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MEMORANDUM

TO: DeKalb Industrial Clients

FROM: Paul Borek, Executive Director

DATE: July 26, 2010

SUBJECT: State, Local, and Federal Tax Incentive Programs

Contained in this memo are a brief description of the local and state tax incentives that are available in the City of DeKalb for companies and industries considering new facilities in DeKalb. All projects are considered on a case by case basis and are subject to available funding. I have noted the amounts that you may qualify for.

Local Incentives:

Property and Utility Tax Abatement. Under Illinois State Law, new facilities or expansions of commercial and industrial businesses are permitted to receive property or utility tax abatements. Each governmental unit must act to abate taxes, and can abate from 1%-100% of taxes as long as the total amount of abatement does not exceed \$4 million in ten years for each project.

DeKalb area taxing bodies are prepared to implement a 5-year phased out tax abatement policy. In the first year, 90% of taxes would be abated, followed by 80%, 50%, 50% and 50% in the fifth year. Knowledge based industries may be eligible for abatement of 90% the first year, followed by 90%, 80%, 70%, and 60%. DeKalb local governments have previously approved projects covered by the abatement policy.

Utility taxes may be rebated to a company based on new taxes expected that would be tied to increased consumption of electricity, gas and telecommunications.

Local Infrastructure Grants. The city has assisted in building public improvements such as extension of a sewer or water line, construction of a street or intersection, or a storm water drainage pond or improvement. Oftentimes, state or federal grant programs require the community to participate up to 50% in public works projects related to economic development projects. DeKalb has generally financed infrastructure projects for which costs could be recovered from future property and utility taxes in about five years. DeKalb

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financed street, sewer and water improvements for Target, Nestle, Encoat, D.B. Hess and Goodyear, sometimes from general funds, some from TIF District funds, and sometimes linked to DCEO (DCCA) and IDOT grants. Infrastructure loans from the city are based upon new property, sales, and utility tax revenues generated by the project for the first five years.

Fast Track Permitting. The City may accelerate the review and approval process for building, site grading and drainage permits. Two weeks is customarily a desirable turnaround for large-scale industrial or commercial development permitting plans. The City will issue progress permits, such as site grading, and foundation permits for fast-track projects. DeKalb has issued fast track permits for site work, a second permit for foundations, and the final building permit for nearly every commercial and industrial project – generally within two weeks of request. Plan reviews are completed in house and not outsourced, allowing for speed, flexibility and control.

Sales Tax Rebates. For many retail and sales tax generating industries, sales taxes can be returned to the businesses based on a development agreement. The 2.25% local and home rule sales tax (will adjust to 2.75% on 7/1/2008) can be considered for sharing in negotiations. Generally, communities should confine the grant of such sales tax rebates to 25%-50% of the actual new sales tax generated, ensuring that there is no cannibalizing of other sales tax revenue. For example, if a new gas station is given a sales tax rebate, it may also reduce sales taxes already being received by another gas station elsewhere in town, and then reduce the City's net receipts of sales taxes. The city has shared sales tax and TIF district revenues with several developers of shopping center properties as a straight incentive, as well as to reimburse developers for outlays of funds to build streets, traffic signals, sewers, etc.

Industrial Revenue Bonds. IRB's may be issued through the City to allow a private industry to take advantage of lower, untaxed municipal bond financing. Federal law allows this use for new industry, additions to industry and environmental facilities or equipment and for some limited residential development financing. "Capacity" to issue bonds needs to come from a home rule authority based on \$80/person in the local population.

The City is home rule with a capacity of about \$3,000,000 if a project is eligible. Additional bonding capacity can be borrowed or secured from the state or other communities, up to \$10 million.

Tax Increment Financing. Some industrial property on the City's east side, such as the area of Industrial Drive extended, is located in the City's TIF district. Loans can be made for infrastructure, site improvements, land acquisition, land cost write down, demolition, remodeling, environmental remediation, job training, and a creative range of uses. For new buildings, TIF loans can be used to subsidize interest, but no loans can be made to directly subsidize new buildings. Usually, the grants will be limited by the ability of the TIF district to generate property tax revenue from increased assessments. TIF revenues include the gross taxes for city, schools, parks, and other general and special taxing bodies from the entire increase in assessment that results from the improvement to private property.

Property Tax Assessments. The DeKalb Township Assessor will generally assess new industrial buildings at the shell value, plus the actual cost of the land. Shell values may be in the range of \$22-30/sq. ft. for 1,000,000 sq. ft. buildings, and \$28-35/sq. ft. for small and medium sized buildings, or high cube industrial buildings. Office space may be assessed at \$60/sq. ft. A meeting with the assessor is necessary for confirmation of the appropriate values to be used. The assessor may request documentation of costs from a cost or market valuation study. For new industrial buildings, the effective tax rate should be in the range of \$0.80/sq. ft. to \$0.90/sq. ft. depending mostly on the percentage of office to industrial or warehouse space. Existing industrial buildings should be assessed at a depreciated value to reflect age and obsolescence, and may have effective tax costs of \$0.25/sq. ft. for older, metal buildings, and higher costs of \$0.40 to \$0.50/sq. ft. for more modern, high ceiling and masonry structures.

State Incentives:

Business Participation Loans. The Illinois Department of Commerce and Economic Opportunity (DCEO, formerly DCCA) can also lend up to \$750,000 on a project if a new or expanding industry has a \$3 million project, and has a bank loan commitment of \$2.5-\$2.7 million. DCEO will require repayment of the loan funds to the state. The company benefits because it may be able to negotiate a lower interest rate on the state's portion of the loan. For the private lenders benefit that indirectly benefits the industry, the state will sometimes take a subordinated collateral position against land, buildings, and equipment if it is a highly leveraged real estate loan. Again, at least one job must be created for every \$10,000 the state loans.

Business Development Public Infrastructure Program (BDPIP). DCEO can finance street, sewer, water and storm water improvements with a low interest loan or grant, generally up to \$500,000. Grants are based on \$5-10,000/job created up to \$500,000. DCEO made a \$500,000 grant to the City for construction of sanitary sewer and storm water drainage improvements to assist with infrastructure for a Target Corporation regional distribution center.

Large Business Development Grant. DCEO can finance street, sewer, water and storm water improvements with a low interest loan or grant, generally up to \$500,000. This program is usually limited to large businesses where there is stiff competition from adjoining states with a high profile project. For example, DCEO made a \$394,000 grant to EnCoat to subsidize the cost of land acquisition. DCEO made a grant of \$1,000,000 to Target Corporation to subsidize construction of a \$100,000,000 regional distribution center. Grants are based on \$5-10,000/job created, up to \$1,000,000.

Employer Training Investment Program. The Employer Training Investment Program (ETIP) helps keep Illinois workers' skills in pace with new technologies and business practices, which, in turn, helps businesses increase productivity, reduce costs, improve quality and boost competitiveness. ETIP grants can reimburse new or expanding companies for up to 50 percent of the cost of training their employees. Employers may select the workers that participate in the training; however, trainees must be employed by

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the company prior to implementation of the training program. Instructors may be plant workers, public educators, private consultants or others possessing the required expertise. Grants may be awarded to individual businesses, to original equipment manufacturers sponsoring multi-company training for employees of their Illinois supplier companies, and to intermediary organizations operating multi-company training projects.

High Impact Business. The Department of Commerce and Economic Opportunity will allow projects creating 500 jobs and investment of \$30,000,000 to have access to all the benefits of an Enterprise Zone, including job creation tax credits, a waiver of sales taxes on building materials, and relief from state utility taxes for up to 10 years.

EDGE Tax Credits. The Department of Commerce and Economic Opportunity will allow industries to take a tax credit against new payroll generated in the State of Illinois based on the personal income tax withholdings of the new jobs created. The company may then take a credit against its Illinois income taxes of those employees' state income taxes, and this may be authorized for up to ten years (3% of one year's wages **each year for ten years**). Companies with existing employees **may** be authorized to take a tax credit for one-half the rate (1 1/2 % of one year's wages each year for ten years). To qualify, industry must invest at least \$2.5 million and create 25 new jobs. Smaller projects could be authorized if extenuating circumstances exist.

Illinois Finance Authority. The Illinois Finance Authority is a quasi-state agency that generally can assist new industry and local companies with expansion projects. The agency offers two programs primarily, which include industrial revenue bonds and a business participation loan. The industrial revenue bonds are generally from a pool of federal authorization funding which is made available from the governor's office. Funds have frequently been exhausted in the first three to four months of each calendar year because of strong demand. The company benefits because its interest rate is lower because the interest charge by the banks is considered tax-exempt, similar to municipal bond issues. There is no direct repayment obligation by the municipality for the state. Companies can borrow up to \$10 million for an individual project. Generally the threshold to make the program financially practical is projects of at least \$2 million or greater. The Illinois Finance Authority has a formal application process and projects can frequently take 45 days for approval.

The Direct Loan Program is generally available to companies that need supplemental financing for projects of up to \$1 million. The state will loan up to \$300,000.

Illinois State Treasurer's Program. The Illinois State Treasurer has as program for linking deposits made by the state government in local lending institutions. If a business needs to expand locally, they can apply to the State Treasurer's office for a deposit of several hundred thousand dollars up to one millions dollars or more of funding to increase the local financial institution's ability to give it enough deposits so that it can make a larger loan. This generally works with financial institutions that have a small lending capacity or those that are at the maximum loan-to-deposit ratio.

Illinois Department of Transportation Programs. The Illinois Department of Transportation offers grant programs for financing street or highway construction and

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intersection projects for new industry. The program is not available for commercial or retail businesses. The state will fund up to 50% of new street construction or intersection improvements related to the access needs of a new or expanding industry. Generally up to \$500,000 is available per project, with larger grants under special circumstances. The company and the community must match the 50% state grant and there must be at least one job created for every \$10,000 of state grant money. An additional grant of approximately 5% may be available from the Truck Route Access Program, based on \$30,000/lane mile, and \$15,000/intersection.

IDOT also offers a program for financing railroad sidings and extensions to new industry. Up to 100% of the project may be financed with a low interest loan from the state, and for especially large projects, the state may grant up to 50% of the cost of a major siding and rail extension project, generally up to \$1 million in total costs, or \$500,000 in state grants.

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Job Training Programs. Federal Job Training Programs can often make grants to companies for on-the-job training or customized training. Grants may range up to \$2,500 per employee but the individual applying for the job must qualify under federal government poverty and welfare to work guidelines, which often limit the available supply or pool of qualified people to less than 5%-10% of the industry's overall recruitment needs.

Small Business Administration Financing. Through local banks and certified SBA financing organizations, companies can obtain financing through the Small Business Administration's 504-loan program. In the case of these programs, a company can borrow up to \$1 million from the SBA if a private bank commitment and the local company's participation is also a total of \$1 million. There is no minimum threshold for job creation in this program, but there has to be a demonstration of the benefit to the "public" because of job creation, retention, or the importance of the business (commercial or industrial) to the local economy. Quasi-public development organizations, such as the Rockford Local Development Corporation, Summer Core 504, or the Illinois Small Business Growth Corporation play a role in underwriting and reviewing the lending application along with a private lender.

For extremely small business expansions and start-ups, the Small Business Administration also has a low documentation loan program, which banks can use for small local businesses that need to borrow \$50,000-\$100,000. The U.S. Small Business Administration guarantees approximately 80% of the loan.

The Small Business Administration also has a 7A Loan Guaranteed Loan Program, which can allow banks to work with small businesses on loans of generally \$100,000-\$1 million. The U. S. government guarantees approximately 80%-85% of the loan made by the banks.