MEMORANDUM

TO: Anthony Puccio, Chairperson
Economic and Community Development Committee Members

FROM: William J. Heniff, AICP, Director of Community Development

MEETING DATE: September 12, 2022

RE: **Synergy Construction and Pacific Retail Capital Partners (PRCP) Economic Incentive – Update Memorandum**

At the Special Meeting of the Economic & Community Development Committee (ECDC) on May 23, 2022, staff introduced a pending economic incentive request pertaining to the former Carson's Anchor Store (230 Yorktown Shopping Center) and related perimeter of the Yorktown Center building abutting and adjacent to the site (203 Yorktown Shopping Center). The Carson's site is currently under contract by Synergy Construction, which intends to acquire and redevelop the Carson's property with a multiple-family residential (apartment project). Supplementing this element, an approximate 3-acre common area tract (Commercial Open Space) will provide active and supportive green/open space. Companion peripheral building modifications to the existing mall building is envisioned. Pacific Retail Capital Partners (PRCP) owner of the center mall area, will also be a part of the overall redevelopment effort. An illustrative plan is attached.

The Special Meeting was held so that Synergy could further assess the Village's interest in the project and a companion incentive request in the immediate term, so that they could make determinations as to whether to proceed with their due diligence efforts. The ECDC discussed the concept and by a unanimous vote, directed Village staff and to work with Village consultants, Village Counsel, and relevant parties to undertake and complete a negotiation effort and prepare an Economic Incentive Agreement for Village Board consideration. The ECDC also supported in concept to prospective deviations from the Village's Economic Incentive Policy (EIP):

a. The incentive period of the Agreement is intended to be for up to a seventeen (17) year period from the date of execution of the Agreement, or the expiration of the Butterfield Road Yorktown Tax Increment Financing District ("TIF District") in the year 2040, whichever occurs first.

b. An EIP deviation from the maximum fifty percent (50%) of the incremental property taxes attributable to the Project during the life of the Agreement. As contemplated, the Developer incremental property tax allocation shall be up to seventy-five percent (75%) of such incremental property taxes, subject to the terms of the final agreement.

Since the May ECDC meeting, staff and the parties have been working on various items pertaining to the initial ECDC direction of agreement support. Staff is bringing this matter back to the ECDC to discuss the activities undertaken pertaining to the conceptual land plan, project parameters, the funding sources, prospective incentive request, and applicability to Village economic development policies. Staff seeks ECDC review and further consideration of the request and another recommendation to direct staff and Counsel to proceed with the incentive request for Village Board consideration. This update is also being offered as Synergy informed the Village that in order to meet 1031 Exchange provisions, they need to close on the property this month. They need a comfort level that the project is proceeding in an acceptable direction. They do recognize that zoning entitlements and economic incentive approvals will not be finalized by then though.

DEVELOPMENT PLAN MODIFICATIONS

As depicted on the attached concept plans, the multiple-family attached buildings (apartments) are still the primary redevelopment land use associated with the project. However, in consideration of private sight line restrictions and in an effort to increase the overall functionality of the project, the apartments are being relocated further north on the abutting sliver tract which is owned by JCPenney land owners. Synergy has agreed to prospective terms on this additional tract of land and would proceed with its acquisition of the Carson's tract.

The latest plan proposes up to 714 apartment units, which is an increase from the 622 units that were contemplated at the Special Meeting in May. The proposed square footages and building footprints are not intended to be markedly different from the initial plan. Synergy still seeks to develop the apartment components of the project in two phases. Phase 1 is proposed to have 383 units while Phase 2 is slated to have 331 units. Synergy notes that the final unit counts and mix could be subject to refinement as the plans are advanced.

Synergy completed a market analysis study in April, 2022 for the property and the aforementioned changes are within the framework of that study effort, as the analysis found that a project size of 700 residential units would be feasible.

FUNDING SOURCES

State Statutes, including 65 ILCS 5/8-1-2.5, 65 ILCS 5/11-74.3-1, *et seq*. and 65 ILCS 5/11-74.4-1, *et seq*., give the Village the authority to enter into economic development contractual agreements to foster increased economic activity, and increase employment opportunities, and use public funds for economic development purposes.

As currently proposed and as discussed in greater length in the May 23 memorandum to the ECDC, two funding sources are contemplated: the Butterfield Yorktown TIF District, which will be the sole source of incentive funding to the multiple-family portion of the project and the Butterfield Yorktown Business District #2 (BD #2), which will provide a funding source for a proposed commercial open space that is proposed on the Subject Property but will benefit both the apartments as well as the mall itself. As currently envisioned, the proposed incentive request would have the following components:

PROJECT INCENTIVE REQUEST – APARTMENT COMPONENT

The apartment portion of the project has an estimated project cost of $201,000,000 (5% higher than the $192,000,000 initial estimate) for the two phases. Included within the additional cost is the additional $1,200,000 land cost for a portion of the JCPenney tract.

- Phase 1 development costs would total $112,000,000 while Phase 2 totals $89,000,000.

- Synergy identified potential TIF eligible costs to cover extraordinary costs and the anticipated feasibility gap, which are intended to include the following components, in the approximate following amounts, per their modeling projections:

  Land Acquisition (Carson's tract & JCPenney portion) $4,400,000

  Eligible Onsite Improvements & Site Preparation (hard costs which will include site grading, utility relocation, sanitary recapture, storm water utilities): $4,093,874

  Land development soft costs (design, legal, marketing): $3,021,423

  Phase 1 Land Development Financing Costs (30% of actual costs): $14,467,915
  Phase 2 Land Development Financing Costs (30% of actual costs): $11,831,812

- Broken down by Phase, they are specifically requesting the following incentives:

  1. Phase 1 Project costs eligible for a reimbursement of up to $12,146,954 (net present value (NPV)), plus interest.

  2. Phase 2 Project costs eligible for a reimbursement of up to $8,609,547 (NPV), plus interest.

In total, the $20,756,501 figure computes to be 10.3% of the overall $201,000,000 project costs.

PROJECT INCENTIVE REQUEST – COMMERCIAL OPEN SPACE COMPONENT

- The Commercial Open Space costs are not incorporated into Synergy's aforementioned overall project costs. While it is located where the Carson's building is located and its demolition and site preparation is needed to advance the overall plan, this will be addressed as a separate but companion funding effort through BD #2 sources.

- Synergy seeks BD #2 sales tax incentives totaling $8,295,282 for the Commercial Open Space improvements. Unlike the Hoffmann/Golf Social project, which contemplated a blending of all potential fund sources were compiled into a pool of funds for potential disbursement, the project and sources of funding are being divided in this project, given the proposed agreement structure, improvements contemplated (which could be paid by BD #2 but not by TIF, and beneficiaries (i.e., both Synergy and mall owner Pacific Retail Capital Partners). Synergy provided the Village with a detailed itemization of anticipated costs which are anticipated to include eligible elements such as:

  Mall demolition site work; concrete wall construction and masonry and maintenance; doors, windows, canopies, electricals/mechanicals adjustment and finishes construction (for impacted area resulting from demolition work);

  Commercial Open Space work including Carson's demolition, asbestos removal, earthwork, fill, asphalt paving and pavers, site utility modifications, concrete, electrical and mechanicals; and

  Soft costs including general contractor, contingencies, design and permit fees.

- For the requested BD #2 costs, improvements would be paid from both generated funds and existing reserves created by BD #2. While the slated improvements will not generate revenues themselves (as it is a type of capital improvement as opposed to a revenue-generating business enterprise), the funds would be collected by the Village from retail sales business activity within BD #2 in general. As a type of Village fund, the Village has the exclusive ability to transfer identified and eligible costs from the BD #2 to TIF Fund, if the costs meet statutory and policy provisions. This can be further vetted as the project advances, but for reference purposes, staff and the developer estimate that about 37% ($3,071,310 of the $8,295,282) could be TIF eligible expenses.

ECONOMIC DEVELOPMENT POLICY DISCUSSION - EIP

As the ECDC members will recall, the Village's Economic Incentive Policy (EIP) will set the framework for any such future discussions. Key elements established within the EIP:

- As with other previously approved requests before the Village, the Economic Incentive Policy (EIP) sets forth a "pay as you go" reimbursement agreement for eligible expenses – no direct Village funds will be applied to the project and no up-front dollars are being provided by the Village. Also, incentive funds are not guaranteed.

- As stated in the introduction, the ECDC offered its conceptual support for two policy deviations (a time extension to provide for funds to be paid out for 17 years, or 2040, whichever comes first) as well as a deviation from the maximum fifty percent (50%) of the incremental property taxes attributable to the Project during the life of the Agreement to seventy-five percent (75%) of such applicable taxes.

Property Tax Based Incentives – Apartment Component

Given that the requested Phase 1 and Phase 2 incentives are property tax increment based, the EIP also offers policy statements for such abatement incentives:

- *Any incentive shall be based upon any net increase in added equalized assessed valuation (EAV) associated with the project. Projects that do not result in a significant increase in EAV, as determined by the Village in its discretion, shall not be considered.*

  The incentive being sought is based upon the increased EAV projected from the project, which has continued to decline due to the store's vacancy and changes in assessment for retail shopping centers. Upon redevelopment, the full and higher assessed value and its private development components will create additional increment as the two phases develop, as shown in the attached Table 1.

- *Projects that result in an increase in anticipated services by any affected taxing district shall be carefully considered as part of any incentive. The agreement shall identify such additional service impacts and their respective associated costs within the agreement itself. This can include dollars that are currently received by the affect taxing district(s), the costs associated and attributable to the project as well as any administrative costs.*

  As an incented TIF project, the proposed multiple-family development will need to address State Statute-defined population fiscal impacts from the TIF for any school aged populations (to School Districts 44 or 87) or general population to the Library District, with those payments being made to School Districts and the Library District first, with the percentage of TIF increment to be paid to the developer being applied to the net amount of TIF increment remaining after those payments. This will be identified and addressed as part of any Agreement.

<u>OTHER VILLAGE EIP PROVISIONS</u>

Other General EIP statements that pertain to property tax-based incentives (not sales tax based incentives), include:

1. *A project will be more favorably reviewed if the project:*
   a. *represents significant private-sector financial investment;*

Response: The estimated project cost of approximately $201,000,000, including land acquisition costs, meets this provision.

b. promotes a higher and better use of the property as determined by the Village through its adopted plans;

Response: The Village's Comprehensive Plan identified the subject property as an economic engine and a regional destination for retail. Given the transformational nature of the retail segments and mall in general the proposed capital investment and the commercial open space component elements is directly intended to increase market demand for the Yorktown area, create long term sustainability and provide an opportunity for additional activity.

c. provides a positive fiscal and economic impact to the Village;

Response: The project will contribute to the Village economy. Upon full buildout it is estimated to generate increases in property taxes, the source of the proposed incentive, which would be allocated to the TIF fund, (not withstanding any requisite school/library district payments per State Statute) or as part of the request.

d. adds new and unique retail business tenants to the Lombard market;

Response: While this particular project does not have a retail component, its presence is intended to stimulate activity to the market and the mall in particular, as represented by PRCP.

e. mitigates any potential negative impacts to the surrounding area;

Response: The incentive agreement will remove a building that does not have a valuable purpose given its configuration and general demand for anchor retail department stores.

f. closes an existing leakage in retail sales tax dollars within the Village; and

Response: The development will not generate retail sales, but is intended to be a catalyst for new activity at Yorktown.

g. addresses or minimizes the impacts of consumer expenditure cannibalization from existing businesses and projects in the Village.

Response: The project is not intended to take away any market demand from other like development, based upon the market study. In 2022, a separate market study effort for the Butterfield Road corridor as commissioned as part of a planning effort by the Chicago Metropolitan Agency for Planning (CMAP) finds that there is still some additional demand for multiple family residential development.

BUSINESS RETENTION POLICY PROVISIONS – COMMERCIAL OPEN SPACE

In 2021, the ECDC supported and the Village Board approved a Business Retention Economic Incentive (BREI) Policy for identified commercial key development sites, which set forth eligibility parameters for incentives. Staff undertook an analysis of this policy and offers the following comments, as it pertains to the proposed funding request for the Commercial Open Space and its BD #2 source funding.

Applicability
The BD #2 funding source is a type of performance-based funding and the revenue is specifically coming from past and future sales tax that derived from retail tax activity within the District. If generated revenues were to decline or cease at the mall, that in turn would decrease the amount of funds available to offset the project costs. Conversely, if the project stimulates additional business activity, the additional sales tax would create a greater opportunity to reach full amount of the incentive. But in no case are the funds guaranteed.

This project is not intended to provide direct revenues to a given retail business enterprise, so the provisions associated with the Business Retention Economic Development fund are not applicable in this case. However, within the BREI Policy, it does specifically identify key development sites, of which Yorktown is such as site. The BREI also provides a built-in provision to consider project which may not be a high generation property or retail activity in its own right, but may provide benefit to other businesses in the area as a catalyst project.

Transformational Projects Advancing Retention Efforts
The Village Board also recognizes that some projects may serve as catalyst projects to transform or stabilize sales tax revenues within an area or corridor. These types of projects may not generate substantial sales tax revenues in of their own through their existing or anticipated business operations upon opening, but the impact of such establishment may directly or indirectly reduce erosion of generated sales tax dollars. Transformative businesses may include those that may not generate significant sales tax dollars but may stabilize or strengthen other businesses in close proximity to the establishment. ***In these cases, projects may consist of existing businesses, development projects or new projects that may not generate significant sales tax dollars but will create synergies to stabilize or strengthen existing retail establishments.***

Within the BREI Policy checklist, the project addresses the relevant applicability questions, in the following respects (highlights for emphasis):

1. **Retain, expand and attract retail sales generating businesses**
   Response: It is intended to provide additional investment and interest in the area, which in turn could indirectly stabilize and strengthen existing retail sales activity. Future measures will be directly measured through additional generated BD #2 sales tax dollars for nearby businesses. It is anticipated that the project and the commercial open space will attract further lessees to vacant retail space, perhaps at higher rent levels.

2. **Promote general economic development and business stabilization and growth**

Response: For catalyst projects, the physical greenspace enhancements can also transform the exterior of the mall itself by providing for outside peripheral dining, retail and/or service opportunities to better the surrounding properties. The public improvements and the commercial area provide a public benefit by providing a desired open space amenity that can be enjoyed by the nearby residents and businesses.

3. **Municipal revenue sources and identity incentives for specific development opportunities**
   Response: As noted, the open space component of the overall development project is intended to be funded solely through BD #2 funds. For reference purposes, the Village's Finance Department compiled a revenue table depicting past collected funds as well as a conservative projection of BD #2 funds that may be generated within the District.

4. **Encourage transformative redevelopment along key commercial corridors**
   Response: The project is intended to be transformative as it provide benefits to a property that has been underutilized, excessively vacant or functionally obsolete. The project addresses the need for mall properties to transform based upon market conditions and the changing nature of retail is paramount. The property has been identified for redevelopment and therefore consistent with the adopted Village documents and policies.

5. **Discussion & approaches toward reviewing such requests**
   Response: The final parameters of the project will be addressed through the negotiated agreement any such obligations on behalf of the developer.

6. **Transformative Redevelopment / Revitalization Projects**
   Response: These are projects that advance the Village goals for addressing blight, economic obsolescence, excessive vacancies, possible pending vacancies, or projects that address stated redevelopment objectives.

7. **In-kind Economic Incentives**
   Response: Synergy is not seeking any actions beyond any items contemplated within the incentive request and a future zoning entitlement approval action.

As with all such Agreements, the Village will incorporate prove-up cost provisions as well as a review of proposed costs to ensure applicability within State statutes and Village policy parameters.

TIMELINE

The developer has developed a draft timeline for the project (attached). Key activities which will occur are generally noted as follows:

Zoning Entitlement:

Sept./Oct.:	Filing for Plan Commission
November:	Plan Commission public hearing (exact dates are a function of submittal schedules and a Special Meeting will likely be called)
Dec./Jan.	Village Board consideration

Economic Incentive:

September 12:	ECDC review of incentive request and draft talking points/term sheet
Sept./Nov.:	Crafting of Incentive Agreement
Dec./Jan.:	Village Board Consideration of Incentive Agreement

ACTION REQUESTED

This item is on the September 12, 2022 ECDC Meeting agenda for the following purposes:

1. To inform the ECDC members of the latest efforts relative to the property, proposed project and pending request; and

2. Concurrence from the ECDC to engage in further efforts with Synergy and PRCP to develop a companion performance based economic incentive agreement for future Village Board consideration, based upon the funding requests set forth within the staff report.

Table 1

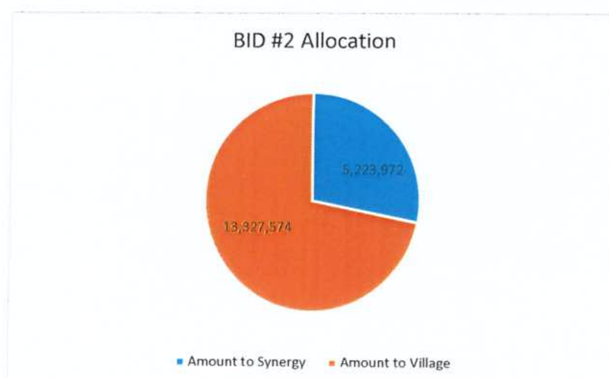
POTENTIAL TIF INCREMENT AND PROSPECTIVE DEVELOPER SHARE

(per Kane McKenna & Associates projections for two phases and a 2023 construction start)

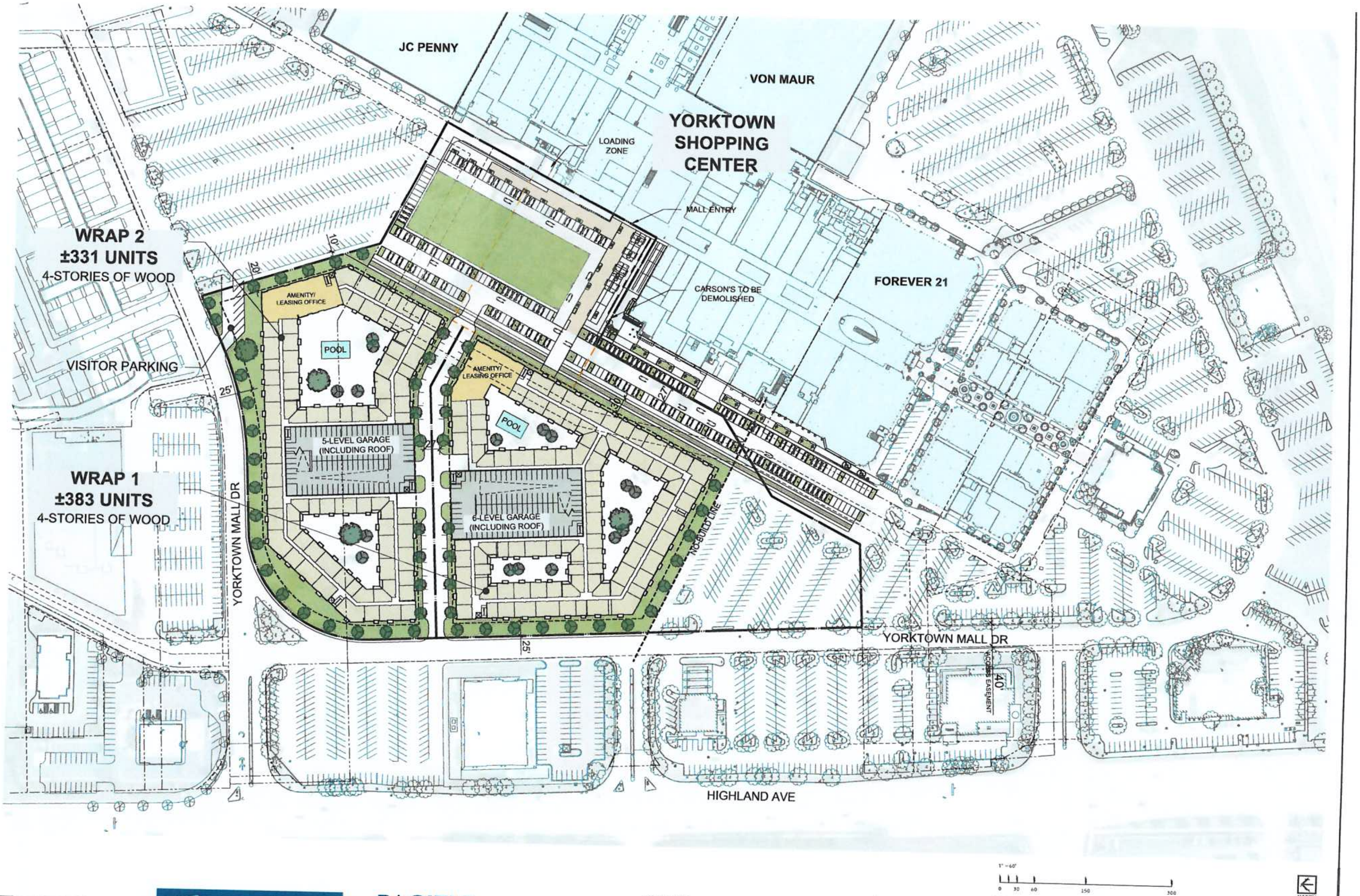
	Phase I		Phase II	
	TIF Increment	Developer Share (75%)	TIF Increment	Developer Share (65%)
2024	-	-	-	-
2025	1,398,350	1,048,763	-	-
2026	1,440,301	1,080,225	1,203,738	782,430
2027	1,483,510	1,112,632	1,239,850	805,903
2028	1,528,015	1,146,011	1,277,046	830,080
2029	1,573,855	1,180,391	1,315,357	854,982
2030	1,621,071	1,215,803	1,354,818	880,632
2031	1,669,703	1,252,277	1,395,462	907,050
2032	1,719,794	1,289,846	1,437,326	934,262
2033	1,771,388	1,328,541	1,480,446	962,290
2034	1,824,530	1,368,397	1,524,859	991,159
2035	1,879,265	1,409,449	1,570,605	1,020,893
2036	1,935,643	1,451,733	1,617,723	1,051,520
2037	1,993,713	1,495,285	1,666,255	1,083,066
2038	2,053,524	1,540,143	1,716,243	1,115,558
2039	2,115,130	1,586,347	1,767,730	1,149,024
2040	2,178,584	1,633,938	1,820,762	1,183,495
	28,186,375	21,139,781	22,388,219	14,552,343
	NPV @6%	12,146,954	NPV @6%	8,609,547

POTENTIAL FUNDING AVAILABLE
IN YORKTOWN AREA THROUGH
BUSINESS IMPROVEMENT DISTRICT #2

Year	BID #2 Non-Committed BID Sales Tax *** (Decr. 2% per year)	BID #2 Cumulative Balance	Amount to Synergy	Amount to Village
2020	570,150	570,150		
2021	1,002,226	1,572,376		
2022	982,181	2,554,557	2,554,557	
2023	962,537	3,517,094	962,537	
2024	943,287	4,460,381	943,287	
2025	924,421	5,384,802	763,591	160,830
2026	905,933	6,290,735		905,933
2027	887,814	7,178,549		887,814
2028	870,058	8,048,606		870,058
2029	852,656	8,901,263		852,656
2030	835,603	9,736,866		835,603
2031	818,891	10,555,757		818,891
2032	802,513	11,358,271		802,513
2033	786,463	12,144,734		786,463
2034	770,734	12,915,468		770,734
2035	755,319	13,670,787		755,319
2036	740,213	14,411,000		740,213
2037	725,409	15,136,409		725,409
2038	710,900	15,847,309		710,900
2039	696,682	16,543,992		696,682
2040	682,749	17,226,740		682,749
2041	669,094	17,895,834		669,094
2042	655,712	18,551,546		655,712
			5,223,972	13,327,574



*** The Business Improvement District #2 Sales Tax is the actual amount received for 2020 and 2021, and future projections include a 2% annual decline to be very conservative



Synergy CONSTRUCTION GROUP

PACIFIC RETAIL

scheme: 09

Conceptual Site Plan

Yorktown Center
Lombard, IL

WARE MALCOMB

CHI22-0061-00
09.06.2022

SHEET
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WRAP 1 - PROJECT DATA:

PARKING TARGETS:	
1.0 PER STUDIO	43
1.0 PER 1 BED	238
1.5 PER 2 BED	147
2.0 PER 3 BED	16
TOTAL REQUIRED:	444
GARAGE PARKING PROVIDED:	468
PARKING RATIO	1.2 SPACES/UNIT
VISITOR STALLS (SHARED WITH MALL):	
.20 VISITOR PER UNIT UP TO 20	4
.05 VISITOR PER UNIT OVER 20	18

WRAP 1 - UNIT TABULATIONS:

NAME	TYPE	NET AREA	COUNT	TOTAL NET AREA	%
A	Studio/1	525	43	22,575 SF	11%
B	Convert/1	601	78	46,878 SF	20%
C	1BR/1	725	89	64,525 SF	23%
D	1BR+Den/1	800	63	50,400 SF	19%
D2	1BR+Den/1	845	8	6,760 SF	
E	2BR/2	1,050	59	61,950 SF	15%
F	2BR/2	1,150	39	44,850 SF	10%
G	3BR/2.5	1,399	4	5,596 SF	2%
G2	3BR/2.5	1,448	4	5,792 SF	
TOTALS			383	303,534 SF	101%
UNIT AVERAGE SQUARE FOOTAGE:				793 SF	

WRAP 1 - GROSS AREAS:

	GARAGE GSF:	RESIDENTIAL GSF:
LEVEL 1	27,727 SF	98,967 SF
LEVEL 2	27,727 SF	100,212 SF
LEVEL 3	27,727 SF	100,212 SF
LEVEL 4	27,727 SF	100,212 SF
LEVEL 5	27,727 SF	100,212 SF
LEVEL 6 (ROOF)	13,294 SF	
TOTAL:	151,929 SF	499,815 SF

WRAP 2 - PROJECT DATA:

PARKING TARGETS:	
1.0 PER STUDIO	34
1.0 PER 1 BED	174
1.5 PER 2 BED	173
2.0 PER 3 BED	16
TOTAL REQUIRED:	364
GARAGE PARKING PROVIDED:	392
PARKING RATIO	1.2 SPACES/UNIT
VISITOR STALLS (SHARED WITH MALL):	
.20 VISITOR PER UNIT UP TO 20	4
.05 VISITOR PER UNIT OVER 20	16
OVERALL SITE AREA:	14.63 AC
OVERALL DENSITY:	49 UNITS/AC

WRAP 2 - UNIT TABULATIONS:

NAME	TYPE	NET AREA	COUNT	TOTAL NET AREA	%
A	Studio/1	525	34	17,850 SF	10%
B	Convert/1	601	48	28,848 SF	15%
C	1BR/1	725	64	46,400 SF	19%
C2	1BR/1	738	8	5,904 SF	
D	1BR+Den/1	800	54	43,200 SF	16%
E	2BR/2	1,050	59	61,950 SF	
E2	2BR/2	1,066	4	4,264 SF	17%
E3	2BR/2	997	4	3,988 SF	
F	2BR/2	1,150	40	46,000 SF	
F2	2BR/2	1,115	4	4,460 SF	13%
F3	2BR/2	1,159	4	4,636 SF	
G3	3BR/2.5	1,445	8	11,560 SF	2%
TOTALS			331	279,060 SF	92%
UNIT AVERAGE SQUARE FOOTAGE:				843 SF	

WRAP 2 - GROSS AREAS:

	GARAGE GSF:	RESIDENTIAL GSF:
LEVEL 1	27,196 SF	88,010 SF
LEVEL 2	27,196 SF	89,120 SF
LEVEL 3	27,196 SF	89,120 SF
LEVEL 4	27,196 SF	89,120 SF
LEVEL 5 (ROOF)	15,527 SF	
TOTAL:	124,311 SF	355,370 SF

VALUES ARE APPROXIMATED FOR INITITAL SITE PLANNING PURPOSES ONLY

NET AREA IS MEASURED TO THE EXTERIOR OF FRAME WALLS. BALCONIES, PATIOS, AND BALCONY STORAGE ARE NOT INCLUDED.

GROSS AREA INCLUDES EVERYTHING TO THE OUTER EDGE OF THE BUILDING, INCLUDING BALCONIES AND EXTERIOR STORAGE. ROOF OVERHANGS ARE NOT INCLUDED.

Synergy CONSTRUCTION GROUP

PACIFIC RETAIL

scheme: 09

Conceptual Imagery and Project Data

Yorktown Center
Lombard, IL

WARE MALCOMB

CHI22-0061-00
09.06.2022

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