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## **Village of Hinckley: 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 Village of Hinckley for companies and industries considering development of new facilities.

### **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. Only the 1% local sales tax can be negotiated in this fashion. 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 Village's net receipts of sales taxes.

Property & Utility Tax Abatement. Hinckley does not have a formal policy enabling tax abatement. However, under Illinois State Law, commercial and industrial businesses are permitted to receive property and utility tax abatements. Each governmental unit must act to abate taxes, and can abate anywhere from 1%-100% of taxes as long as the total amount of abatement does not exceed \$4 million for a period of ten years for each project.

As an example, most 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%, 70%, 60% and finally 50% in the fifth year. In Genoa, Sycamore, Kirkland and Waterman, there are programs offering property tax abatement for 3 years, generally 67% each year.

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.

Property Tax Assessments. The Hinckley Township Assessor may be asked to generally assess new industrial buildings at the shell value, plus the actual cost of the land. Shell values may be in the range of \$30/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 \$0.80/sq. ft. to \$0.95/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. Commercial values will generally be higher, perhaps \$0.75/sq. ft. for older buildings and \$1.50-2.00/sq. ft. for new buildings.

Local Infrastructure Grants. Municipalities with a large General Fund balance, or with a substantial amount of their municipal borrowing authority intact, can undertake projects that might otherwise be financed by private developers for attracting businesses or industries. These grants might be used to assist in building a public improvement such as extension of a sewer or water line, construction of a street or intersection, a storm water drainage pond, or others improvements. Oftentimes, state or federal grant programs require the community to participate up to 50-100% 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. 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. Communities should be certain that they are not relaxing any local government regulations but simply speeding 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.

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.

Local Revolving Loan Fund. Loans can be made from a local revolving loan fund. Usually, one job must be created for each \$15,000 loaned. Generally, these funds can be set up through the "roll over" of a CDAP loan received from the state and loaned to a local company. Hinckley should seek out an industry location or expansion opportunity to set up such a program – or consider setting it up with some general fund surplus.

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. Hinckley 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.

Tax Increment Financing. A 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, it is recommended 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 Hinckley can pass on the TIF incentives to the company include 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.

### **State Incentives:**

Business Participation Loans. The Illinois Department of Commerce and Economic Opportunity (DCEO) can 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.

Community Development Assistance Program. This DCEO 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 Village, 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 Village 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 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. 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. Grants are based on \$5000-10,000/job created.

Large Business Development Grant. DCEO can grant up to \$1,000,000. 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 \$1,000,000 grant to Target to subsidize the cost of land acquisition. Grants are based on \$5000-10,000/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.

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.

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 a 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 from 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 three grant programs for financing street or highway construction and intersection projects, along with rail siding construction or rehabilitation 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, and the state can fund up to \$1,000,000 or more in 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. IDOT has additional grant funds from its Truck Access Route Program that could increase its grant participation to about 55% of street construction costs. For rail projects, the state will loan up to 100% (or grant up to 50%) of the funds necessary for a private siding, and any lead track to the site.

### **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

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 \$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