Trustee Anthony Puccio
March 8, 2021

Sent via Electronic Mail

March 8, 2021

MEMORANDUM

To: Trustee Anthony Puccio, Chairperson ECDC

From: Jen LaSota

Re: Financial Assistance Hoffmann Redevelopment Project
660 E Butterfield Rd.

The Village Board approved a $27,500,000 incentive for the redevelopment of the Northern Baptist Theological Seminary property (Project) on January 7th 2021. Since receiving approval, Hoffmann 600 Lombard LLC and the Village of Lombard have been working towards finalizing the economic incentive agreement. Discussions among the consultants, attorneys and Village's bond counsel have resolved all but one key business point - the issuance of non-taxable bonds. After speaking with the Village's bond counsel, it has been determined that the Village cannot issue non-taxable bonds for the Project.

Hoffmann's team of consultants analyzed various tax revenue and developer note projections and determined that the only viable solution for the developer to be paid back is to remove the Property from the Business District and extend the duration of the pay as you go tax sharing by 2 years from 16 years to 18 years to compensate for the removal of the business district revenue. An alternative to extending the pay back time would be for the Village to make additional contributions into the land development within the first 2 years.

Removing the Property from the business district will also allow Golf Social and Moretti's to remain competitive in the market with other venues offering events, banquets and similar services.

But for the above changes, the project is not be feasible at the $27,500,000 funding gap and 6% interest rate for taxable exempt bonds.

Thank you for your consideration. Please let us know if you have any additional questions.

Thank you,
Jennifer LaSota
Hoffmann Alpha Omega Development Group
630-461-2609

MEMORANDUM

TO: Anthony Puccio, Chairperson
Economic and Community Development Committee

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

MEETING DATE: March 11, 2021

RE: **Hoffmann 600 Lombard LLC Economic Incentive Agreement – Amended Request**

Village staff seeks direction and a possible alternate recommendation relative to an amended economic incentive request from Hoffmann 600 Lombard LLC as it pertains the proposed redevelopment of the former Northern Seminary site at 600-690 E. Butterfield Road. As the request differs from the recommendation by the Economic & Community Development Committee (ECDC), staff is bringing the matter back for further consideration, review and potentially a new recommendation to the Village Board.

BACKGROUND

As the ECDC members will recall, Hoffmann Alpha Omega Development Group, d.b.a. Hoffmann 600 Lombard LLC (Hoffmann), made a formal request to the Village for a companion Economic Incentive Agreement in December, 2020. This request supplemented the companion zoning request that was considered by the Plan Commission in November, 2020 and approved by the Village Board on January 21, 2021.

At the December 14, 2020 ECDC meeting, the Committee considered their request. The ECDC unanimously recommended that staff work with Village Counsel and Hoffmann to finalize the terms of an incentive agreement based upon the parameters set forth within the staff report and the Kane McKenna & Associates (KMA) review, addressing the following:

1. [The incentive] Shall be in an amount not to exceed $27,500,000 in eligible reimbursement costs to be derived over a sixteen (16) year period, whichever comes first;
2. The Agreement shall be a performance-based incentive based upon eligible and documented expenses as well as any "true-up of all construction costs"; and
3. The maximum about of the reimbursement shall not be guaranteed, if in event the maximum revenues are not achieved.

After the ECDC made its recommendation, staff made a presentation before the Village Board on January 7, 2021 stating the ECDC recommendation and noting that staff and Village Counsel are proceeding on crafting an Agreement based upon the parameters noted above. This presentation was also made to maximize transparency. The Village Board did not provide alternate direction from that which was provided by the ECDC.

The remaining items to completed by the Village and Hoffmann are the Economic Incentive Redevelopment Agreement, the Land Development Agreement and a Purchase and Sale Agreement for proposed Lot 7 for Village public utility (water tower) purposes.

AMENDED REQUEST

Since January, the Agreement parameters have been dutifully negotiated. Hoffmann seeks to use the Agreement as part of their overall financing package to prospective lenders, as is frequently done. Nearing the completion of the negotiation effort, Hoffmann and their economic review partners, Gruen & Gruen Associates (Gruen) were informed about the interest rates that would be associated with the project. In initial negotiations with staff, it was assumed that a six percent (6%), non-taxable rate would be sufficient for this project. For reference, that figure was also applied in the Bradford Real Estate/Mariano's project in 2015. In this case the proposed funding sources being offered by the Village include both taxes of general applicability (places for eating tax, entertainment/amusement tax, retail sales tax) at an equal sharing based upon revenues generated as well as a 75%/25% sharing of generated Tax Increment Financing (TIF) revenues as well as Business District 2 (BD2) generated revenues from the site.

Finance staff offers the potential funding source revenues that could be derived based upon the nature of the overall project components.

Bond Counsel for the Village has advised that because of some more recent developments with the Internal Revenue Service (IRS), there are concerns with issuing a developer note that is tax exempt. This is based on the BD2 sales tax not being a tax of general applicability throughout the entire Village, and this would cause an issue with the private use/payment test and anti-abuse rules that the IRS would look at.

If a taxable note were to be required, the rates that would be needed would be in the 9-10% range. Given this higher rate, the original principal of the note would never get paid off. The taxability issue can be resolved by removing the property from BD2, so that the only revenues available to apply toward the developer note are revenues of general applicability.

Hoffmann has provided the Village with a formal request for consideration of amended terms, which would consist of the following:

1. Removal of any BD2 proceeds from the eligible sources for reimbursement;
2. To account for the removal of BD2 funds, change the eligibility period from 16 years to 18 years (cannot be any later than the end of the 2040 tax year, which is the 2041 calendar year); and
3. The Village would review removing the Hoffmann site and 747 E. 22nd Street properties from the BD2, as this step would be needed to make the incentive non-taxable.

DISCUSSION OF REQUESTED COMPONENTS

The BD2 proceeds would not be a part of the funds allocated for the project. Staff projected this figure to be about 9% of the potential incentive payout, or about $2,475,000. Hoffmann's analysis projects that the aforementioned figure could be achieved if the overall time period for reimbursement be further extended beyond the previously supported sixteen-year period policy deviation.

Village Finance Department staff has reviewed the updated projections supplied by Gruen. These projections are the same as previously provided and have previously been reviewed by KMA, other than removing the BD2 sales tax. These projections indicate that the developer note would be paid in full by 2041, which support the request to extend the term of the agreement until 2041.

With respect to the additional time extension, initial draft versions took the 16-year period and set a specific date based upon issuance of a Certificate of Occupancy or January 1, 2024, to "start the clock" on the actual incentive payout period, as the next few years no sales tax dollars would be generated and little TIF increment would be created, as the buildings proposed to be development will not have been assessed as approved structures.

As noted earlier, the property's location in the BD2 is the triggering mechanism for the taxable rate provision. In light of the IRS provisions and to ensure that any economic incentive request can actually achieve its desired result, removal of the property may be the best of the least desirable options. Consideration of this request can be supported for the following reasons:

- **Utilization of best economic development tools available** – The Village created economic incentive programs and the overall Economic Incentive Policy to facilitate development activity in a partnership role and to create the greatest number of tools for applicable entities. However, just like bank lending practices, not all tools available may actually serve a particular investor's or development's needs. Such is the case with this particular project – through their financing strategy, it is best that it be removed to facilitate the sought development. And if the BD2 strategy does not work, the specific tool would be contrary to the overall Village goal of advancing economic development.

- **Precedent for like other establishments** - The ECDC members will recall immediately after the BD2 was established in 2019, the Village received a request by the property owner of 435 E. Butterfield Road (Carlisle Banquets) to be removed from the District, as their establishment would be adversely impacted by additional sales tax provision, given that their sales are non-traditional to other such establishments in the District and that that their sales consist of a few large transitions for banquets as opposed to traditional dining sales activity. A component of the Moretti's Restaurant and the a somewhat lesser standpoint, the Golf Social establishment may have similar booking provisions (i.e., group sales in lieu of individual sales).

- **Non-retail land use components** – Lot 3 will be an off-premises parking lot, Lot 4 will be a multiple-family residential development, and Lot 7 will be a public utility use. Neither of these will be use generators for BD2 funds, so their inclusion or exclusion will not be a factor.

If this is the direction that is sought, supported, and ultimately approved, Village staff would engage with KMA to prepare an amended BD2 report to ensure that the remaining BD2 properties still meet the requisite qualifying factors associated with Business Districts as provided for within State Statutes. This effort would likely take a three to six-month period. Staff has already informed KMA of this requisite effort. However, the Village would only be representing that the such a review would occur – if the remaining BD2 would not meet the Statutory qualifying factors, then the request could therefore not be done by the Village.

Also related to the amended request, the property at 747 E. 22nd Street is also located within the geographical boundaries of the BD2. This property is improved with an existing but underutilized office building. Should the former Seminary property be removed, it would result in the 747 E. 22nd Street property being discontinuous to the rest of the BD2. As such, the 747 E. 22nd Street property would also need to be removed. Attachment A is maps depicting the current BD2 and possible amended BD2 boundaries.

OTHER OPTIONS

If the ECDC does not support the amended request at least two other options are available:

1. **Do Nothing Scenario** – if the ECDC wants to stand behind their initial recommendation, the members could reaffirm their position. Should this action be taken and ultimately be approved by the Village Board, it is possible that the developer may either not execute the Agreement or will execute the Agreement but will otherwise not proceed with the project based on the economic terms.

2. **Amend either the Economic Incentive Policy and/or Incentive Request** – In this scenario, if the desire is to keep existing framework in place, an alternative would be to extend the incentive request to provide for a greater incentive to the developer than the previous cap identified as $27,500,000. This would take into account net present value (NPV) provisions and the incentive would be tied to the future interest payment. Extremely rough estimates of this option by staff could project the incentive request to be approximately $40,000,000. Exploring this challenge may also require further consideration and deviations of various EIP provision pertaining to 50%/50% project cost sharing provisions for established Village-wide funding sources.

RECOMMENDATION

As Hoffmann's request is a material change to what ECDC was presented and which was recommended (see Attachment B), staff is remanding it back to the ECDC for a new recommendation. This approach also maximizes transparency and will offer further guidance to the Village Board.

Given the three possible options, the request offered by Hoffmann could address their concerns. If deemed appropriate by the ECDC, then the ECDC should direct Village staff and Counsel to proceed with continuing to draft the economic incentive agreement, incorporating the following amended conditions:

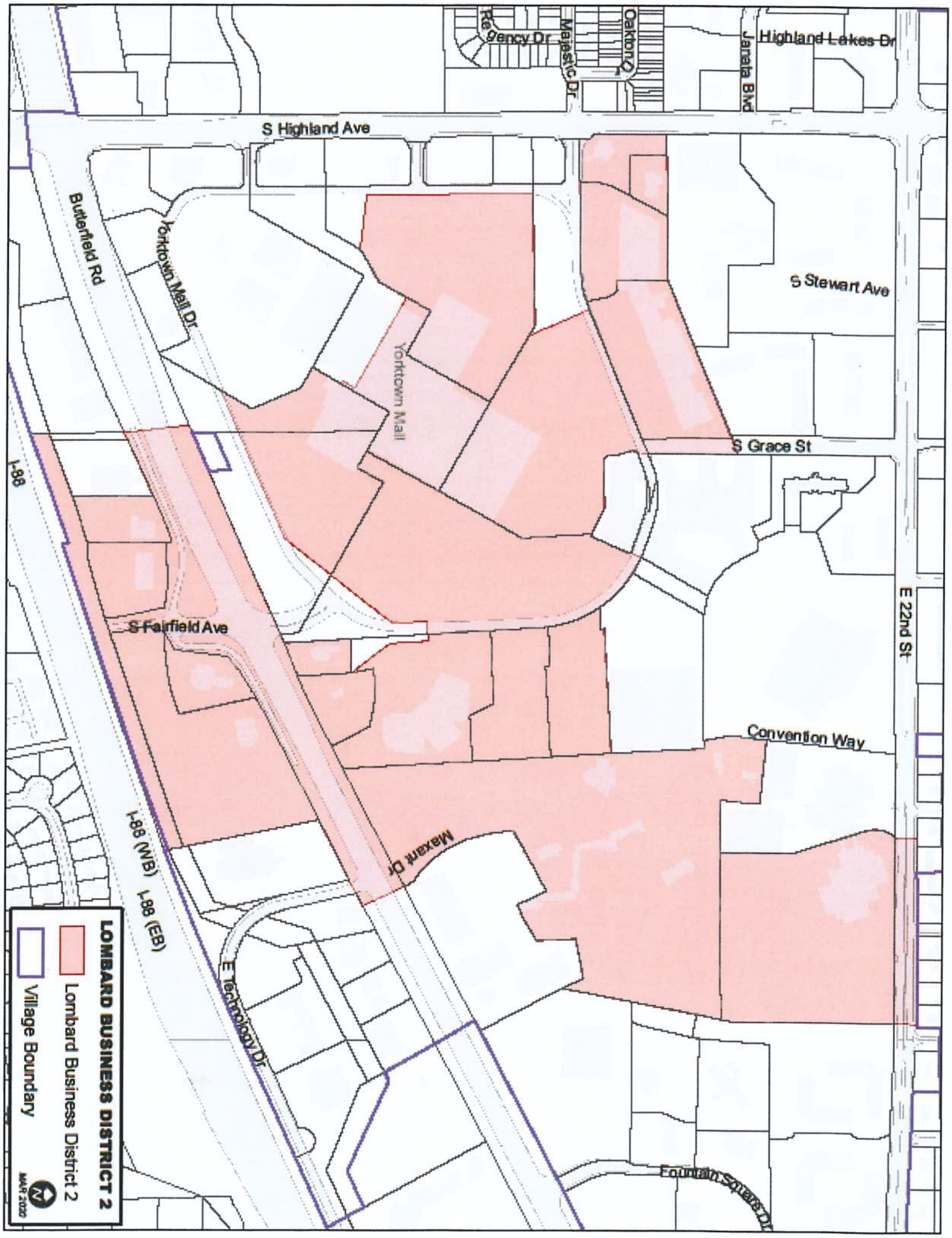
1. The incentive shall be in an amount not to exceed $27,500,000 in eligible reimbursement with a termination date of December 31, 2041, whichever comes first;

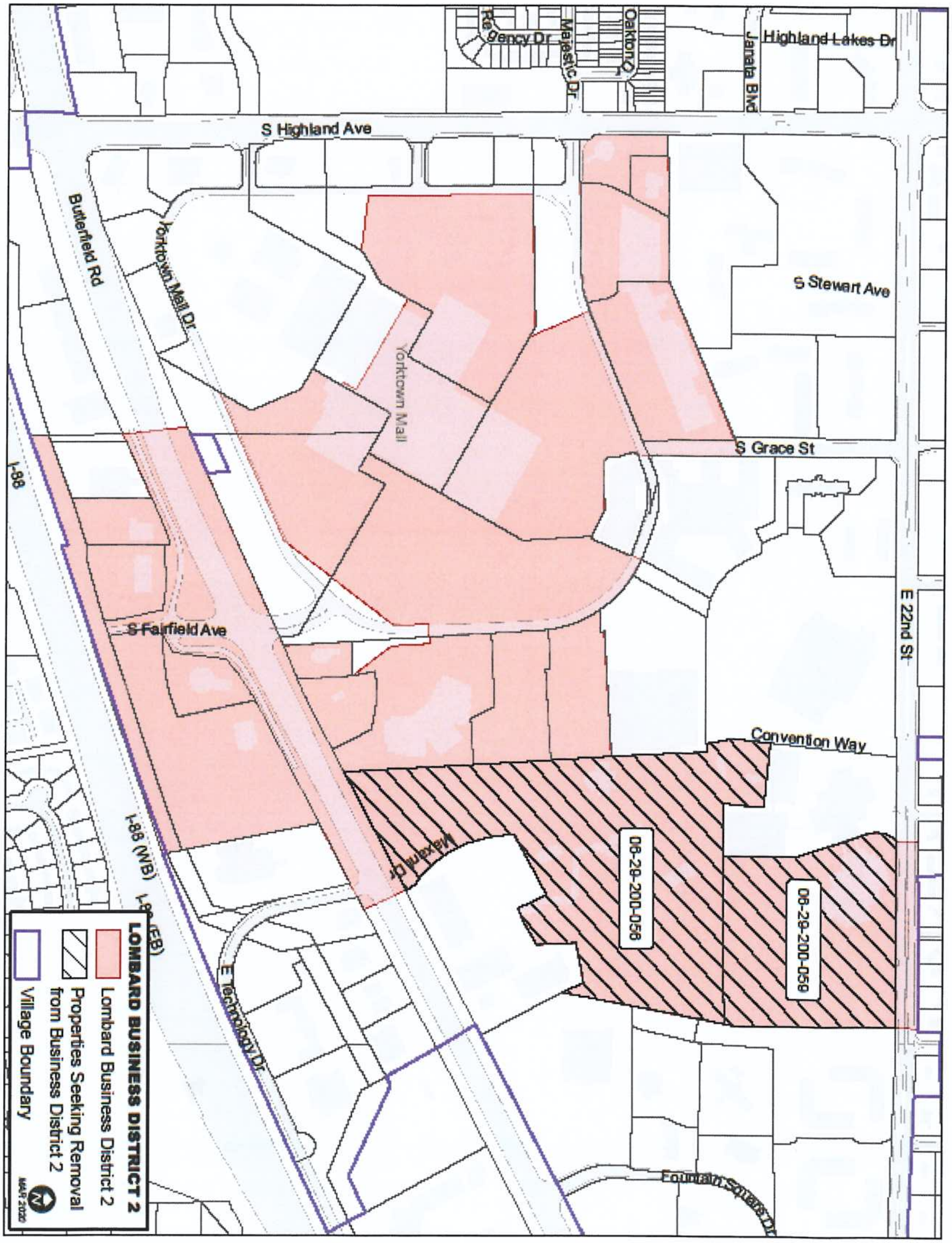
2. The Agreement shall be a performance-based incentive based upon eligible and documented expenses as well as any "true-up of all construction costs"; and

3. The maximum about of the reimbursement shall not be guaranteed, if in event the maximum revenues are not achieved.

Attachment A

Maps for the Existing and Proposed Business District 2 (BD2)


Regency Dr
Majestic Dr
Oakton Ct
Janata Blvd
Highland Lakes Dr
S Highland Ave
Butterfield Rd
Yorktown Mall Dr
Yorktown Mall
S Stewart Ave
S Grace St
I-88
S Fairfield Ave
E 22nd St
Convention Way
I-88 (WB)
I-88 (EB)
Maxant Dr
E Technology Dr
Fountain Square Dr
LOMBARD BUSINESS DISTRICT 2
Lombard Business District 2
Village Boundary
MAY 2020


S Highland Ave
Highland Lakes Dr
Regency Dr
Majestic Dr
Oakton Ct
Janata Blvd
Butterfield Rd
Yorktown Mall Dr
Yorktown Mall
S Stewart Ave
S Grace St
I-88
S Fairfield Ave
E 22nd St
Convention Way
I-88 (WB)
Maxant Dr
06-29-200-056
06-29-200-059
E Technology Dr
Fountain Square Dr
LOMBARD BUSINESS DISTRICT 2
Lombard Business District 2
Properties Seeking Removal from Business District 2
Village Boundary

Attachment B

STAFF EXECUTIVE SUMMARY & REPORT SHARED WITH ECDC IN DECEMBER, 2020

Project:

- Hoffmann 600 Lombard LLC, has the whole 27.55-acre site under contract, which will include the demolition of all campus structures. They propose the redevelopment of the site with a Golf Social/Moretti's, a fuel center and related ancillary retail/service commercial uses; entitlement rights for up to 400 future multiple-family dwelling units (anticipated to be undertaken by a future developer); and a connection road between Butterfield Road and 22nd Street.

- Hoffmann is separately negotiating with LPFC/Westin for parking and signage rights and with Target for signage and access rights. However, in the event final agreements do not occur for whatever reason, the Hoffmann project could still proceed.

- A 0.7-acre dedicated parcel (Lot 7) for future Village utility uses (water tower) is also being contemplated, but that will not be a part of the incentive proposal – the Village will negotiate the terms and conditions in a separate Agreement. The Village Board previously approved staff to negotiate a purchase offer of up to $500,000.

- The Plan Commission recommended approval of the petitions, which is slated to be considered by the Village Board on January 7, 2021.

Incentive Request:

- The total estimated development budget is approximately $159,054,000, with the anticipated vertical development cost of approximately $119,673,000. However, about two-thirds of the anticipated costs would be from the future apartment phase.

- Hoffmann would need to spend $24,000,00 up front to get the site ready for development.

- They are seeking an economic incentive in the amount of **$31,500,000** to cover extraordinary costs and the anticipated feasibility gap, which could include:

Land Acquisition:	$9,000,000
Eligible Onsite Improvements & Site Preparation (hard costs):	$23,651,000
Offsite Roadway Improvements (contingent):	$600,000
Land development soft costs:	$4,622,000
Land Development Financing:	$279,000
TOTAL (Potential Eligible)	$38,152,000

- In October, 2020, the ECDC supported the concept of an incentive in order to meet extraordinary "but-for" costs. They also supported Economic Incentive Policy (EIP) deviations from the 10-year maximum provision and the 50% sharing limitation pertaining to Business District 2 and TIF funds. There will be "prove up" obligations, similarly to other grant requests.

- This would be 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.

- Fund sources would be from a combination of the following:

    a. Village share of received and eligible sales taxes (1%) (not to exceed 50%/15 years)

    b. Lombard Places for Eating (PFE) Tax (2%) (not to exceed 50%/15 years)

    c. Lombard Amusement Tax (5%) (not to exceed 50%/15 years)

    d. Business District 2 Revenues (not to exceed 75% of generated revenues during a 16 year agreement period; note: these funds cannot be allocated back for Village use anyway)

    e. Butterfield Yorktown TIF Revenues (not to exceed 75% of generated revenues during a 16 year agreement period; also TIF revenues are subject to school/library payments)

- Kane McKenna & Associates (KMA) has completed their review of Hoffmann's request. Their Gap Analysis finds is that an incentive of up to **$27,500,000** can be justified.

- Assuming their business projections, this figure could be reached in 16 years (policy deviation from the 10 year maximum), so the recommendation would be based upon the incentive value or the incentive period, whichever comes first.

- The general parameters of the EIP will be followed, unless otherwise noted. Cannibalism factors will not be directly applied to this development, given the unique uses and a market dearth of fuel stations on Butterfield Road.

ECDC STAFF FULL REPORT, POLICY REVIEW AND RECOMMENDATIONS PRESENTERD IN DECEMBER, 2020

At the October Economic & Community Development Committee (ECDC) meeting, staff introduced a redevelopment/economic incentive proposal for the former Northern Theological Seminary property at 600-690 E. Butterfield Road. The subject property is under contract for a wholesale redevelopment. The proposed development entity, Hoffmann Alpha Omega Development Group, through the establishment of a separate project Limited Liability Corporation (LLC) (Hoffmann 600 Lombard LLC), has developed a comprehensive Master Plan for the 27.55-acre site which will include the demolition of all campus structures and development of:

1. An entertainment/recreation restaurant building (Golf Social/Moretti's),
2. A fuel center and related ancillary retail/service commercial uses;
3. Zoning entitlement rights for up to 400 future multiple-family dwelling units (anticipated to be undertaken by a future developer);
4. A connection road between Butterfield Road and 22nd Street; and
5. Ancillary improvements on adjacent properties.

A 0.7-acre dedicated parcel (Lot 7) for future Village utility uses (water tower) is also being contemplated, but that will not be a part of the incentive proposal – the Village will negotiate the terms and conditions of the Lot 7 property in a separate Agreement.

The concept land use plans were introduced to the ECDC in October for reference purposes only and the formal public hearing process for the required zoning entitlements was considered by the Plan Commission on October 19 and November 2 (PC 20-12 through PC 20-16). The Plan Commission recommended approval of the zoning petitions, which will be forwarded to the Village Board for consideration on January 5, 2021.

The role of the ECDC is limited to consideration of any economic incentives and not the development petition itself. With the zoning actions completed, staff has turned its efforts to the economic incentive request that was submitted for consideration. Staff forwarded onto Kane McKenna & Associates (KMA) for initial review and the recommendation is being shared with the ECDC for consideration. Should the ECDC support the concept, an economic incentive agreement will be formalized between Hoffmann and the Village.

INCENTIVE REQUEST DESCRIPTION

The project cost is estimated to be approximately $159,054,000, with the anticipated vertical development cost of approximately $119,673,000. They are seeking an economic incentive in the amount of **$31,500,000** to cover extraordinary costs and the anticipated feasibility gap, which could include:

Land Acquisition:	$9,000,000
Eligible Onsite Improvements & Site Preparation (hard costs):	$23,651,000
Offsite Roadway Improvements (contingent):	$600,000

Land development soft costs:	$4,622,000
Land Development Financing:	$279,000
TOTAL (Potential Eligible)	$38,152,000

RATIONALE FOR AGREEMENT

State Statutes allow the Village to appropriate funds for economic development purposes, including the making of agreements and grants that are deemed desirable for the promotion of economic development as:

- a portion of the property has remained vacant for at least one year;
- for the developed portion of the property, the buildings located no longer comply in all respects with current building codes and will be razed; and
- the site has remained less than significantly occupied or utilized for a period of at least one year.

The Village anticipates the project would create job opportunities and may further the development or stabilization of adjacent areas within the Butterfield Road corridor by strengthening the commercial sector and enhancing the tax base.

Hoffmann represents that the project would not be economically feasible on its own merit, but for the economic assistance by the Village. This assumption is predicated upon their cost projections, the scope of work to be undertaken to get the site to a full "greenfield site" and the KMA review data. Factors which contribute to the extraordinary development costs include, but not limited to:

- site preparation activities such as razing existing structures;
- significant engineering and regrading, including filling the existing retention pond;
- addressing existing and proposed buried underground utilities;
- building the driving area of the golf course building and the fuel center using pilings and caissons; and
- anticipated roadway improvements on the property and which may be requested by the Illinois Department of Transportation (IDOT) for Butterfield Road.

INCENTIVE TOOLS AND POLICY COMPLIANCE

The 2015 adopted Economic Incentive Policy, amended in 2016, was reviewed by the ECDC and approved by the Village Board is the primary tool for considering such requests. The Village, through a recommendation by the ECDC, advanced and approved the establishment of a new Tax Increment Financing (TIF) District in 2017 for the Butterfield Yorktown area. The ECDC supported and the Village Board adopted a Second Business (Improvement) District (BD2) within the aforementioned corridor that would provide the ability to provide a sales tax incentive that is generated within the District for projects that meet the criteria.

For purposes of this review, all potential fund sources were compiled into a pool of funds for potential disbursement – if one particular category is not fully realized, other funds could be utilized to meet the incentive, provided that the disbursement percentages are not otherwise exceeded. The inventive request would seek funds through a combination of eligible sales taxes and property tax increment revenues specifically generated from the development itself.

Sales Tax Based Incentives
Key policy statements in the EIP pertaining to Sales Tax are:

1. *The incentive shall be limited to the funds collected by the Village as part of the General Sales Tax Funds transmitted by the State of Illinois to the Village. The Village's Non-Home Sales Tax designated for capital improvements shall not be eligible as part of an incentive.*

   Components of the initial economic incentive request would consist of:

   Hoffman projects the entertainment and retail sales activity will generate $1,875,000 in annual sales tax dollars directly. Eligible fund sources that could be considered for incentive consideration are:

   a. The Village's portion of eligible Retail Sales Tax proceeds (1%)

   b. Lombard Places for Eating (PFE) Tax (2%)

   c. Lombard Amusement Tax (5%)

   Consistent with the EIP, the amount available for a possible incentive should not exceed 50% of these generated proceeds. The term of the reimbursement would be for a 15-year period, which would exceed the 10-year economic incentive policy (conceptually recommended by the ECDC per the October, 2020 meeting).

   The Village created BD2 in 2019, which generates an additional one percent of sales tax. These funds must be specifically allocated to eligible projects and expenditures within the defined District area. Per the conceptual support of the ECDC, the proposal is to make up to 75% of the derived revenues in this category for eligible improvements. This concept could be supported as the creation of the BD2 was specifically for such a use and also because such proceeds can only be spent on eligible projects within the District and cannot be used for general governmental services.

2. *The Village should only consider an incentive if it will generate additional sales tax above and beyond existing revenue levels. Such incentives must also account for any cannibalism of existing business activity within the community. Offering a sales tax incentive in order to keep an existing business in operation or retain a business, absent an offsetting investment meeting the economic goals of the Village, should not be considered.*

   The Butterfield Road corridor lacks fuel centers and companion convenience retail. The proposed Moretti's Restaurant is a well-defined and established entity. The project is also deemed attractive as a like destination-based land use (Golf Social) does not exist within the Village. The unique uses may not significantly result in substantial leakage within the existing market. There may be an ancillary benefit to the corridor as it draws greater number of individuals to the area.

3. *The Village gets paid first. Any such agreement shall be set up in such a manner that allows the Village to receive the first dollars generated by a project to pay for up-front capital improvements that are attributable to the project.*

   Revenues would be allocated to the Village first and then dispersals would be made only based upon the agreement parameters, with the Village receiving the majority of General Fund related sales tax proceeds overall. The anticipation is that the project would also have a Village benefit component, as capital infrastructure improvements would be built at developer cost, estimated to be about $24,000,000. Some of these costs (intersection improvements, enhanced roadway network, public utility line improvements, etc.) would have a public benefit even if the proposed businesses and uses are not patronized (using the Yorktown ring road as an illustrative example).

4. *Unless specifically identified in the incentive agreement, any rebates should be established in such a manner that the Village receives at least one-half of the anticipated additional tax generation attributable to the project during the life of the agreement. Generally, the only exception to this provision would be if an incentive is offered to rebate a previously constructed capital improvement that was installed prior to and directly associated with the business opening.*

   The various funding components may be fiscally worthwhile to go beyond the one-half (50%) provision noted in the EIP, particularly for BD2 funds, which generated by the Golf Social use. The Village would also receive direct proceeds through the aforementioned Sales, Entertainment and Places for Eating taxes – the intent is that the Village would still receive a majority of these revenues from the overall project.

5. *The applicable period in which a sales tax incentive is offered shall generally not exceed a ten (10)-year period, unless approved by the Village Board based upon a finding that "but-for" the extended time period, the incentive will not satisfy the intent of the agreement. Such occurrences shall also meet the exception provisions of this Policy.*

   Given the amount of capital work to be undertaken associated with this project, which will be specifically identified and quantified, it will require an agreement which exceeds the 10-year period, as was done with Bradford/Mariano's. The analysis suggests that a 15-

year incentive period (incorporated into a 16-year Agreement) can be supported given the timing of the project and the anticipated revenues needed to meet the desired return.

6. *A project will be more favorably reviewed if the project:*
   a. *represents significant private-sector financial investment;*
   b. *promotes a higher and better use of the property as determined by the Village through its adopted plans;*
   c. *provides a positive fiscal and economic impact to the Village;*
   d. *adds new and unique retail business tenants to the Lombard market;*
   e. *mitigates any potential negative impacts to the surrounding area;*
   f. *closes an existing leakage in retail sales tax dollars within the Village; and*
   g. *addresses or minimizes the impacts of consumer expenditure cannibalization from existing businesses and projects in the Village.*

The proposed project would meet these parameters for an incentive.

Property Tax Based Incentives
The EIP also offers policy statements for such abatement incentives:

- *Any incentive shall be based upon any net increase in added 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 equalized assessed valuation (EAV) projected from the project. The former Seminary property was tax exempt and with the real estate transfer to a private entity, the full assessed value and its private development components will create additional increment as the phases develop. This is similar to the previously approved Holladay Properties' Lilac Station Redevelopment Agreement.

- *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.*

  The Golf Social, Moretti's restaurant and fuel center uses are not anticipated to directly impact other taxing districts. As an incented TIF project, the proposed multiple-family development component will need to address State Statute defined population fiscal impacts from the TIF for any school aged populations (to School Districts 45 or 87) or general population to the Library District.

OTHER VILLAGE ECONOMIC INCENTIVE POLICY PROVISIONS

Below are staff's responses to the other key provisions of the Policy.

1. *The funds that are eligible for an incentive shall be limited to the funds transmitted by the State of Illinois to the Village. The Village's non-home sales tax designated for capital improvements shall not be eligible as part of an incentive.*

Response: The proposed reimbursement would be derived from a combination of the sources noted above.

2. *The Village should only consider such an incentive if it will generate additional sales tax above and beyond existing revenue levels. Such incentives must also account for any cannibalism of existing business activity within the community. Offering a sales tax incentive in order to keep an existing business in operation or retain a business, absent an offsetting investment meeting the economic goals of the Village, should not be considered.*

Response: This agreement will be for new businesses and will repurpose a vacant, obsolete and blighted property that has not been generating any property nor sales tax revenue in the past.

3. *The Village gets paid first. Any such agreement shall be set up in such a manner that allows the Village to receive the first dollars generated by a project. This can include dollars that are currently received by the Village for existing or past sales tax generations, the costs of performing municipal services anticipated by the project as well as any incidental administrative costs.*

Response: The Village will receive and retain at least 50% of the eligible retail sales tax dollars, Places for Eating Tax dollars, and the Amusement tax dollars. Much of the generated funds would be "new dollars" from the golf operations, the signature sit-down restaurant and the fuel center use, which currently does not exist within the Butterfield Road corridor.

4. *Unless specifically identified in the incentive agreement, any rebates should be established in such a manner that the Village receives at least one-half of the anticipated additional tax generation attributable to the project during the life of the agreement. Generally, the only exception to this provision would be if an incentive is offered to rebate a previously constructed capital improvement that was installed prior to and directly associated with the business opening.*

Response: As noted above, the Village will receive the majority of the derived sales tax during the reimbursement period.

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

Response: The estimated project cost of approximately $159,000,000, including land acquisition costs could meet 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 is being amended as part of this overall project to recognize that the existing Seminary is no longer a viable designation for the property and that the corridor has been designed for mixed-use commercial activity.

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

Response: The project will contribute to the Village economy. Unique to this site is that the existing property is generally tax exempt and has not contributed property or retail sales taxes to the Village or other taxing bodies. With the sale and redevelopment of the site to a private entity, it will result in the property being fully assessed. From a property tax standpoint, the project, upon full buildout it is estimated to generate $2,441,721 in estimated property taxes, which would be allocated to the TIF fund, (not withstanding any requisite school/library district payments per State Statute) or as part of the incentive request. The food and fuel center, Golf Social and Moretti's are estimated to generate $1,875,300 in annual sales taxes.

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

Response: Currently, the Village does not have a destination use like Golf Social in the community. Additionally, the Butterfield Road corridor does not have a fuel center, car wash or convenience restaurant/store in Lombard. These uses will create a new market niche that will serve residents and motorists that would otherwise purchase groceries, convenience food, fuel and services elsewhere and likely not within Lombard.

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

Response: The incentive agreement will assist in removing blighted and obsolete buildings from the Butterfield Road corridor and facilitates a way to enhance vehicle circulation, pay for requisite street improvements, and new market activity without utilizing General Fund funding sources.

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

Response: The fuel center may close an existing leakage in the corridor while the Golf Social and Moretti's Restaurant may actually capture disposable dollars from other communities.

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

Response: The uses are rather unique, so traditional cannibalization factors may not be present on a large-scale basis.

KMA FINDINGS

The EIP focuses upon projects in which the reimbursement is based upon satisfactory performance of the businesses and property and for a specified period of time. If the business performs well, their chances of received the full incentive benefit are increased. Performance based agreements also minimize risk to the Village.

KMA reviewed the necessity of the incentive and to assist the Village in determining the appropriate structure of the agreement to ensure to meets developer needs while not over extending the Village's commitments. They deem that the project has an identified gap worthy of further consideration and a $27,500,000 incentive can meet the developer's requests to cover upfront costs of construction and the projected gap. KMA also offers recommendations relative to documenting such eligible costs to ensure that they are aligned with Village past practices.

BENEFITS

Key benefits to the project and incentive are as follows:

1. The use brings additional sales tax dollars and increased corresponding property tax assessments to the Village.
2. The uses address a leakage area by establishing a new business in a sector which is anticipated to close that gap and draw new dollars into the community.
3. The incentive will provide enhancements to the area roadway network.
4. The incentive will also help address the property's blighted appearance by providing for a modern site and building design. This project will hopefully serve as a catalyst for other development activity within the Butterfield Road corridor.

RECOMMENDATION

Staff seeks a recommendation from the ECDC to work with Village Counsel and Hoffmann to finalize the terms of an incentive agreement based upon the parameters set forth within the staff report and the Kane McKenna review. The ECDC should further recommend that an economic incentive:

1. Shall be in an amount not to exceed $27,500,000 in eligible reimbursement costs to be derived over a sixteen (16) year period, whichever comes first;
2. The Agreement shall be a performance-based incentive based upon eligible and documented expenses; and
3. The maximum about of the reimbursement shall not be guaranteed, if in event the maximum revenues are not achieved.

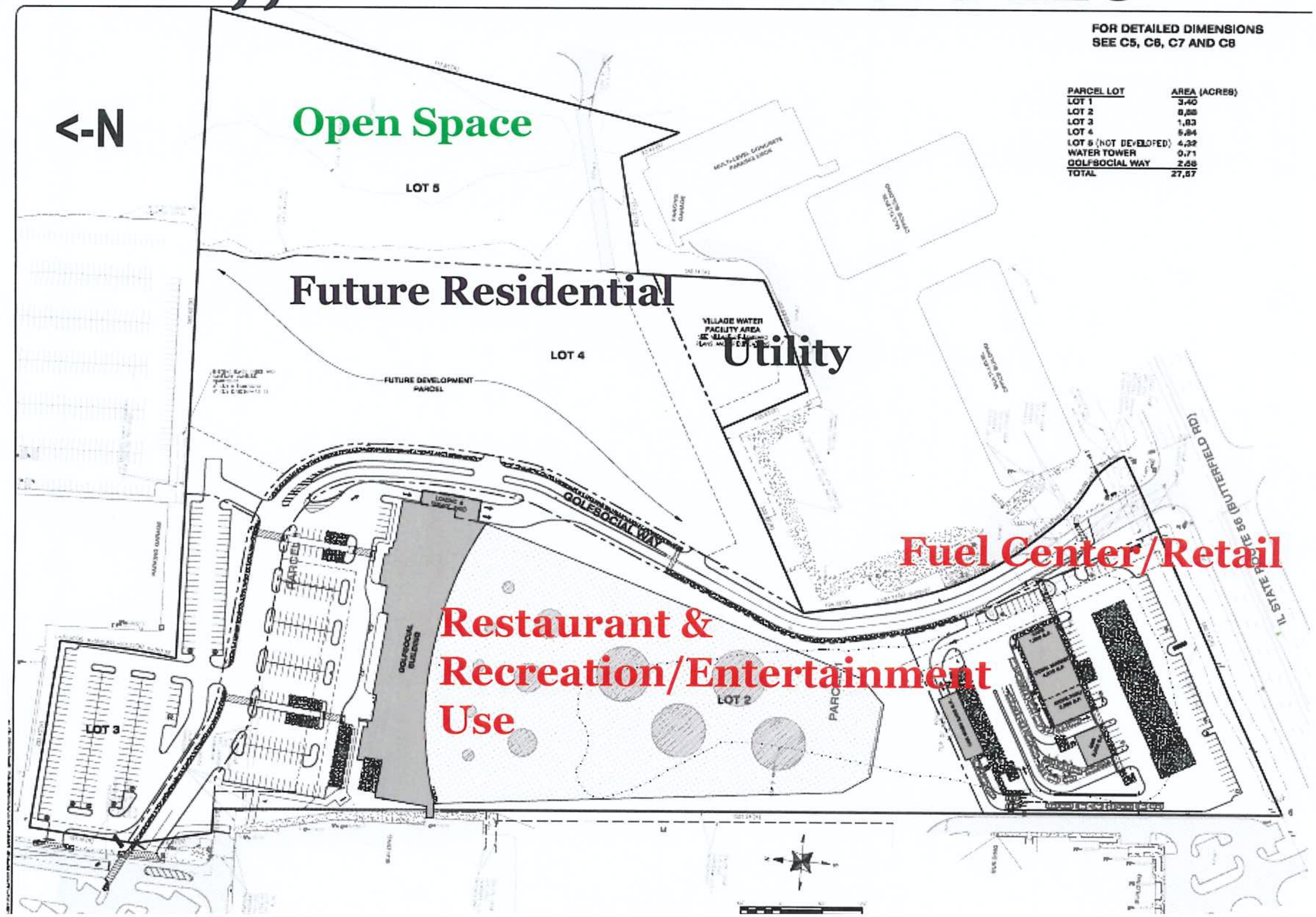
Northern Seminary Redevelopment
600-690 E. Butterfield Road

Amended Economic Incentive Request

Economic & Community Development Committee Meeting

March 11, 2021

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC



Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Refresher: Specifics

Projected estimated budget **$159,000,000**.

Seeking an economic incentive to cover preliminary extraordinary costs, which could include:

Land Acquisition (est.):	$9.0 M
Eligible Onsite Improvements & Site Preparation (hard costs):	$23.7 M
Offsite Roadway Improvements (contingent):	$0.6 M
Land development soft costs:	$4,6 M
Land Development Financing:	$0.3 M
TOTAL (Potential Eligible)	**$38.2 M**

Specific costs, allocations and justifications are subject to review.

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Refresher: Initial Incentive Ask

- Hoffmann incentive request: **$31,500,000**

- Kane McKenna & Associates (Village economic development consultant) undertook review effort

- Through direct engagement, KMA offered their representation to the ECDC that a gap of **$27,500,000** exists

- No change in amended request

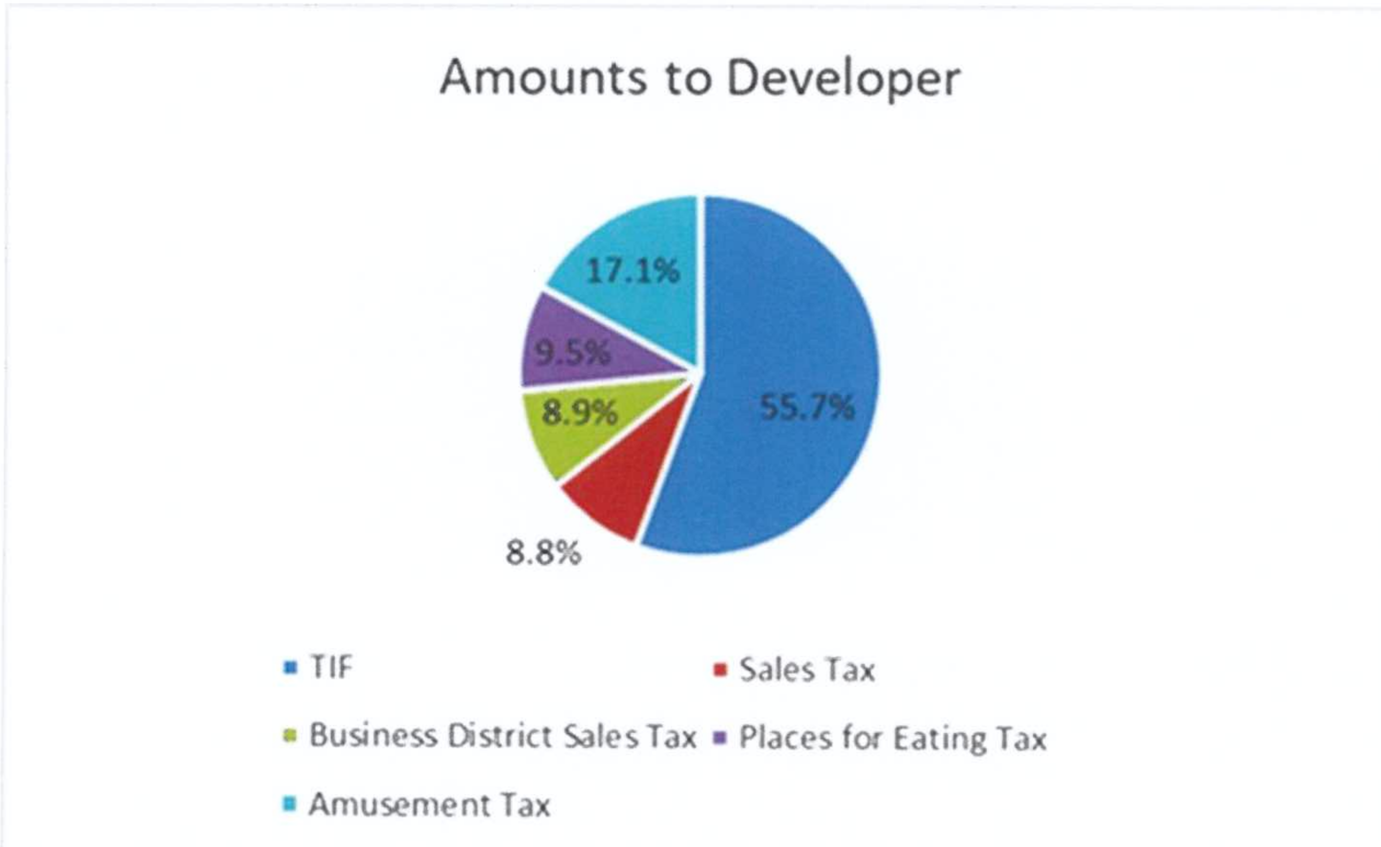
Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

Refresher: Incentive Policy - Source of Incentives

- Sales Tax (1%)
- Lombard Places for Eating (PFE) Tax (2%)
- Lombard Amusement Tax (5%)
- Business District 2 Proceeds
- Generated EAV property tax increment

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Estimated Payouts by Village Based Upon Source Revenues and Recommended Percentages



Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Refresher: ECDC Review

Economic Incentive Policy exceptions were considered given the unique nature of the site and project, including:

- An exception from the 10 year maximum limitation on incentives **(16 year period was supported)**;
- An exception from the maximum 50% of on-site generated revenues as it pertains to any TIF generated increment for the property; and
- An exception from the maximum 50% of on-site generated revenues as it pertains to **Business District (BD2)** funds

Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

ECDC Recommendation:

The ECDC **concurred** with the report prepared by Kane McKenna & Associates, and:

- Supported an incentive in an amount not to exceed **$27,500,000** in eligible reimbursement costs to be derived **over a sixteen (16) year period**, whichever comes first;
- The incentive shall be performance-based - eligible and documented expenses as well as any "prove-up of all construction costs"; and
- The maximum amount of the reimbursement shall not be guaranteed, if in event the maximum revenues are not achieved.

Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

<u>Why coming back to ECDC?</u>

- In crafting the Agreement, issues arose pertaining to the interest rates that would be associated with the proposed Economic Incentive and source funding being offered by the Village.

- Business District funding is not a tax of general applicability per IRS provisions. As such, the BD2 funds would be considered taxable revenues.

Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

Why coming back to ECDC?

- This provision could result in the increased likelihood that the higher interest payments would significantly reduce the ability for the developer to recoup much of project's the capital improvement costs identified for potential reimbursement.

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Why coming back to ECDC?

Three actions are being sought by Hoffmann:

- Removal of any BD2 proceeds from the eligible sources for reimbursement;

- To account for the removal of BD2 funds, change the eligibility period from 16 years to 18 years (cannot be any later than the end of the 2040 tax year, which is the 2041 calendar year); and

- The Village would review removing the Hoffmann site and 747 E. 22nd Street properties from the BD2, as this step would be needed to make the incentive non-taxable.

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Why coming back to ECDC?

As the time extension period from the incentive deviates from what the ECDC recommended, the matter is remanded back to the ECDC for further consideration, review and potentially a new recommendation to the Village Board.

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Discussion:

- Business District 2 was created as a possible incentive funding source for future redevelopment projects

- Business District funds are of limited rather than general applicability. As they are limited, IRS tax codes would make them subject to being taxable (approx. 9-10% rate)

- Even if Business District funds were not sought for this project, as they are going to the market for project financing, they cannot take advantage of nontaxable rates (i.e., approx. 6%)

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

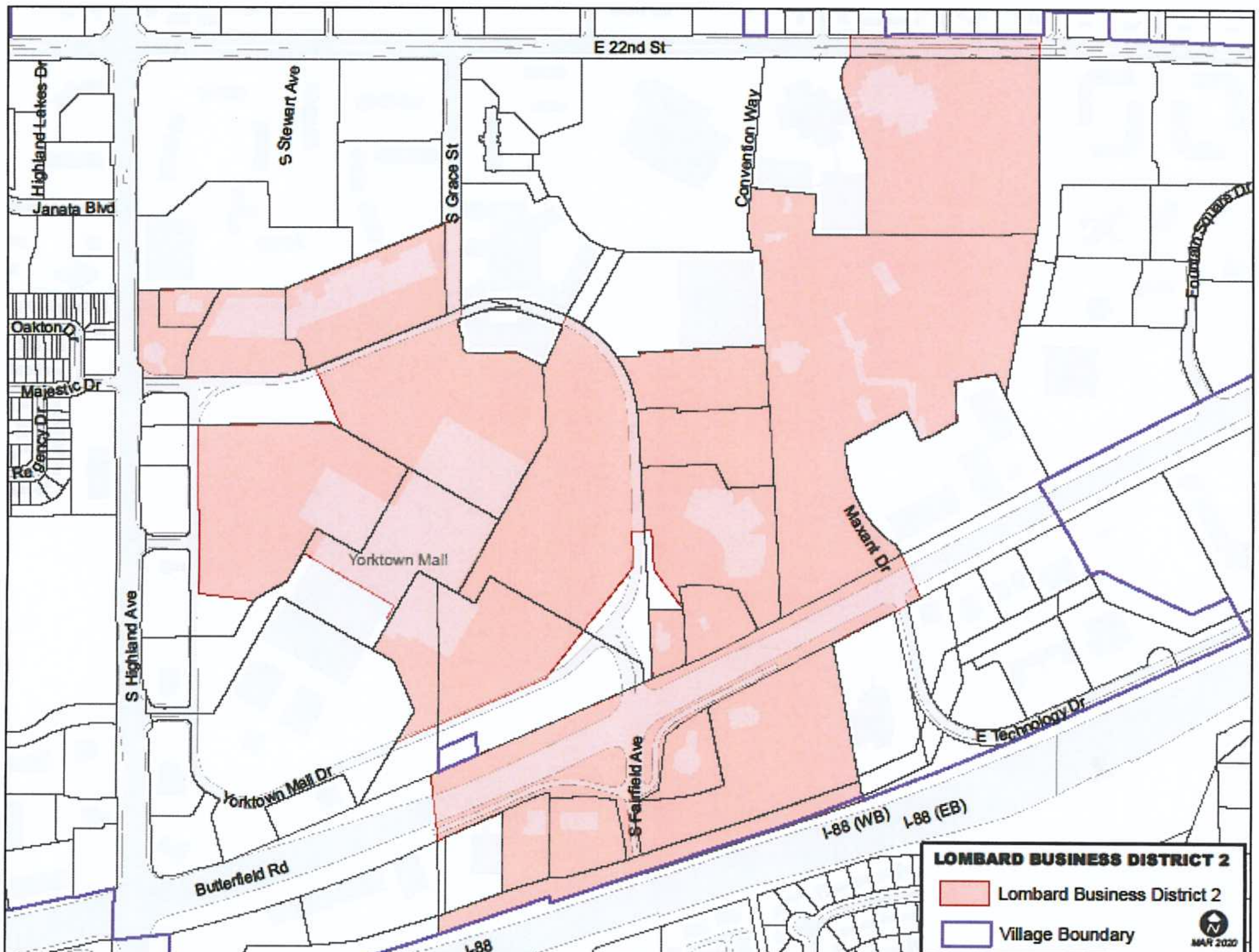
Discussion:

- Time extension (from 16 to 18 years) is to offset in previously projected Business District 2 funds

- Projections shared with Village

- Butterfield Yorktown TIF expires on December 31, 2041 (2040 tax year), so Village cannot pledge any funds beyond that date

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

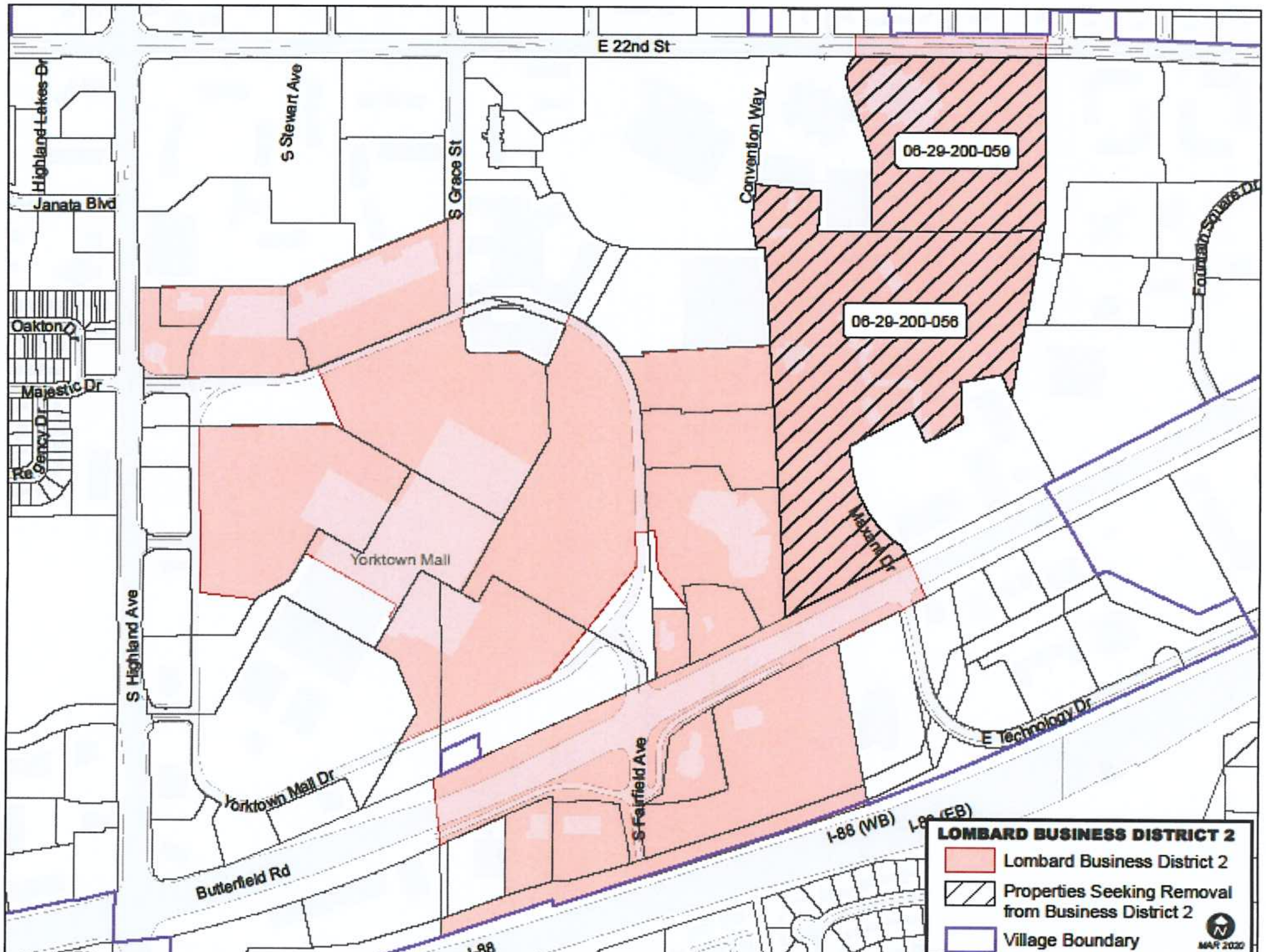


Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

Discussion:

- Removal of property would require full BD2 review to ensure remaining part of district meets qualifying factors
- 747 E. 22^{nd} Street (office building) would also need to be removed as contiguity would no longer exist
- 3-6 month review effort (done after Agreement is considered)
- Agreement would only state that Lombard would review matter (similar to liquor licenses) – not guarantee it

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC



Northern Seminary Redevelopment Hoffmann 600 Lombard LLC

ECDC Options:

- Do Nothing – Keep existing recommendations in place
- Concur with Amended Incentive Request
- Reconsider overall request (i.e., increase requested incentive funding percentages and/or amounts)

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

ECDC Action Sought:

- Consider amended request and offer a recommendation back to staff, Counsel and ultimately the Village Board so that a final draft document can be prepared.

- Goal: Have draft Agreement before Village Board within a month for consideration

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Report Language:

- The incentive shall be in an amount not to exceed $27,500,000 in eligible reimbursement with a termination date of December 31, 2041, whichever comes first;

- The Agreement shall be a performance-based incentive based upon eligible and documented expenses as well as any "true-up of all construction costs"; and

- The maximum about of the reimbursement shall not be guaranteed, if in event the maximum revenues are not achieved.

Northern Seminary Redevelopment
Hoffmann 600 Lombard LLC

Questions