



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Economic Development Division

m e m o r a n d u m

TO: Bruce K. Walden, Chief Administrative Officer

FROM: Reed Berger, AICP, Economic Development Coordinator

DATE: February 21, 2002

SUBJECT: Memorandum of Information / Enterprise Zone Program

Description

Changes in State law over the last year regarding the Enterprise Zone program have prompted staff to consider changes in the City's local enterprise zone program. The two key changes in State law are: 1) the provision for a ten-year extension of enterprise zones which previously had a 20-year maximum term, and; 2) eliminating certain restrictions that currently permit sales tax exemption on building materials incorporated into enterprise zone projects only if the exemption is taken in the jurisdiction where the enterprise zone is located.

Issues

The City of Champaign and Champaign County have a joint enterprise zone. These two jurisdictions are also considering changes in their ordinance with respect to extending the term of the zone an additional ten years. The Champaign City Council has already taken action to approve the extension and forwarded the request for approval by its joint partner, Champaign County. In January, the County's Environment and Land Use Committee (ELUC) received a report from County staff regarding the extension request. That report suggested that the County should consider the fiscal impact of enterprise zone property tax abatements on the County prior to considering the extension.

Because the City of Urbana's enterprise zone program benefits from the County's participation in property tax abatement, and because the County was considering reducing the effectiveness of a key economic development program in Champaign County, Jill Guth, the Executive Director of the Champaign County Economic Development Corporation (EDC) was asked to address the County's concerns at the County's Policy and Budget committee meeting on February 11th. The EDC presentation is attached. The County Board is expected to consider the matter in March.

Background

Since there are a number of questions about the Enterprise Zone program which are now before the County, and because County action could impact Urbana's Enterprise Zone program (ie. elimination of County portion of property tax abatement incentive), staff is providing background material for City Council to review.

Options

The City could proceed to act on changes in the State law independent of the actions of the City of Champaign and Champaign County. Taking such action would remove the benefit of understanding what economic incentives will be offered by our neighboring jurisdictions.

The City could take no action at this time and use the next few weeks as a time to review background information about the Enterprise Zone program and the current issue now before the Champaign County Board.

Fiscal Impacts

There is likely to be considerable fiscal impact with respect to the changes in the State law and an assessment of the those costs and benefits will be prepared as a part of staff's report.

Recommendation

Staff recommends no action is be taken at this time.

Staff is preparing a report and recommendations with respect to the changes in the State law and in consideration of actions the City of Champaign and Champaign County may take with respect to these changes in the State law.

c. Jill Guth, EDC

Attachments: EZ Questions and Answers booklet with EZ map
 EDC Presentation
 County staff report to ELUC
 Ordinances related to Urbana Enterprise Zone program

Enterprise Zones in Champaign County

Prepared by the
Champaign County Economic Development Corporation

What is an Enterprise Zone?

An Enterprise Zone is a specifically designated area (approved by the State) in which state and local tax incentives and direct financing assistance are provided to firms locating or expanding in the zone. The purpose of the zone is to encourage economic development and thereby increase employment opportunities for residents of the community and surrounding area.

The Illinois Enterprise Zone Act was enacted on July 1, 1983. As a result of the Act, the Enterprise Zone Program was created and designed to encourage economic development and neighborhood revitalization in designated geographical areas of Illinois. The Enterprise Zone Program is a state and local partnership that emphasizes a creative coalition of state and local government, business, and labor and community groups to encourage economic growth in the enterprise zones. The Illinois Enterprise Zone Act limited the term of zones to 20 years. Last year, the State Legislature amended the Enterprise Zone Act to allow zone terms to be extended an additional 10 years.

How many enterprise zones are there in Illinois?

There are 93 zones in the state of Illinois. The following is a partial list of communities in which Champaign County competes for economic development projects. These communities all have enterprise zones.

- Bloomington/Normal/McLean Co
- Danville/Tilton
- Decatur
- Effingham/Effingham County
- Jacksonville
- Kankakee River Valley
- Peoria
- Quad Cities
- Springfield.

Forty- three (43) of the enterprise zones in the State of Illinois are countywide or a partnership between the county and a municipality.

What are the states with Enterprise Zones?

The states of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida,

Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Michigan, Minnesota, Nebraska, New Mexico, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Utah, and Wisconsin have an enterprise zone program as well as other incentive programs. To remain competitive, states without enterprise zones typically establish alternative incentive policies to attract economic development.

What types of state incentives are available through the Enterprise Zone?

Through the Illinois Enterprise Zone Financing Program the following programs are available to companies expanding in an enterprise zone:

- **Participation Loan:** The Illinois Department of Commerce and Community Affairs (DCCA) may participate in an eligible loan for no less than \$10,000, nor more than \$750,000.
- **Property Tax Abatement:** A taxing body may order the county clerk to abate any portion of its taxes on real property located within a zone and upon which new improvements have been constructed or upon which existing improvements have been renovated or rehabilitated.
- **Sales Tax Exemptions on Building Materials:** Building materials purchased at a place of business within an enterprise zone may be exempt from sales tax (Illinois and the municipality).
- **Investment Tax Credits:** Allows a 0.5 percent credit against the state income tax for investments in qualified property which is placed in service in an enterprise zone.
- **Jobs Tax Credit:** Offers employers a tax credit on their Illinois income taxes for hiring individuals who are certified as economically disadvantaged or as dislocated workers. Credit is \$500 per eligible employee.
- **EZ Machinery & Equipment Sales Tax Exemption:** Allows a business enterprise that is certified by DCCA, as making a \$5 million investment that either: creates a minimum of 200 full time equivalent jobs in Illinois; or retains a minimum of 2,000 full time jobs in Illinois; or which retains 90% of the existing jobs, a 6.25 percent state sales tax exemption on all tangible personal property which is used or consumed with the enterprise zone.
- **Utility Tax Exemption:** Allows a business enterprise that is certified by DCCA, and makes an investment that either creates a minimum of 200 full-time equivalent jobs in Illinois or retains a minimum of 1,000 full time jobs in Illinois, a 5 percent state tax exemption on gas, electricity and the Illinois Commerce Commission 0.1 percent administrative charge.

Are taxes abated on the current value of the real estate?

No. The abatement applies only to taxes on the **increase** in assessed value attributable to the new construction, renovation, or rehabilitation. Taxes based on the assessed value of land and existing improvements continue to be extended and

collected.

Champaign-Champaign County Joint Enterprise Zone

The Champaign-Champaign County Joint Enterprise Zone was established in 1986 and will expire in 2006. The enterprise zone is approximately 8 square miles and includes areas not within the City of Champaign's corporate boundaries. Businesses in the joint enterprise zone but outside the city's boundaries include: Kraft, Plastipak, Clifford Jacobs, and the former Southland Distribution Center on U.S. Route 150.

Industrial, warehouse, office and multi-family rehabilitation projects are eligible for zone incentives. Qualified zone projects may receive abatements from the county, city, and the Champaign Park District property tax levies of up to 100% on the increase in the assessed value. These abatements run for 10 years for industrial projects and five years for commercial and residential projects. In addition building materials used in these projects are exempt from sales tax. Other state incentives may apply to projects that meet eligibility criteria, for instance creation/retention of a minimum number of jobs.

It's important to note that local enterprise zones are not solely used for business attraction and retention. The Champaign Enterprise Zone encompasses much of Champaign's low-income housing areas. The enterprise zone provides for tax abatements and sales tax benefits for residential redevelopment, including improvements to single family and multi-family housing. The real estate tax abatement for the residential redevelopment is crucial as it helps to encourage low income homeowners to make needed repairs to residential property, thus stabilizing the neighborhoods.

Table 1 provides historical information on the Champaign/Champaign County Enterprise Zone and its effectiveness.

Table 1 - Champaign/Champaign County Enterprise Zone

Fiscal Year	Total Private Investment	Jobs Created	Jobs Retained	No. of Businesses
FY'87	\$39,424,792	605	359	38
FY'88	\$ 11,732,974	287	210	34
FY'89	\$15,098,875	271	273	29
FY'90	\$16,426,680	427	996	12
FY'91	\$13,879,114	117	322	13
FY'92	\$1,922,279	36	43	8
FY'93	\$17,339,771	145	60	17
FY'94	\$8,283,400	81	261	16
FY'95	\$8,271,500	322	99	20
FY'96	\$13,167,903	251	225	19

FY'97	\$7,636,803	167	302	10
FY'98	\$67,588,625	285	159	36
FY'99	\$12,071,370	216	203	17
FY'00	\$30,212,941	781	339	22
FY'01	\$4,884,631	12	15	9
TOTAL	\$267,941,658	4,003	3,866	300
Source: Illinois Department of Commerce and Community Affairs (DCCA)				

Urbana Enterprise Zone

Established in 1985, the City of Urbana created a similar enterprise zone that remains in effect until December 21, 2005. The Urbana Enterprise Zone encompasses approximately 2.76 square miles and is equal to approximately 24 percent of the City of Urbana. It is located predominantly in the northern and industrial portions of Urbana.

Only commercial and industrial projects are eligible to receive property tax abatement in the Urbana zone and only the City of Urbana and Champaign County taxing districts have authorized property tax abatement.

Table 2 provides historical information on the Urbana Enterprise Zone and its effectiveness.

Table 2 - Urbana Enterprise Zone

Fiscal Year	Total Private Investment	Jobs Created	Jobs Retained	No. of Businesses
FY'86	\$4,417,613	237	71	52
FY'87	\$3,465,727	98	60	42
FY'88	\$1,934,638	181	52	45
FY'89	\$8,384,469	261	52	57
FY'90	\$3,807,715	158	15	51
FY'91	\$6,275,285	76	31	32
FY'92	\$6,159,415	485	14	32
FY'93	\$1,235,606	39	0	12
FY'94	\$5,776,000	511	120	16
FY'95	\$11,221,827	128	147	16
FY'96	\$25,953,636	440	55	12
FY'97	\$13,265,463	281	193	17
FY'98	\$14,915,260	301	0	12
FY'99	\$887,000	17	0	6
FY'00	\$29,797,000	536	268	7
FY'01	\$5,689,959	26	35	12
TOTAL	\$143,186,613	3,775	1,113	421
Source: Illinois Department of Commerce and Community Affairs (DCCA)				

In summary of the activity for both zones for the past 16 years, the Champaign zone has experienced the following success:

- 15 years of existence with assistance to 300 businesses
- \$893,138 of private investment per business
- **7,869 jobs** created or retained
- 1 job created for every \$66,935 of private investment
- 1 job retained for every \$69,307 of private investment
- \$17,862,777 of private investment per year

The Urbana zone has experienced the following success:

- 16 years of existence with assistance to 421 businesses
- \$340,110 of private investment per business
- **4,888 jobs** created or retained
- 1 job created for every \$37,930 of private investment
- 1 job retained for every \$128,649 of private investment
- \$8,949,163 of private investment per year

Champaign County has successfully impacted our community's economic development position by actively participating in the two enterprise zones. In total, the cumulative direct impact of the two enterprise zones is:

- **\$169,981,271 of private investment into Champaign County**
- **12,757 jobs created or retained for Champaign County**
- **797 jobs created or retained on average per year for Champaign County**

Are enterprise zones a locational advantage for a community?

The presence of an enterprise zone in a community is an integral tool for the attraction and retention of companies. Many communities across the United States will not survive the initial "cut" during a site selection search if they do not have an enterprise zone. Since the majority of the companies seek confidentiality during the site selection process, preliminary site analyses are typically conducted via information that is readily available on the web. Quite often the consultants or businesses have researched our community prior to the initial contact with municipal or county economic development officials. With multiple enterprise zones in Champaign County, our region is granted the ability to compete for these businesses. The Champaign County Economic Development Corporation (EDC) is one of approximately 15,000 economic development organizations/localities in the United States competing for an estimated

100 – 200 substantial site selection projects each year. The existence of the enterprise zones in Champaign County gives our community an edge over the competition without enterprise zones and keeps Champaign County on an even playing field with the majority of the competition.

Besides the substantial site selection projects that EDC and our municipal partners try to attract to Champaign County, the EDC is contacted by local businesses that examined site relocation/expansion possibilities in Champaign County. Our enterprise zones play an integral role with the existing companies located in our community. With the presence of the enterprise zones, Champaign County remains competitive when companies are considering an expansion. Many of Champaign County's largest employers and industries are not headquartered in Champaign County, and have many plants throughout the country. When a company is considering an expansion, the enterprise zone is a major factor in promoting Champaign County for their growth. (Provided in the appendix is a synopsis of a corporate survey recently completed by *Area Development Magazine* concerning the importance of incentives in the site selection process.)

Why should Champaign County be involved in economic development?

A regional economic development approach is crucial to successful economic development in the 21st century. Our regional community needs to display a shared vision for economic development. All entities must move proactively in the same direction with the same vision to sustain economic vitality in our community. Champaign County is a key member of our regional economic development effort. Champaign County offers support to the urban centers and helps to promote the retention and expansion of the county's industrial businesses which in turn increases the industrial tax base and thereby reduces the tax burden on the county's residential and agricultural constituents.

By having all government entities participating in the economic development process in Champaign County, we send a strong and unified message to the businesses within Champaign County as well as companies looking to expand: Champaign County has a pro-business climate.

If Champaign County withdraws from the enterprise zone program, it is feared that the pro-business image of Champaign County will be tarnished and our competitors will definitely use this to their advantage. The message will be sent that Champaign County government no longer wishes to help existing businesses to stay and expand their business in the County.

Why should Champaign County be a part of the Enterprise Zone?

The cities of Champaign and Urbana and Champaign County established their zones to make the boundary line between the entities "transparent". Economic development

was encouraged by the zone incentives, irrespective of whether the project was in the city or on the urban fringe. The zones were kept intentionally compact in order not to induce development in the prime agricultural areas away from urban services. Then, as now, the establishment of joint zones indicated that our local governments are working together on economic development, rather than competing against each other.

If Champaign County elects to withdraw participation and is excluded from the zone, properties in the cities of Urbana and Champaign will have an advantage over those in the County. Attention will be drawn to the issues of annexation, rather than the positive message of the governments working together on development that employs Champaign County residents. A joint zone sends the message of a unified effort and intergovernmental cooperation to the State of Illinois and to companies and search firms considering our area for relocation.

If state incentives are important, why does Champaign County need to be involved?

The county's participation is fundamental to the existing enterprise zone programs in Champaign and Urbana. For each community, nearly one-third of the property tax abatement is the county's contribution. The enterprise zones are not only important in the site selection process to attract new business, but also for existing businesses that take advantage of the property tax and sales tax incentives to expand their current operations and facilities. Enterprise zones help to create jobs – jobs for the residents of Champaign County, which ultimately leads to the economic health of the county.

The abatement of local taxes benefits the company locating in the County and also represents a local share of the large state incentives – providing maximum leverage of both the State and local resources. The State will focus the efforts of the Department of Commerce and Community Affairs on areas that make significant local investments in new and expanding companies. The County's participation allows our community the opportunity to tap into the significant economic development incentives that are offered by the state for qualified applicants. State incentives have assisted local businesses like Motorola, SAIC, NEG Micon, FedEx, Flex-n-Gate and others.

Further, in the Champaign Enterprise Zone, the county involvement is crucial for the residential redevelopment in the low-income neighborhoods of the community. There are no state incentives currently available - only the local incentives in these neglected regions.

How do enterprise zones foster smart growth?

With the designation of enterprise zones, communities are proactively selecting areas for future commercial and industrial growth. This proactive approach allows communities to protect neighborhoods and adjacent agricultural land from sprawl. The Enterprise Zone on the development fringe around the cities encourages compact

contiguous growth that can be served by urban resources. The Champaign and Urbana Enterprise Zones represent land that is not considered prime agricultural land. Additionally, the creation of enterprise zones allows for the concentration of suppliers in close proximity to industrial users allowing for efficiencies in the shipment of needed materials.

What types of businesses have received assistance via enterprise zones?

The businesses that have taken advantage of the benefits of the enterprise zone cross all industry sectors. These include agriculture services (Champaign County Farm Bureau, USDA, UI Cooperative Extension), manufacturing (Kraft Foods, PlastiPak, Flex-N-Gate, Vesuvius, AFSI, White Cap, NEG Micon), distribution (SuperValu, FedEx Ground, Rockwell International, Bell Sports), commercial (Accordia, Busey Bank, Tile Specialists, Strategic Marketing and Mailing, MOSA Sports), high tech (SAIC, Motorola, Cisco, Amdocs, University of Illinois – South Research Park), and office (Corporate Park Centre, Devonshire Corporate Centre, Mattis Commercial Park). In addition, in the Champaign Enterprise Zone, homeowners can take advantage of the property tax and sales tax benefits in designated redeveloping neighborhoods.

Appendix

- 1. *Area Development Magazine* Survey**
- 2. Historical Labor Force Statistics for Champaign County**
- 3. Map of Urbana Enterprise Zone**
- 4. Map of Champaign Enterprise Zone**

1. *Area Development* Survey

In December 2001, *Area Development Magazine* released its annual Corporate Survey. Respondents were asked to rank the following site selection factors in regards to importance:

Tax Exemptions:

- 35.8 very important
- 46.9 important
- 13.6 minor consideration
- 3.7 of no importance

State and Local Incentives:

- 40.7 very important

- 40.7 important
- 13.6 minor consideration
- 4.9 of no importance.

Ranking of all site selection factors:

1. Availability of skilled labor
2. labor costs
3. highway accessibility
4. energy availability and costs
5. availability of telecommunications services
6. tax exemptions (82.7)
7. occupancy or construction costs
8. state and local incentives (81.4)

Which type of incentives received?

1. Tax abatements (67%)
2. Training grants/assistance (57%)
3. Assistance with labor screening/recruitment (41%)
4. Infrastructure/development grants (40%)
5. Favorable financing (29%)
6. Special legislation (7%)

70% of the respondents for the survey were involved in their firms' preliminary or final location decisions. Another 25% help with site selection information gathering process.

URBANA ENTERPRISE ZONE

Questions & Answers

revised June, 1996

The following is a summary of the most often asked questions about the Illinois Enterprise Zone Program in general and the Urbana Enterprise Zone Program in particular. Questions and answers cover the following topics:

- INTRODUCTION
- LOCATION AND BOUNDARIES
- PROPERTY TAX ABATEMENT
- SALES TAX EXEMPTION ON BUILDING MATERIALS
- INVESTMENT TAX CREDITS
- JOBS TAX CREDITS
- INCOME TAX DEDUCTIONS FOR FINANCIAL INSTITUTIONS
- DIVIDEND DEDUCTION
- CORPORATE CONTRIBUTION DEDUCTION
- EZ MACHINERY & EQUIPMENT SALES TAX EXEMPTION
- UTILITY TAX EXEMPTION
- OTHER URBANA ZONE INCENTIVES
- ADDITIONAL INFORMATION

INTRODUCTION

■ **What is an Enterprise Zone?**

An Enterprise Zone is a specially-designated area in which tax incentives and direct financial assistance are provided to firms locating or expanding there. The purpose of the zone is to encourage economic development and thereby increase employment opportunities for residents of the zone and the larger community. Zone incentives are established by State legislation (primarily the Illinois Enterprise Zone Act) and by municipal ordinance. The City of Urbana received designation of its enterprise zone from the Illinois Department of Commerce and Community Affairs (DCCA) on July 1, 1985. Under current City ordinance, the Zone will remain in effect until December 31, 2005.

■ **Who is the local enterprise zone administrator?**

The Urbana Enterprise Zone Program is administered by the Economic Development Coordinator at the City of Urbana's Department of Community Development Services. For general information on the program, call 217/384-2442, fax 217/384-0200, or write to Zone Administrator, City of Urbana Community Development Services, P.O. Box 946, Urbana, IL 61801-0946. The hearing impaired may call at 217/384-2360.

■ **Who is the State enterprise zone administrator?**

The Enterprise Zone Program is administered at the state level by the Illinois Department of Commerce and Community Affairs. For general information on the program, call 217/785-6142. The hearing impaired may call at 217/785-6055.

LOCATION & BOUNDARIES

■ **Where is the Urbana Enterprise Zone?**

The Urbana Enterprise Zone is located primarily in the north part of the City. A map is provided on the following page which illustrates the current boundaries. The Zone boundaries outline the 1980 Census Tract areas that met the eligibility criteria for employment, income, and other demographics, with the exception of several areas added since the Zone was created in 1985.

■ **How do I find out if my property is located in the Urbana Enterprise Zone?**

The Urbana Enterprise Zone map provided on the following page may help, but it is a good idea to contact the Urbana Enterprise Zone Administrator to verify the location.

■ **If my property is not currently located in the Urbana Enterprise Zone how can my property be added?**

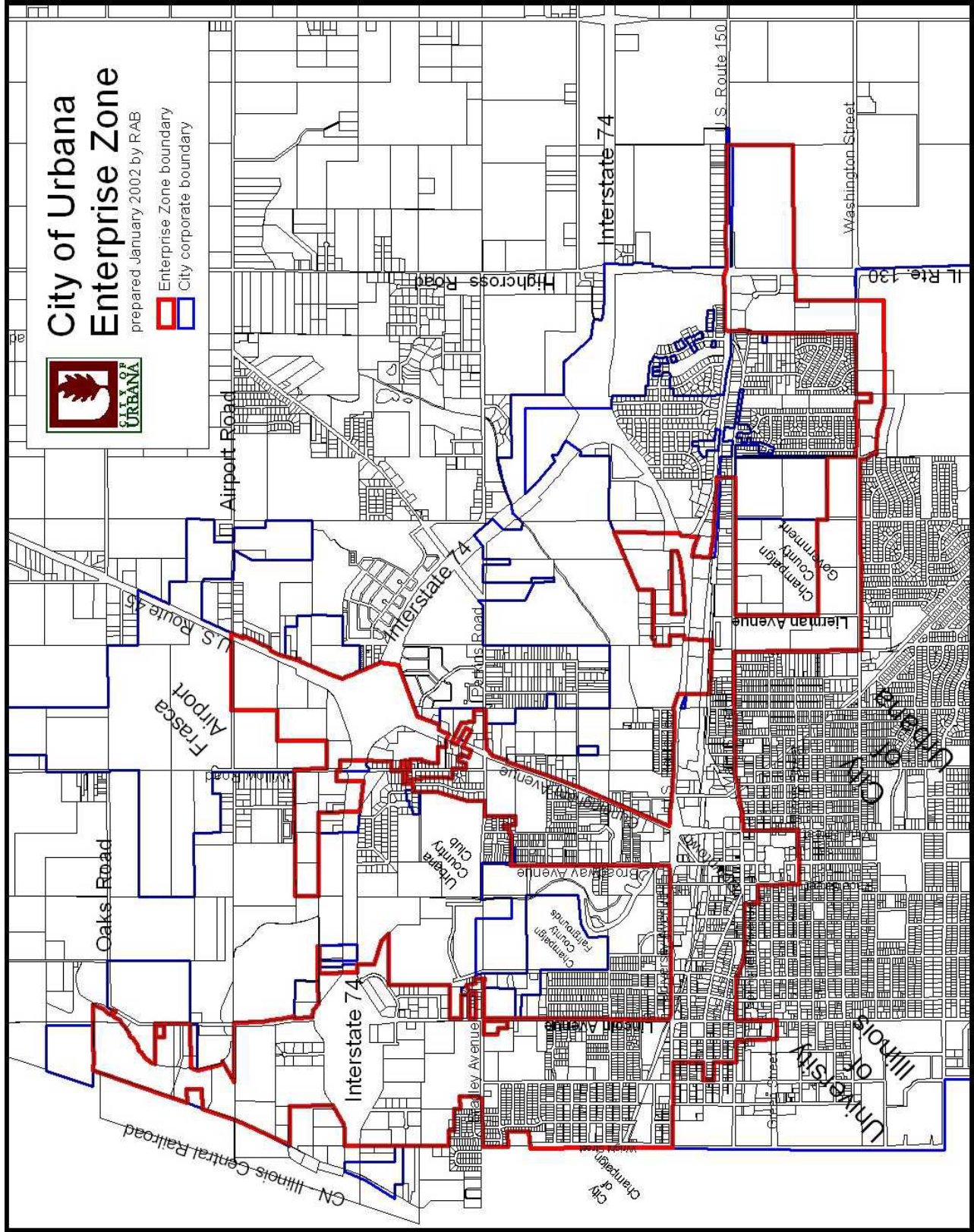
If you are planning a “significant” investment in a commercial or industrial project adjacent to or near the Urbana Enterprise Zone you may request the property to be added to the Zone. A public hearing is required and both the City and the State must find that the project is “significant” before a property can be added to the Zone. Typically the process may take 120 days from the time a request is made and the time an addition to the Zone is certified by the State of Illinois. To see if you may qualify contact the Urbana Enterprise Zone Administrator.

City of Urbana Enterprise Zone

prepared January 2002 by RAB



Enterprise Zone boundary
City corporate boundary



PROPERTY TAX ABATEMENT

■ **What is the enterprise zone property tax abatement incentive?**

The Revenue Act 35 ILCS 200/18-170 (State Bar Edition, as amended) provides that any taxing district may order the county clerk to abate (that is, to give up) any portion of its taxes on real property, or on any particular class thereof, located within a zone and upon which new improvements have been constructed or upon which existing improvements have been renovated or rehabilitated.

■ **Are taxes abated on the current value of the real estate?**

No. The abatement applies only to taxes on the increase in assessed value attributable to the new construction, renovation, or rehabilitation. Taxes based on the assessed value of land and existing improvements continue to be extended and collected.

■ **Can property tax be abated in a tax increment financing district (TIF)?**

No. Property tax abatement is not offered in a TIF District. Properties in the TIF are included in the legal description of the Zone and are eligible to receive other tax incentives and non-tax benefits. Property tax abatement must be excluded from the TIF because the tax on improvements in the TIF is the mechanism by which public improvements for the district are provided.

Tax increment financing is a financing technique that cities may use to pay for public improvements such as land assemblage, building demolition, utilities, streets, and sidewalks. Taxes generated by the increase in assessed valuation -- the tax increment -- go into a special allocation fund used to pay the bonds which financed the public improvement costs.

■ **To what extent are property taxes abated in the Urbana Enterprise Zone?**

There are four primary factors that limit the amount of property taxes that will be abated for a project.

- 1. Only commercial and industrial projects are eligible to receive a property tax abatement. Residential, institutional, and other classifications of land use are not eligible.*
- 2. Only the City of Urbana and Champaign County taxing districts have authorized property tax abatement. Together, they account for roughly less than one-quarter of the tax rate.*

3. *The abatement applies only to taxes on the increase in assessed value attributable to the new construction, renovation, or rehabilitation.*
4. *The taxes on improvements in the Urbana Enterprise Zone are abated based on a formula for providing new jobs and creating investment. The formula is as follows:*

Job Creation

<u># of Jobs Created</u>	<u>% Abatement</u>
1 - 5	20
6 - 19	40
20 - 49	60
50 - 79	80
80 or more	100

Increased Assessed Value

<u>Increased Assessed Value</u>	<u>% Abatement</u>
\$ 7,500 - 50,000	50
\$ 50,001 - 100,000	60
\$ 100,001 - 200,000	70
\$ 200,001 - 300,000	80
\$ 300,001 - 500,000	90
\$ 500,001 and above	100

Based on the above table, a commercial project that created 7 permanent full-time jobs in a new building addition that had an assessed value of \$35,000 would be eligible to receive a 90% abatement of the property taxes otherwise payable to the City and County for the new improvements to the property located in the Zone.

To help you better understand how property tax abatement is determined an example has ben included in the appendix.

■ **How long are property taxes abated in the Urbana Enterprise Zone?**

For those projects that qualify, abatement begins on January 1 of the year following issuance of the Certificate of Occupancy for the project by the Urbana Department of Community Development Services. Urbana taxes are abated for five years. Champaign County taxes are abated for five years on commercial improvements and ten years on industrial improvements.

■ **What is the process for obtaining these incentives?**

There is no application for property tax abatement. The Zone Administrator monitors all building projects and determines qualified projects and requests the County Clerk to abate property taxes. If you are receiving the property tax abatement you will see the amount abated for the Enterprise Zone printed on your property tax bill. You can contact Urbana's Zone Administrator to find out if your project qualifies.

■ **How do these incentives affect the multiplier?**

They don't. The multiplier or equalization factor is the application of a percentage increase or decrease, generated by the Illinois Department of Revenue, in order to adjust assessment levels in various counties to the same percentage of full value. Multipliers are not effected by the enterprise zone property tax abatement provision or by county assessment reductions.

■ **Does the abatement of taxes on improvements in an enterprise zone affect the tax rate?**

Yes, however in most cases the effect will be marginal. Tax rates depend on the levy (amount of tax revenue the local government is raising) and the size of the tax base (total equalized assessed valuation of the district less homestead exemptions, plus the value of any State assessed property). Under normal circumstances, the tax rate for a district is calculated by dividing the district's tax levy by its tax base. The greater the tax base, the lower the rate needed to generate the amount of the levy.

Under the Enterprise Zone Program, the value of abated property is subtracted from the tax base prior to the calculation of the tax rate. In most cases, the tax base is large enough and the enterprise zone abatements are low enough that the overall effect is negligible.

■ **If property tax abatement is authorized, are new improvements made to property located within a zone assessed?**

Yes. By law, every time property is improved, it is reassessed.

SALES TAX EXEMPTION ON BUILDING MATERIALS

■ **What is the sales tax exemption?**

The "Retailers' Occupation Tax Act" 35 ILCS 120/5k (State Bar Edition, as amended) provides that: "Each retailer whose place of business is within a county or municipality which has established an enterprise zone pursuant to the "Illinois Enterprise Zone Act" and who makes a sale of building materials to be incorporated into real estate in such enterprise zone by remodeling, rehabilitation or new construction, may deduct receipts from such sales when calculating the tax imposed by this Act."

■ **What is the amount of sales tax that is exempt?**

The total 7¼% sales tax is deducted by the retailer. Sales tax exemptions include the Illinois five percent (5%) sales tax, the Urbana one percent (1%) municipal sales tax, the Urbana one percent (1%) home rule sales tax, and the Champaign county one-quarter percent (¼%) sales tax.

■ **What is the retailer's role?**

A retailer who is located within the City of Urbana and who makes a sale of building materials to be incorporated into the Urbana Enterprise Zone may offer a point of sale exemption of the sales tax and deduct the receipts from those sales on the retailer's sales tax return. The retailer completes the Building Materials Sales Tax Exemption Certificate provided by the purchaser and files the Certificate for accounting and audit records. The retailer does not charge sales tax on these sales. In most cases, retailers will only need one Certificate for each project, keeping the account open until all building material purchases are made for the project.

■ **Who is an eligible retailer?**

Any retailer whose place of business is within the corporate limits of the City of Urbana is eligible to deduct receipts from such sales when calculating the tax imposed by the "Retailers' Occupation Tax Act" (ROTA). Any retailer dealing in building materials but located outside of the corporate limits of Urbana may offer sales tax exemption only upon establishing a retail outlet within the Urbana corporate limits and registering with the Illinois Department of Revenue as a retailer with multiple locations. A list of Urbana building material retailers is provided in the Appendix.

■ **What is the purchaser's role?**

The purchaser must give the retailer a signed Sales Tax Exemption Certificate (also known as the "Purchaser's Statement") which provides the address of the property located within the Urbana Enterprise Zone and attesting that the materials purchased will be incorporated into that property only.

■ **Do all retailers offer a point of sale exemption?**

No. Retailers are not required by law to participate. The purchaser must ask the retailer for cooperation on this incentive. Retailers have, however, demonstrated good cooperation throughout the history of this program, as this incentive permits them to give customers a "break" without cost to themselves.

■ **What qualifies as "building materials" eligible for the sales tax exemption?**

Building materials that are eligible for the enterprise zone sales tax exemption include items that are permanently affixed to real property such as lumber, mortar, glued-down carpets, paint, wallpaper and similar affixed items. Items that would not qualify include tools, machinery, freestanding appliances, tacked down carpeting and other floor coverings not permanently affixed to real property.

INVESTMENT TAX CREDITS

■ **What is the enterprise zone investment tax credit?**

The Illinois Income Tax Act 35 ILCS 5/201 (State Bar Edition, as amended) allows a 0.5 percent credit against the state income tax for investments in qualified property which is placed in service in an enterprise zone. The enterprise zone investment tax credit is in addition to two existing investment tax credits:

0.5 percent credit against personal property replacement income tax; and

0.5 percent credit against replacement tax allowed if employment has increased by at least one percent over the preceding year.

With the enterprise zone investment tax credit, the total possible credits for investment in the Urbana Enterprise Zone could amount to 1.5 percent of the investment value.

■ **Who are qualifying taxpayers?**

The credit may be taken by corporations, trusts, estates, individuals, partners and Subchapter S shareholders who make investments in qualified property and who otherwise meet the terms and conditions established by statute.

■ **What is qualified property?**

"Qualified property" is property which:

is tangible; whether new or used, including buildings and structural components of buildings;

is acquired by purchase as defined in Internal Revenue Code (IRC) Section 179(d);

is depreciable pursuant to IRC Section 167;

has a useful life of four or more years as of the date placed in service in an enterprise zone;

is used in the enterprise zone by that taxpayer;

has not been previously used in Illinois in such a manner and by such a person as would qualify for the credit; and,

is an improvement or addition made on or after the date the zone was designated to the extent that the improvement or addition is of a capital nature, which increases the adjusted basis of the property previously placed in service in an enterprise zone and otherwise meets the requirements of qualified property.

■ **What are examples of "qualified property"?**

Examples include buildings, structural components of buildings, elevators, materials tanks, boilers, and major computer installations. Examples of non-qualifying property are land, inventories, small personal computers, trademarks, typewriters, and other small, non-depreciable, or intangible assets.

■ **What does "placed in service" mean?**

Qualified property is "placed in service" on the earlier of 1) the date the property is placed in a condition of readiness and availability for use, or 2) the date on which the depreciation period of that property begins.

■ **When must the qualified property be placed in service in order to take advantage of the credit?**

Qualified property must be placed in service in the Enterprise Zone after July 1, 1985, and on or before the last day of the firm's taxable year.

■ **Does the enterprise zone investment tax credit carry forward?**

Yes. The credit is allowed for the tax year in which the property is placed in service, or, if the amount of the credit exceeds the tax liability for that year, the excess may be carried forward and applied to the tax liability of the five taxable years following the excess credit year. The credit must be applied to the earliest year for which there is a liability. If there is credit from more than one tax year that is available to offset a liability, the credit accruing first in time is applied first.

■ **What is "depreciable" property?**

Property must be depreciable pursuant to Internal Revenue Code Section 167. Depreciable property is used in the taxpayer's trade or business or held for the production of income (but not inventory) which is subject to wear and tear, exhaustion or obsolescence.

There are some types of assets that may not be depreciable, even though they are used in the taxpayer's business or trade or are held for the production of income. Good will and land are examples. Other examples of tangible property

which are not depreciable are inventories, natural resources and currency.

■ **Does "used" property qualify for the enterprise zone investment tax credit?**

Used property does not qualify if it was previously used in Illinois in such a manner and by such a person as would qualify for either the statewide investment tax credit or the enterprise zone investment tax credit.

A corporation purchases a used pick-up truck for use in its manufacturing business in an enterprise zone from an Illinois resident who used the truck for personal purposes in Illinois. If the truck meets the other requirements for the investment tax credit, it will not be disqualified because it was previously used in Illinois for a purpose which did not qualify for the credit. However, had the corporation purchased the truck from an Illinois taxpayer in whose hands the truck qualified for the credit, the truck would not be qualified for the investment tax credit, even though the party from whom the truck was acquired had never received an investment tax credit for it.

■ **What is the "basis" value of property?**

The "basis" value of property, for the purposes of this credit, is defined the same way it is defined for purposes of federal depreciation calculations. Essentially, the basis is the cost of the property, as well as related capital costs.

JOBS TAX CREDIT

■ **What is the enterprise zone jobs tax credit?**

The enterprise zone jobs tax credit 35 ILCS 5/201 (State Bar Edition, as amended) offers employers a tax credit on their Illinois income taxes for hiring individuals who are certified as economically disadvantaged or as dislocated workers.

■ **How much is the tax credit?**

An employer who conducts a trade or business in the Urbana Enterprise Zone is allowed a credit of \$500 per eligible employee hired to work in the Zone during the taxable year. The credit is available for eligible employees hired on or after January 1, 1986. Any unused portion of the credit may be carried forward five years. The credit must be applied to the earliest year for which there is a tax liability.

■ **How do employers qualify for the jobs tax credit?**

To qualify for the credit:

- 1. the employer must hire a minimum of five eligible employees during the taxable year; or*
- 2. the employer's total employment within the Zone must increase by five or more full-time employees beyond the employer's total employment in the Zone at the end of previous tax year for which a credit was taken or beyond the total employment as of December 31, 1985, whichever is later.*

■ **What individuals qualify as eligible employees for the Jobs Tax Credit?**

The employee must be:

- 1. either certified as a dislocated worker by a dislocated worker center or a local agency administering Federal Job Training Partnership Act (JTPA) funds or economically disadvantaged or a recipient of Public Aid benefits or food stamps;*
- 2. employed in the Enterprise Zone (i.e., the zone is the employee's place of work or the base of operations for services performed); or*
- 3. employed at least 180 consecutive days for 30 or more hours per week.*

■ **How does the employer find individuals eligible for the jobs tax credit?**

The employer should list job openings with the local JTPA administrative agency, noting that the business is within the Zone and seeks to hire certified dislocated workers. In Champaign County JTPA is administered by the Champaign consortium, 605 North Neil Street, Champaign, 384-8640.

■ **What paperwork is involved with the jobs tax credit?**

Eligible individuals will be issued a jobs tax credit certification voucher by the consortium to present to prospective employers. When a person is hired the employer should keep a copy of the voucher for tax records.

INCOME TAX DEDUCTIONS FOR FINANCIAL INSTITUTIONS

The Illinois Income Tax Act 35 ILCS 5/203 (State Bar Edition, as amended) provides that financial institutions in Illinois, such as banks and savings and loans, are eligible for a special deduction from their Illinois corporate income tax return. Such institutions may deduct from their taxable income an amount equal to the interest received from a loan for development in an enterprise zone. This is limited to the interest earned on loans or portions of loans secured by property which is eligible for the enterprise zone investment tax credit.

DIVIDEND DEDUCTION

■ **What is the dividend deduction?**

The Illinois Income Tax Act 35 ILCS 5/203 (State Bar Edition, as amended) provides that taxpayers may deduct from their taxable income an amount equal to those dividends which were paid to them by a corporation which conducts substantially all of its operations in an enterprise zone or zones.

■ **Can dividends from companies like Illinois Power be deducted?**

No. The firm must conduct substantially all of its operations within a zone or zones, and firms with locations throughout the state (such as Commonwealth Edison, GTE, Pioneer, AT&T, Sears, Occidental Petroleum, etc.) do not fit this definition.

■ **Who is an eligible taxpayer?**

Individuals, corporations, partnerships, trusts and estates are eligible to take the dividend deduction on their Illinois income tax returns.

■ **Which dividends may be subtracted?**

Only dividends paid on or after July 1, 1985 and on or before the last day of your taxable year may be deducted.

■ **Is there a list of companies doing substantially all their business in enterprise zones?**

No. Corporations must be contacted directly to verify their eligibility.

CORPORATE CONTRIBUTION DEDUCTION

■ **What is the corporate contribution deduction?**

The Illinois Income Tax Act 35 ILCS 5/203 (State Bar Edition, as amended) provides that corporations may make donations to designated zone organizations for projects approved by the Illinois Department of Commerce and Community Affairs, and claim an income tax deduction at double the value of the contribution, to the extent that 1) the contribution qualifies as a charitable contribution under Section 170, Subsection (c) of the Internal Revenue Code; and 2) the Illinois Dept. Of Commerce and Community Affairs approves the amount and type of contribution which may be claimed as a deduction.

■ **What is a designated zone organization?**

Only an organization that meets the eligibility criteria set forth in the Enterprise Zone Act, including approval from the City of Urbana and the Illinois Department of Commerce and Community Affairs, as a designated zone organization. For a list of these groups, call the DCCA at 217/785-6142.

■ **Who is an eligible taxpayer?**

Only corporations may deduct twice the amount of a cash or in-kind contribution made to a designated zone organization project.

■ **What is an approved contribution?**

In order to deduct twice the amount of a contribution, the contribution must be approved by the Illinois Department of Commerce and Community Affairs and must be made to an approved designated zone organization.

EZ MACHINERY AND EQUIPMENT SALES TAX EXEMPTION

■ **What is the EZ Manufacturing Machinery and Equipment (M, M & E) Sales Tax Exemption?**

The Revenue Act 35 ILCS 120/1d-1f (State Bar Edition, as amended) allows a business enterprise that is certified by DCCA, as making a \$5 million investment that either: creates a minimum of 200 full-time equivalent jobs in Illinois; or retains a minimum of 2,000 full-time jobs in Illinois; or which retains 90% of the existing jobs, a 6.25 percent state sales tax exemption on all tangible personal property which is used or consumed within the Urbana Enterprise Zone in the process of manufacturing or assembly of tangible personal property for wholesale or retail sale or lease. This exemption includes repair and replacement parts for machinery and equipment used primarily in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease, and equipment, manufacturing fuels, material and supplies for the maintenance, repair or operation of manufacturing, or assembling machinery or equipment.

■ **How does a business become eligible for the M, M & E Sales Tax Exemption?**

To be eligible for this incentive, DCCA must certify that the business has made an investment of at least \$5 million in the Urbana Enterprise Zone and has created a minimum of 200 full-time equivalent jobs in Illinois or has made an investment of at least \$40 million in the Urbana Enterprise Zone and has retained a minimum of 2,000 full-time jobs in Illinois or has made an investment of \$40 million in the Urbana Enterprise Zone and retained 90 percent of the jobs in place after July 1, 1985. A business must submit an application to DCCA documenting the eligible investment and that the job creation or job retention criteria will be met.

■ **What is an eligible investment?**

For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit ; or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

■ **Are eligible sales limited to sales made within the City of Urbana?**

No. Items eligible for the 6.25 percent state sales tax exemption may be purchased anywhere in Illinois.

■ **What tangible personal property is eligible for the M, M & E sales tax exemption?**

To be eligible for this exemption the tangible personal property must be directly used or consumed in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease. Examples of this include: repair and replacement parts; hand tools; materials and supplies such as abrasives, acids or lubricants; protective clothing and safety equipment; and, any fuel used for machinery and equipment.

The above examples are only exempt to the extent they are used with machinery and equipment that qualifies for the statewide Manufacturing Machinery and Equipment Sales Tax Exemption.

UTILITY TAX EXEMPTION

■ **What is the Utility Tax Exemption?**

The Public Utilities Act 220 ILCS 5/9-222.1 (State Bar Edition, as amended) allows a business enterprise that is certified by DCCA, and makes an investment in the Urbana Enterprise Zone that either creates a minimum of 200 full-time equivalent jobs in Illinois or retains a minimum of 1,000 full-time jobs in Illinois, a 5 percent state tax exemption on gas, electricity and the Illinois Commerce Commission 0.1 percent administrative charge. The City of Urbana does not exempt its local taxes on gas, electricity and water.

■ **How does a business become eligible for the Utility Tax Exemption?**

To be eligible for this incentive, DCCA must certify that the business makes an investment of at least \$5 million in the Urbana Enterprise Zone and has created a minimum of 200 full-time equivalent jobs in Illinois or makes an investment of at least \$20 million in the Urbana Enterprise Zone and has retained a minimum of 1,000 full-time jobs in Illinois. A business must submit an application to DCCA documenting the eligible investment and that the job creation or job retention criteria has been met.

■ **What is an eligible investment?**

For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit; or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

OTHER URBANA ZONE INCENTIVES

■ **Does the City of Urbana offer incentives in addition to those already discussed?**

Yes. The City offers a variety of incentives in the Enterprise Zone including:

1. Illinois Development Finance Authority (IDFA) provides financing and technical assistance to businesses, local governments, and not-for-profit corporations. IDFA assistance may be used both inside the outside of the Urbana Enterprise Zone.
2. Application preparation for Federal grants for land acquisition, construction financing, and equipment purchase to large firms locating or expanding in the Zone.
3. Up to 50% of a trainee's wages may be eligible for reimbursement through the JTPA On-The-Job Training Program which is administered locally by the Champaign County Consortium (Ph 217/384-8640). Additional financial assistance is available through the Prairie State 2000 Authority which provides assistance to companies through a grant or loan that helps offset the trainer costs associated with new technology or productivity/quality improvement retraining. For further information phone 309/344-2756 or 312/814-2700.
4. Below market rate loans for first-time homebuyers in the Enterprise Zone.
5. Community Development Block Grant funding for public improvements and private housing rehabilitation.
6. Assignment of a City staff person to expedite the procedures relating to the construction of a project in the Enterprise Zone.
7. Other incentives to be determined on a case-by-case basis.

ADDITIONAL INFORMATION

■ **What other incentives are available?**

If you would like additional information on how the State of Illinois can help small businesses, call DCCA's Business Hotline at 800/252-2923.

■ **Where can income tax forms be obtained?**

Income tax forms are available from the Illinois Department of Revenue (DOR) at P.O. Box 3545, Springfield, Illinois 62708, or at 100 West Randolph, Chicago, Illinois 60601. The Chicago location also has a walk-in taxpayers' assistance center on the lower level concourse. DOR's toll free number is 800/732-8866.

The property tax abatement for a project would be computed as follows:

Add together the applicable percent of abatement from both the "Job Creation" and "Increased Assessed Value" categories. Next multiply this percent by the maximum abatable amount being \$1.897 (per \$100 EAV) to determine the projects' eligible abatement rate (per \$100 EAV).

For example:

- 1. Determine which percentage category the project qualifies for within both "Jobs Created" and "Increased Assessed Value". As an example, assume that 1-5 jobs will be created qualifying the project for a 20% abatement, and \$50,001-\$100,000 in "Increased Assessed Value" qualifying the project for a 60% abatement. Total the two categories (in this case 20% and 60%) for a total of 80%. This example project would then qualify for 80% of the maximum allowable abatement.*
- 2. Next compute the amount of abatement a project qualifies for. Take the percent allowable (determined in Step 1 above) multiplied by the maximum abatable rate of \$1.897 (per \$100 EAV). Continuing with the example project this would compute as follows: $80\% * \$1.897$ (per \$100 EAV) for a total property tax abatement amount of \$1.5176 (per \$100 EAV) for this example project.*

As can be seen from the example, the amount of abatement a project qualifies for will vary, however, no project may abate more than 100% of the allotted abatement amount of \$1.897 (per \$100 EAV). In addition, remember that the number of years for City and County abatement differ.

Abatement begins on January 1 of the year following issuance of the Certificate of Occupancy by the Urbana Department of Community Development Services.

Currently, the Urbana corporate tax rate is abated on improvements to commercial and industrial structures in the Zone. This amounts to \$1.5293 per \$100 equalized assessed valuation (EAV); i.e., 1990 rate payable in 1991. The aggregate property tax rate for a business located in Urbana is \$8.4343 per \$100 EAV, accounting for all taxing districts.

A portion of Champaign County tax rate of \$0.6009 per \$100 EAV is abated (\$0.4553 per \$100 EAV). Together the City and County abatement rate is \$1.9846 per \$100 EAV ($\$1.5293 + \0.4553) for an after abatement property tax rate of \$6.4497 per \$100 EAV. This represents a

23% tax reduction.

The effect of the abatement can be illustrated by considering a \$600,000 addition to an existing non-residential building located in the Zone. The assessed valuation of the addition is \$200,000 (1/3 of market value).

Without abatement the property tax on the addition would be \$8.4343 per \$100 EAV or \$16,869. With the maximum allowable abatement, the tax rate would be \$6.4497 per \$100 EAV or \$12,899 resulting in a tax savings of \$3,970 per year. If the property is commercial the tax savings over five years would be \$19,850. If the property was industrial the property tax savings would be \$24,403.

Please contact the Urbana Department of Community Development Services to determine the amount of abatement allowable before a project in the Enterprise Zone is commenced.