

## THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 600 W. University 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 123 automobiles and 12 trucks are projected to enter/exit the facility on a daily basis. Kennicott Avenue, via Dundee Road and IL-53, is the main route of ingress and egress to the site. The property currently offers 135 parking spaces, while the user will require 122 by Code (per planned employment growth in the next ten years), resulting in a surplus of 13 spaces. Therefore, the use meets parking requirements.

- F) EVIDENCE OF NEW CONSTRUCTION: Ownership is making concerted efforts to get a LEED rating. Future projects include installation of LEED certified heaters and motion sensor lighting. Other plans include additional insulation of the roof, and the purchase and installation of a UV filtration system. In the past few years, Carlson Labs also installed two electric vehicle charging stations in their lot. Submitted as Exhibit J.
- G) EMPLOYMENT OPPORTUNITIES: Complete. The business currently employs 135 full-time workers and 11 part-time workers (18% of workers are Arlington Heights residents). Over the next ten years, the owner expects to employ 170 full-time staff and 20 part-time workers. The applicant meets the 25-employee minimum per the application requirements. Submitted as Exhibit K.
- H) FINANCIAL INFORMATION: Complete. Submitted as Exhibit L.
- I) FISCAL EFFECT: Complete. Submitted as Exhibit M.
- J) IMPLEMENTATION OF SUSTAINABLE FEATURES: Complete. Submitted as Exhibit N.
- K) OTHER INDUCEMENTS: Complete. No other inducements requested. Submitted as Exhibit O.
- L) JUSTIFICATION: Complete. Submitted as Exhibit P.
- M) OTHER DATA: Complete. Provided copies of land title survey and comparative real estate cost statement. Submitted as Exhibits B, C, R, and S.

## **II. Synopsis**

Applicant wishes to obtain a renewal of their Cook County Class 6b property tax classification. This would be the second renewal for this property. The initial 6b request was approved for Cano Packaging in 2002. In 2012, Carlson Labs purchased the property from Cano Packaging. They were approved for a 6b renewal in 2013 and still own the building and property.

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, rehabilitation of existing industrial structures, and industrial reutilization of abandoned buildings. The goal is to attract new industry, stimulate business expansion and retention, and increase employment opportunities.

The site is currently in the tenth year of its current Class 6b designation, meaning that without renewal, the site's assessment level would rise from 10% to 15% next year. It would then rise to 20% the following year, before returning to the standard 25% annual assessment of market value for Cook County industrial properties. With renewal however, the property would remain assessed at 10% for the next ten years, before rising to 15% in the 11<sup>th</sup> year, and 20% in the 12<sup>th</sup> year. This continues 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. Currently the industrial/flex vacancy rate in Arlington Heights is 10.6%, which would increase to 12.2% should Carlson Labs relocate from Arlington Heights (source: CoStar – November 2022).

### ***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 are 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.

Applicant wishes to obtain a Cook County Class 6b Property Tax classification renewal. Rieff Schramm Kanter & Guttman LLC filed the application on behalf of the applicant,

### **III. Correlation of Application to Comprehensive Plan**

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

- Manufacturing, Warehousing, and Distribution 79%
- Offices 21%

This takes into account approximately 73,550 square feet of production and warehouse space, and an estimated 19,200 square feet of office.

### **IV. Correlation of Application to Zoning**

The Zoning Map revised January 1, 2022 designates the relevant parcel as an **M-1 Research, Development, and Light Manufacturing** zoning district. Within this district certain light manufacturing, warehousing, and distribution are permitted. The proposed use of the subject site falls under the Zoning Code Permitted Use Table as the manufacturing/processing of "Drugs", which is permitted outright in the M-1 zoning. As proposed, the site will have a surplus of 13 parking spaces above Code when reaching its projected employment count at the end of the incentive period (190 total employees). The following chart details the proposed parking scenario at 600 W. University Drive:

Use/Business	Code Use	Square Feet	Parking Standard	Employees	Vehicles	Parking Req.
Office	Offices - Business and Professional	19,200	1 space/300 SF	80	N/A	64
Manufacturing and Warehousing	Processing and Manufacturing	73,550	0.5 spaces/employee; 1 space/commercial vehicle	110	3	58
		<b>92,750</b>			<b>SPACES REQUIRED</b>	<b>122</b>
					<b>SPACES AVAILABLE</b>	<b>135</b>
					<b>SURPLUS / (DEFICIT)</b>	<b>13</b>

## **V. State of Economy of Industry Making Application**

J.R. Carlson Laboratories is a company that manufactures, warehouses, and distributes vitamins and other nutritional supplements. Approximately 79% of the facility is used for those purposes, with the other 21% used for administrative office and sales work. The company was founded in 1965, and purchased their current location in 2012. Over the past ten years, Carlson Labs has invested in the property with a 7,100 square foot interior addition, and a parking lot expansion involving the installation of permeable pavers. The company has also added outdoor gardens and picnic space. Due to the anticipated high tax rate on the property at the expiration of the current Class 6b incentive period, the company is seeking a renewal of the property tax abatement. Otherwise, Carlson Labs will consider locations that are more competitive in terms of property taxes.

The Village guidelines suggest that the applicant have a minimum employment threshold of 25 employees. Carlson Labs has a total of 135 full-time employees and 11 part-time workers, which easily meets the minimum threshold for number of employees. They also currently employ 25 Arlington Heights residents full-time, and one resident part-time. The company expects to continue to have a positive economic impact on the community via this incentive. Retaining the aforementioned employees, and adding new ones, will account for consumer purchases within the community. This revenue will be seen in additional sales taxes and food & beverage taxes.

The applicant estimates that the property will generate over \$2.3 million in property taxes during the life of the Class 6b renewal. While the building may not necessarily remain vacant should Carlson Labs relocate, the intent of the Class 6b program is to facilitate and maintain industrial occupancy (or re-occupancy) as quickly as possible.

## **VI. Site Visit**

Planning and Community Development Department staff met with ownership of J.R. Carlson Laboratories at their Arlington Heights facility on October 12, 2022 and confirmed that the use meets applicable zoning standards and Class 6b requirements.

## **VII. Site Specifics of Property Requesting Abatement**

The building at 600 W. University Drive is approximately 93,000 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 including ongoing occupation of the site, ongoing maintenance of bottling and labeling machines, and planned purchases of equipment for their in-house testing lab. Further benefits to the Village include continued property tax generation from this facility, as well as some sales taxes from wholesaling. Carlson Labs is also projecting some employment growth over the next ten years. The company currently employs 135 full-time staff (25 Arlington Heights residents) and 11 part-time staff. By Year 10 of the Class 6b incentive renewal, they anticipate having added 35 more full-time jobs and nine more part-time jobs.

Additionally, the company is planning several sustainable improvements to the property in efforts to obtain a LEED rating. This includes the installation of LEED certified heating units and motion sensor lighting. Further energy-efficient improvements planned involve adding additional insulation to the roof (which could substantively reduce heating usage), and ozone-protecting UV filtration for the manufacture of their product. Also, Carlson Labs recently installed two electric vehicle charging stations on site.

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... Performance standards protect residential areas by restricting objectionable manufacturing activities such as noise, vibration, smoke, dust, odors, heat, glare, fire hazards, and other objectionable influences.”

As a manufacturer and distributor of nutritional supplements, this business use meets M-1 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, substantial job retention, and 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 136 total jobs and potentially growing to 190 over the next decade. Economic impact would be shown in the employment growth, continued local consumer spending, and overall business retention.

### **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.

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 79% of the floor space is dedicated to manufacturing, warehousing and distribution, with the remaining 21% dedicated to office space. Guideline #4 is met as Carlson Labs employs 146 people, with 135 being full-time workers. The applicant also employs 26 Arlington Heights residents (25 full-time). 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, or for other approved economic development activities. 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 a tax abatement is recommended for approval. This program is designed to facilitate the ongoing, long-term use of properties such as the one located at 600 W. University 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. Approval is contingent upon compliance with all Village codes.

The abatement would further benefit the community by retaining 146 jobs (135 full-time), 26 of which belong to Arlington Heights residents. Additionally, this would help retain a viable business in the community and allow them to grow in the future, potentially creating an additional 35 full-time, and nine part-time, job opportunities over the next ten years. Furthermore, it would be difficult to find a replacement tenant that would offer the same employment numbers to the Village as J.R. Carlson Laboratories.

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>LAKE</u>
Market Value	\$ 3,896,460	\$ 3,896,460	\$ 3,896,460
Assessment Level	x <u>.25</u>	x <u>.10</u>	x <u>.33</u>
Assessed Valuation	\$ 974,115	\$ 389,646	\$ 1,285,812
Equalization Factor	x <u>3.2234</u>	x <u>3.2234</u>	x <u>1.0000</u>
Equalized Value	\$ 3,139,962	\$ 1,255,985	\$ 1,285,812
Tax Rate (per \$100)	x <u>10.446%</u>	x <u>10.446%</u>	x <u>7.862%</u>
Taxes	\$ 328,000	\$ 131,200	\$ 101,091

Lake County taxes for a building of similar size and market value are \$227,000 lower than Cook County taxes. In other terms, Lake County property taxes are approximately 69.2% lower than similar Cook County non-residential property taxes in this example. With the Cook County 6b abatement, property taxes become exponentially more competitive (still 22.9% higher than Lake 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. J.R. Carlson Laboratories is a long-time established industrial business in Arlington Heights with significant employment that is 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.