

Questions and Answers – Top of the Hill Project

How many times has the City attempted to develop the Top of the Hill site?

- This effort represents the City's 5th attempt at developing the Top of the Hill site.

Why do you feel this time will be any different?

- Development continues to be strong in the region.
- Tremendous interest by developers, as indicated by the number of submissions to the Request for Qualifications (RFQ) that the City issued.
- Designated developer (Flaherty & Collins) is actively interacting with the merchants.
- Local merchants are supportive.
- Flaherty & Collins is a world class development firm with vast experience in developing transformative mixed-use projects throughout the Midwest, and they have an impressive track record of successful projects from which to draw on to benefit the Top of the Hill project.
- The City is united in its efforts to make this project a success.

What are the steps that need to be taken to begin this project?

- In July of 2017, the City executed a Memorandum of Understanding (MOU) with Flaherty & Collins which laid the foundation for developing this project.
- The next step is a detailed Development Agreement establishing the development details and specifics for the project. The City's goal is to execute the Development Agreement in early 2018.
- Completing detailed design and eventual City review and approval of a Planned District Overlay and Development Plan are the final steps prior to the Developer closing on the property and commencing construction.
- Community engagement and citizen input is expected to be ongoing, and is anticipated and will be encouraged throughout the design, review and approval stages.

When do you expect a project of this size to be completed?

- The project is expected to be constructed over one phase of development, lasting 18 – 24 months after final approvals.
- If construction begins during the 4th Quarter of 2018 or 1st Quarter of 2019, the project would likely be completed in late 2020 or early 2021.

Why has the city entered into a public-private partnership to develop the site?

- Nearly every mixed use development like this in Ohio has required some public-private partnership with public subsidies of various types in order to be a viable project. This is true in Cleveland Heights, but it is also true in Shaker Heights, Beachwood, Strongsville, Avon Lake, Westlake and all other Cleveland-area suburbs that are working to spur economic development.
- If a project cannot be done with at least a reasonable expectation of profitability, developers will find other projects to focus their attention and capital on, and parcels like Top of the Hill can remain undeveloped for decades.
- Rents in this part of the country are often not high enough to allow a developer of this type of mixed-use project to pay debt service on the project financing and still have some ability to recoup a profit on the investment of time and money the developer will be required to put into the project. The City's commitment helps minimize the risk to the developer.

How and why is the City providing assistance to develop this site?

- Again, nearly every mixed use development like this in Ohio has required some public-private partnership with public subsidies of various types in order to be a viable project.
- The Top of the Hill site is owned by the City and certainly has value, but it also is a challenging site in a number of ways and cannot be developed into the vibrant mixed-use project the City envisions without the City providing significant assistance.
- That assistance can take a number of forms, but in this case the City is (1) providing low-cost land (the City will receive nominal lease payments over time) and (2) providing the opportunity for the developer to take advantage of tax increment financing (TIF) to help make the economics of the project viable.
- In return for this assistance, the City has attracted an experienced world class developer proposing to construct a catalytic & transformative mixed-use gateway project by investing over \$75,000,000 of its own funds to make the project a reality – bringing new residents, businesses and vibrancy to the city.

What is the return the City is expecting for its assistance to the project?

- Contributing the land at low cost and providing the opportunity for TIF dollars to be put into the Project is a sound investment for the City that is projected to create the following estimated economic benefits for the community:
 - 588 construction jobs generating over \$685,000 in new income tax to the City;
 - Building Fees estimated at \$480,000;
 - 91 permanent jobs created, generating annual income tax revenue of over \$50,000 and over \$2,000,000 over 30 years;
 - 210 new residents: The project will attract both new residents, and help to retain current residents that are looking to downsize without having to leave the City;
 - Income tax from new residents projected to be around \$220,000 annually, and about \$8,900,000 over 30 years
- Currently the annual economic benefit of this site to the City, the surrounding commercial district and neighborhoods, and the School District is quite low (\$21,218 for 2016). The site does provide an estimated 225 surface parking spaces, which will be replaced within the planned structured parking garage as part of the project.
- The Project is anticipated to have a significant impact on increasing surrounding property values in the District/neighborhoods.

What is a “TIF”, why is it needed for this project and how will the school district benefit from the TIF?

- A TIF, or Tax Increment Financing, is an economic development tool local governments can utilize to finance improvements determined to serve a public purpose. The redevelopment of the Top of the Hill site would serve this public purpose.
- TIF’s are established by enacted legislation that designates certain parcels (the TIF area) as exempt from taxation, declares improvements to private property within that specified area as serving a public purpose, delineates the improvements to be made that directly benefit the parcels in the area, and creates a fund to receive service payments in lieu of taxes that can then be used to pay for the cost of the improvements, typically debt service payments.
- For this project, payments in lieu of taxes would be derived from service payments made by the developer from the increased assessed value, over the existing parcel base value, of any

improvement to real property in the TIF area. These payments are made by the developer in an amount equal to the real property tax liability that otherwise would have been due had the property not been exempted. The payments will then be directed towards a separate fund to be used to pay the debt service for project improvements.

- The developer has requested that the City adopt an ordinance to create a project-based TIF for the project site and exempt 100% of the increase in the assessed value of each parcel in the TIF area for a period of 30 years to provide for payment by the developer of the costs of improvements from service payments generated by the improvements to the parcels within the project site, in lieu of tax payments.
- Since TIF's impact the amount of revenues available to the school districts, the City must first seek the approval of the school district to create the TIF. As a result, it is anticipated that the City, developer and school district will enter into a school compensation agreement. Currently, the project site yields approximately \$21,000 in annual revenue from taxes on the project parcels to the school district. The proposed TIF has been structured in such a way as to yield an estimated \$421,000 annually to the school district consisting of \$28,000 from the existing parcel values and \$393,000 in future service payments from the TIF.
- While the project still has a significant financial gap to overcome to be successful, the proposed TIF structure cash flows, achieves the projected level of debt service coverage required for the project to proceed, and provides very strong and significant school compensation opportunities for the school district as compared with the revenue generated by continuing to use the project site as a municipal surface parking lot.

Why is the City pursuing a ground lease for this development versus outright sale of the property?

- The "Ground Lease" model, helps to ensure that the project is carried out as envisioned, with the City leasing the site to the Developer, who will then construct and own the improvements they invested in.
- It is the City's best opportunity to retain a "seat at the table" in the unlikely event the project encounters financial problems in the future. It represents a forward-thinking approach to avoid the lack of site control/influence that the City has experienced with the Severance Town Center.

Why isn't the City getting some upfront or deferred payment equated to the current value of the site?

- Requiring this type of payment either now or in the future can delay a project or even hinder its ever getting off the ground.
- Additionally, it adds to the gap between what may be an economically viable project and one that is not economically viable – the larger the gap, the greater the potential there is for the project not to go forward and having the project move forward is the primary objective of the City for all the reasons stated above.
- Things like "leasing of air rights" can be done in some circumstances, but here we have an economic development project that needs to lower costs in order to even have a chance of being viable. Adding complexity to the transaction that would only make the project less economically viable was not given significant consideration.

What is anticipated to happen if/when the City moves forward with this project as currently structured?

- The deal as structured is projected to result in a catalytic development – without this deal structure the result, at best, would be a non-catalytic development, or could potentially result in a continued state of non-development, yielding little economic benefit or tax revenues to the City, School District and the community.

How are you addressing increased traffic and parking needs?

- Traffic impact and parking studies will be required to assure that the project is not negatively impacting the surrounding district. In addition, it is anticipated that the City will pay the incremental cost to expand this analysis to include a District-wide parking study.

How will this development fit into, be consistent with, the neighborhood?

- The Development Agreement between the City and our Development Partner will include a Merchandising Plan consistent with the goal of the Project being a dense, vibrant, pedestrian friendly commercial district that dovetails with the architecture and aesthetics of the surrounding neighborhood.
- The Developer proposes to construct a fully integrated, regional mixed-use experience consisting of new retail, restaurant and entertainment concepts that do not currently exist in the region. There will also be restrictions on relocating retail or restaurant concepts from anywhere within the City to the project site.

In Summary:

- The project is to be a signature mixed-use district that serves as a gateway to the City and a link between the City and the adjacent University Circle area of Cleveland. The City's goal is that the development will create a dense, vibrant, pedestrian-friendly commercial district that dovetails with the architecture and aesthetics of the surrounding neighborhood. The project will provide a visual and symbolic entrance to the City that complements and builds upon the success of the surrounding commercial district and existing neighborhoods, and serves as a destination for the region. The development will have a positive economic impact on the City, improving the City for all its residents.

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