



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, which 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 that qualify for the Class 7a incentive will receive a reduced assessment level of ten percent (10%) of fair market value for the first ten years, fifteen percent (15%) for the eleventh year and twenty percent (20%) for the twelfth year. Without this incentive, commercial property would normally be assessed at twenty-five percent (25%) of its market value.

The Class 7a incentive is available to "Any 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." [74-62]

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. (*Please note that the additional value attributable to the rehabilitation for assessment purposes is likely to be lower than the actual amount spent on the rehabilitation.*) 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, and purchased for value by a purchaser in whom the seller has no direct financial interest." 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."

The finding of abandonment, along with the specification of the special circumstances, shall be included in the resolution or ordinance supporting and consenting to the incentive application. Notwithstanding the foregoing, special circumstances may not be determined to justify finding that a property is deemed "abandoned" where:

- A. There has been a purchase for value and the buildings and other structures have not been vacant and unused prior to such purchase; or
- B. There has been no purchase for value and the buildings and other structures have been vacant and unused for less than 24 continuous months.

If the ordinance or resolution containing a finding of "special circumstances" is that of a municipality, the approval of the County Board of Commissioners is required to validate such a finding that the property is deemed "abandoned" for purposes of the incentive, and a resolution to that effect shall be included with the eligibility application.

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.

The incentive may be renewed, as described on page 6.

Eligibility Requirements

The essential part of a Class 7a Application is documentation satisfying the five eligibility requirements of Section 74-65(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 74-65(a) of the Ordinance are as follows:

1. Designation of Area:

"The area is currently 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 is located in a Federal Empowerment Zone or Enterprise Community, as proposed and approved by the County Board 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 of like effect adopted under any similar statute or Ordinance;" [74-65(a)(1)]

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 the 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, and/or subject site, or property values as determined by the assessed value (AV) or equalized assessed value (EAV) for the redevelopment area or specific subject site have declined over the last six years, or property values as determined by the AV or EAV are increasing at a rate that is less than the balance of the municipality's AV or EAV for the last six years; or property values as determined by the AV or EAV for the redevelopment area/site are increasing at a rate that is less than Consumer Price Index (CPI) for All Urban Consumers as published by the US Department of Labor for last six years; " [74-65(a) (2)]

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 because 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." [74-65(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 predevelopment 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 that 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 that might affect the project's viability must be disclosed.
- E. *Development Schedule*: The applicant must provide a development schedule that 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."
[74-65(a) (4)]

Section 74-65(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 74-65(a)(4), 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 74-65(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." [74-65(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. At the time of filing the application, a filing fee of \$500.00 must be paid. 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 that 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.

In all cases of abandonment based on special circumstances, 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 based on special circumstances must be validated by the County Board and a resolution from the County Board stating its approval of the special circumstances 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. At the time of filing the appeal, an appeal fee of \$100.00 must be paid.

During the term of the Class 7a incentive classification, the Assessor will mail to Class 7a recipients, at the time of their triennial reassessments, affidavit forms. Recipients must attest to the use of the property and the number of workers employed at the Class 7a site. The affidavit must 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.

Class 7a classification may be renewed during the last year in which a property is entitled to a 10% assessment level or when the incentive is still applied at the 15% or 20% assessment level. A renewal application must be filed, along with a certified copy of a resolution or ordinance adopted by the municipality in which the real estate is located (or by the County Board, if the property is located in an unincorporated area of Cook County). The resolution or ordinance must expressly state that the municipality or County, as the case may be, supports and consents to the renewal of the Class 7a incentive and that it has determined that use of the property is necessary and beneficial to the local economy. The owners must notify the Assessor’s Office of their intent to request this renewal prior to their requesting a resolution or ordinance from the municipality or County Board. The number of renewal period requests is not limited.

Questions about the Class 7a incentive program may be directed to the Incentives Department of the Cook County Assessor's Office, 118 N. Clark, 3rd Floor, Chicago, IL 60602, (312) 603-7529.