

THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 555 W. Algonquin Road 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.
- F) TRAFFIC: Complete. Approximately 12 automobiles and three trucks are projected to enter/exit the facility on a daily basis in addition to employee traffic (about 30 vehicles per day). Algonquin Road is the main route of ingress and egress via Arlington Heights Road and I-90. The property currently offers 49 parking spaces while the user will require 47 by Code per employment growth in the next ten years, resulting in a surplus of two spaces. Therefore, the use meets parking requirements.

- G) **EVIDENCE OF NEW CONSTRUCTION:** Ownership is planning a \$340,000 expansion of the showroom area including build-out of a mezzanine for training and observation, access via stairs, addition of a catwalk, and reconfiguration of the HVAC system. Submitted as Exhibit J.
- H) **EMPLOYMENT OPPORTUNITIES:** Complete. The business currently employs 34 full-time workers and two part-time workers. Over the next ten years, the owner expects to employ 42 full-time Staff. The applicant meets the minimum number of employees per the application requirements (25), but does not meet the number of employees desired to reside in Arlington Heights (10). The applicant is requesting an exemption from the latter requirement of the Village's Class 6b guidelines. Submitted as Exhibit K.
- I) **FINANCIAL INFORMATION:** Complete. Submitted as Exhibit L.
- J) **FISCAL EFFECT:** Complete. Submitted as Exhibit M.
- K) **OTHER INDUCEMENTS:** Complete. No other inducements requested. Submitted as Exhibit N.
- L) **JUSTIFICATION:** Complete. Submitted as Exhibit O.
- M) **OTHER DATA:** Complete. Provided copies of plat of survey and lease agreement. Submitted as Exhibits B and R.

II. Synopsis

Applicant wishes to obtain a renewal of their Cook County Class 6b Property Tax Classification, which was originally approved by the Village Board in December 2007 to Finn-Power. Prima Industries group acquired Finn-Power in 2008 and renamed the entity at 555 W. Algonquin Road "Prima Power" in 2011.

The Class 6b classification is designed to encourage industrial development throughout Cook County by offering a real estate tax incentive for the development of new industrial facilities, the rehabilitation of existing industrial structures, and the industrial reutilization of abandoned buildings. The goal of Class 6b is to attract new industry, stimulate expansion and retention of existing industry and increase employment opportunities. Besides the aforementioned approval in December 2007, the property at 555 W. Algonquin Road has not received any other Class 6b property tax abatements in the past.

The site is currently in the 11th year of its initial Class 6b, meaning that without renewal, the site's assessment level would rise from 10% to 15% this year. It would then rise to 20% next year, before returning to the standard 25% annual assessment of market value for Cook County industrial properties. With renewal, the property would remain assessed at 10% for the next ten years, before rising to 15% in the 11th year, and 20% in the 12th year. This continues a substantial reduction in the level of assessment and results in significant tax savings. Please note that this Class 6b request only applies to additional land and construction (15,000 SF) completed during the previous Class 6b request in 2008. All calculations within this document have taken this into account and reflect this fact.

In the absence of this incentive, industrial real estate would normally be assessed at 25% of its market value. Currently the industrial/flex vacancy rate in Arlington Heights is 12.6%, which would increase by a full percent to 13.6% should Prima Power vacate this location (source: CoStar – August 2018)

Eligibility Requirements

Real estate is eligible for Class 6b status under the following conditions:

1. The real estate is used primarily for "industrial purposes".
2. There is either: (a) new construction, (b) substantial rehabilitation, or (c) substantial re-occupancy of "abandoned" property.
3. An Eligibility Application and supporting documents have been timely filed with the Office of the Assessor according to deadlines as set forth in the "What Must Be Filed" and "Time for Filing" sections.
4. The municipality in which such real estate is located (or the County Board, if the real estate is located in an unincorporated area) must, by lawful resolution or ordinance, expressly state that it supports and consents to the filing of a Class 6b Application and that it finds Class 6b necessary for development to occur on the subject property.

The applicant wishes to obtain a Cook County Class 6b Property Tax classification renewal. Brown, Udell, Pomeranz, & Delrahim Ltd. filed the original Class 6b application on behalf of the applicant, Prima Power North America, Inc.

III. Correlation of Application to Comprehensive Plan

The General Comprehensive Plan indicates that this property should be research and development, manufacturing, and warehouse.

- Warehousing, Production, Repair, and Showroom 77%
- Offices 23%

This takes into account approximately 39,000 square feet of industrial space and an estimated 11,700 square feet of office.

IV. Correlation of Application to Zoning

The Zoning Map revised January 1, 2018 designates the relevant parcel as an **M-2 Limited Heavy Manufacturing** zoning district. Within this district warehousing, distribution and development are permitted, as well as some heavy manufacturing. The proposed use of the subject site falls under the Zoning Code Permitted Use Table as the manufacturing/processing of "Metal Products, Fabricated", which is permitted outright in the M-2 zoning. As proposed, the site will have a surplus of two parking spaces above Code when reaching its projected employment count at the end of the incentive period. The following chart details the proposed parking scenario at 555 W. Algonquin Road:

Use/Business	Code Use	Square Feet	Parking Standard	Employees	Vehicles	Parking Req.
Office	Offices - Business and Professional	11,698	1 space/300 SF	28	N/A	39
Manufacturing, Warehousing, and Showroom	Processing and Manufacturing	39,030	0.5 spaces/employee; 1 space/commercial vehicle	14	1	8
		50,728			SPACES REQUIRED	47
					SPACES AVAILABLE	49
					SURPLUS / (DEFICIT)	2

V. State of Economy of Industry Making Application

Prima Power is a company that fabricates metal (including machinery parts), as well as some warehousing and repair. The site also provides a showroom and a customer support and sales center. The company was based in Schaumburg, operating as Finn Power, until 2008 when it relocated to the current Arlington Heights site. Due to the anticipated high tax rate on the property at the expiration of the current Class 6b incentive, and the need to expand their existing showroom, the company is seeking a renewal of the property tax abatement. Otherwise, Prima Power will consider locations that offer more competitive property tax rates when their lease expires in a few years.

The Village guidelines suggest that the applicant have a minimum employment threshold of 25 employees, and of this total, 10 employees should reside in Arlington Heights. Prima Power has a total of 34 full-time employees and 2 part-time workers, which easily meets the minimum threshold for number of employees. They do not currently employ any Arlington Heights residents. As this aspect falls below the Village's employment criteria for the Class 6b, the company is requesting an exemption from this specific requirement.

Prima Power expects to continue to have a positive economic impact on the community via this incentive. Retaining the aforementioned employees will account for consumer purchases. Also, the company brings in up to 1,100 visitors per year from outside the region, which results in additional sales tax, food & beverage tax, and hotel tax revenues.

Over the life of the incentive, the applicant estimates that the property will generate over \$290,000 more in property taxes with the Class 6b designation than if it were to become vacant at the end of the lease period. While the building may not become and remain vacant for the seven years after the current lease expires, the intent of the Class 6b program is to facilitate industrial occupancy or re-occupancy as quickly as possible. Even with the abatement, the applicant expects the property to generate \$1.1 million in total property tax revenue from 2019-2030.

VI. Site Visit

Planning and Community Development Department staff met with ownership of Prima Power at their Arlington Heights facility on August 9, 2018 and confirmed that the use meets applicable zoning standards and Class 6b requirements.

VII. Site Specifics of Property Requesting Abatement

The building at 555 W. Algonquin Road is approximately 51,000 square feet. The property owner is applying for a Class 6b property tax renewal that would allow for the retention of a large industrial employer, ongoing occupation, and improvements to the showroom area. Further benefits to the Village include continued property tax generation from this facility. Prima Power is also projecting some employment growth over the next ten years. The company currently employs 34 full-time staff. By Year 10 of the Class 6b incentive renewal, they anticipate having added eight more jobs.

By definition, "The purpose of the M-2 District is to provide adequate space in appropriate locations for manufacturing and other activities. This district should be accessible to major railroads and arterial streets 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."

As a manufacturer of machine parts, in addition to warehouse and repair of parts, this business use meets M-2 zoning requirements. Further, it complies with the mission of the Class 6b designation, which is that the business and facility meets "industrial purposes" and that there is substantial rehabilitation, as well as continued re-occupancy of previously "abandoned" property.

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 6b Property Tax Abatement program demonstrates an ongoing desire by Cook County officials to maintain their commercial and industrial competitiveness with the rest of the Chicago metropolitan region.

In this instance, the abatement would allow an Arlington Heights-based company to continue to remain within the Village, retaining 34 jobs while potentially growing to 42 over the next decade. Economic impact would be shown in the employment growth, continued local consumer spending, and overall business retention. Furthermore, Prima Power brings approximately 1,100 people from outside the Chicago area on an annual basis for training and demonstrations. This results in additional hotel, sales, and food & beverage taxes on top of what their employees generate. The amount of property tax revenue gained from retaining the business with a Class 6b designation, as opposed to allowing it to become vacant for the last seven years of the incentive period, is estimated at nearly \$290,000.

IX. Relationship of Village Guidelines to Application

The Class 6b incentive renewal provides a 10% assessment level for the first 10 years, 15% in the 11th year and 20% in the 12th year. This constitutes a substantial reduction in the level of assessment and results in significant tax savings. In the absence of this incentive, industrial real estate would normally be assessed at 25% of its market value.

This provision requires that the applicant be a manufacturing or warehousing operation and may include high technology land uses. 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 in May, 1990. These guidelines require:

1. The application fee shall have been paid.
2. The application form shall have been completed with attachments.
3. The business must be a manufacturing, industrial, research, warehousing, or fabricating firm 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 25 individuals during the period when the taxes are abated. Ten or more employees must reside in Arlington Heights.

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 77% of the floor space is dedicated to manufacturing, warehousing and storage, with the remaining 23% dedicated to office space. Guideline #4 is met as Prima Power employs 36 people, with 34 being full-time workers. The applicant is requesting an exemption from the requirement of employing at least 10 Arlington Heights residents, as they do not currently employ any. Guideline #5 is met by the retention of a long-standing business to the community, continued occupancy of a significant industrial property, as well as continued property tax generation.

X. Finance Department Review

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

XI. Adherence to Zero Interest Loan Program Requirements

In order to receive approval from the Village of Arlington Heights for the Class 6b 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 five years of the 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. The applicant signed the formal agreement, and is willing to rebate the Village 10% of their property tax abatement savings in order to help enhance the Village's business community.

XII. Department of Planning and Community Development Recommendation

The intent of the Class 6b tax abatement program is to allow participating communities in Cook County to provide an incentive to office research, manufacturing, and warehousing firms to locate and/or expand within the County. This program provides for a renewal of the adjusted property tax in addition to new tax abatements by reducing the tax rate for a twelve-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 555 W. Algonquin Road. 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 retaining 34 jobs. Additionally, this would help retain a viable business in the community and allow them to grow in the future, potentially creating eight additional job opportunities over the next ten years. As demonstrated in the application, the Village will see a greater return on property taxes with the Class 6b than if the building was to remain vacant over the same period of time. Furthermore, finding a replacement tenant that would have a comparable number of employees to the Village as Prima Power would not be easy.

As is always the case with Class 6b 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 6B)</u>	<u>DUPAGE</u>
Market Value	\$ 1,924,922	\$ 1,924,922	\$ 1,924,922
Assessment Level	x <u>.25</u>	x <u>.16*</u>	x <u>.33</u>
Assessed Valuation	\$ 481,231	\$ 305,870	\$ 635,224
Equalization Factor	x <u>2.9627</u>	x <u>2.9627</u>	x <u>1.0000</u>
Equalized Value	\$ 1,425,742	\$ 906,201	\$ 635,224
Tax Rate (per \$100)	x <u>9.304%</u>	x <u>9.304%</u>	x <u>7.137%</u>
Taxes	\$ 132,651	\$ 84,313	\$ 45,336

*Note: the incentive request is for a partial abatement as the incentive would only apply to a portion of the property. Therefore, the typical Class 6b assessment level (10%) does not apply in this scenario.

DuPage County taxes for a building of similar size and market value are \$71,435 lower than Cook County taxes. In other terms, DuPage County property taxes are approximately 193% lower than similar Cook County non-residential property taxes in this example. With the Cook County 6b abatement, property taxes become exponentially more competitive (86% higher than DuPage property taxes) in this instance.

As with the granting of Class 6b tax abatements in general, the net result of encouraging Class 6b tax abatement renewals will provide for a more aggressive atmosphere for economic development in Arlington Heights than other communities in the six-county region. Prima Power is an established industrial business in Arlington Heights with notable employment and occupying a large industrial space. Support of this incentive request will help the property thrive in the long-term and ensure its ability to serve an Arlington Heights enterprise in the present and in the future.