



Legislation Text

File #: 19-0974, **Version:** 1

TO: Mayor Richard C. Irvin

FROM: David Dibo, Executive Director

DATE: October 22, 2019

SUBJECT:

A Resolution requesting the approval of a Redevelopment Agreement (RDA) between the City of Aurora (COA) and Fox Valley Developers LLC (FVD) that will facilitate execution of a redevelopment plan to rebuild and tenant the Old Copley Hospital (502 S. Lincoln Avenue, 301 Weston Avenue and 310 Seminary Avenue) referenced in the RDA as Avalon Heights. Elements of the renewed campus will be branded and marketed by FVD in the months ahead.

PURPOSE:

Fox Valley Developer's innovative living community is planned with multiple uses that intend to serve two underrepresented populations: 1. seniors and 2. individuals with intellectual or developmental disabilities (I/DD) who are high functioning and have low support needs [known as an independent apartment community (IAC)]. Additionally, to address the identified shortage of recreation and access to health care in the area, areas of the renewed campus have been dedicated to those purposes. Approval of the RDA will cause an adaptive reuse of the entire former Copley Hospital campus, with the development of new additional parkland and open space, and a new structure to accommodate the relocation of the East Aurora School District 131 Administrative Center. But for the public/private partnership that has been proposed, the comprehensive redevelopment would not occur. Approval by Council will enable FVD to access TIF and other COA incentives, in addition to the substantial equity advances and committed third-party financings. The Phase II development cost estimate is \$110 million. The COA commitment during Phase II will be \$9 million which will be divided into layers or tranches described below. In addition the incentive includes a "pay-as-you-go" TIF that initially divides the incremental property taxes at 80% FVD and 20% COA, and then to 70%/30% respectively after Jan 1, 2033. As noted, this project will also result in the creation of new publicly accessible parks, landscaped neighborhood open space and create the new administrative and training center for School District #131 across the street from their largest elementary school.

BACKGROUND:

The Copley Hospital Campus, vacant for 25 years and environmentally hazardous, came to symbolize institutionally entrenched decay impacting the Bardwell School neighborhood, the greater community and COA. Two years ago, COA was approached by six individuals with deep local ties to the COA, inquiring whether COA was willing to work cooperatively on a process that could lead to the clean up and full redevelopment of the 300,000 square foot five building complex. At the time COA was about to enter a contested and costly lawsuit against owners Raghuveer and Anita Nayak to compel environmental remediation with an uncertain outcome. For many years, inquiries were made by developers or solicited by COA for investment/redevelopment of the site. The general consensus

was “too many unknowns, too big no market, too risky...”. Demolishing the complex was considered, analyzed, and ultimately rejected, complicated by the requirement for remediation prior to being demolished. In August of 2018, City Council approved an RDA for “Phase I” with FVD in which COA would reimburse FVD 25% of bona fide costs for remediation (that needed to be carried out methodically in conformance with federal and state historic guidelines). COA engaged Project Management Advisors (PMAinc.com), a nationally known expert in development services, to review invoices and confirm FVD expenditures. On Aug 30, 2019, COA, after obtaining verification that the site was confirmed “clean” and all invoices were paid, COA reimbursed FVD its 25% share (\$3 million of at least \$12 million) even though the remediation and associated costs exceeded this amount. Work began immediately on the Phase II execution/ redevelopment phase.

DISCUSSION:

As is the case with many projects in the central core of the City, the costs of development at most sites outweigh the value that can be generated from the redeveloped sites, making financing very difficult and redevelopment not feasible. Availing themselves of Federal and State Historic tax credits was the critical factor for FVD to effectively bring down the “cost side” of the development. These credits were also used in many of the renovations in the downtown. More challenging was envisioning, analyzing and executing “the revenue side” where the magnitude of the buildings (about ten times the size of these downtown projects) required mixed but complimentary uses combined in a master plan that would preserve the historic integrity of the buildings. This by definition limits the uses as the interiors and exteriors of the buildings need to generally conform to its original configuration. (One of the limitations of the Masonic Temple was its lack of fenestration and the majority of its floor plan being 2 story spaces that could not readily be altered for reuse). FVD hired a cadre of professionals to guide the development who affirmed a demand for senior housing, an independent apartment community (housing for individuals with intellectual and developmental disabilities that have low support needs), together with medical offices including a proposed surgical center, educational and administrative offices, new recreation amenities and landscaped open space parks. FVD entered into agreements with School District 131 who was known to have been looking for expanded and upgraded offices. FVD is also entering into an agreement with Family Focus, the holistic family support center also requiring new space. In addition FVD has an agreement with the Fox Valley Park District for a new park that will be outfitted to serve all populations including those with special needs. Also FVD has entered into an agreement with Vituity, a physician led and owned partnership to open an urgent health care wing. Vituity operates in 14 states.

FVD interviewed a number of firms to manage the senior housing and selected Gardant, the Bourbonnais, IL based provider of over 40 senior, assisted living and memory care facilities in the Midwest. Gardant is the 29th largest Senior Housing Operator in the Country.

For the IAC, FVD has engaged the management team associated with St. Louis Life, the cutting edge apartment community that filled a need for a post-secondary residences for highly functioning I/DD individuals.

FVD is creating/causing to happen the uses that will produce the revenue to offset the project’s overall the \$128.5 million budget. Waiting for users to appear, or tying up the property while users are solicited was not an alternative given the needed environmental clean-up and substantial investment required for Phase I. At that point to make this all come together, FVD needed to combine the attributes of a traditional real estate developer, the entrepreneurial acumen and risk tolerance of a

successful business team, the management savvy of an experienced operator, the construction expertise of an experienced general contractor with the medical experience of a highly skilled and proven health care professional team.

There has been much discussion over the past year in the context of the “first wave” of downtown developments now under construction of “filling the gap” defined as that incentive package that “but for” being provided would cause the property to remain vacant or highly underutilized. Avalon Heights had the same challenges, exacerbated by a location on the near east side that has seen little redevelopment and no discernible reuses. The size of the property, often a positive for developers seeking economies of scale was a further impediment with its “white elephant” comparisons.

To define the gap, staff reviewed projections both on the revenue/expense and cost/source sides with FVD. The total development cost is \$128.5 million. The Developer has secured \$46.2 million in net tax credits and approximately \$48 million in bank loans. An additional \$25.3 million is being funded by developer equity and tenant contributions. This totals \$119.5 million leaving a gap of \$9 million dollars or the differential between the development costs and funding available for the redevelopment.

Post construction the project on average needs \$800,000 per year in TIF rebate from the COA to achieve the \$5.25 million annually needed to qualify for the \$48 million in loans such that there is adequate debt service coverage and loan to value compliance during the initial ten stabilized years. This income is generated by a combination of senior and IAC net operating income and lease income from the commercial (medical, school district and other) uses.

In addition to the equity put into the project, FVD will be responsible for approximately \$48 million in mortgage debt of which about 75% is recourse to them, meaning that the loan has been guaranteed individually by the developers.

The City provided incentive is structured with similar to the smaller downtown developments to include up-front funds and TIF revenues over a 23 year TIF period. This incentive is composed of \$9 million during the construction period, based on certain benchmarks, and the remaining City payments coming from incremental real estate taxes that FVD itself is creating. Of the \$9 million, COA expects to be reimbursed approximately \$3 million based on COA’s 20% share of incremental taxes, an additional \$3 million is a straight out grant and the remaining \$3 million is structured as a forgivable loan that is reduced straight line over ten years. COA will receive 10% of the net proceeds from a sale of all or a portion of the property and will be the beneficiary of 30% of the TIF (rather than 20%) respectively after Jan 1, 2033. Based on projections, these potential sources of revenue can create new revenues to support the repayment of the \$9.0 million as follows:

\$7.4 million in established TIF property taxes from the City share

\$2.2 million in direct General Fund revenues that can be used to also abate the debt.

\$3.6 million in indirect revenues associated with the \$15 million annual payroll, and higher than average income per employee

Sensitivity Analysis of 1% EAV additional positive impact for 1 square mile around the site - \$1.5 million

Debt service costs anticipated to be \$15 million+/- 10% compared to above total possible revenues of \$14.7 million.

IMPACT STATEMENT:

The developers have provided an in depth review of potential positive impacts for this project that can help quantify the social and economic “good” being accomplished as follows:

740 construction related jobs associated with the total \$130 million project (investment in the community)

228 ongoing jobs with an annual payroll of \$15 million and an average annual salary of \$65,000

Additional Sales, Food and Beverage, Utility and Telecommunications taxes to support the City debt issue for the project

\$2.3 million building fees to support General Fund/inspection operations

Sensitivity Analysis (hypothetical) of 1% increase in the Equalized Assessed Valuation of property of 1 square mile around the site - \$1.5 million in total taxes assuming 2% EAV growth over life of TIF (inflation).

RECOMMENDATIONS:

Staff recommends approval of this Redevelopment Agreement

cc: Alderman Robert J. O'Connor, Chairperson
Alderman Edward J. Bugg, Vice Chairperson
Alderman Carl Franco
Alderman Scheketa Hart-Burns
Alderman Emmanuel Llamas



CITY OF AURORA, ILLINOIS

RESOLUTION NO. _____
DATE OF PASSAGE _____

A Resolution Authorizing the Execution of A Redevelopment Agreement with Fox Valley Developers, LLC for the Avalon Heights Development.

WHEREAS, the City of Aurora has a population of more than 25,000 persons and is, therefore, a home rule unit under subsection (a) of Section 6 of Article VII of the Illinois Constitution of 1970; and

WHEREAS, subject to said Section, a home rule unit may exercise any power and perform any

function pertaining to its government and affairs for the protection of the public health, safety, morals, and welfare; and

WHEREAS, the City has the authority, pursuant to the laws of the State of Illinois, to promote the health, safety and welfare of the City and its inhabitants, to prevent the presence of blight, to encourage private development in order to enhance the local tax base and increase additional tax revenues realized by the City, to foster increased economic activity within the City, to increase employment opportunities within the City, and to enter into contractual agreements with third parties for the purpose of achieving the aforesaid purposes, and otherwise take action in the best interests of the City; and

WHEREAS, the Mayor and City Council ("Corporate Authorities") of the City have considered a redevelopment agreement for Fox Valley Developers, LLC for reimbursement of eligible redevelopment project costs for the property commonly known as Old Copley Hospital in the City, a true and correct copy of the "Redevelopment Agreement For The Avalon Heights Development In The City Of Aurora, Illinois" being attached hereto and made a part hereof as EXHIBIT A ("Redevelopment Agreement"); and

WHEREAS, the Corporate Authorities of the City have determined that it is in the best interests of the residents of the City that the Redevelopment Agreement be entered into by the City, and further, that but for the provision for incentives as provided therein, the property would not otherwise be developed as provided therein; and)

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Aurora, Illinois, as follows: by the City Council of the City of Aurora, Kane, Kendall, Will and DuPage Counties, Illinois, as follows:

SECTION 1: The Preambles hereto are hereby made a part of, and operative provisions of, this Resolution as fully as if completely repeated at length herein.

SECTION 2: That the Mayor and City Council of the City hereby find that it is in the best interests of the City and its residents that the Redevelopment Agreement with Fox Valley Developers, LLC be entered into by the City, with said Redevelopment Agreement to be substantially in the form attached hereto and made a part hereof as EXHIBIT A.

SECTION 3: That the Mayor and City Clerk of the City are hereby authorized to execute the Redevelopment Agreement on behalf of said City

SECTION 4: That this Resolution shall take effect from and after its adoption and approval as required by law.

ADOPTED this ____ day of _____, 2019, pursuant to a roll call vote as follows:

APPROVED by me this ____ day of _____, 2019.

Richard Irvin, City Mayor

(SEAL)

ATTEST:

_____, City Clerk