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City of DeKalb: Local, State and Federal Tax Incentive Programs

Following is a brief description of the local, county and state tax incentives that are available in the City of DeKalb for companies and industries considering development of new facilities.

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 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.

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.

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; environmental facilities or equipment and for some limited residential development financing. DeKalb does not have independent issuing authority. "Capacity" to issue bonds needs to come from the Illinois Development Authority, the Governor's office; or be "borrowed" from a home rule community.

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.

State Incentives:

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. Trainees must be employed by 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, original equipment manufacturers sponsoring multi-company training for employees of their Illinois supplier companies, and to intermediary organizations operating multi-company training projects.

Community Development Assistance Program. This program has two options: First, a business can borrow up to \$750,000 on a project, subject to creating or retaining 1 job for every \$15,000 borrowed, and such that the total land, building, and project cost is at least \$2,250,000. This program is a pass through of federal Community Development Block Grant funds, so some strings are attached. If the loan proceeds are used for construction of a building or public works, then Davis-Bacon prevailing wage rates apply (union scale wages). Usually, funds are applied to equipment to escape this wage issue. Second, none of the financing of purchases of property, start of construction, or purchase of equipment can take place until all documents are signed and the project has been given an environmental clearance. Borrowed funds are repaid to the host community, and these are the funds many communities use to set-up revolving loan programs.

The other use for these funds is a direct grant to the host community for public works, such as street construction, sewer and water construction, storm water facility construction or any other "linked" public works project. The limit is \$750,000, creation of 1 job per \$15,000 is required along with a corresponding private investment of \$1,500,000. These funds may pay 100% of public works costs.

Business Participation Loans. The Illinois Department of Commerce and Economic Opportunity 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 some times 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 Infrastructure Loans & Grants. DCEO can finance street, sewer, water and storm water improvements with a low interest loan or grant, similar to CDAP. DCEO prefers that CDAP funds be exhausted before using this state financed program.

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EDGE Tax Credits. The EDGE Program is designed to offer a special tax incentive to encourage companies to locate or expand operations in Illinois when there is active consideration of a competing location in another State. The program can provide tax credits to qualifying companies, equal to the amount of state income taxes withheld from the salaries of employees in the newly create jobs. The non-refundable credits can be sued against corporate income taxes to be paid over a period not to exceed 10 years. To qualify a company must provide documentation that attests to the fact of competition among a competing state, and agree to make an investment of at least \$5 million in capital improvements and create a minimum of 25 new full-time jobs in Illinois. For a company with 100 or fewer employees, the company must agree to make a capital investment of \$1 million and create at least 5 new full-time jobs in Illinois.

Illinois Finance Authority. The Illinois Finance Authority (IFA) 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 not 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 Development Finance Authority has a formal application process and projects can frequently take 45 days for approval.

IFA's 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 Linked Deposit Program. The Illinois State Treasurer has a 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 million dollars or more of funding to increase the local financial institution's deposit reserves 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 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 \$2,000,000 is available per project. 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.

Federal Incentives:

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 availability 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 between \$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.