# VILLAGE OF HOMEWOOD
# PROOF OF FINANCING POLICY (ECONOMIC DEVELOPMENT)
# ADOPTED BY RESOLUTION R-_____ [DATE]

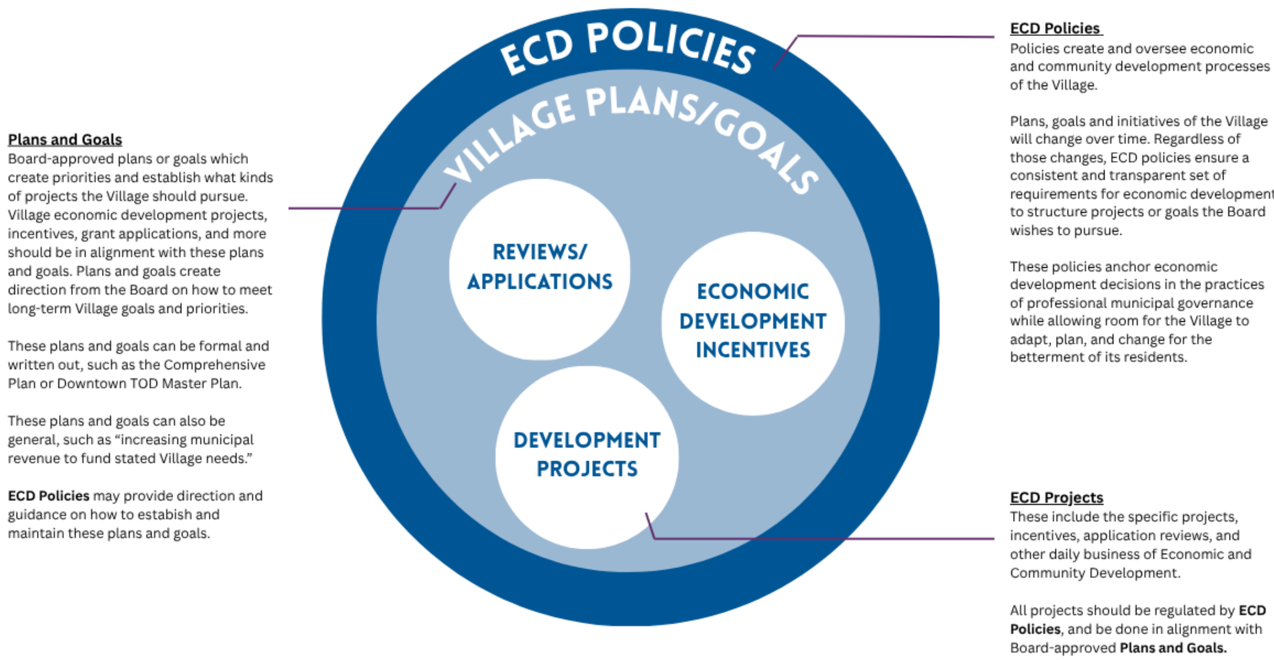
THE VILLAGE OF HOMEWOOD

1893

Revised: September 26, 2023

## 1.0 INTRODUCTION AND OBJECTIVES

The Village of Homewood engages in a variety of economic development activities to achieve a variety of goals, including increasing municipal revenue, improving quality-of-life for Village residents, and creating regional community attractiveness. These activities are regulated by policies and procedures established by the Village Board. These policies provide clarity and transparency for those involved in Village economic development decisions, while also creating standards for economic development decisions which maximize public benefit and quality-of-life gains for the Village.




Economic development policies are unique because their focus (and impact) is very long-term. Economic development projects support Village goals and priorities which can take years or decades to realize. Impacts of economic development decisions unfold over several decades – development projects can take years to complete, Village priorities change and evolve over long periods of time, and redevelopment agreements and incentive programs are measured in decades instead of years.

The results of economic development decisions (whether positive or negative) are usually only discovered years in the future, when resources are needed to achieve new Village goals and priorities or unforeseen challenges arise from projects. Economic development policies are needed to ensure that decisions made today can maximize opportunities to create long-term growth and positive development outcomes.

The Village Board sets forth the following requirements for those involved in the oversight and management of economic development decisions at all levels of the organization:

- Carry out long-term plans and goals of the Village Board.

- Clearly demonstrate and maximize public benefit
- Strengthen the Village's financial capacity and quality of municipal services
- Provide equitable and consistent application of economic development processes and procedures for all projects
- Embed accountability, transparency, and strong public communication in all economic development processes and decisions

## 2.0 PURPOSE

It is the intent of the Village of Homewood to assist economic development projects and create incentive programs that ensure high-quality development projects which are completed in a timely manner. The ability to show the financial capability to complete a project is critical to creating positive development activity in the Village and ensuring Village incentives are used for their intended purposes.

The Economic and Community Development Director is responsible for ensuring that proposed economic development projects are feasible, and that any project partner has demonstrated the financial capability to complete an economic development project prior to the sale of Village-owned property, issuance of Village incentives, or the commitment of other Village resources to any project.

This policy is designed to establish <u>when</u> and <u>how</u> the Village will verify financial capability for any project requiring Village involvement. This policy requires proof of financing at common "benchmarks" of the development process, to ensure that projects can be completed successfully, in a timely manner, and in a way which does not open the Village up to undue risks or negative future economic impacts.

Additionally, all Village incentives rely on an assessment of "project need" (including the "but for" argument for incentives). Proof of financing is essential for verifying need for a specific project by requiring an individual, business or developer to demonstrate project budgets, pro forma and financial sources to create a clear understanding of project need for Village staff when analyzing a project.

## 2.1 APPLICABILITY

The Village has the authority, as provided by state statute (65 ILCS 5/8-1-2.5 and 65 ILCS 5/11-74.4-1), to require "proof of financing" for projects which have a public purpose (including economic development projects requiring public assistance or development of public property). The Village's proof of financing policy is designed to apply to a variety of Village economic development initiatives and projects, including:

- Any development project receiving tax-increment financing (TIF) assistance, whether through reimbursable "pay-as-you-go" payments or up-front payments.
- Any development project requiring the purchase of Village-owned property.

- Any development project being funded through one or more additional public assistance programs which require Village support (Low-Income Housing Tax Credits (LIHTC), New Market Tax Credits (NMTC), DCEO funding, federal Small Business Administration (SBA) loans/incentives, etc.).
- Any project requesting municipal support for Cook County property tax abatements or assessments (i.e. Class 6b, Class 8, etc.).
- Any business receiving property improvement assistance or other business development incentives offered by the Village.
- Any other development project or business receiving Village incentives, upon request of the Village Board or Village Manager's Office, when deemed necessary to safeguard Village resources.

## 2.2 OUTCOME

This policy requires individuals or developers using Village economic development programs to provide clear evidence of funding *before* any Village resources are committed to a project or a Village property is transferred to a developer or new owner. This policy provides the Village Board with clear guidance for how to require any developer partnering with the Village or receiving substantial investment from the Village to demonstrate that they have the finances and resources to complete a project.

This policy assists the Board in asking the following question for any developer or project partner:

***Does the developer have a credible, documented path to funding the entire project?***

## 3.0 DEFINITIONS

Definitions are provided in this section to ensure clear administration and communication of requirements between the Board/Village staff and potential developers/project partners.

**3.1 Proof of Financing -** Documentation reasonably satisfactory to the Village demonstrating that sufficient funds or financing are available or committed to complete the project.

**3.2. Developer –** The person or legal entity responsible for developing, constructing, or financing the project. The Developer may or may not be the property owner.

**3.3. Total Project Cost -** The complete projected cost of the project, regardless of whether individual costs are eligible for municipal reimbursement or incentives.

**3.4. Unfunded Project Costs –** Project costs which have been identified to not have an adequate funding source.

**3.4. Debt Financing -** Financing provided by a bank, financial institution, private lender, or other lender that must be repaid

**3.5. Conditional Financing -** Financing that is subject to specified conditions, approvals, due diligence, or other requirements before funds become available (often final approval of Village incentives or planning approvals from the Village)

**3.6. Committed Debt –** Loan financing which has a written commitment from a qualified lender or financial institution.

**3.7. Committed Equity Capital –** Equity capital (such as value of other projects or committed revenue from another project from the same developer) that has been contractually committed to a project and is reasonably able to be spent on the costs of the project.

**3.6. Committed Financing -** Financing for which the applicant has received sufficient documentation demonstrating that the funds are reasonably available for the project, including committed debt or committed equity capital.

**3.7. Loan Commitment -** A written and signed commitment from a lender specifying the amount and material terms of financing available to the applicant/project.

**3.8. Gap Financing -** The amount by which identified sources of financing are insufficient to cover identified project costs which require funding commitments from an outside source (such as Village, County or state incentives).

**3.9. Third-Party Verification -** Independent confirmation of financing, funds, account balances, commitments, or other financial information by a lender, financial institution, accountant, or other qualified third party.

## 4.0 PROOF OF FINANCING POLICY

This policy requires individuals or developers using Village economic development programs to provide clear evidence of funding *before* any Village resources are committed to a project or a Village property is transferred to a developer or new owner.

This policy creates proof of financing requirements at common "benchmarks" in the development process. These are "benchmarks" where the Village's involvement in a publicly assisted development project are the greatest, such as awarding bids for publicly-owned property or approving a redevelopment agreement for a project. Just as not every development project will go through each of these "benchmarks," not every development project will be subject to the full set of requirements in this policy.

<u>This policy is not an ordinance or code which is specific to any one project.</u> The Village Board reserves the right to modify these requirements as is appropriate for a specific project in order to maximize public benefit.
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**4.1 SOLICITATIONS OF PROPOSALS/REQUESTS FOR PROPOSALS (RFP)**

The sale of Village-owned property generally occurs through a competitive process, such as a Solicitation of Alternate Proposals (Inside of TIFs) Request for Proposals (any development), or Solicitation of Bids and Proposals (Outside of TIFs). If the Village Board initiates one of these methods of property sale, or another similar competitive process for selling public property, <u>the Village shall require the bidder or proposer to provide initial proof of financing.</u>

As initial proof of financing, the bidder or proposer **"shall demonstrate the financial readiness to complete the proposed development and associated public improvements."** Assessing financial readiness involves determining whether a potential developer/property buyer has considered the full costs of the property and proposed improvements, and has determined where financing could come from should they be approved to purchase the property.

For all projects, the proposer/bidder shall provide all of the following:

- Preliminary pro forma and project budget
- Ledger of planned or approved funding sources
- Grants awarded/applied for (with clear timeline of approval if not yet awarded)
- Detailed timeline of anticipated receipt of funding or completion of financial commitments
- Examples of other past or current projects where funding was successfully provided

These requirements ensure that bidders/proposers are carefully consider their financial needs and how feasible their proposal is before large amounts of Village staff time and resources are committed to reviewing and developing a proposal. This allows for financial flexibility through the entitlement review process, as project costs and demands often change during the negotiation of entitlements such as development agreements or zoning reviews.

**4.2 DEVELOPMENT/REDEVELOPMENT AGREEMENTS, PURCHASE AND SALE AGREEMENTS, OR OTHER INCENTIVE AGREEMENTS**

When the Village negotiates an agreement (redevelopment agreements, purchase and sale agreements, incentive agreements, etc.), any individual or developer participating with the Village in the agreement shall provide <u>concrete proof of committed or approved funding.</u>

As proof of committed financing, the bidder or proposer **"shall demonstrate their current financial capability to complete the proposed development and associated**

**public improvements."** Assessing current financial capability is necessary to communicate to the Village that a project as agreed upon can completed in a reasonable amount of time and meet any development conditions without coming back to the Board for frequent amendments or additional incentive requests. This review also ensures that a proposed financing strategy (or "funding stack") does not conflict with Village redevelopment agreements or

To demonstrate current financial capability, all projects requiring participation in an agreement with the Village shall provide the following:

- Finalized pro forma and project budget
- Final financing ledger of all funding sources (including name of agency/lending institution where funding originates from)

As applicable, the following may be accepted as this stage to demonstrate current financial capability:

- Approved loan commitments, or signed letters demonstrated that project lending has been approved
- Credit commitments (committed or conditionally committed), and/or signed letters demonstrate that credit has been awarded or is conditionally awarded
- Escrow deposits for the property (if applicable)
- Effective tax credit allocations/approval letters
- Signed approval letters for any grants or program funding through state/federal programs
- Proof of committed equity capital (such as bank statements, wire transfer receipts, or documentation from a lending institution or corporation) or signed statements demonstrating sufficient available equity

All documents provided at this stage of development shall demonstrate amounts which match those found in the final financing ledger and finalized pro forma for the project. If gap financing is identified which requires Village incentives (i.e. TIF reimbursement), it is the responsibility of the developer to demonstrate access to loan or credit commitments which still provide capital to meet project needs without requiring capital injections or up-front payments for project costs (unless otherwise approved by the Board).

The following may NOT be accepted at this stage to demonstrate current financial capability, as these documents lack any guarantee of funds or provide incomplete financing information:

- Letter from bank or other lending institution stating that funding is under review or that a deal is under consideration
- Grant applications or partial approvals of grant/program funding
- Loan applications

- Tax credit program applications or preliminary approvals for tax credit programs
- Valuations of property or other assets to be utilized as "collateral" or being borrowed against
- Existing business cash flow documents

The Village may require other documents, such as market analyses or tax forecasts, as is appropriate to demonstrate feasibility of financing and financial capability for any development. The Board and Village management reserve the right to request additional information as necessary.

### 4.3 PLANNED DEVELOPMENT REVIEW

Planned Development reviews are a significant part of the entitlement review process, which often changes the design or layout of a development significantly. Not all projects are subject to these reviews – though all downtown projects and projects larger than a ½ acre do require them. These applications are generally reviewed at the same time as a redevelopment agreement.

The Planned Development process often significantly changes the final site design – and thus changes the cost of a development. As such, a developer should be prepared to amend the documents initially submitted before the signing of a redevelopment agreement.

For all projects, the developer shall provide the following with a Planned Development application:

- Finalized pro forma and project budget incorporating changes from the review
- Final financing ledger of all funding sources (including name of agency/lending institution where funding originates from)

**If costs have changed following Planned Development review and approval:** The developer shall provide amended documents from the list of allowed documents in the "SET" category and provide them to the Village (or incorporate them into a final development/redevelopment agreement or similar agreement).

**If costs have NOT changed following Planned Development review and approval:** No additional action is required for this step. Developer shall provide proof to staff verifying that project costs have not substantially changed.

### 4.4 PROPERTY CLOSING/SALE OF PROPERTY

The Village closes on property when a Purchase and Sale Agreement (or a similar agreement) is signed and the buyer fulfills any conditions of the sale of the property, including escrow payments, studies/surveys, or other necessary steps to purchasing the property.

The Village shall require proof of financing commitment within an agreed-upon time (generally 30-60 days) after the approval and execution of a Purchase and Sale Agreement or similar agreement completing the sale of Village-owned property. Such language shall be added to Purchase and Sale Agreements or similar agreements regulating the sale of Village-owned property. This step ensures that the developer is able to demonstrate readily-available financing to purchase the property and complete the project for which the property is being sold.

If Village-owned property is being sold for another purpose without a development or "end user" being supported, this step may not apply.

**4.5 VILLAGE INCENTIVE REVIEWS**

Many projects in the Village require assistance from Village incentive programs, or Village support for other incentives (such as Cook County or State of Illinois programs). Many of these projects are smaller investments which require less direct involvement from the Village, or are projects which do not involve the sale of Village-owned property. While most Village incentives are "performance-based" (meaning they are not distributed unless the work being incentivized is completed), providing some financing information is essential for ensuring the successful use of Village or Village-supported incentives.

**For Cook County Incentives (Class 6b, Class 8, etc.) supported by the Village:**

- Project budget summarizing proposed investment into property
- Ledger of planned or approved funding sources

**For all Village incentives:**

- Business plan (current or proposed) showing proposed sales/revenue from business or development
- Project budget summarizing proposed investment into property
- Narrative including information on planned funding sources

While the level of documentation needed is lower for Village and Village-supported incentives, it is critical to the success of incentives to ensure that the

**5.0 OTHER NOTES/PARAMETERS**

The Village Board of Trustees are the final decision-making body on projects which are subject to proof of financing review. As such, the Village Board reserves the right to modify these requirements as is appropriate for a specific project in order to **maximize public benefit.**

When managing proof of financing documents, Village staff shall consider the following:

- Any documentation of proof of financing shall be shared with Trustees and Village management staff upon receipt.

- Any documentation of proof of financing shall be treated as confidential commercial information and be provided proper confidentiality and protection of personal information. Documentation shall not be presented publicly unless otherwise authorized by the Developer or it is deemed necessary for the protection or welfare of Village residents. Any release into the public record shall be redacted as appropriate to protect sensitive personal or financial information.

- The Village may waive or provide alternative methods of providing financial information (such as performance guarantees or clear phased funding plans) as appropriate for the success of a project