

December 6, 2021

To: Members of the Budget and Finance Committee

From: Paula Boggs Muething, City Manager **202103247**

Subject: **Emergency Ordinance – Approving and Authorizing a Community Reinvestment Area Tax Exemption Agreement with 726 E McMillan LLC**

Attached is an Emergency Ordinance captioned:

APPROVING AND AUTHORIZING the City Manager to execute a *Community Reinvestment Area Tax Exemption Agreement* with 726 E McMillan LLC, thereby authorizing a 12-year tax exemption for 100% of the value of improvements made to real property located at 726 E. McMillan Street in the Walnut Hills neighborhood of Cincinnati, in connection with the remodeling of an existing building into approximately 12,000 square feet of residential space, consisting of 10 residential units, and approximately 1,700 square feet of commercial space, at a total construction cost of approximately \$1,700,000.

BACKGROUND/CURRENT CONDITIONS

726 E McMillan LLC plans to renovate the property located at 726 E. McMillan Street in the Walnut Hills neighborhood. The property is currently vacant and contains 10 apartment units and two (2) commercial storefronts. Investing for Good, LLC, the holding company, purchased the property in July 2021 for \$325,000. The property will be transferred to 726 E McMillan LLC prior to execution of the CRA tax exemption agreement.

DEVELOPER INFORMATION

726 E McMillan LLC is a limited liability company and subsidiary of Solica Development. Samir Kulkarni is the President of Solica Development and has developed over 40 units in Walnut Hills through renovation.

PROJECT DESCRIPTION

726 E McMillan LLC will complete a renovation of the building to bring 10 market-rate rental units and two (2) commercial storefronts back onto the market. The residential units will include five (5) one-bedroom units, and five (5) two-bedroom units. Residential rents will range from \$1,100 for the one-bedroom units to \$1,500-\$1,600 for the two-bedroom units. Rents for the two (2) commercial spaces are projected at \$12 psf and \$9 psf, respectively.

Total project cost is projected to be \$2,200,000, with hard construction cost at \$1,700,000. The project is estimated to take 12 months to complete and is projected to support the creation of 30 temporary construction jobs with a total annual payroll of \$400,000. The project is projected to create 10 full-time jobs with a total annual payroll of \$400,000. 726 E McMillan LLC intends to begin construction in January 2022.

The Walnut Hills Business Group has submitted a letter of support for the proposed project.

The proposed project is consistent with *Plan Cincinnati* (2012) within the Geographic Principle to “Focus revitalization on existing centers of activity” (p. 86). It is consistent with *Plan Cincinnati* within the Live Initiative Area’s Goals to “Create a more livable community” (p. 156) and “Provide a full spectrum of housing options, and improve housing quality and affordability” (p. 164), as well as a Strategy in the Compete Initiative Area to “Target investment to geographic areas where there is already economic activity” (p. 115). The proposed project will bring vacant residential and commercial space back onto the market within the Walnut Hills neighborhood center and neighborhood business district, an existing center of economic activity.

The proposed project is also consistent with the *Walnut Hills Reinvestment Plan* (2017) within Action Item 4 to “Focus development resources in three places” (p. 52). The project site is within Peebles Corner, one of the three areas identified in the plan.

PROPOSED INCENTIVE

DCED is recommending a 12-year, net 52% CRA tax exemption. The exemption only applies to the increase in improvement value attributed to the construction. Pursuant to the Commercial CRA policy established by City Council, this project scored 11 points as indicated below which would merit a 12-year, net 52% CRA Tax Abatement:

“But For” Analysis (0-3 points) *	3
LEED (0-6 points)	0
Neighborhood VTICA (1 point for contributions over 1% but less than 15% and 8 points for contributions of 15% or more)	8
TOTAL	11

* “But For” Analysis Explanation: 3 points were awarded for the following reasons:

- Underwriting project revealed a low cash-on-cash rate of return

SUMMARY	
Forgone Public Benefit if Project Does not Proceed	
CPS PILOT (Forgone New Revenue)	(\$115,453)
VTICA (Forgone New Revenue)	(\$52,479)
Income Tax (Forgone New Revenue)	(\$93,600)
Total Public Benefit Lost	(\$261,532)
Incentive Value	
Annual Net Incentive to Developer	\$15,161
Total Term Incentive to Developer	\$181,926
City's Portion of Property Taxes Forgone	\$49,166
Public Benefit	
CPS PILOT	
Annual CPS Pilot	\$9,621
Total Term CPS PILOT	\$115,453
VTICA	
Annual VTICA	\$4,373
Total Term VTICA	\$52,479
Income Tax (Max)	\$93,600
Total Public Benefit (CPS PILOT/VTICA /Income Tax)	\$261,532
Total Public Benefit ROI*	\$1.44
City's ROI*	\$5.32

*If the project were going to happen regardless of incentive, this is the return of real dollars for public benefits as potential future dollars are forgone

PROJECT TEAM & TIMELINE

The project team (listed below) will make themselves available at the request of the councilmember(s).

- Assistant City Manager: William Weber
- DCED Director: Markiea L. Carter
- Project Attorney: Zach Southwood

The anticipated council timeline, which includes two Budget and Finance meetings if necessary is as follows:

- December 6, 2021: Budget and Finance (1)
- December 13, 2021: Budget and Finance (2)
- December 15, 2021: City Council for Final Approval

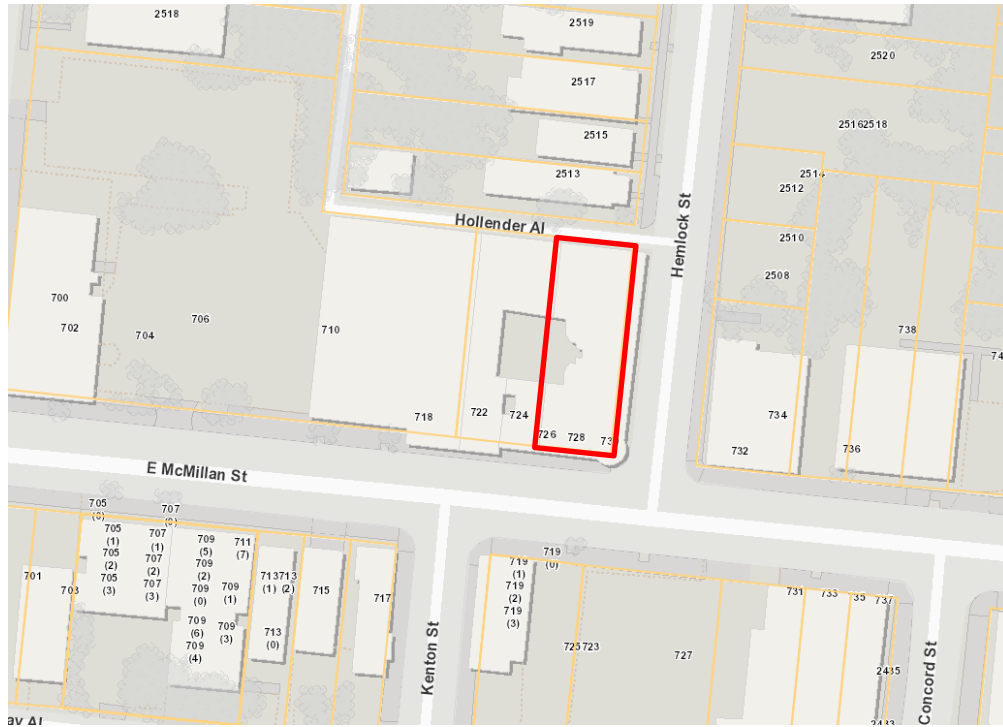
RECOMMENDATION

The Administration recommends approval of this Emergency Ordinance. The emergency clause is needed to lock in financing and maintain a tight development schedule with construction targeted for January 2022.

Attachment: A. Property location and photographs

Copy: Markiea L. Carter, Director, Department of Community & Economic Development

Attachment A: Location and Photographs



Property Location



726 E. McMillan Street