Public Policy for Use of TIF: Making Win/Win Deals

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CDFA/LISC TIF Practice and Policy Seminar

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Milwaukee, Wisconsin

S. B. Friedman & Company
Real Estate Advisors and Development Consultants

When Should TIF Be Used?

- To Address Blight and Potential Blight
  - Deterioration
  - Infrastructure
  - Lagging Development

- Affordable Housing
- Community Facilities
- To Compete
- As an Incentive
- To Seize Opportunity
- To Attain a Vision

For What Expenditures?

- Public Realm
  - Site Assembly
  - Demolition and Remediation
  - Infrastructure
  - Public Facilities
- Developer Assistance
  - Financing Gap
  - Extraordinary Site Costs
  - Higher Public Standards
  - Incentive for Achieving Public Goal Such as

    Mixed Income or Affordable Housing

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Is This a Project to Assist?

- Public Policy Goals
- Fiscal Benefits vs. Direct Costs
- Catalytic Impacts
- Job Creation and Accessibility, Immediate and Long Term
- Indirect/Intangible Impacts
  - Anchor Complementary & Linked Development
  - Add Employees to a Downtown
  - Encourage Civic Engagement
- Need for Assistance

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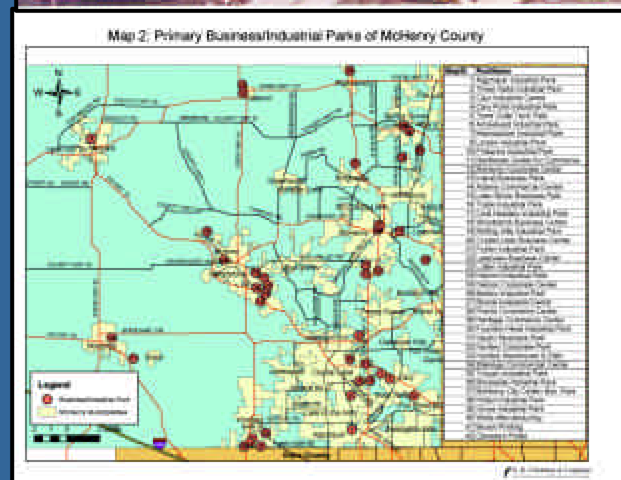
Evaluating a Project—Fiscal Benefits

- Incremental Property Tax
  - Realistic Estimates
  - Accurate Projections
- Other Tax Revenues (Impt. In Illinois)
- Direct Additional Public Costs
- Indirect Public Costs for Education & Services

Determining Gap and Need

- Extraordinary Costs
  - Land
  - Demolition
  - Cleanup
  - Soils
- Competition
- Financing Gaps



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Reviewing Project Costs

- Completeness: Consideration of Undergrounds, Environmental, Soil and Other Conditions
- Detail Adequate to Understand Project and Costs at Least at R. S. Means Levels
- Benchmark Against Industry Data
- Engineer's Estimates of Probable Cost
- Construction Cost Review by Estimators
- Market Data on Land Acquisition
- Market/Industry Norms on Soft Costs

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Evaluating Project Revenues and Returns

- Market Analysis
- Pre-Sales
- Letters of Intent and Leases
- Risk Adjusted Returns
- Benchmark R o I on Investment Properties
  - Current
  - IRR on Holding Period
- Benchmark Profit on Sales on For-Sale Product

Example Pro Forma
Community Shopping Center
Income, Expense & Returns Loan-to-Value Basis

Internal Rate of Return (IRR)	10%	w/ Total Cost
Internal Rate of Return (IRR)	17%	w/ Cash Equity
Cash Equity as % of Private	20%	

Assumptions

Project Cost	% of Total	$ 33,273,198
Equity	25%	$ 8,012,[illegible]
Mortgage Loan	70%	$ 24,000,000
TIF	6%	$ 2,000,000
Check	100%	$ 33,273,198

Financing Factors

Debt Coverage Ratio	1.25
Supportable Annual Debt Service	$ (2,367,434)
Inflation Rate	3%
Going-In Cap Rate	10%
Loan Term (years)	25
Interest Rate	7.25%

Operating Income

	Initial Occupancy	Building Area	Lease Rate (Net)	Gross Income	Vacancy Rate	Lease Term	Inflation Factor
Grocery Store	Year 2	65,000	$ 17.00	$ 1,105,000	0	20.0	1.2299
Drug Store	Year 2	15,000	$ 20.00	$ 300,000	0	20.0	1.2299
Small Shops	Year 2	95,000	$ 23.00	$ 2,225,000	5%	5.0	1.1041
Total/Operating Income		165,000		$ 3,630,000			

Operating Costs

				Annual Cost
Management (% of Income)			5%	$ 181,500
Reserve	SSF	$	0.20	$ 35,000
Common Area Maintenance (CAM)		$	3.00	$ 507,000
Property Taxes		$	2.00	$ 350,000
Total Operating Costs				$ 1,0[illegible]

Loan to Value

Direct Cap Value	$ 35,500,700
Loan Ratio	70%
Loan Limit by Value	$ 24,900,000

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Revenue	Occupancy		47%	97%	97%	97%	97%	97%	97%	97%	97%	97%
Rental Income		Construction	$ 1,420,000	$ 3,650,000	$ 3,650,000	$ 3,650,000	$ 3,650,000	$ 3,961,500	$ 3,961,500	$ 3,961,500	$ 3,961,500	$ 4,169,207
Vacancy Loss – Small Shops			$ -	$ (111,250)	$ (111,250)	$ (111,250)	$ (111,250)	$ (111,250)	$ (122,[illegible])	$ (122,[illegible])	$ (122,[illegible])	$ (133,[illegible])
Recoveries		$ -	$ 490,000	$ 655,209	$ 655,988	$ 855,103	$ 888,573	$ 908,582	$ 888,850	$ 940,[illegible]	$ 893,985	$ 983,265
Total Revenue			$ 1,885,900	$ 4,193,953	$ 4,374,739	$ 4,393,859	$ 4,469,323	$ 4,758,772	$ 4,665,301	$ 4,645,832	$ 4,702,734	$ 5,018,[illegible]
Operating Expenses												
Management Fee			$ (71,250)	$ (181,250)	$ (181,500)	$ (181,500)	$ (181,500)	$ (193,079)	$ (193,079)	$ (193,079)	$ (193,079)	$ (205,460)
Reserves		$ -	$ (33,000)	$ (34,476)	$ (35,100)	$ (35,800)	$ (36,590)	$ (37,315)	$ (38,064)	$ (38,826)	$ (39,602)	$ (40,394)
Common Area Maintenance			$ (507,000)	$ (517,140)	$ (527,483)	$ (538,032)	$ (548,793)	$ (559,769)	$ (570,964)	$ (582,384)	$ (594,031)	$ (605,912)
Taxes			$ (338,000)	$ (344,760)	$ (351,655)	$ (358,688)	$ (365,862)	$ (373,179)	$ (380,643)	$ (388,256)	$ (396,021)	$ (403,941)
Total Expenses		$ -	$ (949,050)	$ (1,077,626)	$ (1,095,804)	$ (1,114,090)	$ (1,132,745)	$ (1,163,342)	$ (1,182,551)	$ (1,202,244)	$ (1,222,733)	$ (1,255,711)
Net Operating Income			$ 932,850	$ 3,080,025	$ 3,279,936	$ 3,277,769	$ 3,276,578	$ 3,495,367	$ 3,482,250	$ 3,441,208	$ 3,480,000	$ 3,558,206
Debt Service		$ -	$ (2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)	($2,367,434)
Equity Investment		$ (7,161,138)	(1,111,484)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Residual Value		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 41,018,819
IRR on Total Cost After TIF	10%	$ (33,273,198)	$ 932,850	$ 3,080,025	$ 3,279,936	$ 3,277,769	$ 3,276,578	$ 3,495,367	$ 3,482,250	$ 3,441,208	$ 3,480,000	$ 44,203,330
IRR on Equity	17%	$ (7,161,138)	$ (1,111,484)	$ 912,665	$ 911,501	$ 910,335	$ 909,144	$ 1,127,933	$ 1,115,014	$ 1,113,858	$ 1,112,566	$ 10,[illegible]
Cash-on-Cash Return on Equity		NA	NA	13%	13%	30%	13%	13%	13%	13%	13%	23%

Source: S. B. Friedman & Company

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Competitive Conditions

- Business Climate
- Labor Force
- Alternative Sites
- Incentives Offered by Competitors
- Operating and Transportation Costs
- Location Relative to Market for Retailers

  (Typically More of an Issue in Sales Tax Sharing States Like IL and OH)

Structuring the Deal

- What is the Need and Risk?
- Timing
- Grants
- Loans
- Clawbacks
- Resets/Stop Assistance
- Profit Sharing

Monetizing Assistance

- Front Funding from Municipal Sources
  - General Obligation Bonds
  - Sales Tax Revenue Bonds
- Loan Structures
  - Economic Development Corp
  - Mortgage Layers
- Developer Notes/Special Revenue Bonds

NEW ISSUE—BOOK - ENTRY ONLY NOT RATED

In the opinion of Bond Counsel, subject to compliance by the Village and others with certain covenants, under present law interest on the Series 2005 Bonds (as defined herein) is not includible in gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, as more fully discussed under the heading "TAX EXEMPTION."

$19,000,000
VILLAGE OF WHEELING
Cook and Lake Counties, Illinois
Tax Increment Revenue Bonds
(North Milwaukee/Lake-Cook TIF Project)
Series 2005

Dated: Date of Issuance 6.00 % Due: January 1, 2025

Principal of and interest (payable semi-annually on January 1 and July 1 of each year, commencing January 1, 2006) on the Series 2005 Bonds (the "Series 2005 Bonds") are payable by The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), to The Depository Trust Company ("DTC"), the securities depository for the Series 2005 Bonds, which will remit such principal and interest to the DTC Participants (as defined herein), who in turn will be responsible for remitting such payments to the Beneficial Owners (as defined herein) of the Series 2005 Bonds, as described herein. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2005 Bonds, references herein to the registered owners of the Series 2005 Bonds means Cede & Co., and shall not mean the Beneficial Owners of the Series 2005 Bonds. The Series 2005 Bonds will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. Individual purchases will be made in global book-entry form only, in the principal amount of $100,000 or integral multiples of $5,000 in excess thereof. Purchasers will not receive physical bonds representing their interest in the Series 2005 Bonds purchased.

The Series 2005 Bonds are subject to a high degree of risk. See "RISKS TO BONDHOLDERS" beginning on page 63 herein for a discussion of certain factors that should be considered by prospective investors.

The Series 2005 Bonds are being issued pursuant to the Tax Increment Allocation Redevelopment Act, as amended (65 ILCS 5/11-74.4-1 et seq.), as supplemented and amended by the Local Government Debt Reform Act, as amended, and the other Omnibus Bond Acts, as amended, and as further supplemented, and where necessary, superseded, by Section 6 of Article VII of the 1970 Constitution of the State of Illinois (collectively, the "Act"). The Series 2005 Bonds will constitute valid and legally binding limited obligations of the Village (as defined herein), payable solely and only from Pledged Taxes (as defined herein) and the amounts on deposit in certain of the funds and accounts established and/or maintained under the Indenture (as defined herein) all as more fully set forth herein.

THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE VILLAGE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION. NO HOLDER OF THIS BOND SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF ANY TAXING POWER OF THE VILLAGE FOR PAYMENT OF PRINCIPAL HEREOF OR INTEREST OR PREMIUM, IF ANY, HEREON.

Price 100 %

The Series 2005 Bonds are subject to optional redemption prior to maturity as described herein. The Series 2005 Bonds are also subject to mandatory redemption prior to maturity as described herein.

The Series 2005 Bonds when issued are subject to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Certain legal matters are being passed upon by Klein, Thorpe & Jenkins, Ltd., Chicago, Illinois, counsel to the Village of Wheeling, Illinois, and Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois, counsel to the Underwriter. The Series 2005 Bonds in book-entry form will be available for delivery to DTC upon payment therefor on or about August 25, 2005.

William Blair & Company

The Date of this Limited Offering Memorandum is August 23, 2005

Conclusion

- Use TIF to Achieve Public Policy Goals
- Evaluate Each Deal as to Need
- Structure to Meet Type of Need But Protect Public
- Share in Upside Through Soft-Second and/or Profit Sharing
- Seize the Future as Well as Fix the Past

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Win/Win

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Resources

- *Planning & Urban Design Standards*, John Wiley & American Planning Association, 2006, Part 6-4 “Revitalization and Economic Development” and 6-6 “Real Estate Development.”
- *Public Incentives for Development*, Real Estate Issues, The Counselors of Real Estate, August, 1995
- Building Owners & Management Association International. http://www.boma.org
- Institute of Real Estate Management. http://www.irem.org
- *The Business of Building, Measuring Your Success, 2001 Cost of Doing Business Study*. Washington, D.C.: National Association of Home Builders.
- Real Estate Research Corporation, Real Estate Report. www.RERC.com
- PricewaterhouseCoopers. *Korpacz Real Estate Investor Survey korpacz.survey@us.pwc.com*
- *National Building Cost Manual*. Carlsbad, CA: Craftsman Book Company
- *RSMeans Square Foot Costs. www.rsmeans.com*
- *Dollar & Cents of Shopping Centers.* Washington, D.C.: ULI-the Urban Land Institute.
- *Dollar & Cents of Multi-family Housing: A Survey of Income and Expenses in Rental Apartment Communities.* Washington, D.C.: ULI-the Urban Land Institute.
- American Council of Life Insurers. 2004. *Commercial Mortgage Commitments*, Washington, D.C.: American Council of Life Insurers.

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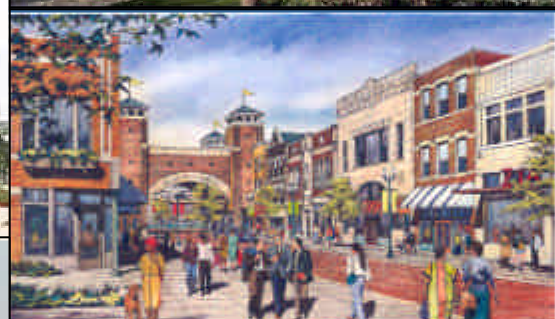

- Development Strategies
- Public-Private Partnerships
- Market & Financial Feasibility
- Area Plans & Implementation
- Developer Solicitation
- Tax Increment Financing
- Special Service Areas
- Fiscal Impact

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