

THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for a Cook County Class 7c Property Tax abatement for the property identified as 1421 W. Shure Drive will be conducted as follows:

- I. Item by item review as per Village Procedures and Application Form
- II. Synopsis of application
- III. Correlation of application to Comprehensive Plan
- IV. Correlation of application to zoning
- V. State of economy of industry making application
- VI. Site visit summary
- VII. Site specifics of property requesting abatement
- VIII. Relationship of property tax abatement goals to application
- IX. Relationship of Village guidelines to application
- X. Finance Department review
- XI. Adherence to Zero Interest Loan program / economic program requirements
- XII. Department of Planning and Community Development recommendation

This particular approach is being utilized so as to provide ease to Village Administration and Trustees with the review of the application submitted. It is hoped that this method will encourage a realistic understanding of the application and relationship of such to the community and local economy.

I. Review Item by Item of Application

- A) INTRODUCTION: Complete. Applicant asserts that computations are to the best of its knowledge based on current value.
- B) PROPERTY DESCRIPTION: Complete. Submitted as Exhibit A.
- C) IDENTIFICATION OF PERSONS: Complete. Submitted as Exhibit D.
- D) PROPERTY USE: Complete. Submitted as Exhibits E, F, G, and H.
- E) TRAFFIC: Complete. Approximately 270 automobiles and 1-2 trucks will enter/exit the facility on a daily basis. Shure Drive is the main route of ingress and egress, via Wilke Road, Dundee Road, and IL-53. The property offers 1,674 parking spaces. The business will employ 270 people from the start. Over the next ten years, the business expects to employ approximately the same number of people and neither increase nor decrease employment count.

- F) EVIDENCE OF NEW CONSTRUCTION: Complete. The applicant is completing build-out of their nearly 42,000 square foot first floor office space. This involves installation of doors and frames, drywall, ceilings, carpeting, as well as systems for fire suppression, plumbing, HVAC, and electrical. The estimated cost for this work is approximately \$3.85 million. Submitted as Exhibit J.
- G) EMPLOYMENT OPPORTUNITIES: Complete. The tenant will employ 270 full-time workers by the end of the year at this location. By the end of the life of the Class 7c, the owner anticipates the business to employ approximately the same amount. The remaining portion of this building is occupied by HSBC, which employs approximately 1,500 workers. The applicant meets the minimum number of total employees per the Village's application requirements (100 workers). Submitted as Exhibit K.
- H) FINANCIAL INFORMATION: Complete. Submitted as Exhibit L.
- I) FISCAL EFFECT: Complete. Submitted as Exhibit M.
- J) OTHER INDUCEMENTS: Complete. No other inducements requested. Submitted as Exhibit N.
- K) JUSTIFICATION: Complete. Submitted as Exhibit O.
- L) TAX BILLS: Complete and submitted as additional attachment.
- M) EAV INFORMATION: Complete. Data showing decline in EAV in at least three of past six years provided. Submitted as Exhibit P.
- N) CERTIFICATION OF "BUT FOR" REQUIREMENT: Complete. Justification provided. Submitted as Exhibit O.
- O) TAX REVENUE AND EMPLOYMENT PROJECTIONS: Complete. Submitted as exhibits K and M.
- P) COMPLETED IC-IQ QUESTIONNAIRE: Complete. County "Incentive Classification – Initial Questionnaire" submitted as additional attachment.
- Q) OTHER DATA: Complete. Provided copy of application to Cook County, aerial of site, and plans for renovation of space.

II. Synopsis

Applicant wishes to obtain a Cook County Class 7c Property Tax Classification for a portion of 1421 W. Shure Drive. The Class 7c classification is designed to encourage commercial development throughout Cook County by offering a real estate tax incentive for the development of new commercial facilities, the rehabilitation of existing commercial structures, and the commercial reutilization of abandoned buildings. The goal of the Class 7c designation is to stabilize and increase commercial property values, incentivize viable and timely commercial projects, and increase employment opportunities.

The site has never been approved for a Class 7c tax abatement. With approval, the property would be assessed at 10% for the next three years, before rising to 15% in the fourth year, and 20% in the fifth and final year. However, since the property is currently 80% occupied, this incentive request would only be for the remaining property space and account for a partial abatement.

In this instance, the assessment level would be 22.349% in years 1-3, 23.2326% in year 4, and 24.1163% in year 5. This is per the analysis and calculations by the applicant's financial representatives. This still represents a notable reduction in the level of assessment, and considering the size of the property will result in significant tax savings. Barring the approval of an incentive renewal, the property would return to paying the standard 25% assessment after the fifth year. In the absence of this incentive, industrial real estate would normally be assessed at 25% of its market value.

The property is considered an office building by CoStar. Currently the office vacancy rate in Arlington Heights is 13.5% (source: CoStar – March 2018). The expected re-occupation of most of the building by Northrop Grumman would drop this rate by nearly a percentage point to 12.7%.

Eligibility Requirements

Real estate is eligible for Class 7c status under the following conditions:

1. The property's assessed value, equalized assessed value, or real estate taxes, have declined or remained stagnant in three of the past six years.
2. There is either: (a) new construction, (b) substantial rehabilitation, or (c) substantial re-occupancy of "abandoned" property.
3. Certification that the development/redevelopment/rehabilitation would not occur "but for" the incentive and that the project will be economically feasible at the conclusion of the incentive.
4. Evidence that the project will result in increased tax revenue and employment opportunities at the property.

The applicant wishes to obtain a Cook County Class 7c Property Tax classification. The Law Offices of Liston & Tsantilis filed the original Class 6b application on behalf of the applicant, TNC Lot 2 LLC, with Village Staff on March 12, 2018. Additionally required information has been sent over the past few weeks.

III. Correlation of Application to Comprehensive Plan

The General Comprehensive Plan indicates that this property should be research & development, manufacturing, and warehouse. However, per Cook County, the Class 7c incentive is "intended to encourage commercial projects which would not be economically feasible without assistance." The proposed layout of the 41,776 square foot space will be dedicated primarily to office tenancy with about 15% of the floor space dedicated to research and development.

IV. Correlation of Application to Zoning

The Zoning Map revised January 1, 2017 designates the relevant parcel as an **M-1 Research, Development, and Light Manufacturing** zoning district. Within this district warehousing, packaging, and distribution and development are allowed. The proposed use of the subject site falls under the Zoning Code Permitted Use Table as "Offices: Business and Professional", which is permitted outright in M-1 zoning.

As proposed, the site will have a surplus of nearly 1,000 parking spaces per Village Code parking requirements. Northrop Grumman will bring approximately 270 employees to the Village. Parking requirements for general office are calculated as one parking stall required for every 300 square feet of space. The chart on the next page details the proposed parking scenario at 1421 W. Shure Drive.

Use/Business	Code Use	Square Feet	Parking Standard	Employees	Vehicles	Parking Req.
Office (HSBC)	Offices - Business and Professional	167,495	1 space/300 SF	1,500	N/A	558
Office (Northrop Grumman)	Offices - Business and Professional	41,776	1 space/300 SF	270	N/A	139
		209,271		SPACES REQUIRED		697
				SPACES AVAILABLE		1,674
				SURPLUS / (DEFICIT)		977

V. State of Economy of Industry Making Application

The applicant, TNC Lot 2 LLC (Torburn Partners) owns the properties at 1421 and 1501 W. Shure Drive that once housed the north side of the Motorola campus (later Nokia Siemens). They are applying for this incentive to benefit their new tenant at 1421 W. Shure Drive, Northrop Grumman (41,776 square feet) to complete occupancy of the building. HSBC North America Holdings occupies the remaining 80% of tenant space in the building. As Northrop Grumman would only be occupying 20% of the building, this is the only space that is eligible for the property tax abatement. HSBC's portion is not eligible for the incentive as the space is already occupied. Additionally, the other building under the same ownership, 1501 W. Shure Drive, is currently 100% vacant and is not under consideration for the incentive, in regards to this application.

Northrup Grumman Corporation is a *Fortune 500* company and one of the world's largest defense contractors. The Arlington Heights site in question would represent the corporation's further growth, and serve as another satellite office to their headquarters in West Falls Church, Virginia. Planning & Community Development Staff was told by company representatives that the Arlington Heights location would not be a relocation of existing northwest suburban offices, but rather a nearby extension of their presence in the Chicago metro area.

The Village guidelines suggest that the applicant have a minimum employment threshold of 100 employees. Northrup Grumman meets the minimum threshold for number of employees with 270. Over the five-year life of the incentive, the applicant estimates that the property will generate nearly \$2 million more in property taxes with the Class 7c designation than if it were to be vacant for the same time period. This figure takes into account HSBC's presence in the rest of the building. Should the building be 100% occupied this year, even with the abatement, the applicant expects the site to generate \$7,784,106 in total property tax revenue from 2018-2022.

VI. Site Visit

Planning & Community Development Staff met with the property owner regarding the potential tenant in late 2017, and again in early 2018. Staff also conducted a site visit with a representative for the property owner of 1421 W. Shure Drive on April 4, 2018. A walk-thru of the tenant's future space was completed, highlighting the areas designated for office, and those designated for research and development.

VII. Site Specifics of Property Requesting Abatement

The building at 1421 W. Shure Drive is 209,271 square feet. The applicant is applying for a Class 7c property tax abatement that would enable the tenant to occupy the vacant 41,776 square feet of leasable space. The site specifics are provided below:

- A. The tenant space in question has been vacant for approximately three-and-a-half years. HSBC began occupying their portion of the building in April 2016.
- B. The property tax rate is expected to be \$6.99 per square foot at this property once occupancy is achieved. A similar Lake County property can expect to pay \$2.75 per square foot. A Class 7c designation would make the entire property at 1421 W. Shure Drive more competitive at \$6.26 per square foot.
- C. Northrup Grumman is bringing 270 employees to this location. This would also reoccupy nearly 42,000 square feet of long-vacant office space.

By definition, “The purpose of the M-1 District is to encourage the grouping of offices, research offices and laboratories, light manufacturing uses, and ancillary business uses. The district should be accessible to an arterial street designated on the Village Official Map or Village Comprehensive Plan Map...Performance standards protect residential areas by restricting objectionable manufacturing activities such as noises, vibration, smoke, dust, odors, heat, glare, fire hazards, and other objectionable influences.”

The use type into which Northrop Grumman falls under (“Offices: Business and Professional”) is permitted outright in M-1. Although not a manufacturing use, the business is a commercial enterprise that complies with the mission of the Class 7c designation.

VIII. Relationship of Property Tax Abatement Goals to Application

The initial intent of the County Assessor's revised property tax incentive plan is to encourage new industrial and commercial development within the County. Reacting to slowed development in the commercial and industrial sectors, the Assessor recognized that the property tax rates in Cook County were higher than those of neighboring counties, which were seeing gains in the previously mentioned sectors. The Class 7c Property Tax Abatement program demonstrates an ongoing desire by Cook County officials to maintain their commercial competitiveness with the rest of the Chicago metropolitan region.

In this instance, the abatement would allow for the re-tenancy of nearly 42,000 square feet of vacant office space along with 270 full-time jobs. Furthermore, it would provide a reduction in property taxes that would benefit Northrop Grumman to stay in the long-term. Economic impact would be shown in the employment growth, an increase in local consumer spending, and the complete re-occupancy of the 209,271 square foot facility. The amount of property tax revenue gained from an occupied building with a Class 7c designation, as opposed to allowing the property to sit vacant, is estimated at approximately \$2 million over the five-year life of the abatement.

IX. Relationship of Village Guidelines to Application

The Class 7c incentive typically provides a 10% assessment level for the first three years, 15% in the fourth year and 20% in the fifth year. This constitutes a substantial reduction in the level of assessment and results in significant tax savings. In the absence of this incentive, commercial real estate would normally be assessed at 25% of its market value. That being said, this incentive request is for a partial abatement as the building is already approximately 80% occupied. In this particular instance, the assessment level would be 22.349% in years 1-3, 23.2326% in year 4, and 24.1163% in year 5.

This provision requires “real estate used primarily for commercial purposes.” This is defined as “any real estate used primarily for buying or selling goods or services, or for otherwise providing goods and services, including any real estate used for hotel and motel purposes.”

This incentive is available throughout Cook County, but requires municipal approval prior to County officials granting the abatement. Further, localities may adopt guidelines of their own. These specifications may place restrictions such as minimum number of employees, residency, or square feet of operation.

The Village of Arlington Heights initiated its own guidelines for Class 6b requests in May 1990, modifying them for Class 7c requests in July 2015. These guidelines require the following:

1. The application fee shall have been paid.
2. The application form shall have been completed with attachments.
3. The business must be a commercial operation for an excess of 51% of the structure's floor space or an excess of 51% of the employees.
4. The business must employ at least 100 individuals during the period when the taxes are abated. The business must, in good faith, make an effort to recruit available job positions to Arlington Heights residents.
5. The application (Section VI, VII, VIII and IX) must show a five-year financial benefit to the Village and no negative effect on any similar Village firm.

Guideline #3 is met by this application as 85% of the floor space is dedicated to office space. Guideline #4 is met as the tenant, Northrop Grumman, will employ 270 workers at this location. Guideline #5 is met by the \$2 million more in property tax revenue that the site will generate with the tenant than if the property were to sit vacant, as well as the economic impact from the creation of new employment.

X. Finance Department Review

The Finance Department has reviewed the application and has no objections.

XI. Adherence to Zero Interest Loan Program / Economic Program Requirements

In order to receive approval from the Village of Arlington Heights for the Class 7c tax abatement, the applicant must formally execute an agreement with the Village. This agreement is a commitment to rebate 10% of the applicant's savings from the abatement to the Village over the first three years of the five-year incentive. The savings will be placed in the Zero Interest Loan fund, to be distributed to new or expanding businesses within Arlington Heights that have applied and been approved for such a loan, or to support other economic development activities as approved by the Village Board. The applicant has signed the formal agreement, and is willing to rebate the Village 10% of their property tax abatement savings in order to help the Village enhance its business community.

XII. Department of Planning and Community Development Recommendation

The intent of the Class 7c tax abatement program is to allow participating communities in Cook County to provide an incentive to revitalize stagnant commercial properties within the County. This program permits a property tax abatement by reducing the tax rate for a five-year period provided that a fiscal benefit continues to return to the host community.

The request for tax abatement is recommended for approval. The program is designed to facilitate the ongoing, long-term use of the property located at 1421 W. Shure Drive. It is imperative that the community continues to demonstrate that it is ready to aggressively assist business development provided that it does not negatively impact the Village's quality of life. However, approval is contingent upon compliance with all Village codes.

The abatement would further benefit the community by adding 270 full-time jobs. Additionally, this would help bring a Fortune 500 company to the community. As demonstrated in the application, the Village will see a greater return on property taxes with the Class 7c than if the building was to remain vacant over the same period of time. Furthermore, the tenant space has been vacant for over three years, despite efforts by Staff and the site's real estate representatives to recruit a user.

As is always the case with Class 7c property tax abatement requests, the applicant finds Cook County commercial property taxes to be burdensome. An illustrative comparison of Cook County and DuPage County taxes follows:

For use as an EXAMPLE:

	<u>COOK</u>	<u>COOK (W/CLASS 7C)</u>	<u>LAKE</u>
Market Value	\$21,795,959	\$21,795,959	\$21,795,959
Assessment Level	x .25	x .22349*	x .33
Assessed Valuation	\$ 5,448,990	\$ 4,871,179	\$ 7,192,666
State Multiplier	x 2.9084**	x 2.9084**	x 1.0000
Equalized Value	\$15,847,842	\$14,167,337	\$ 7,192,666
Tax Rate (per \$100)	x 11.14%	x 11.14%	x 8.42%***
Taxes	\$ 1,765,450	\$ 1,578,241	\$ 605,622

*Based upon assessment level provided in incentive application

**2017 Cook County Tentative Multiplier (source: Illinois.gov – 2/20/18)

***Based upon comparable Lake County 4-star office tax rates for 2016

Commercial taxes in adjacent counties would be lower than in Cook. With the Cook County 7c abatement, property taxes become more competitive, yet are still 161% higher than Lake County taxes in this instance.

The net result of encouraging Class 7c tax abatement incentives will provide for a more aggressive atmosphere for economic development in Arlington Heights than other communities in the six-county region. Northrop Grumman is a well-established, growing company looking to invest in Arlington Heights, and this is a rare opportunity to ensure the presence of a *Fortune 500* company in the Village. Support for this incentive request will help the company thrive in the long-term while re-occupying over 40,000 square foot of long-vacant office space and creating 270 new full-time jobs in the community. Staff recommends approval of this incentive request.