

Memorandum

To: City of La Crosse Economic Development Commission
From: Economic Development Staff
Date: November 22, 2019
Re: Staff Report for Upper Floor Renovation Loan Subordination Request – 119-127 4th St S

Upper Floor Loan Summary:

Initial estimate of total project costs: \$2,240,000

Assessed Property Value:

121 4TH ST S	17-20023-30	\$141,200.00
125 4TH ST S	17-20023-40	\$121,300.00
127 4TH ST S	17-20033-20	\$117,900.00
Combined	Before Project	\$380,400.00
Combined	As of 5/3/2019	\$641,800.00

Updated total project costs: \$5,048,053.85

Owner Contribution: \$973,053.85

Assessment Increase Requirement: Program requires a 25% increase of the City's loan value, in this case \$250,000. At this point the value has increased by \$261,400. **Assessor's office estimates that the future estimated value will be \$1,992,100 based on the updated project plans.** This will net an increase of \$1,611,700 which will meet the requirement.

ASK: Subordination of City' Upper Floor Loan(s) to a \$375,000 increase in the 1st Mortgage currently held by Merchant's Bank for a total of \$1,875,000.

Review of Project

Dale Berg owns the property, which at the time of his original application was 3 separate parcels but has now been combined into one. He purchased the property at 121 4th Street in 1997 and his successful clothing store has been located there since. He purchased the properties at 125 and 127 4th Street in October 2013. The former Rocky Rococo's building has been vacant since that purchase.

Jeaneri, Inc., owned by Dale Berg, is preserving the building in downtown La Crosse and renovating it to include luxury rental units, a 3rd floor event venue, commercial, and retail space. An elevator will be added and can be accessed by all three buildings.

The Odd Fellows Temple, Reuter Mader and Mendralski Buildings are all contributing buildings in the La Crosse Commercial Historic District. The building's façade is on the local register of historic places. It was built in 1892 in Brick Italianate style. William Ellery Potter was elected as the City Assessor in 1860 and constructed this building for his brick building business. All renovations are following the guidelines of the Secretary of Interior's Standards on Historic Preservation. Architectural and Engineering Analyses of all three properties were completed in 2016.

The project has been updated to include 2 more rental units on the 2nd floor than were originally planned as well as a 3600 square foot event space on the 3rd floor. There will be a total of 5 luxury units which will be leased to tenants and used as an Airbnb. The event space will have a 1920's design keeping in line with the historic exterior renovations. It will be available for weddings, conferences and other social events. The 2 store front spaces have a restaurant and clothing store committed to 5-year leases with options on an additional 5 years. Dales Clothing will continue in its current space. Project completion expected for early 2020.

Original ask was for additional financing from the City. Staff found that City resources were already capped for this project. After diligently researching options for the property owner, Staff recommended to him that he sell his Historic Tax Credits for additional equity, maximize draw available from Merchants Bank and rely on personal investments for the balance of the project. He is currently working with financial institutions and investors to sell his tax credits for additional project funding.

Financing

- Terms of UFRL: 10 years with first year interest only payments at 2%, then P&I for the remaining 9, amortized over 15 years.
- Terms of 1st Mortgage with Merchants Bank: 10 years with first 5 years fixed at 4.25%, then WSJ Prime + .20% for the remaining 5, amortized over 20 years.
- Payments on the UFRL commenced 05/01/2018 with continued good standing.
- Review of Financials: Staff reviewed the Operating Financials for businesses and personal financials held by Mr. Berg. Staff found no concerns.
- Loan to Value: The loan to value on the City's investment, based on the estimate of \$1,992,100 puts the debt factor at 124%, which is slightly above the program limit of 120%.

Staff Recommendation

Staff recommends making an exception to the Loan to Value limit and approve subordinating to the first mortgage on this property. The property owner has demonstrated great commitment with his personal investment in this project with 20% equity contribution, as well as injecting another 32% with Historic Tax Credit Investments.



