



## **CLASS 7A ELIGIBILITY BULLETIN**

### ***The Class 7a Incentive and Its Benefits***

The Class 7a incentive of the Cook County Real Property Assessment Classification Ordinance ("Ordinance") is intended to encourage, in areas determined to be "in need of commercial development", commercial projects with total development costs, exclusive of land, that do not exceed \$2 million and would not be economically feasible without the incentive. The twelve-year incentive applies to all newly constructed buildings or other structures, including the land upon which they are situated; the reutilization of vacant structures abandoned for at least twenty-four (24) months, (unless otherwise stipulated for a shorter period of time by the municipality in which the real estate is located, with approval from the County Board, or stipulated by the County Board, if located in an unincorporated area) including the land upon which they are situated; or all buildings and other structures which are substantially rehabilitated to the extent such rehabilitation has added to their value, including qualified land related to the rehabilitation.

Projects which qualify for the Class 7a incentive will receive a reduced assessment level of sixteen percent (16%) of fair market value for the first ten years, twenty-three percent (23%) for the eleventh year and thirty percent (30%) for the twelfth year. Without this incentive, commercial property would normally be assessed at thirty-eight percent (38%) of its market value.

The Class 7a incentive is available to "real estate used primarily for commercial purposes", which is defined in the Ordinance as:

"Any real estate used primarily for buying and selling of goods and services, or for otherwise providing goods and services, including any real estate used for hotel and motel purposes." [Section 1(B)(9)]

Where projects qualify for the incentive as new construction or reoccupied abandoned property, the incentive will apply to them in their entirety, including the land upon which they are located. For projects involving substantial rehabilitation of existing structures, the incentive applies to the added value which is attributable to the rehabilitation and to the land, if vertical or horizontal square footage has been added, in such proportion as the square footage added by the rehabilitation bears to the total square footage of the improvements on the parcel. The reduced assessment continues for twelve years from the date that the new construction or substantial rehabilitation is completed and initially assessed or, in the case of abandoned property, from the date of substantial reoccupation.

Under the Ordinance, “abandoned property” qualifies if it consists of:

“Buildings and other structures that, after having been vacant and unused for at least 24 continuous months, have been substantially rehabilitated or purchased for value by a purchaser in whom the seller has no direct financial interest.” [Section 1(B)(11)]

An exception to this definition shall be, “if the municipality or the Board of Commissioners, as the case may be, finds that special circumstances justify finding that the property is ‘abandoned’ for the purposes of Class 7a even though it has been vacant and unused for less than 24 months...the approval of the Board of Commissioners of Cook County is required to validate such shortened period of qualifying abandonment.” [Section 2(Class 7a)]

Abandonment for twenty-four consecutive months may be evidenced by utility bills, Internal Revenue Service statements, certified business statements, and records of building code violations. Purchase for value may be evidenced by a sale contract, recorded deed, assignment of beneficial interest and real estate transfer declaration. Proof of re-occupancy may be evidenced by sworn statements from persons with knowledge, occupancy permits and utility statements.

### ***Eligibility Requirements***

The essential part of a Class 7a Application is documentation satisfying the five eligibility requirements of Section 4(A) of the Ordinance. All five factors must be present if the project is to qualify. The absence of any one factor, notwithstanding the substantial presence of the other four factors, will defeat the Application. Documentation requirements are, however, flexible enough to accommodate the specific conditions and size of the projects. Because Class 7a is targeted for smaller projects in areas in need of substantial revitalization, the Assessor, in compliance with the direction of the Ordinance to liberally construe the requirements of factors (1) through (5), will generally require less extensive documentation than required for larger projects.

The five (5) eligibility factors of Section (4)(A) of the Ordinance are as follows:

1. Designation of Area:

“The area is or has been within the last 10 years designated by federal, state or local agency as a conservation, blighted or renewal area or an area encompassing a rehabilitation or redevelopment plan or project adopted under the Illinois Urban Renewal Consolidation Act of 1961, as amended, or the Commercial Renewal Re-development Areas Act of 1967, as amended, or that the area be located in a federal Empowerment Zone or Enterprise Community, as proposed and approved by the Cook County Board of Commissioners on June 22, 1994 or the Chicago City Council on May 18, 1994, or the Commercial District Development Commission Ordinance of the City of Chicago or designation(s) of like effect adopted under any similar statute or ordinance.” [4(A)(1)]

To be eligible, the project must be located within an area designated within the last 10 years as one in need of commercial development by a federal, state or local governing body or agency. A certified copy of the action designating the area must accompany the Application. Copies of any area studies done by the designating governmental entity should be included, to support the overall requirements of this section of the Ordinance.

2. Real Estate Tax Analysis:

“Real estate taxes within said area, during the last six years, have declined, remained stagnant or potential real estate taxes are not being fully realized due to the depressed condition of the area.” [4(A)(2)]

Section 4(A)(2) requires the applicant to demonstrate a causal link between the depressed condition of the area and its real estate tax history. Principally, there must be a showing that real estate taxes have declined, stagnated or have not been fully realized during the last six years. Demonstration that depressed conditions are the cause of declining, stagnating or unrealized tax revenue should include data on such factors as adverse market conditions; structural and functional obsolescence; the extent and duration of vacancies; the absence or near absence of new business formations; and, a pattern of tax sales, delinquencies or forfeitures in the area. If real estate taxes have not stagnated or declined, the applicant may establish that tax collections have not been fully realized as a result of depressed conditions in the project area. In all cases, data supplied should be on a parcel-by-parcel basis and include an analysis of assessments, taxes billed and taxes collected for a period of at least six years. A showing should be made that going forward with the project will improve the economic condition of the area and result in increased real estate tax collections.

If the area designation in factor (1) above is of a size that is either inadequate or too large to be a useful representation for analysis of real estate taxes, the applicant should contact the Assessor for guidance in creating a more representational boundary area for this factor.

3. Viability and Timeliness:

“There is a reasonable expectation that the development, re-development or rehabilitation of the commercial development project is viable and likely to go forward on a reasonably timely basis if granted Class 7a designation and will therefore result in the economic enhancement of the area.” [4(A)(3)]

Progress on the proposed development well beyond an abstract or general plan is expected of the applicant by the time of submission of the Application to the Assessor. Therefore, submitted evidence of economic viability and timely completion of the project should be relevant and specific in addressing the following points:

- A. *Development Plan*: A specific development plan must be submitted including, but not limited to: architectural exhibits and building plans; site plans demonstrating the relationship of the proposed development to its private and public surroundings including open spaces, service areas, driveways, parking areas, walks and adjacent streets, sidewalks and buildings; a description of structures to be demolished and of buildings to be rehabilitated or reoccupied; a description of the facilities and amenities to be provided by the applicant with cost estimates; a description and the cost of public works planned for the area in conjunction with the development, such as infrastructure improvements; a description of all incentives or subsidies which will be offered to the developer by public agencies with an analysis of the benefits to the developer and costs to the public; a copy of any pre-development agreements or contracts affecting the project; and, disclosure of any environmental reports or studies relating to the development and its direct surroundings.
- B. *Economic Feasibility*: The Application must include pro forma financial statements which clearly demonstrate that the proposed development is economically viable and able to sustain itself beyond the incentive period. The pro forma statements should compare results, including return on investment, with and without the incentive, to help satisfy the requirement of this section of the Ordinance as well as the “assistance and necessity” requirement of Section 4(A)(4). The statements must not be different from those submitted to financial institutions in support of private, financial backing and should include a detailed analysis of project costs. Copies of any private or public feasibility studies of the project area may be submitted. A description of any lawful, participation agreement between the developer and any taxing districts for the sharing of future profits should also be included.
- C. *Financing*: The applicant should identify the amounts, sources and basic terms of proposed debt and equity financing for all aspects of the development, including both private and public sources of all funds.
- D. *Owners, Developers, Prime Tenants and other Interested Parties*: The business experience and financial strength of the participants is important to the project’s viability. The applicant should therefore provide sufficiently detailed financial information about the developers, owners, prime tenants, and any other interested parties, including names and addresses. Information about owners must include all general and limited partners and beneficiaries of a land trust. Any material legal or tax liabilities which might affect the project’s viability must be disclosed.
- E. *Development Schedule*: The applicant must provide a development schedule which at least includes the date of the construction start, the projected time to completion and the projected date for occupancy.

#### 4. Assistance and Necessity:

“Certification of the commercial development project for Class 7a designation will materially assist development, re-development or rehabilitation of the area and the commercial development project would not go forward without the full incentive offered under Class 7a.” [4(A)(4)]

Section 4(A)(4) requires the applicant to establish a link between the incentive and the viability and feasibility of the development by demonstrating that the project would not go forward without the incentive. The materials submitted for Section 4(A)(3), especially the pro forma financial statements comparing results with and without the incentive, may be referred to in support of the requirement for this section. In addition, evidence of the failure of formal public bidding or a showing that the unaided operation of the marketplace has produced no developer interest in the area for a period of years will help support satisfaction of this section’s requirements. Examples of other evidence which may help satisfy the 4(A)(4) requirements are: physical isolation or substandard location of the project area; special environmental problems adding to development costs; municipal requirements for landmark preservation or costly amenities in connection with the project; and, expert testimony that unassisted development of the area will not occur. In addition, the existence of a participation agreement between the developer and any taxing districts should be described in the Application.

#### 5. Increased Tax Revenue and Employment:

“Certification of the commercial development project for Class 7a designation is reasonably expected to ultimately result in an increase in real property tax revenue and employment opportunities within the area.” [4(A)(5)]

The applicant must supply a statistical analysis projecting the added real estate tax revenue and employment which will result from the development, with and without the incentive. A tax revenue projection for the area, without the development, should also be provided for comparison. Since real estate taxes are a function of market value and the effective tax rate, market value projections should be based on the cost, income and market approaches to value. All figures should cover the same twelve-year period. Employment figures should be categorized to show projections for new full and part-time employment and for temporary construction employment. Finally, if the development involves relocation within the same taxing jurisdiction, the developer should supply a statement comparing the costs and benefits of relocation for the community as a whole.

## ***Application Procedures***

An Eligibility Application, accompanied by supporting documentation, must be submitted to the Assessor's Office prior to the commencement of construction, rehabilitation or reoccupation. The Application must include a resolution or ordinance from the municipality where the real estate is located, or from the Cook County Board of Commissioners if the real estate is located in an unincorporated area. The resolution or ordinance must expressly state that the five eligibility factors which must be present to demonstrate that the area is "in need of commercial development" are satisfied and that the municipality consents to and supports the Application. A copy of the ordinance or resolution will be forwarded by the Assessor's Office to the secretary of the Board of Commissioners for distribution to the Commissioners from the affected districts.

In all cases of abandonment for less than 24 months, the finding of the municipality or the County Board, along with the specification of circumstances which led to said finding of "abandonment" shall be included in a resolution or ordinance passed by the municipality in which the real estate is located (or the County Board if located in an unincorporated area) and must be filed at the time of the Eligibility Application. The ordinance or resolution pertaining to abandonment for less than 24 months must be approved by the County Board and a resolution from the County Board stating its approval of the less than 24 month period must also be filed at the time of the Eligibility Application.

The Assessor will make a final determination as to whether factors (1) through (5) exist within 60 days after receipt of the application and necessary supporting documentation. Certification of the project will lapse within one year if new construction, rehabilitation or reoccupation has not commenced.

Once new construction, rehabilitation, or reoccupation has been completed, the applicant must file an "Incentives Appeal Form" requesting that the property be reclassified to Class 7a.

During the term of the Class 7a incentive classification, the Assessor will mail to Class 7a recipients, at the time of their triennial reassessments, affidavits. Recipients must attest to the use of the property and to the number of workers employed at the Class 7a site. The affidavit is to be signed, notarized and returned to the Assessor within three weeks. Failure to file the triennial affidavits within that time will result in the loss of the incentive.

Questions about the Class 7a incentive program may be directed to the Development Incentives Department of the Cook County Assessor's Office, Room 301, 118 N. Clark St., Chicago, IL 60602, (312) 603-7529.