

## THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 3860 N. Ventura 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.
- F) TRAFFIC: Complete. Approximately 12 automobiles and one truck will enter/exit the facility on a daily basis. Ventura Drive is the main route of ingress and egress, via Wilke Road. The property offers 36 parking spaces. The business currently employs 13 people, nine of which are full-time and four who are part-time. Over the next ten years, the business expects to employ 23 employees total. This will require 21 standard parking spaces by Code. The business will not utilize any commercial vehicles, adding no

additional parking requirements. The 36 available spaces for are more than adequate for this business use. See Section IV for more information.

- G) EVIDENCE OF NEW CONSTRUCTION: Complete. The applicant plans to repair the building's HVAC system and install air conditioning in the warehouse portion. The estimated cost for this work is approximately \$15,000. Submitted as Exhibit J.
- H) EMPLOYMENT OPPORTUNITIES: Complete. The business currently employs nine full-time workers and four part-time workers. By the end of the life of the Class 6b, the owner anticipates the business to employ 19 full-time staff in addition to the four part-time workers. The applicant does not meet the minimum number of total employees per the application requirements (25). The business does not employ any Arlington Heights residents, which does not meet the application requirement of ten Village residents. The applicant is requesting an exemption from these aspects of the employment requirements 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 copy of renewal application to Cook County, aerial of site, and marketing brochure for property. Submitted as Exhibit C.

## **II. Synopsis**

Applicant wishes to obtain a Cook County Class 6b Property Tax Classification upon which the purchase of the property is contingent. 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.

The site was approved for a Class 6b tax abatement in October 2005 by the Village Board. However, County tax records indicate that the designation was never activated. Therefore, the property has not had its property taxes abated under the Class 6b program. The property at 3860 N. Ventura Drive has not received any other Class 6b approvals before or since. With approval, the property would be 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 represents 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 12<sup>th</sup> year.

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 20.4%. Should the property become re-occupied, this would immediately decrease the vacancy rate by 0.3% to 20.1%. (Source: CoStar – April 2016)

### ***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. The Law Offices of Liston & Tsantilis filed the original Class 6b application on behalf of the applicant, 3860 Ventura LLC, with Village Staff on March 8, 2016.

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

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

- Warehouse, Packaging, and Distribution 67%
- General Office 33%

This takes into account approximately 10,000 square feet of industrial space and an estimated 5,000 square feet of office space.

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

The Zoning Map revised January 1, 2016 designates the relevant parcel as an **M-1 Limited Heavy 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 a "Wholesale, and Warehouse Facility", which is permitted outright in M-1 zoning.

As proposed, the site will have a surplus of 17 parking spaces. Currently, Ark Pharm employs 13 people. This is expected to increase to 23 people over the next ten years. The following chart details the proposed parking scenario at 3860 N. Ventura Drive at the end of the incentive:

Use/Business	Code Use	Square Feet	Parking Standard	Employees	Vehicles	Parking Req.
Warehouse/ Packaging/ Distribution	Wholesale, Storage & Production	10,000	0.5 spaces per employee; 1 space/commercial vehicle	8	0	4
Office	Offices - Business and Professional	5,000	1 space/300 SF	15	N/A	17
		<b>15,000</b>		<b>SPACES REQUIRED</b>		<b>21</b>
				<b>SPACES AVAILABLE</b>		<b>36</b>
				<b>SURPLUS / (DEFICIT)</b>		<b>15</b>

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

Ark Pharm is a company that warehouses, packages, and distributes product to the pharmaceutical industry. Such supplies include alcohols and compounds. They do not actually manufacture any of the products. The company is currently based in a 5,000 square foot facility in Libertyville. Due to Ark Pharm's anticipated growth, they need a much larger facility. Despite their interest in 3860 N. Ventura Drive, the anticipated property taxes on the building would make the relocation cost-prohibitive compared to staying in Lake County.

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. Ark Pharm has a total of nine full-time employees (and four part-time workers) which does not meet the minimum threshold for number of employees. As this falls below the Village's employment criteria for the Class 6b, the company is requesting an exemption from this particular requirement. The company anticipates employing 19 full-time and four part-time employees in the next ten years.

Over the 12-year life of the incentive, the applicant estimates that the property will generate over \$188,000 more in property taxes with the Class 6b designation than if it were to become vacant for the same period. While the building may not remain vacant for 12 more years, the intent of the Class 6b program is to facilitate industrial occupancy as quickly as possible. Even with the abatement, the applicant expects the property to generate \$560,000 in total property tax revenue from 2016-2027.

## **VI. Site Visit**

Planning and Community Development Department Staff met with representatives of Ark Pharm, and their financial representative for this application, touring their current location in Libertyville. They have a multi-faceted operation in terms of office workers and warehouse operations. Due to their business growth the company is in need of more Staff and space to house their product and the Arlington Heights facility provides the opportunity to expand in all facets of their operation.

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

The building at 3860 N. Ventura Drive is 15,654 square feet. The applicant is applying for a Class 6b property tax abatement that would allow their company, Ark Pharm, to move into this location. The site specifics are provided below:

- A. The site has been 100% vacant for approximately 19 months.
- B. The property tax rate is approximately \$6.38 per square foot at this property. The applicant is currently paying \$1.22 per square foot at their Lake County facility. A Class 6b designation would make 3860 N. Ventura Drive much more competitive at \$2.55 per square foot, allowing the company to relocate to this site.
- C. The proposed tenant, Ark Pharm, is projecting employment growth over the next decade. The company currently employs nine full-time staff and four part-time employees. By the tenth year of the Class 6b incentive for 3860 N. Ventura Drive (est. 2026), they anticipate formally employing 19 total full-time employees and four part-time workers.

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.”

The use type into which Ark Pharm falls under (“Wholesale, and Warehouse Facility”) is permitted outright in M-1. Although not a manufacturing use, the business is a warehouse and distribution enterprise that complies with the mission of the Class 6b designation. The business and facility meets "industrial purposes" and that there is substantial re-occupancy of a 15,000 square foot property that was vacant beginning in September 2014.

### **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 for the re-occupancy of a building vacant for 20 months. Economic impact would be shown in the employment growth, an increase in local consumer spending, and the complete re-occupancy of the 15,654 square foot facility. The amount of property tax revenue gained from the businesses obtaining a Class 6b designation, as opposed to allowing the property to sit vacant, is estimated at approximately \$188,000 over the 12-year life of the abatement.

### **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 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 67% of the floor space is dedicated to warehouse, packaging, and distribution, with the remaining 33% dedicated to office space. Guideline #4 is not met as the prospective tenant, Ark Pharm, will only employ 23 workers at the end of the life of the incentive. The applicant is requesting an exemption from this requirement, as well as the requirement of at least ten workers residing in Arlington Heights. Guideline #5 is met by the re-occupancy of a 15,654 square foot industrial vacancy, greater property tax revenue with the incentive than if it were to become vacant, and the attraction of a growing company to Arlington Heights.

#### **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 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 or economic development fund, to be distributed to new or expanding businesses within Arlington Heights that have applied and been approved for such a loan or other economic development programs that may be developed.

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 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 3860 N. Ventura 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. However, approval is contingent upon compliance with all Village codes.

The abatement would further benefit the community by bringing a new employer to the community, along with 13 jobs. The tenant, Ark Pharm, is expected to create ten new jobs over the next decade as well. Also, as demonstrated in the application, the Village will see a much greater return on property taxes with the Class 6b than if the building was to remain vacant over the same period of time.

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 property taxes between Cook County and Lake County (where the tenant is currently located) follows:

**For use as an EXAMPLE:**

	<u>COOK</u>	<u>COOK (W/CLASS 6B)</u>	<u>LAKE</u>
Market Value	\$ 1,195,000	\$ 1,195,000	\$ 1,195,000
Assessment Level	x .25	x .10	x .33
Assessed Valuation	\$ 298,750	\$ 119,500	\$ 394,350
Equalization Factor	x 2.7253	x 2.7253	x 1.0000
Equalized Value	\$ 814,183	\$ 325,673	\$ 394,350
Tax Rate (per \$100)	x 10%	x 10%	x 10%
Taxes	\$ 81,418	\$ 32,567	\$ 39,435

Lake County taxes for a similar building are \$42,000 lower than Cook County taxes. In other terms, Lake County property taxes are approximately 106% lower than Cook County industrial property taxes in this instance. With the Cook County 6b abatement, property taxes become exponentially more competitive (17.4% lower than Lake County property taxes) in this instance.

The net result of encouraging Class 6b tax abatement incentives will provide for a more aggressive atmosphere for economic development in Arlington Heights than other communities in the six-county region. Ark Pharm is a growing company looking to invest in Arlington Heights. Support of this incentive request will help the company thrive in the long-term and also re-occupy a 15,654 square foot building to ensure its ability to serve an Arlington Heights business in the present and in the future.