Economic Development Commission

Wednesday, November 1, 2018
Council Chambers Room

Commissioners Present
James Kucienski, Chairman
Rivak Albazi
James Berger
Myles Berman
Peter Dyer
Maureen Ehrenberg
Tim Garcia

Commissioners Absent
Patrick McCoy, Vice Chair
Joe Spagnoli

Staff Present
Steve McNellis, Community Development Director
Robert Merkel, Interim Village Manager/Finance Director

Others Present
Barry Bass, Village President
Georjean Nickell, Village Trustee
Jesal Patel, Village Trustee
Hart Passman, Village Attorney
Bob Rychlicki, Kane, McKenna & Associates (Village's TIF Consultant)

1. **Call to Order/ Quorum Declaration**
   Noting that a quorum of seven members were present, the meeting was called to order by Chairman Kucienski at 8:10 AM.

2. **Minutes Approval**
   Chairman Kucienski asked the Commission if any edits were to be made to the September 26, 2018 meeting minutes.

   Hearing no corrections, Chairman Kucienski called for a motion to approve the minutes. Commissioner Berger moved and Commissioner Dyer seconded the motion. There was a consensus to approve the minutes, with an abstention by Commissioner Berman.

3. Economic Incentive Request from Tucker Development Group (District 1860 Project at Northwest Corner of Lincoln & Touhy Avenues)*

Chairman Kucienski notified the EDC that the Joint Review Board had met the previous day to discuss the proposed new North Lincoln TIF and that it was recommended for approval to the Village Board, who will ultimately determine if it is approved. He went on to explain the TIF process and how it relates to the Joint Review Board function.

Chairman Kucienski also noted the recent Business Connections section of the Village Newsletter provided helpful information regarding the project that the EDC is about to discuss. He further noted the Business Spotlight in that newsletter provided valuable information on a new shared office space business in the Village called Somerset Alpha Space. He felt it was worthwhile to highlight new businesses in the Village, such as this, which have a new model that reflects a trend in today's modern business world.

Chairman Kucienski introduced the incentive request, and the process that the Village Board and staff is following to insure this is thoroughly vetted. He further noted that this detailed process allowed the EDC to look at big picture concepts, rather than worrying about the minutiae, which would be reviewed elsewhere in the process. He then requested Community Development Director, Steve McNellis, present staff's report.

Director McNellis noted that the schedule for this morning's presentation will begin with Rich Tucker, president of Tucker Development Group making his company's request for an economic incentive package, which includes TIF funds generated on their parcel, as well as a proposed rebate of part of the hotel tax generated by a proposed new 220-room dual-branded hotel. He noted that after Mr. Rich Tucker presented his request, the Village's TIF Consultant, Bob Rychlicki of Kane, McKenna & Associates, will give his analysis. The goal of the EDC review is to consider an economic development framework for an agreement with Tucker Development Group. That framework would then form the basis for a more refined review with a Village-appointed negotiating team, made up of Trustees Nickell and Patel, Village Attorney Elrod, Interim Village Manager Bob Merkel, Community Development Director McNellis, along with the assistance of Mr. Rychlicki. That team will then work with the Tucker team to refine the request that goes to the Village Board for approval. Director McNellis stated that ultimately, the EDC sets the table for a final Redevelopment Agreement.

Commissioner Dyer inquired if the timeline was to get this approved by the end of this year. Director McNellis noted there was a schedule set this past summer for approval of this project, which had landmark dates. However, it is most important that the EDC review this request and be comfortable making a recommendation. He laid out the process for moving forward, along with some upcoming meeting dates.

Chairman Kucienski then invited Mr. Tucker to begin his presentation. Mr. Tucker noted there have been multiple meetings and that various Boards and Commissions, staff and the local School Board, with School Board President Scott Anderson, have all been involved in the multiple facets of this project, each undertaking a great deal of work to get to this point today. He thanked everyone for working through that effort.

Mr. Tucker presented a broad summary of his company's proposed project and the incentive request. He detailed the specifics of the project, including 80,000 sq. ft. of retail, 300 apartments and a 220-room hotel. He noted that Mr. Steve Schwartz, Chairman of First Hospitality Group, which will be developing the hotel, is at today's meeting. Mr. Tucker noted the access to the project and improvements proposed to the surrounding roadways. He further noted that when you come off the freeway and head east on Touhy Avenue, the property is now framed very well by the new pedestrian bridge the Village installed.

Mr. Tucker stated that the crux of today's discussion is the financial package his company is requesting, and the many different forms that comes in. He began with the TIF District and their request to be able to issue $25 Million in bonds. In addition to that is a $5 Million Subordinate Bond which supports the gap and helps finance this $140-160 Million project. In addition, there is a $1 Million developer note for the hotel. Collectively, this frames the full $31 Million request for funds generated by the TIF. In addition, there is a request for rebating the hotel tax to the developer, and if 100% were to go to the developer, it would be retired in about 5.5 years. That is the request in total. At this point, he is asking for no other rebates of taxes. He further noted discussions regarding the number of school-aged kids that could be generated by the development. To the extent that funds generated in the TIF are not adequate to provide the dollars necessary for the number of school-aged kids generated, the developer is pledging revenue from the $5 Million Subordinate Note, to the extent it is needed on an annual basis.

Mr. Tucker introduced Mr. Stephen Schwartz, Chairman of First Hospitality Group, who provided the EDC background on his company and the 45 hotels operated since the company was founded 35 years ago. He noted they are under application with Marriott for a dual-branded hotel at this location for a Residence Inn and Courtyard. He noted he believes this is an outstanding location for a hotel, but that it has economic challenges. He also stated they are excited about the potential here and looking forward to working with the Village.

Chairman Kucienski asked if the EDC had any questions at this point. He noted there were no questions from the EDC at this time, but he had a few of his own. He asked if there would be a restaurant in the hotel. Mr. Schwartz mentioned there is about 4,500 square feet for a restaurant, which would be open to the general public, and that they would rely on the community for about 80% of their business. He further stated one of the benefits of this site is that it's halfway between Downtown and the North Shore, and therefore, a good meeting spot. Chairman Kucienski asked about the restaurant below the residential building. Mr. Tucker noted there would be a restaurant fronting on to the Village Green, below the residential building, but there would also be an opportunity at the corner of Lincoln and Touhy Avenues. He stated there would be more than one or two restaurants on this site. Chairman Kucienski noted it is important to the EDC that this become an area of activity, a real center of town, and not just a residential property.

Commissioner Berman inquired into the retail rents Mr. Tucker envisions here. Mr. Tucker noted it's too early to really know. He did say it will be wide-spread, from the high teens to the high 30's. Commissioner Berman inquired as to whether or not there are any signed Letters of Intent, to which Mr. Tucker responded they are in discussions with tenants but none signed at this time. He noted they won't discuss tenant names until there is a signed lease. Commissioner Berman inquired, with regard to the apartments, if Tucker tends to develop and manage or develop and flip-it. Mr. Tucker stated they don't intend to flip-it, but from a long-term management perspective they feel there are several experienced firms that would best be able to manage the apartments and renting those units. Commissioner Berman inquired of Mr. Schwartz if Residence Inn is above or below Courtyard in Marriott's portfolio. Mr. Schwartz noted Residence Inn is in the "high-end extended stay" category.

Chairman Kucienski then introduced Mr. Bob Rychlicki of Kane, McKenna & Associates. Mr. Rychlicki discussed his analysis. He noted there are still a lot of moving parts at this point, but he felt his task at this point was to determine if Tucker's request is reasonable, if some of the underpinnings of their assumptions were reasonable, and set-out a road map for moving forward. He noted there is a considerable amount of private investment here. He also stated that both of the entities involved in this request are experienced and high-quality groups.

Mr. Rychlicki stated that if you look at the cost of the land, you need to have higher density to support the price. He noted that high density is in conformance with the Village's plans for this property. He noted that there are a number of revenue sources that will come from this site, as well as jobs created. He stated that the higher density brings about some additional site costs, such as structured parking and site preparation. He noted the developer was cooperative in providing budget information. In reviewing that, he looked at their proposed return and the costs. He stated the rental revenues and hotel room rates produce a net revenue number and it's important to look at that number in terms of their development costs. He felt that their costs were toward the higher end, but not excessive. There is some cushion in the numbers, which is not unusual as the development is not being built tomorrow. He stated there should be “open-book” review as they get their numbers refined. Mr. Rychlicki mentioned that the bond structure is only being supported by the TIF. He suggested a full-blown market study for the residential will be important to help satisfy their bond holders. Mr. Rychlicki discussed the amounts payable to the schools for tuition costs, per TIF Statutes. He further described the additional backstops and security the School Districts are seeking, in the event the number of school-aged kids exceeds the anticipated numbers. He then went on to explain where the TIF revenues go when they come in, who has priority for these revenues, and in what order repayment occurs.

Mr. Rychlicki summarized that he feels their request is reasonable. He noted their 7% return is a number seen in other recent projects, and not unusual. He feels that the $25-30 Million request is reasonable based on the numbers that have been provided at this time. He stated that a key part of their proposed TIF-eligible costs is the $10.7 Million for land acquisition, which is a third of their total TIF-eligible costs. He presented a number of policy questions and business points, in his report that the Village should consider.

After Mr. Rychlicki finished his remarks, Chairman Kucienski asked if there were any Commissioner questions. Commissioner Berman inquired if the Bonds could be issued tax-exempt. Mr. Rychlicki responded that the primary market for these bonds is tax-exempt, and that is a narrow market.

Chairman Kucienski noted that it appears this project doesn’t have a huge impact on Village resources, in terms of fire and police services, and Village utilities. Mr. Rychlicki agreed and also noted from a sales tax perspective there is a lot of positive for the Village, ranging anywhere from $500,000 to $800,000 per year once this stabilizes. That’s almost $14 Million over the life of the TIF. There’s more revenues, with the food and beverage taxes, perhaps as much as $4 Million. This could also include about $9 Million in hotel taxes after the $3.3 million is paid back to the hotel developer. All this on a site generating nothing now. The costs really are very limited in relation to public safety. Chairman Kucienski noted that the hotel tax is only rebated to the hotel operator for a limited time. Mr. Rychlicki noted that the Village still has to determine the percentage of that share, which affects the payback time. Director McNellis reiterated that the hotel tax sharing is still under review by the village. He further noted that the Village has not generally given away all of a specific tax revenue for a period of time, but rather, have been open to a percentage of that tax being rebated.

Commissioner Ehrenberg asked Mr. Rychlicki to describe how this all works synergistically together, and what the risk would be if it doesn’t. Mr. Rychlicki noted the hotel is in good hands. He stated the retail and residential are market-accepted mixed-uses these days. He listed several successful projects with this mix of uses. Commissioner

Ehrenberg asked if any retail works, regardless of if it's a health club or any other commercial use, to which Mr. Rychlicki noted that is correct. He further stated that it is likely you won't see a lot of kids here, given the smaller apartments. He stated he feels comfortable the mixed uses can co-exist. Commissioner Ehrenberg asked if Mr. Rychlicki had ever seen this kind of model not work. Mr. Rychlicki noted he had not and that the risk is mitigated by the groups involved, including the Marriott brand, luxury apartments (which has a good market right now), as well as restaurants over large retail. He further noted that the residential product, with good values, will be strong.

Director McNellis asked Mr. Tucker to speak about the range of rates for residential as well as his company's experience with the luxury apartment market. Mr. Tucker stated that these types of apartments typically have young adults in a one-bedroom, the two-bedroom is still likely younger couples that may have a child, but not of school age. The other side of the spectrum is people selling their homes, their kids are grown and they don't want home ownership responsibilities. Renters with school age kids typically then move to a home, rather than an apartment. As for rents, the average is about $2.30/ square foot, which averages all the different types. So, a 1,000 square foot unit would be about $2,300 a month. The apartments are set-up to enjoy the amenities in their one-acre outdoor space and other amenities in the building. In addition, there is a hotel next door if you have guests and restaurants right below you.

Commissioner Albazi asked if the hotel would have banquet facilities for weddings or conventions. Mr. Schwartz stated they are proposing about 1,200 square feet of meeting space, with 150-200 person capacity.

Commissioner Garcia inquired about the next steps. Chairman Kucienski noted that the EDC can make a recommendation today to the Village Board, who will consider that recommendation. The Village Board will separately have their negotiating team work with the developer to flesh-out the details of the incentive. There will be a date at which Tucker Development has to purchase the property, and there are a number of loose ends they will want to tie up first. Chairman Kucienski noted that the closing on the property is currently supposed to occur in December. Director McNellis confirmed these steps, and that ultimately a Redevelopment Agreement, containing zoning and economic incentive stipulations, will be drafted and brought to the Village Board. He noted that on the Zoning side of the equation, the Plan Commission has made their recommendation on the preliminary PUD, which is scheduled to go to the Village Board for their consideration on November 6th. The Preliminary PUD is important because that really memorializes the site design and zoning considerations on the site. The Final PUD is limited to additional details, and should have the same general plans as what was approved for the Preliminary PUD.

Commissioner Ehrenberg asked for clarification on the basics of the economic incentive request, specifically, what is the actual TIF "ask" of the Village? Mr. Rychlicki responded that the TIF "ask" for the non-hotel portion is $30 Million, of which $25 Million would be a Senior Revenue Bond and $5 Million is a Subordinate Note, which is subordinate because there is protection in there as a backstop for the schools. Commissioner Ehrenberg noted that part is important because it's important to insure that our schools stay at the high level they are today. Mr. Rychlicki confirmed that there was no other "ask" of the Village, other than the hotel tax sharing, and that's performance-based. He noted that the bond purchasers will make their analysis and will want to see the same assurances that the Village will, as it relates to tenants and occupancy. The Village will have some of the same underwriting criteria.

Commissioner Ehrenberg wondered about quality assurance and potential risk. She asked what performance indicators the Village is asking. Mr. Rychlicki stated the underwriter will have coverage ratios and won't count every dollar. Commissioner Ehrenberg also inquired about property conditions and aesthetics over time, and how those are maintained. Mr. Rychlicki noted that in order to generate the taxes they need to pay off these Bonds, so they will need top-notch property management. Commissioner Ehrenberg stated the time and preparation taken on this project presents a comfort level. She understands that you need to sometimes be opaque regarding tenants to be able to negotiate with them. She noted there is more expertise here, in this proposal, which also provides a comfort level. Commissioner Berman inquired if the TIF Boundary is coterminous with the project site, to which Director McNellis noted the entire project site is in the TIF as are two properties to the north on Lincoln and the ComEd property to the west.

Village Attorney Passman noted, in response to concerns raised by Commissioner Ehrenberg, that there will be additional protections in the Redevelopment Agreement discussed earlier. It will contain zoning and financing terms and they are obligated to maintain the property per the Village's Property Maintenance Code. He noted that if something were to go wrong, this Agreement would regulate some of these concerns. Commissioner Ehrenberg noted that she wanted to be sure that it is communicated to the community that we've thought about these kinds of concerns and are taking care to insure they are handled appropriately.

Chairman Kucienski noted for the record that Park Ridge had a development at the corner of Touhy and Northwest Highway which used General Obligation Bonds instead of the TIF Bonds being proposed for our development. He noted that when the recession occurred in 2008, and there was no occupancy in the retail or in the residential portions of the development, the citizens of Park Ridge were then responsible for repaying the Bonds for the development when the revenues generated on the site weren't enough to pay those

Bonds. With TIF Bonds, the Village will not be liable or responsible for paying-back the bonds. He stated that is another good guarantee the Village has accomplished.

Chairman Kucienski asked for a motion noting that it is a financial framework, as presented, that the EDC would be recommending to the Village Board. Director McNellis requested that the EDC make it clear, with regard to the hotel tax, that an "appropriate share" of the hotel tax is to be worked out in discussions with the Village negotiating team, as staff is not necessarily comfortable with the entire hotel tax being shared for some period of time. Commissioner Ehrenberg agreed that this had been made clear and has to be in the recommendation. Chairman Kucienski stated that the first three bullet points up on the screen (shown below) are parts of the framework the EDC could agree to as presented, but when it comes to the fourth point related to the hotel tax, the EDC would not support all of the hotel tax being utilized for any period of time. Commissioner Dyer agreed that percentage should be left up to the negotiating team. The EDC agreed that there was support for using some of the hotel tax in the economic incentive framework, in an amount and method to be agreed upon.

- $25,000,000 in tax exempt revenue bonds with no financial risk to the Village
- $5,000,000 Developer Subordinate Note (pledged to the School Districts should funds be needed over the 40% allocation)
- $1,000,000 to the Hotel developer Subordinate Note

Chairman Kucienski stated he is seeking a favorable recommendation of the first three bullet points of the framework (shown above), and support for rebating part of the hotel tax with the caveat that the negotiating committee determine the amount and the method of the hotel tax rebate. Commissioner Ehrenberg made that motion, which was seconded by Commissioner Berger. The Motion was approved by a roll call vote, as follows:

Ayes: Albazi, Berger, Berman, Dyer, Ehrenberg, Garcia, Chairman Kucienski

Nays: None

Chairman Kucienski thanked the EDC Commissioners for their patience as this meeting date moved around. He noted there has been a lot of discussion going on prior to the EDC meeting and the timing of compiling materials has also taken some time. He noted his appreciation for Mr. Tucker and his team spending the time they have in compiling this information and attending today's meeting.

4. Other Business

No other business was discussed.

5. **Public Forum**
   No report was discussed.

6. **Prospective Businesses Forum**
   No business was discussed.

7. **Adjournment**
   Commissioner Berman moved for adjournment, and was seconded by Commissioner Albazi. By consensus, the meeting was adjourned at 9:30 am.

Respectfully submitted:

Steve McNellis
Community Development Director