Village of Lincolnwood
Economic Development Commission

Regular Meeting

Wednesday, September 26, 2018

7:30 A.M.

(note special meeting time)

Council Chambers
Lincolnwood Village Hall
6900 North Lincoln Avenue

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

Meeting Agenda

1. **Call to Order/Quorum Declaration**
2. **Minutes Approval**
   - September 5, 2018 Meeting*
3. **Introduction and Informal Discussion of an Economic Incentive Request from Tucker Development Group***
4. **Other Business**
5. **Public Forum**
6. **Prospective Businesses Forum**
7. **Adjournment**

******Commissioner Enclosures*

The next regularly-scheduled meeting of the Economic Development Commission is on October 24, 2018

Posted Date: September 21, 2018

Economic Development Commission

DRAFT

Wednesday, September 5, 2018
Council Chambers Room

Commissioners Present
James Kucienski, Chairman
Patrick McCoy, Vice Chair
Rivak Albazi
James Berger
Myles Berman
Maureen Ehrenberg
Joe Spagnoli
Tim Garcia

Commissioners Absent
Peter Dyer

Staff Present
Steve McNellis, Community Development Director
Robert Merkel, Finance Director

Others Present
Barry Bass, Village President
Georjean Nickell, Village Trustee
Jesal Patel, Village Trustee

1. **Call to Order/ Quorum Declaration**
   Noting that a quorum of eight members were present, the meeting was called to order by Chairman Kucienski at 8:00 AM.

2. **Minutes Approval**
   Chairman Kucienski asked the Commission if any edits were to be made to the August 22, 2018 meeting minutes.

   Hearing no corrections, Chairman Kucienski called for a motion to approve the minutes. Commissioner Ehrenberg moved and Commissioner Spagnoli seconded the motion. There was a consensus to approve the minutes.

3. **Economic Incentive Request from Zeigler Auto Group**

Chairman Kucienski started the meeting and suggested that the commissioners consider evaluating the proposed action from Zeigler Auto Group as two requests; one which pertains to the current dealership on McCormick Avenue and the other pertaining to the proposed site on Cicero Avenue. He then requested Community Development Director, Steve McNellis, present staff's report.

Director McNellis welcomed Daniel Scheid, Chief Financial Officer (CFO) of Zeigler Auto Group, and Village Consultant Robert Rychlicki, President of Kane, McKenna, and Associates Inc. to the EDC meeting. Director McNellis presented a broad summary of the Zeigler Auto Group incentive request. He highlighted the three key parts of the request: 1) a 15-year sales tax sharing agreement in which the Village and Zeigler would share 50% of sales tax generated on gross receipts up to 50 million dollars per year, increasing to 65% to Zeigler on gross receipts above 50 million dollars per year, 2) waive the Village building permit and application fees, and 3) consent to a Cook County Class 7C tax incentive for the new dealership proposed at 7373 N. Cicero Avenue. Director McNellis noted that the Class 7C incentive would be for 5 years unlike the previous Greener Cleaners request, which was a different program, lasting for 12 years. Director McNellis then offered Mr. Scheid an opportunity to comment on and provide clarifications to the summary presented. Mr. Scheid indicated that the summary was accurate but wanted to note that from Zeigler Auto Group's perspective they see each site as a new dealership because of the scope of work also needing to be done at the current Autoplex.

Director McNellis proceeded to give a short, but inclusive history of incentive agreements that the Village has had with auto dealerships. He highlighted that an important consideration in previous cases was that dealerships generally had to be new to the Village. For the Hyundai agreement, in which one dealership was replacing another, the agreement included a base amount, above which an incentive was granted whereas new dealerships have been granted the incentive from "dollar one." Director McNellis then described the current economic incentive policy of the Village, amended in 2012. He highlighted several provisions which may apply to the Zeigler request including: a maximum length of 10 years for any agreement, requirement that incentives which provides sales tax revenue sharing over a base amount be indexed for inflation, agreements should be provided to new businesses with significant new sales tax revenue or existing businesses with a substantial change in their business which would create significant sales tax growth, while clarifying that a base would be applied to existing businesses, and agreements should require new businesses to have a plan that enhances the appearance and value of their location. After completing the summary of Village policy and history Director McNellis introduced Robert Rychlicki to present his analysis of proposed policies.

Mr. Rychlicki presented three sample incentive proposals and his analysis of how those proposals may impact the Village. The first option detailed the proposal made by Zeigler Auto Group. Mr. Rychlicki reviewed the request as a 50/50 split of sales tax up to 50 million dollars in taxable sales then 65/35 Zeigler/Village split above 50 million dollars over 15 years. They calculated the gross sales taxes the Village would expect to collect would be $7.2 million dollars with a benefit of $10.2 million dollars to Zeigler Auto Group. The second option presented was described as a 50/50 split of sales tax above a base amount of 300,000 dollars (indexed for inflation) for the Buick/GMC location and 50/50 split from dollar one for the Cadillac location. It was estimated that gross sales taxes the Village would expect to collect would be $11.3 million dollars, with a benefit of $6.1 million dollars to Zeigler Auto Group. The final option presented was the same as the second except that the split would be 60/40 Zeigler/Village instead of 50/50 for both dealership locations. It was calculated that gross sales taxes the Village would expect to collect would be $10.1 million dollars, with a benefit of $7.3 million dollars to Zeigler Auto Group.

Vice Chairman McCoy inquired as to how much the current Autoplex was generating in tax revenue to better understand what base amount should be set in the incentive package. Mr. Rychlicki commented that the Village and Zeiglers estimates are approximately $420,000 in current sales taxes coming in from the current location. He further explained that he used the $300,000 base in the latter two options because the Cadillac component would be removed so the Village could consider a lower base amount as a form of risk sharing, to realize a bigger “upside.” Vice Chairman McCoy then asked about additional costs to the Village from the reoccupation and development of 7373 Cicero Avenue. Mr. Rychlicki indicated that there were some marginal costs which would be addressed at the end of the presentation. Director McNellis added that because the property at 7373 Cicero Avenue had already been developed it has utility connections, which are not over-capacity, which would limit additional infrastructure costs. Commissioner Berman pointed out that there could be an increase in traffic and therefore a potential increase in public safety calls which could increase costs, even if marginally.

Commissioner Garcia asked Mr. Rychlicki how he came up with earning projections for 15 years in the future. Mr. Rychlicki stated that he had used the expected earnings provided by Ziegler Auto Group for each of the first five years, and after year five, he added two percent growth. The discussion of costs and earnings prompted Mr. Scheid to discuss some specifics of Ziegler’s financial considerations. Mr. Scheid described how construction costs have dramatically increased over time. In 2003 he said that the Zeigler built a facility in Granville, Michigan, at $105 per square foot where as in 2017 they paid upwards of $260 per square foot in construction costs for an Orland Par dealership. Moreover, he said, that reducing the size of the facility could only help reduce the costs so much because of “base costs” required at every facility. When evaluating the overall cost of the project Mr. Scheid highlighted that the $13 million construction expense did not include the $11 million already spent to acquire the current Autoplex, and that money needs to be spent on deferred maintenance. When addressing their expected large increase in earnings over the next several years, he indicated that the expectations provided were not a significant increase in their eyes. Two reasons they are confident they can double sales in the next 3 years or so are that: 1) this is the largest market for Cadillacs in the region and 2) every Zeigler dealership except one has beat General Motors market expectations. He noted that a dealership in Libertyville, and two in Orland park all doubled their numbers. Again, he pointed out that the expected earnings for the prospective dealerships were under GM's market expectations, therefore, it would not surprise him if in reality earnings were greater than what is being considered.

Director McNellis returned to how the Zeigler Auto Group proposal would impact the Village. He said that there were two major concerns. First, how the incentives would impact the Village's existing sales tax revenue. Second, how any deal may set a precedent for other auto dealers to ask for similar considerations. Mr. Rychlicki indicated that those are important considerations, in addition to a list of other considerations that he had compiled in his memo. He noted that while the deal with Zeigler Auto Group has many good features, it would still be prudent to consider each of the following suggestions before making a decisions: 1) explore utilizing a base tax amount similar to previous agreements made in the Village 2) determine if a cap and 10 year term would be appropriate. Additionally, are there extraordinary costs that could be identified to justify the incentive? 3) If the (Cook County Tax Abatement) Class 7C savings are greater than 75,000 dollars annually, deducting the surplus from the sales tax cap. 4) have the developer provide more details as to the net operating profit ratios. 5) include a provision that if the dealership closes early that the dealership would pay back the incentive (termed a "claw back provision"). 6) an allowance for the Village to review the dealership's costs and revenue to adjust the tax assistance if costs are less or if revenues are greater than expected. 7) determine if there are other public costs associated with the proposed project. Director McNellis stated each consideration addresses the question - "how will the Village manage its risk?"

Mr. Scheid presented his reaction to the considerations presented by Mr. Rychlicki. Mr. Scheid said that Zeigler Auto Group has done a majority of their deals without a base amount or with a very small base. He indicated that Mr. Zeigler is opposed to a base but a cap would be a less difficult condition, because at some point you have the support you need to make the deal work. Moreover, Mr. Scheid reiterated that they had discussed a framework with another village that did not include a base but would prefer to stay in Lincolnwood if it makes financial sense.

Chairman Kucienski inquired if 7373 Cicero Avenue met the requirements to receive a Class 7C incentive. Mr. Rychlicki said that their analysis would indicate that 7373 Cicero Avenue has the “right hallmarks” for eligibility. He also said that this type of property, from what he understands, is what the county is looking for when granting such incentives. Chairman Kucienski then reminded the EDC that any potential vote at this meeting should include a recommendation for a Class 7C incentive, if agreed upon.

Commissioner Ehrenberg proposed that when working through what should and shouldn’t be recommended that they go through each policy question presented by Mr. Rychlicki to determine its efficacy. Commissioner Ehrenberg asked for clarification on the application of a base tax to each dealership. Director McNellis clarified that the “dollar one” designation is proposed to be granted to the Cadillac dealership and a base would be applied to the dealership located on McCormick Avenue. Commissioner Ehrenberg proposed that both of the dealerships would start from dollar one with the condition that the Village would set targets for the dealership to meet. If they don’t meet those targets Ziegler Auto Group would have to pay the difference to the Village. Mr. Rychlicki stated that some municipalities have used such a hybrid policy, giving an example from the Village of Oak Lawn. Mr. Rychlicki stated that while Oak Lawn used a hybrid, it was different than what Commissioner Ehrenberg proposed, which was not something he had seen. He also said that amendments and conditions for revising the agreement (amounts and structure) over time was something many communities consider in similar situations. He advised that it may be preferable to have some kind of base even if it is less than previously discussed because of what precedent it may set if they did not levy one at all. Commissioner Ehrenberg then said it may be a good idea to include protection like a base, but only on the dealership on McCormick Avenue because the other dealership would still be “new money”. She followed up by saying that the Village should be protected if Zeigler can’t reach numbers that provide the Village with at least the current sales tax amount being generated (aka the “target amount”), essentially making the Village “whole.” Commissioner Ehrenberg reiterated the 15 year time frame has a high chance of seeing changing conditions which would affect the agreement. She suggested there be a review every five years to adjust the target amount to address future changes. Chairman Kucienski added that each of the provisions seems like an insurance policy for the Village. Vice Chairman McCoy indicated that he liked the suggestions made by Commissioner Ehrenberg. He, though, added that if the Village is further protected through a target amount, they may want to take some additional risk to make it more attractive for Ziegler Auto Group. With reference to the history of over-performance of Ziegler Auto Group, Vice Chairman McCoy indicated that it could be in the interest of the Village to take on some risk so that they would also benefit from the chance that Ziegler Auto Group over-performs.

Commissioner Albazi asked the EDC, whatever agreement is decided, if they would be willing to extend this same agreement to other auto dealers as well. He indicated that he was skeptical of the numbers provided and thought it would be good to take time and not "take their numbers on face value." Vice Chairman McCoy responded by stating that other auto dealers would have to show realistic evidence that they have a "growth factor" which would warrant the Village providing a similar agreement. Commissioner Berman followed up by stating that he did not accept the projections provided by Ziegler Auto Group. He said that they were very optimistic given certain considerations including Cadillac's decelerating growth, in general, and that other car companies are also experiencing difficulties. He also indicated that 31% of the Village's budget comes from sales tax revenues from auto dealers and it would be too expensive to the village to get this deal wrong. Commissioner Ehrenberg suggested that the EDC review the seven policy considerations presented by Mr. Rychlicki to filter and resolve the issues brought up. In reviewing the policy considerations the commission asked Mr. Scheid if Zeigler Auto Group would have an issue with having an "open book" policy where they would share their costs and revenue. Mr. Scheid said that sharing that kind of information will not be an issue. Vice Chairman McCoy summarized the considerations as an attempt at a financial "philosophy." He indicated that the philosophy thus far has been one that protected the base.

Commissioner Spagnoli asked the commission to consider what would happen after the incentive package has elapsed. Specifically, he was concerned that there is no guarantee that Zeigler doesn't move in 15 years to receive a new set of incentives elsewhere. Commissioner Ehrenberg indicated that any decision would be dependent on the market at the time too, which is unpredictable. Mr. Scheid took a moment to address the EDC's comments. He said that he appreciated the Village's need to protect their "downside" and was intrigued by using financial targets ("target amount") to adjust the incentives so that it made sense for both parties. He reiterated that including a significant base is something that Mr. Zeigler is very much opposed to. Lastly, Mr. Scheid said that it is the long-term intention of Zeigler Auto Group to stay in Lincolnwood, if a deal can be reached now.

Commissioner Berman raised the possibility of the Village having a downside if Zeigler Auto Group does better than expected. He again recommended that the EDC consider a cap be included in the incentive package. Vice Chairman McCoy agreed that there should be considerations for Zeigler to do better than projected. He said that protecting the base and having provisions so that the Village and Zeigler would share the upside is not mutually exclusive though.

Mr. Berman addressed Mr. Rychlicki to better understand what is common for other municipalities when making deals like this. Specifically, Mr. Berman asked what the "market" is for using "from dollar one" agreements as well as other agreements similar to what Zeigler Auto represented they had elsewhere. Mr. Rychlicki said that "from dollar one" agreements are usually given to auto dealers that are new to a community. When it comes to agreements with current businesses doing a large remodel it is common to see a 10 year 50/50 split of sales tax over a base amount.

Commissioner Albazi asked for clarification if the proposal of starting from "dollar one" was just for Cadillac or both dealerships. Commissioner Ehrenberg clarified that her proposal would be from dollar one for both with the stipulation that if the target amount isn't achieved receive the target amount, the Village would be made whole by receiving the difference to reach that target amount. Mr. Rychlicki interjected that the target amount could also be indexed with growth so there are no losses due to inflation. Commissioner Berman suggested that the EDC "bifurcate" the deal and consider what is offered to the Buick/GMC location separate from the Cadillac location. Director McNellis said that it was his understanding that the discussion was for two different conditions on each location. In specific, that Cadillac would not have that claw back "target" provision were the Buick/ GMC location would have that claw back "target" provision.

Commissioner Spagnoli pointed out to the EDC that one of the costs included in Ziegler Auto Group's report is their equipment, which came out to $6.187 million. He stated his concern that the benefits from the incentive package requested would be handing over a "turnkey business" to Zeigler Auto Group.

At 9:30 AM, Commissioner Berman noted he had to leave the EDC meeting (for another appointment). Despite the EDC previously discussing a desire to end all meetings by 9:30 A.M., they agreed to continue review in hopes of achieving a recommendation.

Trustee Jesal Patel interjected from the audience that the Village incentive policy changes adopted in 2012 were intended to prevent a "tidal wave" of businesses asking for better deals from the Village. He said that he knew of an example where a Village "front loaded" their incentives to minimize their risks by getting a large proportion of taxes at the onset.

Commissioner Ehrenberg said that the important thing is that the Village at least get back the base sales tax amount that is already being received, so that budgets are not impacted. Mr. Rychlicki asked the EDC to consider what an appropriate cap amount would be to include in the incentive package. Commissioner Ehrenberg indicated that what that number should be is a "little opaque" and would require more discussion. Mr. Rychlicki recommended that whatever that number is that it is mutually agreeable. Commissioner Garcia inquired about the length of the agreement. He noted that the proposed incentive package request was for 15 years but the policy guidelines accepted in 2012 recommended 10-year agreements. Director McNellis confirmed that the economic policy was for 10-year agreements. Commissioner Ehrenberg suggested that such an agreement could be extended if the cap was not met in the 10-year timeframe.

Vice Chairman McCoy asked if the EDC proposal was for contributions to the target amount to be for a combination of all three brands or just the Buick/GMC location. Director McNellis and Commissioner Spagnoli both indicated that the claw-back for the target amount would apply only to the Buick/GMC location. Commissioner Albazi inquired as to what other Village agreements were similar to the “dollar one” deal being discussed for Cadillac. Director McNellis stated that the deal with Porsche was similar to the one the EDC is considering for Cadillac. Vice Chairman McCoy inquired how the split of Cadillac from Buick/GMC would affect the target amount. Director McNellis indicated that the target expected from Buick/GMC after the split includes the current sales of Cadillac vehicles, meaning there would not be a loss of existing sales tax the Village receives from Buick/GMC/Cadillac.

Commissioner Albazi asked Mr. Scheid if the request for permit fee waivers was for the new construction, rehabilitation, or both. Mr. Scheid said that the request was for both. Chairman Kucienski said that the Village has not waived permit fees for any other business, so it would make sense that Zeigler Auto Group would also pay those permit fees. Several other Commissioners agreed with that statement. Commissioner Garcia asked Mr. Scheid how often dealerships receive requests to update their facilities. Mr. Scheid said that it comes in about 15 year cycles. Director McNellis noted that permit fees would likely be more than $200,000 and the initial deposit for the cost of the economic incentive request application is $3,000; indicating that a majority of that money goes to pay for outside costs of utilizing Kane, McKenna for review of the request.

Chairman Kucienski asked Director McNellis to recap the incentive package the EDC has agreed upon thus far. Director McNellis then listed the following conditions to be included in the incentive agreement:

1) 15-year term for the Economic Incentive Agreement covering all dealerships.
2) A cap that is mutually-acceptable to each party.
3) Set a “target amount” of $420,00 in sales tax that the Village must achieve each year for the Buick/GMC dealership. If the target amount is not achieved in a given year, the Village distribution to Zeigler will be adjusted so that the Village is made whole.
4) The “target amount” would be adjusted by a to-be-determined percentage every five years.
5) No “target amount” for the Cadillac dealership, which will have 50/50 sales tax sharing from the first dollar, annually.

6) To the extent Class 7c savings are greater than $75,000 in any given year, deduct the overage from the sales tax cap.
7) No waiver of Village permit fees

Hearing no additional discussion, Chairman Kucienski called for a motion to approve and recommend to the Village Board the provisions outlined above. Commissioner Ehrenberg moved and Commissioner Berger seconded the motion. The Motion was approved by a roll call vote, as follows:

Ayes: Albazi, Berger, Ehrenberg, Garcia, Vice Chairman McCoy, Chairman Kucienski

Nays: Spagnoli

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**
Chairman Kucienski moved for adjournment, and was seconded by Commissioner Ehrenberg. By consensus, the meeting was adjourned at 9:57am.

Respectfully submitted:

Henry Wright
Community Development Intern

MEMORANDUM

TO: Chair and Members
Economic Development Commission

FROM: Steve McNellis
Community Development Director

DATE: September 26, 2018

SUBJECT: **Introduction and Informal Discussion of an Economic Incentive Request from Tucker Development Group for the 8.47 Acres at the Northwest Corner of Lincoln and Touhy Avenues**

The Tucker Development Group will attend next Wednesday's EDC meeting to introduce their team and provide a general overview of the project and its current status. Bob Rychlicki of Kane, McKenna and Associates will also be in attendance to provide an overview of his firm's analysis of this project, which is underway. Staff anticipates a discussion similar to the introductory presentation by the Zeigler Auto Group, in which the project basics will be discussed, and the EDC will have an opportunity to ask the Tucker Development Group questions and request any specific information that would help you in the detailed review of this project, scheduled for the October 24th EDC Meeting.

No materials are available in advance of this meeting.