

Item #3B:
Business Districts Inc: Economic Development Review



To: Village of Long Grove
From: Bridget Lane
Subject: Potential Revenue from Economic Development
Date: October 17, 2014

This project seeks to inform the Long Grove Village Board about what policies and practices to consider that may provide additional Village revenue.

Methodology

BDI met with Long Grove Village Staff and representatives of Sikich to confirm the scope of work, identify key commercial properties, and exchange information documenting market demographics and spending.

Using information provided by the Village and Lake County Property Database, BDI interviewed property owners associated with Long Grove's developable commercial parcels. At those interviews, BDI sought information on current plans, interest in attracting new owners, any property conditions impacting development potential, and Village policies or actions that could speed development. BDI also interviewed four locally and regionally active commercial real estate brokers to identify potential users who might consider Long Grove's commercial parcels. These interviews were conducted to confirm which retail and office uses could be interested in the Long Grove commercial parcels, to project an absorption timeline, and to understand Village policies likely to increase interest in Long Grove properties.

Peer Communities Analysis

BDI examined the sources and uses of tax revenue published in budget documents for these Chicago Region communities where residential values are similar to Long Grove.

- Clarendon Hills
- Bannockburn
- Mettawa
- Oak Brook
- Lincolnshire

Table 1 reports on the peer community population home rule status and basic revenue sources for each peer. (Home Rule status is shown as HR; Non-Home Rule is NHR.)

Table 1

	Long Grove (NHR)	Bannockburn (HR)	Clarendon Hills (NHR)	Oak Brook (NHR)	Mettawa (HR)	Lincolnshire (HR)
Population	8,310	1,509	8,525	8,481	534	7,258
Revenues (000 Omitted)						
Property Taxes		\$362	\$2,843		\$166	
State Tax*	\$850	\$242	\$962	\$1,169	\$62	\$776
Sales Tax	\$1,210	\$940	\$800	\$16,900	\$1,590	\$3,930
Subtotal	\$2,060	\$1,544	\$4,605	\$18,069	\$1,518	\$4,706
Per Capita Revenue						
Subtotal/Population	\$247.89	\$1,023.19	\$540.18	\$2,130.53	\$2,842.70	\$648.39
Sources: Long Grove Final Approved Budget FY2015; Bannockburn Finance Goals 2014 and Audited Financial Statement FY 2013; Clarendon Hills Adopted Annual Operating Budget FY2015; Lincolnshire 2013 Annual Treasurer's Report and Operating and Capital Budget FY2014; Mettawa Approve Budget FY2015, 10-year Budget Trend, and 2013 Annual Treasurer's Report; Oak Brook 2014 Annual Budget, Historical Revenue Sources, Financial Plan, Tax Sources, and 2013 Annual Treasurer's Report.						
*State Tax includes: Income, Personal Property Replacement Tax (PPRT), and/or Use Taxes shared with local governments.						

As this table reveals, Long Grove obtains less revenue per capita from traditional sources than these peer communities. Peer communities obtaining more revenue from traditional sources have either a property tax or significantly more sales tax revenue. The State Tax revenues shown above could be reduced or eliminated. Recent proposals in the state legislature have either reduced or eliminated current state tax allocations to local governments as one component of addressing Illinois' budget crisis.

Table 2 compares other major revenue sources:

Table 2

	Long Grove	Bannockburn	Clarendon Hills	Oak Brook	Mettawa	Lincolnshire
Population	8,310	1,509	8,525	8,481	534	7,258
Revenues (000 Omitted)						
Water/Sewer Sales, Fees, or Connections	\$63		\$3,214	\$7,237		\$4,074
Motor Fuel Tax	\$195	\$44	\$220	\$700	\$13	\$171
Police Pension/Retirement (Real Estate Tax Portion)		\$402	\$842			\$1,547
TIF Area (Real Estate Tax)	\$70			\$345		\$0*
Sports Core				\$3,611		
Township Road & Bridge Tax Allocation	\$45	\$61		\$8		\$66
Subtotal	\$373	\$507	\$4,276	\$11,901	\$13	\$5,858
Per Capita Revenue						
Subtotal/Population	\$44.89	\$335.98	\$501.58	\$1,403.25	\$24.34	\$807.11
Sources: Same as Table 1						
* Lincolnshire's TIF terminated in December 2013 but appears as a line item in published sources.						

These revenue sources generally offset equal costs. For example, the communities with water and sewer revenue may have expenses to support their infrastructure equal to the revenue. Water and sewer revenues also encompass a wide range of fee types. Oak Brook's Sports Core is a recreation facility designed to break-even. Again, Long Grove lags behind the other communities but that merely reflects the lack of municipal sewer and water or recreation facilities.

Table 3 examines fee income.

Table 3

	Long Grove (NHR)	Bannockburn (HR)	Clarendon Hills (NHR)	Oak Brook (NHR)	Mettawa (HR)	Lincolnshire (HR)
Population	8,310	1,509	8,525	8,481	534	7,258
Revenues (000 Omitted)						
Telecom & Utility Taxes	\$465		\$301**	\$4,950	\$65	\$2,586
Hotel/Motel/Admission Taxes		\$92		\$1,145	\$500	\$1,800
Business/ Liquor Licenses & Fees	\$45	\$16		\$140	\$9	\$62
Gaming/Amusement Devices						\$4
Cable TV Franchise Fees			\$153		\$6	\$145
Alarm Fines & Fees				\$64		\$5
Real Estate Transfer Tax					\$60	\$200
Fines & Citations Revenue	\$61	\$142	\$171	\$225	\$52	\$390
Building Permits & Planning Fees	\$310	\$128*	\$294	\$1,115	\$81	\$275
Miscellaneous Revenues	\$23	\$493*	\$180	\$1,191	\$40	\$59
Subtotal	\$904	\$250	\$798	\$8,830	\$813	\$5,526
Per Capita Revenue						
Subtotal/Population	\$108.78	\$165.67	\$93.61	\$1,041.15	\$1,522.47	\$761.37
Sources Same as Table 1.						
*Bannockburn combines all licenses and permit fees into a Licenses and Permits category. Miscellaneous Revenues includes a wide range of smaller income sources.						
**This figure represents Clarendon Hill's cell tower lease fees. Other income from lease fees is transferred to the capital and water funds. This revenue is include in the \$3,214,000 shown in Table 2.						

Again Long Grove generates less fee income per capita than every peer communities except Clarendon Hills. The ability to generate fee income is limited for non-home rule communities. Additionally, the presence of significant office and industrial uses provides fee income in communities, such as Oak Brook and Lincolnshire.

This peer community analysis confirmed that Long Grove's policies and practices generate less revenue than these peer communities. The most likely opportunities for more revenue appear to be adding development that increases sales tax revenue and considering fees.

The Regional Land Use and Demographic Revenue Framework

In addition to considering peer communities, it is useful to compare Long Grove's land use and demographic characteristics to those of nearby communities. Table 4 looks at the income density per square mile of Long Grove and nearby communities.

Table 4

	Population	Population per Square Mile	Per Capita Income	Income Density per Square Mile
Clarendon Hills	8,525	4,668	\$60,201	\$280,999,004
Riverside	9,014	4,637	\$48,815	\$226,374,193
Buffalo Grove	42,436	4,439	\$48,428	\$214,982,546
Barrington	10,137	2,131	\$60,971	\$129,909,081
Prospect Heights	16,536	3,888	\$31,200	\$121,299,360
Lincolnshire	7,258	1,556	\$76,914	\$119,702,796
Riverwoods	3,636	907	\$71,826	\$65,172,758
Deer Park	3,182	830	\$62,343	\$51,745,313
Long Grove	8,310	653	\$65,916	\$43,036,556
Bannockburn	1,509	746	\$54,327	\$40,542,067
Mettawa	534	97	\$74,851	\$7,261,296

Source: Experian 2014; BDI; Income Density = Per capita income X Population per square mile

Because Long Grove's residential development is on large lots, income per square mile is lower than it is in communities, such as Buffalo Grove and Prospect Heights, which have smaller lots and lower income. This lower income density suggests that, to pay for maintaining a similar amount of roads in each square mile, Long Grove would need to obtain a higher percentage of residents' income than that in communities where there is more income per square mile. Understanding that the publicly owned roads per square mile are not proportionately lower in Long Grove highlights the challenge of asking residents to cover road maintenance costs.

Table 5 illustrates that Long Grove's property values, another potential basis for taxation, also is lower per square mile than in other Lake County communities.

Table 5

	Population	Total EAV	EAV per capita	Commercial EAV	Commercial EAV per Capita
Mettawa	534	\$110,308,546	\$206,570	\$48,370,317	\$90,581
Bannockburn	1,509	\$152,159,620	\$100,835	\$64,781,250	\$42,930
Riverwoods	3,636	\$333,332,068	\$91,675	\$64,887,989	\$17,846
Lincolnshire	7,258	\$561,725,434	\$77,394	\$202,532,267	\$27,905
Deer Park	3,182	\$234,827,315	\$73,799	\$58,360,451	\$18,341
Long Grove	8,310	\$534,176,223	\$64,281	\$28,855,472	\$3,472

Source: Lake County PTAX 251 Tax Year: 2013; BDI

Although Long Grove currently does not charge municipal property taxes, this information suggest that that approach would generate less revenue per square mile than it does in other communities. This condition is caused both by lower residential development density and the lack of commercial development.

Table 6 examines sales tax revenue in comparison communities.

Table 6

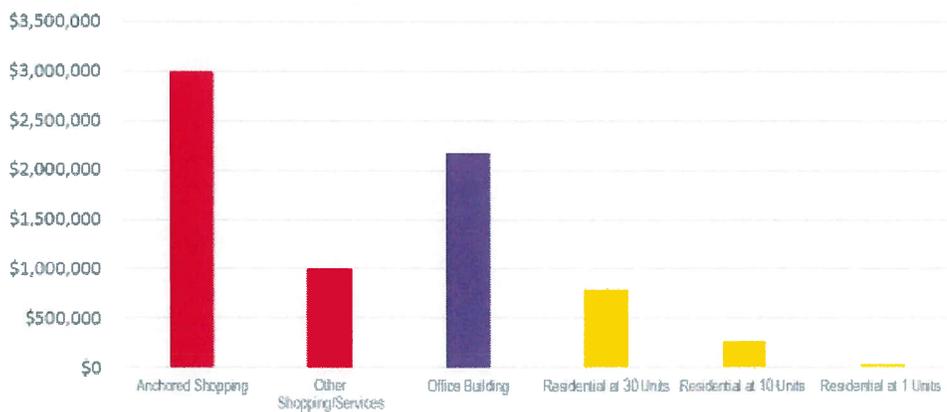
Community	Population	Muni Tax	(N)HMR Tax	Total	Tax per capita
Mettawa	534	\$2,663,802		\$2,663,802	\$4,988.39
Oak Brook	8,481	\$11,893,941	\$5,222,105	\$17,116,047	\$2,018.16
Bannockburn	1,509	\$741,235	\$254,599	\$995,834	\$659.93
Lincolnshire	7,258	\$2,855,363	\$1,347,559	\$4,202,922	\$579.07
Long Grove	8,310	\$869,710	\$634,251	\$1,503,961	\$180.98
Deer Park	3,182	\$457,843	\$112,138	\$569,981	\$179.13
Riverwoods	3,636	\$323,508	\$155,035	\$478,543	\$131.61
Clarendon Hills	8,525	\$794,579		\$794,579	\$93.21
Prospect Heights	16,536	\$753,394	\$283,587	\$1,036,981	\$62.71

Source: Illinois Department of Revenue, 2013; Experian 2014; BDI

As this table documents, Long Grove has sought revenue from sales tax by encouraging high volume businesses such as Menards and Sunset Foods but its revenue still falls short of the sales tax revenue in communities that have attracted even more high sales tax generating businesses.

Figure 1 reports the retail sales generated by land development options for vacant and underutilized land.

New Development Retail Sales per Acre



Sales Calculation: \$300/sqft anchored centers; \$100/sqft unanchored centers; \$143.20 per employee, \$26,220 per household

Figure 1

Long Grove receives 1% of all retail sales within its borders as the state’s allocation to municipalities. Long Grove has enacted a non-homerule sales tax of another 1% on sales other than food, medicine or registered good such as automobiles and boats. Retail sales in anchored shopping are direct generators of municipal and non-homerule sales tax revenue while the income from office and residential development depends of workers and residents spending in Long Grove.

Table 7 reports Village estimates of the direct sales tax revenue generated by Long Grove’s commercial clusters.

Table 7

	Muni Tax	HMR Tax	Total Annual Sales Tax Revenue
Lake Cook area	\$400,000	\$400,000	\$800,000
IL 83 & Aptakisic area	\$200,000	\$40,000	\$240,000
Downtown	\$70,000	\$70,000	\$140,000
Other	\$85,000	\$10,000	\$95,000
Home Based Businesses	\$40,000	\$30,000	\$70,000
83 & 45	\$30,000	\$25,000	\$55,000
Half Day & Old McHenry area	\$7,000	\$7,000	\$14,000

Source: Village estimates based on confidential 2013 Illinois Department of Revenue data.

As this analysis of the land use and regional revenue framework illustrates, past development decisions have created the land use pattern that concentrates and limits Village direct sales tax revenue to specific areas. Figure 2 illustrates how important adding a non-homerule sales tax was to providing revenue for the Village.

Long Grove Sales Tax Revenue History

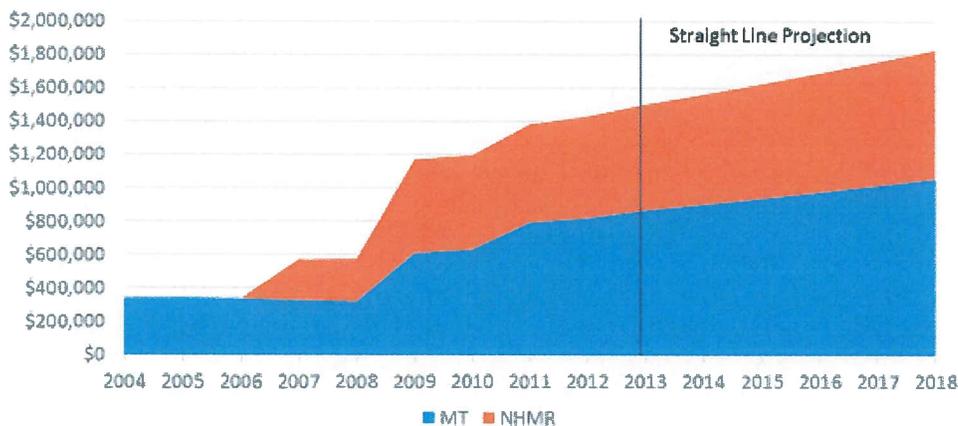


Figure 2

The remaining opportunities for Long Grove commercial development include:

- Property North and South of Lake Cook & West of Hicks
 - Perhaps 60 acres net of wetlands north
 - Perhaps 30 acres net of wetlands south
- Former Geimer Property
 - Approximately 11 developable acres
- Downtown Parcel
 - 4 restaurant outlots
 - Triangle with approximately 9.4 developable acres
- Menards Outlots
 - Approximately 9 acres
- Parcel South of Sunset Grove
 - Approximately 15 acres

These opportunities have different surrounding markets, as reported in Tables 8 and 9:

Table 8

Three-Mile Radius	Routes 45 & 83	Lake Cook & 53	Half Day & Old Mc Henry	Route 53 & 83
Total Population	90,549	72,221	39,749	65,118
Average Household Income	\$106,274	\$124,183	\$172,149	\$124,114
Employees	28,920	31,647	14,675	28,695
Retail Spending by Household	\$23,422	\$23,667	\$25,208	\$23,179
Total Retail Spending	\$811,819,574	\$621,596,937	\$334,368,579	\$524,663,788
Source: Experion 2014; BDI				

Table 9

10-Minute Drive Time	Routes 45 & 83	Lake Cook & 53	Half Day & Old Mc Henry	Route 53 & 83
Total Population	90,382	92,853	66,836	89,511
Average Household Income	\$108,999	\$125,264	\$156,705	\$134,228
Employees	29,602	57,594	45,505	57,314
Retail Spending by Household	\$23,505	\$23,481	\$24,763	\$23,291
Total Retail Spending	\$805,051,859	\$802,652,320	\$567,983,810	\$753,880,024
Source: Experion 2014; BDI				

Although a radius analysis suggests differences in the desirability of these markets, the drive time analysis illustrates how the quality of Long Grove’s regional important transportation networks evens the quality of the markets surrounding the development opportunities at Routes 45 and 83, Lake Cook and 53, and Routes 53 and 83.

Target Business Analysis

Table 10 reports the potential annual sales tax revenue from high volume businesses.

Table 10

Use	Warehouse Club	Mass Merchandiser	Auto Dealership	Home Center	Grocery
Typical Taxable sales	\$100 million	\$50 million	\$37 Million	\$30 Million	\$25 Million
Site Size (acres)	30	30	5 acres each	20	10 to 40 center
Typical Building Size (SF)	120,000	100,000	10,000	120,000	65,000
Other Site Requirements	Gas Station	Gas Station		Garden Center	
Distance between sites	20-minute drive	10-minute drive	Cluster key	10-minute drive	Varies with size
Employees	120	100	20	120	65
Muni Tax Revenue	\$1 million	\$500,000	\$370,000	\$300,000	\$250,000
NHR Revenue	\$400,000	\$300,000	\$0	\$300,000	\$20,000
Potential Annual Revenue	\$1.4 million	\$800,000	\$370,000	\$600,000	\$270,000
Incentives Customary	yes	yes	yes	yes	yes

Source: Experion 2014; BDI

The high volume businesses with site size requirement that exceeds 15 acres only fit the property North and South of Lake Cook & West of Hicks. Note that of the other uses, auto dealerships need companion businesses to create a business cluster, thus consequently those businesses also are unlikely to fit at the other Long Grove sites.

Although it is outside the scope of this assignment to go beyond highlighting this opportunity, it is apparent that these issues should be investigated to determine how best to proceed in verifying specific possibilities for this property.

- What is the best way to engage the other communities with this unincorporated land in the discussion of a boundary agreement to determine exactly what acreage could be annexed into Long Grove?
- How would an annexation agreement be written to encourage property owners to support joining Long Grove?
- What is Lake County's interest in allowing access across their 100 foot buffer?

It is also important to note that incentives associated with any development of this land probably will reduce annual revenue.

Table 11 examines businesses that could be attracted to smaller parcels known as outlots and located throughout the Village.

Table 11

Use	Gas Station & Convenience Store	Quick Serve	Casual Dining	Bank	Medical
Typical Taxable sales	\$15 million	\$2 Million	\$2.5 Million	0	some
Site Size (acres)	2	1	1.5	1.5	3
Typical Building Size (SF)	4,000	3,000	5,000	2,500	10,000
Other Site Requirements	Access	Drive Thru	Outdoor Seating	Drive Thru	
Employees	7	11	18	5	23
Muni Tax Revenue	\$150,000	\$20,000	\$25,000	\$0	??
NHR Revenue	\$50,000	\$20,000	\$25,000	\$0	
Annual Village Revenue	\$200,000	\$40,000	\$50,000	\$0	

Interviews conducted for this study highlighted the unique opportunity that proximity to the border of Cook County and Lake County creates for gas station/convenience stores in Long Grove. This is because Cook County gas taxes are higher and just crossing the county line lowers the price of gas, making stations in communities such as Long Grove very successful.

Unique Opportunities

Because the commercial sites in Long Grove are usually about 10 acres, which is a size that is too small for high volume retailers and too large to be used for the outlot businesses, there may be an opportunity to do a mix of retail and residential uses that adds customers and thereby increases the sales and sales tax from existing businesses. Interviews associated with this study suggested that residential developers would pay an impact fee premium above what is already collected for schools and parks for townhome developments on six to eight acre parcels. That would allow the development of a two-acre retail parcel and perhaps 70 townhomes on the balance of the 10 acres. Residents of those townhomes could potentially spend \$1.8 million in nearby stores and the commercial development's sales could be \$15 million. The net annual revenue could exceed \$250,000. There also would be one-time revenue from the permits and impact fees for the development.

Table 12 summarizes the revenue potential estimates for potential development on commercial sites.

	Muni Tax	HMR Tax	Current Total Annual Sales Tax Revenue	Maximum Potential Additional Annual Sales Tax Revenue
Lake Cook area	\$400,000	\$400,000	\$800,000	\$2.5 million
IL 83 & Aptakisic	\$200,000	\$40,000	\$240,000	\$275,000
Downtown	\$70,000	\$70,000	\$140,000	\$275,000
Other	\$85,000	\$10,000	\$95,000	???
Home Based Businesses	\$40,000	\$30,000	\$70,000	???
83 & 45	\$30,000	\$25,000	\$55,000	Limited
Half Day & Old McHenry	\$7,000	\$7,000	\$14,000	Limited

Source: Village estimates based on confidential 2013 Illinois Department of Revenue data; BDI.

Fees and Other Revenue Alternatives

As in the peer communities, Long Grove may have fee revenue opportunities. The information that follows makes a preliminary estimate of potential fee revenue. Before any fees can be established, there often are specific legislative requirements that must be met, including designation as a homerule community.

Alarm Registration Fees

- Assumptions
 - \$25 registration fee
 - Fine per false alarm
 - Half of 2,600 households have alarms
- Potential Annual Revenue: \$32,500

Pet Fees

- Assumptions
 - 3,400 dogs and cats
 - Fee \$25
 - Relatively high compliance costs
- Potential Annual Revenue: \$85,000

Real Estate Transfer Fee

- Assumptions
 - 157 Transactions in 2013 are typical
 - 2013 estimated value of \$100 Million is typical
 - The Long Grove fee would be similar to Lake Forest's \$4 per \$1,000 transaction
- Potential Annual Revenue about \$300,000

Fines

- Red Light Cameras Potential Annual Revenue: \$100,000 to \$200,000 each
- False Alarms Potential Annual Revenue of \$100,000

Other considerations

There is no one answer for Long Grove as it seeks ways to increase revenue. In addition to the sources discussed in this document, revenue will ebb and flow as there are local, state and national changes. If filling Long Grove's existing vacancies and higher sales in existing businesses causes a 10% increase in non-Menards and Sunset Foods Revenue, the Village would obtain \$40,000 more per year. If statewide debate on extending sales tax to services results in a decision to make that change, Long Grove could realize significant additional revenue. Conversely, if the state elects to balance its budget by reducing transfer to municipalities, Long Grove could lose as much as \$850,000. A national and state program to make internet sellers charge sales taxes bases on the delivery location for goods could provide Long Grove with an additional \$50,000 to \$100,000 per year.