Lincolnwood
Economic Development Commission

Special Meeting
Friday June 6, 2014
8:00 AM

Council Chambers Room
Lincolnwood Village Hall
6900 Lincoln Avenue

Note: All Village Board Members are invited to attend this meeting

Meeting Agenda

1. **Call to Order/Quorum Declaration**
2. **Shoppes at Lincoln Pointe***
   - *Continued consideration of an economic incentive request*
3. **Other Business**
4. **Public Forum**
5. **Adjournment**

**Commissioner enclosures*

The next scheduled meeting of the Economic Development Commission is June 25, 2014

Memorandum

To: Chair and Members
Economic Development Commission

From: Timothy M. Clarke, AICP
Community Development Director

Date: June 3, 2014

Subject: Shoppes at Lincoln Point Economic Incentive Request

A special Economic Development Commission meeting has been called for this Friday June 6, 2014 at 8AM. The specific purpose of this Special Meeting is for the Commission to continue its consideration of the economic incentive request made for the proposed Shoppes at Lincoln Pointe Development. North Capital Group's application for this incentive was transmitted to the Commission in the Commission's May 28, 2014 meeting. Packet.

The Village's fiscal consultant, Kane McKenna and Associates (KMA) has completed its preliminary analyses of the proposed project and request for economic incentive. Attached is KMA's preliminary report on these findings. Mr. Robert Rychlicki of KMA will be present at our Friday meeting to review this report with the Commission.

The proposed Shoppes at Lincoln Pointe is a significant redevelopment project and North Capital Group has submitted a significant economic incentive request. As such, there are many factors for the Commission to consider. These include consideration of the public revenue sources that should fund any incentive (TIF, Sales Tax, Hotel Tax, etc.), the developer's proposal to create a Business District in order to levy an additional sales tax and hotel tax, the rate of return that is required to secure private financing and the construction costs for the project. Concerning project costs, one measure already briefly discussed by the Commission was potentially to have a "true-up" mechanism by which costs are verified at project completion with any reduction from projected costs being a deduction from the incentive granted.

For Commissioner reference, attached is a brief summary provided by KMA of other developments in the Chicago area which involved public incentives at a magnitude similar to that requested for the Shoppes at Lincoln Pointe. Also attached is a Summary of previous Economic Incentives granted by the Village and the Village's current Sales Tax Sharing Guidelines.

Attachments

1. KMA Report on Shoppes at Lincoln Pointe
2. Summary of Certain Chicago Area Incentive Projects
3. Summary of Village Incentives Granted
4. Village Incentive and Sales Tax Sharing Guidelines

DRAFT DATED 6/3/14

VILLAGE OF LINCOLNWOOD

PRELIMINARY GAP ANALYSIS

SHOPPES AT LINCOLN POINTE PROJECT

Prepared for: Village of Lincolnwood
Prepared by: Kane, McKenna and Associates, Inc.
June 2014

EXECUTIVE SUMMARY

Kane, McKenna and Associates, Inc. (KMA) has been retained by the Village of Lincolnwood, Illinois (the "Village") to conduct an analysis of the projected investment returns on a Project, to be referred herein as the proposed Shoppes at Lincoln Pointe (the "Project").

The purpose of the "Gap Analysis" herein is to evaluate whether there is a gap or insufficiency in developer financing that would require municipal assistance to make the Project feasible, and to determine the extent of gap financing required. It is one tool or metric to determine how much, if any, Village assistance should be provided to the Developer. It should be noted that other methods can be used to gauge Developer gap financing requirements such as qualitative methods (e.g., reimbursing for extraordinary costs related to a parking garage or environmental remediation costs that are required to make a site development-ready and competitive with green field sites in exurban communities).

The Project is situated in a desirable area in the heart of Lincolnwood, with easy access to Interstate-94 at the nearby Touhy exit ramp. Historically, the area has been utilized for the former "Purple Hotel" which (like many other older hotels) experienced gradual disinvestment, transitioning from a top-tier branded hotel to mid-tier branded hotel and ultimately a hotel unaffiliated with any hotel chain. The Project is within the Touhy-Lincoln TIF District recently established specifically to promote redevelopment of the former hotel site.

The Village is pursuing the potential Project as part of its strategy to promote the revitalization and modernization of under-utilized property and thereby assist the Village in achieving its policy goal of promoting economic redevelopment and renewal of the area. By undertaking the Project, the Village will help strengthen a key commercial node and convert the area into a significant contributor to the Village's overall economic base.

The Developer consists of multiple entities that have joined together for the purposes of implementing the proposed Project. North Capital Group ("NCG") is the owner and developer of the retail/office component, while it will utilize U.S. Equities Realty as a co-developer and construction manager for the retail/office uses.

NCG will also serve as the developer of the hotel component via a legal entity, First ZFNS LLC. First ZFNS is a legal entity under the joint direction of First Hospitality Group, Inc. and an NCG entity and it will both develop and own the hotel component. An affiliate, First Hospitality Group, Inc., would serve as the hotel manager once the hotel opens for business.

KB Real Estate, Inc. is responsible for retail lease-up. Refer to the exhibit below for additional information about the Developer team.

Exhibit 1 – Developer Team

Entity	Function
NCG	Owner / Developer
First Hospitality Group	Hotel Co-Developer and Manager
U.S. Equities Realty	Retail / Commercial Co-Developer and Construction Manager
KB Real Estate, Inc.	Tenant Leasing
Antunovich Associates	Planner and Architect (Retail/Office)
NORR	Architect (Hotel)
Teska Associates	Architect (Landscape)
Spaceco	Civil Engineer
KLOA	Traffic Engineer
Laube Companies	TIF Consultant / Financial Advisor to Developer
Freeborn & Peters LLP	Legal Advisor to Developer

KMA has divided the scope of work into two components, with the first component involving a general due diligence review of the Project budget (i.e., review of the "Sources and Uses" table and embedded assumptions and cost estimates). A portion of the due diligence review is reflected in oral discussions and dialogue with the Developer and its general contractor in conjunction with ongoing Village-Developer meetings.

Secondly, KMA has performed herein a review of the "deal" which contains an analysis of the need for Village assistance to make the Project feasible. The deal review herein is based upon KMA's projection of the Developer's investment return (i.e., "Gap Analysis"); in essence it addresses the question, is the Project feasible only but for the provision of a certain amount of municipal assistance?

Relying upon Developer-provided data, KMA observes that there is a demonstrated gap or need for municipal assistance, observed in the significantly lower investment return without municipal incentives. The returns without municipal incentives would make it difficult to attract external financing, based upon the Developer data (in particular, KMA relies upon Developer estimates of construction costs and rental income streams to calculated investment returns).

KMA observes that the Developer seeks municipal incentives of $33.5 million for the Project (i.e., it requests reimbursement for certain extraordinary costs in connection with the parking garage construction costs and offsite improvements, as well as certain landscaping and aesthetic finishes that are requested in the Village planning studies) on a pay-as-you-go basis. Providing these incentives would result in an investment return that the Developer estimates to be 20% or more in order to attract the necessary private equity to the Project. It should be noted that the range of investment returns pertains to the current economic cycle in which the entire range of investment returns is higher – whereas prior to the 2008-2009 recession, the threshold returns were lower. Because of the stated market return estimate, the $33.5 million request may require further analysis and due diligence (particularly with respect to certain Developer assumptions as it relates to construction costs and the financing structure) to determine if it is in excess of the level necessary for the Developer to move forward.

NCG has stated that to attract debt and equity financing for the Project, the minimum unleveraged return needs to be in the 13-15% range; the **leveraged** return needs to be in the 20-25% range. The unleveraged return consists of the time adjusted return on total costs, while the leveraged return consists of the time adjusted return on equity. The Developer further represents the following:

- Without any incentives from the Village, the unleveraged return would be 7.2%; the leveraged return would be 9.2%;
- NCG states that it cannot attract external financing at these lower rates of return;
- With incentives of $33.5 million, the unleveraged return would be 11.8%; the leveraged return would be approximately 20.1%; and
- **NCG believes it can attract equity financing at 20% return or higher, but to date no firm commitments have been provided.**

Additionally, the Developer states that more than 10% of the $33.5 million funding gap ($4 million) is attributable to public, off-site road improvements that NCG believes are necessary whether or not the Project is developed.

Refer to Section V for information on how the Developer proposes that the Village fund the $33.5 million gap.

<u>Please note that any follow-up information about the Project may require authorization by the Developer, particularly any data and reviews that may be deemed to be confidential</u> (e.g., reviews of proprietary market studies or Proforma and Sources and Uses information).

CONTENTS

I. BACKGROUND

In pursuing the redevelopment of the Shoppes at Lincoln Pointe Project, the Village of Lincolnwood has commissioned an analysis of the Developer's estimated investment connected to the Project. Kane, McKenna and Associates, Inc. agreed to perform the analysis on behalf of the Village.

The Village of Lincolnwood is a mature community situated due north of Chicago, only 12 miles north of the downtown Chicago "Loop". The Village was incorporated in 1911. After experiencing rapid growth in the post-war era, population stabilized around 13,000 inhabitants during the past 30 years. As of the 2010 Census, the population is at 12,590.

Current Land Use. The proposed Project area encompasses a key parcel in the center of the Village. It is located at the northwestern corner of Lincoln Avenue and Touhy Avenue, historically one of the most vibrant areas in the community. However, due to market factors and other factors, it is currently underutilized with no businesses in operation, in the wake of a protracted vacancy and then demolition of the former Purple Hotel (vacancy caused in part by disinvestment and multiple life safety code violations). In contrast, certain other areas in close proximity were successfully developed prior to the 2008-2009 recession and are now hubs of economic activity and serve as a regional draw to the area, including areas to the east and south in competing jurisdictions.

The area is situated within the Lincoln-Touhy TIF District, which was established in 2011. Because of its earlier TIF designation, the area at the time of TIF formation was determined by the Village to have a number of redevelopment impediments requiring tax increment financing. Some of these redevelopment challenges are still present and may require municipal assistance to move the proposed Project forward.

The Proposed Project. The Project as proposed to the Village entails the construction of mixed use structures on parcels currently owned by the Developer. Per the Developer, the structures would contain approximately 160 hotel rooms and over 200,000 square feet of commercial/retail space, as indicated in the exhibit below, as well as 1,246 street and garage parking spaces. The Developer would construct 68 street parking spaces, 930 garage spaces and 247 spaces on the "utility corridor" (assuming a long-term lease with ComEd is put into effect).

Exhibit 2: Proposed Project Components

Component	Rooms/Square Feet
Spring Hill Suites	160
Grocery Store Anchor	30,309
Retail Shop Space	89,292
Restaurants	35,000
Health Club	22,730
Medical Office Space	31,252

Note: An extended stay hotel concept was removed from the Project proposal

General Redevelopment Objectives. The redevelopment of the Project area would further the Village's land use goals and objectives, which are contained in its *Comprehensive Plan*, *Lincoln Avenue Corridor Study,* and TIF Redevelopment Plan. Refer to Exhibit 3 below.

Exhibit 3: Redevelopment Goals in the Lincolnwood Comprehensive Plan

Objective	Policy (Excerpts)
Promote the growth and redevelopment of business and commercial areas.	• Encourage the location of new or expanding businesses in existing commercial locations that would benefit from redevelopment. • Consider land assembly to facilitate commercial redevelopment. • Expand the number of off-street parking spaces to serve established business areas. • Promote restoration of parkway landscaping where it has been paved over; require restoration of parkway landscaping as properties are redeveloped. • Consider vacating street segments intersecting with Lincoln Avenue, Devon Avenue and other streets to create larger redevelopment sites, create safer, more efficient traffic patterns and provide buffers for residential areas.
Reduce land use conflicts between residential and non-residential uses.	• Augment development requirements for buffering and landscaping between residential and non-residential uses. • Encourage creative ways to provide parking and enhance landscaping of private property. • Require on-site provisions for stormwater detention, encouraging underground detention where appropriate, with respect to new commercial and industrial development.
Establish and maintain a positive community identity along arterial streets.	• Establish appearance review standards within the Zoning Ordinance for non-residential development. • Enforce the provisions of the sign ordinance. • Establish landscape requirements for new and existing commercial and industrial developments. • Require businesses to screen private parking lots, preferably with plants. • Encourage consolidation of driveways and parking lot entrances and narrowing their width in order to create a safer pedestrian environment and pleasant image along Lincolnwood's commercial streets. • Develop facade/streetscape improvement programs along major arterials.
Improve the appearance of community gateways and arterial corridors.	• Improve the image of Lincolnwood's public rights-of-way through systematic beautification efforts. • Pursue opportunities to provide landscaping at key intersections. • Implement the Beautification Opportunities Plan for landscaping and community identifiers at major entry points to Lincolnwood. • Consider upgrading street lighting along commercial corridors in connection with other right-of-way improvements.

Source: Village of Lincolnwood *Comprehensive Plan* as amended May 2006

Given the gap between the Village's goals for the area versus the current conditions at the Project site (yet to be developed), a successfully developed Project would be highly beneficial to the community. With a capable developer and successfully implemented Project in place, the economic base associated with the RPA would be stabilized and increased – thereby benefiting the community as a whole.

General Scope and Methodology. KMA performed its analysis by conducting a series of meetings and discussions with Village and Developer staff, starting in December 2013 and continuing periodically up to the date of this report. The objective of the meetings was to gather data related to the Developer and Project. These meetings were complemented by a request to the Developer for certain data about the Project land uses, construction costs, financing sources, rental income and other Project elements, as proposed to the Village.

For additional information about KMA's data collection and evaluation methods, refer to Section III of this report.

II. LIMITATIONS OF GAP ANALYSIS

The Gap Analysis herein contains information to assist the Village in assessing the Developer's required investment return necessary to undertake the Project as proposed to the municipality. Because it is a prediction about the future cash flows of the Project, it inherently involves making a determination about a state of events in the future. Thus, the Gap Analysis herein is subject to varying opinions about a future event (i.e., construction and occupancy of a hotel and mixed use structures, and related variables such as rental rates and cost of financing). In addition, the Developer has represented that equity investors will require certain minimum levels of return. In order to attract investor capital, the Developer seeks to improve the return based upon infusion of public funding.

As noted above, the Gap Analysis is a tool or metric to assist the Village in determining that there is in fact a Project financing shortfall requiring Village assistance, and gauging the level of assistance necessary. There are other tools to determine gap financing requirements as well, noted below.

The Gap Analysis below is predicated on the future, leveraged Internal Rate of Return (IRR) of the Project. It is useful in determining the IRR with and without municipal assistance. Although alternative measures of investment return may be preferred by the Developer or other stakeholders, an advantage of IRR is that it is a comprehensive measure of Developer return, accounting for annual cash flows (net operating income) as well as profit from the sale of the developed property. As an alternative, KMA has prepared an unleveraged rate of return analysis or "return on cost," a metric that is also used in real estate financial analysis. Since it does not account for income from the sale of a property, it is not as comprehensive a measure as is IRR.

Exhibit 4 below details certain risk factors associated with the Developer and the Project that could alter the estimated financial results. These are inherent risk factors that cannot be mitigated by, or predicted prior to, Project execution.

Exhibit 4: Risk Factors

Factor	Description
Owner's equity	The Village and KMA are reliant upon the Developer's statement of available equity for the Project.
Owner's ability to borrow	The Village and KMA rely on the Developer's ability to borrow from one or more sources of bank financing at a competitive rate (i.e., a rate of interest that is feasible for the Developer and allows for subsequent build-out and occupancy at a competitive rental rate). Further, the Village and KMA are reliant upon Developer's banking relationships to extrapolate that said relationships make bank financing workable.
Municipal contributions to the Project	Municipal contributions, if necessary to make the Project feasible, are dependent upon state and county collection practices. • Changes in the State formulas or methods to levy, collect, and distribute sales taxes – as well as in the formulas for exempt items –could directly affect the pledged taxes (if any). Additionally, sales tax rates are subject to change and goods and services subject to such sales taxes could also be altered. Additionally, errors by the IDOR in calculating or remitting any sales taxes could result in delays or future corrections in the receipt of any pledged taxes. • Similarly, County changes in formulas and methods for levying, collecting property taxes could affect the pledged taxes.
Retailers/ Hotel	- Estimates of future pledged taxes to be generated by the Project are based upon the assumption that the retailers expected to occupy space in the Project will occupy such space and commence or continue business activities in such location throughout the projection period. Should such intended user(s) fail to occupy the Project or commence business activity on schedule, projected retail sales/hotel occupancy and the associated taxes could be materially affected. - Failure of the hotel and retailers to sell goods and services subject to state and/or local taxation or that otherwise differ from the projected uses, as well as changes in general economic conditions could adversely affect the taxes collected and ultimately pledged.
Competitor/ market risk	- Future competition by other hotel/mixed-use structures in the same market area but outside of the Project area could potentially adversely impact tax collections in the Project Area. - The retail and hotel industries are highly competitive. Businesses outside the Project Area, which currently exist or which are developed after the date of this report, will compete with the business(es) in the Project Area and could have an adverse impact on the available taxes generated within the Project Area. This could affect the absorption of units/retail space, among other consequences. - In future years, it is expected that increasing numbers of sales transactions will take place over the Internet. If these Internet sales are not treated, for sales tax purposes, comparably to, or if they displace, the types of transactions where sales taxes currently are collected, tax collections may be adversely affected. - Increases in sales tax rates in the Village or the Project Area may create incentives for certain consumer or business purchases to be made in jurisdictions with lower overall sales tax rates. As a result, increasing sales tax rates may not result in a corresponding percentage increase in revenues, and may prompt certain commercial and industrial activities to relocate to jurisdictions with lower sales tax rates.
Local Economy	- The future success of the Project may depend on the growth of residential housing demand in the area surrounding the Project.

III. EVALUATION METHODOLOGY

In performing the Gap Analysis, KMA utilized certain methodologies and relied upon data provided by the Developer and other entities as indicated below.

1) Village data were reviewed, based upon prior submittals to the Village of Developer information. Additionally, KMA reviewed Village planning reports as cited above and other documents. KMA discussed Project history with Village staff as well.

2) KMA issued a data request to the Developer to obtain information about the firms' estimate of Project sources and uses, and marketability of the real estate "product" (hotel, commercial and retail space). The Developer has requested that KMA maintain the proprietary nature of certain data submitted in response to the request and that it be limited to KMA review only.

3) KMA reviewed the accuracy of information contained in the Developer submittal. KMA also checked on certain Developer estimates in the sources and uses /construction budget in relation to other projects KMA has evaluated.

4) KMA relied upon internal files to evaluate certain benchmarks such as Developer investment returns.

5) KMA developed the gap analysis based upon estimates of leveraged Internal Rate of Return (IRR) and unleveraged "return on cost." These calculations are dependent upon certain assumptions such as the capitalization rate ("cap rate"), commercial rental income, and residential apartment rental income. Additionally, it is heavily dependent on the construction budget reflected in the sources and uses table. **If construction costs are lower than presented, or if revenues are greater, then investment returns could be materially higher**.

IV. REVIEW OF PROJECT COSTS

Based upon KMA's preliminary review, the following information is presented to assist the Village in making a determination about the Developer's request for municipal incentives. Section IV herein is an assessment about the Project costs as estimated in the Developer's construction budget, and in particular seeks to identify extraordinary costs that may require Village assistance (e.g., for Developer-borne costs for public improvements or parking). These extraordinary costs may support the Developer's case for Village incentives.

Additionally, Section V provides a financial assessment of the Project which may also be useful in determining the need for, and level of, Village incentives.

Summary of Project Budget ("Uses"). The Developer has represented that it has a gap in financing that requires municipal assistance. Exhibits 5, 6, and 7 shows the Project construction budget or "uses," based upon Developer and Village data provided to KMA. In addition to vertical construction costs to erect a hotel and other buildings, the exhibits account for the cost of the land and estimates of street and utility improvements (see "Site Work" cost element in Exhibit 7), including the construction of an internal vehicular roadway. Project costs or uses are estimated to be $124.8 million, allocated as follows:

Exhibit 5

Component	Cost Estimate
Land Acquisition	$11,989,640 (9.6%)
Hard Costs	$91,241,235 (73.1%)
Soft Costs	$21,525,947 (17.3%)
	$124,756,222 (100.0%)

Source: NCG

Land acquisition costs included the purchase of the "Purple Hotel" Property ($9,113,597 – this included amounts for delinquent taxes and closing costs) and the office building to the north ($2,400,000). Hard Costs include amounts allocated to the construction of four (4) retail buildings including a parking garage, underground parking, and a hotel, as well as all related site improvements and the allowance of $4,050,000 for offsite improvements .

A summary of hard costs by Project component follows in Exhibit 6.

Exhibit 6

Component	Unit*	Hard Costs	Comments
Building A Grocery and Parking	33,766 s.f. retail 657 garage spaces	$3,376,700 $13,433,000	$99.98/s.f. $20,445/space
Building B Retail/Fitness	43,539 s.f.	$5,982,512	$137.41/s.f.
Building C Retail/Restaurant	49,607 s.f. Retail	$7,247,819	$146.10/s.f.
Building D Retail/Office	87,413 s.f. Retail and office	$10,984,192	$125.66
Below Grade Parking	302 spaces	$12,727,541	$42,144/space
On-Site Work	14 acres	$8,097,219	$578,372/acre
Hotel	160 rooms 142,435 s.f.	$23,363,021 (less land)	$146,915/room
Off-Site Work		$4,050,000	Village will need to review off-site work

*Includes common area.

In comparison to other projects and industry averages reviewed by Kane, McKenna, the construction costs for both the retail buildings and underground parking appear to be at the higher end of the range.

Review of Budgeted Hotel Costs. The Developer provided information relating to the $15.9 million construction cost which would result in 160 hotel rooms. The overall square feet for this structure is 156,568 square feet, and it would include primarily hotel space (142,435 square feet), with a limited amount of space reserved for other uses. On a per room basis, the construction costs amount to $99,882 ($102/s.f.). These estimates can also be adjusted to account for both hotel interior furnishings and site-wide improvements, a portion of which can be allocated to the hotel component. With this adjustment, finished construction costs account for $146,915 per room ($150/s.f.). In either instance, the estimated hotel construction costs are within the range of estimates previously observed by KMA.

Review of Budgeted Parking Costs. The Developer would incur $4.6 million in below grade parking for the western portion of the site, and $8.1 million in below grade parking for the eastern portion ($12.7 million total). This would result in 104 parking spaces to the west, and 198 to the east (302 spaces total). On a unit basis, the construction costs amount to $44,522 per parking space ($112/s.f.) and $40,895 per parking space ($90/s.f.) for the west and east structures, respectively. The estimated underground parking construction costs are at the high end of the range of estimates previously observed by KMA.

Per the Developer, below grade parking components include “premiums” associated with the proposed layouts (there are certain inefficiencies the east and west layouts that result in increased costs), additional foundation and waterproofing costs, increased structural costs due to above ground roadways, and upgraded lighting features.

Review of Budgeted Retail/Commercial Building Costs. The Developer has indicated that retail/office costs will be higher due to:

- "Four-sided" front buildings (Buildings B & D) (i.e., no hidden back side with less expensive finish); and
- Greater use of masonry and glass finish.

Review of Budgeted On-Site Work Costs. The on-site work costs are represented to be based upon review of Project characteristics – avoiding any duplication with underground parking related work and these costs again appear to be at the high end of the range of estimates. Per the general contractor, elements that increase costs at the site include:

- The site work for the Project is concentrated and highly finished. The site lacks large parking fields that quickly reduce the cost per acre.

- Site excavation and grading includes filling existing hotel basements as required.

- Earth retention sheeting and shoring is included in limited areas to avoid undermining existing work to remain, such as utilities and roadways.

- Two very large storm water retention tanks are included. They are concrete in lieu of precast due to the combined sewer system. These tanks are designed for roadway loading.

- Overflow and employee parking is included at the Commonwealth Edison easement.

- Costs to remove and replace all curbs and sidewalks at Lincoln and Touhy are included. In addition trees and grates, brick paving strips over a concrete base are included.

- The cost of site utilities per acre is higher than normal due to the density and the dual water service for a relatively small site.

- The landscape and site finishes are estimated to be in excess of $900,000, including the ComEd property. This equates to over $58,000/acre. <u>This far exceeds a typical retail project's landscape and site finishes costs</u>, which would be in the range of $20,000/acre.

- The inner drives of the project include multiple areas with pavers. The pavers are more costly than concrete and there will be a concrete base below the pavers resulting in a premium cost.

Review of Other Budgeted Costs. The Developer indicates that the $4,050,000 of off-site work includes limited construction work (mainly signalization and lane reconfiguration); the bulk of the costs will be devoted to traffic modeling/signal coordination associated with the wider area traffic system serving the project site.

In reference to other hard costs components, the demolition line item of $1,833,246 is based upon actual costs incurred. The “general conditions” and hotel allocations appear to be within industry ranges; although the hotel estimate assumes parking will be provided adjacent to the hotel use. Overall, the soft cost allocation as a percentage of total Project costs (17.3%) or total costs excluding land (19.2%) is reasonable. Individual items have been reviewed with the Developer and the largest component of $9,209,770 (tenant improvements) is based upon the Developer’s assessment that such amounts will be necessary for a successful lease up (approximately $45 to $50/s.f.)

Exhibit 7: Sources and Uses Table (Construction Budget)

PROJECT SUMMARY
Uses of Funds

USES:

	Total		Potentially TIF-Eligible	Potentially BD-Eligible
Land Acquisition Costs				
Land Acquisition and Assembly	11,989,640	9.6%	$ 11,989,640	
Hard Costs				
Demolition	1,833,246		$ 1,833,246	
Building A Grocery and Parking	16,809,200		$ -	16,809,200
Building B Retail and Fitness	5,982,512		$ -	
Building C Retail/Restaurant	7,247,819		$ -	
Building D Retail and Office	10,984,192		$ -	
Below Grade Parking	12,727,541		$ -	12,727,541
Site Work	8,698,458		$ 8,698,458	
Site Signage	200,000			
General Conditions	1,817,821		$ 207,232	
Off Site Work	4,050,000		$ 4,050,000	
Construction of Hotel	15,981,090		$ -	
Banquet Space	1,600,000		$ -	
Landscaping	200,000		$ -	
Commercial Finishings	1,498,500		$ -	
Bathrooms	15,000		$ -	
Signage	70,000		$ -	
Hotel Restaurant & Meeting Rooms	195,000		$ -	
Office Equipment and Life Safety	348,750		$ -	
Warehouse	482,106		$ -	
Contingency	500,000			
Total Hard Construction Costs of Buildings	91,241,235	73.1%	$ 14,788,936	$ 29,536,741
Soft Costs				
Architecture and Engineering	4,383,631		TBD	
Marketing	507,284			
Pre-Opening Expenses	250,000			
Leasing and Zoning	889,938		TBD	
Accounting	60,000		TBD	
Utilities	119,272			
Insurance	240,000			
General and Administrative	669,753		TBD	
Permits	100,000			
Financing Fee	883,500			
Real Estate Taxes during Construction	740,000			
Tenant Improvement (TI) Allowance	9,209,270			
Development Fee	1,407,016			
Contingency	735,023			
Documentation	32,000		TBD	
Hotel Building Permit	118,260		TBD	
Hotel Franchise Fee	50,000			
Title and Closing	60,000		$ 60,000	
Hotel Marketing	65,000			
Operating Expenses Before Opening	996,000			
License and Permit	10,000			
Total Soft Costs	21,525,947	17.3%		
	124,756,822	100.0%	$ 26,838,576	$ 29,536,741

Note: TBD requires pro rata allocation of soft costs to eligible costs

Source: NCG

V. GAP ANALYSIS RESULTS

Based upon KMA's preliminary review, the following information is presented to assist the Village in making a determination about the Developer's investment return with and without Village participation. By comparing investment returns to similar projects in other communities, the Village is able to validate that there is in fact a gap requiring Village assistance and the approximate level of gap financing required.

Summary of Project Budget ("Sources"). The Developer has represented that it has a gap in financing that requires municipal assistance. KMA has attempted to verify the Developer's gap by comparing estimated investor returns on the Project with and without municipal assistance, which would amount to $33.5 million on the approximately $124.8 million Project (i.e., 27% of Project costs would be subsidized). The assistance would be provided via pay-as-you-go developer notes.

Exhibit 7 above shows the construction budget, based upon Developer and Village data provided to KMA. Without municipal assistance, the financing sources for the construction costs are assumed to consist of 30% equity and 70% debt. With a municipal contribution of 27% to the Project budget, KMA assumes that Developer equity is reduced to 22% and debt levels lowered to 51% (refer to Exhibit 8). This enables the Developer to reduce equity as a means to mitigate a portion of its risks, while reduce bank borrowing costs which are netted from annual operating income. Overall, the municipal subsidy boosts returns and (per the Developer) places investment returns at a level that attracts external financing.

Exhibit 8: Sources and Uses Table (Funding Sources)

PROJECT SUMMARY
Sources of Funds

SOURCES:		
Without Financial Assistance		
Equity*	37,427,047	30.0%
Debt	87,329,775	70.0%
TOTAL SOURCES (W/O ASSISTANCE)	**124,756,822**	100.0%
With Financial Assistance		
Equity*	27,377,047	21.9%
Debt	63,879,775	51.2%
Public Financial Assistance	33,500,000	26.9%
TOTAL SOURCES (WITH ASSISTANCE)	**124,756,822**	100.0%

*IRR analysis assumes 70% debt
30% equity

Source: NCG

Estimated Return on Investment (Leveraged). The following exhibit shows the estimated leveraged Internal Rate of Return for the Project. Without municipal assistance, KMA projects that the Internal Rate of Return would be 9.46%. With municipal assistance of $33.5 million, the Developer's return is projected to be 21.68%. On a preliminary basis, the Developer return of 21.68% is somewhat above the range of returns KMA has observed in other communities pursuing mixed use projects.

Please note that that the Developer calculates a comparable investment return with municipal incentives of 20.1%. The Developer estimate versus KMA estimate is different. KMA attributes the difference to the Developer assuming higher interest costs in connection with a construction loan, whereas KMA assumes lower interest costs based on the proposed buildout period.

Exhibit 9: Investment Return Summary

Scenario	Sources	Uses	IRR*
Without municipal incentives	• 30% Developer equity • 70% Permanent loan	$124,756,822	9.46%
With municipal incentives	• 22% Developer equity • 51% Permanent loan • 27% Village incentives	$124,756,822	21.68%

Notes: Results are preliminary – subject to review and change
*Assume a cap rate of 7.0% for retail/commercial; 8.0% for hotel

As noted, the Developer return estimate is highly sensitive to certain assumptions (e.g., construction budget line-items, lease revenues, the growth factor tied to NOI, and cap rate). Note: the capitalization rate or "cap rate" equates future revenue streams (rents) to a present value. Typically a lower cap rate indicates less risk while a higher cap rate indicate additional market risks (and less present value).The exhibit below identifies the assumptions related to operating income/lease revenues. These assumptions are held constant for both scenarios (with and without municipal incentives).

Exhibit 10: Assumptions for Leasing Activity

Component	Assumed Value
Retail/Commercial Leases	$25-$40 per s.f. (annual)
Hotel:	
Average Hotel Daily Rental	$127.00 (100% occupancy
Food & Beverage	$0 (annual)
Other Hotel Departments	$290,000 (annual)
Rentals & Other Income	$0 (annual)
Occupancy Rate	71.0%
Retail:	
Vacancy	5.00%
CAM	1.50%
Management Fee	2.50%
Hotel Expense Assumptions:	
Annual Operations Expenses/Room	$23,031
Growth Assumptions:	
Annual Lease Escalation	2.0%
Annual Hotel Rate & Expense Escalation	2.5%

Source: NCG

Exhibit 11: IRR Analysis Without Incentives

Financing Assumptions:

Total Investment	124,756,822	Construction costs and allocation of land and soft costs
Construction Loan	87,329,775	
Refinance Loan (2016)	94,400,462	
Loan Term	20	years
Loan Rate (Long Term)	4.75%	
Equity	37,427,047	

Year	Retail Rental Income	Less: Retail Vacancy	CAM	Management Fee	Total Net Retail Revenues	Hotel Room Revenues	Less: Hotel Vacancy	Other Hotel Revenues	Total Hotel Revenues	Less: Hotel Expenses	Total Net Hotel Revenues
Const. 2014	0	0	0	0	0	0	0	0	0	0	0
Const. 2015	0	0	0	0	0	6,812,676	(1,975,676)	282,000	5,119,000	(3,380,000)	1,739,000
2016	7,091,845	(354,592)	(106,378)	(177,296)	6,453,579	7,421,122	(2,152,125)	290,000	5,558,996	(3,685,000)	1,873,996
2017	7,233,682	(361,684)	(108,505)	(180,842)	6,582,651	7,606,650	(2,205,928)	297,250	5,697,971	(3,777,125)	1,920,846
2018	7,378,356	(368,918)	(110,675)	(184,459)	6,714,304	7,796,816	(2,261,077)	304,681	5,840,421	(3,871,553)	1,968,867
2019	7,525,923	(376,296)	(112,889)	(188,148)	6,848,590	7,991,736	(2,317,604)	312,298	5,986,431	(3,968,342)	2,018,089
2020	7,676,441	(383,822)	(115,147)	(191,911)	6,985,561	8,191,530	(2,375,544)	320,106	6,136,092	(4,067,551)	2,068,541
2021	7,829,970	(391,498)	(117,450)	(195,749)	7,125,273	8,396,318	(2,434,932)	328,108	6,289,494	(4,169,239)	2,120,255
2022	7,986,569	(399,328)	(119,799)	(199,664)	7,267,778	8,606,226	(2,495,806)	336,311	6,446,731	(4,273,470)	2,173,261
2023	8,146,301	(407,315)	(122,195)	(203,658)	7,413,134	8,821,382	(2,558,201)	344,719	6,607,900	(4,380,307)	2,227,593

Year	Net Revenues Available For Debt Service	Debt Service	NOI	IRR Calculation NOI	Add Residual	Schedule: Const. Draw	Principal	Interest	Principal Balance
Const. 2014	0	0	0	(37,427,047)	(37,427,047)	58,736,794	(2,789,998)	2,789,998	61,526,792
Const. 2015	1,739,000	0	1,739,000	1,739,000	1,739,000	28,592,981	(4,280,689)	4,280,689	94,400,462
2016	8,327,575	7,415,200	912,375	912,375	912,375	0	2,931,178	4,484,022	91,469,284
2017	8,503,497	7,415,200	1,088,296	1,088,296	1,088,296	0	3,070,409	4,344,791	88,398,874
2018	8,683,171	7,415,200	1,267,971	1,267,971	1,267,971	0	3,216,254	4,198,947	85,182,621
2019	8,866,679	7,415,200	1,451,478	1,451,478	1,451,478	0	3,369,026	4,046,174	81,813,595
2020	9,054,103	7,415,200	1,638,902	1,638,902	1,638,902	0	3,529,055	3,886,146	78,284,540
2021	9,245,527	7,415,200	1,830,327	1,830,327	1,830,327	0	3,696,685	3,718,516	74,587,855
2022	9,441,039	7,415,200	2,025,839	2,025,839	2,025,839	0	3,872,277	3,542,923	70,715,578
2023	9,640,726	7,415,200	2,225,526	2,225,526	66,638,041	0	4,056,210	3,358,990	66,659,367

IRR analysis:

Assumptions					
Cap Rate (Res.	7.00%	Value (Res.) 10 yrs.	105,901,909	IRR Calculation	9.46%
Cap Rate (Hote	8.00%	Value (Hotel) 10 yrs.	27,844,909		
		Total Value	133,746,819		
Costs of Sale	2.00%	Less:			
Mortgage		Costs	2,674,936		
Balance	66,659,367	Mortgage	66,659,367		
		Residual	64,412,515		

Exhibit 12: IRR Analysis With Incentives

Total Investment	124,756,822	Construction costs and allocation of land and soft costs
Public Financial Assistance	33,500,000	Developer request
Construction Loan	63,879,775	
Refinance Loan (2016)	69,836,587	
Loan Term	20	years
Loan Rate (Long Term)	4.75%	
Equity	27,377,047	

Year	Retail Rental Income	Less: Retail Vacancy	CAM	Management Fee	Total Net Retail Revenues	Hotel Room Revenues	Less: Hotel Vacancy	Other Hotel Revenues	Total Hotel Revenues	Less: Hotel Expenses	Total Net Hotel Revenues
Const. 2014	0	0	0	0	0	0	0	0	0	0	0
Const. 2015	0	0	0	0	0	6,812,676	(1,975,676)	282,000	5,119,000	(3,380,000)	1,739,000
2016	7,091,845	(354,592)	(106,378)	(177,296)	6,453,579	7,421,122	(2,152,125)	290,000	5,558,996	(3,685,000)	1,873,996
2017	7,233,682	(361,684)	(108,505)	(180,842)	6,582,651	7,606,650	(2,205,928)	297,250	5,697,971	(3,777,125)	1,920,846
2018	7,378,356	(368,918)	(110,675)	(184,459)	6,714,304	7,796,816	(2,261,077)	304,681	5,840,421	(3,871,553)	1,968,867
2019	7,525,923	(376,296)	(112,889)	(188,148)	6,848,590	7,991,736	(2,317,604)	312,298	5,986,431	(3,968,342)	2,018,089
2020	7,676,441	(383,822)	(115,147)	(191,911)	6,985,561	8,191,530	(2,375,544)	320,106	6,136,092	(4,067,551)	2,068,541
2021	7,829,970	(391,498)	(117,450)	(195,749)	7,125,273	8,396,318	(2,434,932)	328,108	6,289,494	(4,169,239)	2,120,255
2022	7,986,569	(399,328)	(119,799)	(199,664)	7,267,778	8,606,226	(2,495,806)	336,311	6,446,731	(4,273,470)	2,173,261
2023	8,146,301	(407,315)	(122,195)	(203,658)	7,413,134	8,821,382	(2,558,201)	344,719	6,607,900	(4,380,307)	2,227,593

Year	Net Revenues Available For Debt Service	Debt Service	NOI	IRR Calculation NOI	Add Residual	Schedule: Const. Draw	Principal	Interest	Principal Balance
Const. 2014	0	0	0	(27,377,047)	(27,377,047)	58,736,794	(2,789,998)	2,789,998	61,526,792
Const. 2015	1,739,000	0	1,739,000	1,739,000	1,739,000	5,142,981	(3,166,814)	3,166,814	69,836,587
2016	8,327,575	5,485,697	2,841,879	2,841,879	2,841,879	0	2,563,174	2,922,523	58,963,618
2017	8,503,497	5,485,697	3,017,800	3,017,800	3,017,800	0	2,684,925	2,800,772	56,278,693
2018	8,683,171	5,485,697	3,197,474	3,197,474	3,197,474	0	2,812,459	2,673,238	53,466,235
2019	8,866,679	5,485,697	3,380,982	3,380,982	3,380,982	0	2,946,050	2,539,646	50,520,184
2020	9,054,103	5,485,697	3,568,406	3,568,406	3,568,406	0	3,085,988	2,399,709	47,434,196
2021	9,245,527	5,485,697	3,759,831	3,759,831	3,759,831	0	3,232,572	2,253,124	44,201,624
2022	9,441,039	5,485,697	3,955,343	3,955,343	3,955,343	0	3,386,119	2,099,577	40,815,505
2023	9,640,726	5,485,697	4,155,030	4,155,030	97,958,367	0	3,546,960	1,938,736	37,268,545

IRR analysis:

Assumptions					
Cap Rate (Res.	7.00%	Value (Res.) 10 yrs.	105,901,909	IRR Calculation	21.68%
Cap Rate (Hote	8.00%	Value (Hotel) 10 yrs.	27,844,909		
		Total Value	133,746,819		
Costs of Sale	2.00%	Less:			
Mortgage		Costs	2,674,936		
Balance	37,268,545	Mortgage	37,268,545		
		Residual	93,803,338		

KMA Analysis versus Developer Analysis; Sensitivity of Key Assumptions. The KMA analysis herein and Developer analysis of investment returns (previously submitted to the Village) both project that there is a measurable gap in investment returns, in terms of municipal incentives versus no incentives. KMA further estimates that the Project would result in leveraged investment returns at or somewhat above the investment returns observed in other communities pursuing similar mixed use projects. Because both KMA and the Developer rely upon assumptions with respect to the future cash flows of a business, this necessitates the question: how sensitive are the analyses (either KMA's or the Developer's) to certain key assumptions?

To estimate the sensitivity of the IRR estimates, KMA examined four factors: (a) the capitalization rate or "cap rate" which affects the future estimated value of the Project at the time the owner sells the assets; (b) growth rates for income from hotel and retail/commercial leases; (c) leverage taken by the Developer; and (d) Project construction costs. Regarding the last items, the $124 million in budgeted project construction costs – if inflated – would result in a significantly higher investment return if the construction costs ultimately prove to be lower.

As shown in the exhibit below, small differences in the four Gap Analysis assumptions could result in significant differences in the investment return realized by the Developer. The assumptions are listed in order of magnitude or sensitivity. Cap rates have the biggest impact on IRR results, with the investment return increasing from 20.1% to 22.5% if the cap rate were to be lower than assumed by KMA and the Developer. Increased leverage in terms of a higher 75/25 loan/value ratio would also have a significant impact on future results, as would a reduction in Project costs. Finally, lease growth rates would have the smallest impact (relative to the other 3 factors).

Lastly, KMA's sensitivity analysis (summarized in the exhibit below) shows the impact of reducing the incentive from $33,500,000 to $30,300,000. A 1.1% reduction in the investment return requirement would reduce the incentives by $3.2 million. This raises a key question: **what is the ultimate willingness of the Developer's equity partners to participate at such a level?.**

Exhibit 13

Factor	Value	Impact	IRR*	Differential
Cap Rate	8% hotel / 7% retail		20.1%	
Cap Rate	7% hotel / 6% retail	Down 1%	22.5%	2.4%
Capital Structure	70/30		20.1%	
Capital Structure	75/25	More Leverage	21.9%	1.8%
Project Cost	$124,756,822		20.1%	
Project Cost^	$120,756,822	Down $4MM	21.7%	1.6%
Lease Escalator	2.5%/2%		20.1%	
Lease Escalator	3%/2.5%	Up .5%	20.9%	0.8%
Muni Incentive	$33,500,000		20.1%	
Muni Incentive^^	$30,300,000	Down $3.2MM	19.0%	-1.1%

^No change in incentive *Default developer scenario = 20.1%

^^No change in Project cost

Source: KMA review of NCG investment projections

Estimated Return on Cost (Unleveraged). As stated, the unleveraged Return on Cost for the Project does not account for any capital gains on the Project. Since it is a calculation of annual operating profitability prior to selling a property, it measures the ongoing viability of the Project prior to asset disposition. To standardize the Return on Cost metric, net operating income is divided by Project costs. “Project cost” is defined as total Project cost as is (without incentives) versus Project cost with incentives.

Because municipal incentives effectively reduce the Project cost to the Developer from $124.8 million to $91.3 million, it correspondingly increases the standardized operating income or Return on Cost from 7.3% to 9.9%. As mentioned, the Return on Cost is not as comprehensive as the IRR in assessing a developer’s total investment return.

Limitations of Analysis. As noted in Section II, there are various key assumptions that drive the analysis. In particular, with respect to the estimates of investment return, <u>KMA has relied upon the Developer’s construction budget and rental income estimates “as is</u>.” KMA has reviewed certain construction estimates (e.g., cost per parking space) as well as rental income estimates. KMA will continue review these estimates with Village officials and the Developer to determine if estimates, including construction line-items, need adjustment by the Developer.

VI. OPTIONS FOR FUNDING THE GAP

The analysis in Section V indicates that a financing gap exists in terms of below market versus market returns on investments. If the Village agrees with this conclusion, how would it prepare to fund any gap or shortfall in Developer financing sources?

Developer Funding Proposal. As noted, the Developer has requested a pay-as-you-go incentive of $33.5 million (present value), to be financed over an approximately 20-year period on a pay-as-you go basis. Under the formal proposal to the Village (contained in an application submitted by the Developer to the Village), the Developer proposes that the incentive be financed from the following sources:

- 100% of the Project increment;
- 100% of the Business District (BD) sales tax and hotel tax; and
- 50% of the Village's share of the Illinois sales tax local distribution as well as the home-rule sales tax.

The Developer indicates that the BD tax rate increases could be applied to only the Project site. There would be no recourse against the Village if revenues to fund the incentive fall short, per the Developer.

Observations on Funding Options. As a home-rule municipality, the Village has a number of options for funding the potential gap. First and foremost, it could rely on incremental tax revenues to fund the Project, as suggested by the Developer. Secondly, it could rely upon hotel taxes currently in effect. Thirdly, it could enter into sales tax sharing agreements based upon the prevailing tax rate in effect. It should be noted that the Village has established a policy that places self-imposed limits on the utilization of sales tax sharing.

In addition, the Developer has indicated above that a Business District could be established with a BD tax "add-on" resulting in the addition of a hotel tax, sales tax, or a combination of the two for retail/hotel businesses. Unlike a regular hotel or sales tax, it would not be Village-wide in scope, instead applying only to businesses in operation within the Business District. To do so would require a BD overlay upon the Lincoln-Touhy TIF District as well as a finding of blight.

Compared to the TIF Act, the Business District Law has important differences among reimbursable cost categories. Although the TIF Act has numerous cost categories that enable the Village to reimburse the Developer for Project costs, “vertical construction” of a privately owned building is specifically excluded under the Act. This prohibition, in tandem with the substantial request for municipal incentives of $33.5 million, may make it difficult for the Village to identify sufficient TIF-eligible costs. In contrast, the Business District Law specifically authorizes vertical construction of privately owned structures, defined as:

> “costs of installation or construction within the business district of buildings, structures, works, streets, improvements, equipment, utilities, or fixtures, and specifically including payments to developers or other nongovernmental persons as reimbursements for such costs incurred by such developer or nongovernmental person.”

VII. SUMMARY

The following is a summary of information as it relates to the Gap Analysis herein:

- The Project is a mixed-used project featuring a hotel, with additional uses including retail, office, and parking components located on the site;

- The Gap Analysis herein identifies certain risk factors that impact the future success of the Project; refer to Section III for a review of those risks;

- The Developer has provided a detailed submittal in response to a data request (some of which was provided on a proprietary basis);

- Per the submittal, the Developer has provided evidence that there is a financing "gap" requiring municipal assistance;

- Based upon the Developer's submittal and certain assumptions as it relates to the Project (e.g., estimates of NOI, cap rates, rental income, construction budget costs), the investment return <u>with incentives is toward the "high side" of the range of investment returns</u>. However, the Developer has indicated that the targeted investment return is necessary in order to attract investment capital. As a result, KMA concludes that the Developer's request for the municipal subsidy will need additional review to determine if (a) efficiencies can be obtained in the Project budget that result in a reduced request for municipal incentives or (b) the Developer's financing structure can accommodate a lower level of municipal incentives; and

- KMA has reviewed certain key assumptions as it relates to the Project as indicated in the prior bullet point, to ensure that incentives are accurately accounted for. KMA will continue to review these estimates with Village officials and the Developer to determine if estimates need adjustment by the Developer.

As mentioned in Section V, that that the Developer calculates a comparable investment return with municipal incentives of 20.1%. <u>The Developer estimate versus KMA estimate is different</u>. KMA attributes the difference to the Developer assuming higher interest costs in connection with a construction loan, whereas KMA assumes lower interest costs.

Overall, due to the requirements of the market place – as reflected in both Project revenues (based on rents or room rates) and investor return parameters – the Project will require some level of public assistance. The key policy decision for the Village will center on the incentive amount – including the designation of pledged sources of revenue for incentive payments.

Next Steps. The Village will need to address several questions that affect any agreement with the Developer:

(i) If the Developer proposal is considered, will the Village require an "open book" review in order to monitor Project costs, revenues, and returns – with adjustments to the incentives if costs are lower or revenues higher or returns higher than initially estimated?;

(ii) Will the Village require any "upside" protection or gain-sharing in the event that the Project performs better than initially projected by the Developer? Would the Village have the ability to reduce incentives or receive a partial return on the Village's investment (e.g., at a pre-determined time as defined in the redevelopment agreement, e.g., the sale of the hotel to a future owner)?

(iii) What is the Developer's implementation capacity? Regarding the third question, there are still items relating to the financing commitments and the ability of the developer to (a) provide equity in the amounts required by its lenders; (b) satisfy any conditions relating to lender requirements; (c) match financing commitments to actual Project structure; and (d) review of updated Project pro formas in order to identify revenues to be received by the Developer or amounts by its equity investors.

(iv) Will the Village agree to move forward with the approval process and structure its participation subject to the satisfaction of lender requirements or other requirements as determined by the Village? This approach has been utilized in other TIF projects that KMA has been involved in, and would require the Village to identify conditions precedent (which could be similar to the primary lender's conditions) to any Village funding. The conditions could be incorporated in the redevelopment agreement, initiated at the direction of the Village.

(v) What revenue sources will the Village consider allocating to the gap funding? Currently, the Developer requests 50% of the local sales tax (the home rule and the local distributive state share) in addition to the TIF funding (100%) and BD funding (100%)? Key policy decisions relate to the additional BD taxes or sharing of local sales taxes. Would the Village consider use of the 7% hotel tax as a replacement for the sales taxes request, and if so could this be utilized by the Developer as part of their financing structure?

(vi) Given the Developer's estimate of potential funding associated with each funding source (summarized below), the Village's decision as to which source will be utilized impacts the response to their "ask"

Proposed Funding Source	Proposed "Ask" Amount
TIF + 50% of Sales Tax Note	$17,600,000 (senior note)
	$8,800,000 (subordinate note)
BD Note	$7,000,000 (BD only)
Total	$33,400,000 (note slight difference due to rounding)

As an example, if the BD tax increases are not considered, the total incentive would be structured at $26,400,000 – reducing the leveraged return to approximately 17%, and raising the question, could the Project attract equity investment at that level?

SUMMARY

Sample – Development Incentive Projects

1) Park Ridge Uptown (2005)

Project Estimate: $107,000,000 (rounded)
Project Uses: Mixed use with retail, parking, and residential components
Public Incentive: $32,000,000 General Obligation bonds to be abated by TIF revenues. Bond proceeds used for infrastructure (including an underground reservoir), public improvements and land acquisition.

2) Aurora Premium Outlet Mall (2004 and 2014)

Phase I Project Estimate: $90,000,000+ (400,000+ s.f.)
Phase II Project Estimate: $105,000,000 (300,000+ s.f.)
Project Uses: Retail outlet mall and parking, as well as detention, roadway, and traffic related
Public Incentive: Phase I - $24,000,000 “pay as you go” note secured by TIF and sales taxes (home rule portion) at 5% interest rate. Phase II – Note Phase II under review, but would utilize only TIF revenues. Incentives in both phases used to offset site preparation, infrastructure, and assembly costs.

3) Rosemont Fashion Outlet Mall (2012)

Project Estimate: $200,000,000+
Project Uses: Retail outlet mall (approximately 530,000 s.f. plus 2800+ space garage). Note: Village also funded projects in the adjacent entertainment district.
Public Incentive: $59,000,000 General Obligation bonds which included amounts for garage construction as well as improvements associated with the entertainment district. Village pledges TIF revenues, sales taxes, certain lease revenues and entertainment taxes.

4) Evanston Maple Street Redevelopment (2000 – 2001)

Project Estimate: $ to be provided
Project Uses: Mixed use retail, cinema, theater (160,000+ s.f.) and 1400 space public parking and garage
Public Incentive: $24,000,000+ General Obligation bonds used for garage construction and related public improvements. City also contributed land for no cost to developer. Primarily secured debt with TIF revenue, as well as incremental sales taxes, hotel taxes, entertainment taxes and garage revenues as needed.

5) <u>Des Plaines Metropolitan Square Redevelopment (2004 - 2005)</u>

Project Estimate: $60,000,000

Project Uses: Mixed use retail, residential, commercial, and public parking garage

Public Incentive: $30,000,000 General Obligation bonds used for garage construction and related public improvements including street/traffic related improvements. City also contributed land to developer. Primarily secured debt with TIF revenues.

Other downtown related projects with TIF financing components: Downers Grove/New England Builders (primarily residential with first floor commercial), Palatine Downtown, and Naperville Water Street (currently under review)

SUMMARY

Lincolnwood
Development Incentive Agreements

1) Osco Drug Development (agreement now terminated)
Sales Tax Sharing Agreement: September 2001
Maximum Incentive Amount: $375,000, paid to developer
Maximum Term: 10 years
Structure/Major Terms:

- general sales tax generated by Osco Drug, split 50-50
- 100% home rule tax retained by Village
- Agreement Transferable to new owner
- Go Dark Provision
- Date Certain for Opening

Village Benefits

- Entirely "new" money for Village from development. Site located on border with Chicago, previously was used for warehousing.
- "Extraordinary development costs" related to upscale Prairie Style building design/site landscaping
- Sign Easement granted for Village Gateway Sign

2. Kohl's Department Store
Sales Tax Sharing Agreement: September 2002
Maximum Incentive Amount: $3.5 million, paid to Mall Owner
Maximum Term:15 years
Structure/Major Provisions

- General sales tax generated by Kohl's shared as follows:
  First $150,000, retained by Village
  Next $100,000 to Mall owner
  Amounts over $250,000, split 50-50
- 100% home rule tax retained by Village
- Go Dark Provision
- Date Certain for Opening

Village Benefits:

- Replaces Vacant anchor store in major mall with a strong retailer
- Replaces lost Village revenue before any sales tax sharing begins
- Preserves property tax base and produces new sales tax revenue for Village
- Enhances Village Image

3. <u>Lowe's Home Improvement</u>

TIF and Sales Tax Sharing Agreement: December 2002
Maximum Incentive Amount: $6 million, paid to Lowe's
Maximum Term: 12 years
Structure/Major Provisions

- Annual Payments to Lowe's consisting of:
  - 100% of the property tax increment created by Lowe's
  - 25% of the general sales tax created by Lowe's
- 100% of the home rule tax retained by Village
- Go Dark Provision
- Date Certain for Opening
- Limited Transferability

Village Benefits

- New sales tax revenue to Village
- Dedication of 2.5 acres to Village
- Business Park Gateway Sign Constructed
- Underground Water Detention for Lowe's and Village
- Brings strong retailer to Village on contaminated and abandoned industrial site
- Improved Village image, higher development standards, "Prairie style" design

4. <u>Grossinger</u>

$2.5M Industrial Revenue Bond Agreement: 3/1/1990
Maximum Incentive Amount: up to $250,000 per year, for a twenty-year period
Payment Of Incentive: limited to new incremental sales tax received by Village from Grossinger vehicle sales
Bond Term: Through 3/1/2010
Major Provisions:

- Purpose: Inducement for Grossinger to locate all their dealerships in the Village
- Bond issued by Village for Grossinger's acquisition and development of what is now the Grossinger's Service Center/Warehouse Building located at the Lincolnwood Town Center

Bond Structure:

- 80 quarterly payments, which began on 6/1/1990
- Secured by Incremental Sales Taxes
- Village segregates 50% of the Incremental Sales Taxes and deposits them in the Pledged Taxes Fund (PTF); remaining 50% goes to Village's General Account
- PTF Proceeds, up to $250,000 annually for a twenty-year period, are used to repay lender (Lincolnwood Associates); PTF Proceeds over $250,000 are transferred to the Village's General Account
- Payments are broken down as follows: $200K for principal & interest (5.09%) and $50K in interest if the sales tax exceeds $200K

- Grossinger dealerships in the Village would be used for calculating the incremental sales tax (including Toyota, but excluding the three original dealerships)
- Village's obligations are limited, payable only out of revenue derived under Agreement – not charged against the Village's credit/general taxing powers
- Borrower (Lake Shore National Bank) is given option to prepay whole or part of bond issue with 10 days notice
- Borrower covers additional costs – construction or otherwise - at no expense to the Village; Borrower's obligations are absolute and unconditional; Borrower may not terminate Agreement for any cause

Village Benefits:

- Retain Grossinger's Volvo and Cadillac dealerships; add Suzuki, Pontiac, GMC Truck and other dealerships
- Retain 125 existing jobs and create 75 new jobs
- Increase tax base

5. Loeber Motors

Sales Tax Sharing Agreement: November 2004
Maximum Term: 15 years
Maximum Incentive Amount: $5,000,000
Structure/Major Provisions

- 100% home rule tax retained by the Village
- General Village Sales tax generated split 50/50 from new Porsche facility
- Agreement includes 50/50 sales tax sharing from new third dealership (now Smart Car dealership)
- Does not include any sales tax sharing from Mercedes Dealership
- Go Dark Provision

Village Benefits

- Establishes a new dealership in the Village and expands Village revenue
- Increases chances of bringing in a third Loeber dealership
- Construction of new showrooms in the Village
- New sales tax revenue to the Village
- Increase in property tax revenue

6. Grossinger Hyundai

Sales Tax Sharing Agreement: 2009
Maximum Term: 20 years
Maximum Incentive Amount: $1,200,000
Structure/Major Provisions

- 100% home rule tax retained by the Village
- 50-50 split of the 1% sales tax generated by Hyundai franchise, over a $165,000 annual base amount, (base amount retained by the Village)
- Go Dark provision (incentive ends if business terminates, moves, or is sold)
- Limited transferability of incentive

Village Benefits:

- Brings new Hyundai Dealership to the Village
- Only new sales tax revenue which is created by Hyundai, above old Vovlvo Franchise is shared ($165,000 annual base amount considered as past Volvo amount, retained by Village)
- Enhances market and strengthens tax base by securing a growing vehicle brand

Revised: April 22, 2009

Village of Lincolnwood

Policy and Guidelines on Economic Incentives

For Business Development

Following a recommendation from the Economic Development Commission, the Village Board may provide economic incentives for business development within the Village where such incentives result in a public benefit. Economic incentives provided by the Village may include sales tax as well as other available financial mechanisms.

For purposes of this policy, a public benefit may be determined where the incentive helps to protect or increase the revenue and tax base of the Village, improves the physical environment and aids further development, provides additional goods and services to residents, enhances the Village's image, or otherwise results in the Village remaining economically viable and competitive with surrounding communities.

Any economic incentive provided shall be determined on a case by case basis. The nature and amount shall reflect the level of public benefit generated by the business development.

If a business is seeking a sales tax sharing incentive, the following are guidelines for the issuance by the Economic Development Commission:

1) The length of the sales tax sharing incentive agreement (STSIA) should not exceed ten years in duration.
2) All STSIA's shall have a provision for inflation indexing for incentives which provide sales tax revenue sharing over a base amount.
3) STSIA's may be provided to new businesses that provide significant new sales tax revenue.
4) A new business applying for a STSIA should also include a development plan that the potential agreement would help fund. The development plan should enhance the value and appearance of the new business location.
5) STSIA's should not be provided to a current business located in the Village unless there is a substantial change to their business (for example, a new division that will generate additional sales tax revenue).

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