



COMMITTEE OF THE WHOLE MEETING
MONDAY, FEBRUARY 18, 2019
(Immediately following the Village Board Meeting)

AGENDA

CALL TO ORDER

ROLL CALL

AUDIENCE COMMENTS

TRUSTEE COMMENTS

DISCUSSION

1. Town Centre Economic Incentive

EXECUTIVE SESSION

ADJOURN

Initials _____

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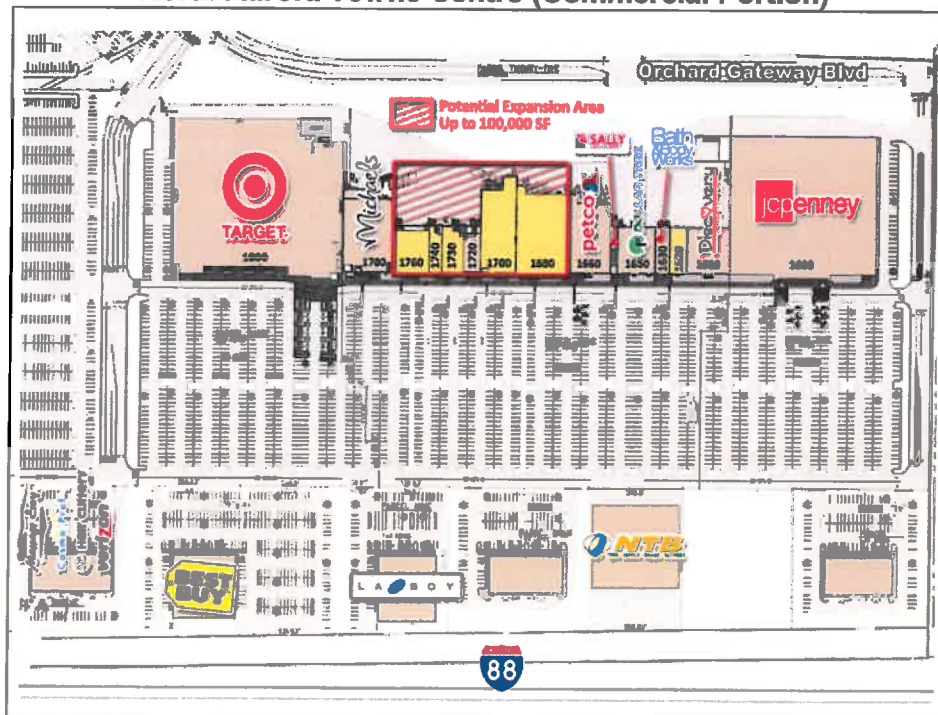
VILLAGE OF NORTH AURORA BOARD REPORT

TO: VILLAGE PRESIDENT & BOARD OF TRUSTEES
CC: STEVE BOSCO, VILLAGE ADMINISTRATOR
FROM: MIKE TOTH, COMMUNITY AND ECONOMIC DEVELOPMENT DIRECTOR
SUBJECT: TOWNE CENTRE ECONOMIC INCENTIVE AGREEMENT
DATE: FEBRUARY 18, 2019 COMMITTEE OF THE WHOLE MEETING

Background

On March 23, 2005 the North Aurora Village Board approved an annexation agreement with Rubloff North Aurora LLC for the development known as the North Aurora Towne Centre. Later built in 2006, North Aurora Towne Centre is located between I-88 and Orchard Gateway Boulevard, east of the Auto Mall and west of Randall Road. Target and JC Penny are the main anchor tenants for North Aurora Towne Centre. In order to offset some of the costs attributable to the development, the Village approved an economic incentive agreement as part of the Annexation Agreement. At the time, it was estimated that the site improvement costs would be roughly \$33,000,000 and the Towne Centre would generate \$3 million in sales tax per year. The North Aurora Towne Centre has since seen decline with several major tenants such as Best Buy, La-Z-Boy, MC Sports, Office Max, Justice, Layne Bryant, and NTB having closed. Although there is nothing suggesting JC Penny's closure in North Aurora, there is concern over the number of JC Penny stores being closed nationally.

North Aurora Towne Centre (Commercial Portion)



Note: Closure of Best Buy, La-Z-Boy and NTB.

Economic Incentive Agreement

The original economic incentive agreement was to pay out a total of \$15 million over a 15-year term for economic assistance toward the aforementioned site improvement costs. The Village provides the developer with 50% of the 1% of the sales taxes generated by all retail sales within Towne Centre to arrive at the \$15 million cap. Completion of Target and 50,000 square feet of the inline stores prompted commencement of the economic incentive agreement on November 1, 2006. With a 15-year term, expiration of the original agreement would be October 31, 2021. Not the original developer of Towne Centre, Preferred Real Estate, LLC, through acquisition of the 121,000 square feet of retail space between Target and JC Penny in 2008, are now the beneficiaries of the economic incentive agreement. As of November 2018, a total of \$3,212,827.07 has been paid out on the economic incentive agreement. Based upon the 1% sales tax, North Aurora Towne Centre currently generates roughly \$440,000 per year of sales tax, half of which (\$220,000) is currently being rebated back to Preferred Real Estate. Thus, the Village currently receives roughly \$220,000 in sales tax from the North Aurora Towne Centre.

Request

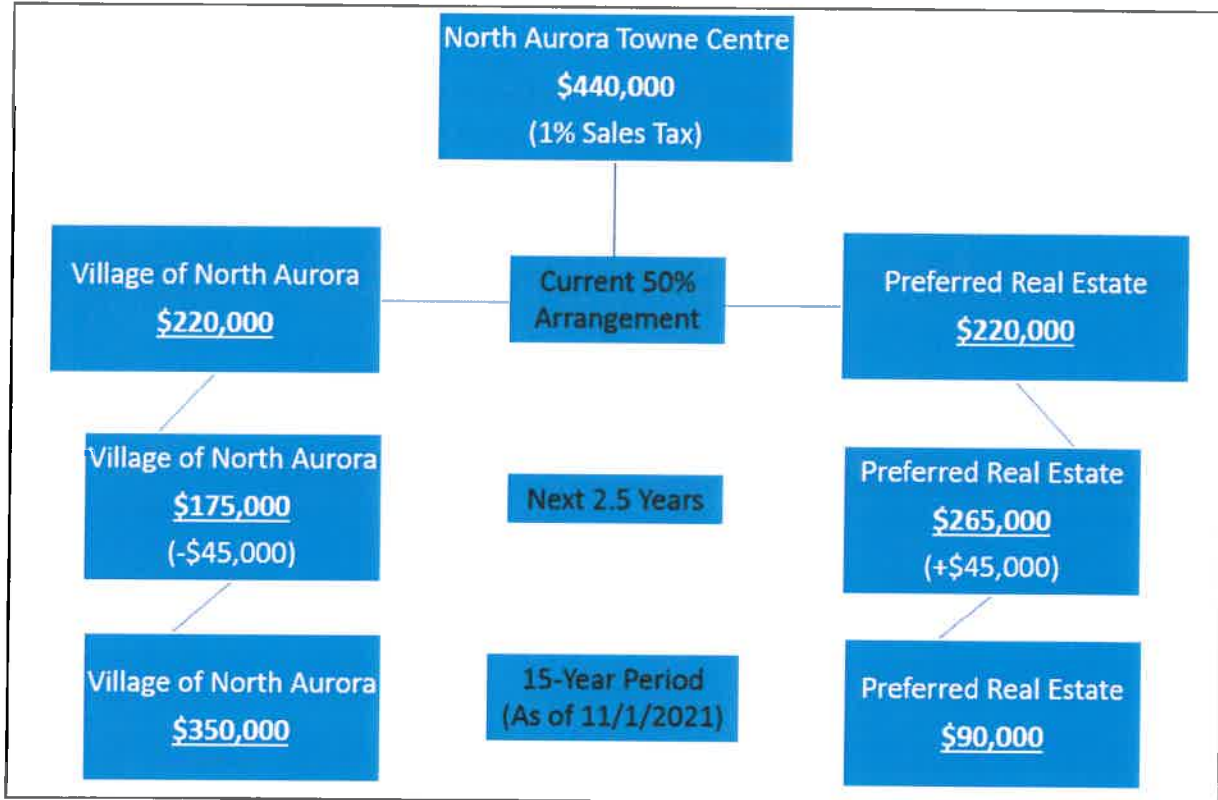
Preferred Real Estate has been working with UFC Gym to secure a 15-year lease on 35,000 square feet of the former MC Sports and Office Depot spaces. As part of the lease agreement with UFC Gym, Preferred Real Estate is required to improve the tenant space to the satisfaction of the tenant. According to Preferred Real Estate, they cannot get the lender to agree to the needed additional funds for the tenant improvements, without the Village approving an economic incentive agreement.

Staff has been working with Preferred Real Estate over the last several months on amending the Economic Incentive Agreement. The request is being made by Preferred Real Estate, LLC as a way to offset the \$1,550,000 buildout cost for a large-scale fitness center user, UFC Gym. Several versions of the amendment have been discussed between staff and Preferred. The proposed request would include an amendment to the current economic incentive agreement and the adoption of a new agreement that would commence after expiration of the current agreement.

The following is the general framework of the request:

- The current economic incentive agreement be amended to provide Preferred Real Estate with 100% of the 1% generated in the inline portion of the shopping center (not including Target or JCPenny) for the remainder of the existing agreement. For all other properties the reimbursement terms remain unchanged. *(Est. Additional Value \$112,500 (2.5 years @ \$45,000))*.
- All vacant land be removed from the current reimbursement area upon approval of the amended agreement.
- A new agreement be adopted providing Preferred with 100% of the 1% generated in the inline portion of the shopping center for a term of 15 years and a cap of \$120,000 per year. *(Est. Value \$1,350,000 (15 years @ \$90,000))*
- Reimbursement of the increased rate would commence upon occupancy of the UFC Gym and include any retroactive payment dating back to the January 2019 sales.
- All building permit fees, plan review fees and inspection fees for the UFC buildout be waived. *(Est. \$40,000)*
- Preferred relinquish any Operation and Easement Agreement restrictions for permitted uses on all vacant land in perpetuity.

As previously stated, North Aurora Towne Centre currently generates roughly \$440,000 per year of sales tax and the Village currently receives roughly \$220,000 of that. The inline portion of the shopping center is currently generating roughly \$90,000 per year of the total sales tax. If the economic incentive agreement were to be amended and a new agreement was adopted over the terms stated above, the *reduction* in sales tax to the Village would be an estimated \$45,000 per year over the next 2.5 years. Once the original agreement expires in 2.5 years and the new agreement commences, the Village will receive 100% of the sales tax generated within Towne Centre, which will be an estimated \$440,000. \$90,000 per year of that would be rebated back to Preferred Real Estate and the Village would be receiving roughly \$350,000 per year of sales tax.



Staff presented this information to the Operations Committee on February 4, 2018. A representative of Preferred Real Estate was present during the discussion and answering several questions of Board members. The proposed amendment to the economic incentive agreement was met with mixed sentiment. While some Board members believe that assisting with the opening of a gym would be beneficial to Towne Centre by increasing foot traffic, others commented that it might not be beneficial to the Village as the use will not generate any additional sales tax. Board members also commented on the general state of North Aurora Towne Centre and asked what was being done to improve the development to attract businesses. Staff noted during this portion of the discussion that ownership of North Aurora Towne Centre is fragmented as there are multiple property owners (other than Preferred Real Estate), which includes Target, JC Penny and Inland. The matter is further complicated by the Operation and Easement Agreement, which is a private agreement established to provide Target, JC Penny and Preferred Real Estate with the ability to regulate the types of businesses that are allowed to open in North Aurora Towne Centre. Some of the Board members mentioned that the OEA is too restrictive and has prevented other businesses from opening in Towne Centre. Staff mentioned that as part of the proposed economic incentive agreement, Preferred Real Estate would be forfeiting any Operation and Easement Agreement restrictions for permitted uses on all vacant land in perpetuity. During the discussion the

representative of Preferred Real Estate mentioned that they would be willing to work with Target and JC Penny in the future work through some of the obstacles of the OEA to help with business attraction. Lastly, certain Board members were not in favor of waiving building permit fees, citing that such action is unprecedented. Staff mentioned that certain impacts have been waived recently for other developments and the permit fee waiver was to help Preferred Real Estate cover the \$1,550,000 buildout cost.

Preferred Real Estate would like to take this opportunity to solicit feedback from the Board on the proposed request.

Attachments:

- 1) February 4, 2019 Draft Operations Committee meeting minutes
- 2) UFC Gym Construction Budget, dated October 24, 2018

**VILLAGE OF NORTH AURORA
OPERATIONS COMMITTEE MEETING MINUTES
FEBRUARY 4, 2019**

CALL TO ORDER

Trustee Guethle called the meeting to order.

ROLL CALL

In attendance: Mayor Dale Berman, Trustee Mark Carroll, Trustee Laura Curtis, Trustee Mark Guethle, Village Administrator Steve Bosco, Finance Director Bill Hannah, Community & Economic Development Director Mike Toth.

AUDIENCE COMMENTS – None

APPROVAL OF MINUTES

1. Approval of the Operations Committee Minutes dated January 7, 2019

Motion for approval made by Trustee Carroll and seconded by Trustee Curtis. All in favor.
Motion approved.

NEW BUSINESS

1. North Aurora Town Centre Economic Incentive Agreement

In attendance was Doug Vitale of Preferred Real Estate. Preferred Real Estate owns 121,000 s.f. between Target and JC Penney in the North Aurora Town Centre.

Discussion for the evening pertained to the 35,000 square foot former MC Sports and Office Max spaces that are being proposed for a new business tenant, UFC Gym. Community & Economic Development Director Mike Toth stated that the Economic Incentive Agreement provides the developer with 50% of the 1% sales tax generated by the retail sales within the Town Centre to arrive at a \$15 million cap (\$15 million agreement over a 15-year term). In 2008, Preferred Real Estate purchased the inline center between Target and JC Penny and at that point they also took assignment of the Economic Incentive Agreement.

Toth noted that the original agreement is set to expire on October 31, 2021. To date, the developer has been paid \$3.2 million out of the \$15 million. North Aurora Town Centre generates about \$440,000 a year, the Village receiving half of that. Staff has been working with Preferred Real Estate to bring UFC Gym to the site for a 15-year lease term. A part of that assumes a buildout cost of \$1.5 million. They are having trouble getting financing for the buildout. All parties are working on a sales tax sharing agreement, and the extension of the existing agreement, to help offset some of the buildout costs associated with the gym. In the amended agreement, Preferred Real Estate would get 100% of what they are generating within their inline stores. Currently they are getting 50% of everything. Under the proposed agreement, for the next 2-1/2 years, they would receive an additional \$45,000 per year.

As of right now, all of the land in the Town Centre is attributable to the Economic Incentive Agreement. To amend the agreement, any vacant land that is a part of the reimbursement area

would come out of the incentive agreement. If someone were to develop on one of the vacant lots, Preferred Real Estate would be the beneficiary of 50% of the sales tax on those lots. The Agreement the Village would bring forward and has been discussed with Preferred Real Estates is that all the vacant land would be removed from the reimbursement area effective the date the Board would approve it, which would be 2-1/2 years ahead of the expiration schedule.

The amendment would be an extension or reinstatement of the terms for their actual portion of the inline center. For 15 years after the date of expiration they would receive 100% of the sales tax generated within the Inline stores, not to exceed \$120,000 per year. Currently the inline stores are generating about \$90,000 a year in sales tax. The Village would be the beneficiary of anything over \$120,000 in sales tax. The inability to deliver the gym buildout and occupancy of the tenant would terminate the approval of the agreement.

Toth mentioned that there was discussion about waiving the building permit fees to assist with the buildout. Permit fees for the project would be estimated at \$30,000 - \$40,000.

There is also an Owners Easement Agreement (OEA) on the Towne Center. Target, JC Penney and Preferred Real Estate have a private OEA in place. Any uses that come in have to be approved through the OEA.

Trustee Curtis said that we are dealing with a gym which is a non-sales tax revenue generating business. Curtis asked what the developer is doing in addition to acquiring this tenant to try and reinvigorate this mall. Mr. Vitale stated that they are looking at other tenants but working on smaller tenants at this time. They are also working on landscaping and sealcoating of the property to improve the look and make it more attractive.

Village Administrator Steve Bosco noted that Preferred Real Estate only owns the portion between Target and JC Penney. The Target and JC Penney properties are owned by those respective companies.

Trustee Carroll asked who owns the property where the Jeep Dealership is located. Steve Bosco said that is Inland. Carroll said that the Towne Centre is a ghost town and asked what all of the property owners are doing to market and improve the property. Carroll said that adding a gym will not help when there are empty buildings, such as Best Buy, Lazy Boy and all of the units between JC Penney and Target. Carroll said he does not want to see JC Penney and Target leave and end up with warehouses in its place, resulting in a once commercial district becoming a warehouse district. Carroll asked if the OEA is preventing these big boxes from coming into town when we are seeing places such as AT Home and Fresh Thyme opening on Randall Road.

Bosco said what has been heard from development community is that we are starting to see infill along Randall Road due to population density and household incomes. It will fill in the Tri-cities before it comes to the North Aurora area. Another reason is access. The Towne Centre is not directly off of Randall Road. As far as the OEA, staff has gone back and forth trying to reduce the restrictions.

Carroll said he did not like the fact that the Towne Centre is a ghost town and the developer is asking for concessions. Vitale said that Rubloff initially set up the agreement. The incentive over

the term would be \$15 million. Out of that amount, Preferred Real Estate has only received back \$3.2 million. Vitale said, as the landlord, would love to have a 35,000 square foot sales tax generating tenant since that is money in their pocket, but in order to fill the center, there needs to be foot traffic. Toth stated that health clubs are a permitted zoning use in the Towne Centre and a sales tax generating use could also request a sales tax reimbursement.

Trustee Guethle said that he did not see any reference to prevailing wage in the agreement, which is state law.

Further discussion will be brought to a COW meeting.

Carroll asked if this is a 24-hour gym. The answer was that it has not been presented that way so far. The current understanding is that the hours of the business would be from 5:00 a.m. until 11:00 p.m.

Trustee Curtis said she was not comfortable with waiving the permit fees. Toth added that the Board has recently approved impact fee reductions and the permit fee reduction is to get closer to the buildout cost.

Mayor Berman said he was in favor of having a tenant in the Towne Centre and having foot traffic to bring in other businesses rather than having it remain empty. He added that staff has been working with Preferred Real Estate for some time, in order to bring an agreement forward that could be palatable.

Further discussion to be held at an upcoming Committee of the Whole meeting.

OLD BUSINESS – None

OTHER INFORMATION – None

TRUSTEE COMMENTS - None

ADJOURNMENT

Motion to adjourn made by Trustee Curtis and seconded by Trustee Carroll. All in favor. **Motion approved.**

Respectfully Submitted,

Lori J. Murray
Village Clerk

UFC BUDGET 10-24-18

UFC GYM - NORTH AURORA	35000 SF	10-18-18	
Lockers & Benches		\$15,000	
Demo		\$20,000	
Concrete Cut & Patch		\$60,000	
Framing & Drywall		\$100,000	
Acoustical Ceilings		\$18,000	
Doors - Frames - Hardware		\$30,000	
Paint		\$100,000	
Polished Concrete		\$125,000	
Flooring & Wall Tile		\$127,000	
Cabinets & Tops		\$3,000	
Fire Alarm		\$20,000	
Fire Protection		\$15,000	
HVAC		\$60,000	
Plumbing		\$200,000	
Electrical		\$380,000	
Sauna		\$15,000	
Graphics		\$10,000	
Sound & Security		\$20,000	
Exterior Sign		\$12,000	
SUB TOTAL		\$1,310,000	
Permits		\$5,000	
Archit/Engineers		\$25,000	
General Conditions		\$15,000	
Supervision		\$20,000	
Fee (5%)		\$25,000	
Commissions		\$150,000	
TOTAL		\$1,550,000	\$44