

Testimony on SB 39 – Transformational Mixed-Use Developments

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INTRODUCTION

Chairman Zeltwanger, Vice Chair Powell, Ranking Member Sobecki, and members of the House Economic & Workforce Development Committee, thank you for giving me the opportunity to speak to you today in support of Senate Bill 39 and the vital importance it can play in helping to make positive transformational change in Ohio communities.

My name is Frank Sinito, and I am the Principal and CEO of the Millennia Group of Companies based in downtown Cleveland Ohio. I am here today to speak to you about a project that my company is sponsoring known as The Centennial located in the heart of downtown Cleveland. I truly hope that I am able to adequately convey to you through my testimony today that The Centennial is exactly the type of Transformational Mixed Use Development (“TMUD”) project that SB 39 is intended to promote in order to help generate very large scale positive economic benefits for the neighborhood and local community in which a qualifying project is located, as well as for the State of Ohio and its citizens.

OVERVIEW OF SB 39 TMUD CREDIT

Senate Bill 39 authorizes a new tax credit that is designed to assist property owners in raising capital for a “transformational mixed-use development,” which is defined as a multiple-purpose development that includes at least one large building, consists of a defined minimum overall size, and is expected to have a “transformational economic impact” on the surrounding area. The non-refundable credit equals 10% of the development costs associated with the TMUD. The credit is to be claimed against the state’s taxes on foreign and domestic insurance companies. The credit is awarded by the Director of Development Services through an application process initiated by the property owner. After receiving the owner’s development plan, the Director may certify the TMUD for the credit if the substance of the plan meets the bill’s eligibility criteria. The bill is narrowly drafted so that only those relatively few projects that can meet the eligibility requirements for very substantial size and scope and that can demonstrate the desired positive economic benefits can qualify for the credit.

FACTUAL OVERVIEW OF BUILDING AND ITS BACKGROUND

Please allow me to give you a little background on our particular project, the tremendous benefits that it has the potential to deliver, and the reason that the TMUD credit is an essential element to help actually enable this project to become a reality.

The Centennial is a 1.3 million square-foot building situated at the heart of downtown Cleveland Ohio. It was once the premier office building in Cleveland, but was vacated in the late 1970's and 1980's by the large law firms and businesses that were its historic tenants. It was only partially occupied for many years thereafter, and now for the past 10 years or so it has been nearly completely vacant. This has created a very large "hole" in the center of the City.

Over the last decade, three developers have unsuccessfully tried to redevelop and reposition the building. The building is located at the intersection of E. 9th Street and Euclid Avenue which truly is considered "Main & Main" in downtown Cleveland. The building was constructed at the turn of the 20th century to signify Cleveland's place as the center of the global banking economy. The building's two banking halls are the largest in the world. The history of the building and its occupants over the years is probably unparalleled in Cleveland.

SPECIAL CHALLENGES FOR EXISTING BUILDINGS

It is very important to understand that the redevelopment and repositioning of an existing building such as this is especially challenging because you are limited to existing floor plates, which may have been designed for an alternative pre-existing use. As opposed to new construction, the redistribution of mechanical, electrical and plumbing systems throughout an existing building is extremely challenging and far

exceeds the cost of new construction. The renovation of existing buildings often results in much lower efficiency factors in the range of 65%, as opposed to new construction which is usually 85% and above.

The Centennial is illustrative of these facts. Of the 1,300,000 SF in The Centennial, over 350,000 SF of the building is non-income producing circulation and other space. The rents from the other income producing areas of the building simply are not sufficient to subsidize the costs associated with these very large but non-income producing areas of the building. So, given these realities, it is very important to see—and I think it becomes quite clear—that existing buildings often have an even greater need for the type of financial assistance that SB 39 is intended to provide than new construction does.

Further, for the State of Ohio and the local community, the very same economic benefits such as increased state and local tax revenues and job creation are generated by placing back into service gigantic vacant, underutilized buildings as from new development. So, there is no good reason for there to be any distinction between new and existing buildings, or between development and redevelopment, as long as the project results in the desired transformational effects and produces the intended economic benefits.

MILLENNIA PLAN FOR REDEVELOPMENT AND REPURPOSING OF THE CENTENNIAL

After a considerable expenditure of time, energy and dollars, Millennia has developed a plan to be able to achieve a successful redevelopment of The Centennial. Millennia specializes in and intends to provide a missing and much needed component of the downtown Cleveland market— over 300 units of affordable workforce housing— as a key piece of the overall redevelopment plan (which previous developers had not included).

The affordable workforce housing component of the project is one very significant element of The Centennial. But there are several other intended uses which are not only in line with the “mixed use” intention of SB 39, but which will create the type of vibrant live/work/play environment that is desired today by millennials and the community as a whole. The Centennial will include civic and community space in one of the banking halls on the first floor and on the top floor; it will offer dining options, Class A as well as more moderate office space, retail space, and residential apartments offering market rate and some luxury units in addition to the affordable workforce housing units— with the latter being the largest proportion of the residential units in the building.

ENACTMENT OF TMUD CREDIT IS ESSENTIAL TO ENABLE THE CENTENNIAL AND OTHER TRANSFORMATIONAL PROJECTS TO HAPPEN

With all of that as very important background, please know that in order to be able to accomplish these desired transformational objectives for the benefit of all, The Centennial absolutely needs the financial support that the TMUD credit would provide. Thus, the enactment into law of SB 39 is absolutely essential to enable The Centennial to actually move forward and become a reality. The rehabilitation and redevelopment of The Centennial is currently budgeted to be a \$420 million project. We have been through multiple rounds of value engineering and cost savings analyses, and the reality is that this is a 1.3 million square foot building that is nearly one hundred years old that is very expensive to rehabilitate and repurpose, including for the inefficiency reasons I have described previously; furthermore, as wonderful as the State of Ohio is for a location— and please know that we are absolutely thrilled to be here— as everyone knows rents in Ohio are nowhere near what they are in New York, San Francisco or even Chicago. And so, while a \$420 million investment in one of those cities might be able to generate the amount of rental income that is needed to perhaps support a higher level of private financing for a project there, that simply is not the case given the economic realities that we face here.

So, the existence of the TMUD credit would enable our project to obtain additional financing from a large private investor such as an insurance company who would provide capital to the project in consideration for receiving the TMUD credits generated by our project. Enactment of the TMUD credit would help us to close a critical gap in our capital stack and would enable our project—and potentially other transformational mixed-use development AND redevelopment projects like The Centennial—to actually move forward and to become reality.

The Centennial and perhaps other transformational projects like it will energize and revitalize entire city blocks, neighborhoods and larger areas. They will generate economic growth on a very major scale—producing many jobs, generating tax revenues, and instigating growth in surrounding areas because of their mass and catalytic effects. Without the TMUD, these extremely complex mixed-use mega-projects are virtually impossible to adequately finance and thus simply WILL NOT GET DONE.

TMUD CREDITS PAY FOR THEMSELVES

SB 39 also contains safeguards designed to ensure that only projects that are able to produce the intended transformational effects and economic benefits can receive an award of TMUD credits. SB 39 provides that no TMUD credit is awarded unless a project can demonstrate up front that the net benefit to the public from increased

local and state tax revenues on account of the project in a defined surrounding area over 5 years will exceed the amount of the TMUD credits that are awarded. With that requirement included, the TMUD credit should NOT be viewed as a net cost or expenditure to the State of Ohio— because these credits have to pay for themselves!

This is not corporate welfare by any means. It is truly an investment by the State of Ohio in the job creation and economic development benefits that the TMUD project will create. It is a classic example of a public/private partnership for the betterment of Ohio's citizens and for the local community.

INSURANCE COMPANIES AS A SOURCE OF CAPITAL FOR TMUD PROJECTS

Under SB 39 the TMUD credit applies to taxes paid by insurance companies. The reason for this is to attract insurance company investment capital into these very large scale TMUD projects. Insurance companies have large pools of capital from policy holder premiums, and they are in the business of investing insurance premium dollars in a variety of diversified investments. Insurance companies are amenable to investing in bricks and mortar investments that produce long-term, stable returns. So, they are a good non-traditional source of financing to bring capital investment to these large scale and fairly unique transformational projects.

Insurance companies also have sophisticated tax and legal departments already in place who are able to analyze and execute on complex real estate investments of this type. So, they have existing personnel and infrastructure to be able to evaluate and implement large investments of this nature. Providing an incentive for insurance companies to invest dollars in transformational projects in our state would be a very good thing. These TMUD projects are major economic generators and job producers, so enticing insurance companies to invest their dollars into these kinds of projects here in Ohio (as opposed to them making alternative investments elsewhere) would be encouraging investment behavior in a manner so as to benefit Ohio citizens.

CLOSING

I would like to commend Senator Schuring and thank him for his foresight in sponsoring this legislation in order to help promote projects such as The Centennial that would be absolutely transformational in terms of positive economic development impacts and job creation— along with bringing rejuvenation and vibrancy to entire neighborhoods. I respectfully ask that all of you support SB 39 and help us to transform The Centennial from the vacant 21 story structure that it is today sitting dormant as it occupies an entire city block in silence into a bustling economic engine for the benefit of the local community and the great State of Ohio.

Thank you all again very much for allowing me the time and giving me the opportunity to testify here today. I would be glad to answer questions that anyone may have if that may be helpful.

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