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72-R-93

A Resolution

Concerning Conceptual Approval of
City's Proposed Financial
Participation in Redevelopment
of Washington National Site

WHEREAS, in connection with redevelopment of the Washington National Insurance site at 1660 Chicago Avenue ("Project"), the Church and Chicago Limited Partnership submitted an application for a planned unit development; and

WHEREAS, the Planning and Development Committee of the City Council has considered the application, submitted documents, and testimony; and

WHEREAS, the City Council has determined that the approval of the aforesaid planned unit development is in the best interests of the City; and

WHEREAS, certain agreements and understandings between the City and the Developer, The John Buck Company, need to be reached to allow predevelopment and financing efforts to proceed;

WHEREAS, the Economic Development Committee has discussed and conceptually approved a proposal by the John Buck Company for City financial participation in the Project (Attached as Exhibit A and incorporated herein)

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF

THE CITY OF EVANSTON, COOK COUNTY, ILLINOIS:

SECTION 1: The City Council accepts in concept the following proposal:

ECONOMIC DEVELOPMENT PROGRAM

A. Capital Contribution

\$3,500,000 provided from T.I.F. bond issue for site preparation and public infrastructure benefits (e.g., building demolition, on-site roadway to reduce queuing, public sidewalk improvements, etc.)

B. Payment Priorities Upon Condominium Conversion, Sale or Transfer of the Property or Distribution of Capital

In the event of conversion of rental apartments to condominium ownership or the sale or transfer of the property, or the distribution of any capital proceeds, the proceeds from sale, transfer or distribution shall be distributed as available in the following priorities:

1. Payment of all costs of conversion.
2. Return of all New Private Capital.
3. Return of all New Private Capital providing a 15% internal rate of return.
4. Return of \$3.5 million capital contribution to the City.
5. Payment of \$250,000 to Housing Fund .
6. Payment of remaining proceeds as follows:
 - . City at 20%
 - . Developer at 80%

SECTION 2: In response to issues raised by the Economic Development Committee when it recommended conceptual approval of the proposal, the City Manager will work with the Developer to clarify the following:

- a) The definition of "costs of condominium conversion";

- b) The steps the Developer will take to effect the conversion from rental units to condominiums;

SECTION 3: That the City Manager will retain a consultant to address issues of feasibility identified at the May 6, 1993 Economic Development Committee Meeting. The consultant will make a written report to be provided to the Economic Development Committee and City Council before final action by the City Council on the Project.

SECTION 4: Within nine months of approval of this Resolution, it is expected that City Council consideration of this Project will be completed.

SECTION 5: The City Manager is authorized to proceed with the necessary studies, analyses, etc. in order to establish a tax increment finance district.

SECTION 6: The City Manager is authorized to negotiate a Redevelopment Agreement in accordance with said business points and to provide said Redevelopment Agreement to the Economic Development Committee and City Council.

SECTION 7: This Resolution shall be in full force and effect from and after the date of its passage and approval in the manner provided by law.

Lorraine H. Morton
Mayor

ATTEST:

Dustin Davis
City Clerk

Adopted: June 14, 1993

1660 CHICAGO AVENUE
Evanston, Illinois

5/05/93

ECONOMIC DEVELOPMENT PROPOSAL*

This Economic Development Proposal for the 1660 Chicago Avenue project outlines the economic parameters needed to allow the project's predevelopment and financing efforts to proceed. Presented herein are the economic outline and several specific deal points which must be incorporated in the redevelopment agreement.

ECONOMIC DEVELOPMENT PROGRAM

A. Capital Contribution

\$3,500,000

~~\$2,500,000~~ provided from T.I.F. bond issue for site preparation and public infrastructure benefits (e.g., building demolition, on-site roadway to reduce street queuing, public sidewalk improvements, etc.)

~~B. Line of Credit~~

~~Line of Credit provided from tax increment funds generated by the project~~

- ~~• An amount no more than 30% of interest paid on private debt instruments can be drawn annually~~
- ~~• Annual draw amount cannot exceed incremental taxes remaining after payments of T.I.F. principal & interest and payment of base real estate taxes (i.e., not provided unless available from remaining tax increment)~~
- ~~• Annual draw amount cannot exceed difference between real estate taxes paid and 12% of prior year's gross revenues (i.e., project pays 12% minimum real estate taxes)~~
- ~~• Cumulative total of Line of Credit draws cannot exceed \$4,000,000 (before calculation of simple interest return)~~
- ~~• Upon reaching maximum, no more interest computed~~

* Appropriate sections have been deleted or added to this Exhibit, consistent with the action of City Council on June 14, 1993.

C. Payment Priorities Upon Condominium Conversion

In the event of conversion of rental apartments to condominium ownership, proceeds from sale will be distributed as available in the following priorities:

1. Payment of all costs of conversion
2. Return of all New Private Capital
3. Return on all New Private Capital providing a 15% internal rate of return
4. Return on and of ^{\$3.5 million to the City} ~~(proportionately) @ 7% per annum, simple~~
 - ~~City Line of Credit (from date of funding)~~
 - ~~Developer Contributed Equity of \$4,350,000 (from start of construction)~~
 - ~~· City @ 30% to \$5 million (repayment of \$2,500,000 capital contribution)~~
 - ~~· Developer @ 70% to \$7 million~~
5. ~~X~~ \$250,000 to Housing Fund
6. ~~X~~
 - City @ 20%
 - Developer @ 80%

Item 1 provides for the payment of the costs of converting the property to condominiums including any capital improvement costs needed to consolidate units, as well as transaction, marketing, and financing costs.

Item 2 provides for the return of all New Private Capital employed for the project including the initial development costs, as well as fundings of future operating deficits, capital improvements, etc.

Item 3 provides for distribution sufficient to provide a 15% internal rate of return on the New Private Capital employed for the project. The calculation of this distribution recognizes any earlier net cash flows from property operations prior to the conversion.

\$3.5 million TIF proceeds.

~~Item 4 provides for the return to the City of any amounts drawn under the Line of Credit and to the Developer of its initial Contributed Equity, on a basis proportionate to the outstanding amounts. These amounts are provided with interest at 7% per year, simple. The Developer has acceded to the City's request for a reduction in the Line of Credit maximum, to \$4,000,000 in cumulative draws. This continues to be a major element of the proposal and any further reduction cannot be accepted.~~

~~Item 5 provides for the return to the City of the initial \$2,500,000 capital contributed from the T.I.F. bond proceeds plus an additional return element, all on a proportionate basis with the City getting 30% of each additional dollar until receiving a total of \$3,000,000. Also provided is return to the Developer for the additional risks (including construction and leasing) that continue to be borne by the Developer and project investors.~~

⁵
Item ~~5~~ provides for the next \$250,000 to be distributed to the Housing Fund.

⁶
Item ~~6~~ provides for all proceeds remaining at this point to be distributed 20% to the City and 80% to the Developer.

~~Attached are two runs indicating how the Economic Development Program will operate mechanically, including the distribution of net condominium conversion proceeds (under conversion scenarios in Year 6 and in Year 11).~~

OTHER PROGRAM ELEMENTS

Housing Fund

Upon receipt of the occupancy permit for the project, the Developer will contribute \$50,000 to the Housing Fund. Also note that a payment of \$250,000 to the Housing Fund has been provided in the Payment Priorities Upon Condominium Conversion.

MBE/WBE/EBE

The Developer agrees to pursue an affirmative action plan for the construction of the project similar in scope to other MBE/WBE/EBE programs implemented in the City of Evanston.

Streetscape

The property will coordinate its public sidewalk treatments with the downtown program being pursued through Evmark.

OTHER ISSUES AGREED IN PRINCIPLE

Assignability of Contract

~~This agreement must be assignable or transferrable to a new owner. The City has suggested that, on sale or transfer, this contract should be voided and that all obligations resulting from said transaction should be made whole (i.e., repayment of potential City participation).~~

~~This is an untenable situation for the Developer. JBC has not yet sold any assets in our portfolio. However, in the event that the project or partners need to raise capital, or in the event of hardship where the lender attempts to take back the asset, voiding the agreement would have significant negative impact on the value of the property. This creates a position where ownership has no way to provide liquidity to their position and a situation to the lending source that makes it impossible to underwrite the transaction.~~

~~It should further be pointed out that the City's original premise was to position themselves to participate in any windfall in the event of conversion. The Developer obligations would transfer to the future owner in the event that the property is converted to condominiums. This potential obligation impacts the value of the property and, hence, will result in a reduced sale value. Non-transferability of this agreement renders the transaction unfinanceable.~~

Termination of Simple Interest Calculation

~~It is possible that the building will be operated as rental apartments for an extended period. In that event, the continuing growth of our obligation to repay the Line of Credit to the City, in combination with a property facing significant age, can create a possibility that the City's claim exceeds the net value of the Developer's Equity in the building. As such, when the Line of Credit reaches its maximum, the interest on the Line of Credit and the Developer's Contributed Equity will be frozen concurrently. This is equitable to all parties and avoids a workout situation years in the future.~~

New Private Capital to Aid the Project

The original New Private Capital (estimated at approximately \$32-\$33 million) may require an additional infusion as the project leases up or in the event of a capital improvement resulting from emergencies or building deterioration. In order to attract this additional private capital, it must be in a position at least equal to the New Private Capital. This must be included in the agreement.

Sunset Provision/Term

~~The agreement must include an outside date for termination 20 years after opening the property, beyond which the Developer can no longer draw on the Line of Credit and simple interest on the Line of Credit and the Developer's Contributed Equity will no longer be calculated.~~