

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 3850 N. Wilke 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. Provided legal description, plat of survey, and site aerial.
- C) IDENTIFICATION OF PERSONS: Complete.
- D) PROPERTY USE: Complete.
- E) TRAFFIC: Complete. Approximately 300 automobiles and five trucks will enter/exit the facility on a daily basis. Wilke Road will be the main route of ingress and egress, via Dundee Road. Parking is provided on-site at a rate of one space per 300 square feet of tenant space. This aligns with the Village's Zoning Code requirements in regards to parking for a professional office use.

- F) EVIDENCE OF NEW CONSTRUCTION: Complete. The applicant is renovating a vacant 94,000 square foot Class A office building. The estimated cost for the site improvements is approximately \$2.7 million and involves interior renovation, parking lot resurfacing, roof and HVAC repairs, and landscaping upgrades.
- G) EMPLOYMENT OPPORTUNITIES: Complete. The tenant expects to employ 375 workers at opening, 350 of these being full-time. By the end of the life of the Class 7c, the applicant anticipates the business to employ approximately 600 positions. The applicant meets the minimum number of total employees per the Village's application requirements (at least 50 workers).
- H) FINANCIAL INFORMATION: Complete.
- I) FISCAL EFFECT: Complete.
- J) OTHER INDUCEMENTS: Complete. No other inducements requested.
- K) JUSTIFICATION: Complete.
- L) TAX BILLS: Complete. History of tax bills dating back five years, verifying decline/stagnation of equalized assessed value (EAV) at the property.
- M) EAV INFORMATION: Complete. Data showing decline or stagnation in EAV in at least three of past six years provided.
- N) CERTIFICATION OF "BUT FOR" REQUIREMENT: Complete. Justification provided.
- O) TAX REVENUE AND EMPLOYMENT PROJECTIONS: Complete.
- P) COMPLETED IC-IQ QUESTIONNAIRE: Complete and submitted.

II. Synopsis

The Applicant, Wilke Road 3850 LLC, wishes to obtain a Cook County Class 7c Property Tax Classification for 3850 N. Wilke Road in order to re-tenant the building with International Services Inc. 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, this project 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. This constitutes a substantial reduction in the level of assessment and results in significant tax savings. Barring the request for, and 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 formally submitted on October 28, 2020. Additionally requested information has been sent over the ensuing weeks.

III. Correlation of Application to Comprehensive Plan

The General Comprehensive Plan indicates that this property is designated for *Mixed Use*. And the Cook County Class 7c incentive is "intended to encourage commercial projects which would not be economically feasible without assistance." While the site is *designated* for mixed-use, the existing structures are recognized by CoStar as "Class A" office space (which makes up only 11% of existing office space in Arlington Heights), and are ready-built to serve that function:

"Class A: These buildings represent the newest and highest quality buildings in their market. They are generally the best looking buildings with the best construction, and possess high-quality building infrastructure. Class A buildings also are well located, have good access, and are professionally managed." (areadevelopment.com)

The applicant would continue to fulfill, and reinvest in, the property as upscale office space. Therefore, the request is to utilize the site as professional office, as it is currently approved and allowed by zoning.

IV. Correlation of Application to Zoning

The Zoning Map revised January 1, 2020, designates the relevant parcel as M-1 Research, Development, and Light Manufacturing zoning district. Within this designation, *Offices: Business and Professional* are permitted outright.

V. State of Economy of Industry Making Application

The applicant wishes to re-occupy, in its entirety, the four-story office building at 3850 N. Wilke Road. The building is approximately 94,000 square feet in size, and has been 100% vacant since August 2019. The purpose for applying for the incentive is that the relocation would not be financially viable otherwise, due to the level of property taxes. The tenant currently resides in Lake County, where property taxes per square footage are significantly lower, and the contract for purchase is contingent upon 7c designation.

The Village's Class 7c guidelines suggest that the applicant have a minimum employment threshold of 50 employees. International Services would employ 375 workers to start, 350 of which would be full-time. Therefore, the applicant meets this requirement. Over the five-year life of the incentive, the applicant estimates that the property would generate approximately \$1 million more in property taxes with a Class

7c designation than in its current vacant state. And with the abatement, the applicant expects the site to generate \$2.65 million in total property tax revenue from 2021-2025. Residual tax revenues (sales taxes, food & beverage taxes, etc.) are also anticipated via employees patronizing Arlington Heights businesses.

VI. Site Visit

Due to the ongoing pandemic, a site visit was not conducted. However, Village Staff has visited the property numerous times over the years. The Building & Life Safety Department also verified that there are no outstanding Code issues with the property. Both the applicant, as well as the commercial realtor representing the sale of the site, have verified that the property has been 100% vacant since August 2019.

VII. Site Specifics of Property Requesting Abatement

The vacant building at 3850 N. Wilke Road is 94,143 square feet. The applicant is applying for a Class 7c property tax abatement that would enable the renovation and re-occupancy of the entire vacant property at an estimated cost of \$2.7 million. The company is also purchasing the adjacent site at 3800 N. Wilke Road, but is not applying for the Class 7c incentive as that property is not currently 100% vacant (and therefore not eligible for the incentive). There are currently no formal plan in terms of reutilization of that building. The site specifics for 3850 N. Wilke are provided below:

- A. Equalized assessed value (EAV) for the property has been stagnant or decreasing in three of the past six years. From 2015-2018, the property value stagnated three times. It also decreased between 2018 and 2019.
- B. The property tax rate is expected to be \$10.82 per square foot at this property once occupancy is achieved and the abatement period has expired. A similar Lake County property can expect to pay \$4.30 per square foot. A Class 7c designation would make the property at 3850 N. Wilke much more competitive at \$4.33 per square foot during the first three years of incentive period.
- C. International Services is a management services firm for companies that provides business and tax consulting. The company would re-tenant the building and employ 350 full-time workers, as well as 25 part-time workers, upon occupancy. The company anticipates employing around 600 workers by the end of the five-year incentive period.

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.” This use meets the definition for an appropriate M-1 operation as it provides a strong office tenant on this property. Further, it re-utilizes vacant Class A office space at a time when office vacancy in the community is at nearly 20% (source: CoStar). The planned tenant 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 renovation and re-use of a 94,000 square foot office building that has been completely vacant for over a year, and bring 375 daytime workers to the Village. Furthermore, it would reduce the Village's office vacancy rate by nearly two percentage points, at a time when office vacancy throughout the region is steadily increasing (note: CoStar data shows the Chicago MSA's office vacancy rate as 13.0%, up 1.2% from this time last year). Economic impact would be shown in employment growth, an increase in tax revenues, and residual spending at other local businesses from the company's employees.

In the first year after the expiration of the incentive the property stands to generate an estimated \$1 million in property taxes, which is three times as much if the site were to remain vacant. Even with the abatement, the applicant expects the site to generate \$2.65 million in total property tax revenue from 2021-2025.

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.

The Class 7c 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 (last updated in November 2019). 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 50 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 the entire floor space is dedicated to professional office use. Guideline #4 is met as the user will employ 375 workers (350 full-time) at occupancy. Guideline #5 is met as complete re-occupancy of the property with the Class 7c designation is estimated to generate \$2.65 million in cumulative property taxes over the next five years, while it will only generate \$1.62 million if it remains vacant. Also, the Village will benefit from residual spending by the tenant's employees.

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 local economic activity

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 3850 N. Wilke 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 350 full-time jobs and 25 part-time jobs (with plans to grow to a workforce of 600 in the next five years), providing significant long-term property tax revenues, and residual tax revenues as well. Furthermore, the Arlington Heights office vacancy rate has jumped from 11.7% to 19.7% since the fourth quarter of 2018 (source: CoStar). This project would involve the re-occupancy nearly of over 90,000 square feet of Class A space and drop the office vacancy rate by nearly two full percentage points.

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	\$14,140,372	\$14,140,372	\$14,140,372
Assessment Level	x .25	x .10	x .33
Assessed Valuation	\$ 3,535,093	\$ 1,414,037	\$ 4,712,986
State Multiplier	x 2.9160	x 2.9160	x 1.0000
Equalized Value	\$10,308,331	\$ 4,123,332	\$ 4,712,986
Tax Rate (per \$100)	x 9.887%	x 9.887%	x 8.595%*
Taxes	\$ 1,019,185	\$ 407,674	\$ 405,081

*Note: Based upon Lake County (Deerfield) 2019 property tax rate for a similar commercial property.

Commercial taxes in adjacent counties would be lower than in Cook. With the Cook County 7c abatement, property taxes become much more competitive, yet would still be 0.6% higher than a similar Lake County property 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 applicant is proposing the renovation and re-occupancy of a vacant 94,000 square foot building by a corporate entity that would employ 350 full-time workers, with plans to grow their workforce to approximately 600 in the next five years. Besides the long-term increase in property value, and resulting property tax revenues, the Village would additionally benefit via residual spending from the employees and any visitors to the property. Village Staff recommends approval of this incentive request.