



City of Racine, Wisconsin
COMMON COUNCIL

AGENDA BRIEFING MEMORADUM (ABM)

COMMITTEE: Direct Referral to Common Council **LEGISLATION ITEM #:**

AGENDA DATE: May 5, 2020 Common Council

DEPARTMENT:

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

Reviewed By: Cory Mason, Mayor

SUBJECT:

A request to approve a \$2,400,000 Loan from the Board of Commissioners of Public lands (BCPL), which shall represent a General Obligation (G.O.) Debt to the City of Racine, which proceeds shall, in turn, be lent to Cardinal Capital Management (Ajax Project), for a term of twenty-four (24) months; with Interest-only for the duration of the term; no pre-payment penalty; and, an interest rate to the City of 2.50% per annum. Cardinal will, in turn, be obligated to repay the City at an interest rate equal to 3.00% per annum with a second-position lien on the project subordinate only to the first mortgage, and a full corporate guarantee from Cardinal Capital.

EXECUTIVE SUMMARY:

The City of Racine, by action of its Common Council on November 19, 2019, Approved an Incentive Agreement with Cardinal Capital Management, for the redevelopment of the former Ajax industrial property at 1520 and 1536 Clark Street in Uptown as 141 units of new multi-family housing – divided among a building containing 54 units of “affordable” (Low-Income-Housing-Tax-Credit-Funded) housing; and a second building containing 87 units of “market-rate” housing. Total investment of the project exceeds \$30 Million, with some \$19.3 million of that total dedicated to the “market-rate” portion of the development.

Included in the Incentive Agreement was A \$900,000 loan, to be acquired by the City from The Board of Commissioners of Public lands, and, in turn re-lent to Cardinal, to be secured by a Cardinal Capital Corporate guaranty, as well as a subordinated lien against the property. The amortization term was to

be set at twenty (20) years at a rate of 3.75%, with Cardinal to pay the debt service on the loan monthly.

Actual demolition on the entire project site began in January and construction is now well underway on the “affordable building”.

Because of the impacts created by the Coronavirus pandemic, however, the local investment equity needed for and committed to the “market-rate” portion of the project (\$2,400,000), will likely get stalled for as much as twenty-four (24) months. To assure the market-rate portion of the project continues to move forward uninterrupted consistent with the Incentive Agreement, the City has been asked to acquire a 24-month loan from the BCPL to make available to the project until the Local investment equity gets freed up and re-injected into the project.

BACKGROUND & ANALYSIS:

The City proposes, and Cardinal Capital Management has agreed, to structure a short-term, BCPL Loan as a City G.O. Debt obligation, to be re-lent to Cardinal, in an amount of \$2,400,000 in principal, for a term of twenty-four (24) months with interest only; no pre-payment penalty; and the requirement for a \$2,400,000 balloon principal payment at the conclusion of the term. The City will get the loan for 2.50% interest, or \$5,000 per-month for the term of the loan, while Cardinal has agreed to, and will pay the City at an interest rate equal to 3.00 percent or \$6,000 per-month. (City earns \$1,000/month for the effort and risk).

Then, consistent with the terms of the earlier \$900,000 BCPL Loan, Cardinal will back the new, \$2.4 million loan by first providing the City a lien against the market-rate portion of the project, subordinate only to the first mortgage; and second, will issue and execute a “corporate guarantee” backed by Cardinal Capital Management as further pledge. Given the value of the project and of Cardinal Capital, this will serve to assure the City it is incurring virtually no risk.

BUDGETARY IMPACT:

The City will incur a 24-month Debt obligation for \$2.4million, which Cardinal capital will agree to fully repay. The City will pay \$5,000 per-month in interest on this obligation, while, in turn, Cardinal will repay the City at \$6,000 per-month, resulting in the City achieving positive revenue of \$1,000 per-month. There are no fees involved in applying for and receiving the BCPL Loan.

OPTIONS/ALTERNATIVES:

- 1.) To approve the request for a \$2,400,000 Loan from the Board of Commissioners of Public lands (BCPL), which shall represent a General Obligation (G.O.) Debt to the City of Racine, which proceeds shall, in turn, be lent to Cardinal Capital Management (Ajax Project), for a term of twenty-four (24) months; with Interest-only for the duration of the term; no pre-payment penalty; and, an interest rate to the City of 2.50% per annum. Cardinal will, in turn, be obligated to repay the City at an interest rate equal to 3.00% per annum with a second-

position lien on the project subordinate only to the first mortgage, and a full corporate guarantee from Cardinal Capital.

- 2.) To defer or deny the request for a \$2,400,000 Loan from the Board of Commissioners of Public lands (BCPL), which shall represent a General Obligation (G.O.) Debt to the City of Racine, which proceeds shall, in turn, be lent to Cardinal Capital Management (Ajax Project), for a term of twenty-four (24) months; with Interest-only for the duration of the term; no pre-payment penalty; and, an interest rate to the City of 2.50% per annum. Cardinal will, in turn, be obligated to repay the City at an interest rate equal to 3.00% per annum with a second-position lien on the project subordinate only to the first mortgage, and a full corporate guarantee from Cardinal Capital.

RECOMMENDED ACTION:

To approve the request for a \$2,400,000 Loan from the Board of Commissioners of Public lands (BCPL), which shall represent a General Obligation (G.O.) Debt to the City of Racine, which proceeds shall, in turn, be lent to Cardinal Capital Management (Ajax Project), for a term of twenty-four (24) months; with Interest-only for the duration of the term; no pre-payment penalty; and, an interest rate to the City of 2.50% per annum. Cardinal will, in turn, be obligated to repay the City at an interest rate equal to 3.00% per annum with a second-position lien on the project subordinate only to the first mortgage, and a full corporate guarantee from Cardinal Capital.

ATTACHMENT(S): BCPL Loan Application