

REVIEW FOR VILLAGE OF ARLINGTON HEIGHTS  
DETERMINATION OF VILLAGE TAX ABATEMENT FOR

1735 E. Davis Street  
Arlington Heights, Illinois  
Shot Realty Company, Inc.

INITIAL CONTACT: May 8, 2014

SITE VISIT: August 6, 2014

PRE-APPLICATION REVIEW: N/A

APPLICATION SUBMITTED: July 15, 2014

PLANNING & COMMUNITY DEVELOPMENT REVIEW: July 23, 2014

FINANCE DEPARTMENT REVIEW: August 12, 2014

TRUSTEE ACTION: September 2, 2014

August 12, 2014

THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 1735 E. Davis Street will be conducted as follows:

1. Item by item review as per Village Procedures and Application Form.
2. Synopsis of application.
3. Correlation of application to Comprehensive Plan.
4. Correlation of application to zoning.
5. State of economy of industry making application.
6. Site specifics of property requesting abatement.
7. Relationship of property tax abatement goals to application.
8. Relationship of Village guidelines to application.
9. Finance Department review.
10. Adherence to Zero Interest Loan program requirements
11. 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 Attachment A.
- C) IDENTIFICATION OF PERSONS: Complete. Submitted as Attachment D.
- D) PROPERTY USE: Complete. Submitted as Attachments E, F, G, and H.
- F) TRAFFIC: Complete. Approximately 30 automobiles and 20 trucks are projected to enter/exit the facility on a daily basis. Davis Street is the main route of ingress and egress.
- G) EVIDENCE OF NEW CONSTRUCTION: Complete. As part of the property's original Class 6b tax abatement, a 33,200 square foot warehouse was erected in 2004 at the south

half of the site. This warehouse is in use by both tenants occupying the property. Submitted plans and plat of survey for site as Attachment J.

- H) EMPLOYMENT OPPORTUNITIES: Complete. Applicant does not meet minimum employment guideline of 25 employees. Currently both tenants employ 12 full-time workers combined. If awarded the abatement, the occupants expect to hire six new full-time employees over the next three years. The applicant does not meet the minimum number of employees desired to reside in Arlington Heights but emphasizes intentions to target new job opportunities to Arlington Heights residents. Submitted as Attachment K.
- I) FINANCIAL INFORMATION: Complete. Submitted as Attachments L and O.
- J) FISCAL EFFECT: Complete. Submitted as Attachment M.
- K) OTHER INDUCEMENTS: Complete. No other inducements requested. Submitted as Attachment N.
- L) JUSTIFICATION: Complete. Submitted as Attachment O.
- M) OTHER DATA: Complete. Provided 2013 property tax bills, impact on taxing districts, County 6b eligibility application as attachments. Submitted as Attachments J, K, P, Q, 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 February 2004 to the southern portion of their property, in order to construct a new warehouse. Ideally, the applicant would like to expand the Class 6b to the entire property (consisting of three parcels), but would also accept a renewal of just the southernmost parcel.

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 February 2004, the property at 1735 E. Davis Street has not received any other Class 6b property tax abatements in the past. The site is currently in the 10<sup>th</sup> year of its initial Class 6b, meaning that without renewal, the site's assessment level would rise from 10% to 15% next year. It would then rise to 20% in two years, 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 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.

### ***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 reoccupancy 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.

Applicant wishes to obtain a renewal of the Cook County Class 6b Property Tax classification. The site was approved by the Village Board for its original Class 6b application on February 16, 2004 with resolution R04-003. Shot Realty Company, the current property owner, is now seeking a Class 6b renewal. Shot Realty Company, Inc. filed the original Class 6b renewal application with Village Staff on July 15, 2014.

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

The General Comprehensive Plan indicates that this property should be research, development, manufacturing and warehouse. Within this designation all of the applicant's proposed activities are appropriate: warehousing and office.

- Warehousing (66,517 SF) 95%
- Office, Accounting, General Office (3,391 SF) 5%

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

The Zoning Map revised January 1, 2013 designates this parcel as an M-2 Limited Heavy Manufacturing zoning district. Warehousing facilities are permitted within this district, as are office uses. The proposed/continued use of the subject site is mostly warehousing with some office. The applicant asserts that this operation does comply with zoning regulations.

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

1735 E. Davis Street currently has two tenants leasing the entirety of the 70,000 square-foot space. Both businesses are branches of the same company, and are both managed by the same individual. Atlantic Relocation Systems is a residential and commercial moving company that utilizes the warehouse space for storage of their clients' items when moving from one location to another. The company currently employs eight full-time workers. Business Records Services employs four people full-time and is a documents storage business for individuals and small businesses. The 33,200 square-foot warehouse portion that is currently under the Class 6b tax abatement is used by both tenants for warehousing needs.

The applicant has stated that the recent economic recession had a damaging effect on both companies. From 2004-2008, the companies combined for an average of \$316,000 in annual profit before taxes. From 2009-2014, this figure dropped to \$46,000. In 2014 alone, the tenants' profit was a loss of nearly

\$220,000. The petitioner has stated that should the Class 6b abatement not be renewed, the cost of property taxes would force the owner to raise rents, likely resulting in both companies moving to different locations, possibly outside the Village.

Although the companies' 12 employees do not meet the minimum threshold of 25 employees typically required by the Village, they do plan on hiring another six full-time workers over the next three years. The tenants also support seven different independent contractors who hire workers on an as-needed basis. The 12 employees earn an average of \$42,000 annually. Furthermore, the tenants have invested over \$1 million in improvements to the property since 2004. These improvements include: purchase and installation of four roofs, new windows, and additional racking. The office space was also remodeled during this time period. If awarded the Class 6b renewal, the occupants intend to install more new roofing and repave the lot.

Based on the property's current equalized assessed value, the applicant estimates that a Class 6b renewal would result in \$160,684 in total property taxes over the next 10 years. Per the same estimates, if the Class 6b is not to be renewed and the property become vacant, it would generate only \$68,321 in tax revenue on average over those same 10 years. Over the 12-year life of the potential 6b renewal, a 100% occupied site with a Class 6b renewal would generate \$1.96 million in property taxes versus only \$820,000 generated by a vacant property.

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

The existing facility is 69,908 square feet in size. Of this, 33,317 is the original warehouse facility, while 33,200 consists of the newer warehouse facility constructed under the most recent Class 6b. The remaining 3,391 square feet is dedicated to office. The property owner, Shot Realty Company, is applying for a Class 6b property tax abatement renewal that would enable lower rent in order to keep the two current tenants.

Both tenants meet the site's zoning, M-2, which outright permits "Wholesale, and Warehouse Facility" uses. The site also aligns with the vision of the Village's 2013 *Comprehensive Plan* which calls for the site to be utilized for Research and Development, Manufacturing, and Warehouse purposes.

#### **VII. 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 above those of neighboring counties, which were seeing a rise in the previously mentioned sectors. The Class 6b Property Tax Abatement program demonstrates an ongoing desire by Cook County officials to maintain Cook County's commercial and industrial competitiveness with the Chicago metropolitan region.

In this instance, the abatement would retain two businesses and 12 full-time employees. As shown in the supporting attachments, the site with a Class 6b renewal would generate more property taxes than if it sat vacant. The economic impact would be shown in the maintaining of property taxes, as well as projected employment growth.

### **VIII. 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 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 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 95% of the building space is dedicated to warehousing. Guideline #4 is not met, although the two tenants hope to have at least 18 total employees in the next three years. No current employees reside in Arlington Heights. However, the companies intend to promote future job positions heavily within the Village. Guideline #5 is met by the inevitable increase in property value, and avoidance of vacancy which would reduce the property value greatly.

### **IX. Finance Department Review.**

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

### **X. 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 a requirement 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.

Shot Realty 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.

**XI. Department of Planning and 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 should be approved. The program is designed to facilitate the ongoing, long-term use of the property located at 1735 E. Davis Street. It is imperative that our community continue 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, including subdivision, zoning and design regulations. This abatement would help enhance the wealth of the community, and the region, by creating new employment opportunities, stabilizing property taxes, and seeing further reinvestment in a large industrial property.

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/ABATEMENT)</u>	<u>DUPAGE</u>
Market Value	\$ 1,815,428	\$ 1,815,428	\$ 1,815,428
Assessment Level	<u>x .25</u>	<u>.17*</u>	<u>x .33</u>
Assessed Valuation	\$ 453,857	\$ 181,543	\$ 599,091
Equalization Factor	<u>x 2.6621</u>	<u>x 2.6621</u>	<u>x 0.9490</u>
Equalized Assessed Value (EAV)	\$ 1,208,213	\$ 483,285	\$ 568,537
Tax Rate (per \$100)	<u>x 10.6740%</u>	<u>x 10.6740%</u>	<u>x 11.2942%</u>
Taxes	\$ 128,965	\$ 87,696	\$ 64,212

\*- Used .17 for assessment, as only a portion of the property has a Class 6b property tax abatement (part of property will be assessed at .10 while the rest will be assessed at .25).

DuPage County taxes for a property of the same market value (approximately \$1.8 million) are \$64,753 lower than Cook County taxes. In other terms, DuPage County property taxes are approximately 100% lower than Cook County non-residential property taxes in this instance. Even with the Cook County 6b abatement renewal, DuPage property taxes would still be \$23,484 less (27% lower than Cook).

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. Although Atlantic Relocation Systems and Business Record Services have had their hardships through a down economy, they are poised to reinvest in the community with future employments opportunities and enhancements to their building. Combined, the businesses garnered \$316,000 in annual profit from 2004-2008, and by being able to stay and grow in their current location, via a Class 6b renewal they may be able to return to such profitability in a few years. The Class 6b incentive was designed to attract and retain such businesses and is an opportunity to economically strengthen the community and region in both the short and long term.