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MEMORANDUM

TO: Kirkland Industrial Prospects

FROM: Roger Hopkins, Executive Director

DATE: January 7, 2008

SUBJECT: State, Local, and Federal Tax Incentive Programs

Contained in this letter is a brief description of the local, state, and federal tax incentives that Kirkland may offer to companies and industries considering relocating to the Village.

Local Incentives:

Tax Increment Financing. Kirkland's Tax Increment Financing (TIF) District permits a variety of locally initiated incentives. All tax incentives are subject to the amount of real estate property tax increment that will be generated for the remaining life of the district. Generally, I recommend that communities permit no more than 50% of the tax increments to be used for incentives unless there are other public infrastructure needs that can be financed because the benefit would extend broadly to the general public, such as a major state highway reconstruction or sewer, water, or storm sewer trunk line, or similar such facility. The way that Kirkland can pass on the TIF incentives to the company includes the following:

1. Construction of public works improvements such as water, sewer, street, and storm water drainage improvements.
2. Job training grants that can be rather liberally returned as the company creates new jobs.
3. Land write-downs, so the community could make the land purchased by an industry free or less expensive.
4. Interest rate subsidies on private financing; grants to remediate environmental problems on a site in the TIF district; as well as a few other uses.

Generally, communities accumulate the funds incrementally, and so arrangements should be made to finance TIF incentives so they can be paid for incrementally, as reimbursements over time.

Sales Tax Rebates or Grants. For many retail and sales tax generating industries, sales taxes can be returned to the businesses based on a development agreement. Only the 1% local sales tax can be negotiated in this fashion. Generally, sales tax rebates are limited 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 Village's net receipts of sales taxes. (See Kirkland's 2002 Policy Statement)

Property Tax Abatement. Under Illinois State Law, commercial and industrial businesses are permitted to receive property tax abatements. Each governmental unit must act to abate taxes, and can abate from anywhere to 1%-100% of taxes as long as the total amount of abatement does not exceed \$4 million in ten years for each project. (See Kirkland's 2002 Policy Statement)

Local Infrastructure Grants. The Village may use its General Fund balance, or municipal borrowing authority to undertake projects that might otherwise be financed by private developers for attracting businesses or industries. These grants might be to assist in building a public improvement 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. If the project is important enough to the community, and will generate other direct and indirect benefits to the community, investment of the municipality's own funds should be considered, especially since other grant making agencies will see this as a buy-in by the community in the process of putting together a package of incentives and benefits to the company.

Fast Track Permitting. The Village may accelerate the review and approval process for building and site grading drainage permits. **The Village will not relax any local government regulations** but simply speed the approval process of approving the permits by working with professional engineers and building plan examiners. Two weeks is customarily a desirable turnaround for large-scale industrial or commercial development permitting plans. The Village may also waive permit fees, but there may be occasions when outside plan examining assistance is required such as by the municipalities public works engineer or a professional plan examining agency. Communities may wish to recoup at least the cost of these outside consulting services.

Local Revolving Loan Fund. Loans can be made from a local revolving loan fund. Usually, one job must be created for each \$10-15,000 loaned. Funds originally come through DCCA's CDAP program. (See Kirkland's Revolving Loan Guidelines)

Industrial Revenue Bonds. IRB's may be issued through the Village 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. Kirkland does not have independent issuing authority. "Capacity" to issue bonds needs to come from the Illinois Development Finance Authority, the Governor's office; or be "borrowed" from a home rule community. IRB's were used for Tempo Components.

State Incentives:

Community Development Assistance Program (CDAP) Grants and Loans. The Illinois Department of Commerce and Economic Opportunity administers the Community Development Assistance Program, which is funded by a federal community development block grant. The community may apply for these funds to be used for grants that would pay for public works projects such as sewer, water, street, and storm water drainage improvements connected to an expanding industry. The grant funds are based on \$15,000/job created or retained; and can be up to a maximum of \$750,000. Private investment by the company benefiting must exceed the CDAP grant by a factor of two. In other words, a \$750,000 CDAP grant would have to be matched by at least \$1.5 million in private investment.

CDAP funds can also be loaned to an industry. Only industries are eligible for CDAP loans or grants. In the case of a loan, companies are usually advised to use the loan proceed to help finance machinery and equipment but can also be used to help finance building projects. In either case, federal prevailing (union) wages are mandated and must be reported to DCEO. When the company repays the funds, the money is repaid to the community so that it can go into creating a local economic development revolving loan fund, and then the community can lend it out to either commercial or industrial businesses for job creation and local business expansion projects. Cortland and Genoa have such funds created.

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. For communities like Kirkland, DCCA prefers that CDAP funds be exhausted before using this state financed program.

Business Development Grants. DCEO can provide grants as an incentive to locate and this program usually serves to “write-down” or subsidize a land purchase. This program is usually limited to large businesses where there is stiff competition from adjoining states with a high profile project.

Industrial Training Program Grants. The State of Illinois has grant programs for job training funds available from the Department of Commerce and Economic Opportunity industrial training program. Generally, grants of \$400-\$500, up to \$1,000, per employee, may be obtained. The ITP program is intended for companies which have \$30,000-\$40,000 or more in job training, and the paperwork requirement is greater. The ITP program is primarily used for those companies considering out-of-state competitive industrial locations, and the state will occasionally write a letter offering an advanced commitment of funds from future fiscal years. Otherwise, local companies that do not have

any leverage to secure an advance commitment letter should apply during the month of July, as funds are usually fully committed within the first two months of the state's fiscal year.

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 (30% of one year's wages). 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 Development Finance Authority. The Illinois Development 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 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.

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 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. 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.

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 availability supply or pool of qualified people to less than 5%-10% of the industry's overall recruitment needs.

Job training grants are available from the Employment and Training Center in DeKalb in the range of up to \$20,000 from training and upgrading the skills of existing workers under a new LEAD grant. Contact: Aaron Lundquist, IETC-DeKalb, 815-756-4893, ext. 249.

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.