

Cuyahoga Falls City Council
Minutes of the Finance Committee Meeting
June 4, 2012

Members: Diana Colavecchio, Chair
Don Walters
Jeff Iula

Mrs. Colavecchio called the meeting to order at 6:36 p.m. All members were present.

The minutes from the May 7, 2012, May 14, 2012 and May 21, 2012 meetings were approved as submitted.

Legislation Discussed:

Temp. Ord. A-61
Temp. Ord. A-62

Discussion

Temp. Ord. A-61

An ordinance authorizing payment of the moral claim of Lawrence D. Cook and Kristina S. Cook as approved by the claims commission, and declaring an emergency.

Mr. Janis stated this claim is for sewer backups. The Claims Commission heard the matter at its April 9, 2012 meeting and approved the claim for \$650. Council must approve anything in excess of \$500.

Mr. Iula moved to bring out A-61 with a favorable recommendation, second by Mr. Walters. Motion passed (3-0).

Temp. Ord. A-62

An ordinance authorizing the Mayor and the Director of Community Development to enter into a modification of Contract No. 6779 with Portage Crossing LLC, and declaring an emergency.

Mrs. Truby stated the City continues to work with Stark Enterprises as the project continues to grow. Announcements have been made about which retailers and restaurants would be coming. This agreement represents a larger project than what was presented in 2010. The project went from 279,000 sq. ft. to 391,000 sq. ft., and went from two phases to one. Development value increased from \$40 million to \$58 million. The school district's portion went from \$172,000 to \$348,000 annual. The schools will receive \$10.5 million over the life of the project. The City's portion has increased from \$737,000 to just over \$1 million a year which can prompt an earlier payoff of the debt. Part of the improvements will be footed through CDGB, which is \$195,000 plus an additional \$295,000 for a total of \$490,000. Legislation for the CDGB portion will come at a later date. The public improvements to be made for Menards will include new traffic signalization at State Road and at Lillis and Graham, an added turn lane, and electrical updates. The City will provide \$948,000. Proportionately, the City amounts and developer amounts remain the same as in 2010. Bids will be opened next week for the public improvements and work will start in July, with a closing on or before July 31. With this contract approved, the original contract will be null and void.

Mrs. Colavecchio asked for an update on the project. Steve Rubin of Stark Enterprises stated they had a successful Las Vegas convention and are in discussions with retailers for the remaining portion of the project. Because of the anchors, the project is 90% pre-committed. Over the next several months, they

will hopefully be making more announcements. They are progressing on all fronts towards a July closing. Mrs. Colavecchio stated Council is hearing that Giant Eagle wants to break ground and be open by Christmas. Mr. Rubin stated that Giant Eagle has since indicated they would like to take possession and break ground next April. It is looking to coordinate opening with the tenants along Portage Trail. Mrs. Colavecchio asked whether the Get-Go would remain at its current location or be relocated. Mr. Rubin stated the plans are to keep it at its current location. There are no plans to relocate. Mrs. Colavecchio asked for a little more information regarding Menards being a two-story. The location in Mansfield is a one-story. Mr. Rubin stated the design is a two-story similar to others they have. Stark has worked hard with them to finish the site plans. The only way to move forward with Menards on this site is to do a two-story. He was not sure whether Menards did escalators or elevators for handicap access. Mrs. Colavecchio asked about the progress regarding relocating the outparcels. Mr. Rubin indicated that the businesses that are currently there are to remain. There is no need to relocate any of them with the exception of Pizza Hut, who has an agreement in principle with Stark to relocate them. Mrs. Colavecchio asked who would be occupying the space of the former BP building. Mr. Rubin stated they have a strategy to place multi-tenants there rather than a single tenant. It is an important location. He stated it is a possibility that the project can continue to grow. They were very conservative in their estimates so it is possible that some of the outparcels can expand. Once those tenants are set, they can give a more finite estimate.

Mrs. Colavecchio stated that with Menards, there is an additional \$1.5 million in infrastructure spent by the City and asked what was in that amount other than the four things mentioned. Mrs. Truby stated there will be two lights, electrical work, a turn lane, and water and sewer. Mr. Rubin stated the issue is the slope of dirt and how to accommodate a large anchor. There are only certain things the City can participate in. A lot of what is included is value engineering. There are also additional site work items they are dealing with to make this a reality. Mrs. Colavecchio requested Mr. Strnisha to go through the analysis that will get the City to a break event point 16 years sooner. Mr. Strnisha indicated he used a standard borrowing cost of five percent for the City. The analysis is set up in two blocks. One is to show the actual dollar investment the City puts in and what it will get back in two components: tax increment financing and income tax. There is some gain from income tax during construction. Because there is a large PILOT and less debt during that period, it will be paid back faster. The City has used notes to take advantage of short-term borrowing vs. locking in long-term rates. Because of a larger PILOT, there is a large income tax so the schools get more. Mrs. Truby stated on her analysis, she listed the developer's investment on one side, the City on the other side and then merged them. She used \$11 million as the initial investment but that has since come down and is actually now around \$8.6 million. She added the costs the City is putting back into the project, \$3.7 million for infrastructure and also the grant valued at \$1.133 million. She also added in the CDGB money. Mr. Rubin stated that at the beginning of the project, it was going to take the full 30-year TIF time to pay back. Now, everyone is comfortable that it will not take the full 30 years. Mrs. Colavecchio stated the summary that Council received takes the City to 2023, which is 16 years from the original contract and does include the original \$11 million. She asked if it was necessary to go back to the school district and request this amount. Pam Hanover, an attorney with Squire Sanders & Dempsey, stated it was not necessary. The project is the same and the property is the same. It's just that the project is a little larger. The agreement states that the school district would receive a percentage and that is still the same. Mrs. Colavecchio stated the agreement is an amended and restated agreement and asked why it was redrafted vs. just being amended. Ms. Hanover stated it was redrafted because the project has gone from two phases to one phase and there were a lot of words that needed to change. For clarity purposes, it is easier to say this is the agreement going forward instead of looking through an original agreement and all amendments. Mrs. Colavecchio stated that a month ago, Council was requested to allow for an extension of the original contract and wondered how that ordinance affected that extension because there was some thought that the contract had expired. Mrs. Hanover stated it really doesn't matter if the old agreement expired or not. Everyone is working as if it hadn't expired. This should be viewed as a new contract. Mrs. Colavecchio asked whether renegotiation was a

part of this process. Mrs. Hanover replied there was renegotiation with respect to additional public infrastructure that was needed and some not needed and also regarding how to deal with the positioning of Menards. There were not a lot of other changes. There were provisions regarding the \$1 million grant and remediation of the site that were left out of this agreement because those items have already been completed. Mrs. Colavecchio stated that CDGB funds being allocated to the project was mentioned in the last action plan. Mrs. Truby agreed. She stated there are only 13 census blocks in the City and one is the State Road Shopping Center so they are allowed to use CDGB money. Mrs. Colavecchio asked about the new five-year expense budget distributed by Mr. Brodzinski. Mr. Brodzinski stated the original budget was distributed to Council on December 1. By mid-December, the Administration provided Council with a revised five-year capital which removed the CDGB portion. Now that the numbers are more solidified, they are bringing forth a new five-year capital to Council. Mrs. Colavecchio asked if any analysis has been done on what the additional revenue numbers would be if the current Giant Eagle property were to be leased. Mr. Brodzinski stated that would be a guess. The school receives \$51,000 for the current Giant Eagle. The Get-Go will remain open which equates to a .24% hit to the school.

Mrs. Colavecchio asked if there were any changes or updates relating to the traffic based on the modifications mentioned in the new contract. Mr. Demasi stated there were not. They asked the traffic consultant to look at the traffic that would be generated in the development to see if changes were needed, and the decision was there were none needed.

Mr. Walters stated he didn't understand about the percentage change between the City and school regarding property tax with the additional size of the project. Mrs. Truby stated when the City originally presented the project to the schools, the schools would get \$171,000 annually which was 25% of a 61% base. Then the City decided it would give the schools 22% of the total project, which has a higher base. Mr. Walters asked if the additional lights would be timed so they would not impede any east-west traffic flow. Mr. Demasi stated that all lights will be coordinated into one master timing plan. Mr. Iula understood that Stark purchased property in back of the shopping center. Mr. Rubin stated there are some properties currently under contract that they will be closing on for purposes of helping with the roadwork.

Mr. Rubino asked, in looking at the 5/31/12 development sheet, what the City's investment was. Mrs. Truby indicated the City was at 18.2 million, which ties to Mr. Strnisha's numbers. Mr. Rubino felt the \$1.570 million new issuance should be added in. Mr. Strnisha stated it is a part of that figure and is additional funds supported by the tax increase. Mr. Rubino asked if there was additional cost to the City. Mr. Brodzinski stated there will be associated interest and indicated that Mr. Strnisha is using five percent. If the City stays in notes, it will not see five percent hopefully for a long time. There has been revenue generated from the project when there were still tenants in the plaza, and the City also paid property taxes for the project. There was also revenue that came from the sale of some of the assets left on the property, and revenue from CORF which is about another \$340,000. Mr. Rubino asked about interest expense. Mr. Brodzinski envisioned interest rates staying low. To date, the City has spent \$1.5 million in interest. Interest associated with the first pay-down was \$400,000, and that was cut in half by the next year because interest rates dropped significantly. The City has been paying \$1 million each year with no revenue coming in. So, in addition to the \$18 million investment, the City also has interest expense, which will be a little over \$2 million total. Had the City issued long-term debt with the initial \$11 million, it would have turned into \$19 million. Now, it will turn into \$13 million. Mr. Rubino stated the developer's investment was \$58,395,294 for retail landscape improvements and property acquisition. He asked if it could be assumed the developer will be borrowing a portion of that money from someone. Mr. Rubin stated it would but he wasn't sure if that amount included interest expense. Mr. Rubino asked if the \$58,395,294 was based on the value of work being done. Mr. Rubin believed that was correct. Mr. Rubino felt that was a distinction worth noting. In terms of banking commitments Stark is undertaking, he asked if the banks were interested in what Stark was signing with the City. Mr. Rubin stated the bank looks at a model when the project is done to determine what the cash flow is. The bank just wants to

know that the borrower controls the property. Mr. Rubino asked if Stark will need to take on partners. Mr. Rubin stated they will not.

Mrs. Pyke stated it mentions installation of public water lines at a cost of \$110,860. She asked for a list of projects across the City for planned water line improvements. Mr. Demasi indicated he would get that to her.

Mrs. Klinger asked at what point in time were these items negotiated in terms of dollar amounts. Mrs. Truby stated they occurred over the past six months. Mrs. Klinger confirmed, and Mrs. Truby agreed, it is still the intention to close on July 31. Mrs. Klinger asked what the remaining steps were that needed to be completed before closing. Mrs. Truby stated they were opening the bids for public improvements, introducing the CDGB request, the district to get with HUD, and going to Planning Commission. Mr. Guerra stated the first meeting to review design guidelines is June 19, and then the following meeting is July 3 to go through the site plan and hopefully get approval to bring before Council. Mrs. Klinger pointed out the contract indicates that building permits must also be issued. Mrs. Truby stated that the City and developer can waive that requirement. Mr. Rubin stated they would just need the design criteria approved to know they are on the same page. Mrs. Klinger stated there are design guidelines in this contract but there were not in the last contract and wondered why approval of the plans was separate. Ms. Hanover stated it might have come through a different process but now it sounds like it was merged. It is important that the project be consistent with the design guidelines. Mrs. Klinger stated that item 7 talks about the City bonds yet the City is doing notes. Ms. Hanover stated that the definition of bonds includes notes. Notes are not being used until the end of November or beginning of December. This condition will be met because it can also be done from funds on hand. Mrs. Klinger indicated that item 2 talks about commitments to secure financing and wondered how the City would know what those are and whether they have been met. Some can be drawn out long past construction. Mr. Rubin stated there will be an agreed-upon sources and uses. It will be staged on how Stark plans to develop the project. Mrs. Klinger pointed out the contract states that all conditions of finance. She stated that Section 4 talked about preleasing and asked if there were any sales or was it all preleasing. Mr. Rubin stated the anchors are on their own pad site. Mrs. Klinger commented that Section 3 includes the \$442,500 for the BP property. That is the big change between this document and the last one. The City gave 75% of the purchase price so now it is giving it all back. Stark is now not paying anything for the purchase of the property. If other developers knew in the beginning that they would not have to pay for the property and that the City is putting in millions of dollars in improvements, their proposal responses would have been much different. She wondered how much of the \$58 million that the developer is putting in was on the tenants' backs and how much was on the developer's back.

Mr. Barnhart stated that everyone has to remember this is a partnership. School revenues increase, the City will benefit, the project will be completed in one phase instead of two, and the builder will have something to be proud of. He is looking forward to completion and is grateful it is coming.

Mr. Mader thanked the Administration for simplifying the numbers. He concurs it is a lot of money but as years go forward, the City will benefit hugely despite the amount of money it is investing. Because it is going in this direction, he has to believe there will be improvements in the surrounding areas who want to be a part of this. He is glad to see it go from two phases to a single phase and is looking forward to the final outcome.

Mrs. Klinger stated that Section 4 talks about the developer's project plans and asked if that meant if the City did not agree to narrow Portage Trail. Ms. Hanover stated she assumed so. Mrs. Klinger stated people do not want the street to be changed and then 20 years from now, have to turn around and widen it. Mrs. Klinger stated that overall she agrees redevelopment is needed at this site. Her issue is that this contract is too generous. If other developers had been brought to the table on the same level, ground

would probably have been broken by now. The City just continues to give and give. Council was asked to extend the contract when everyone knew the terms have changed but they did not tell Council the terms were changed and now the developer is getting the land for nothing.

Mr. Barnhart stated he was on the committee that chose this developer. They looked at different presentations and this was better than anything else that was on the table. Mrs. Truby added that projects of this magnitude do not happen over night. Agreements go back and forth between attorneys. Everyone needs to look at the bottom line and look at what the return on investment is. Mr. Brodzinski stated one of the proposals was submitted by Zaremba Construction whose money was backed by Calpers. As far as the additional \$1 million, as this project morphed, there were going to be additional roads. Instead of the City borrowing \$2.5 million for those roads, it is borrowing \$1 million, so basically, the money is just being reallocated.

Mrs. Colavecchio stated that everyone has asked a lot of questions and Council had a lot of information. It was agreed by Committee members that this legislation be held so everyone could continue to go through the documents. The legislation will be discussed again two weeks from tonight.

The meeting adjourned at 8:10 p.m.