 2.) To recommend denial or deferral of action on the Purchase, Sale and Development Agreement
119 between the City of Racine and Racine Convention Center Hotel, LLC. (RCCH); for the
120 Public/Private Development of a 171-Unit, first-class, full-service Hotel and Convention Center
121 which shall include the City of Racine funding \$21 Million in additional convention, meeting,
122 break-out, pre-function, banquet, and “back-of-house” support space associated with the
123 publicly-owned Festival Hall property.

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125 **RECOMMENDED ACTION:**

126 To recommend and approve of the Purchase, Sale and Development Agreement between the City of
127 Racine and Racine Convention Center Hotel, LLC (RCCH), for the Public/Private Development of a 171-
128 Unit, first-class, full-service Hotel and Convention Center which shall include the City of Racine funding
129 \$21 Million in additional convention, meeting, break-out, pre-function, banquet, and “back-of-house”
130 support space associated with the publicly-owned Festival Hall property

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132 **ATTACHMENT(S):**

- 133 1.) Purchase, Sale and Development Agreement by and between City of Racine and Racine
134 Convention Center Hotel, LLC.
135 2.) Overview of City Financing for Convention Center and Hotel Improvements
136 3.) Renderings of proposed Hotel/Convention Center project