
VILLAGE OF VERNON HILLS, ILLINOIS
TIF QUALIFICATION REPORT
HAWTHORN MALL REDEVELOPMENT PROJECT AREA

An analysis to assess the likelihood that all or a portion of an area located in the Village of Vernon Hills could qualify as a conservation area as defined in the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-3, et seq.

Prepared for: Village of Vernon Hills, Illinois

Prepared Jointly by: Kane, McKenna and Associates, Inc.

July, 2020

**PROPOSED HAWTHORN MALL
REDEVELOPMENT PROJECT AREA
TIF QUALIFICATION REPORT**

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
	Executive Summary	
I.	Background	1
II.	Qualification Criteria	3
III.	Evaluation Methodology	6
IV.	Qualification Findings for Proposed Study Area	7
V.	Summary of Findings; Overall Assessment of Qualification	14
Exhibit A	Boundary Map	
Exhibit B	Tax Parcel List	

EXECUTIVE SUMMARY

Kane, McKenna and Associates, Inc. (KMA) has been retained by the Village of Vernon Hills Illinois (the “Village”) to conduct an analysis of the potential qualification and designation of certain property located in the Village, as a “redevelopment project area” pursuant to the hereinafter defined TIF Act (the “Study Area”, “RPA” or “TIF District”) and included in the map attached as Exhibit A. Essentially, the Study Area consists of most of the in line Hawthorn Mall shopping mall, including the vacant Sears Roebuck & Co. (“Sears”) and Carson Pirie Scott (“Carson’s”) stores (excluding the Macy’s Inc. (“Macy’s”) and JC Penney Company, Inc. (“JC Penney”) parcels), corresponding perimeter parking areas and driveways, and three out-lots at the northwest corner of Milwaukee Avenue and Townline Road.. This qualification review is being carried out pursuant to the Tax Increment Allocation Redevelopment Act, 65 ILCS 5/11-74.4-1, et seq.(the “TIF Act”).

The Village has long been a major employment and retail center for the northern suburbs of the Chicago region. Accordingly, one of the goals of the Village’s Comprehensive Land Use Plan 2012, including any amendments thereto (the “Comprehensive Plan”) is to “actively encourage reinvestment in existing commercial properties to maintain the overall appearance, structural quality and marketability of the properties within the commercial corridors”. The Village is examining the Study Area designation pursuant to this goal. In addition, as part of a regional shopping center, it is essential for the Study Area to adapt to recently changing retail landscape, if it is to continue to provide robust economic and other benefits to the community. Amid declining retail sales in recent years, big department store chains have been closing locations all over the country, a negative trend for communities and shopping malls. According to the International Council of Shopping Centers (ICSC), regional malls have suffered at least three straight years of declining profit per square foot. In light of these trends, by undertaking the designation, the Village will help preserve and strengthen the Study Area as a significant contributor to the Village’s overall economic base.

Based upon the preliminary analysis completed to date, KMA has reached the following conclusions regarding the potential qualification of the Study Area as a “redevelopment project area” pursuant to the TIF Act (the “Hawthorn Mall Redevelopment Project Area”):

- 1) *Conservation Area* – The proposed TIF District qualifies as a Conservation Area under the TIF Act. The RPA needs a minimum of three (3) factors to qualify as a Conservation Area. The RPA has a total of five (5) qualifying factors including obsolescence, inadequate utilities, excessive vacancies, deterioration, and lack of community planning. Overall, the area either has declined, or is in danger of declining, toward a blighted condition. This condition prevents, or threatens to prevent, the economic and physical development of properties in a manner that the community deems essential to its overall economic health. Because five (5) structures in the proposed TIF District out of six (6) structures, (or 83%), are over 35 years old or older (built in or before 1985), the TIF District meets the statutory criteria as a “Conservation Area” TIF.

- 2) *Current conditions impede redevelopment* – The conditions found within the proposed TIF District present a barrier to the area’s successful redevelopment. Without

the use of Village planning and economic development resources to mitigate such conditions, potential redevelopment activities are not likely to be economically feasible.

3) *Viable redevelopment sites could produce incremental revenue* – Within the proposed TIF District, there are parcels which potentially could be redeveloped or rehabilitated and thereby produce incremental property tax revenue. Such revenue, used in combination with other Village resources for redevelopment incentives or public improvements, would likely stimulate private investment and reinvestment in these sites and ultimately throughout the proposed TIF District.

4) *Pursuit of TIF designation is recommended* – To mitigate the existing conditions, thereby promoting the improved physical condition of the proposed RPA, and to leverage the Village's investment and redevelopment efforts, KMA recommends that the Village pursue the designation of the Study Area as a redevelopment project area (as such term is hereinafter defined).

I. BACKGROUND

The Hawthorn Mall regional shopping center has been an important contributor to the Village economy for forty-seven years, generating a significant portion of the Village's property tax and sales tax revenues, as well as a serving as an important source of jobs, and other multiplier benefits over this time. Recent downward shifts in retail industry trends, however, have had an adverse economic effect on shopping centers. Enclosed regional malls, in particular, have been dramatically impacted by anchor department store closures and declining overall sales. As a result, enclosed mall owners, nationwide, are increasingly faced with a need to reposition these properties in reaction to these dynamic retail market transformations. The redevelopment of an established regional mall property into a mixed-use center, like Hawthorn Mall, poses certain extraordinary financial challenges. Disproportionate costs associated with relocating or repurposing infrastructure, traffic and parking configurations, and the reconstruction of a large single-use property for multiple uses that meet market acceptance and investment criteria, are just some of the extraordinary costs associated with repurposing large single use properties.

As part of the Village's economic development planning and Comprehensive Plan implementation, the Village retained Kane, McKenna and Associates, Inc. to undertake a study of the area described below in order to determine if the area qualifies as a TIF District pursuant to the requirements of the TIF Act.

Current Land Use. The Study Area consists of eleven (11) tax parcels and is approximately 63.51 acres in size (excluding public rights of way) and includes most of the Hawthorn Mall regional shopping mall (including the interior in line stores, and the vacant Sears and Carson's stores, excluding the Macy's and JC Penney properties), corresponding perimeter parking areas, and three out-lots at the northwest corner of Milwaukee Avenue and Townline Road. Refer to Exhibit B for a list of the parcels proposed for inclusion in the RPA.

Overall, the area faces a number of potential redevelopment impediments as described in Section IV of this report. Additionally, while the area has certain beneficial locational assets, the current state of the local and national economy, existing use configurations, and infrastructure requirements contribute to constraints on sustained redevelopment of the Study Area.

General Redevelopment Objectives. The redevelopment of the Study Area is consistent with the Village's objectives, which are contained in the Comprehensive Plan, zoning ordinance and other land use planning elements.

The Village has determined that the redevelopment of the Study Area is necessary to the community – given that with a redevelopment strategy in place, the economic base of the Study Area and the adjacent mall area would be stabilized and expanded – thereby benefiting the community as a whole.

General Scope and Methodology. KMA performed its analysis by conducting a series of discussions with Village staff, starting in late 2019 and continuing periodically up to the date of

this report. The purpose of the review was to gather data related to the preliminary qualification criteria for properties included in the Study Area. These discussions were complemented by a series of field surveys for the entire area to evaluate the condition of the Study Area. The field surveys and data collected have been utilized as a basis for the qualification of the Study Area as a redevelopment project area.

For additional information about KMA's data collection and evaluation methods, refer to Section III of this report.

II. QUALIFICATION CRITERIA

With the assistance of Village staff, KMA assessed the proposed Study Area to determine the likelihood that qualifying factors listed in the Act would be present. The relevant provisions of the Act are cited below.

The Act sets out specific procedures which must be adhered to in designating a redevelopment project area (Study Area). By definition, a “redevelopment project area” is:

“An area designated by the municipality, which is not less in the aggregate than 1½ acres and in respect to which the municipality has made a finding that there exist conditions which cause the area to be classified as a blighted area or a conservation area, or a combination of both blighted areas and conservation areas.”

Under the TIF Act, a “blighted area” or “conservation area” means any improved or vacant area within the boundaries of a development project area located within the territorial limits of the municipality where certain conditions are met, as indicated below.

TIF Qualification Factors for a Conservation Area. In accordance with the TIF Act, KMA performed a two-step assessment to determine if the proposed RPA qualified as a conservation area. First, KMA analyzed the threshold factor of age to determine if 50% or more of the structures were 35 years of age or older.

Secondly, if a proposed conservation area meets the age threshold, then the following factors are to be examined to determine whether the RPA qualifies as a redevelopment project area:

In a *conservation area*, industrial, commercial and residential buildings or improvements are detrimental to the public safety, health or welfare because of a combination of three (3) or more of the following factors, each of which is (i) present, with that presence documented to a meaningful extent so that a municipality may reasonably find that the factor is clearly present within the intent of the TIF Act and (ii) reasonably distributed throughout the improved part of the redevelopment project area:

- (A) Dilapidation. An advanced state of disrepair or neglect of necessary repairs to the primary structural components of building or improvements in such a combination that a documented building condition analysis determines that major repair is required or the defects are so serious and so extensive that the buildings must be removed.
- (B) Obsolescence. The condition or process of falling into disuse. Structures become ill-suited for the original use.
- (C) Deterioration. With respect to buildings, defects include but are not limited to, major defects in the secondary building components such as doors, windows, porches, gutters, downspouts, and fascia. With respect to surface improvements, that the condition

of roadways, alleys, curbs, gutters, sidewalks, off-street parking and surface storage areas evidence deterioration, including, but limited to, surface cracking, crumbling, potholes, depressions, loose paving material and weeds protruding through paved surfaces.

(D) Presence of Structures Below Minimum Code Standards. All structures that do not meet the standards of zoning, subdivision, building, fire and other governmental codes applicable to property, but not including housing and property maintenance codes.

(E) Illegal Use of Individual Structures. The use of structures in violation of applicable federal, State, or local laws, exclusive of those applicable to the presence of structures below minimum code standards.

(F) Excessive Vacancies. The presence of buildings that are unoccupied or under-utilized and that represent an adverse influence on the area because of the frequency, extent or duration of the vacancies.

(G) Lack of Ventilation, Light, or Sanitary Facilities. The absence of adequate ventilation for light or air circulation in spaces or rooms without windows, or that require the removal of dust, odor, gas, smoke or other noxious airborne materials. Inadequate natural light and ventilation means the absence of skylights or windows for interior spaces or rooms and improper window sizes and amounts by room area to window area ratios. Inadequate sanitary facilities refers to the absence of or inadequacy of garbage storage and enclosures, bathroom facilities, hot water and kitchens and structural inadequacies preventing ingress and egress to and from all rooms and units within a building.

(H) Inadequate Utilities. Underground and overhead utilities such as storm sewers and storm drainage, sanitary sewers, water lines and gas, telephone and electrical services that are shown to be inadequate. Inadequate utilities are those that are: (i) of insufficient capacity to serve the uses in the redevelopment project area; (ii) deteriorated, antiquated, and obsolete or in disrepair; or (iii) lacking within the redevelopment project area.

(I) Excessive Land Coverage and Overcrowding of Structures and Community Facilities. The over-intensive use of property and the crowding of buildings and accessory facilities onto a site. Examples of problem conditions warranting the designation of an area as exhibiting excessive land coverage are: (i) the presence of buildings either improperly situated on parcels or located on parcels of inadequate size and shape in relation to present-day standards of development for health and safety and (ii) the presence of multiple buildings on a single parcel. For there to be a finding of excessive land coverage, these parcels must exhibit one or more of the following conditions: insufficient provision for light and air within or around buildings, increased threat of spread of fire due to the close proximity of buildings, lack of adequate or proper access to a public right-of-way, lack of reasonably required off-street parking or inadequate provision for loading service.

(J) Deleterious Land-Use or Layout. The existence of incompatible land-use relationships, buildings occupied by inappropriate mixed-uses, or uses considered to be noxious, offensive or unsuitable for the surrounding area.

(K) Environmental Clean-Up. The proposed redevelopment project area has incurred Illinois Environmental Protection Agency or United States Environmental Protection Agency remediation costs for (or a study conducted by an independent consultant recognized as having expertise in environmental remediation has determined a need for) the clean-up of hazardous waste, hazardous substances or underground storage tanks required by State or federal law. Any such remediation costs would constitute a material impediment to the development or redevelopment of the redevelopment project area.

(L) Lack of Community Planning. The proposed redevelopment project area was developed prior to or without the benefit or guidance of a community plan. This means that the development occurred prior to the adoption by the municipality of a comprehensive or other community plan or that the plan was not followed at the time of the area's development. This factor must be documented by evidence of adverse or incompatible land-use relationships, inadequate street layout, improper subdivision, parcels of inadequate shape and size to meet contemporary development standards or other evidence demonstrating an absence of effective community planning.

(M) "Lagging or Declining" EAV. The total equalized assessed value (EAV) of the proposed redevelopment project area has declined for three (3) of the last five (5) calendar years, or is increasing at an annual rate that is less than the balance of the municipality for three (3) of the last five (5) calendar years, or is increasing at an annual rate that is less than the Consumer Price Index for All Urban Consumers published by the United States Department of Labor or successor agency for three (3) of the last five (5) calendar years. The finding is based on the last 5 years for which information is available.

III. EVALUATION METHODOLOGY

In evaluating the proposed Study Area's potential qualification as a redevelopment project area, the following methodology was utilized:

- 1) Site surveys of the Study Area were undertaken by representatives from Kane, McKenna and Associates, Inc., supplemented with photographic analysis of the sites. Site surveys were completed of properties located within the proposed Study Area.
- 2) KMA conducted evaluations of exterior structures and associated site improvements, noting such conditions as deterioration and obsolescence. Mall ownership also submitted operational and inspection data related to property improvements and conditions. Additionally, KMA reviewed the following data: tax years 2014-2019 tax information from Lake County, tax parcel maps, site data, area background (including discussions with Village staff), the Comprehensive Plan, and an evaluation of area-wide factors that have affected the area's development (e.g., obsolescence, inadequate utilities, etc.).
- 3) Existing site conditions were initially surveyed only in the context of checking, to the best and most reasonable extent available, TIF Act factors applicable to specific structures and site conditions of the parcels.
- 4) The Study Area was examined to assess the applicability of the different factors required for qualification as a redevelopment project area. Examination was made by reviewing the information and determining how each measured when evaluated against the relevant factors. The Study Area was evaluated to determine the applicability of the thirteen (13) different factors, as defined under the Act, which would qualify the Study Area as a redevelopment project area.

IV. QUALIFICATION FINDINGS FOR THE STUDY AREA

Based upon KMA’s evaluation of parcels in the proposed Study Area and analysis of each of the eligibility factors summarized in Section II, the following factors are presented to support preliminary qualification of the RPA as a conservation area under the TIF Act.

Table 1
Summary of TIF-Qualifying Factors

Maximum Possible Factors per Statute	Minimum Factors Needed to Qualify per Statute	Qualifying Factors Present in Proposed Study Area
13	3	5 <ul style="list-style-type: none"> • Obsolescence • Deterioration • Excessive Vacancies • Inadequate Utilities • Lack of Community Planning

Findings for Study Area. The Study Area meets the qualifications for a conservation area under the statutory criteria set forth in the TIF Act. KMA reviewed the 13 aforementioned criteria needed to qualify the area as a conservation area, determining that five (5) factors were present:

- 1) Obsolescence. The Act states that obsolescence is the condition or process of falling into disuse or structures that have become ill-suited for their original use. Due to the changes in the retail market and the characteristics of the property – large single use buildings - obsolescence is present.

The Carson’s structure at the Hawthorn Mall was initially constructed in 1972 and operated as a Lord & Taylor store until it was sold to Carson’s in 1997. The structure consists of approximately 103,000 square feet over two levels. It was closed in August, 2018. The Sear’s structure at Hawthorn Mall was constructed in 1972 and consists of approximately 230,000 square feet within two levels. It was closed in September, 2018.

The Sears and Carson’s stores were two of four anchor tenants at Hawthorn Mall. Amid lagging sales, department store chains such as these have been closing locations throughout the country, an adverse trend for mall owners, which have historically relied on these stores to attract traffic and other retail users to their properties. Closures over the years within the northern Illinois market have included Montgomery Ward, Sears, Carson’s, Macy’s, Lord & Taylor and JC Penney. These closures have parallel national trends impacting both anchor stores and small to mid-size retailers.

The owner of the Hawthorn Mall, including the Sears and Carson's properties, has been unsuccessful in its attempts to identify viable replacement users to occupy these two spaces since, essentially, no major department stores are expanding their national footprints. Accordingly, it has been determined that the identification of a workable, comparable user for these spaces, as they are currently configured, is not possible. This is due, in part, to the fact that these structures are designed exclusively for use as single-user anchor department stores. Shifting retail market conditions have eroded demand for this type of single purpose retail use.

Furthermore, these structures do not easily lend themselves to occupancy by any other type of contemporary user, or users, without major modifications that will meet the brick and mortar standards of today's retail markets. Infrastructure characteristics within these buildings, such as existing column spacing, loading dock configurations, and obsolete ceiling heights impose challenging constraints on their adaptive reuse for alternative modern purposes. For example, the clear heights of the first floors of the Sear's and Carson's spaces are inconsistent with most first-class box retail users. In addition, demising these large "big box" spaces for smaller users, entails creation of multiple entry facades, repositioning of loading docks, upgrades to and partitioning of mechanical, electrical and plumbing systems, roofing updates for energy code compliance, and so on. The costs associated with all of these enhancements are not cost effective given the potential returns, compared with the alternative of demolition and building new from ground up.

These two buildings' advanced ages further exacerbate the cost-efficient re-use of these structures since much of their original operating systems are at the end of their useful life. For example, chiller and water pumps in both structures are original and need to be replaced. The roofs of these structures are in need of replacement which would require compliance with contemporary building and life/safety codes. Several of these codes have mandatory requirements that are enforced when maintenance or remodeling work is done. Roof insulation is one example of a costly code requirement whose execution would become necessary in the event of a roof replacement, due to contemporary energy codes. Another example of a costly code requirement pertains to accessibility. Illinois law recently requires all bathrooms to be made fully accessible if any modifications are made to "areas served by these public bathrooms". This State law requires that the owner spend up to 20% of their total budget, if necessary, in order to make this code upgrade happen. These are just two examples, among others, of such code upgrades required in Illinois. New code requirements like these are added each year, including those which most recently became effective in January 2020. These newer code regulations serve to contribute to the obsolescence of the property.

Another challenge with the reuse of these two stores is their physical integration with the enclosed mall, which limits flexibility for its adaptive re-use. Second, parking and vehicular circulation need to be reconfigured and improved, and retaining the existing structures as currently configured constrains best alternatives for repositioning and multiple uses at their respective locations in the mall in order to attract market investment.

The loss of the Sears and Carson's anchors in 2018 has served to substantially slow shopper traffic to the other smaller stores in the mall ("in line" stores). This has resulted in increased vacancy rates among these inline retailers, as well as an increase in temporary leases among these types of tenants. These downward trends in shopper traffic, along with the increased vacancies and temporary leases are not economically sustainable and therefore, contribute to the risk of further obsolescence throughout the Mall, unless the repositioning of the mall occurs.

All of the factors described above indicate that economic and functional obsolescence are present to such an extent as to require the demolition of the Carson's and Sears structures as the reuse of them is not an economically viable option. The lack of reuse would then impact operations in the in line space and the out-lots and contribute to further obsolescence of the property.

2) Inadequate Utilities. The Act states that overhead or underground utilities that are deteriorated, antiquated, obsolete or in disrepair are considered inadequate. Also, those utilities that lack the capacity to meet future development demands are considered inadequate. Utilities would include: storm sewers, storm drainage, sanitary sewers, water lines and gas, telephone and electrical services.

Current utilities (and infrastructure) serving the Study Area are inadequate for proposed redevelopment uses. Proposed redevelopment will require numerous utility upgrades, relocations and additions to existing services as described below:

- a) Water Mains: Redevelopment of the RPA will require relocation of existing domestic and fire water mains to maintain the existing looped system and pressures on site. Extensions of water mains to provide domestic service and a looped fire system to the outparcels of the RPA will be required.
- b) Sanitary Sewer Mains: Redevelopment of the RPA will require relocation of the existing sanitary sewer mains, lengthening the overall pipe quantities onsite. Pipes will also need to be upsized to provide adequate flow and capacity within the system, due to existing minimum slopes on pipes. Extension of the sanitary sewer main north of the mall will be required to ensure that the existing systems are not over capacity due to the redevelopment.
- c) Storm Sewer Mains: Storm sewer pipes will need to be relocated to avoid conflicts with proposed new redevelopment structures and to ensure proper drainage for redevelopment. An existing 72" storm sewer running from the south at the existing Carson's structure to the northwest corner of the mall property will require relocation to enhance onsite redevelopment feasibility while also avoiding conflicts with future development.

- d) Electric: Redevelopment of the RPA will require the removal and relocation of underground electric transmission lines, existing transformers, switch gears, and an existing vault. New transformers will be required for the proposed increased density within the redevelopment.
 - e) Gas: Relocation and extension of existing gas mains will be required to accommodate development of the RPA.
 - f) Grading: The Ring Road realignment and development of the outparcels will require a retaining wall of approximately 7 feet and over 200 feet long. Redevelopment of the Sear parcel will require a retaining wall, approximately 18 feet tall and over 200 feet long, in order to create the future redevelopment area.
 - g) Roads: Redevelopment of the RPA will require an internal Ring Road realignment to provide buildable out-lot pads for proposed tenants. Realignment of the existing drive aisle adjacent to the mall building. Additional streets will be required for any proposed residential development within the RPA.
- 3) Excessive Vacancies. The presence of buildings that are unoccupied or under-utilized and that represent an adverse influence on the area because of the frequency, extent or duration of the vacancies.

As stated previously, the former 103,000-square-foot Carson's anchor store at Hawthorn Mall, which was initially constructed in 1972 and operated as a Lord & Taylor store until it was sold to Carson's in 1997, was closed in August, 2018, pursuant to the closing of the entire Carson's department store chain by its parent company, Bon Ton, which filed for bankruptcy in February, 2018, after more than 160 years of operation. The 230,000-square-foot Sear's department store at Hawthorn Mall which closed in September, 2018, was among almost two-hundred Sears and Kmart store closings that year, as part of its Chapter 11 bankruptcy filing, also in 2018. It is estimated that by the end to 2020, Sears will have closed more than 300 of its stores nationwide.

These two vacancies account for 332,649 square feet, or over twenty-six (26%) of the total 1,269,662 square feet of inline and anchor stores at Hawthorn Mall. Mall ownership reports that as of February, 2020, there is an additional 131,657 square feet of vacant inline space, creating a total of 464,306 square feet of vacant space, or 36.5% vacancy rate at Hawthorn Mall. These inline store vacancies have been steadily growing since 2016. In fact, as of February, 2020, inline store vacancies have increased by almost 130%.

Furthermore, mall ownership reports that, since 2016, the amount of space that is leased by tenants on a temporary basis under license agreements has more than doubled, from 23,999 square feet in December, 2016 to 58,596 square feet in February, 2020. When this

temporarily leased space is added to vacancies, 570,402 square feet, or 45%, of the mall's leasable area is either vacant or subject to temporary lease agreements.

Mall ownership also reports that mall traffic has been declining since the Sears and Carson's closings. These trends increase the potential for greater numbers of vacancies in the future and are evidence of the shopping center's economic instability.

4) Lack of Community Planning. The Act requires that the finding is supported if the area developed prior to or without the benefit or guidance of a community plan. This means that the development occurred prior to the adoption by the municipality of a comprehensive or other community plan or that the plan was not followed at the time of the area's development. This factor must be documented by evidence of adverse or incompatible land-use relationships, inadequate street layout, improper subdivision, parcels of inadequate shape and size to meet contemporary development standards or other evidence demonstrating an absence of effective community planning.

The proposed Hawthorn Mall Shopping Center and its corresponding road network was developed in 1972 and 1973 without the guidance and benefit of a comprehensive plan, since the Village's first comprehensive plan was not adopted until two years later, in 1974 (the "Prior Comprehensive Plan"). That Prior Comprehensive Plan served as a technical resource and policy guide for development during a period of rapid growth in the Village and was not available for implementation of the mall's development. Only the Village's zoning regulations were available to guide the mall's development, and these zoning regulations had no standards specifically for enclosed shopping centers. Rather, these regulations were intended to guide development patterns for neighborhood shopping centers in the community. Accordingly, the RPA lacks strategic integration with its surrounding area, including efficient vehicular traffic flow, safe bicycle and pedestrian access, coordination with nearby open spaces, and provision for mixed land uses.

In 1982, recognizing that substantial changes had occurred since the Prior Comprehensive Plan was adopted, the Village Board authorized and completed an update of the Prior Comprehensive Plan which was adopted in June of 1983.

Additional amendments were made to the Prior Comprehensive Plan in 1988, 1992, 1998, and 2003. These older planning and zoning efforts failed to anticipate the shifting market demands for shopping centers to evolve over time and for accommodating a mix of land uses, not simply retail activities surrounded by surface level parking lots.

Since the Village does not impose a real estate property tax, the Village relies almost exclusively on retail sales within Village to fund its municipal services. The major source of retail sales (approximately 85%) in the Village is located along Milwaukee Avenue and Townline Road within the Core Retail Area of the Village as defined in the Village's zoning map. Over the last decade, downward retail industry trends have caused a considerable contraction in retail sales resulting in an appreciable reduction in retail sales

taxes payable to the Village. Reductions in sales tax generating tenant spaces in the Village have threatened to exacerbate reduced sales taxes being generated within the Village. In response to this threat, in 2010, the Village amended its zoning ordinance to create a Core Retail Area Overlay District that sets an appropriate mixture of retail and non-retail uses within the District. The purpose of Core Retail Area Overlay District is to regulate the conversion or elimination of existing retail sales establishments within its Core Retail Area, so that the Village can preserve and enhance its largest source of operating revenue, while also working with property owners to maintain a viable tenant mix on various properties within the Core Retail Area. The Redevelopment of the RPA will help accomplish the goals of the Core Retail Area Overlay District.

The current Comprehensive Plan, adopted in 2012, states that the plan “must address the challenges presented by the current economic conditions of the regional economy and the impacts that are being experienced locally, as well as looking to the longer-range land use planning challenges facing the Village.” Furthermore, the Comprehensive Plan states “The Village should seek to establish adaptive reuse strategies for commercial/retail locations left vacant by market conditions, changing demographics and/or competition.” The Comprehensive Plan goes on to state that land use patterns should:

- “Encourage the most intensive development at the Milwaukee Avenue/Route 60 intersection, which may include some residential uses when part of an overall mixed-use development.”
- “Encourage high quality retail commercial development surrounding the Milwaukee Avenue/Route 60 intersection . . .”
- “Actively encourage reinvestment in existing commercial properties to maintain the overall appearance, structural quality and marketability of the properties within the commercial corridors. “

Redevelopment of the Hawthorn Mall Redevelopment Project Area with a mix of land uses will help accomplish these land use planning objectives; however, since the proposed redevelopment of the Hawthorn Mall Redevelopment Project Area includes a significant multi-family land use component, an amendment to the Comprehensive Plan is required to facilitate this particular redevelopment plan. This plan amendment process has been started and is expected to be completed by June, 2020.

5) Deterioration. With respect to buildings, defects include but are not limited to, major defects in the secondary building components such as doors, windows, porches, gutters, downspouts, and fascia. With respect to surface improvements, that the condition of roadways, alleys, curbs, gutters, sidewalks, off-street parking and surface storage areas evidence deterioration, including, but limited to, surface cracking, crumbling, potholes, depressions, loose paving material and weeds protruding through paved surfaces.

Various degrees of deterioration are found throughout the Study Area. Most of the deterioration can be seen in the exterior surface improvements of the properties. Property condition reports, prepared in 2017, and provided by mall ownership, indicate that parking pavement, sidewalks, curbing, site steps, and ramps are in poor condition. Deterioration of site improvements among all of the properties in the Study Area was confirmed in March of this year, by site inspection of the parking lots and fields, alleys, loading dock areas, curbs, and steps. Specifically, the parking lots and fields exhibited considerably worn seal coating, with ubiquitous pavement cracking, spalling, potholes, and settled, uneven, worn, or otherwise damaged asphalt paving. In addition, pavement paint for parking spaces, crosswalks, and traffic control is either completely worn away, or extensively faded or damaged. Curbs and gutters throughout the parking lots and fields were found to be cracked or crumbling, with weed growth in the concrete, and faded curb paint as well. Concrete pedestrian sidewalks also exhibited localized areas of cracking and spalling throughout. Exterior stair systems were found to be deteriorated, including rusted metal handrails and cracked or spalling concrete stair treads. Loading dock areas also exhibited deterioration, including cracked driveways and approaches, cracked concrete pavement at sidewalks and ramps, and damaged and rusted handrails. Lighting standard bases in the parking lots and fields exhibited damage and eroded paint finishes.

Deterioration of building improvements was also noted in ownership's property conditions reports and observed during the March site surveys. The vacant Carson's and Sear's stores exhibit some cracking in the painted brick veneer, and paint appears to be faded. Building façade caulking and mortar was found to be deteriorated (cracked and brittle) in certain areas of the Carson's exterior walls. Evidence of water penetration was observed at the Carson's main entrance windows. The property conditions report for the Carson's store also notes water damage at various locations in the roof system, which has caused damage to interior finishes, and recommends replacement. The metal frames of the Sear's automotive overhead doors are corroded. Some overhang soffits showed peeling paint. Metal service doors and doors at loading docks were observed to be damaged and rusted at both store properties.

The three out-lot properties also exhibited some deterioration of building improvements, including exterior masonry walls discolored and in need to tuckpointing, damage to exterior EFIS siding, faded and worn window awnings, peeling paint on metal fencing with rusted pavers below, damaged metal service doors, damaged metal roofing, sagging fascia, and peeling building paint.

V. SUMMARY OF FINDINGS; GENERAL ASSESSMENT OF QUALIFICATION

The following is a summary of relevant qualification findings as it relates to the Village's potential designation of the proposed TIF District.

1. The area is contiguous and is greater than 1½ acres in size;
2. The proposed RPA will qualify as a “conservation area” as defined in the TIF Act and the factors found in the RPA are present to a meaningful extent and are reasonably distributed throughout the RPA. A more detailed analysis of the qualification findings is outlined in Section V of this report;
3. All property in the area would substantially benefit by the proposed redevelopment project improvements;
4. The sound growth of taxing districts applicable to the area, including the Village, has been impaired by the factors found present in the area; and
5. The area would not be subject to redevelopment without the investment of public funds, including property tax increments.

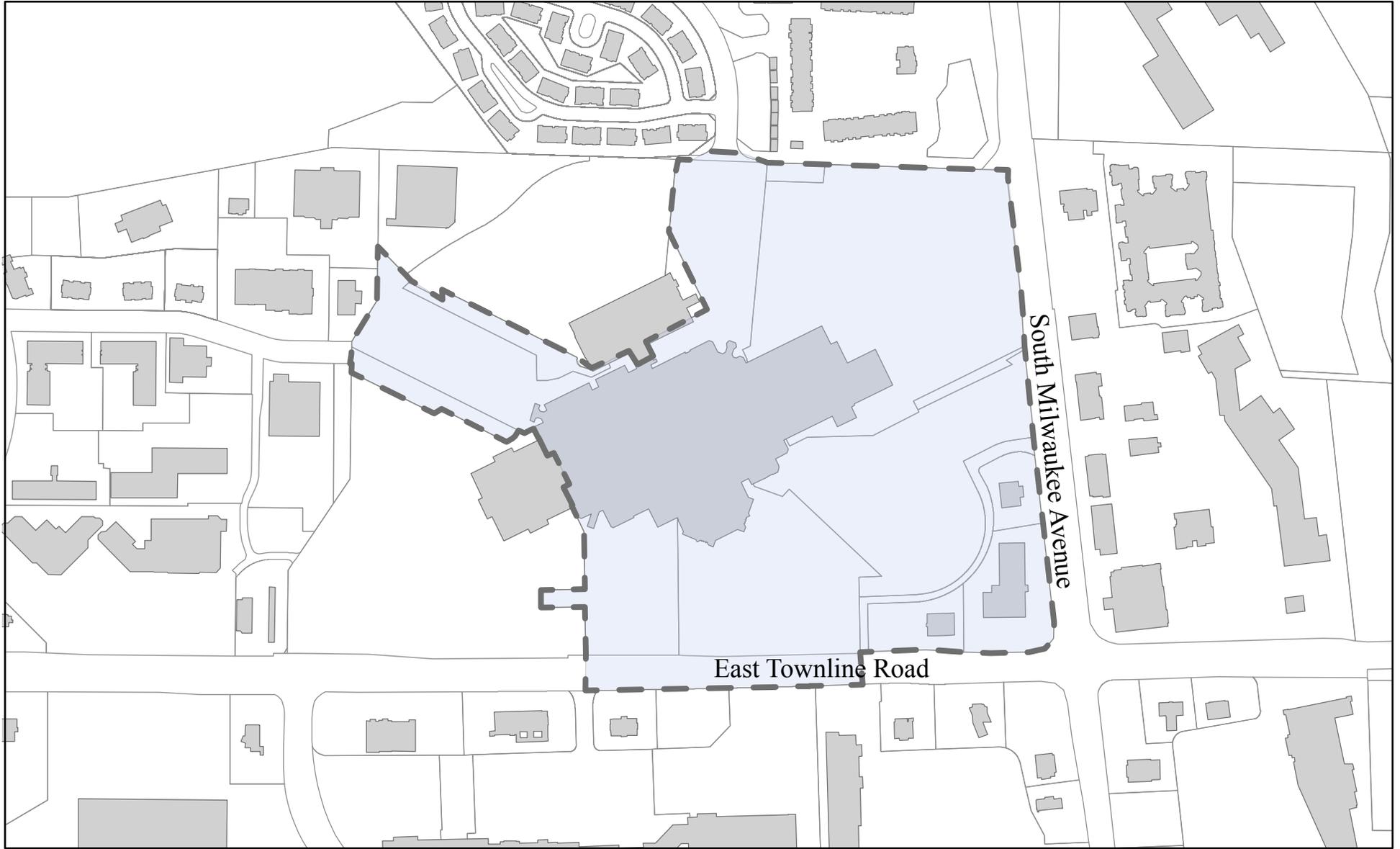
In the judgment of KMA, these findings provide the Village with sufficient justification to consider designation of the TIF District.

EXHIBIT A

**Proposed Hawthorn Mall TIF Study Area
Boundary Map**

Village of Vernon Hills, Illinois Hawthorn Mall TIF

Boundary Map



Prepared on 07/09/2020 by:

Sources: Geographic Information accessed from maps.lakecountyil.gov on 04/29/2020

EXHIBIT B

**Proposed Hawthorn Mall TIF Study Area
Tax Parcel List**

11-33-401-004

11-33-401-006

11-33-401-089

11-33-401-088

11-33-401-087

11-33-401-086

11-33-401-085

11-33-401-013

11-33-401-014

11-33-401-015

11-33-401-016