

November 28, 2022

To: Mayor and Members of City Council

From: Sheryl M.M. Long, City Manager *SML* 202202124

Subject: **Emergency Ordinance – Approving and Authorizing a Community Reinvestment Area Tax Exemption Agreement with Yukon Investments, LLC**

Attached is an Emergency Ordinance captioned:

APPROVING AND AUTHORIZING the City Manager to execute a *Community Reinvestment Area Tax Exemption Agreement (LEED or Living Building Challenge)* with Yukon Investments, LLC, an affiliate of The Model Group, Inc., thereby authorizing a 15-year tax exemption for 100% of the value of improvements made to real property located at 1720 Elm Street, 118 Findlay Street, and 114-116 W. Elder Street in the Over-the-Rhine neighborhood of Cincinnati, in connection with the remodeling of four buildings into mixed-use space containing approximately 6,907 square feet of commercial retail space and approximately 16,832 square feet of residential space, consisting of approximately 30 residential rental units, which remodeling shall be completed in compliance with Leadership in Energy and Environmental Design Silver, Gold or Platinum standards or Living Building Challenges standards, at a total remodeling cost of approximately \$5,391,856.

BACKGROUND/CURRENT CONDITIONS

Yukon Investments, LLC, an affiliate of The Model Group (TMG) plans to renovate the properties located at 1720 Elm Street, 118 Findlay Street, and 114-116 W. Elder Street in the Over-the-Rhine neighborhood. The properties are currently 97% vacant and contain apartment units and commercial storefronts. Yukon Investments, LLC purchased 1720 Elm Street for \$287,700 in 2020 and purchased 118 Findlay Street for \$550,000 in 2021. The City sold 114-116 W. Elder Street to Nassau Avenue Investments, LLC (another affiliate of TMG) in 2021 for \$1.

DEVELOPER INFORMATION

The developer is Yukon Investments, LLC, an affiliate of The Model Group. TMG has developed more than \$750 million in real estate, including over 400 historic properties in Ohio. TMG has previously completed three (3) phases of development around Findlay Market: Market Square I, Market Square II, and Market Square III.

PROJECT DESCRIPTION

The Findlay Exchange project, which is phase four (4) of the Market Square developments will consist of the gut rehab of six (6) historic buildings, divided into two (2) portions. This portion of the project will consist of 30 residential units and 6,907 square feet of commercial space. The project will be energy efficient, meeting or exceeding LEED Silver performance standards. The project is part of a \$125 million overall plan for the broader Market District.

1720 Elm Street will consist of five (5) residential units and 1,278 square feet of commercial space. 118 Findlay Street will consist of nine (9) residential units and 2,348 square feet of commercial space. 114-116 W. Elder Street will consist of 16 residential units and 3,275 square feet of commercial space. The project will maintain The Corporation for Findlay Market's ground floor master lease and provide \$200,000 in tenant improvement allowances to re-tenant the former Pho Thang Lang space. Residential units will include studio and one-bedroom units ranging from 532 to 639 square feet with proposed rents ranging from \$875 to \$1,000 per month. These rents are naturally affordable to households making up to 60% of the Area Median Income (AMI), not including utility costs. Proposed commercial rents range from \$15 to \$20 per square foot (psf) per year.

Total project cost is projected at \$9.3 million, with construction cost at approximately \$5.4 million. Findlay Exchange has been awarded New Market Tax Credits and Federal and State Historic Tax Credits. The project is estimated to take 13 months to complete and is projected to support the creation of 112.5 temporary construction jobs with a total estimated annual payroll of \$2.3 million. The project is projected to retain five (5) full-time jobs with a total estimated annual payroll of \$150,000 as well as create 15 full-time jobs with a total estimated annual payroll of \$337,500. Developer intends to begin construction in December 2022.

The developer has presented to the Over-the-Rhine Community Council, either committees or the full body, on multiple occasions since 2020.

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 residential and commercial units onto the market surrounding Findlay Market, an existing center of economic activity.

Rent	Affordable to Salary	City Jobs (Min Salary exceeds affordable salary)
\$875.00	\$35,000.00	Senior Plant Operator, Administrative Assistant, Electronic Technician, City Planner
\$1,000.00	\$40,000.00	Support Services Specialist, Legal Assistant, Zoning Plan Examiner, Supervising Parking Meter Collector

AMI	1	2	3	4	5	6	7	8
30%	\$20,100	\$22,950	\$25,800	\$28,650	\$32,470	\$37,190	\$49,910	\$46,360
50%	\$33,450	\$38,200	\$43,000	\$47,750	\$51,600	\$55,400	\$49,250	\$63,050
60%	\$40,140	\$45,840	\$51,600	\$57,300	\$61,920	\$66,480	\$59,100	\$75,660
80%	\$53,520	\$61,120	\$68,800	\$76,400	\$82,560	\$88,640	\$78,800	\$100,880

PROPOSED INCENTIVE

DCED is recommending a 15-year, net 52% CRA tax exemption. The exemption applies only to the increase in improvement value attributed to the construction.

Pursuant to the Commercial CRA policy established by City Council, this project is located in the Streetcar VTICA area and is therefore subject to analysis based on project underwriting, VTICA contribution, and job creation to determine abatement terms. The Findlay Exchange project was underwritten as one (1) project, rather than two (2). The project merits a 15-year, net 52% CRA Tax Abatement based on the following criteria:

- Project produces marginal cash-on-cash return through year 7, healthy years 8-15.
- Net 15% Streetcar VTICA contribution totals to \$208,057.
- Project will retain five (5) full-time equivalent positions and create 15 full-time equivalent positions that will add a total annual payroll of \$487,500 and 112.5 temporary construction jobs will add a total annual payroll of \$2,310,000.
- Project will be LEED Silver.

SUMMARY	
Incentive Value	
Annual Net Incentive to Developer	\$48,084
Total Term Incentive to Developer	\$721,265
City's Portion of Property Taxes Forgone (Term)	\$0
City's Portion of TIF District Revenue Forgone (Term)	\$1,012,544
Public Benefit	
CPS PILOT	
Annual CPS Pilot	\$30,515
Total Term CPS PILOT	\$457,726
VTICA	
Annual VTICA	\$13,870
Total Term VTICA PILOT	\$208,057
Income Tax (Max)	\$176,670
Total Public Benefit (CPS PILOT/VTICA PILOT/Income Tax)	\$842,453
Total Public Benefit ROI	\$1.17
City's ROI	\$0.83
*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	

Full Findlay Exchange
 Proforma without Incentive

PROFORMA WITHOUT ABATEMENT (YEARS 1-15) <i>[averaged over the terms]</i>	
Revenue	\$826,424
Operating Expenses & Reserves	\$461,425
Net Operating Income	\$355,699
Debt Service	\$57,252
Cash Flow After Debt Service	\$12,186
Cash on Cash Return	0.44%

Full Findlay Exchange
Proforma without Incentive

PROFORMA WITH ABATEMENT (YEARS 1-15) <i>[averaged over the terms]</i>	
Revenue	\$826,424
<i>Operating Expenses & Reserves</i>	<i>\$389,315</i>
<i>Net Operating Income</i>	<i>\$427,810</i>
Debt Service	\$57,252
<i>Cash Flow After Debt Service</i>	<i>\$84,296</i>
Cash on Cash Return	3.04%

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 Carter
- Project Attorney: Zach Southwood

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

- November 30, 2022: Introduction to City Council
- December 5, 2022: Budget and Finance (1)
- December 12, 2022: Budget and Finance (2)
- December 14, 2022: City Council for Final Approval

RECOMMENDATION

The Administration recommends approval of this Emergency Ordinance. The emergency clause is needed to maintain a tight development schedule.

Attachment: A. Property location and photographs

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

Attachment A: Location and Photographs



Property Location



1720 Elm Street, 118 Findlay Street, 114-116 W. Elder Street