



Orchard Road TIF

Financial Feasibility Analysis

Village of Montgomery

Memorandum Report

4.12.13

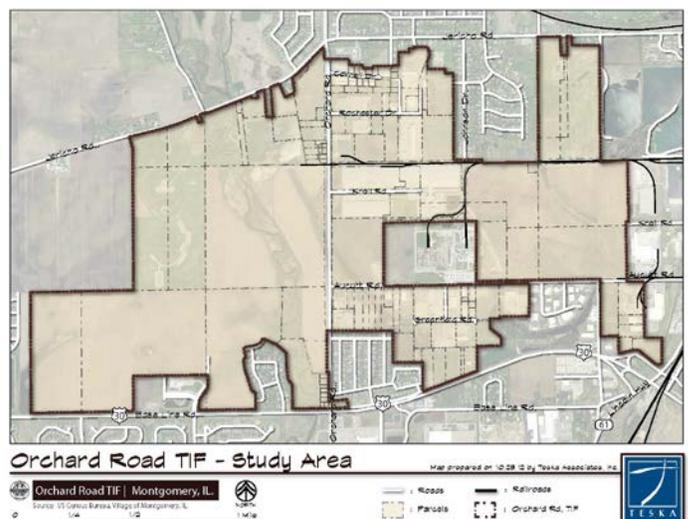
Introduction

Study Background and Methodology

Teska Associates, Inc. (Teska) was retained by the Village of Montgomery to determine both the eligibility of the Orchard and Aucutt Road corridors (Orchard Road planning area) for tax increment financing, and to determine, based on a preferred land use plan, the feasibility of financially supporting required public infrastructure and road improvements, and providing other types of development assistance that may be necessary to stimulate interest in the development of the Orchard Road planning area. Teska previously provided the TIF Steering Committee with an initial analysis of the eligibility potential of the area for TIF, identified potential development sites, and provided market information regarding the potential demand for certain types of uses based on current spending patterns and locations of competitive areas.

Having determined that the study area is likely eligible for and would benefit from TIF financing, the purpose of this report is to analyze if sufficient property tax revenues would be generated from the TIF to support needed improvements and incentives to make the area attractive for development.

Teska met with Village representatives in December 2012 to discuss both the market potential for certain land use types identified in the retail gap analysis competitive locations, and information obtained by staff regarding previous development proposals and marketing efforts. This information was used to establish two conceptual land use plans that identify different potential development scenarios, one focusing on more retail/commercial uses within the study area, and the other focusing on more industrial/offices uses (see attached Concept Plan exhibits). These plans, together with assumptions



regarding when development would likely occur (see attached Phasing Plan exhibits) were used as the basis for analyzing future incremental property tax revenues that may be available to the TIF area to fund needed improvements.

Summary of Findings, Observations and Assumptions

The Orchard Road Corridor occupies a strategic location within the western suburbs of Chicago. Although situated on the boundary of two of the fastest growing counties in the region, significant amounts of vacant land exist within the Orchard Road planning area. The relatively undeveloped state of most of the development sites, combined with low equalized assessed values (EAV), provided significant opportunity for new tax revenue to support public improvements and financial incentives that will be required to achieve development as envisioned in the Village plans. The opportunity for significant revenue growth also means that the pay-off of public projects and other types of development assistance will likely happen quickly once development occurs. Annexation in the near term will be necessary to achieve the project goals, as large unincorporated areas exist throughout the study area, accounting for 300 acres (22%) of total acreage in the potential TIF.

Although many projects will take years to complete or materialize, and as such will require TIF to remain in place for most or all of the allowed term, the Village may be able to declare surplus TIF funds to be distributed to all taxing districts in advance of the termination of the TIF district, as critical public improvements are completed. Revenue projections do not include sale tax forecasts, which may be used for other Village projects and/or to minimize tax increases.

Commercial development will produce higher EAV, but are likely longer term projects. The revenue difference between both concept plans is approximately \$20 million during the term of the TIF district. Residential development has significantly higher EAV potential than other uses considered, but also has higher impact costs on public services. However, given the almost 2:1 difference in EAV, residential projects may be a more viable short term option generating taxes in early years, and would enhance the market for commercial uses. As proposed residential uses are intended as “age restricted” development (similar to Dell Web in Huntley), they would not general new school age children that impact school districts.

Changes in key assumptions that would impact revenue projections include revisions to land uses – type, location, size; and the phasing plan for development sites. An explanation of the other key assumptions and methodology is summarized below:

- Development Sites Summary (Determination of existing EAV for identified development sites)
 - In several instances development sites overlap or split existing tax parcels. In these cases the portion of existing EAV associated with each development site was determined by the percentage of land area of each tax parcel that is part of a development site. For example, if development site A included only a portion of a tax parcel (30 acres of a 100 acre tax parcel) then only 30% of the EAV of the original tax parcel was included in development site A. An example of this on the concept plan occurred between Sites 2 and 3.
 - In Concept Plan 1 a few parcels have an additional optional use which is reflected as Concepts 1A and 1B.

- EAV Comparable
 - Data was obtained for similar uses with 10 mile trade area previously identified in the market analysis.
 - Uses that were outside the normal range of EAV were not included (highlighted in blue) (note: the blue line on p.3 is a pdf printing glitch, please ignore)

- Redevelopment Plan Scenarios – 2 Concepts
 - FAR (floor area ratio) is based on actual comparable projects, and is used to estimate the amount of new building square footage that would likely be developed on each site.
 - Dwelling unit estimate is determined by using the net site area, less 30% for roads/stormwater, and then applying a density factor of 10 units/acre (based on comparable projects)

- EAV Estimates
 - EAV estimates for each proposed land use type are based on an average of per square values of comparable projects. Variation exists within certain land use categories as average EAV varies by facility size.
 - Year developed – this is tied to the phasing plan.

- Phasing Plan
 - The phasing of identified projects were determined in consultation with Village staff and from information provided by property owners.
 - Projects are separated west and east of Orchard Road to account for differences in taxing district boundaries and tax rates.

- Incremental EAV Calculation – future property tax revenue estimate
 - These tables reference all previous assumptions regarding EAV of new development, appreciation, current tax rates, and phasing plan.
 - The increase in property tax is the net increase over the base EAV. This new revenue is the money available for eligible projects, such as roads, utilities, bridge, property acquisition, development finance, etc....
 - Several tables are provided to account for differences in the plans and mix of uses for the east and west parts of the TIF area.

- Redevelopment Costs
 - Public utility and road improvements plan cost estimates are provided by the EEI, Village engineer. These are preliminary cost estimates and will be revised in accordance with projected TIF revenues.
 - The base cost is an estimate of the tangible costs that we can reasonably quantify at this time, including utilities, roads, property acquisition, demolition, and potential environmental contamination remediation.
 - Other cost estimates have been determined as a percentage of the base cost using typical project experience. For example, streetscape cost is estimated to be 7% of the base cost.

Development Opportunities and Next Steps

As discussed previously, there are several factors that will have both a positive and negative influence the type, location, and amount of development that can be achieved within the Orchard Road study area. The conceptual plans and feasibility models will be a useful tool well into the future to help the Village both track and forecast both actual and projected revenue growth over time. The model can be expanded, revised with more data, and changed over time to reflect actual development projects, EAV changes, or changes in market conditions.

As identified on the Concept Plans, there are many sites within the Orchard Road planning area that may be developed. Additional sites can be added to the list if it is determined that either existing buildings are obsolete for the planned use for the property, or condition of buildings no longer warrant additional investment. Other sites may be added to this list if it is determined that opportunities for expansion of local businesses exist. The total amount of potentially available land for either new development (vacant land), or redevelopment of existing improved property is approximately 1,000 acres, or 70% of the total Orchard Road planning area.