

City of Chicago
Department of Planning and Development

STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
DECEMBER 13, 2005

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name: Mercy Hospital and Medical Center Campus

Applicant Name: Mercy Hospital and Medical Center

Project Address: 2525 S. Michigan

Ward and Alderman: 2nd, Madeline Haithcock

Community Area: Near South Side (33)

Redevelopment Project Area: 26th and King Drive TIF

Requested Action: TIF Developer Designation

Proposed Project: Mercy Hospital & Medical Center proposes to seek TIF assistance for the rehabilitation of the main campus hospital building, site preparation for the sale of the eastern portion of the site for residential development, and other costs associated with the acquisition and environmental remediation of lot H for hospital parking.

TIF Assistance: \$60.9 million

II. PROPERTY DESCRIPTION

Address: 2525 S. Michigan

Location: Generally bounded by 25th Street on the north, King Drive on the east, 26th Street on the south, and the first alley to the west of South Michigan Avenue.

Tax Parcel Numbers: 17-27-129-001 through -023

Land Area: 622,202 sq.ft. (14.28 acres)

Current Use: Mercy Hospital and Medical Center Campus is comprised of four buildings: the Main hospital building, the MRI building, the Research building and the Interns and Residents building. There also exists adjacent surface parking lots. Because of disuse and substantial costs to rehabilitate to modern standards, the MRI building, the Research building, and Interns and Residents building are all currently vacant.

Current Zoning: Residential Planned Development #26

Proposed Zoning: Same

Environmental Condition: A Phase I and Phase II was conducted for Parking Lot "H" located at 2500 S. Michigan. Five anomalies were identified but soil borings indicated there was no compelling evidence that the anomalies were associated with USTs or piping. Several compounds/contaminants were present exceeding IEPA requirements. Although no regulations require a No Further Remediation letter, if desired, a NFR could be obtained through either active remediation, risk-based closure, or a combination of both under the IEPA SRP and in accordance with TACO regulations.

III. BACKGROUND

On October 11, 2005, CDC approved the proposed designation of the 26th and King Drive Tax Increment Financing Project Area for the purpose of improving Mercy Hospital and the development of vacant/blighted land.

Mercy Hospital and Medical Center Campus is comprised of four buildings: the Main hospital building, the MRI building, the Research building and the Interns and Residents building along with adjacent surface parking lots. Due to limited cash flow generation from hospital operations and its limited debt capacity, Mercy Hospital has been forced to defer several major capital projects and have been unable to fund ongoing routine capital replacement for their hospital campus. Significant capital improvement work needs to be done on the main hospital facility such as interior and exterior building rehabilitation along with replacement and rehabilitation of outdated infrastructure and safety systems. Over the years, the MRI building and the Research building have fallen into disuse and have become vacant. In addition, in July of 2005, the Interns and Residents building became vacant due to continued disuse. The costs to rehabilitate these buildings to modern standards would be substantial. Therefore, Mercy Hospital intends to sell its parcels just east of Prairie Avenue comprising of the three vacant buildings and parking lots to a developer for a proposed residential for-sale and senior housing development. This would require Mercy Hospital to reconfigure their existing parking lots

to the west of the main hospital building. This rehabilitation of the Mercy Hospital Campus is long-term and multi-phased. Moreover, the selling of its existing land, reconfiguration of existing parking lots, and the use of TIF increment from the proposed redeveloped land will improve Mercy's financial position and allow them to make critical investments in the main hospital's infrastructure and equipment. Consequently, these actions will also help to improve Mercy's long-term competitive position as a hospital.

IV. PROPOSED DEVELOPMENT TEAM

Development Entity: Mercy Hospital and Medical Center, a not-for-profit hospital established in 1852, is Chicago's first hospital and the first hospital in the State of Illinois. From its inception, Mercy Hospital sponsored by the religious Sisters of Mercy has had an unwavering commitment to servicing the economically and socially disadvantaged in its immediate neighborhood. Today the hospital continues to provide a broad spectrum of health care services to all the diverse communities it serves. It is licensed for 477 beds, has 321-available beds and 165-staffed beds. The hospital has six (6) ambulatory care facilities in the metropolitan Chicago areas and six (6) occupational health facilities under the name of MercyWorks. Mercy Hospital and Medical Center employs approximately 1,508 full and part-time employees. As a teaching hospital, Mercy has an affiliation with the medical schools of the University of Illinois and Loyola University and trains over 100 residents per year. Over 28,000 visits per year are provided to patients who seek care at this Center. Mercy also has a Family Health Center, which offers clinical, and prescription services to the indigent within the surrounding communities. This is all part of the mission of Mercy's healing ministry.

Consultants: The developer hired Daley & George to assist with the amendment to their Residential Planned development. An architect and general contractor will be determined at a later date.

V. PROPOSED PROJECT

Project Overview: Mercy Hospital & Medical Center proposes to 1) rehabilitate the interior and exterior of their main hospital facility, 2) reconfigure portions of the main building and parking lots, 3) acquire and remediate parking lot "H", and 4) replace and upgrade clinical equipment as needed.

Major expenditures planned include hospital-wide sprinkler installation, Energy Star window replacement, building facade repair/renovation, cooling tower replacements and the rehabilitation of patient care nursing stations, maternity and intensive care/surgery rooms. Additional expenditures are planned for a number of electrical and heating, ventilation and air conditioning (HVAC) improvements, information/data infrastructure upgrades, and roof replacement. Mercy will reconfigure portions of the main building and parking lots and pay site preparation costs for the portion of the site to be sold for the proposed residential development. Parking spaces are planned to be added to the west side of the campus through the reconfiguration and the acquisition of parking at a nearby church on 26th street. In addition, the main hospital facility's first floor visitor ingress and egress will be reconfigured along with the relocation of several departments within the building to provide direct access from the reconfigured parking. Mercy has committed to pay a portion of the site preparation costs for the sale of the eastern portion of their site for the residential development including building demolition, asbestos removal, and any environmental remediation costs. Mercy sold

nine (9) parcels comprising of parking lot "H" to the Sisters of Saint Francis Health in early 2005. The sales agreement allows Mercy to reacquire the property anytime between April 2005 and April 2009. Once reacquired, Mercy intends to redesign the parking lot to accommodate additional vehicles. Also, a Phase I and II indicated the possible need for environmental remediation of Parking lot "H". Mercy has faced increased capital demand due to the growing need to finance information technology including computerized physician order entry and electronic medical record systems. Mercy intends to upgrade their clinical equipment and provide several upgrades for: information systems, radio equipment, and various furniture, flooring and wall paper as needed.

Environmental Features: Mercy Hospital will include but are not limited to energy star windows, energy efficiency for new HVAC systems, indoor quality improvements, and other sustainable design and construction for the rehabilitation of the existing hospital. In addition, Mercy has negotiated with the proposed residential developer to provide 50% green roof coverage and energy star certification for all dwelling units.

VI. FINANCIAL STRUCTURE

The rehabilitation of the Mercy Hospital Campus is long-term and will take place in several phases. The City, through the Department of Planning and Development (DPD), is planning to reimburse the developer for any TIF-eligible costs from the total project costs, now estimated at \$263,151,638. Payment will be made as a possible combination of a developer note(s) and /or a pay-as-you-go basis over the remaining life of the 26th & King Drive TIF District (2029) for a total of \$60,897,431, including interest. If a developer note is issued, the net present value ('npv'), which would be approximately \$20,785,000, is determined by discounting annual stream of payments to 2006 at approximately 7.5% (interest rate contingent upon market conditions). If the note is issued, it would not exceed 95% of the increment generated over the life of the TIF, which is estimated to be approximately \$60.9MM.

The City's TIF financial assistance will be repaid from incremental tax revenues generated by the project PIN #s. Payments will commence after issuance of DPD Certificate of Completions for the project, based upon the exhibit in Mercy's application titled 'Mercy Hospital's Capital Expenditures Cash Flow'. This exhibit, showing their cash flow and schedule of improvements from 2006-2029, will be included in the RDA as an exhibit. DPD will require Mercy Hospital to submit their updated schedule of cash flow and expenditures, annually, by January 31st of each year, and to demonstrate a minimum annual expenditure of \$7.5mm for improvements listed in the above referenced exhibit.

Developer is entitled to project increment beginning with the year in which the 26th & King Drive TIF District was established (2006). Funds generated by project pins before the issuance of the Certificate of Completion will be set aside for payout.

City will make payments no later than either March 1st or 2 months from receipt of a complete requisition for payment for prior calendar year (for example, incremental funds from 2006 will be paid by March 2007, if requested by Jan 2007).

Uses of Funds

Emergency Systems	\$ 817,781
Exterior	\$ 7,687,162
Fire Safety System	\$ 5,605,145
HVAC	\$ 7,717,987
Interior Systems	\$ 1,357,894
Rehabilitation of Patient Care Labs	\$ 20,440,947
Reconfiguration of Bldg & Site Prep	\$ 4,973,729
H Lot Acquisition & Remediation	\$ 7,585,265
<u>Clinical Equipment</u>	<u>\$ 36,102,395</u>
Sub Total Project Costs	\$ 92,288,396
Capital Expenditures over remaining life of TIF	<u>\$170,863,242</u>
TOTAL USE OF FUNDS	\$263,151,638

Sources of Funds

Capital Budget based on Cash from Operations	\$202,254,207
TIF Assistance	<u>\$ 60,897,431</u>
TOTAL SOURCES OF FUNDS	\$263,151,638

VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits:

Services and Community Programming: Once completed, the Main hospital building will be rehabilitated to modern standards enabling it to provide a higher level of services to the community and medically underserved including:

- On-site medical clinics for students at Dunbar and Phillips High Schools
- Elderly Community outreach
- Community Education and Workshops
- Community Health Fairs & Screenings
- Meeting space for Neighborhood and Community Organizations

Environmental Features: The project will incorporate several green features as listed above.

Permanent Jobs: The project is estimated to generate approximately 50 permanent jobs. The Mayor's Office for Workforce Development (MOWD) has been informed of the project and work with the developer on job training and placement.

Construction Jobs: The project will produce approximately 40 temporary construction jobs.

Affirmative Action: The developer will comply with the requirements of Chicago's affirmative action ordinance, which requires contract participation of 24% by minority-owned business

enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). The developer has provided notification of the proposed project, by certified mail, to eight associations of minority and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

City Residency: The developer will comply with the requirements of Chicago's city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman Madeline Haithcock endorses the project and has provided a letter of support (see exhibits for copy). The project was presented to the community at a meeting held on August 16, 2005 and was well-supported. The following community organizations have endorsed the project: Near South Planning Board. (See exhibits for copies of support letters).

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located in the 26th and King Drive Tax Increment Financing Redevelopment Project Area. The proposed project will satisfy the following goals of the area's redevelopment plan: to provide resources for the rehabilitation, modernization, and/or expansion of the Mercy Hospital; to facilitate the redevelopment of the eastern half of the existing Mercy Hospital Campus by providing resources for site assembly and preparation, including demolition and environmental cleanup, where necessary; and to provide adequate on- and off-site parking for visitors, employees of Mercy Hospital, and residents within the redevelopment project area. The implementation strategy for achieving the plan's goals envisions the need to provide TIF financial assistance for the rehabilitation of Mercy Hospital & Medical Center. The proposed project also conforms to the plan's land use map which calls for the rehabilitation and modernization the Mercy Hospital Campus.

X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, DPD will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is DPD policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action. Before today's action is presented to the city council for approval, the department will conduct a thorough background check of all principals having an ownership interest of 7.5 percent or greater, and of the boards of directors and trustees of non-profit organizations. Similar background checks will be conducted on the development entity itself.

Closing of the sale of the property will not occur before the City Council has approved the redevelopment agreement, the developer has obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The redevelopment agreement will include a development timetable.

XI. RECOMMENDATION

The Department of Planning and Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and DPD recommends that the CDC recommend to the City Council the designation of Mercy Hospital & Medical Center as Developer for the rehabilitation and modernization of Mercy Hospital located at 2525 S. Michigan Avenue.

EXHIBITS

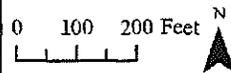
Redevelopment Area Map
Neighborhood Map or Aerial
Survey or Plat
Site Plan
Typical Floor Plan
Front Elevation or Rendering
Sample M/WBE Letter
Copies of M/WBE Certified Letter Receipts
Lender's Letter of Interest
Community Letters of Support
Alderman's Letter of Support

Map 2

Boundary Map

Legend

-  TIF Boundary
-  Block Number*
-  Existing Structure
-  Proposed TIF Parcels



*Based on the Cook County Permanent Index Numbering (PIN) System

City of Chicago
Proposed
26th & King Drive
Tax Increment Finance District
 July 2005

S. B. Friedman & Company
 Real Estate Advisors and Developing Consultants

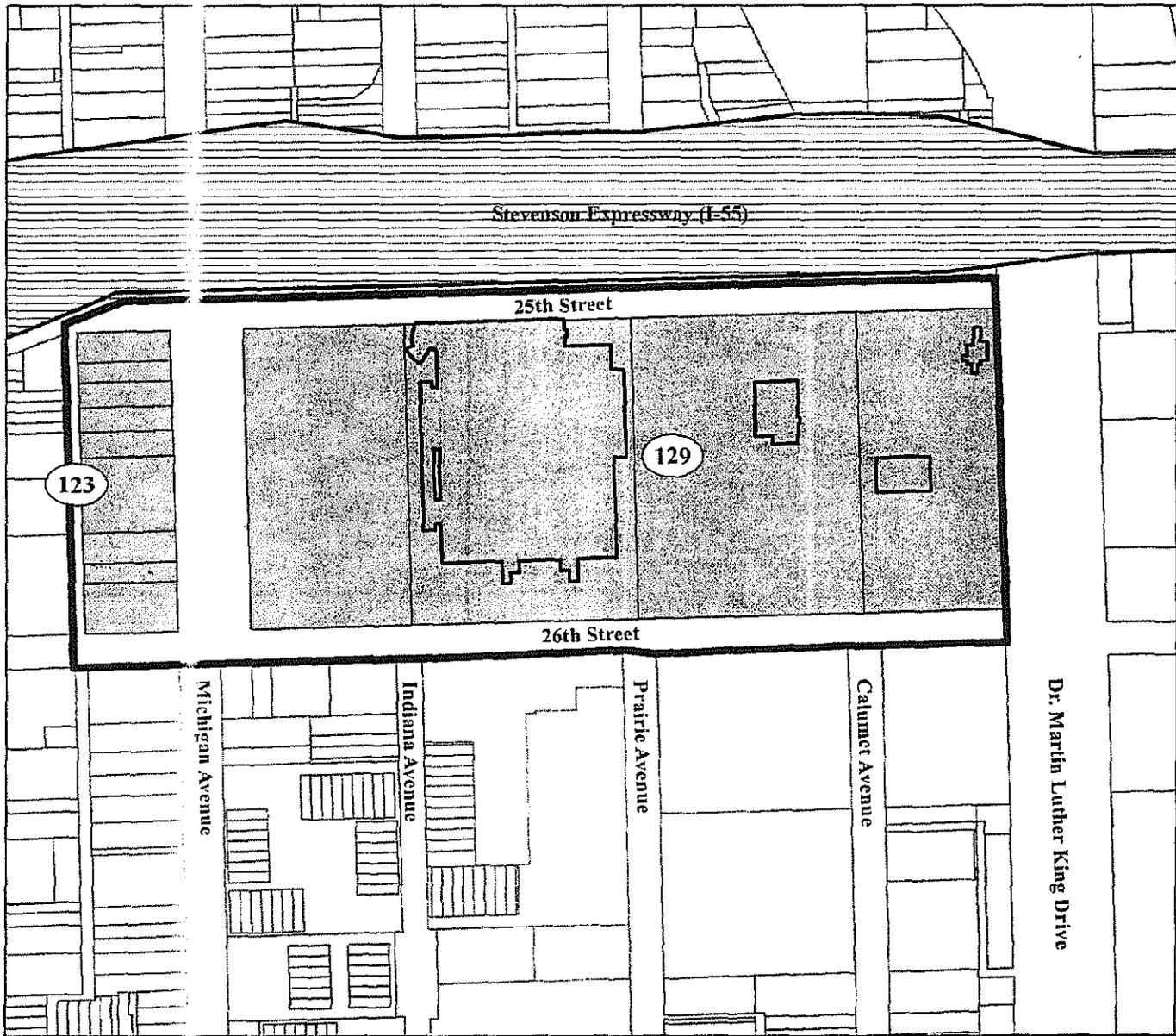
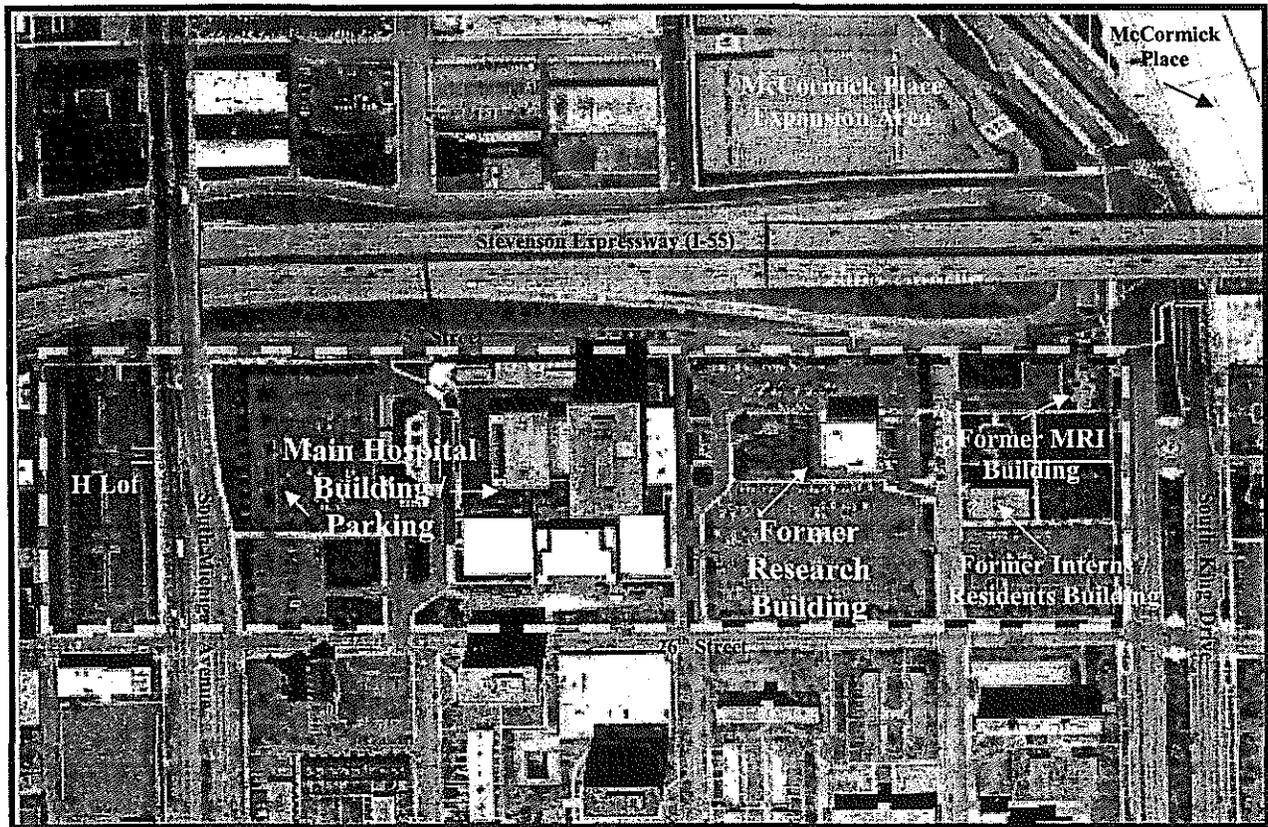
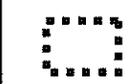


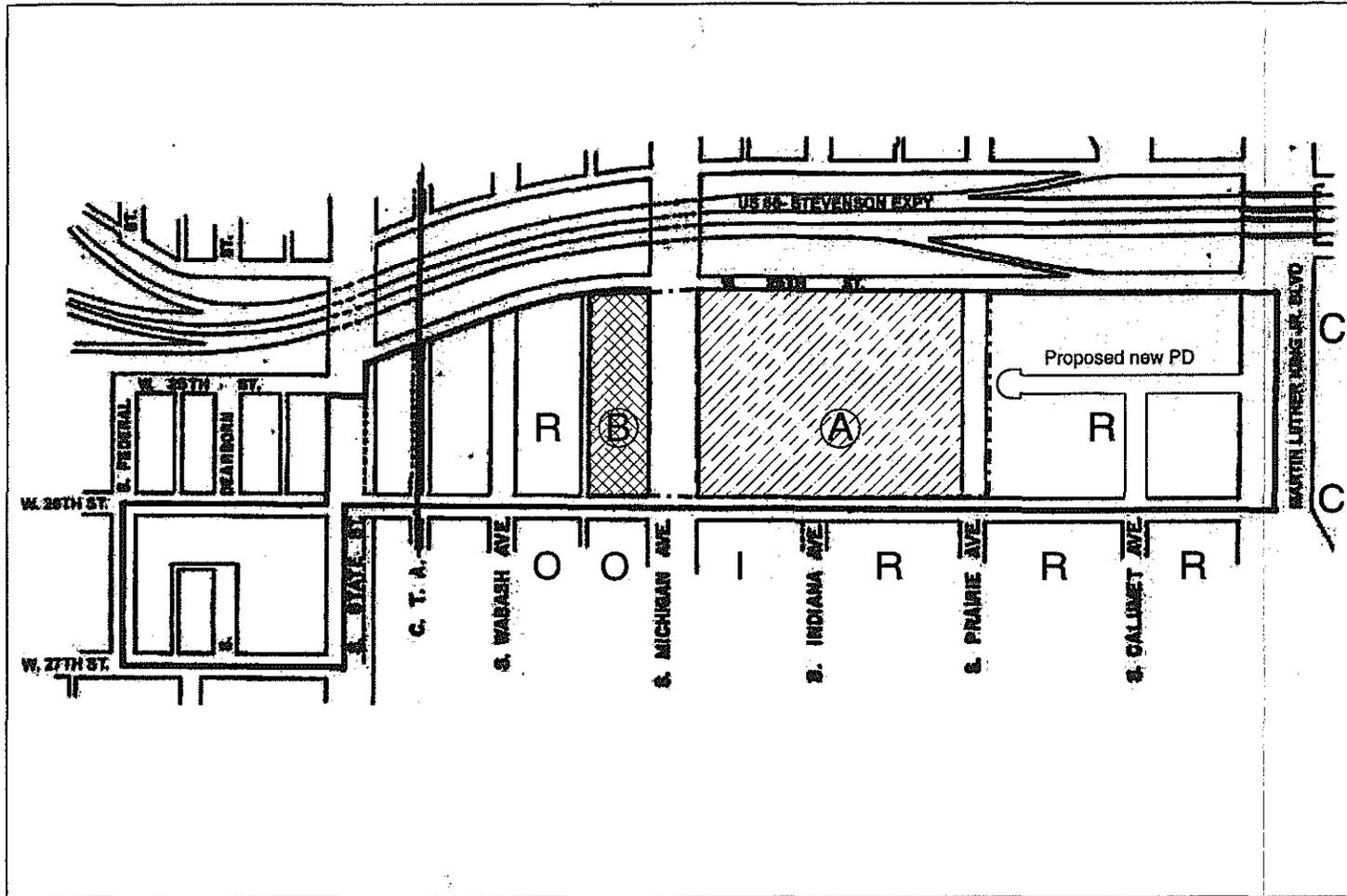
Figure 1



Legend

 Mercy Hospital Campus

 Proposed Residential Development



LEGEND

Planned Development Boundary - - - - -

- | | | | | | | | |
|----------------------|--|-------------|--|---------------|--|----------|--|
| Sub-Area A: Hospital | | Residential | | Institutional | | Parking | |
| Sub-Area B: Parking | | Commercial | | Office | | Hospital | |

SCB

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EXHIBIT 3: GENERALIZED LAND USE PLAN

Applicant: Mercy Hospital and Medical Center

Date: May 6, 2005

0 200' 400'



MERCY CAMPUS DEVELOPERS, LLC

1211 SOUTH MICHIGAN AVENUE
CHICAGO, IL 60605
312.663.5750
FAX: 312.663.9366

November 21, 2005

Mr. Edward T. McKinnie
Black Contractors United
400 West 76th Street
Chicago, IL 60620

BY CERTIFIED MAIL

Re: Eastgate Village

Dear Mr. McKinnie:

Mercy Eastgate, LLC is pleased to announce the redevelopment of the property located at 25th and Dr. Martin Luther King, Jr. Drive, Chicago, Illinois. The property consists of approximately 9.7 acres that will be redeveloped to include between 500 and 600 residential units including town homes, 3 flats, walk-up simplex and duplex condominiums, adaptive re-use, a senior rental building and a multi-unit condominium building. The project also includes capital improvements to the existing Mercy Hospital and Medical Center.

Mercy Eastgate, LLC has chosen Skender Construction to be the general contractor for the residential portion of the project. The project will require participation of trades such as carpentry, electrical, mechanical, plumbing, paving roofing and others. Attached to this letter is a trade description which identifies the items subject to minority business enterprise (MBE) participation of 24 percent and women business enterprise (WBE) participation of 4 percent. The attachment also includes Mercy Hospital's list of capital improvements which also identifies the items subject to MBE/WBE participation.

At your request, the general contractor will meet with a representative of your organization to present the project budget and schedule. At your request, the general contractor will also provide your organization with one copy of the project bid documents (including plans and specifications).

Mercy Eastgate, LLC is requesting that you make your member companies aware of this exciting project so that they may submit bids for appropriate subcontracting opportunities. Should you have any questions, please do not hesitate to call.

Sincerely,



Henry Lopez
Senior Vice President

Cc: Audrey Mathis,
Department of Planning and Development
City of Chicago