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MEMORANDUM

TO: Sandwich Economic Development Officials & Prospects

FROM: Paul Borek, Executive Director

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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 Sandwich may offer to companies and industries considering expanding or relocating to the City of Sandwich.

Local Incentives:

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. The 1% local sales tax can be considered for sharing in negotiations. Generally, communities 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 with 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.

Local Infrastructure Grants. The city may participate in grants to assist in building and 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 the funding of public works projects related to economic development. Sandwich has financed infrastructure projects for which costs could be recovered from future property and utility taxes in about five years.

Fast Track Permitting. Perhaps a key incentive and one that rarely costs much money is accelerating the review and approval process for building and site grading drainage permits. Two weeks is customarily a desirable turnaround for large-scale industrial or commercial development permitting plans. Sandwich 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.

Permit Fee Waiver. Communities can waive part or all of local building, connection, and impact fees. Communities may choose a partial waiver since the project will require plan examination and building inspection, which are out-of-pocket expenses.

Property Tax Assessments. The Sandwich and Little Rock Township Assessors 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 \$20-24/sq. ft. for small and medium sized buildings. Office space may be assessed at \$60-70/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 \$0.70/sq. ft. to \$0.85/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. Sandwich 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. Generally, industries must borrow \$2,000,000 or more to justify the legal and underwriting fees.

State Incentives:

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 purchase 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 City, 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 City 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 and creation of 1 job per \$15,000 is

required as well as 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 (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 lender's 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) or 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 for a high profile project. For example, DCEO made a \$394,000 grant to EnCoat to subsidize the cost of land acquisition. Grants are based on \$5000/job created.

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 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 (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 bonds. There is not direct repayment obligation by the municipality to 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, it 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 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. 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.

FEDERAL:

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 limits 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 this program, 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.