

**Cleveland Heights  
Economic Development**



**To:** City Manager Tanisha Briley  
**From:** Economic Development Director Tim Boland  
**Subject:** Response to Recent Comments & Questions on Top of the Hill Redevelopment Project

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**TOP OF THE HILL – RESPONSE TO COMMENTS & QUESTIONS:**

**Ordinance 114-2019 - Second Amendment of the Development Agreement:**

In late 2018, a shortfall in funding of \$4,000,000 was identified that, if not addressed, could have prevented the Top of the Hill project from moving forward. Flaherty & Collins (F&C), the developer of the project and the City both agreed to make contributions to the project to address the shortfall.

In December of 2018, in the 1<sup>st</sup> amendment of the Development Agreement between the City and the developer, City Council authorized the City to commit \$1,850,000 to the project shortfall. This \$1,850,000 consists of the purchase price (including all closing and due diligence costs) that the City agreed to pay the developer for adjacent property to be added to the Top of the Hill site, and a cash contribution of \$1,455,000. The City and developer agreed that the amount of the added property would not exceed \$395,000.

It was intended that these two amounts together would add up to the City's \$1,850,000 commitment, however, the purchase price plus closing and due diligence costs of the added property came in slightly lower than anticipated at \$369,632.48. Since the actual cost of the added property and the City's contribution do not add up to the \$1,850,000 City commitment, the 2<sup>nd</sup> amendment of the Development Agreement is necessary to reconcile these two sources of the City's contribution with the City's \$1,850,000 commitment established by City Council. Through this "housekeeping" piece of legislation, the City's original commitment of \$1,850,000 towards the shortfall remains unchanged. At or before closing on the project, if the final shortfall amount is determined to be less than \$4,000,000, the City's contribution shall be reduced first, before any reduction in the developer contribution, by the difference between \$4,000,000 and the final shortfall amount.

**Ordinance No. 116 -2019 & Ordinance No. 109-2019 – Re- authorization of the TIF; Authorizing Bond Financing through Chapter 165 of the Ohio Revised Code: and Issuing Bonds to fund the City's contribution to the Project:**

The Development Agreement for the project established that the City would support the project by providing the developer the opportunity to use tax increment financing (TIF) as a source of funding to make the economics of this project viable. The TIF Re-Authorization legislation adds the "Added Property" mentioned above, to the TIF area, and re-aligns the TIF term and financing with the current construction schedule of the project. Construction is now anticipated to commence during the 1<sup>st</sup> Quarter of 2020.

TIF is a commonly used economic development tool, where payments in lieu of taxes are made by the developer from the increased assessed value, over the existing parcel base value, of any improvement

constructed in the TIF area. These payments are then made by the developer in an amount equal to the real property tax liability that otherwise would have been due had the property not used TIF financing. The payments can then be used, in part, to pay the debt service on the project improvements. In the case of the Top of the Hill, these payments by the developer will be used to pay the debt service on the TIF Financing Revenue Bonds discussed below.

The payments will also be used to provide funding for our schools. The City and the CHUH School District have entered into a school compensation agreement for this purpose. Currently, the unimproved Top of the Hill site generates approximately \$21,000 in annual revenue from taxes that are paid to the school district. The Top of the Hill TIF has been structured to yield an estimated \$421,000 annually to the school district consisting of \$28,000 from the existing parcel values and an estimated \$393,000 in new revenue from service payments from the TIF.

The proposed TIF would achieve the projected level of debt service coverage required for the project to proceed, and provides significant school compensation opportunities for the school district as compared with the revenue generated by continuing to use the project site as an unimproved municipal surface parking lot.

After initially considering financing through the Port Authority, Flaherty & Collins (F&C) has requested that the City consider issuing bonds under Ohio Revised Code Chapter 165 for the project. In the Development Agreement, the developer is required to comply with all applicable federal, state, and local laws, codes and ordinances and other governmental requirements relating to the development of the Top of the Hill, and the developer will continue to be held to this standard.

The Revised Code authorizes political subdivisions, including municipalities like the City, to issue conduit bonds, much like the Port Authority can do, to support redevelopment projects like the Top of the Hill. This commonly used economic development finance tool enables the City to be a "conduit" issuer. This means that the City has no obligation for repayment of the bonds. The City will loan the bond proceeds to the developer and the developer will be obligated to pay the debt service on the bonds. The bonds will be secured only from the TIF revenues from the Top of the Hill project and are the obligation of the developer, not the City. As the conduit issuer the City's only financial responsibility would be to use any dollars it receives from the developer (likely as loan payments) to pay debt service on the bonds. If the developer does not pay, the City has no obligation to make debt service payments.

The City cannot offer Flaherty & Collins a sales tax exemption on the construction materials the way the Port Authority can, so that benefit is not available to F&C. The developer is aware of this provision. However, that would require that the Port Authority finance the entire project and, after considering the potential costs and benefits of that approach, the developer presumably determined it would be more cost-effective to request that the City issue the TIF Revenue Bonds and that it obtain its construction loan without involving the Port Authority.

The proposed legislation is necessary because City Council needs to adopt authorizing legislation for these bonds. As is typically the case with this type of financing, the City intends to charge a fee to the developer as part of issuing the bond. The developer will pay all the costs of issuance.

This is not the first time the City has utilized this economic development tool. The Zagara’s project in 2001 was done in part through such financing. The Zagara’s bonds had TIF payments pledged as security and also had a pledge by the City of its non-tax revenues. In that case, the City was on the hook for repayment to the extent of its pledged non-tax revenue. There is no similar non-tax-revenue pledge for the Top of the Hill associated with the TIF Revenue Bonds.

This legislation also recognizes the necessity for the City to issue bonds or notes to finance the City’s \$1,850,000 contribution to the project as outlined above. While the City explored and continues to explore other sources of funds to reimburse the City, it was always the City’s intent to consider issuing debt to cover its \$1,850,000 commitment. Because these obligations will be used to fund a City commitment to the project, they will be the only obligations that, like the Zagara’s bonds, will be secured by any revenues of the City other than the TIF revenues from the project, but they will not be secured by any tax revenues.

Overall, the project will provide new vibrancy, jobs, economic activity and tax revenue for the City. This economic impact is summarized below:

<b>Top of the Hill - City &amp; School District</b>		11/7/2018	
<b>Economic Impact Return (Projected)</b>			
	<u>Jobs/Residents</u>	<u>Annual (Stabilized)</u>	<u>Over 30 Years</u>
<b>Recurring Income Tax Revenue:</b>			
Total Income Tax (permanent jobs)	91	\$ 50,822.00	\$ 2,061,763.00
Income Tax - Apartment Residents	210	<u>\$ 219,096.00</u>	<u>\$ 8,888,304.00</u>
		<u>\$ 269,918.00</u>	<u>\$ 10,950,067.00</u>
Total Income Tax - Construction Jobs	588	<u>\$ 685,688.00</u>	Onetime payment
<b>Real Estate Tax Revenue:</b>			
City Real Estate Taxes		<u>\$ 3,725.00</u>	<u>\$ 129,582.00</u>
<b>School District:</b>			
School District Real Estate Taxes		\$ 27,897.00	\$ 970,394.00
School District - Service Payments		\$ 392,981.00	\$ 10,803,482.00

The Top of the Hill project, located at the gateway to the City, sends a strong message to the development community that the City is “Open for Business” and encourages redevelop on a transformative and catalytic scale.