FOR CITY OF BLOOMINGTON TOWNSHIP: July 22, 2013

SUBJECT: Green Building, LLC Property Tax Abatement

RECOMMENDATION/MOTION: Recommendation to the City of Bloomington Township that the proposed property tax abatement be approved, the Resolution adopted and the Agreement executed.

BACKGROUND: Green Building, LLC is a local development team which has decades of experience in the Bloomington-Normal community. The project in question would rehabilitate an existing structure located at 115 East Monroe in Downtown Bloomington.

This project would serve two primary functions. First, it would serve as a 15-unit residential apartment building for current and prospective residents of the Downtown community; a use that is currently in high demand as rental occupancy sits at 100% (DBA) and businesses are increasing the number of short-term employees working in the Downtown area. Secondly, the project site would serve to provide enhanced retail and restaurant space (2 units) for the commercial sector.

In all, this revitalization project would invest a minimum of $1.6 million into taxable property in Bloomington and would serve to revitalize an existing structure in the Downtown community, an area highlighted on the City's Economic Development Target Area Map. In addition to the rehabilitation of an existing structure in a focus area of our community, a few elements of particular interest in regards to this project include its compatible design and occupancy, a synergy with the concepts outlined in the forthcoming Downtown Plan and a focus on environmentally sustainable outcomes.

In order to make the project financially feasible and thus complete the renovation, Green Building is requesting a freeze on real estate taxes owed on the site in question. The freeze, if approved by the taxing bodies, would allow Green Building to pay a portion of the new increment of property tax during each of the five (5) years while the company invests into the site. After the period of five (5) years is over, the company's taxes will rise to take into account the full value of the new investment. At that point, all taxing bodies would begin to collect the full amount of post-investment taxes.

COMMUNITY GROUPS/INTERESTED PERSONS CONTACTED: National Development Council, Economic Development Council for the Bloomington-Normal Area, Downtown Bloomington Association, City of Bloomington, Bloomington School District 87, McLean

County Illinois Finance Committee, Assessor for the Town of the City of Bloomington, McLean County Chamber of Commerce.

FINANCIAL IMPACT: According to the National Development Council, which conducted a full financial analysis of the Developers and the project in question (including a three year review of personal and business financial statements), this incentive is necessary in order to make the project financially viable. The company has leveraged existing financial resources and programs, including the Downtown Bloomington Enterprise Zone (a $92,540 value) and the City of Bloomington Harriet Fuller Rust Façade Grant Program (a $25,000 value), but a financial gap still exists. As proposed, this arrangement serves to strengthen the projects financial position and by way fill the identified financial gap.

As structured, the proposed property tax abatement agreement protects the taxing bodies by guaranteeing that they will collect all existing pre-project level of property taxes *plus* an additional increment equal to 76.28592% of the pre-project amount. For example, the City of Bloomington Township collected $74.82 in 2011; therefore, in the first year of the tax abatement, the Township will collect the pre-project amount of $74.82 *plus* an additional $57.08 of the new increment for a total of $131.90 to be collected by the Township. This will occur during each of the five (5) years during the tax abatement agreement. Upon completion of the five (5) year agreement, each taxing body will collect the full amount of taxes under the new assessment. For example, the City of Bloomington Township will go from collecting $74.82 in the current year, to $131.90 during each of the five (5) years under the tax abatement agreement and $616.10 each year following the abatement. (An illustration of the incentive structure is included in the Financial Impact section of this memo.) Again, this approach would allow Green Building to close its financial gap while also maintaining an adequate market return in the initial years of the project.

It is important to note that the amount of abated taxes will vary from taxing body to taxing body, based on the size of each taxing body's specific levy (an estimate of said breakdown is provided within the Financial Impact section of this memo). As each taxing body will have their own tax abatement agreement, if one or more taxing bodies choose not to participate, this will have no effect whatsoever on taxing bodies that do choose to participate.

The tables below demonstrate the potential value of the capital investment and related property tax abatement as proposed for each of the taxing bodies affecting the parcel.

Property Assessment Estimate for Work to be Completed

Table and information provided by the Assessor for the Town of the City of Bloomington.

115 E MONROE	2011 ASSESSMENT	NEW ASSESSMENT
	21-04-194-006	@ COMPLETION OF WORK
LAND	$18,861	$18,861
IMPROVEMENTS	$33,359	$411,139
TOTAL	$52,220	$430,000

Proposed Tax Abatement Agreement & Related Estimates

TAXING BODY	2011 TAX RATE	2011 TAXES COLLECTED	EST. TAXES COLLECTED DURING AGREEMENT (PER YEAR)	EST. ABATEMENT DURING AGREEMENT (PER YEAR)	EST. TAXES COLLECTED AFTER AGREEMENT (PER YEAR)
MCLEAN COUNTY	0.915710	$478.19	$842.98	$3,094.62	$3,937.55
CITY OF BLOOMINGTON TOWNSHIP	0.143280	$74.82	$131.90	$484.20	$616.10
CITY OF BLOOMINGTON	1.059550	$553.30	$975.39	$3,580.69	$4,556.07
B-N WATER RECLAMATION DIST	0.163900	$85.59	$150.88	$553.90	$704.77
BLM-NRM AIRPORT AUTH	0.154860	$80.87	$142.56	$523.35	$665.90
CUSD 87 BLOOMINGTON	4.657410	$2,432.10	$4,287.44	$15.739.38	$20,026.86
CITY OF BLOOMINGTON LIBRARY	0.250730	$130.93	$230.81	$847.32	$1,078.14
HEARTLAND COMM COLLEGE 540	0.475840	$248.48	$438.03	$1,608.04	$2,046.11
TOTALS	**7.82128**	**$4,084.28**	**$7,200.00**	**$26,431.50**	**$33,631.50**

VALUE OF ABATEMENT AFTER 5 YEARS: (ASSUMES ALL TAXING BODIES PARTICPATE)	% OF PROJECT COSTS (ASSUMES ALL TAXING BODIES PARTICPATE)
$132,157.50	**8.17%**

Proposed Tax Abatement Illustration

TAXING BODY	2011 TAXES	YEAR 1 TAXES	YEAR 2 TAXES	YEAR 3 TAXES	YEAR 4 TAXES	YEAR 5 TAXES	YEAR 6 TAXES
MCLEAN COUNTY	$478.19	$842.98	$842.98	$842.98	$842.98	$842.98	$3,937.55
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HEARTLAND COMM COLLEGE 540	$248.48	$438.03	$438.03	$438.03	$438.03	$438.03	$2,046.11
TOTAL	$4,084.28	$7,199.99	$7,199.99	$7,199.99	$7,199.99	$7,199.99	$33,631.50

In addition to the 76.28592% increase in property taxes in each of the first five (5) years of the agreement, there are a number of other ways in which this project will be beneficial to the community outside of the capital investment figures. As these aspects are difficult to quantify, an overview of the potential positive effects of this project are outlined below. Ultimately, this project will:

- Increase the food and beverage and sales tax revenue generated by the commercial units
- Use local workforce during construction and upon completion of the retail and restaurant sections
- Increase the property value of the affected building and have a positive impact on the surrounding area
- Allow for the expansion of targeted local retail and restaurant owners where leakage exists and by effect increase retail sales and retail sales tax receipts
- Renovate a Downtown Bloomington property that has been in our community for over 100 years; when complete, citizens and local businesses will benefit from enhanced Downtown aesthetics
- Stimulate positive communication between developers, city staff and economic development organizations within our community and open the door for future development opportunities
- Enhance the perception of the Downtown among Bloomington residents
- Be a source of pride for those actively working to improve the Downtown

Respectfully submitted for the Board of Trustee's consideration.

Prepared by: Justine Robinson, Economic Development Coordinator

Recommended by:

Deb Skillrud
Supervisor
City of Bloomington Township

Attachments: Attachment 1.

Motion: ______________________________ Seconded by: ______________________________

	Aye	Nay	Other		Aye	Nay	Other
Narendra Jaggi				Emily Kelahan			
Patsy Bowles				Carol Koos			
Cathy Pratt				Peggy Burton			
Joni Painter				Bill Wetzel			

City of Bloomington Illinois

ECONOMIC DEVELOPMENT

INCENTIVE APPLICATION

GREEN BUILDING, LLC

115 EAST MONROE, BLOOMINGTON

CITY OF Bloomington ILLINOIS

TABLE OF CONTENTS

INCENTIVE APPLICATION

FOR COUNCIL: June 10, 2013

SUBJECT: Green Building, LLC Property Tax Abatement

RECOMMENDATION/MOTION: That the proposed property tax abatement be approved, the Agreement executed and the Resolution adopted.

STRATEGIC PLAN LINK: Goal 6: Prosperous Downtown Bloomington, Goal 4: Grow the Local Economy

STRATEGIC PLAN SIGNIFICANCE: Goal 6: Prosperous Downtown Bloomington; 6.a: More beautiful, clean Downtown area; 6.b: Downtown Vision and Plan used to guide development, redevelopment and investments; 6.c: Downtown becoming a community and regional destination; 6.d: Healthy adjacent neighborhoods linked to Downtown; 6.e: Preservation of historic buildings. Goal 4: Grow the Local Economy; 4.a: Retention and growth of current local businesses; 4.b: Attraction of new targeted businesses that are the "right" fit for Bloomington; 4.c: Revitalization of older commercial homes; 4.d: Expanded retail businesses; 4.e: Strong working relationship among the City, businesses & economic development organizations

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This project would serve two primary functions. First, it would serve as a 15-unit residential apartment building for current and prospective residents of the Downtown community; a use that is currently in high demand as rental occupancy sits at 100% (DBA) and businesses are increasing the number of short-term employees working in the Downtown area. Secondly, the project site would serve to provide enhanced retail and restaurant space (2 units) for the commercial sector.

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COMMUNITY GROUPS/INTERESTED PERSONS CONTACTED: National Development Council, Economic Development Council for the Bloomington-Normal Area, Downtown Bloomington Association, Bloomington School District 87 Administration, McLean County Illinois Administration, Assessor for the Town of the City of Bloomington, McLean County Chamber of Commerce; in addition to conducting informal meetings and communications with the aforementioned entities, the tax abatement agreement may be considered by the following committee and boards.

Proposed Schedule for Various Committees, Boards and Taxing Bodies

DATE	COMMITTEE/BOARD
JUNE 3	CITY OF BLOOMINGTON ADMINISTRATION & FINANCE COMMITTEE
JUNE 5	MCLEAN COUNTY FINANCE COMMITTEE
JUNE 10	CITY OF BLOOMINGTON CITY COUNCIL
JUNE 12	DISTRICT 87 SCHOOL BOARD
JUNE 13	BLOOMINGTON NORMAL AIRPORT AUTHORITY BOARD
JUNE 18	MCLEAN COUNTY BOARD
JUNE 18	HEARTLAND COMMUNITY COLLEGE BOARD
JUNE 19	BLOOMINGTON PUBLIC LIBRARY BOARD
JUNE 24	CITY OF BLOOMINGTON TOWNSHIP BOARD
TBD	BLOOMINGTON NORMAL WATER RECLAMATION DISTRICT BOARD

FINANCIAL IMPACT: According to the National Development Council, which conducted a full financial analysis of the Developers and the project in question (including a three year review of personal and business financial statements), this incentive is necessary in order to make the project financially viable. The company has leveraged existing financial resources and programs, including the Downtown Bloomington Enterprise Zone (a $92,540 value) and the City of Bloomington Harriet Fuller Rust Façade Grant Program (a $25,000 value), but a financial gap still exists. As proposed, this arrangement serves to strengthen the projects financial position and by way fill the identified financial gap.

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- Be a source of pride for those actively working to improve the Downtown

Respectfully submitted for Council consideration.

Prepared by: Justine Robinson, Economic Development Coordinator

Reviewed by: (name, title)

Financial & Budgetary review by: (finance fill in once reviewed – name, title)

Legal review by: (legal fill in once reviewed – name, title)

Recommended by:

David A. Hales
City Manager

Attachments: Attachment 1.

Motion: ______________________________ Seconded by: ______________________________

	Aye	Nay	Other		Aye	Nay	Other
Alderman Black				Alderman Mwilambwe			
Alderman Fazzini				Alderman Sage			
Alderman Fruin				Alderman Schmidt			
Alderman Lower				Alderman Stearns			
Alderman McDade							
				Mayor Renner			

CITY OF Bloomington ILLINOIS

Tax Abatement Scoring-Real Estate

Applicant Name: Green Building, LLC

Application Date: March 26, 2013

1. Economic need for tax abatement (*Mandatory*). X

   In analyzing the financial viability of the development, there does appear to be a financing gap. With a total development budget of $1,616,966, a bank loan of $993,780 and developer equity of $84,166, there is a gap of $539,020 (NDC Memo).

2. Project cost per unit. 40

Up to $70,000	5 points
$70,001 to $90,000	10 points
$90,001 to $100,000	20 points
$100,001 to $120,000	30 points
$120,000 +	40 points

3. Rehabilitation, reuse and/or expansion of existing structure(s). (If yes, 2 points) 2

4. Project is in a distressed area or Focus Neighborhood. (If yes, 2 points) 2

5. Project is appropriate and desirable for the area, (i.e. design, density, occupancy). (0-15 points) 15

6. Intended tenant(s)/owner(s). 0

21-50% of units for HH earning <80% AMI	5 points
>50% of units for HH earning <80% AMI	10 points

CITY OF Bloomington ILLINOIS

Tax Abatement Scoring-Real Estate

7. Project is part of a larger, comprehensive revitalization plan sponsored by local government. (2 points) — 2

   Project coincides with philosophies highlighted in the working draft of the Downtown Bloomington Plan and is also located in an area identified on the Economic Devleopment Target Area Map.

8. Project includes environmental sustainable outcomes. (2 points) — 2

Total points — **63**

SCORING

Score	**Max. Length of Deduction**
10 or less points	1 year
11 to 20 points	2 years
21 to 30 points	3 years
31 to 40 points	4 years
41 to 50 points	5 years

MEMORANDUM

TO: JUSTINE ROBINSON

FROM: ELIZABETH AU

SUBJECT: 115 EAST MONROE, BLOOMINGTON

DATE: 4/25/2013

DEVELOPMENT ANALYSIS- 115 EAST MONROE

The City of Bloomington Economic Development Department requested the National Development Council (NDC) conduct a review of a proposed development located at 115 East Monroe and review the need for an economic incentive. This memo outlines the assumptions given from the City and the developer and makes observations and recommendations regarding the appropriateness of the subsidy. All information and recommendations are subject to the information and due diligence provided by the City and the developer.

Review of Due Diligence:

1) Development Budget: The total development budget, per the developer, is $1,616,966 with hard costs running at $1,321,996. The budget submitted by the developer contains most of the items needed to complete the project, however a few observations should be noted. First, the budget currently does not include the permanent lender fees, which include costs for an appraisal, underwriting and/or origination, legal etc which could run in the neighborhood of approximately $10,000 - $12,000. Currently the contingency of $25,000 is relatively low for a rehabilitation of this size. Generally for a rehabilitation project, you want to see a contingency amount of at least 10% - 15% of the hard costs. Finally, there does not appear to be amounts listed for a developer fee or contractor profit. As of now, it appears that they are only covering the contractor's over ahead. A developer fee and contractor profit are responsible expenses that can provide a cushion in case things go wrong in the development process. Because the developer and the contractor are the same, it would be reasonable to charge a 10% developer fee and 7% in contractor profit. Given the personal financial position of the developers and that the City will not be making a direct loan into the project, the risk associated with not being able to complete the project is relatively low.

2) Financing: The developer submitted a term sheet from Heartland Bank and Trust Company for $1,200,000 at 4.125% fixed for 6 years and amortized over 20 years. The term sheet is subject to underwriting criteria (at least 80% LTV and 1.20 DCR). Given the NOI on the project (discussed below), the developer could borrow up to $1,113,127 under the DCR criteria, however the total loan amount is still subject to the both ratios. The bank representative indicated that cap rates for downtown rental properties are running at between 7% - 8%, meaning that the property will most likely appraise at $1,242,225 and with a LTV of 80%, the maximum loan amount would be $993,780.

3) Pro forma: The development will contain four efficiency units at $600.00 per month ,three 1-bedroom units at $850.00 per month and six 2-bedroom units at $1,000 per month, and two 2-bedroom deluxe units at $1,500 per month. The development will contain two

commercial spaces renting for approximately $1 sq/ft bringing in additional income of $2,900 per month. Vacancy and credit loss is estimated at 3%. Expenses were estimated at $91,584 which includes $34,000 in taxes, $4,800 for insurance, $12,132 management expenses, $300 for advertising, $792 for legal expenses, $12,000 for maintenance, $1,200 for utilities, $4,200 for replacement reserves and $2,292 for miscellaneous expenses. The development has a Net Operating Income of $99,378. With a loan of $1,200,000, cash flow to the developer is $10,100. Generally, developers look for a return their investment of between 12%-15%, meaning that with cash flow of $10,100 with a 12% return, they would be expected to provide $84,166 in equity.

4) Developer Financial Strength: The financial strength of the developer is important for a few reasons. The first is that you want to ensure that they have the ability to cover any cost overruns in the construction phase, but also to cover any deficits in the operation phase. The developers, Mr. Robert Vericella and Mr. Fred Wollrab are undertaking this development jointly. In reviewing the financial strength of the developers, personal financial statements and three years of tax returns were reviewed. Between the two, there was sufficient liquidity in assets to cover cost over runs during the development process. It also appears that both individuals own several rental properties that generate income and cash flow, a few of which are owned free and clear.

Analysis:

In analyzing the financial viability of the development, there does appear to be a financing gap. With a total development budget of $1,616,966, a bank loan of $993,780 and developer equity of $84,166, there is a gap of $539,020.

Recommendations:

The City of Bloomington has a few options to help incentivize the development. The City can choose to reduce the development budget in a few ways, therefore reducing the financing gap. First, the City has applied for and received an Enterprise Zone designation which saves the developers approximately 7% (or $92,540) the hard costs on the development budget, reducing the development gap to $446,480. Further, the developers have already received a $25,000 façade grant from the City that reduces the gap further to $421,480. Finally, the City could also waive or reduce the permitting and review fees of $18,005, meaning the gap would drop to $403,475.

The second way the City can incentivize the development is to increase the cash flow, thereby increasing the developer's return and the ability of the property to support more private debt. By reducing the property taxes and thus the operating expenses, the City can increase the cash flow to the developer from $10,100 to $36,896 in the first year of operation. By reducing the property taxes to $7,200, maintaining a 3% increase for five years, the developer will be able to maintain an adequate market return in the initial years of the project (starting at 12%). Additionally, with the increased cash flow, the equity the developer would be willing to contribute will also increase to $307,467. The reduced taxes will also allow the bank to provide more debt. With a new NOI of $126,174, that would allow private debt of $1,261,240, meaning that the gap should be eliminated with a total funding available of $1,568,707. The City will be able to increase the taxes to the full amount of approximately $34,000 in year 6 which will cause the developer return to drop to 10%, however the following year, the developers will be back to 12%.