

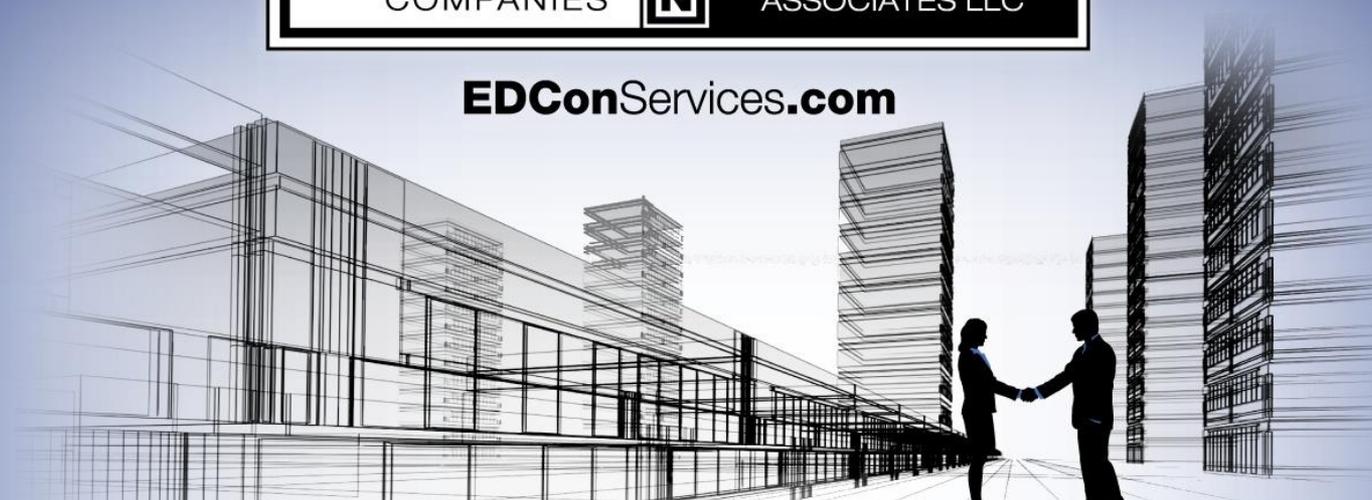
Economic Development Consulting

the **BUCKLEY**
COMPANIES



NICOLOSI &
ASSOCIATES LLC

EDConServices.com



**Negotiating with Developers
in Today's Economic Climate**

Presented by: Paul Nicolosi of Nicolosi & Associates and The Buckley Companies



Prepared Exclusively for the Illinois Municipal League

Copies of this presentation and a Sample Impact Analysis are Available at: www.EDConServices.com

Presentation Overview

■ Developers & Communities

□ The Way it was

- Lots of developers seeking projects
- Communities responding to requests
- Gaps, Bridges, & Sources (TIF, SSA ect.)

□ The Way it is

- Few –if any – developers seeking Projects
- Communities must be creative and proactive
 - Invitations for interest to qualified and targeted developers
- Gaps, Bridges, & Sources –
 - Traditional but P3's as well

■ What's the Developer Thinking?

■ Can Deals get financed?

■ Q & A Session



Role Reversal – what has Changed?

It might look the same but it's not!

Communities who want or need projects undertaken must be proactive.



The approach has changed Communities now must:

1. Have a better understanding of their goals for the project
 - Vision vs. Financial
2. Fully understand the cost for achieving their project goals
3. Seek out qualified developers to achieve their goals
4. Provide adequate incentives to entice qualified developers
 - Provide Equity & Access to Capital
 - Mitigate Risk

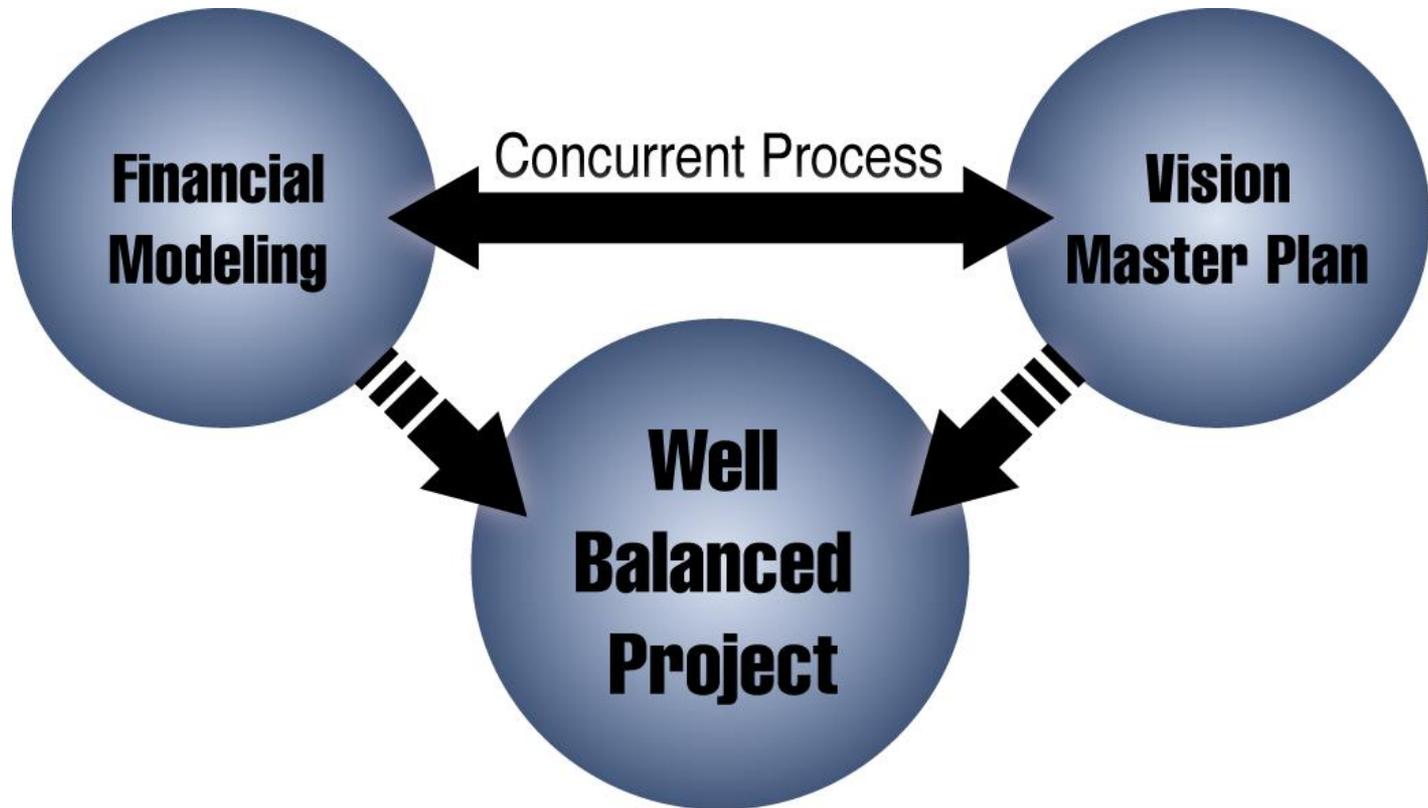
Why has it Changed?

Understanding the Reasons Illuminates the Solutions

1. Fewer Developers
2. Developers have less Equity to invest in new projects
3. Developers have lots of Deals to choose from
 - Distressed properties can be bought at deep discounts.
4. Debt - Capital Markets – are sparse and where available have tightened dramatically
5. Developers have become Risk Adverse

Community's Goal For the Project

Finance vs. Vision



Community's Goal For the Project (Cont.)

Finance vs. Vision

- **What's the Community's primary motivation for the project?**
 - **Vision-Driven:** The project is necessary to redefine the community as a whole or an area within the community.
 - Downtowns, Transit Oriented & River Front
 - **Financially-Driven:** The project must be done to mitigate the community's financial risk.
 - Bond interest reserves are running out; Community owns real estate

Community's Goal For the Project (Cont.)

Finance vs. Vision

■ Defining the Community's Vision

- Has a recent Master Plan of the project been done for the community?
 - Completed within last 12 months
 - Done for Community not a previous developer
- Is there political & public support for the Plan's vision ?
 - Staff consensus
 - Board buy-in
 - Public buy-in

Community's Goal For the Project (Cont.)

Finance vs. Vision

Financial Sensitivity Modeling

Done in conjunction with project Visioning

1. Shows Sources and Uses of funds
2. Supported by detailed and time weighted models of; **a) Construction Cost, b) Absorption Rates, c) Revenues & Expenses, and d) TIF, BDD, SSA and other public finance sources**
3. Allows for “what-if” or variable inputs and delivers results that help define financial cost of vision alternatives
4. Makes the Community well informed about the project's economics & helps drive a better deal with developer
 - Identifies the Community “GAP” or level of incentives necessary to attract qualified developers

Typical Variable Sheet in Financial Models

OVERALL DEVELOPMENT

<i>CPI</i>	2.81%
<i>Cap Rate</i>	8.50%
<i>Tax Rate</i>	8.2543%
<i>Bond Interest Rate</i>	4.50%

COMMERCIAL

<i>Square Feet</i>	175,000
<i>Rental Rate PSF</i>	\$23.50
<i>Construction Cost PSF</i>	\$150
<i>FMV PSF</i>	\$276
<i>EAV PSF</i>	\$92.16
<i>Annual Taxes PSF</i>	\$7.61

RESIDENTIAL

<i>Number of Units</i>	150
<i>Size Per Unit</i>	1200
<i>Sale Price Per Unit</i>	\$150,000.00
<i>FMV Per Unit</i>	\$150,000.00
<i>EAV Per Unit</i>	\$50,000.00
<i>Annual Taxes Per Unit</i>	\$4,127.15

VELOCITY ASSUMPTIONS

	2006	2007	2008	2009
<i>Commercial SqFt Constructed</i>	43,750	43,750	43,750	43,750
<i>Residential Units Constructed</i>	20	30	40	60

Typical Conclusion Reached in Financial Model

SOURCES OF FUNDS	
Tax Increment	\$5,000,000
Sale of Property	\$12,000,000
Business District Tax	\$3,500,000
TOTAL	\$20,500,000
USES OF FUNDS	
Property Acquisition	\$12,000,000
Infrastructure	\$2,000,000
Soft Costs	\$500,000
Interest Carry Costs	\$100,000
Developer Incentive	\$750,000
TOTAL	\$15,350,000
TOTAL COMMUNITY INVESTMENT	\$5,150,000

Executive Summary of the Project

■ Purpose

- Highlights key finding
- Tells the project story succinctly
- Gets audience up to speed on Financial Drivers

■ Content

- No more than 10 pages
- Vision, Key Findings, Financial Drivers,
- Economic Benefits to Community

■ Uses

- Community's elected officials
- Prospective developers
- General Public

Next Steps

With Community's Goals for the Project Set, what Next?



Community Buy-In - Plan done is there consensus?

- Ownership of the Plan
 - Committee or Key board member meetings
 - Closed Session with counsel to give executive summary
- Public Transparency
 - Media one on one meetings for Q&A
 - Launch Project simple web site
 - Full Plan on site
 - Public meetings with comments

Identifying Qualified Developers

- **Proactive Regional Search**
 - **Profile the ideal developer**
 - Prior Relevant Project Experience
 - Strong Reputation
 - Financially Stable – Dunn & Bradstreet Reports
 - **Use resources to locate**
 - National and regional organizations
 - Web
 - **Make Direct Contact**
 - Start with a phone call explaining project
 - Follow up by sending them executive summary
 - Gauge Interest

- **Prepare Invitation to submit Indication of Interest**

Soliciting a Developer

- **Make Introductory Phone call to Developer**
 - explain project
 - get them excited about it
 - make sure they are aware that the community is sensitive to financial issues & is willing to work with selected developer to overcome those issues.
- **Don't require lengthy or time consuming effort by developer – they are too busy to look at complex bid processes**
- **Follow up the phone call with an e-mail and attach the Solicitation**
- **Stay in contact with developers to get written response**



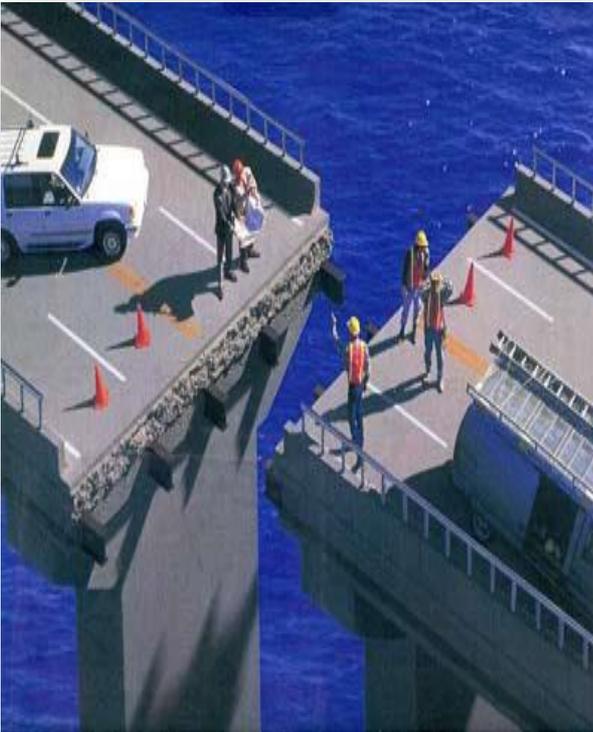
Interested Developers, Now What?

Evaluate & Negotiate

- Using the Interactive Financial Model, see how the Offer impacts the financial goals
- Maintain discussions with developer in the evaluation phase
- Narrow field of developers & Conduct Interviews
- Negotiate terms of Redevelopment Agreement
 - Use Sensitivity model to work through adjustments to the plan and identify their impact on the project's financial cost to community.
- Establish Sources for community's portion of Project financing
- Draft Letter of Intent

Bridging the Financial GAP

How to Minimize the Community Investment



- Build America Bonds
- Star Bonds –oops not yet!
- Interest rate protection
- Sourcing of Capital
- Public Private Partnership
 - Taking Risk? Get rewards
- Look-backs on Incentives
 - Once Project is complete, reserve the right for your community to audit return and recoup incentive

Bridging the Financial GAP (Cont.)

How to Minimize the Community Investment

- By using a combination of structures your community can:
 - Create of a **larger pool of funding sources** to work with;
 - Establish a **backup financing method** in case any one method does not generate enough funding;
 - Create a mechanism to pay for costs that **might not be eligible for reimbursement** under a particular financing structure.

Protecting your Community – Dos and Don'ts

■ Dos

- ☑ Require **guarantees** from Developer regarding use of funds, accuracy of financials, etc.
- ☑ Require the Developer to have “skin” in the project.
- ☑ Get **buy-in of taxing bodies** (although a resident has standing to challenge under the recent case of *Malec v. City of Belleville*, 891 N.E.2d 1039, taxing bodies are most likely to challenge).
- ☑ Have full documentation from consultant regarding **eligibility of project site**.

Protecting your Community – Dos and Don'ts

■ Don'ts

- Give away all your funding – **save some as protection** for the community.
- Create a **make-whole agreement** by giving away tax increment disproportionately.
- Pledge the municipality's **general obligation** – only use as a last resort.

Can Projects Still Get Financed?

- How Do You Finance a New Development?
 - In the current state of the market, this is difficult
 - Banks are not lending
 - High equity requirements
 - Private equity is seeking huge returns
 - Distressed assets are the rage
- What Projects Make Sense?
 - Retailers not committing
 - New home demand at historic lows

What Can The Municipality Do?

- Continue Entitlement Work
- Meet with Developers
- Review Current Fee Structure
- Review Available Incentives

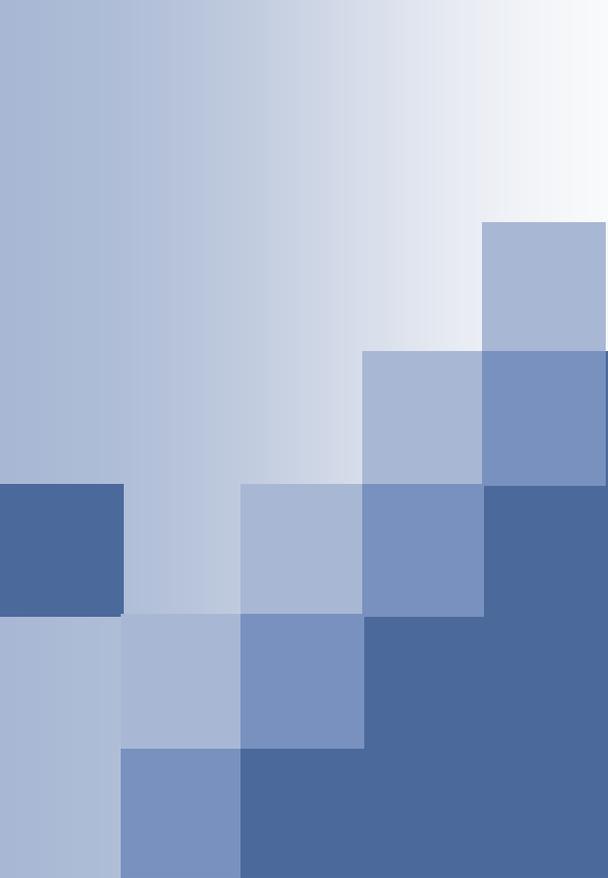


Available Incentives

- Examples of Financial Assistance Include:
 - Sales Tax Sharing Agreements
 - Business Districts
 - Special Service Areas/Special Assessments
 - Tax Increment Financing
- Upfront Funding Will Usually Be Requested

Underwriting Requirements in Today's Market

- Collateral Value
- Debt Service Coverage
 - Additional Pledges?
- Absorption
- Stage of Development
- Increment Projections
 - Sales and Real Estate Taxes



Questions and Answers