

As you are aware, we have been in discussions with the City Administration for many months regarding the potential for additional development at the West State and Springfield property we began development on almost a decade ago. Sunil and the Mayor have discussed the need for a \$200,000 incentive related to the additional development at this intersection. The following narrative will serve as the Gap Analysis in furtherance of this request.

The Investment Gap

This proposal is not for a new, speculative venture but represents the final, value-creating phase of a long-term development project initiated approximately eight years ago. We identified the underutilized parcel at the intersection of West State Street and Springfield Avenue as a strategic location with significant redevelopment potential. This intersection serves as a critical western gateway to the City of Rockford, and its revitalization aligns directly with the City's long-standing vision to create an attractive and inviting corridor for residents, businesses, and visitors.

Recognizing this potential, we undertook the considerable risk and upfront capital investment to acquire and prepare the site for modern commercial use. The initial phase of this commitment culminated in the successful development and construction of a new facility for DaVita Dialysis, a leading national provider of essential healthcare services. This initial project brought a high-quality medical tenant, stable employment, and critical health infrastructure to the community, demonstrating a tangible commitment to enhancing the neighborhood's economic and social fabric.

This eight-year history of ownership and value creation counters any narrative of short-term speculation. We have patiently managed the asset, borne the market risk, and successfully delivered a community-serving project. The current proposal to facilitate the sale of the remaining pad-ready site to McDonald's is the logical conclusion of this multi-year strategy. The request for a public partnership at this final stage is based on a clear financial need to make the final disposition of this long-held asset economically viable in the current market.

Initial Capital Investment

The successful delivery of the DaVita Dialysis clinic and the creation of a pad-ready site for future development required a significant and comprehensive capital investment. Our total project costs, incurred at the outset of the investment period, amount to **~\$2,366,300**. This figure represents substantial and long term "skin in the game" and provides the foundational cost basis for the subsequent financial analysis. This substantial upfront investment underscores our role in transforming a passive parcel into a productive commercial site, thereby creating the opportunity that is now before the City.

Baseline Transaction Analysis

The financial viability of any project hinges on the total return generated over its entire lifecycle. To determine this, an unlevered pro-forma cash flow analysis was conducted, incorporating all historical costs and revenues, and culminating in the proposed sale of the remaining parcel to

McDonald's this year for a price of \$450,000. This scenario represents the baseline financial reality of the transaction.

The attached GAP analysis, which was originally prepared for the Davita TIF agreement and has been updated with our actual figures since the development, calculates the Internal Rate of Return (IRR), a standard industry metric that measures the total annualized return of an investment by accounting for the timing and magnitude of all cash flows. The result of this baseline analysis reveals an unlevered IRR of **5.96%**. This figure represents the developer's total return on a complex, multi-year development project that involved significant upfront risk and capital.

Benchmarking the Required Rate of Return

When the original TIF agreement was signed in connection with the Davita development we initially targeted a minimum IRR of 11%, a prudent analysis must be grounded in current market realities. The commercial real estate landscape has shifted significantly, characterized by a "higher for longer" interest rate environment and a "flight to quality" among investors. Capital is now more selective, and underwriting is driven by long-term stability and tenant durability rather than speculative growth. Therefore, for the purpose of this analysis, a conservative benchmark IRR of 8.0% is established as the "Required Market Return." The project's baseline IRR of 5.96% still falls significantly short of this defensible, market-based threshold, clearly demonstrating that the project, without public partnership, delivers a substandard return.

Quantifying the Financial Gap

The disparity between the project's baseline performance and the required market return constitutes a quantifiable financial gap. This gap is the central justification for the requested incentive. The attached table illustrates that the rebate functions as a capital infusion at the point of sale, directly improving the project's final cash flow. This enhancement is precisely what is needed to elevate the project's IRR from a substandard 5.96% to a level that approaches the market-justified benchmark. This "but-for" analysis proves that the City's participation is the critical factor that makes the transaction financially feasible, thereby enabling the developer to proceed with the sale and unlock the corresponding public benefits.

Summary of Public Benefits (The City's ROI)

The City's investment yields an immediate, substantial, and durable return. The proposed development will act as a powerful economic engine, generating significant fiscal and economic benefits that far exceed the pay as you go incentive. Key projections include:

- **Significant New Revenue Streams:**
 - Sales Tax: Based on national performance data, a mature, McDonald's restaurant generates average sales of ~\$4,000,000. Based on this, the project will generate an estimated **\$40,000** in total annual sales tax revenue.

- Property Tax: Existing McDonald's located in Rockford range from \$25,000 - \$55,000 per year in property tax depending on location and age. We are assuming a brand new facility will come in towards the higher end of the middle of that range and so we anticipate **\$40,000** in new annual property tax revenue, of which **\$8,000** will flow to the City each year.

This creates a durable and growing income stream that directly supports the City. This permanent expansion of the tax base ensures that the benefits of the City's investment are broadly shared and contribute to the long-term fiscal health and stability of the entire community.

- **Job Creation & Economic Stimulus:** A typical McDonald's will create **50-60 permanent jobs**, providing vital entry-level and management opportunities for Rockford residents in an area of the city that has a significant need. Furthermore, based on an estimated \$2,000,000 construction cost and conservative industry multipliers that project appx. 6.3 jobs per million in commercial construction spending, the project will support approximately **12 temporary construction jobs** during the build out phase, injecting immediate stimulus into the local economy.
- **Catalytic Impact:** The development of a new McDonald's at this location is not an isolated event but a direct and powerful fulfillment of the City of Rockford's long-standing strategic objectives. The project aligns perfectly with the vision and goals articulated in the City's foundational planning documents, including the 2040 Comprehensive Plan and the Economic Development Strategy. Specifically, this project achieves the following stated municipal goals:
 - **Expands the Tax Base:** The project directly addresses the City's core objective to "ensure that its tax base will continue to grow" by transforming an underperforming parcel into a significant generator of both sales and property tax revenue.
 - **Revitalizes a Key Gateway:** West State Street is officially recognized as a vital "gateway" into downtown Rockford. This development enhances this critical entry point, replacing underutilization with a vibrant, modern commercial use that encourages further redevelopment on the city's west side, a key goal of recent public investments.
 - **Attracts Major National Retailers:** The City's economic strategy explicitly calls for efforts to "secure the 'second store' or the next store for major retailers" within city limits. Securing a global leader like McDonald's is an achievement in this regard.
 - **Capitalizes on Public Investment:** The City of Rockford and the Illinois Department of Transportation have invested millions of dollars to reconstruct and enhance the West State Street corridor, including widening the road, adding landscaped medians, and improving pedestrian infrastructure. This development is one of, if not the only major private-sector projects to directly leverage and capitalize on that significant public investment, ensuring it generates a tangible economic return.

The Power of Catalytic Development

Beyond its direct impacts, this project is poised to serve as a powerful catalyst for broader economic revitalization in the surrounding area. The concept of "catalytic development," as defined by research from the Brookings Institution, describes how a single, high-quality project, often anchored by a credible and well-known entity, can create a "virtuous cycle" of investment. Such a project changes market perceptions, builds momentum, and stimulates follow on development by signaling the viability of a recovering area.

McDonald's is a quintessential catalytic anchor. The corporation's site selection process is famously rigorous and data driven. A decision by McDonald's to invest in a location is a powerful, nationally recognized signal to the rest of the market that the area possesses strong commercial fundamentals. This commitment effectively de-risks the corridor for other national, regional, and local businesses...including other retailers, restaurants, and service providers who are likely to follow their lead.

This project represents the crucial bridge between public investment and private sector confidence. The City has already made the strategic decision to invest in the "hardware" of the West State Street corridor the roads, sewers, and streetscapes. This development, enabled by a modest and performance-based incentive, provides the "software" a blue-chip commercial anchor that validates the City's investment and ensures it generates a lasting economic return. It is a critical domino that can trigger a wave of positive redevelopment, helping the City fully realize its vision for West State Street.