

December 16, 2020

To: Mayor and Members of City Council 202002229
From: Paula Boggs Muething, City Manager
Subject: **COUNCIL REPORT – Review of Walworth HOMEARAMA Project Costs**

REFERENCE DOCUMENT #202002026

The City Council at its session on October 21, 2020 held the following item pending a report:

RESOLUTION submitted by Paula Boggs Muething, City Manager, on 10/21/2020, DECLARING by legislative resolution the necessity of improving Walworth Avenue by constructing an extension thereto, together with curbs, street lighting, streetscaping, sidewalks, water mains, and storm and sanitary sewer; necessary remediation of soil in the related right-of-way; installing retaining walls; acquiring land necessary to construct and install the foregoing; and acquiring, constructing, and installing other related improvements, and of assessing certain lots adjacent to Walworth Avenue, as extended, for costs of those improvements, in accordance with Chapter 727 of the Ohio Revised Code.

BACKGROUND

In April of 2019, East End Development, LLC (principals Thomas J. Ackermann and Ralph Meierjohan) requested real estate financing assistance from the City's Department of Community & Economic Development for the brownfield remediation and public infrastructure necessary to convert a vacant six acre site that was a former railway switching yard into a 39 lot HOMEARAMA development in 2020. In order to meet the timelines of HOMEARAMA the Development team did not complete their request of assistance with the City prior to commencing and substantially completing construction of the project. As a result, the final cost documentation for many of the improvements is available for review prior to approval of the assistance.

The Development team has requested a Project TIF be created for the site to capture any new property tax revenues derived from the new homes and a Special Assessment to be levied against the lots with approval from the homeowners to reimburse the Developer for certain environmental remediation and public infrastructure improvement costs. A summary of the anticipated Public Improvements budget including costs to be funded by the TIF, Special Assessment and Developer equity is below:

Sources - Public Infrastructure – All	
Special Assessment Bonds (Gross Amount)	\$ 4,595,000.00
Project TIF Bonds (Gross Amount)	\$ 8,250,000.00
Developer Equity/Short Term Financing	\$ 2,864,880.55
Total Sources	\$ 15,709,880.55

Uses - Public Infrastructure – All	
Construction – Hard	-
Land Acquisition (including RoW and Green Space)	\$ 260,761.68
Environmental Remediation	\$ 3,721,249.48
Infrastructure: Public	\$ 1,285,510.87
Soil Import required by Remediation	\$ 3,394,368.80
Retaining Walls	\$ 1,454,108.89
Gas Service	\$ 59,636.72
Underground Electric	\$ 123,507.01
Street Lights ROW	\$ 20,785.19
Street Trees	\$ 39,000.00
Street Signs (Street Signs)	\$ 5,000.00
Bond Insurance for Public RoW Improvements	\$ 1,194.00
Site Landscaping (RoW)	\$ 60,142.73
Site Landscaping entryway	\$ 98,447.06
Subtotal Construction Hard Costs	\$ 10,523,712.43

Construction – Soft	-
Land Planning, Concept Plans, Traffic Research	\$ 6,919.50
Environmental Research: Phase 1 & testing for Phase 2	\$ 215,428.34
Engineering: Civil and Surveying	\$ 186,446.62
Legal: City, OEPA Environmental (NFA & CNS) , Financing,	\$ 250,181.97
Geotech: Initial investigation and Inspections during Dev	\$ 116,802.74
Environmental Insurance	\$ 2,951.00
Development Insurance	\$ 25,996.58
Environmental: Phase 2 Remediation Testing and OEPA submittals	\$ 243,688.88
Municipal Inspections	\$ 45,767.59
Overhead Management	\$ 990,640.90
Bond Insurance for Public RoW Improvements	\$ 2,344.00
Public Financing Costs Paid out of bonds	\$ 3,099,000.00
Subtotal Construction Soft Costs	\$ 5,186,168.12

Total Costs - Public Infrastructure - All	\$ 15,709,880.55
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Sources - Public Infrastructure - Special Assessment	
Special Assessment Bonds (Gross Amount)	\$ 4,595,000.00

Total Sources	\$ 4,595,000.00
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Uses - Public Infrastructure - Special Assessment	
Construction - Hard	-
Land Acquisition (including RoW and Green Space)	\$ 260,761.68
Environmental Remediation	\$ 1,034,997.17
Infrastructure: Public	\$ 1,151,771.60
Soil Import required by Remediation	\$ 779,131.86
Retaining Walls	\$ 139,110.89
Underground Electric	\$ 123,507.01
Street Lights ROW	\$ 20,785.19
Street Trees	\$ 39,000.00
Site Landscaping (RoW)	\$ 41,103.32
Subtotal Construction Hard Costs	\$ 3,590,168.71

Construction - Soft	-
Land Planning, Concept Plans, Traffic Research	\$ 1,588.28
Environmental Research: Phase 1 & testing for Phase 2	\$ 49,448.69
Engineering: Civil and Surveying	\$ 42,796.32
Legal: City, OEPA Environmental (NFA & CNS) , Financing,	\$ 9,971.64
Geotech: Initial investigation and Inspections during Dev	\$ 21,653.34
Environmental: Phase 2 Remediation Testing and OEPA submittals	\$ 55,935.52
Municipal Inspections	\$ 45,767.59
Public Financing Costs Paid out of bonds	\$ 777,669.90
Subtotal Construction Soft Costs	\$ 1,004,831.29

Total Costs - Public Infrastructure - Special Assessment	\$ 4,595,000.00
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Sources - Public Infrastructure	
Project TIF Bonds (Gross Amount)	\$ 8,250,000.00
Total Sources	\$ 8,250,000.00

Uses - Public Infrastructure - Project TIF	
Construction - Hard	-
Land Acquisition (including RoW and Green Space)	\$ -
Environmental Remediation	\$ 2,686,252.31
Infrastructure: Public	\$ 133,739.27
Soil Import required by Remediation	\$ 2,615,236.94
Retaining Walls	\$ 433,804.65
Gas Service	\$ 59,636.72
Subtotal Construction Hard Costs	\$ 5,928,669.90

Construction - Soft	-
Public Financing Costs Paid out of bonds	\$ 2,321,330.10
Subtotal Construction Soft Costs	\$ 2,321,330.10

Total Costs - Public Infrastructure – Project TIF	\$ 8,250,000.00
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ANALYSIS

The Department of Community & Economic Development has reviewed the incentive request and the cost documentation provided by the Developer. It is important to emphasize that both the proposed TIF revenue and Special Assessment revenue are new revenues that would not exist but for the Walworth HOMEARAMA development's construction. These sources were anticipated by the Developer as a primary source of repayment for the public infrastructure and environmental remediation costs that were necessary to complete the project. Further, the estimated total bond amounts for TIF and Special Assessment and the estimated public financing costs are assumptions based on current market conditions. If the conditions change between the date of this report and a bond closing, these costs may increase or decrease which will change the amount of bond proceeds available to repay hard construction costs.

In addition to the costs outlined above, the Developer has expended or will expend \$5 Million of private equity to cover interest, fees, land acquisition and private infrastructure costs. This private investment amount will increase for each year the Developer continues to hold developed lots pending sale as they will have to pay the taxes and other holding costs for the unsold lots and interest on private financing.

DCED has received invoices and other cost documentation for the line items listed above to be reimbursed out of the TIF and Special Assessments if the forthcoming legislation is approved by City Council.

RECOMMENDATION

As proposed, this is an exciting project that converted a vacant site, but at a significant financial risk to the Developer provided the limited rate of return given the length of time expected to complete all home sales, the private equity investment required and the carrying costs still to be incurred.

The Administration recommends approval of this Report.

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