

The Council of the City of North Royalton met in the North Royalton City Hall Council Chambers, 13834 Ridge Road on December 10, 2005, to conduct a **Special Work Session**. The Work Session was called to order at 10:00 a.m. by President of Council Robert A. Stefanik, and opened with the Pledge of Allegiance.

PRESENT: Council: President of Council Robert A. Stefanik, Council Representatives Denise Bobulsky, Vince Gentile, Don Willey, Kurt McKee, Robin Zaccardelli, Lisa Uffman-Kirsch, Legislative Services Director Laura Haller.

Administration: Mayor Cathy Luks, Law Director Thomas O'Donnell, Finance Director Karen Fegan, Community Development Director Mike Kosdrosky.

Guests: North Royalton City Schools: Cathy Bican, Randy Boroff, Heidi Dolezol, Barb Soggs, Cheryl Tuttle; Roetzel & Andress: Amanda Gordon, Dave Harbarger.

Mrs. Haller read the Special Work Session Notice.

Dave Harbarger of Roetzel & Andress made a presentation to Council. He stated that all three Ordinances (05-185, 05-186 and 05-187) are interrelated and create the ability for the city to use tax increment financing (TIF) for the purpose of financing public improvements in the downtown project.

Mr. Harbarger explained that the project development agreement is a base starting point document and forms the foundation for the whole project. It is an agreement between the city and a developer to develop the specific part of the project that has been planned for downtown. This agreement and the terms and conditions that are in it lead to approximately 20 plus other agreements, such as the cooperative agreement between the city, the developer and the port authority and perhaps the School Board as well, the construction management agreement, various leases and other documents that finalize the project etc., as this whole matter unfolds.

The importance of the adoption of the project development agreement and the economic development plan before the end of the year has to do with current changes in state law. HB 66, the tax reform bill adopted this year, contains a number changes to certain existing statutes, some being site specific and some having general application throughout the state. The one big change deals with how TIF projects will work after the first of the year. Currently, the only required agreement necessary in order for the city to do tax abatement is the revenue sharing agreement with the School Board. After the first of the year, the agreement for any kind of TIF that is more than 75% and longer than 10 years will have to go through the county for approval. Under the transition rules in HB 66, if you have a project development agreement in place and an economic development plan completed you would fall under the old statute. There are many significant advantages to this, including the fact that the county has never done this before and it is unknown how long it will take them to get the necessary people in place to be able to review these projects, negotiate and deal with all the taxing entities that are overlaid in the development area and figure out how to treat each one of them. The School Board has the right to disapprove this project and this is why you need to have a revenue sharing agreement to get them to approve the project. The School Board has been given draft documents and we have had preliminary discussions with them regarding the types of school projects that might be included in the development area.

Mr. Harbarger provided an overview of how TIF financing works.

Mr. Harbarger explained that the transitions rules are put into this statute for a reason; this is not a loophole. These rules were put into the statute for projects like ours that are already so far down the road and all this work has been done in advance of us getting to this date. These provisions allow for anyone who has a project development agreement in place by the end of the year to proceed under the existing statute. This is why we need to get the project development agreement passed before the end of the year.

Mayor Luks said that some of the contemplated public improvements in this include the possibility of a new City Hall or a joint City Hall/School Administration building, sports facilities, parking garages, infrastructure improvements around the site, a library moving there, etc. These types of improvements will enhance the entire project and its sustainability by creating the necessary foot traffic for the retail to succeed. Mayor Luks said that these public components are the critical piece that makes this project doable, particularly in the eyes of the developer.

As an example, Mr. Harbarger said that there is a project in South Euclid consisting of 12 acres (our project is up to 120 acres). The current valuation of the 12 acres is \$12 million. The incremental increase after the developer's improvement is conservatively estimated to be \$40 million. This \$40 million incremental increase generates a net of \$21 million dollars in current dollars for spending on public improvements for the area. This project at this level will generate approximately \$250,000 in new income taxes for the City of South Euclid.

Mr. Harbarger said that it is believed that our project is going to have a minimum incremental increase in valuation of \$100-\$120 million. It could in fact get as high as \$250 million. We will know more once the developer does the market studies to determine how much retail, office, housing, etc can be developed in the area and what makes the most economic sense for the area. Even with the conservative estimate of \$120 million, we are probably talking in the neighborhood of \$65-\$70 million dollars available for public improvements in TIF financing. This money will be spent on the public spaces of the project such as the City Hall, parking garages, etc. This is something that Council will decide in the subsequent contracts. Once the developers plan is prepared, we will know what infrastructure improvements will have to be made such as sewers, roadways, etc. There should be enough money to handle all of these needed improvements through the TIF bonds. This project is conservatively expected to generate at least \$750,000 in new income tax.

Mayor Luks said that there will be other financial benefits to this project such as new sewer tap-ins and new sewer users. This added revenue stream will go toward paying down our sewer debt which will have a positive effect on our sewer rates.

Mayor Luks said that the developer must demonstrate to his financiers his ability to lease this space and one of the reasons we chose this developer is that he has a reputation for being extremely well connected with tenants and has the ability to bring in very good solid tenants that will stay with the project.

Mr. Gentile asked if the ratios of retail/office/residential would have an effect on how much money comes back in income taxes.

Mr. Harbarger said that you get more tax revenue from residential and office than from retail. The city needs to ensure a good mix to make the whole project work.

Mr. McKee asked where the money would come from to purchase the properties involved.

Mr. Harbarger said some will come out of the bond proceeds and some will be fronted by the developer. The city can buy the land upon which the public improvements are going to be built, but we can't purchase the land upon which the developers improvements are going to be built.

Mr. Stefanik asked when the economic study by the developer will be started.

Mr. Harbarger said that it will be started as soon as the agreement is signed and they have 180 days to complete it.

Mr. Gentile asked what the risks are to the city.

Mr. Harbarger said that there is always a little risk. We have had expenses to get to the point we are at now and there will be more expenses from now until the developer comes in with this preliminary plan later this year. If the developer determines that the project is not beneficial, the expenses that the city has to that point would be around \$50-75,000. That's the risk. There is no further risk to the city. The city does not guarantee the bonds, the city does not float any money to anyone, the city does not have its credit at risk. Other than the fact that we use the TIF to fund certain projects, the remaining funding is all private financing.

Mayor Luks said that if by some odd chance the developer should determine not to proceed with the project, there are other developers waiting in the wings that have already told us that they want the project. She also stated that the developer is already being contacted by national retailers that want in on this project. Mayor Luks said that this will be the biggest economic development project that this city has ever seen or probably will ever see again.

Mayor Luks stressed that we want to get this project started before some other project crops up that makes ours less appealing. It is important to keep the momentum going. If we are not first, it might change the scale of the project and what this city might be able to sustain with something competitive nearby.

Mr. Harbarger said that the types of retail we could attract would be identical to those at Crocker Park.

Regarding office space, Mayor Luks felt that due to our location we would conservatively expect to attract business such as a 3 person architectural business, a local tax accountant, etc.

Mr. McKee asked if there were any incentives being offered to attract business.

Mr. Harbarger said that the incentive will be all of the public improvements with the TIF. This project could not be done at this location without TIF. These public improvements will allow the rental costs to be lower for the retailers.

General discussion ensued regarding the various financial issues that relate to the School Board and the revenue sharing agreement they will negotiate with the city. Mr. Harbarger said that the eventual outcome is that ultimately the School Board is made whole on the entire incremental increase.

Mr. Stefanik asked if this legislation needed to go three readings or could it be passed under the suspension of the three reading rule.

Mr. Harbarger said that either way is fine.

Mayor Luks said that there are still some yet to be negotiated items remaining with the developers agreement and these will be finalized before the next Council meeting and the adoption of this legislation.

Mr. Harbarger said that after this legislation is approved, any major amendments will have to be approved by Council.

Miss Zaccardelli asked what would happen if the developer finds out he can't lease the space as expected.

Mr. Harbarger said that the developer is paying for this development and he is not going to build what he can't rent; the banks won't loan him the money to do it. He will have to prove to the banks all the way along that he can lease these buildings.

Mr. Gentile asked who determines how and when the TIF money for the public improvements gets spent and who decides on the projects.

Mr. Harbarger explained that as we go through the process there will be other agreements including cooperative agreements and construction management agreement. The Planning Commission will approve the site plan and the site plan will have the public improvements included.

Mr. Harbarger and Mr. Kosdrosky provided an overview of the TIF financing procedures and project parameters.

An overview of the eminent domain process was also provided.

Exhibit A of the agreement, the map of proposed properties involved in this project, was reviewed and discussed.

All parking lots and garages will be free of charge. There will be meters in front of the individual retailers in order to discourage long term parking and allow for quick access by the public. All parking facilities will be maintained and secured by the developer.

Mr. Harbarger and Mayor Luks explained that only Ordinances 05-185 and 05-186 must be approved by the end of the year; Ordinance 5-187 does not. The city has not yet finished negotiating and we are grandfathered under the current law with what we have done so far.

In response to various questions involving the developers agreement, Mr. Harbarger explained that the language used is boilerplate to make sure that these documents comply with applicable state and federal law.

Regarding the section that pertains to the waiving of fees, Mr. Harbarger explained that we negotiated with the developer for quite a bit less than the developer wanted. Most developers want all the fees waived. We agreed to waive only the building permit fees and the impact fees. All sewer tap-in fees will be paid.

Mr. Harbarger explained that this developer will be responsible for the maintenance of the streets, sidewalks, public right of ways, garages, etc., as well as the snow plowing, rubbish pick up, and other services that the city normally provides. If they should fail to perform, we can do the work ourselves and immediately assess them the full cost without having to go through the normal assessment procedures.

Mayor Luks explained that this developer does not develop the property and then sell it for a profit. He maintains ownership and is in it for the long haul. She also stated that the city has made certain that this developer is financially sound.

Mr. Kosdrosky provided an overview of the Economic Development Study attached to Ordinance 05-186 and reviewed and explained all of the various components that make up this study.

Mr. Willey asked who would negotiate the financial aspect with the schools.

Mayor Luks said that the administration will conduct these negotiations, with Council ultimately having final approval.

Discussion between various board of education members and Council ensued regarding the matter of the vocational career center and their role in the TIF.

There was no further business to be discussed.

ADJOURNMENT

Moved by Mr. Willey, seconded by Mr. Gentile to **adjourn the Work Session**. Roll Call: Yeas: **Seven** (Stefanik, Bobulsky, Gentile, Willey, McKee, Zaccardelli, Uffman-Kirsch). Nays: **None**. **Motion carried.**

Work Session adjourned at 12:10 p.m.