Village of Arlington Heights
Arlington Economic Alliance
Commissions Room
Arlington Heights Village Hall
33 S. Arlington Heights Road
Arlington Heights, IL 60005
August 31, 2016
7:30 AM

I. CALL TO ORDER

II. ROLL CALL

III. APPROVAL OF MINUTES

A. Minutes 7-20-16

IV. REPORTS

A. Development Update

V. OLD BUSINESS

A. DiscoverArlington.com Improvements Update
B. Small Business Sales Tax Rebate Program Modifications

VI. NEW BUSINESS

A. Introduction of New Arlington Economic Alliance Members
B. Arlington Economic Alliance 2017 Budget

VII. OTHER BUSINESS

VIII. ADJOURNMENT

Persons with disabilities requiring auxiliary aids or services, such as an American Sign Language interpreter or written materials in accessible formats, should contact David Robb, Disability Services Coordinator, at 33 S. Arlington Heights Road, Arlington Heights, Illinois 60005, (847)368-5793 (Voice), (847)368-5980 (Fax) or drobb@vah.com.

Item: Minutes 7-20-16

Department: Planning & Community Development

ATTACHMENTS:

Description	**Type**
Minutes	Minutes

DRAFT

MINUTES OF THE MEETING OF THE ARLINGTON ECONOMIC ALLIANCE
HELD ON July 20, 2016 AT 7:30 A.M. AT THE VILLAGE HALL

MEMBERS PRESENT:
Scott Whisler – Chairman
Frank Appleby
Tom Gaynor
Tony Guido
Lisa Henderson
Mike Kalway
Dave Parulo
Jon Ridler
Andi Ruhl

MEMBERS ABSENT:
Jamie Janeczko
Jackie Lewis

STAFF PRESENT:
Michael Mertes – Business Development Coordinator

ALSO PRESENT:
Matthew McDonnell – Resident

Call to Order
Chairman Scott Whisler called the meeting to order at 7:32 AM.

Approval of Minutes – June 15, 2016
The meeting minutes of the June 15, 2016 Arlington Economic Alliance meeting were reviewed.

DAVE PARULO MOVED AND TOM GAYNOR SECONDED A MOTION TO APPROVE THE DRAFT JUNE 15, 2016 ARLINGTON ECONOMIC ALLIANCE MEETING MINUTES. ALL ALLIANCE MEMBERS VOTED IN FAVOR OF THE MOTION.

Development Update
25N Coworking is expanding into Arlington Heights and has signed a lease for a first floor space at One Arlington in the Arlington Downs project. The coworking business already has one location, in Geneva, and anticipates opening in Arlington Heights later this year. The owners are currently looking for people interested in memberships. Their members often include people who work almost exclusively from home or a café, or are satellite employees for a larger company. Michael Mertes also reached out to the owners of Big Ange's, per concerns raised at the previous month's meeting, and business is now going fine.

Barnes & Noble closed in late May/early June. The property owners are subdividing the space into two units, one of which has a lease signed with an incoming retailer. Planning & Community Development Staff will work with the site's broker to help fill the vacant portion of the space. Old Country Buffet in the Town & Country shopping center closed recently. At the May ICSC RECon show, Village Staff met with the property owners who said that while the parent company for Old Country Buffet filed for bankruptcy, they did not expect the Arlington Heights location to close. Planning & Community Development will work with the property's brokers to help fill that vacancy, as well as the one left by Joe Caputo & Sons. Also, Beat Street, a Downtown retailer, was named the "Best Old-Fashioned Toy Store" in Chicagoland by *Chicago* magazine in the publication's August issue.

Mr. Ridler added that Clementi's Pizzeria & Bar is closing, but that the owners are looking to possibly re-open in the future with a different concept.

DiscoverArlington.com Improvements

Village Staff is moving forward with CivicLive, the consultant, on the updates to VAH.com and DiscoverArlington.com. CivicLive has put together an initial survey of feedback regarding the site, which was forwarded to Ms. Janeczko and Mr. Parulo who make up the Alliance subcommittee for DiscoverArlington.com improvements. The subcommittee will be meeting with Mr. Mertes later in the week to make sure that the responses in the survey reflect previous Alliance discussions and input regarding the website.

Small Business Sales Tax Rebate Program Modifications

The Small Business Sales Tax Rebate Program was created in 2011, and as of this date, no applications have been received. The goal of the program is to recruit and retain small boutique shops that will bring in sales tax revenue to the Village and also help enhance the commercial area in which they locate, including by bringing in customer traffic that will benefit surrounding businesses as well. The incentive is currently available to new and existing retailers of no more than 5,000 square feet with a minimum lease of five years. Currently the Village receives a 2% tax on general retail purchases. Under the program, the business would be rebated one-third of the sales tax they generate to the Village, to be remitted annually, up to three years.

Planning & Community Development Staff is proposing two modifications to the program:

1. The rebate to the business would be increased to a 50-50 share
2. The duration of the program would be extended to five years

The intent of the modifications is primarily to:

- Support existing retailers by bringing additional foot traffic and potentially more customers
- Fill vacancies and generate some additional sales tax and property tax revenue to the Village
- Remain competitive with communities that also offer sales tax rebate programs and/or have TIF districts

The program is not exclusive to the Downtown. Dave Parulo asked why no businesses have taken advantage of the program since its inception. Mr. Mertes responded that there is no one clear reason. Staff has made concerted efforts to promote the program in the past. Jon Ridler feels that the retention portion of the program isn't enticing enough to encourage businesses to expand.

Andi Ruhl pointed out that her business doesn't qualify under the current expansion guidelines, even though she would like to take advantage of it. She might only grow by 30% in terms of floor space, but she's not eligible because she would need to expand by at least 50%. Dropping the square footage requirement for expansion from 50% to 25% may enable more existing businesses to take advantage of the program. Mr. Appleby wondered why a 50% expansion was set as the minimum requirement for an existing business, and might partly explain why no businesses have applied for the incentive.

Copies of the incentive application were distributed to the Alliance. Chairman Whisler inquired about the statement "tenant must make an investment in their business." It may be more beneficial to remove that language in order to make the application less confusing and broaden the scope of the program. Mr. Ridler concurred. A merchant committing to a space is already an investment.

Mr. Parulo inquired as to the average retailer's annual sales in Downtown Arlington Heights. Mr. Mertes replied that the examples used in the two scenarios provided to the Alliance, $1 million and $350,000, were based on examples of actual small businesses in the community. Mr. Appleby also asked as to why the maximum size was designated at 5,000 square feet. Mr. Mertes believes that it was designed to focus on independent boutiques and not larger, national retailers. Chairman Whisler suggested increasing the maximum square footage to 7,500 or even 10,000 square feet as that could still motivate independent business owners to expand, both in Downtown and in other Village-wide shopping centers. Mr. Ridler feels that expanding the program's minimum square foot requirement could benefit Uptown and Southtown shopping centers by filling vacancies and bringing more traffic.

Mr. Gaynor inquired as to why no businesses have taken advantage of the program yet and recommended looking at how many businesses that would meet the criteria have moved into the Village since the program's inception. Mr. Parulo and Mr. Appleby asked about how the program has been marketed and Mr. Guido asked how other communities are able to offer grants for things such as façade improvements. Mr. Mertes responded that most communities that offer Downtown grants likely have TIF districts which fund such programs. Arlington Heights did offer a façade improvement program, but their funding source, Downtown TIFs, have since expired. In terms of marketing, Planning & Community Development Staff offer the sales tax rebate program to interested independent retailers that approach the Village. Additionally, targeted efforts are made to successful retail shops in other communities that are looking to open an additional location. Staff does <u>not</u> try to poach these businesses, but reaches out specifically about opening a second location in Arlington Heights. Information on the program has also been sent out to local commercial brokers via email and a broker coffee held at Village Hall in fall 2014, and has been placed in past Economic Alliance newsletters.

Mr. Ridler stated that interest ultimately comes down to value. Business owners already have a lot on their plate and that the amount of money received from the incentive isn't worth the time and effort. The rebate is both a recruitment and retention tool, and the more enticing it is, the more likely business owners are to take advantage of it. Discussing the incentive program with existing business owners in Arlington Heights was suggested by Ms. Henderson. Simplifying the process as much as possible, and communicating the program more, could help attract more interest.

Basing the rebate percentage on either sales and/or square footage was discussed. As the square footage goes up, the rebate percentage could potentially go down. Mr. Appleby feels that the hours of operation requirements are also too demanding and that most boutique retailers aren't going to be willing to stay open until 9pm from Thursday through Saturday.

What would make an impact on businesses should be a focus, stated Mr. Gaynor. He asked how many businesses have come in since the program's inception that would have met the criteria had they applied. This would provide some context. Ms. Ruhl also would like to determine if the program's focus should be both attraction and retention, or just recruitment. Mr. Appleby concurred with previous comments that in order to make it a more effective retention tool, the expansion requirement needs to be less than 50% of square footage. Mr. Parulo added that the program needs to resonate with the realtors. They should be actively advocating to the program to their retail clients. Ms. Ruhl also noted that many retailers prefer a three-year lease with options, as opposed to the five-year lease required by the program. Chairman Whisler acknowledged this point, but wants to safeguard against businesses from taking the incentive and then closing or moving after three years.

Mr. Mertes noted that the goal of the hours of operations requirement was to encourage merchants to stay open later to encourage a more active street life in the evenings and motivate other businesses to do the same. Mr. Ridler responded that hours of operation could be a component that helps decide the percentage rebate offered. Ms. Henderson asked why the Village is losing retail leads despite the current program. Mr. Mertes explained that some proposals start as a concept but never actually move forward. Retailers in other communities that are targeted for a second location in Arlington Heights simply aren't ready to move forward with an additional store. Also, the economic recession that occurred during the commencement of the Sales Tax Rebate program also hampered many businesses' expansion plans.

The Economic Alliance concurred that they were not ready to make a recommendation on the proposed modifications to the incentive. Mr. Kalway pondered the Alliance's main intent for the rebate, whether it is to fill vacancies, to generate revenue, or to retain businesses. The Commission is trying to determine what the program should be. According to Mr. Mertes, all three of Mr. Kalway's points are relevant, but that it's also a quality of life program. It is meant to enhance commercial corridors, such as the Downtown, to make them more lively and pedestrian friendly. Mr. Ridler added that marketing the program may have been hindered by not having a success story to promote.

Mr. Mertes is going to bring the agenda item back in the next couple months for further discussion. The following information will be provided:

- Businesses opening in Arlington Heights the past few years that meet the current program criteria
- Businesses that have closed in Arlington Heights the past few years that met the current program criteria
- Scenarios based upon square footage of applicants and expansions, and hours of operation

Regarding a potential Alliance subcommittee to work on modifying the program, Mr. Mertes suggested that he provided the information requested first to see if the Commission as a whole can come to an agreement. The, it can determine if a subcommittee is needed.

Other Business

Mr. Ridler noted that the Mane Event and Taste of Arlington Heights are coming up the first weekend of August. Booth space for restaurants is sold out. Chairman Whisler heard positive feedback regarding Frontier Days and approximately 150,000 attendees were estimated. Mr. Appleby also heard that participation in the Frontier Days races was up.

Mr. Mertes will begin working on the fall Alliance newsletter in the next few weeks. The publication is typically mailed out in October. Mr. Parulo announced that the local and regional convention and visitors' bureaus have been funded by the State. The State Office of Tourism was also funded, and will be broadcasting their new campaign, "Illinois Made", both domestically and internationally.

Adjournment

FRANK APPLEBY MOVED AND TONY GUIDO SECONDED A MOTION TO ADJOURN. ALL ALLIANCE MEMBERS VOTED IN FAVOR OF THE MOTION.

The meeting adjourned at 8:38 AM.

Scott Whisler, Chairman
Arlington Economic Alliance

Prepared by Department of Planning & Community Development

Item: Small Business Sales Tax Rebate Program Modifications

Department: Planning & Community Development

ATTACHMENTS:

Description	Type
Small Business Sales Tax Rebate Program	Memorandum

MEMO

DATE: July 1, 2016

TO: Charles Witherington-Perkins, Director of Planning & Community Development

FROM: Michael Mertes, Business Development Coordinator

RE: Small Business Sales Tax Rebate Program

In 2011, the Arlington Economic Alliance recommended to the Village Board a sales tax rebate program for small retail businesses, to be used as a tool to lure new stores to the community, and as an opportunity to help small merchants already located within Arlington Heights to expand.

The Village receives a 2% sales tax on all general merchandise purchases within the community. This is broken down as a 1% municipal tax and a 1% home rule tax. Under the incentive:

- New businesses are entitled to receive an annual rebate of up to one-third of that 2% sales tax, not to exceed three years.
- Existing businesses are able to receive up to one-third of the 2% sales tax over the base year amount generated. Also, the business must be expanding by at least 50% of its floor space.
- All applying businesses must make an investment in their business or facilities.
- Maximum store size is 5,000 square feet.
- The tenant must have a minimum five-year lease.
- Eligible businesses must meet a targeted retail type.

<u>Purpose of Program</u>

Ultimately the purpose of having a sales tax incentive program is to lure independent merchants for multiple reasons:

1. In an increasing world of on-line shopping and major chain retail, independent boutiques provide a great aesthetic to a shopping center (particularly a downtown). They do not typically generate the kinds of sales tax figures that a chain retailer does. However, they often entice residents and visitors to shop throughout the business district, rather than at just one or two particular businesses.
2. By attracting more retail, Downtown Arlington Heights becomes more of a shopping destination, which supports the other retailers in the district (as well as restaurants, entertainment, and services). Furthermore, vacancies contribute little to the Village. In other words, the Village gets little-to-no benefit from a vacancy. With a sales tax sharing agreement: a storefront is filled, the Village is getting *some* sales tax revenue, and the property value should increase. Residual benefits are eventually keeping 100% of the sales tax revenue during the life of the business and hopefully enhancing an already lively and thriving Downtown.
3. Perhaps the most important reason is that Arlington Heights faces competition from many other suburban Chicago downtown districts. To maintain a thriving Downtown the Village must be proactive and aggressive. Not only do many other communities offer shopper-friendly downtowns, but they also offer incentives in the form of grants and sales tax rebates to make these shopping districts more alluring to retail. In order to have Downtown exist as a shopping destination for the suburbs, and not one mostly comprised of service and office businesses, boutique stores must be attracted.

Although the incentive is designed to attract and retain businesses, in the four-year life of the program no businesses have been awarded the rebate. Any evidence of previously submitted applications was also not found. The purpose of this memo is to consider potential enhancements to the program that would make it more enticing for a business to take advantage of it.

Listed below are four potential rebate incentive scenarios, with Scenario 1 being the Village's current sales tax incentive program. For each scenario, two examples of businesses are given: one that generates $1 million in annual sales (**Business A**) and one that generates $350,000 in annual sales (**Business B**). These two examples are based upon 2014 sales of a variety of independent retailers found in Downtown Arlington Heights as well as hypothetical sales of retailers likely to be attracted by such an incentive. (Note: The estimates below assume a 5% annual increase in sales)

<u>Scenario 1 – Current 33% Rebate (3 Years)</u>
Under this scenario, after three years, **Business A** stands to gain an approximately $21,000 total rebate. This amount isn't exorbitant, but could assist in the development of the store or helping fund a part-time position. **Business B** would receive just over $7,000 after three years. At about $2,500 per year, this rebate may not be particularly enticing to a small, independent boutique. This could partly explain a lack of interest in the program.
Pros: Incentive exists to lure small businesses
Cons: Not enticing enough unless business does $1 million in sales; no businesses yet to apply

<u>Scenario 2 – 33% Rebate (5 Years)</u>
In this example, the current incentive would be extended from three years to five years. **Business A** would hypothetically receive approximately $8,000 annually over the last two years of the incentive. After five years it would accumulate a total rebate of about $37,000 (compared to $21,000 during the current three-year incentive). **Business B** would receive about $2,750 each year over the last two years, totaling a $13,000 rebate after Year 5 (compared to just over $7,000 after three years). This scenario might make the current incentive more attractive simply by lengthening it, allowing the businesses an additional two years to keep a share of sales taxes.
Pros: Additional duration may generate interest in program
Cons: 33% share still might not be of enough interest especially to smaller boutiques; Village doesn't get 100% of sales taxes until Year 6

<u>Scenario 3 – 50% Sharing Agreement (3 Years)</u>
This concept is essentially the same as *Scenario 1* (the current incentive) except that it is made more enticing by allowing the business to keep 50% of annual sales taxes generated, as opposed to 33%. In this case, the Village and the business would split the total sales taxes collected 50/50. In this example, both the Village and **Business A** are keeping over $31,000 after three years and the annual rebate comes out to about $10,000-$11,000. **Business B** and the Village would each keep $11,000 total after three years, amounting to a rebate of about $3,500-$4,000 annually.
Pros: More aggressive than current plan; Village still keeps half share; simple rebate calculation
Cons: Still might not be enticing for business doing less than about $500,000 annually; total incentive is greater under *Scenario 2*.

Scenario 4 – 50% Sharing Agreement (5 Years)
Like in *Scenario 3*, the Village and the business would split the total sales taxes collected 50-50. However, in this example, the incentive is stretched out to five years (a la *Scenario* 2). Both the Village and **Business A** would get over $55,000 total after Year 5. The annual share for each comes out to about $10,000-$12,000. **Business B** and the Village would each keep over $19,000 after the fifth year. This amounts to both parties receiving about $3,500-$4,500 annually during the life of the incentive.
Pros: More aggressive than current plan and other scenarios above; Village still keeps half share; simple rebate calculation; business could be more motivated by five-year incentive
Cons: Still might not be enticing for smaller boutiques; Village doesn't get 100% of sales taxes until Year 6

Remaining Competitive in the Chicago Metro Area
Sales tax agreements are not unique to Arlington Heights. Multiple competing communities utilize them in various forms. For example:

- **Crystal Lake** – 50/50 sharing agreement up to 10 years
- **Elmhurst** – 50/50 sharing agreement up to 10 years
- **Highland Park** – 50/50 sharing agreement up to 10 years
- **Orland Park –** 50/50 sharing agreement up to 5 years
- **Tinley Park –** 25% sharing agreement up to 10 years

Many other communities have a formal program, but they determine the tax sharing amount/percentage and duration on a case-by-case basis.

Additionally, multiple municipalities have Downtown TIF districts and offer grants to draw new businesses, particularly retailers, to their communities. Examples include:

- **Mount Prospect** (façade & build-out) – matching grant up to $10,000 for retailers; up to $25,000 for restaurants
- **Palatine** (façade) – matching grant up to $50,000 per building
- **Wheaton** (build-out/3 months rent/moving expenses/etc.) **–** matching grant up to $10,000 for retailers

Arlington Heights previously offered façade and interior build-out programs that were TIF-funded. However, these TIF districts have since expired.

Recommendation
Arlington Heights should be as aggressive as possible to lure independent boutiques while safe-guarding the interests of the Village and existing business owners. Seeing the need to attract new businesses to support current ones, ***Scenario 4*** is recommended. This entails a 50/50 share between the Village and business for a five-year duration. This will allow Arlington Heights to be proactive in its recruitment efforts and help it compete with other aggressive municipalities in the Chicago area.

In terms of additional requirements, it is recommended that the Village maintain the minimum current lease requirement at five years and stipulate that the Village will keep all sales taxes from Year 5 if the business should close or relocate outside the corporate boundaries. No rebate would be provided to any business no longer in operation within Arlington Heights at the time of payment.

Attachments
- Summary of Sales Tax Rebate Scenarios
- Downtown Use Survey

Summary of Sales Tax Rebate Scenarios
July 1, 2016

Scenario #1 – Current 33% Sharing Agreement (3 Years)

BUSINESS	BASE SALES	3-YEAR REBATE
Business A	$1,000,000	$21,017
Business B	$350,000	$7,356

Scenario #2 – 33% Sharing Agreement (5 Years)

BUSINESS	BASE SALES	5-YEAR REBATE
Business A	$1,000,000	$36,838
Business B	$350,000	$12,893

Scenario #3 – 50% / 50% Sharing Agreement (3 Years)

BUSINESS	BASE SALES	3-YEAR REBATE
Business A	$1,000,000	$31,525
Business B	$350,000	$19,340

Scenario #4* – 50% / 50% Sharing Agreement (5 Years)

BUSINESS	BASE SALES	3-YEAR REBATE
Business A	$1,000,000	$55,256
Business B	$350,000	$19,340

Note: All scenarios assume a 5% annual increase in sales

**Scenario #4 is the Staff-recommended scenario*

Downtown Use Survey
Square Feet Percentage Breakdown

Use Type	Sq-Ft %
Service/Office/Bank	51%
Restaurant/Entertainment	25%
Retail	16%
Vacancy	8%

Note: While the program applies to businesses throughout the community, the above Downtown breakdown of uses is shown for reference.

As of July 1, 2016

Item: Arlington Economic Alliance 2017 Budget

Department: Planning & Community Development

ATTACHMENTS:

Description	**Type**
Proposed Budget	Exhibits

Item	FY '16 Budgeted	FY '17 Proposed	Notes
Photocopying	$300	$300	
Newsletters	$6,000	$6,000	Alliance Newsletter Design & Printing
Business Retention Outreach	$9,000	$9,300	Alliance Breakfast Invite & Venue
Prior Year Encumbrance Carryover	$0	$0	
TOTAL	**$15,300**	**$15,600**	

Updated: 8/23/16