


MEMORANDUM

TO: Bill Johnston, Chairperson
Economic and Community Development Committee

FROM: William Heniff, AICP, Director of Community Development 

DATE: September 14, 2015

RE: **Proposed Sam's Economic Incentive Agreement**

As the Economic and Community Development Committee (ECDC) is aware, Sam's Club is seeking to develop a new 135,000 square foot warehouse club retail store on an 11.06 acre tract at 611 E. Butterfield Road. Staff and ownership representatives have been seeking development opportunities for the property for an extended period of time and a variety of land use and development concepts were vetted based upon market conditions during the Great Recession. Over the past few years the concept of a larger retail store concept, such as Sam's Club, was discussed at length. The site plans were presented to the Plan Commission in a workshop session in April and as part of a full public hearing on August 17, 2015. The Plan Commission unanimously recommended approval of the zoning actions associated with the development, which will be considered by the Village Board at its October 1, 2015 meeting.

With the zoning matters being addressed, staff has returned to finalizing the terms of a companion economic incentive agreement for the development. This item will be considered by the Village Board after a recommendation is offered from the ECDC. These discussions were initiated with Sam's Club representatives in 2013 and are intended to address matters pertaining to development constraints and the rationale for the incentive.

As of this date, the material aspects of the agreement are agreed to, subject to final documentation and approval by Sam's Club corporate review. Staff is introducing the salient financial aspects of the agreement below for discussion purposes at the September 14 meeting, with the final document to be considered at the October meeting.

AGREEMENT DESCRIPTION

The projected cost of the project is estimated by Sam's Club to be \$6,284,959. They are seeking an economic incentive in a net present value amount of \$2,511,000 to cover extraordinary costs associated with the project. Through discussions with the developer, a Sales Tax Incentive Agreement was selected as the best approach for this project, as the project will be constructed and operated under a long-term ground lease (versus being an owner incentive). Such agreements are generally utilized for agreements in which the reimbursement is based upon satisfactory performance of the business and 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.

RATIONALE FOR AGREEMENT

The 2011 adopted Economic Development Strategies Report that was reviewed by the ECDC and approved by the Village Board identified three key sites that can provide the most immediate impact to the Lombard economy and increase municipal revenue. One such site is the subject property, which has been underutilized over the past decade. The Village deems it to be of significant importance to encourage further development activity within the Village. State statutes allow the Village to appropriate funds for economic development purposes, including, the making of grants that are deemed desirable for the promotion of economic development. The project would not be economically feasible, but for the economic assistance promised by the Village. 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, addressing buried underground utilities on the NiCor tract and the significant improvements requested by the Illinois Department of Transportation (IDOT) for Butterfield Road.

State Statutes also allow for the use of sales tax incentives for this project as a portion of the property has remained vacant for at least one year and that for the developed portion of the property, the buildings located no longer comply in all respects with current building codes and for the office building to be razed, has remained less than significantly occupied or utilized for a period of at least one year. The Village also anticipates that the project is expected to create job opportunities and will serve to further the development of adjacent areas within the Butterfield Road corridor, by strengthening the commercial sector and enhancing the tax base.

The project was also deemed attractive as the Village does not have a warehouse club retail store within the Village. The use will reduce a leakage within the existing market providing existing residents the opportunity to make purchases within the community. Given Sam's Clubs national stature, staff also anticipates a significant influx of dollar from outside the Village into the community. Lastly, there may be an ancillary benefit to Yorktown and other centers as it draws greater number of shoppers to the area.

DEVELOPER OBLIGATIONS

To ensure that the project is performing in an acceptable manner and in addition to any provisions required by the state, the developer will:

1. To ensure transparency, the developer shall supply the Village with copies of state sales tax information which will serve as the basis for the reimbursement, with such information remaining confidential.
2. Construction cost documentation will also be provided.
3. The developer intends to occupy the site for a period of at least ten years. However, if they do not occupy the site, no revenues will be redistributed back to the developer.

4. Real estate taxes will be fully paid regardless of the project's performance.
5. The Developer shall be responsible for the payment of all fees associated with the project construction. However, in lieu of paying the fees, the developer may request that said fees serve as a credit against the incentive, subject to Village approval.

VILLAGE OBLIGATIONS

The Village will be responsible for:

1. The Village shall rebate to Developer the one percent State Sales Taxes received by the Village from the project. This rebate excludes any non-home rule sales tax that is generated by the project as those funds are earmarked for capital improvements.
2. The payments shall be made to the Developer from Developer on an annual basis following the commencement date until the Developer receives the net present value of \$2,511,000.00 in Sales Taxes. At the end of the revenue sharing period of ten years or until the net present value payments have been made, all future state sales taxes generated by the project shall be retained by the Village.
3. To account for administrative costs, the loss of the business activity and their corresponding property tax assessments, and to address the possibility of market cannibalization, the Village will retain the first \$136,000 of sales taxes generated as part of the project. The Village would also retain the generated tax revenues between \$536,000 and \$800,000 annually. All other funds would be reimbursed back to the developer until the incentive figure is reached (i.e., \$400,000 annually plus anything over \$800,000).
4. The agreement is over a ten year period and would be subject to a 9.5% annual net present value adjustment. There will be a desire by the Village to consider paying the incentive off sooner to minimize the incentive. To that end, the agreement will set a schedule which will show the value payment over the agreement period.

For reference purposes, attached is a spreadsheet depicting the hypothetical incentive model for the proposed development and under a couple of scenarios.

ACTION REQUESTED

Staff transmits the policy to ECDC for consideration and discussion. Staff is seeking any questions or comments from the ECDC so that they can be answered prior to final consideration of the agreement at the October meeting.

Lombard Sales Tax Sharing Incentive Model for Proposed Sam's Club

Year	Sales Tax			NHR Sales Tax			Total ST Revenue (not incl NHR Sales Tax)	First \$136,000 to Village	Next \$400,000 To Sams Club (1)	Next \$264,000 To Village	Anything Remaining to Sam's Club	Total To Sam's Club
	Assumed Sales	60% GM	40% Food	60% GM	40% Food	60% GM						
1	70,000,000.00	420,000.00	280,000.00	420,000.00	280,000.00	420,000.00	700,000.00	136,000.00	400,000.00	164,000.00	-	400,000.00
2	74,900,000.00	449,400.00	299,600.00	449,400.00	299,600.00	449,400.00	749,000.00	136,000.00	400,000.00	213,000.00	-	400,000.00
3	80,143,000.00	480,858.00	320,572.00	480,858.00	320,572.00	480,858.00	801,430.00	136,000.00	400,000.00	264,000.00	1,430.00	401,430.00
4	85,753,010.00	514,518.06	343,012.04	514,518.06	343,012.04	514,518.06	857,530.10	136,000.00	400,000.00	264,000.00	57,530.10	457,530.10
5	91,755,720.70	550,534.32	367,022.88	550,534.32	367,022.88	550,534.32	917,557.21	136,000.00	400,000.00	264,000.00	117,557.21	517,557.21
6	93,590,835.11	561,545.01	374,363.34	561,545.01	374,363.34	561,545.01	935,908.35	136,000.00	400,000.00	264,000.00	135,908.35	535,908.35
7	95,462,651.82	572,775.91	381,850.61	572,775.91	381,850.61	572,775.91	973,719.05	136,000.00	400,000.00	264,000.00	154,626.52	554,626.52
8	97,371,904.85	584,231.43	389,487.62	584,231.43	389,487.62	584,231.43	973,719.05	136,000.00	400,000.00	264,000.00	127,323.03	527,323.03
9	99,319,342.95	595,916.06	397,277.37	595,916.06	397,277.37	595,916.06	993,193.43	136,000.00	400,000.00	857,193.43		
10	101,305,729.81	607,834.38	405,222.92	607,834.38	405,222.92	607,834.38	1,013,057.30	136,000.00	400,000.00	877,057.30		
Aggregate		5,337,613.17	3,558,408.78	5,337,613.17	3,558,408.78	5,337,613.17	8,896,021.95	1,360,000.00	3,200,000.00	3,695,250.73	594,375.20	3,794,375.20
NPV								\$2,173,374.33			\$338,144.88	\$2,511,519.21

Total To Village (not incl. NHR Sales Tax) 5,055,250.73
 Total to Sam's Club 3,794,375.20

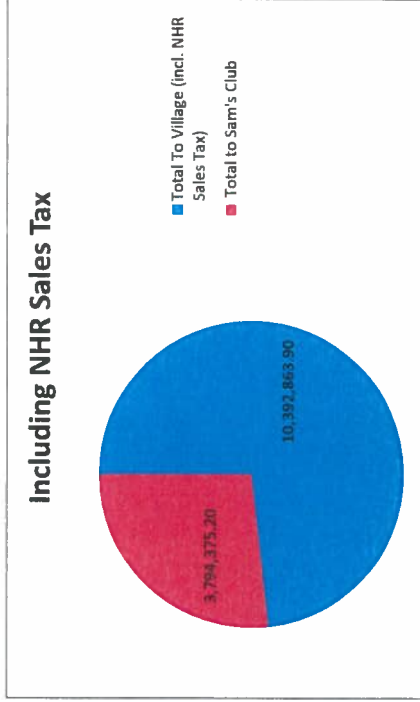
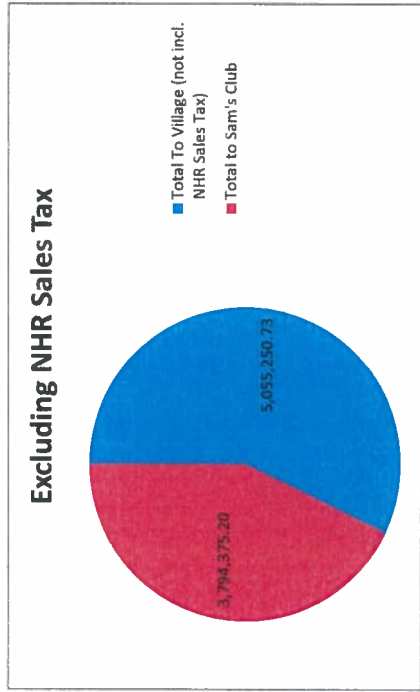
Total To Village (incl. NHR Sales Tax) 10,392,863.90
 Total to Sam's Club 3,794,375.20

Assumptions Yr 1 Sales at \$70M

- 9.5% = i
- 7% annual sales increase Yrs 1-5
- 2% annual sales increase Yrs 6+
- 60% GM sales & 40% Food Sales
- Assumes proto Sams Building

(1) The amount to Sam's Club includes \$200,000 in Year 1 for the building permit fees

First \$136,000 to Village includes \$86,000 in lost taxes from existing business, and \$50,000 for administrative costs
Next \$400,000 to Sam's Club
Next \$264,000 to the Village
Anything Remaining to Sam's Club to pay down NPV early



Lombard Sales Tax Sharing Incentive Model for Proposed Sams Club - Conservative Model

Year	Sales Tax			NHR Sales Tax		
	Assumed Sales	60% GM	40% Food	60% GM	40% Food	60% GM
1	63,000,000.00	378,000.00	252,000.00	378,000.00	252,000.00	378,000.00
2	64,575,000.00	387,450.00	258,300.00	387,450.00	258,300.00	387,450.00
3	66,189,375.00	397,136.25	264,757.50	397,136.25	264,757.50	397,136.25
4	67,844,109.38	407,064.66	271,376.44	407,064.66	271,376.44	407,064.66
5	69,540,212.11	417,241.27	278,160.85	417,241.27	278,160.85	417,241.27
6	70,931,016.35	425,586.10	283,724.07	425,586.10	283,724.07	425,586.10
7	72,349,636.68	434,097.82	289,398.55	434,097.82	289,398.55	434,097.82
8	73,796,629.41	442,779.78	295,186.52	442,779.78	295,186.52	442,779.78
9	75,272,562.00	451,635.37	301,090.25	451,635.37	301,090.25	451,635.37
10	76,778,013.24	460,668.08	307,112.05	460,668.08	307,112.05	460,668.08
Aggregate	4,201,659.33	2,801,106.22	4,201,659.33	2,801,106.22	4,201,659.33	2,801,106.22
NPV						

Total ST Revenue (not incl. NHR Sales Tax)	First \$136,000 to Village	Next \$400,000 To Sams Club (1)	Next \$264,000 To Village
630,000.00	136,000.00	400,000.00	94,000.00
645,750.00	136,000.00	400,000.00	109,750.00
661,893.75	136,000.00	400,000.00	125,893.75
678,441.09	136,000.00	400,000.00	142,441.09
695,402.12	136,000.00	400,000.00	159,402.12
709,310.16	136,000.00	400,000.00	173,310.16
723,496.37	136,000.00	400,000.00	187,496.37
737,966.29	136,000.00	400,000.00	201,966.29
752,725.62	136,000.00	400,000.00	216,725.62
767,780.13	136,000.00	400,000.00	231,780.13
7,002,765.54	1,360,000.00	4,000,000.00	1,642,765.54

Total To Village (not incl. NHR Sales Tax) 3,002,765.54
 Total to Sam's Club 4,000,000.00

Total To Village (incl. NHR Sales Tax) 7,204,424.87
 Total to Sam's Club 4,000,000.00

Assumptions Yr 1 Sales at \$63M (Accounts for cannibalization at other stores)
 9.5% \pm
 2.5% annual sales increase Yrs 1-5
 2% annual sales increase Yrs 6+
 60% GM sales & 40% Food Sales
 Assumes proto Sams Building

(1) The amount to Sam's Club includes \$200,000 in Year 1 for the building permit fees

First \$136,000 to Village includes \$86,000 in lost taxes from existing business, and \$50,000 for administrative costs
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