



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Economic Development Division

m e m o r a n d u m

TO: Laurel Lunt Prussing, Mayor

FROM: Elizabeth H. Tyler, FAICP, Director, Community Development Services

DATE: September 18, 2014

SUBJECT: Enterprise Zone Expiration and Application for a New Urbana Enterprise Zone

Introduction and Background

Pursuant to new state statutes, beginning in 2015 all existing Enterprise Zones will expire without option for extension. Those communities that wish to continue using Enterprise Zone as an economic development tool will be required to apply to the Department of Commerce and Economic Opportunity (DCEO) in a competitive process that will limit the number of zones statewide. DCEO will score applications based on 10 qualifying tests, which are designed to assess the economic health of the region based on factors such as regional unemployment, large scale business closings, poverty rates, vacancies and the availability of career skills programs.

The Enterprise Zone is an important economic development tool which encourages business attraction, job creation and construction in Urbana. The possible loss of the Enterprise Zone would leave the City less competitive in its ability to attract companies that have the choice to locate in Urbana or elsewhere. In an effort to continue offering this tool, City staff is working on submitting an application to DCEO by the end of this year and have reached out to partner taxing agencies to create a more robust incentive package that accomplishes multi-agency economic development goals. Without re-approval, the Urbana Enterprise Zone will expire in 2016.

Background

In 1982, the State of Illinois approved the Illinois Enterprise Zone Act. The purpose of the Act is to stimulate economic growth and neighborhood revitalization in economically depressed areas of the state. Businesses located (or those that choose to locate) in a designated Enterprise Zone may become eligible to obtain special State and Local Tax Incentives, regulatory relief, and improved governmental services, thus providing an economic stimulus to an area that would otherwise be neglected.

The City of Urbana established its current Enterprise Zone in 1985 and has amended it as needed over the years to accommodate areas of commercial and industrial growth. The current Enterprise Zone is approximately three square miles and is wholly within Urbana's corporate boundaries (Exhibit A: Map

of the Current Urbana Enterprise Zone). The current Enterprise Zone is administered by the City of Urbana but offers property tax abatements through both the City and the County via an intergovernmental agreement with Champaign County.

From 1999 to 2012, the City of Urbana abated \$1.4 million in property taxes on approximately \$152 million in incremental Equalized Assessed Value (EAV). During this same time period, Champaign County abated approximately \$798,000 in property taxes, for a combined City and County abatement of nearly \$2.2 million over a 13 year period. On average, the City of Urbana abated approximately \$100,000 in property taxes per year while Champaign County abated \$57,000 in property taxes per year. It is important to note that the property tax abatements are only given for the tax *increment* generated from the project, while all taxing districts continue to receive taxes on the property's pre-project base. Properties located in a TIF District are ineligible to receive property tax abatements through the Enterprise Zone.

Current Incentive Programs

Under the current Enterprise Zone, the City administers two local incentives, a property tax abatement and a sales tax exemption. With the new Enterprise Zone, the City of Urbana would like to continue to offer these incentives, but may do so with updated criteria that reflects our current economic development goals (discussed further in the next section.)

- **Property tax abatement:** The City of Urbana and Champaign County currently offer property tax abatements on the increment generated by a project for a period of 5 to 10 years. Commercial projects can receive up to 100% of incremental City and County taxes abated for up to 5 years, while industrial projects can receive up to 100% of incremental City and County taxes abated for 5 years from the City and an additional 5 years from Champaign County.
- **Sales tax exemption:** Sales tax exemption is a state-level incentive administered locally by the Enterprise Zone Administrator, a City of Urbana staff position designated by the Community Development Director. The exemption allows contractors to buy eligible construction materials free of all sales tax anywhere in the state of Illinois. An exemption for all sales tax on construction materials can significantly reduce the up-front cost to build in the Enterprise Zone.

Aside from these locally administered components, the State of Illinois offers programs through [DCEO](#), such as a Utility Tax and a Machinery & Equipment Sales Tax Exemption. Businesses within the Enterprise Zone that choose to use these programs apply directly to DCEO for these incentives.

Proposed Structure of a New Enterprise Zone

As noted above, the Enterprise Zone certification process will be competitive; Urbana will compete against communities with expiring zones as well as those communities who are applying for an Enterprise Zone for the first time. No preference will be given for communities with previously designated Enterprise Zones. It is important that Urbana's application reflect a high level of need and demonstrate regional economic development collaboration.

Expanding the Scope of the Zone

Each Enterprise Zone can be up to 12 square miles, though it is anticipated that a new Urbana Enterprise Zone would not be anywhere near this limit based on analysis of areas of projected growth over the next 10-15 years. The current Enterprise Zone is limited to Urbana's corporate boundaries, but a successful joint application with Champaign County could expand a new Enterprise Zone's boundaries into unincorporated Champaign County. Extending the Enterprise Zone into the County would allow the City to offer incentives to new projects without going through a lengthy amendment process with DCEO.

Additionally, the new Enterprise Zone could be used as a tool to encourage more types of construction and growth. The current Enterprise Zone is limited to commercial and industrial projects, while a new Zone could also include limited new single family residential construction as a means of jumpstarting this development and creating a more balanced tax base in the city. A property tax abatement for new home construction, combined with a sales tax exemption for eligible building materials, could provide a substantial incentive package to those homeowners looking to build new single family residences in Urbana and help to offset the differential between the overall tax rate in Urbana and that in Champaign.

Collaboration with Taxing Partners

Enterprise Zone legislation permits partner taxing agencies to abate a portion of their own taxes alongside the applicant community to create a more robust incentive package. City staff has approached several of our taxing partners to request their participation in a new Urbana Enterprise Zone, including Champaign County, the School District, Park District, Parkland College and the CUMTD. The City's program would be considerably strengthened by partner agency participation and would demonstrate to the state a high level of cooperation towards shared economic goals for the City's growth and future.

Those taxing districts that choose to participate in the Enterprise Zone would need to pass a resolution via their Board outlining the district's involvement in the program. The resolution would include details such as the percent of incremental taxes to be abated per year per project, the number of years to participate, and any other eligibility criteria which would trigger abatements. The state allows taxing partners to withdraw from the program after they have honored any existing project abatements through notification to the appropriate state and local agencies.

Flexibility in Designing the Abatement Schedule

The state grants municipalities wide latitude in setting criteria for what projects can receive abatements and the structure of those abatements, so long as rules are applied consistently and fairly across projects. Proposed abatement criteria might include a minimum number of full-time jobs created or a minimum project cost that triggers abatement. There is also flexibility in determining what percentage of incremental taxes would be abated. For example, a proposed abatement schedule might span five years for a single project, offering more incentive at the front-end of a project and stepping down over time.

Timeline

In preparation for submitting an application, City staff held preliminary meetings in August and September with potential taxing partners, including the Urbana School Board, Urbana Park District, CUMTD, and Parkland College. Staff will meet with Champaign County in late September and continue discussions with other taxing partners in October. Those taxing partners interested in partnering with the City of Urbana will need to pass resolutions to abate their taxes in October or November. County participation as a joint applicant would require a County ordinance to be passed in October by the County Board. An enabling ordinance for a new Enterprise Zone will need to be passed by Urbana City Council in November or early December.

For consideration in the first round of new zones, Urbana must submit an application no later than December 31, 2014. Urbana's application would require, at minimum, a local ordinance designating the new Enterprise Zone and, if applying jointly with Champaign County, an intergovernmental agreement with terms for joint administration. Resolutions from any participating taxing partners would also be submitted as part of the City's application to DCEO. It should be noted that the City of Champaign is also pursuing a joint Enterprise Zone with Champaign County and will submit a separate application to DCEO.

DCEO will review all applications submitted and forward their recommendations to a panel to be appointed by the Governor, with final decisions occurring no later than September 2015. Newly selected zones will take effect January 1, 2016. Without intervention, the Urbana Enterprise Zone will expire in June 2016.

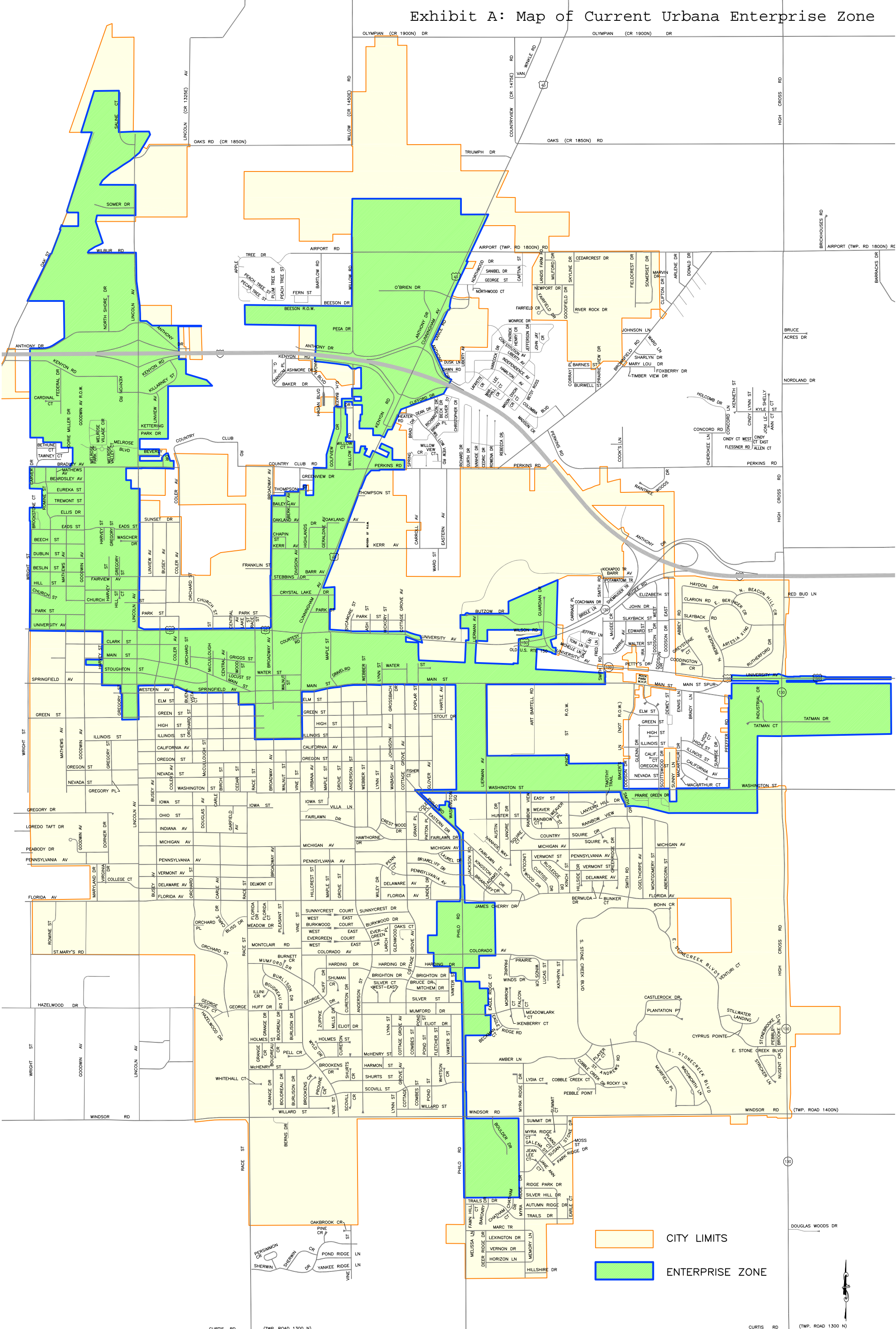
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Attachments:

Exhibit A: Map of the Current Urbana Enterprise Zone

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URBANA, IL ENTERPRISE ZONE