

THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 525 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.
- F) TRAFFIC: Complete. Approximately 10 automobiles are projected to enter/exit the facility on a daily basis as well as an estimated 3-6 trucks. This is in addition to employee vehicles which will add another approximately 25 vehicles. National Heat and Power heavily emphasis carpooling, and many of the employees will work offsite during their days, hence the discrepancy between the actual employee count and the number of employee vehicles. University Drive, via Kennicott Avenue and Dundee Road, will be

the main route of ingress and egress. The property currently offers 35 parking spaces while the user currently requires only 26 by Code. Therefore, the use meets parking requirements.

- G) **EVIDENCE OF NEW CONSTRUCTION:** Ownerships plans to conduct a \$170,000 rehab to the facility. Efforts include installation of cabling, addition of security features, and other basic interior and exterior improvements. Submitted as Exhibit J.
- H) **EMPLOYMENT OPPORTUNITIES:** Complete. The business currently employs 50 full-time workers and 40 part-time workers. By the end of the life of the Class 6b, the owner anticipates the business to employ and additional 6-8 full-time staff. The applicant exceeds the minimum number of employees per the application requirements (25). Applicant does not meet the number of employees desired to reside in Arlington Heights (10). The applicant is requesting an exemption from this particular employment requirement of the Village's Class 6b guidelines and has offered to make a conscious effort to recruit Arlington Heights residents. 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 marketing flyer, floor plan, copy of eligibility application to Cook County, business description, and financials. Submitted as Exhibits B, C, E, and I.

II. Synopsis

Applicant wishes to obtain a Cook County Class 6b Property Tax Classification. The Class 6b program 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 of the incentive is to attract new industry, stimulate expansion and retention of existing industry, and increase employment opportunities.

The property at 525 W. University Drive has not been previously approved by the Village Board or Cook County for a Class 6b property tax abatement. The site has been without employees since January 2014, and has only been used by the previous owner and occupant as storage since. Because the storage is technically considered occupancy, and therefore the property has not been 100% vacant for two years, the applicant is requesting approval under "special circumstances."

The new prospective owner, Bormont LLC, will lease the property (one parcel) to a related company, National Heat and Power. The purchase is contingent upon approval for the incentive. This contingency is highlighted in documentation between Kelly M. Joyce (real estate broker representing the seller) and Michael Montemayor (co-owner of purchaser).

12. Agreement to Participate

In obtain a 6B Designation: Buyer hereunder desires to achieve a 6B tax designation on the property and any acquisition of the property shall be subject to first obtaining said designation prior to closing. We hope that this can be achieved within 120 days.

Under the incentive provided by Class 6b, qualifying industrial real estate would be eligible for the Class 6b level of assessment from the date that new construction or substantial rehabilitation is completed and initially assessed or, in the case of abandoned property, from the date of substantial re-occupancy.

Properties receiving Class 6b will be assessed at 10% of market value 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. Currently the industrial/flex vacancy rate in Arlington Heights is 15.1%. This includes this facility, which is listed by CoStar as vacant and available for lease or purchase. Complete occupancy of this building would immediately reduce the vacancy rate to 14.8%. (source: CoStar – May 2017)

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, Bormont LLC.

III. Correlation of Application to Comprehensive Plan

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

- Storage, Assembly, and Light Manufacturing 75%
- Offices 25%

This takes into account approximately 14,000 square feet of industrial space and an estimated 4,589 square feet of office.

IV. Correlation of Application to Zoning

The Zoning Map revised January 1, 2017 designates the relevant parcel as an **M-1 Research, Development, and Light Manufacturing** zoning district. Within this district warehousing, distribution and development are permitted, as are research, office, and light manufacturing uses. The proposed use of the subject site falls under the Zoning Code Permitted Use Table as a “Tool & Die Shop” which is permitted outright in M-1 zoning.

As proposed, the site will have a surplus of three parking spaces. Currently, National Heat and Power employs 90 people (full-time). However, the great majority of employees work off-site and the company stated that the maximum number of employees who will be at the Arlington Heights facility at one time is 25, including post-growth (additional 6-8 employees over next 10 years). The following chart details the proposed parking scenario at 525 W. University Drive:

Use/Business	Code Use	Square Feet	Parking Standard	Employees	Vehicles	Parking Req.
Office	Offices - Business and Professional	4,589	1 space/300 SF	16	N/A	15
Warehouse/Storage	Warehouses and Storage	14,000	0.5 spaces/employee; 1 space/commercial vehicle	9	6	11
		18,589				
						SPACES REQUIRED
						26
						SPACES AVAILABLE
						35
						SURPLUS / (DEFICIT)
						9

V. State of Economy of Industry Making Application

National Heat and Power Corp is a company that provides HVAC repair services including the light manufacturing and assembly of small parts. The business is currently located in a 14,260 square foot building in Morton Grove and is outgrowing this space. The facility at 525 W. University Drive will provide a 30% increase in space for the company. National Heat and Power Corp is looking to move into this facility as quickly as possible.

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. National Heat and Power Corp has a total of 50 full-time employees and 40 part-time employees which easily meets the minimum threshold for number of employees. The company does not have any employees that reside in Arlington Heights. As this falls below the Village’s employment criteria for the Class 6b, the company is requesting an exemption from this requirement. They also stated that they would like to promote their future job openings to Arlington Heights residents.

The company expects to have a positive financial impact on the community. Over the 12-year life of the incentive, the applicant estimates that the property will generate over \$180,000 more in property taxes with the Class 6b designation than if it were to remain vacant for the same period. While the building may not have remained vacant for 12 more years, the intent of the Class 6b program is to facilitate industrial occupancy as quickly as possible. Furthermore, the building has only been used for storage since early 2014. Bringing in new employees, those that will work primarily at the facility as well those who will work remotely, will garner residual spending. This is something that a vacant building, or one used exclusively for storage, would not bring. Even with the abatement, the applicant expects the property to generate \$513,000 in total property tax revenue from 2018-2029.

VI. Site Visit

Planning and Community Development Department staff met with ownership of National Heat and Power Corp at their Morton Grove facility on June 13th. Due to their business growth the company is in need of more space to conduct their operation, 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 525 W. University Drive is 18,589 square feet. The purchaser is applying for a Class 6b property tax abatement that would allow a purchase of the property and completion of a \$170,000 rehab to the facility. The site specifics are provided below:

- A. The property has been without employees since January 2014. However, the building has been used for storage by the previous tenant. Therefore, it is not considered “vacant”. Since this is the case, the applicant is requesting “special circumstances” to allow them to obtain the Class 6b designation even though the site has not been officially vacant for two years.
- B. The combined cost of purchasing the property and completing interior and exterior improvements is approximately \$1.12 million. The purchase is contingent upon receiving the abatement and would not be economically feasible for the buyer without the incentive.
- C. The tenant, National Heat and Power, is projecting employment growth over the next decade. The company currently employs 50 full-time staff and 40 part-time staff. By the tenth year that the company would be established at 525 W. University Drive (est. 2027), they anticipate formally employing up to 58 total full-time employees in addition to the 40 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...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 an assembly and light manufacturing use, 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 as well as substantial re-occupancy of "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 for a growing company to relocate and expand within the Village and occupy the entirety of an industrial site that has been without employees for over three years. The economic impact would be shown in employment growth, an increase in local consumer spending, and an increase in property value of the site.

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. 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 75% of the floor space is dedicated to storage, assembly, and light manufacturing, with the remaining 25% dedicated to office space. Guideline #4 is met as National Heat and Power employs 50 full-time staff. The company is planning growth to as many as 58 full-time staff during the life of the incentive, in addition to 40 part-time workers. The applicant is requesting an exemption from the requirement of at least 10 workers residing in Arlington Heights. Guideline #5 is met by the attraction of a long-standing business to the community and re-occupancy of a vacant property.

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. 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 525 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.

The abatement would further benefit the community by bringing a new employer to the community, along with 90 jobs. The tenant, National Heat and Power, is expected to create eight more new jobs over the next ten years 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 be vacant over the same period of time.

The abatement would benefit the community through re-occupancy of a vacant building, including over \$170,000 of rehab work to the property. Additionally, this would help attract a viable business to the community and allow them to grow in the future, creating additional employment opportunities over the next decade. 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 Cook County and DuPage County taxes follows:

For use as an EXAMPLE:

	<u>COOK</u>	<u>COOK (W/CLASS 6B)</u>	<u>DUPAGE</u>
Market Value	\$1,120,000	\$1,120,000	\$1,120,000
Assessment Level	x .25	x .10	x .33
Assessed Valuation	\$ 300,000	\$ 120,000	\$ 369,600
Equalization Factor	x 2.8032	x 2.8032	x 1.0000
Equalized Value	\$ 784,896	\$ 313,958	\$ 369,600
Tax Rate (per \$100)	x 12.717%	x 12.717%	x 13.050%
Taxes	\$ 99,815	\$ 39,926	\$ 48,234

DuPage County taxes for a similar building are \$51,500 lower than Cook County taxes. In other terms, DuPage County property taxes are less than half of Cook County non-residential property taxes in this example. With the Cook County 6b abatement, property taxes become exponentially more competitive (17.2% lower than DuPage 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. National Heat and Power is an established company looking to have a long-term footprint in the Village. Support of this incentive request will help the company thrive in the long-term and also re-occupy a building that hasn't served employees for over three years, ensuring its ability to serve an Arlington Height business in the present and in the future.