

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 519 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.
- E) TRAFFIC: Complete. Approximately 176 automobiles and 3 trucks will enter/exit the facility on a daily basis. Algonquin Road is the main route of ingress and egress, via Arlington Heights Road and I-90. The property offers 175 parking spaces, which is also what the proposed use requires. The developer has obtained agreements with neighboring properties to absorb temporary overflow parking when needed. The business anticipates employing 51 people from the start. No estimate is given for potential

employment growth, but the potential addition of a rooftop lounge could increase this number by a few additional workers.

- F) **EVIDENCE OF NEW CONSTRUCTION:** Complete. The applicant is planning to build a nine-story, 62-unit hotel atop the existing European Crystal Banquets facility. Approximately 5,200 square feet of existing banquet space would be removed, leaving around 10,850 square feet of remaining banquet space. The estimated cost for this work is approximately \$4 million. Submitted as Exhibit J.
- G) **EMPLOYMENT OPPORTUNITIES:** Complete. The tenant expects to employ around 51 workers at the opening of the hotel. By the end of the life of the Class 7c, the owner anticipates the business to employ approximately the same amount unless a rooftop lounge is added, which could add as many as four more full-time employees. The applicant does not meet the minimum number of total employees per the Village's application requirements (100 workers) and therefore is asking for an exemption from this requirement. The banquet hall at European Crystal would still retain about 30 employees. 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.

II. Synopsis

Applicant wishes to obtain a Cook County Class 7c Property Tax Classification for 519 W. Algonquin Road. 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 new construction 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. Because there is an existing building (European Crystal Banquets), the abatement would not apply to existing construction. It would only apply to new construction (the hotel specifically). This constitutes a substantial reduction in the level of assessment and results 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, commercial real estate would normally be assessed at 25% of its market value.

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 Class 7c application was not reviewed until after the Village Board approved the project on August 6, 2018, per the applicant's request, and was formally submitted on August 17, 2018. Additionally required information had been sent over the ensuing 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." Although designated by the Comprehensive Plan for a more industrial-type use, the site has been occupied by European Crystal Banquets since 1998. The hotel would be nine stories with approximately 6,000 square feet space making up each floor. The bottom floor would remain a banquet facility occupying approximately 10,850 square feet.

IV. Correlation of Application to Zoning

The Zoning Map revised January 1, 2018 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 "Hotel", which is not permitted in M-1 zoning. However, the site was approved for a land use variation to allow a hotel at this location per the Village Board on August 6, 2018.

V. State of Economy of Industry Making Application

The applicant wishes to construct a nine-story 62-room hotel atop the existing European Crystal Banquets at 519 W. Algonquin Road. Approximately 5,650 square feet of ballroom space would remain on the first floor, while the auxiliary banquet halls spaces would be demolished. The purpose for applying for the incentive request is to be able to obtain financing from potential lenders, as a significant property tax

abatement would help make the project a more secure investment. As the hotel portion of the project is the only new construction, only this portion is eligible for the property tax abatement. The banquet facility's portion is not eligible for the incentive as the space is already occupied.

Currently, Arlington Heights has nine hotels with 1,294 rooms. Of these, seven hotels are within one mile of the European Crystal property, offering just over 1,000 rooms. The applicant has expressed that this would be an independent boutique hotel, offering a different experience and amenities than the other Arlington Heights hotels that are all tied to national brands.

The applicant provided a revised conceptual plan to the Conceptual Plan Review Committee on Wednesday, September 26 that would have increased the number of rooms to 100. This proposal has since been withdrawn, and the applicant plans to move forward with the proposal approved by the Village Board in August.

The Village's Class 7c guidelines suggest that the applicant have a minimum employment threshold of 100 employees. The hotel would employ 51 workers. Therefore, the applicant is requesting an exemption from this requirement. Over the five-year life of the incentive, the applicant estimates that the property will generate approximately \$168,000 less in property taxes with the Class 7c designation than if it were to remain unchanged for the same time period. That being said, in the first year after the expiration of the incentive the property stands to generate \$1.38 million in property taxes, which is \$525,000 more in than if the site were to remain as-is (banquet facility alone). In other words, the finished hotel development will easily recoup the five-year property tax reduction due to the incentive, and then some, in just one year. Even with the abatement, the applicant expects the site to generate \$687,000 in total property tax revenue from 2020-2024. Furthermore, the hotel anticipates generating a combined \$695,000 in hotel tax and food & beverage tax during the incentive period as well.

VI. Site Visit

As this represents new construction, and not an existing/relocating business, no site visit was conducted. Planning & Community Development Staff has worked extensively with the developer since December 2015 and assisted in regards to the Plan Commission process.

VII. Site Specifics of Property Requesting Abatement

The banquet facility at 519 W. Algonquin Road is 16,130 square feet. The applicant is applying for a Class 7c property tax abatement that would enable the development of a nine-story, 62-room hotel above the existing banquet facility. This would involve the construction of 45,000 square feet of hotel at an estimated cost of \$4 million. The site specifics are provided below:

- A. Equalized assessed value (EAV) for the property has been stagnant or decreasing in three of the past six years. The EAV decreased from 2016 to 2017.
- B. The property tax rate is expected to be \$5.51 per square foot at this property once occupancy is achieved. A similar Lake County property can expect to pay \$1.94 per square foot. A Class 7c designation would make the entire property at 519 W. Algonquin Road much more competitive at \$2.01 per square foot during the incentive period.

C. The hotel is anticipated to employ approximately 51 workers at this location once open. 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.”

Although the use type into which the European Crystal Hotel falls under (“Hotel”) is not permitted in the M-2 zoning, a land use variation was approved by the Village Board in August 2018 to allow such a use on this site. 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 vertical construction of 45,000 square feet of hotel space, retaining a long-time business that would continue to occupy 10,850 square feet, and would create just over 50 new jobs. Furthermore, it would provide a reduction in property taxes that would entice financing for the project and help create stability in the hotel’s early years. Economic impact would be shown in the employment growth, an increase in tax revenue, and direct spending to Arlington Heights businesses from guests staying at the hotel.

In the first year after the expiration of the incentive the property stands to generate \$1.38 million in property taxes, which is \$525,000 more than if the site were to remain as-is (banquet facility alone). In other words, the finished hotel development will easily recoup the five-year property tax reduction due to the incentive, and then some, in just one year. Even with the abatement, the applicant expects the site to generate \$687,000 in total property tax revenue from 2020-2024.

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. This incentive request is for a partial abatement as the existing banquet hall facility structure is not eligible for the Class 7c, only new construction.

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 100% of the floor space is dedicated to hotel and banquet space. Guideline #4 is not met as the hotel and banquet facility combined will only employ 80 workers. The applicant is requesting an exemption from this requirement. Guideline #5 is met as the developer is proposing a boutique hotel, which aims to attract a different clientele than existing Arlington Heights hotels and will not be of direct competition. Additionally, although taxes may potentially see a reduction for the property during the incentive period, the applicant's financial representative estimates that the site will immediately recoup those costs by generating over \$500,000 more in property taxes in just the first year alone after the Class 7c expires than if the hotel were to not be built. Furthermore, the developer anticipates generating \$695,000 in combined hotel tax and food & beverage tax during the incentive period.

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, and new investment, at 519 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 adding 51 jobs and providing additional hotel taxes and property taxes. Furthermore, this would help bring a boutique hotel that will bring people to the community and help add additional sales taxes and food & beverage taxes. The Village will see a greater return on property taxes in the first year after the incentive expires, than any tax revenue reduction during the incentive period.

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 Lake County taxes follows. Please note that the market values are only provided as examples to show the tax discrepancy and may not reflect the actual market value of the property when complete:

For use as an EXAMPLE:

	<u>COOK</u>	<u>COOK (W/CLASS 7C)</u>	<u>LAKE</u>
Market Value	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Assessment Level	<u>x .25</u>	<u>x .10</u>	<u>x .33</u>
Assessed Valuation	\$ 250,000	\$ 100,000	\$ 330,000
State Multiplier	<u>x 2.9627</u>	<u>x 2.9627</u>	<u>x 1.0000</u>
Equalized Value	\$ 740,675	\$ 296,270	\$ 330,000
Tax Rate (per \$100)	<u>x 11.14%</u>	<u>x 11.14%</u>	<u>x 8.81%*</u>
Taxes	\$ 82,511	\$ 33,004	\$ 29,073

*Note: Based upon comparable Lake County property tax rate for an independent hotel (2017).

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 13.5% 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. The developer is proposing a high-end boutique hotel which would provide a unique amenity for Arlington Heights in its effort to attract out-of-town guests who also support local businesses, contributing to sales taxes, food & beverage taxes, and of course hotel taxes. Staff recommends approval of this incentive request.