

# Village of Winnetka Downtown Study Area



## Tax Increment Finance Feasibility Report

July 2017

Prepared by



**EHLERS**  
LEADERS IN PUBLIC FINANCE



1-800-552-1171 | [www.ehlers-inc.com](http://www.ehlers-inc.com)

Village of Winnetka  
Downtown Study Area  
Tax Increment Finance Feasibility Report

**Table of Contents**

Executive Summary ..... 1

I. Summary of Illinois TIF District Eligibility Requirements.....2

II. Downtown Study Area Eligibility Analysis.....4

III. Downtown Study Area Tax Increment Revenue Analysis ..... 10

IV. Potential Next Steps..... 11

Attachment 1: Boundary Map..... 13

Attachment 2: Block Map ..... 14

Attachment 3: Criteria Maps..... 15

Attachment 4: Study Area Water Main Table ..... 16

Attachment 5: Tax Increment Projections..... 17

## Executive Summary

At the request of the Village of Winnetka (the “Village”), Ehlers & Associates, Inc. (“Ehlers”) completed a tax increment finance (“TIF”) feasibility (or eligibility) analysis (the “Study”) for an area approximately 41 acres in size, known as the Downtown, or Elm Street Business District, in Winnetka, (referred to herein as the “Study Area” or “Downtown Study Area”). The Downtown Study Area is illustrated on **Attachment 1**.

Ehlers completed a field survey and review of relevant documents in developing the following report. The report is intended to address the following objectives:

1. Determine whether the Study Area would be eligible for designation as a redevelopment project area pursuant to the definition contained in the Illinois Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1 et seq. (the “Act”).
2. Project potential tax increment revenues based on planned new development and inflationary growth.
3. Consider potential next steps for the Village of Winnetka.

In summary, with respect to the first and primary objective of this analysis, Ehlers concludes that the Study Area would be eligible for designation as a redevelopment project area under the Act as a Conservation Area.

# I. Summary of Illinois TIF District Eligibility Requirements

As set forth in the Illinois TIF Act, a TIF District or "redevelopment project area" (in this report "redevelopment project area" and "TIF District" are used interchangeably) means an area designated by the municipality which is not less in the aggregate than 1.5 acres, and in respect to which the municipality has made a finding that there exist conditions which cause the area to be classified as an "industrial park conservation area" or a "blighted area" or a "conservation area," or a combination of both "blighted" and "conservation" areas. The requirements for qualification of a conservation area and a blighted area are described below.

In general, it is also important to note that tests of eligibility are based on the conditions of the area as a whole. It is not required that eligibility be established for each property in the proposed TIF redevelopment project area. In addition to establishing eligibility under the TIF Act, a municipality must also find that:

*". . . the redevelopment project area on the whole has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without the adoption of the redevelopment plan."*

This finding is commonly referred to as the "but for" finding.

This report primarily addresses factors related to eligibility. While the presence and combination of eligibility factors generally provides evidence to support a "but for" finding, additional evidence should be assembled and included in the Redevelopment Plan (one of the two required analyses for establishing a TIF, along with the Eligibility Report.)

It should also be noted that definitions such as "blighted" and the other related factors referred to in this report have specific meanings within the TIF Act. The Act's definitions may not be compatible with the understanding the general public has of these terms. Therefore, it is important to understand that the language as it is used within the context of the TIF Act has been applied to evaluate the appropriateness of the use of TIF as an economic development tool within this Study Area.

## Recommended Type of TIF

As stated above, there are four classifications for TIFs under the TIF Act.

- Blighted (for improved land)
- Blighted (for vacant land)
- Conservation Area (improved or combination of improved and vacant)
- Industrial Park Conservation Area

There are insufficient vacant parcels to consider any of the Study Area as "Blighted (for vacant land)". Likewise, the "Industrial Park Conservation Area" category does not apply to the Study

Area. The criteria for “Blighted (for improved land)” and “Conservation Area” have the same definitions but one or the other may be applied based on the combination of factors and extent to which they are present. In the case of this Study Area, we recommend that the “Conservation Area” category be applied.

Under the TIF Act, a conservation area is an improved area in which 50 percent or more of the structures in the area have an age of 35 years or more and there is a presence of a combination of three (3) or more of the thirteen (13) factors defined in the TIF Act. Such an area is not yet a blighted area, but because of the presence of a combination of three or more of these factors, the area may become a blighted area. The 13 conservation factors are:

1. Dilapidation
2. Obsolescence
3. Deterioration
4. Presence of structures below minimum code standards
5. Illegal use of individual structures
6. Excessive vacancies
7. Lack of ventilation light or sanitary facilities
8. Inadequate utilities
9. Excessive land coverage or overcrowding of structures and community facilities
10. Deleterious land-use or lay-out
11. Environmental remediation
12. Lack of community planning
13. Total equalized assessed value ("EAV") of the properties is declining or lagging compared to the growth in EAV for the balance of the Village or the Consumer Price Index

## II. Downtown Study Area Eligibility Analysis

### Study Area Description

The Downtown Study Area consists of 104 tax parcels, including adjacent rights-of-way, and encompasses approximately 41 acres (meeting the requirement of the TIF Act that the area must equal or exceed 1.5 acres). There are 61 primary buildings in the Study Area, which consists of commercial, residential, institutional, park, railroad, and parking lot uses. The Study Area is bisected by Metra/Union Pacific North Line railroad tracks.

As illustrated in the table below, approximately 63% of the Study Area is comprised of parcels without buildings that include either street right-of-way, open space, or railroad parcels (active and inactive). Further details about the Property Index Number (“PIN”) types are provided below:

**Table 1 – PIN Type**

PIN Type (with buildings)	Number of PINs
One building on one parcel	51
Multiple buildings on one parcel	2
One building on more than one parcel	13
<b>Total PINs with Buildings</b>	<b>66</b>

PIN Type (without buildings)	Number of PINs
Open Space	4
Surface parking lots	13
Railroad	2
Right-of-way	19
<b>Total PINs without Buildings</b>	<b>38</b>

A general description of the Study Area is the area containing parcels that are bounded on the north by Pine Street, on the south near Oak Street, on the east near Arbor Vitae Road, and on the west near Birch Street. (See **Attachment 1** for the boundary map of the Study Area.) Only those contiguous parcels of real property that are expected to benefit substantially from the proposed Redevelopment Plan and Project improvements are included in the Study.

After consideration of various boundary configurations, Ehlers and Village Staff agreed that the parcel containing the Winnetka Bible Church be excluded from the proposed redevelopment project area, along with some other residential buildings in the vicinity that may have been included. These properties are already developed and are not likely to be redeveloped further during the life of a TIF District.

If the Village wishes to introduce changes to the proposed boundaries as it considers the results of the Study and during any subsequent preparations to potentially adopt a TIF District, Ehlers can provide the analysis needed to ensure that eligibility criteria is not adversely impacted in accordance with the TIF Act.

## Study Methodology

In determining whether the proposed Study Area meets the eligibility requirements of the Act, at the Village's direction, Ehlers conducted research and field surveys.

Every parcel was visually examined during the survey. For purposes of this Study, the Study Area has been broken down into blocks to illustrate that these factors are distributed throughout the Study Area, as required by the TIF Act (see **Attachment 2: Downtown Study Area Block Map**). "Blocks" are identified by the portion of the parcel identification number that relates to the block (i.e. in parcel 05-21-110-009, 100 is the block number).

The survey and analysis of existing conditions within the Study Area were completed in May and June 2017 by Ehlers to document the extent to which each blighted factor is present within the Study Area. Various research and field surveys were undertaken including the review of previously prepared plats, plans, and studies (including Village documents: *Winnetka 2020 Comprehensive Plan, (1999)*; *Village Capital Improvement Plan 2017-2021*; *Rich & Associates Parking Study*; *Winnetka Institutional Building Study (1996)*; among others).

During the field survey, each component of a subject building was examined to determine whether it was in sound condition or had minor, major, or critical defects.

## Study Feasibility Findings

This Report concludes that the Downtown Study Area is eligible for Tax Increment Finance ("TIF") designation as a redevelopment project area under the Illinois TIF Act as a Conservation Area.

The following sections provide further detail as to how each of the criteria proposed to be used in these designations applies to the land in the Study Area.

The first condition required to be met for a Conservation Area is that 50% or more of the structures in the area must have an age of 35 years or more.

**Finding:** A review of information provided by Cook County tax records indicates that 93% of the structures in the Study Area are 35 years of age or older.

While only three (3) criteria are required to qualify the area as a Conservation Area, the following five (5) criteria are present in the Study Area:

- Deterioration
- Inadequate Utilities
- Excessive Land Coverage
- Lack of Community Planning
- Lagging EAV

The following provides the definition of each of these factors according to the TIF Act and an analysis of the eligibility criteria as Ehlers has found them to apply to the Study Area:

**Deterioration.** With respect to building defects, including, but not limited to, major defects in the secondary building components such as doors, windows, porches, gutters, and downspouts, and fascia. With respect to surface improvements, that the condition of roadways, alleys, curbs, gutters, sidewalks, off-street parking, and surface storage areas evidence deterioration, including, but not limited to, surface cracking, crumbling, potholes, depressions, loose paving material, and weeds protruding through paved surfaces.

**Finding:** While most buildings in Downtown Winnetka are quite attractive overall, Deterioration, as a factor, is present throughout the improved portion of the Study Area when structures are closely examined. This level and type of deterioration is not unusual in buildings of the age of many of those within the Downtown. Defects at the foundation and above the roof line were identified on a number of buildings, particularly in the back or on the sides of buildings. Signs of deterioration observed repeatedly include: dented or damaged fascia, soffits, gutters or downspouts; loose or missing shingles; wear and tear or dry rot on cornices and other wood ornamentation; cracked masonry; peeling or missing paint; and worn or damaged window and door frames.

Deterioration was also observed in the parking lots and other paved areas of the Study Area. Evidence of site deterioration includes cracked pavement, some potholes, crumbling asphalt, and minor damage to curbs and alleys.

Deterioration as a factor was found to be present in 31 of the 61 primary buildings (51%). Of parcels that were occupied by either buildings or parking lots, 41 of 80 (52%) exhibited signs of deterioration (see **Attachment 3: Eligibility Criterion - Deterioration Map**). There were also some signs of deterioration in some of the right-of-way parcels, but these were not included in the count.

**Excessive Land Coverage and Overcrowding of Structures and Community Facilities.** The over-intensive use of property and the crowding of buildings and accessory facilities onto a site. Examples of problem conditions warranting the designation of an area as one exhibiting excessive land coverage are: (i) the presence of buildings either improperly situated on parcels or located on parcels of inadequate size and shape in relation to present-day standards of development for health and safety, and (ii) the presence of multiple buildings on a

single parcel. For there to be a finding of excessive land coverage, these parcels must exhibit one or more of the following conditions: insufficient provision for light and air within or around buildings, increased threat of spread of fire due to the close proximity of building, lack of adequate or proper access to a public right-of-way, lack of reasonably required off-street parking, or inadequate provision for loading and service.

**Finding:** Excessive land coverage, as a factor, is present throughout the Study Area. Excessive land coverage is evidenced in the size of buildings in relationship to the size of the parcels on which they are located. Buildings are either improperly situated on a parcel or are located on more than one parcel. Many of the commercial buildings have been built from property line to property line. Although Village zoning permits this to a large extent, the size of these buildings reduces the businesses' space for loading and unloading deliveries and limits ingress/egress to the parcel. These parcels are of an inadequate size to accommodate contemporary redevelopment within the Study Area, should that be desired.

Excessive land coverage can be applied as a factor to 42 parcels of the 66 parcels (64%) with buildings in the Study Area (see **Attachment 3: Eligibility Criterion – Excessive Land Coverage Map**).

**Lack of Community Planning.** The Redevelopment Project Area was developed prior to or without the benefit or guidance of a community plan. This means that the development occurred prior to the adoption by the municipality of a comprehensive or other community plan, or that the plan was not followed at the time of the area's development. This factor must be documented by evidence of adverse or incompatible land-use relationships, inadequate street layout, improper subdivision, parcels of inadequate shape and size to meet contemporary development standards, or other evidence demonstrating an absence of effective community planning.

**Finding:** The first comprehensive plan for the Village was issued in 1945. (The first community plan for the Village of Winnetka was issued in 1921, but lacked the type of detail needed to direct the Study Area's development as defined above.) Many of the buildings in the Study Area were constructed prior to 1945 (32 of 61 buildings, or 52%), and 16% of the buildings were even constructed prior to 1921. Therefore, although the Village has a long and thorough history of community planning since the 1945 document and has conscientiously applied the findings of those studies, because a majority of the proposed Study Area was developed prior to or without the benefit or guidance of an adopted comprehensive plan, this factor does apply for the purpose of this analysis.

This factor is documented by many of the same issues that are cited under the previous factor, Excessive Land Coverage. Many of the parcels are insufficient in size with respect to contemporary development standards, which can create additional challenges for developers of new buildings or renovations of existing buildings. Furthermore, lack of access to the rear of buildings and small or non-existent loading areas further evidences the challenge for many of the parcels in the Study Area in serving modern day development requirements. There are three instances where a PIN is bisected by another PIN. There are other parcels that have PINs but are considered and used as right-of-way. Therefore, this criterion applies and is reasonably present throughout the entirety of the Study Area.

While Lack of Community Planning technically applies to the Study Area as a whole, the attached map (see **Attachment 3: Eligibility Criterion – Lack of Community Planning Map**) only indicates the parcels which show the evidence cited above.

**Inadequate Utilities.** Underground and overhead utilities such as storm sewers and storm drainage, sanitary sewers, water lines, and gas, telephone, and electrical services that are shown to be inadequate. Inadequate utilities are those that are: (i) of insufficient capacity to serve the uses in the Study Area, (ii) deteriorated, antiquated, obsolete, or in disrepair, or (iii) lacking within the redevelopment project area.

**Finding:** Inadequate utilities, as a factor, is present throughout the Study Area. The Study Area suffers from deteriorated and obsolete water mains which are due to be replaced within the near future at a significant cost. Some mains are also undersized to meet the capacity needs of future redevelopment.

A table and map provided by the Village's Water and Electric Department indicate that the Study Area suffers from inadequate utilities throughout (see **Attachment 4: Study Area Water Mains Table**).

Of the 16 water mains in the Study Area, 12 (75%) of them are over 100 years old, the average life span, and two (2) more of them are over 90 years old, and due for replacement. The Department also noted that an additional water main needs to be installed at Elm Street to provide additional capacity for future redevelopment associated with the One Winnetka project. An additional water main would also need to be added on Chestnut if the Post Office were to be redeveloped. The total cost to replace the water mains over 90 years old is approximately \$4,611,825.

The Public Works Department also stated there is some need for additional sanitary sewer improvements (\$90,000 estimated cost at current costs) and additional electrical substructure for street lighting (estimated cost of \$1,141,912 provided by Ciorba) in the Study Area as well. The total combined costs for this additional infrastructure (\$1,141,912 + \$90,000) is \$1,231,912.

**Lagging EAV.** The total equalized assessed value of the proposed Redevelopment Project Area has declined for three (3) of the last five (5) calendar years prior to the year in which the Redevelopment Project Area is designated, or is increasing at an annual rate that is less than the balance of the municipality for three (3) of the last five (5) calendar years for which information is available, or is increasing at an annual rate that is less than the Consumer Price Index for All Urban Consumers published by the United States Department of Labor or successor agency for three (3) of the last five (5) calendar years prior to the year in which the Redevelopment Project Area is designated.

**Finding:** The Equalized Assessed Value (EAV) for the parcels in the Redevelopment Project Area is shown in the table below. The data indicates that the total EAV of the Redevelopment Project Area has:

- a. Declined for four (4) of the last five (5) calendar years;
- b. Increased at an annual rate that is less than the balance of the Village-wide EAV for three (3) of the last five (5) calendar years; and
- c. Increased at an annual rate that is less than the Consumer Price Index for All Urban Consumers for four (4) of the last five (5) calendar years.

**Table 2 – EAV Analysis**

	TY 2010	TY 2011	TY 2012	TY 2013	TY 2014	TY 2015
<b>Total EAV of RPA</b>	48,875,557	42,002,948	37,700,192	34,127,836	34,733,424	34,246,012
<b>Percent Change</b>		<b>-14.1%</b>	<b>-10.2%</b>	<b>-9.5%</b>	<b>1.8%</b>	<b>-1.4%</b>
Has the Total EAV of RPA declined?		YES	YES	YES	no	YES

	TY 2010	TY 2011	TY 2012	TY 2013	TY 2014	TY 2015
<b>Total EAV of RPA</b>	48,875,557	42,002,948	37,700,192	34,127,836	34,733,424	34,246,012
<b>Percent Change</b>		<b>-14.1%</b>	<b>-10.2%</b>	<b>-9.5%</b>	<b>1.8%</b>	<b>-1.4%</b>
<b>Village EAV</b>	1,605,591,119	1,440,254,090	1,337,599,518	1,224,202,737	1,239,548,988	1,199,235,559
<b>Balance of Village</b>	1,556,715,562	1,398,251,142	1,299,899,326	1,190,074,901	1,204,815,564	1,164,989,547
<b>Percent Change</b>		<b>-10.2%</b>	<b>-7.0%</b>	<b>-8.4%</b>	<b>1.2%</b>	<b>-3.3%</b>
Was the Total EAV of RPA less than the balance of Village?		YES	YES	YES	no	no

	TY 2010	TY 2011	TY 2012	TY 2013	TY 2014	TY 2015
<b>Total EAV of RPA</b>	48,875,557	42,002,948	37,700,192	34,127,836	34,733,424	34,246,012
<b>Percent Change</b>		<b>-14.1%</b>	<b>-10.2%</b>	<b>-9.5%</b>	<b>1.8%</b>	<b>-1.4%</b>
<b>CPI</b>		<b>3.2%</b>	<b>2.1%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>0.1%</b>
Was the Total EAV of RPA less than the CPI?		YES	YES	YES	no	YES

Although only one is required, all three measurements of EAV indicate that EAV is lagging in the parcels of the Redevelopment Project Area. Therefore, this criterion applies.

**Note:** EAV data for Tax Year 2016 was not yet available from Cook County at the time the research for this section was completed. Assuming the Village were to pursue adoption of the TIF, the new data would need to be incorporated into the analysis for this criterion. It is likely that the 2016 data will still support the use of this criterion as a contributing factor.

### III. Downtown Study Area Tax Increment Revenue Analysis

Ehlers has completed preliminary tax increment revenue estimates for the Downtown Study Area (see **Attachment 5 – Tax Increment Projections**). These figures include a potential development project proposed as One Winnetka and inflationary increment within the Study Area through an assumed 23-year term of a TIF District. Our estimates are based on research of tax assessment data and discussions with the Cook County Assessor and Clerk’s Offices, and the New Trier Township Assessor’s Office.

The assumptions include some of the following points:

- A 23-year term, the maximum for a TIF District.
- Tax year 2015 values were used to calculate the estimated Base Value. Tax year 2016 data will be used in the Redevelopment Plan, assuming the Village opts to proceed with the process for adopting a TIF.
- One Winnetka project construction cost estimate of \$74.7 million (construction \$67.5 million plus \$7.2 million appraised land value). The market value attributable to the commercial portions of the project is at 25% and 75% to the residential portions. Construction is estimated to begin in the spring of 2018, with partial occupancy and assessments in 2018-2020, and 100% occupancy of residential and commercial space in 2021.
- Tax revenues are collected in the following tax year in which they are assessed.
- The inflation rates applied are 1.5% annually and 4.57% triennially.

The estimated tax increment revenues derived from properties within the Study Area and distributed to the Village of Winnetka total \$69,149,738 over the life of the TIF, with a net present value of \$33,902,227.

**Note:** These estimates are for illustrative and discussion purposes only and should not be used for the purposes of structuring any redevelopment agreements or other obligations to the Village without additional due diligence. At the Village’s direction, preliminary projections of a more general, high-level nature based on the limited project data information provided to the Village on the One Winnetka project were prepared for the purposes of this Feasibility Report.

## IV. Potential Next Steps

As stated above, the Downtown Study Area qualifies for eligibility as a Redevelopment Project Area under the provisions in the TIF Act for a Conservation Area -- pending the finding by the Village that “but for” the TIF district designation, this area would not reasonably be anticipated to be redeveloped.

The Village should evaluate whether to proceed with the drafting of a TIF Redevelopment Project and Plan document that would incorporate the feasibility findings of this report. The TIF Plan and Eligibility Report would serve as the evidence and planning documents to be reviewed and presented to the taxing districts at a Joint Review Board meeting and to the public and other interested parties at a formal public hearing.

Ehlers recommends that the Village initiate discussions with representatives of the other taxing bodies collecting taxes within the Study Area as soon as possible if it intends to continue pursuit of the adoption of this proposed TIF. As in every TIF, the ultimate success of the TIF, and certainly the initial adoption process, is dependent upon support from all of the taxing jurisdictions, particularly those that serve as members of the Joint Review Board. Garnering this support can require a lengthy process, but the importance of these discussions at the front end of the process should not be undervalued.

The Study Area includes more than seventy-five (75) occupied residential units. The Village has indicated that it would certify that no more than ten (10) occupied residential units would be displaced due to Redevelopment Plan activities. Therefore, Ehlers expects that a Housing Impact Statement will not be necessary, but the Village will be required to hold an additional public information meeting.

The drafting of the TIF documents, the required public notice period and the sequenced scheduling of the public information meeting, Joint Review Board meeting, and public hearing require approximately 4 months (as provided by the TIF Act).

Beyond the adoption of a TIF District, there will be other actions required of the Village. If the Village chooses to pursue the adoption of a TIF and does so, any proposed redevelopment projects will need to be reviewed prior to the dedication of any TIF funds towards eligible expenses of the project. Items to be examined would include a market feasibility study and a detailed developer’s pro forma specifying costs, revenues, and return on investment. This would provide the Village with information regarding the expected market absorption of the project, the developer’s financing gap, and potential TIF eligible costs that must be addressed to make proposed projects feasible. The review of TIF eligible costs should be examined carefully since costs of new construction generally are not eligible for reimbursement with TIF funds and past costs of land acquisition are not eligible for retroactive reimbursement with TIF funds. Examples of potential TIF eligible costs are site preparation, grading, or any improvements to the public right of way or public utilities.

When a municipality adopts a TIF District, Ehlers recommends that it also establishes policies and procedures for smaller projects (such as façade and awning improvements, signage grants,

etc.) to encourage projects that meet the Village's preservation and design goals. Further, these policies and procedures will provide some guidance to applicants as to how the Village intends to use its TIF funds.

In summary, the potential next steps in the process include:

1. Village to determine if it wishes to pursue remaining steps towards adopting a TIF District in the Study Area.
2. If the decision is made to move forward, initiate discussions with the taxing bodies.
3. Ehlers to draft the Redevelopment Plan and Project.
4. Create an adoption process schedule and implement the steps required for public notices, meetings, and approval of the adoption ordinances.

The Ehlers team is pleased to have the opportunity to work with the Village as it considers the use of tax increment financing within Winnetka's Downtown/Elm Street Business District.