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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Consider adopting a resolution authorizing the City to tender up to \$562,000 to Little Friends in exchange for recording covenants upon the Kroehler Mansion to preserve it from demolition.

DEPARTMENT: Legal Department

SUBMITTED BY: Michael DiSanto, City Attorney

BOARD/COMMISSION REVIEW:

On October 24, 2019, the Historic Preservation Commission reviewed Little Friends' request to demolish four buildings on its property. The HPC unanimously approved the demolition of the Krejci Academy, the Gymnasium, and the Administration Building and denied the demolition of the Kroehler Mansion ("**Mansion**").

BACKGROUND:

Little Friends Property

Little Friends, Inc. ("**Little Friends**") is a charitable organization dedicated to education, treatment, housing and growth for those with intellectual/developmental disabilities and autism. Little Friends owns the 3.79-acre property located at 140 North Wright Street in Naperville (the "**Property**"). For the past 44 years Little Friends has operated the Property as a not-for-profit teaching and educational facility for students and adults with autism and other intellectual/developmental disabilities. The school is not self-sustaining and the ability for Little Friends to continue to provide services to those with disabilities has always been reliant upon very substantial fundraising, charitable gifts and donations.

Little Friends needs to relocate the teaching and educational programs to a new site. To accomplish this relocation, Little Friends must sell the Property to have sufficient funds to purchase the new site and facilities. Without the funds generated from the sale of the Property the relocation is not economically viable.

Historic District Preservation Process

The City has adopted historic preservation regulations and established a Historic District which includes the Property. To demolish the buildings on the Property, the City must issue a Certificate of Appropriateness (“COA”) granting permission for the demolition.

On or about July 24, 2019, Little Friends submitted to the City an application for a COA granting Little Friends permission to demolish the buildings on its property. Little Friends has been forthright in stating that it is seeking demolition of all the structures on the Property for the sole reason of maximizing the sale value of the Property. On October 24, 2019, the City’s Historic Preservation Commission (“HPC”) reviewed Little Friends’ application and unanimously approved the demolition of the Krejci Academy, the Gymnasium, and the Administration Building and denied the demolition of the Mansion. Little Friends appealed the HPC’s denial of the Mansion demolition request to the City Council and on November 19, 2019, the City Council approved a COA authorizing the demolition of the Mansion.

Under new business of the same meeting Council directed staff to continue dialogue with Little Friends regarding possible incentives that could lead to the preservation of the Mansion.

DISCUSSION:

Historical Significance of the Mansion

The Mansion was designed and constructed for Peter Kroehler (a local and national figure of historical prominence) and his wife Josephine in 1908. Kroehler was a graduate of North-Western College (now North Central College) and became a partner and later president of the Lounge Company, which became the Kroehler Manufacturing Company, the world’s largest furniture manufacturer and a U.S. Armed Forces military contractor during WWII. Kroehler Manufacturing Company was a major employer in Naperville for decades; by WWI the company was the City’s largest employer with about 500 workers. In addition to his furniture business ventures.

During the October 24, 2019 Historic Preservation Commission meeting and during the November 17, 2019 City Council meeting, several public speakers provided addressed Peter Kroehler’s significance to the City, largely related to his manufacturing company and philanthropic endeavors, including monetary contributions to North Central College’s Pfeiffer Hall and Merner Fieldhouse. It was also noted that Kroehler continues to be recognized in the City today through the Kroehler Family YMCA, Kroehler Park, and North Central College’s Kroehler Field.

City Incentive to Preserve the Mansion

Little Friends now has the authority to demolish all buildings on the Property, sell the Property for residential development, and move to a new site. Little Friends contends that the demolition of all the buildings on the Property is necessary to maximize the sale value of the Property. During the HPC hearing, Little Friends disclosed that it received an offer to purchase the Property \$4,011,000 with the Mansion remaining on the Property, and that based on other offers it had received for the Property, it believed it may make significantly more money on the sale of the Property if the Mansion is demolished.

At the November 19, 2019 City Council meeting, after approving a COA authorizing the demolition of the Mansion, Council directed staff to continue dialogue with Little Friends for possible incentives that could lead to the preservation of the Mansion.

On November 23, 2019, the Mayor, Councilman Hinterlong and the City Manager met with Little Friends' representatives concerning the possibility of preserving the Mansion based on its historical significance. Little Friends shared that it is eager to move forward with the sale of the Property, but, is amenable to soliciting purchase offers for the Property that include the Mansion remaining preserved if the City commits to a specific incentive to offset the loss in the value of the Property if the Mansion is preserved. Little Friends intends to also solicit purchase offers for the Property that do not include the Mansion remaining.

Currently, the City receives no property tax revenues from Little Friends' non-profit use of the Property. Staff estimates that the anticipated residential development of the Property will result in the City receiving approximately \$562,000 in property tax revenues over 20 years once the Property is fully developed.

If Council wants to offer an incentive to preserve the Mansion, it could consider offering Little Friends up to \$562,000 in exchange for Little Friends: (1) forfeiting its COA to demolish the Mansion; (2) recording a covenant running with the land to the effect of prohibiting the demolition of the Mansion; and (3) providing that any amendment or release of the covenant shall require City Council approval. Notably, any changes to the Mansion other than demolition, would remain subject to the COA process as other buildings in the Historic District are treated. This would result in only facades that are visible from the right-of-way being subject to COA approval and would allow other minor changes, even to the front façade, without amendment of the covenant.

The City of Naperville is a home rule unit of government. The purpose of home rule is to allow for local solutions to local issues and problems. A municipality with home rule status can exercise any power and perform any function unless it is specifically prohibited from doing so by state law. The Illinois Constitution states that "a home rule unit may exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare; to license; to tax; and to incur debt." Therefore, the City Council has the discretion to exercise its home rule authority to find that it is in the best interest of the City and the public to incentivize Little Friends to impose a covenant on the Mansion to the effect of prohibiting the demolition of the Mansion in order to preserve a building of significant historic significance to the City.

If Council chooses to adopt the proposed resolution, it is expected that Little Friends will solicit offers for the Property "with" and "without" the Mansion. If Little Friends receives an offer "with" the Mansion that is within \$562,000 of its best offer "without" the Mansion, (or such other offer that Little Friends is willing to accept) then the City will tender to Little Friends the difference between the "without" and "with" offers, up to \$562,000, in exchange for recording the covenant generally described above upon the Property in order to preserve the Mansion from demolition.

Potential Relocation of the Mansion

Little Friends anticipates that developers interested in maintaining the Mansion on the Property may want to relocate the Mansion to another area on the Property. Relocation of the Mansion would require a separate COA, which would require a fresh HPC review. In order to expedite the process

and maximize the likelihood of attracting purchase offers that include keeping the Mansion, the proposed resolution includes Council authorization allowing the City's Zoning Administrator to issue administrative COA approval for the relocation of the Mansion on the Property and for any changes to the side or rear facades of the Mansion resulting from disconnection of the Mansion from the existing structures.

Citywide Food & Beverage Tax Funding

If Little Friends chooses to accept the City's incentive offer, staff recommends Council consider dedicating a portion of the Citywide food and beverage tax to fund the incentive. It is anticipated that the in order to account for net present value (the method of accounting for projected returns, discounted to the present), the impact on the food and beverage tax will be approximately \$48,000 per year for 20 years.

The Citywide food and beverage tax is a 1% tax levied upon the retail purchase of alcoholic liquor, food or beverages at any "retail food facility" within the City. The Municipal Code requires that those revenues be distributed as follows:

- 75%, up to a maximum of approximately \$1,900,000 a year, be contributed to the Special Events and Cultural Amenities (SECA) Grant Program;
- At least 25% be split equally and contributed to the City's public safety pension funds;
- Any remaining revenue available shall be first used as additional funding for the City's Social Service Grant Program up to a maximum of \$500,000.00; and
- Any remaining revenue above that level will be used to reduce the City's long-term debt obligations.

Next Steps

If Council chooses to adopt the proposed resolution, and if Little Friends chooses to accept the City's incentive offer, then once Little Friends accepts a qualifying offer, staff will prepare an agenda item for Council consideration that includes: (1) a budget amendment to fund the \$562,000; (2) an amendment to the municipal code to allow a portion of the citywide food and beverage taxes to be allocated to funding the incentive; and (3) an agreement between the City and Little Friends requiring Little Friends to record a covenant upon the Property as generally described herein in exchange for the payment of the incentive.

FISCAL IMPACT:

City expenditure of up to \$562,000 to Little Friends in exchange for recording a covenant on the Property prohibiting the demolition of the Kroehler Mansion.