

Economic Development Incentives

Chicago Metropolitan Agency for Planning
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Background and Purpose of this Paper:

In the development of the *GO TO 2040* regional comprehensive plan, CMAP has researched approximately 50 different strategies in each of our major planning areas (transportation, land use, housing, environment and natural resources, economic development, and human services). Because economic incentives influence land use and transportation, it was one of the economic development strategies researched. The purpose of this paper, similar to all strategy papers, is to help CMAP better understand this topic, including the current use, the impacts, and possible directions for the strategy in the alternative scenarios and eventually in the *GO TO 2040* plan.

This paper is not a set of policy recommendations or conclusions on how incentives should be used; rather it draws on existing empirical and academic research as well as experts in the field to understand this strategy and how it can help the region move towards its regional vision.

For more information on CMAP's strategy papers and to view the complete inventory, please visit: http://www.goto2040.org/strategy_papers.aspx

Introduction

The provision of financial incentives to influence business locations and retain existing businesses has long been a mainstay of economic development policy for state and local governments. Incentives are a widely used economic development tool; in an ongoing study of incentive expenditures at the state and local government levels, it is estimated that as much as \$50 billion is expended annually by state and local governments in the U.S. for these purposes (Peters and Fisher 2004). The role incentives play in job creation and retention is important, and strategic incentive programs may achieve significant benefits. The State of Illinois and many local governments offer many types of financial assistance to attract new businesses, retain existing businesses, and support the growth of existing businesses. This report reviews grants and tax based incentives provided by different levels of government, with particular focus on state incentives.

While the assessment of their efficiency and effectiveness shows mixed results, incentives remain one of the only tools available to localities attempting to create jobs and enhance their revenue stream. From the state and local government perspective, incentives remain tools of great, and quite possibly increasing, importance for economic development. While public services such as transportation and education often require years to develop or improve, tax incentives and other financial subsidies often operate as a rapid response mechanism for governments to create jobs.

These expenditures have positive effects if they generate new jobs or retain existing jobs that lead to fiscal and employment benefits outweighing the cost of the incentive's deployment. As should be expected, evaluating the real impact of these incentives involves disentangling the tools or programs from the wider range of factors impacting a firm's decision to locate, such as the availability of land and labor, quality public infrastructure, quality education systems, and access to suppliers and consumers. Additionally, incentives are most effective when used to attract firms that serve to generate tax revenue and employment opportunities that would not have occurred "but for" the use of the incentive (Wassmer and Anderson 2001).

Incentives can also provide long-term benefits when they are linked to strategic goals; rather than only working to attract and retain jobs, incentives can increase benefits if they work to attract and retain jobs in targeted communities, targeted industries, or to a targeted population. Incentives targeted geographically may increase the financial feasibility and attractiveness of commercial activity in certain communities. When local market conditions and higher risks prevent private investment, incentives can mitigate these obstacles and spur private investment resulting in a ripple effect. For example, incentives applied toward the investment in a deteriorating business area or development on an underutilized site may provide the needed spark for redevelopment and business growth. Added benefits should accrue in these areas when new residents and businesses contribute to tax revenues without creating much additional demand for

new municipal infrastructure such as roads, sewers, or electrical lines. Furthermore, high local taxation coupled with inadequate business services and high poverty or unemployment rates may discourage economic development. Thus, incentive offers that result in business growth in these places may serve to counteract the ripple effect of disinvestment.

In addition to targeting incentives geographically, economic development programs and strategies can target particular industries; incentive programs designed to complement an industry targeting strategy may result in increased economic growth and competitiveness. For example, a government may decide to sustain long-term economic growth by promoting local alternative energy production. An incentive program that provides funding and tax breaks for this type of business, as well as consumers of alternative energy, may advance this economic development objective. The provision of incentives to firms contributing to a particular regional “industry cluster” may also provide benefits for increasing the overall level of economic development and “innovation” in a region.

In addition, employment benefits typically accrue more significantly to the currently unemployed as opposed to those already employed, so incentives targeted to these populations would appear to be a prudent policy choice.

The purpose of this paper is to examine the ways incentives could be addressed in the *GO TO 2040* plan. This paper reviews existing research on this topic to determine to what extent the current use of financial incentives are a cost effective mechanism of achieving economic growth. We then explore some of the existing uses of incentives in the region, and lastly identify some potential directions the plan could go in terms of incentives. Implicit in this paper’s treatment of incentives is the notion that successful regional economic development requires regional coordination, at the least in terms of engaging a wide variety of stakeholders, including businesses, the local workforce, and other organizations, in the process.

A wide variety of strategies fall logically under the term “incentives.” In fact, one could argue that nearly anything state and local governments do has some kind of effect on economic activity and thus, becomes an incentive. Understanding the impacts and roles of different types of investments and incentives is a complex task; a description of the different theories and approaches to investment is located in Appendix A. This report focuses on specific financial incentives: grants and tax incentives awarded by governments to businesses. Even within financial incentives there is wide variety, such as funding for entrepreneurship training, small business loan funds, tax exempt bonds, and numerous other types of incentives. To summarize the variety, Appendix A also includes a table showing an economic development incentive typology. It is important to note that most often incentives are packaged together rather than offered

independently. This package can include other non-financial incentives, such as land or expedited permitting. This reality is important, however the focus of this paper is on grants and tax incentives awarded to attract or retain a specific business.

State of Illinois Incentives

The State of Illinois' Department of Commerce and Economic Opportunity (DCEO) is the state agency that promotes economic development through a variety of business attraction, retention, and growth programs throughout the state, including incentive programs. Historical data on incentive programs and awards is fragmented, although recent incentive award information is available. In 2003 the Corporate Accountability for Tax Expenditures Act was signed into law and requires recipients of economic development assistance to report to DCEO.¹ These individual reports are then made available online at: www.corpacctportal.illinois.gov. A study on the use of incentives in the northeastern Illinois region (excluding Kendall County) provides useful summary data for the major and consistent economic development assistance programs from 1990 to 2004. According to this report, the State utilized ten different programs to provide at least 780 different subsidies to specific companies within the region of northeastern Illinois (McCourt et al 2007). The following table describes the state programs that provided either grants or tax incentives for expanding or relocating businesses.

Program	Description
Business Development Public Infrastructure Program	Provides grants to units of local government for public improvements (like road extensions or infrastructure) for expanding or relocating businesses
Employer Training Investment Program	Reimburses Illinois companies for up to 50 percent of the cost of training their employees
Enterprise Zone credits	Provides several tax credits for investment in depressed areas
Large Business Development Program	Provides grants for major expansions or relocations involving private investment and the creation and/or retention of a large number of Illinois jobs.
Corporate headquarters Relocation Program	Provides tax breaks for large company headquarters relocations
Economic Development for a Growing Economy (EDGE)	Provides tax credits to qualifying companies, up to the amount of state income taxes withheld from the salaries of employees in the newly created or retained jobs. Over the eight year period from December 1999 to December 2007 DCEO has received 480 EDGE applications from businesses throughout the state. EDGE agreements have been signed for 284 approved businesses, and 306 tax certificates have been issued to 113 companies for a total credit amount of \$150 million. Detailed information from 2005,

¹ Non-public annual reports have been requested from DCEO. As more current and thorough information becomes available, this report will be updated.

	2006, and 2007 show that over this three-year period, an average of 52% approved businesses are located in the seven-county northeastern Illinois region.
High Impact Business Program	Provides investment and sales tax breaks on machinery and building purchases for companies investing at least \$12 million and creating 500 full-time jobs, or \$30 million and retaining 1500 full-time jobs.

In Illinois, state incentives represent a growing share of the budget. Economic development tax expenditures grew at an annual rate of nearly 7% between 1995 and 2001. This is much faster than all tax expenditures annual increase of 4.7% annually (FY 2001 Tax Expenditure Report, Illinois Comptroller’s Office). Illinois State government, like many other state governments, remains very active in assisting businesses through a multitude of programs. While the State regards technical assistance work, provided both to businesses and local government, as “the most prevalent” form of help, tax breaks, training reimbursements, and debt issues represent significant tax expenditures for the state (Illinois Comptroller).

This report will be updated as more detailed and current information on State incentive programs and spending becomes available.

Other States’ Incentive Programs

Often states offer incentives as a “tie-breaker” between two comparable regions. It comes to no surprise then that states offer competitive incentive packages. Overall, tax incentive and grant programs vary from state to state, although some components are very common to many states, such as funding for worker training and tax credits. Yet there is diversity in the types of incentives offered and the types of goals linked to the incentives. Some state incentives are distinctive as they are based on unique local industries. Below is a description of economic incentives (grants and tax based) used to attract and retain jobs in Wisconsin, Indiana, Michigan, Massachusetts, and Texas.

Wisconsin

Tax Incentives

- Dairy Manufacturing Investment Credit: The Dairy Manufacturing Facility Investment Credit provides up to \$700,000 per year in refundable credits for businesses that have invested to modernize or expand dairy manufacturing facilities in Wisconsin.
- Film Production Company Investment Tax Credit: Offers financial assistance for the establishment of film production companies in the state. Credit is worth 15% of individual and corporate income and franchise taxes for the first three years.

- **Qualified New Business Venture:** Tax credits are made available to investors in early-stage businesses conducting pre-commercialization activity related to proprietary technology.

Grants

- **Technology Assistance Grants:** Aids small Wisconsin high-technology businesses in their efforts to obtain federal research and development funding (75% of project costs, up to \$3,000).
- **Technology Bridge Grants:** Aids small Wisconsin businesses experiencing severe financial hardship while awaiting a decision on Phase II or other follow-on funding applications (75% of project costs, up to \$100,000).
- **Technology Matching Grants:** open to small Wisconsin businesses that are completing an application for federal funds to assist with the development or commercialization of a technologically-innovative product, process or service (20% of project costs, up to \$250,000).
- **Customized Labor Training Program:** Designed to assist companies that are investing in new technologies or manufacturing processes by providing a grant of up to 50% of the cost of training employees on the new technologies.
- **Business Employees Skills Training:** program was established by the Wisconsin Legislature to help small businesses (less than 25 employees) upgrade the skills of their workforce (75% of project costs, not to exceed \$1,000 per employee or \$5,000 per business).

Michigan

Tax Incentives

- **Renaissance Zones:** In 1996, Michigan passed the Renaissance Zone Act to foster geographic and industry targeted economic development through reducing taxation in strategic communities and industries. Today there are over 150 areas across the state designated as renaissance zones, some of which are industry specific for agricultural processing, renewable energy, or forest products processing. Most state and local taxes are abated for businesses located within the zones or those that meet the industry criteria.
- In 2008, Michigan reformed its business taxation policy and replaced the Single Business Tax with the Michigan Business Tax. This policy reduces property taxes, offers exemptions to eligible industrial and commercial property, and waives the requirement to file a tax return or pay any tax for businesses with gross receipts of less than \$350,000.

Indiana

Tax Incentives

- **Economic Development for a Growing Economy (EDGE) Tax Credit:** The EDGE is a tax credit calculated as a percentage of payroll tax and is applied to state income tax. The main goal of the EDGE is to create new jobs, although a smaller share of the credits are available for highly competitive companies for job retention.
- **Headquarters Relocation Tax Credit:** Companies that relocate headquarters to Indiana that have a minimum annual worldwide revenue of \$100 million qualify for a tax credit equal to 50% of relocation expenses. The headquarters location must have at least 75 employees.
- **Hoosier Business Investment Tax Credit (HBITC):** The HBITC provides a credit against a company's tax liability of up to 10% of the amount of capital invested in qualified projects.
- **Industrial Recovery Tax Credit:** This tax credit is provided to companies that incur significant rehabilitation or remodeling expenses to buildings that require substantial investment. The credit is calculated as a percentage of the investment made and reflects how long the building has been vacant.

Grants

- **Skills Enhancement Fund:** Companies can be reimbursed a portion (usually no more than 50%, and no higher than \$200,000) of training costs for existing employees. Businesses that receive this grant must commit to staying in the state for no less than five years after the grant is closed.
- **Technology Enhancement Certification for Hoosiers (TECH):** This training fund is made available specifically for employers of information technology professionals in an effort to help Indiana increase its certified technology workers. A company can apply for the lesser of: \$50,000, \$2,500 per employee, or 50% of the training budget.
- **21st Century Research and Technology Fund:** With the goal to diversify the state's economy, this fund provides financial awards to highly innovative business ventures with potential for commercialization.

Massachusetts

Tax Incentives

- **Economic Development Incentive Program:** There is a three step process within the program, and each step must receive local approval as well as state approval by the Economic Assistance Coordinating Council. Programs that are certified are eligible for an array of tax incentives, including:
 - 5% investment tax credit for qualifying tangible, depreciable assets
 - A 10% abandoned building tax deduction is available for costs associated with the renovation of an abandoned building
 - Municipal tax incentives including either a Special Tax Assessment or a Tax Increment Financing Agreement

- **Investment Tax Credit:** Offers a three-percent credit for qualifying businesses against their Massachusetts corporate excise tax.
- **Job Creation Incentives Program:** Biotechnology and medical device manufacturing companies are eligible to receive incentives for new job creation. The incentive equals fifty-percent of the salary of biotechnology jobs multiplied by the Massachusetts personal income tax rate.
- **Research and Development Tax Credit:** For research and development investment for both manufacturers and R&D companies. Provides a ten-percent credit for any research expense incurred which would qualify for the Federal R&D tax credit.
- **Single Sales Factor Tax Apportionment:** Considered advantageous in Massachusetts when compared to many states that use a Three-Factor Apportionment, which weighs not only state sales, but also property and payroll as a percent of overall sales, property, and payroll.

Grants

- **Hiring Incentive Training Grant Program:** It provides training grants of up to \$2,000 per employee and up to \$30,000 a year per company. This program assists in paying training costs for newly hired employees who have been unemployed over a year and those that do not have a call back date from their last employer
- **Workforce Training Fund Express Program:** Designed for small employers and labor unions to quickly and simply provide training for employees.
- **Workforce Training Fund General Program:** Provides resources to Massachusetts businesses and workers to train current and newly hired employees. Training grants range from \$2,000 to \$250,000. Technical assistance grants range from \$5,000 to \$25,000.

Texas

Tax Incentives

- **Texas Enterprise Zone Program:** An economic development tool for local communities to partner with the State of Texas to promote job creation and capital investment in economically distressed areas of the state. Designated projects are eligible to apply for state sales and use tax refunds on qualified expenditures. In addition, local communities must offer incentives to participants under the Enterprise Zone Program, such as tax abatement, tax increment financing and one-stop permitting. The refund can be an amount ranging from a minimum of \$2,500 per job to a maximum of \$7,500 per job.
- **Defense Economic Readjustment Zone Program:** It is designed to provide assistance to Texas communities, businesses and workers impacted by, or vulnerable to, the closure or realignment of military installations and the reduction of federal defense contracting expenditures. Designated readjustment

- projects are eligible to apply for franchise tax credit and state sales and use tax refund on qualified expenditures (Maximum of \$2,500 per job allocated).
- State Sales and Use Tax Exemptions: Pertain to qualified manufacturing equipment and machinery, as well as electricity and natural gas used in manufacturing, processing, or fabricating tangible personal property if at least 50% of the electricity or natural gas consumed by the business directly causes a physical change to a product.

Grants

- Skills Development Fund: Provides funding to businesses and trade unions for design and implementation of customized job training projects (limited to \$500,000 per business).
- Self-Sufficiency Fund: Provides assistance businesses by designing, financing and implementing customized job training programs in partnership with public community and technical colleges, a higher education extension service, & community-based organizations for the creation of new jobs and/or the retraining of existing workforce.
- Texas Emerging Technology Fund: Provides awards to businesses to accelerate and support development and commercialization of new technologies. Funds area awarded to provide a match for federal and other funding sources.
- In-State Tuition for Employees: The Economic Development and Diversification In-state Tuition incentive may be offered to qualified businesses that are in the decision-making process to relocate or expand their operations into Texas. The incentive allows employees and family members to pay in-state tuition at a Texas institution of higher education.
- On-the-Job and Customized Training Program: Reimburses partial wages to business owner while the participant "learns as they earn."

This brief overview reveals a few key differences in the incentive mix offered by State of Illinois and other states. The current mix of tax incentives and grants offered by Illinois does not include any that are targeted to particular industries, with the exception of coal and film production. Many other states target particular industries, especially technology and research. Illinois has offered technology and research and development incentives in the past, but the legislation has expired.² However, current proposed legislation would establish funding for emerging technology companies. The act, known as the Emerging Technology Industries Act (SB1522), would authorize DCEO to award grants to qualified businesses, as well as provide tax credits to investors in qualified companies. The Act would also provide matching funds for federal funding, similar to the states reviewed above.

² Data on the usage of this program has been requested.
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DCEO staff considers other states' incentive programs when designing programs. The EDGE tax credit is an example of a tax credit that is common to many states. The State's 2007 annual report includes a comparison table showing neighboring states' version of the EDGE:

	Illinois	Kentucky	Indiana	Iowa
Minimum Jobs Created	25 for businesses with at least 100 employees, 5 for smaller businesses	15	Not specified	10% increase in base employment
Incentive Lifetime	10 years	15 years	10 years	1 year
Minimum Investment	\$5M for businesses with at least 100 employees, \$1M for smaller businesses	\$100,000	Not specified	Not specified

Local Government Incentives

Municipal and County incentives are an important and widely used economic development tool. With over 280 municipalities in Northeastern Illinois, it is not surprising that a wide variety of economic development incentives have been used in the region. A detailed, complete inventory of local incentives is not available; however, there are several commonly used incentives that can be described. Below is a description of some of the most commonly used local incentives and examples of local incentive programs.

- *Tax Incentives*

Local governments offer tax abatements, exemptions, and rebates on sales, property, and utility taxes.

- The City of Geneva offers sales tax rebates and has committed approximately \$3 million in reimbursements for approximately \$10 million in total new retail sales tax revenue.
- The Village of Downers Grove recently approved an economic development agreement with DeVry Inc. to rebate 50% of electric and telecommunications taxes for a period of 15 years. The agreement also includes a sales tax rebate and waives 75% of permit and plan review fees. DeVry's relocation will bring approximately 400 jobs and occupy approximately 140,000 square feet of newly constructed office space.³ A

³ Downers Grove News Release:

<http://www.dgedc.com/portals/0/pressreleases/DG%20Welcomes%20DeVry.pdf>

recent article in the online news source, the Business Ledger, includes more details on this project ([click here](#)). The article notes that this is the first time the Village of Downers Grove has offered incentives to a non-sales tax generating entity.

- Local governments often create a contractual agreement on a case-by-case basis to offer a tax incentive. Will County evaluates projects for approval of a 50% property tax abatement on improvements made to the property.
 - Cook County offers several reclassifications that provide lower property tax assessment rates for qualifying projects. Businesses completing new industrial developments or rehab of industrial and commercial properties can apply for a reclassification that significantly reduces the property tax assessment rate.
- *Building façade or site improvement grants and rebates*

Cities provide funds for local businesses to make improvements to the exterior of their building; often this is a special program designed to revitalize an identified commercial corridor.

 - The City of Chicago reimburses 50 percent of approved costs up to \$10,000 of work done to the exterior of industrial, commercial, and retail buildings.
 - The City of Geneva has provided \$200,000 over last ten years to its matching grant façade program.
 - The Village of Naperville recently launched a grant program to enhance the Ogden Avenue Corridor. This grant program was created to help implement the City's comprehensive plan. The city provides a matching grant to help local businesses pay for signage, landscaping, building façade, and access improvements.
 - *Infrastructure funding*

Local governments design programs and allocate funds to reduce the financial burden on businesses related to infrastructure needs.

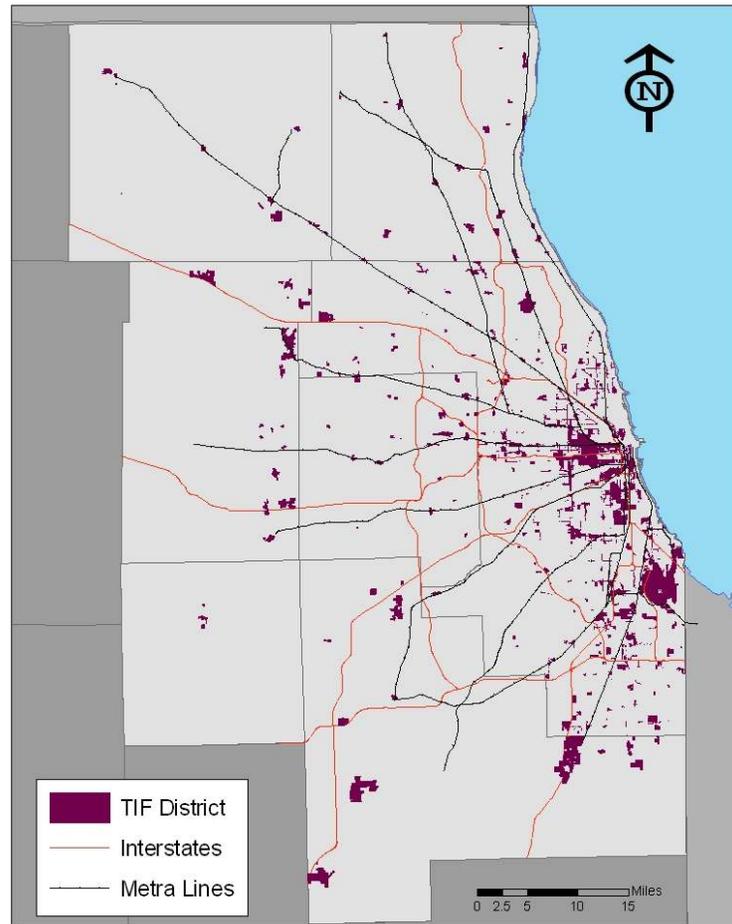
 - The Village of Orland Park offers cost sharing for road construction, utility extensions, and other public improvement costs. Cost sharing is considered on a case-by-case basis and depends on the amount of real estate involved and the projected sales tax revenue.
 - *Geographic Tax-based Programs: TIFs and Special Service Areas*

Localities appropriate funds from new tax revenue to be used for specific economic development projects within a designated area. There is often wide latitude in the types of projects that can be funded.

 - Tax Increment Financing (TIF) may be the most widely used tool. As of January 2006, the 7-county region alone housed 530 TIF districts (see map below). 140 of these are in the City of Chicago (Illinois Tax Increment Financing Association). In the City of Chicago, these TIF districts represent 13.4% of all assessed value, and 26.4% of the land area (CMAP

calculation). Local governments use TIF districts to capture new property tax revenue to fund economic development initiatives and public infrastructure. Special Service Areas (SSAs) are another taxing district created to generate funds available for investment within defined geographic boundaries. All businesses and residents within the SSA are required to pay an additional tax, which goes into the fund and can be used on road infrastructure, street maintenance, parks, banners, and other improvements.

Tax Increment Financing Districts



The wide range of incentive programs operating within the region aims to create a variety of impacts across different industry sectors. Programs may aim to attract headquarters, fund transportation improvements for new or relocating firms, assist job training initiatives, and so on. Chicagoland lacks any regional institutional authority guiding the provision of incentives, the targeting of certain industry clusters, or site selection. Thus, while individual State or municipal incentive programs may seek to

accomplish particular purposes, it can be argued that as a whole, their deployment remains largely untargeted in terms of building industry clusters, creating net benefits for the regional economy, or motivating the overall flow of location decisions within the region. Yet, the flexibility found in the current incentive deployment structure may also provide an important advantage as it allows local governments to respond to unique opportunities and needs.

Some local incentive programs apply criteria and tie incentives to local goals. For example, Tinley Park lists three principles used when considering an incentive award: 1) the company provides additional tax revenue to the community, 2) the company pays above-average wages and offer full benefits to their employees, and 3) the company provides a significant enhancement to the community. Increasing the tax base is a goal most incentive programs have in common and in some cases the most important goal is job attraction. In such cases it is the localities responsibility to weigh the costs and benefits of offering an incentive. The Metropolitan Mayors Caucus offers this perspective:

“Do not offer an incentive just because the developer or retailer asks for one. Some companies will request incentives simply because they feel they can get them, or because they know that communities will typically offer them, regardless of whether the incentive is necessary. The goal is to provide just enough incentive to attract the business. Incentives should be granted only if the project could not proceed without them” ([Retail 1-2-3](#)).

Detailed case studies provide more details and help illustrate how incentives can vary in their usage and how they can support economic development.

Geneva Common Lifestyle Center, Geneva. This is an example of a sales tax rebate used to off-set unforeseen infrastructure improvement costs. The original annexation agreement for this project included the required improvements to the surrounding public roadways; however, the agreement was outdated and did not include accurate cars-per-day information. As a result of significantly higher traffic counts along Randall Road and higher traffic generation from the Lifestyle project, the originally planned improvements to Randall Road and the two east-west, intersecting roadways along the project’s north and south property lines were not adequate. Consequently, Kane County required the developer to make significant improvements to Randall Road, including dual left turns, full signalization, right turn deceleration lanes, and left and right turn lanes within the cross streets at their intersections with Randall. The costs for these improvements were approximately \$900,000. The City of Geneva also decided that as the dual left turns were going to create long and wide medians and there was ample room for desired landscaped areas. This additional cost was about \$700,000.

The developer estimated that the 440,000 square foot Lifestyle Center would generate \$130 million in annual sales. At the time, the City of Geneva sales tax rate was a penny on the dollar (1%) and as such, the estimated annual sales tax revenue from the Geneva Commons to the City was estimated to be \$1.3M. The City agreed to reimburse the developer a quarter of its sales tax revenues from the total of all retailers at the Commons (approximately \$325K annually) to allow them to recoup the costs of the unanticipated roadway improvements (without interest). This made good business sense, as well as was in the interest of fair play, as the pre development pro forma (based on reading the annexation agreement) did not take into account the additional roadway expenses. The rebate expires when the total of all reimbursements reaches \$1.6M or seven years, whichever comes first. (Source: Kane County)

Gander Mountain, Geneva

This is an example of a sales tax rebate used to incentivize a business to locate in a vacant building, previously occupied by K-Mart. The retail outdoor store Gander Mountain was looking at the 100,000+ square foot former K-Mart building but the project hung on whether or not the City of Geneva was going to offer any inducement. After negotiations and approval by the City Council, the city offered a front-loaded, graduated sales tax reimbursement, reimbursing 50% of the sales tax revenues from the Gander Mountain sales for the first four years and 25% percent for the following four years. As a condition of the incentive, the City required the building owner to invest about \$85K in building exterior façade and site improvements. (Source: Kane County)

MillerCoors Corporate Headquarters, Chicago.

This is an example of local TIF funds awarded to a company (in addition to State incentives) to attract a headquarter office looking for a new location. This example was provided by World Business Chicago.

June of 2008, SABMiller plc (headquartered in London) and Molson Coors Brewing Company (headquartered in Denver, Colorado) combined the U.S. and Puerto Rico operations of their respective subsidiaries, Miller and Coors, in a joint venture. The reason for the merger was the expectation that the enhanced brand portfolio, scale and combined management strength of the joint venture would allow this entity to better compete in the highly competitive and changing U.S. marketplace, and improve the standalone operational and financial performance of both Miller and Coors. Specifically, the joint venture has (1) built a stronger brand portfolio giving consumers more choice, (2) captured synergies and improved productivity, (3) created a more effective competitor, (4) improved the route to market, and (5) optimized organizational strength.

In the spirit of creating a truly new company, MillerCoors had to select a location for their new headquarters. Milwaukee, the headquarters of Miller, and Denver, the headquarters of Coors, were ruled out as inconsistent with their balanced governance

structure; it was felt that location in either city would suggest that one of the partners had a controlling interest in the new company, which is not accurate. Dallas, Texas was the finalist competing city with Chicago for location of the new headquarters. Although Dallas offered cheaper Class A office space and lower property taxes, ultimately Chicago was chosen for their new home.

During the selection process, both the City of Chicago and the State of Illinois offered economic incentives to assist in offsetting MillerCoors' considerable relocation costs, as well as lessen the significant financial gap between the choices of the two finalist cities, Dallas and Chicago. The City of Chicago provided the company with \$6,000,000 to assist in office construction.

Having attracted this new HQ's, the project will provide numerous public benefits including:

- **Permanent Jobs:** the new HQ's will create and/or relocate 325 permanent jobs.
- **Property Taxes:** the project will expand the tax base because the investment in the property will result in an increase in its assessed value. The building, currently 82.5% vacant, will benefit by the addition of MillerCoors into the building.
- **Environmental Features:** The tenant-buildout will be LEED certified for Commercial Interiors. The building, recently renovated, is also seeking LEED certification.
- **River Walk:** MillerCoors will improve the river walk on the west side of the building, which is currently in poor condition, beautifying and enlivening activity on Chicago's riverfront.
- **Affirmative Action:** MillerCoors is complying with the requirements of Chicago's affirmative action ordinance for the build out, which requires contract participation of 24% by minority-owned business enterprises and 4% by woman-owned business enterprises.
- **City Residency:** MillerCoors is complying with the requirements of Chicago's city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents.

NAVTEQ Corporate Headquarters, Chicago

This is an example of Chicago TIF funds used to retain a company in Chicago. This example was provided by World Business Chicago.

NAVTEQ Corporation is a world leader in navigational information and technology, and a leading provider of comprehensive digital map information for automotive navigation systems, mobile navigation devices and Internet-based mapping applications. Their map database enables providers of these products and services to offer dynamic navigation, route planning, location-based services and other geographic information-based products and services to consumer and commercial users. Their

database is one of the primary sources of digital map information for automotive and Internet-based navigation products and services in Europe and North America, and they are a leading provider of such information for use in mobile devices.

NAVTEQ is one of Chicago's best technology success stories, employing 550 people downtown (as of 2007) and anticipating growth to a total of 950 employees over the next few years. They are true global leaders in mapping and navigation technology with a 90% automotive market share worldwide. In addition to their employees in downtown Chicago, NAVTEQ has staff in 135 cities around the world, with more than half of their current business in Europe.

NAVTEQ was founded in Silicon Valley in 1985, moved its HQ's to Rosemont in the 1990's, and then consolidated into the Merchandise Mart in 2001, where they experienced 77% job growth over a five year timeframe. The Mart no longer worked for their expanding company, for a variety of good business and technology reasons. As a result, other cities, including Detroit and San Jose, were vying to attract this corporate headquarters. The City of Chicago provided NAVTEQ with \$5 million in TIF funds to retain this company and HQ's in Chicago, and to assist with offsetting their significant rehabilitation and build out costs which included necessary technology infrastructure upgrades.

Having retained this growing company and HQ's, the project is providing numerous public benefits including:

- **Permanent Jobs:** the company will retain at least 550 full-time corporate headquarters jobs in Chicago, and will create 350 new full-time jobs for a total of 900 FTE jobs total.
- **Environmental Features:** constructed their office space to be LEED certified.
- **Mayor's Office of Workforce Development (MOWD):** working with MOWD to create a job recruiting/referral program.
- **Affirmative Action:** complied with the City's affirmative action ordinance for the office buildout (which requires contract participation of 24% by minority-owned business enterprises and 4% by woman-owned business enterprises).
- **City Residency:** complied with the requirements of Chicago's city residency and prevailing wage ordinances, which required that at least half of all construction-worker hours be filled by Chicago residents.

These examples show the variation that exists in the usage of local incentives and that incentives can be an instrumental tool to keep and attract jobs, as well as invest in long term economic development initiatives.

Measuring the Fiscal Impact

Governments can ensure that their incentive awards are fiscally sound investments by measuring the return on investment and conducting a cost-benefit analysis. DCEO uses the popular economic tool, REMI, to determine when the state will break-even as well as how much incentive is spent per job. Conducting such an analysis can be time consuming and expensive, especially for smaller municipalities with limited capacity. The Federal Reserve has developed one such tool, the Fiscal Impact Tool (FIT) free to all by request. The FIT is an automated process in the form of an excel workbook and should be thought of as a big calculator that helps estimate the effects of economic development projects on sales and property tax revenues as well as the costs to government. The user enters in project information, including the number of jobs and average wage, as well as local tax information. The module includes an input for incentives or other subsidies provided by the government.

An example how the FIT can be used is included in Appendix B. This example was provided by the Federal Reserve and demonstrates what the FIT can estimate and how this can help a local government make informed decisions on economic incentives.

Incentives and Tax Policy

Because each branch of government collects revenue from different tax streams, state, county, and municipal governments often target their incentives to the types of businesses that add the most revenue to their own budget. For example, a primary goal of a state incentive is to create income tax revenue, therefore companies that employ many people and pay good wages are favored, while a primary goal of a local incentive is to increase sales tax revenue, so retail companies with high sales may be favored. Tax policy is a key driver of development decisions and will be evaluated in more detail in other reports prepared to support *GO TO 2040*. This report recognizes that incentives and tax policy are closely intertwined; because of the complexity of this topic, this report will not cover this issue, but will be evaluated in a separate effort.

Approach to Incentives in *GO TO 2040*

On balance, the available research on the effectiveness and impacts of economic development incentives yields mixed results. Most empirical studies have analyzed the impact of certain programs or sets of programs on a range of particular indicators within a geographic area over time. A number of these studies have focused on the Chicago region. In terms of overall policy guidance, this research stresses the importance of a careful, targeted approach to incentives. Appendix C includes a literature review with more information from many of these studies.

The policy guidance from previous research along with an understanding of how economic incentives are currently used in the region helps inform potential strategies of how economic incentives can be used in the future. Overall, state and local incentive provisions should be motivated by at least two primary factors. First, these incentives should create “fiscal benefits.” Fiscal benefits accrue to a unit of government (typically a state or municipality), and they occur when new businesses and jobs add more tax revenue than public expenditure. Second, these incentives should create “employment benefits.” Employment benefits accrue to residents who are able to move up to better paying jobs as a result of the incentive (Bartik 2003).

Quantification of these benefits may differ depending on the geographic region in which the costs and benefits are assessed. In other words, local governments may have a different impression of benefits than a region or a state. Since workers do not always live in the municipality in which they work, it may be difficult for local governments to quantify both their fiscal benefits (tax revenue arising from, and the provision of services toward, its residents only) and employment benefits (since new workers resulting from an incentive might not live in the same municipality that offers it, or may receive varying levels of benefit depending on the wages previously earned).

One strategy for attaining a combined goal of fiscal and employment benefits is to target incentives toward expanding the sort of business activity that either exports outside the local economy (and brings new wealth in) or substitutes for imports to the local economy. In addition, the “employment benefit” for a resident will be increased by a growing differential between the new job wage and the old wage. According to this rationale, incentives should provide benefits when targeted toward hiring the unemployed or the “underemployed.” In addition, much of the literature suggests that targeting incentives toward the unemployed or underemployed may achieve not only efficiency in economic terms, but also increase regional equity. Previous research and several examples in this report also suggest that strategically targeted incentives can impact regional land use and transportation positively as well as support regional innovation.

In addition, a number of researchers have advocated for states to create regional economic development authorities; these agencies would provide a regional perspective with a better ability to judge the value of projects by considering a regional cost-benefit analysis. More research is required to assess whether such an institutional change should be considered for the Chicago region.

To address economic incentives in a targeted way that leads to the greatest regional benefit, the *GO TO 2040* plan should consider several recommendations. The following provides a description of some recommendations to be considered and examples of existing incentive programs to show how strategic targeting is currently occurring.

- Target incentives to communities with high-unemployment and fiscally blighted areas, and seek to employ the residents already living there. Job growth in these areas is most likely to have a permanent positive effect on the metropolitan labor market and also generate a reduction in public infrastructure costs (Bartik 1991).
 - Example: In 1997 three clusters of the city of Chicago were designated by HUD as Empowerment Zones and Renewal Communities. The federal program leveraged hundreds of millions of dollars to revitalize neighborhoods with high rates of unemployment and poverty. Several tax incentives were made available to businesses including a tax credit to employers located within the borders for every employee that also lives within the designated borders. More information on the tax incentives is available at HUD's website:
<http://www.hud.gov/offices/cpd/economicdevelopment/news/taxincentives051701.pdf>
- Target incentives toward firms that create the largest economic benefits, such as firms which make a commitment to hiring unemployed or underemployed residents. In conjunction with such an incentive program, invest in establishing and defining a strong link between employers, the targeted labor market, and effective training programs. Benefits increase when incentives are coordinated alongside workforce training programs which train local residents in the skills demanded by these firms (Bartik 2003).
 - Examples: Portland, OR JobNet, the Cleveland Center for Employment Training, and the City of Chicago's TIFWorks.

The purpose of the JobNet program in Portland Oregon is to link firms receiving economic development incentives with a pool of economically disadvantaged job seekers. Firms receiving assistance from the Portland Development Commission (PDC) were required to consider disadvantaged applicants from the JobsNet program. From 1989 to 1996, JobNet placed, on average, 700 disadvantaged persons into jobs per year.

The Cleveland Center for Employment Training (CET) currently works with local business to offer training programs in high demand occupations. Since 1967, this program has trained and placed 70,000 people (Erickcek 2001).

Locally, the City of Chicago has made TIF funds available for workforce development purposes through the TIFWorks program. Companies located in an eligible TIF district can apply for funds that enable them to

provide training that otherwise may be cost-prohibitive. TIFWorks provides up to 75% of direct training costs, allowing companies access to customized training. This is a newer program but has been off to a busy start, with more than 40 applicants.

- Target incentives toward firms most likely to contribute positively to the growth of the region's innovation. For example, incentives targeted towards an identified industry cluster may promote the growth of the cluster, resulting in higher levels of innovation and economic competitiveness. Research has indicated that these types of incentives serve to enhance productivity rather than simply redistribute the locations of business (Fishers and Peters 1998).
 - Example: Passed by the Pennsylvania Legislature in 2004, [*Keystone Innovation Zones*](#) provide incentives to Pennsylvania colleges and universities to transfer technology to companies that establish operations in their zone. The zones are meant to create opportunities for entrepreneurs to grow companies in the communities near Pennsylvania's college campuses. The objective is to attract "knowledge workers," especially in the biotechnology industry, and encourage venture capital firms to invest in Pennsylvanian companies. To date, more than \$10.8 million has been invested in 29 KIZs across the state. 1,966 jobs have been created in KIZs and perhaps even more importantly, 2,763 jobs have been retained. In a joint report, "Innovation America: Investing in Innovation," the National Governors Association's Center for Best Practices and the Pew Center on the States recognized the zones as an ideal new mechanism for using state funding and tax credits to encourage universities and research institutions to physically partner with local entrepreneurs.
- Target incentives to development that results in regionally beneficial land use decisions, such as development on underutilized land and/or brownfields (Bartik 2003) and near existing and underutilized transportation networks and diverse housing stocks.
 - Example: Passed by the Illinois General Assembly in 2006, the Business Location Efficiency Act is the first state incentive that intentionally links jobs with public transit and affordable housing. The incentive increases the existing incentive, Economic Development for a Growing Economy (EDGE), by up to 10 percent, to businesses that locate in areas that have access to public transportation and near affordable housing options. The incentive is also increased to businesses located in high unemployment areas. This is an innovative incentive that could encourage location decisions that have positive impacts on congestion and the environmental

impacts, as well as regional equity. There have not been any reports of businesses receiving this incentive to date.

- Example of infill redevelopment: As described earlier, the Chicago region has many TIF districts, some of which have effectively reinvested in existing underutilized infrastructure. For example, the Village of Elwood has a TIF district that has been very instrumental in redeveloping excess federally owned army property. The site was once a major employment center, with nearly 12,000 employees in the 1940s. In 1976, production began to decline dramatically and employment opportunities diminished. In 1993 the property was considered excess army property. The land sat underutilized, but with Will County's locational assets and growing intermodal industry, an opportunity existed to redevelop the site and spur development of the intermodal industry in surrounding communities. An establishment of a TIF district provided needed funds for infrastructure needs including streets and sewers, and environmental clean-up costs. At full build-out, the development is expected to create more than 8,000 jobs and increase local property tax revenue by \$27 million each year (CenterPoint Properties 2008). Considering the amount of infrastructure development required for this project, it may be unrealistic to expect the private sector to take sole financial responsibility.

Conclusion

A targeted incentives strategy may influence a business's location decision, resulting in greater job growth in certain geographic areas, or industry sectors, or benefitting specific populations. Using incentives to achieve identified goals, especially when coupled with other strategies, may yield positive results beyond job growth. For example, a targeted incentives strategy that influences businesses to locate on underutilized or infill sites, may reduce greenfield development and the cost of new infrastructure. This type of incentive may also have positive effects on congestion and several environmental indicators. Additionally, a targeted incentive strategy can also serve to achieve a positive effect on minority and low-income populations, which are typically clustered in more disinvested parts of the region. A strategy that provides workforce services to the unemployed or underemployed and growth through innovative industry clusters can increase the region's economic competitiveness and regional equity.

This paper has provided examples of different types of economic incentives offered by local governments, the State of Illinois, as well as other states. Despite varied findings on the effectiveness of incentives, they are an important tool and continue to be used

widely across the country at all levels of government. A description of the components that may increase the net regional benefit of economic incentives suggests how incentives can be considered for the *GO TO 2040* plan. Economic incentives to businesses will achieve greater results when implemented along with additional strategies that address other regional issues, including: transportation, environment and natural resources, and workforce development. Additionally, a brief description of the relationship between tax policy and incentives provision establishes an important point that will be further evaluated in separate, but related reports.

Sample programs of how incentives may alter job distribution, along with other economic variables, will be evaluated in the development of the *GO TO 2040* plan. Three alternative scenarios will be analyzed as part of the plan development. Incentives can be targeted differently in each scenario, to help reach the different economic goals of each scenario. The Preserve Scenario economy is focused on building human capital and knowledge based industries. Incentives can be targeted towards worker training and to key industries in the knowledge sector. The Reinvest Scenario focuses on growth in existing communities and strengthening infrastructure to expand freight and related industries. Incentives in this scenario can be targeted geographically based on infill potential, as well as proximity to existing transportation infrastructure. Lastly, the economy in the Innovation Scenario will be focused on building green jobs, as well as the innovation that results from industry clusters. Incentive targeting in this scenario may have a geographic or an industry focus.

CMAP welcomes comments on this draft report as we work towards the development of the *GO TO 2040* plan.

Appendix A: Defining the Range of Economic Incentive Types

A wide variety of strategies fall logically under the term “incentives.” In fact, one could argue that nearly anything state and local governments do has some kind of effect on economic activity and thus, acts as an incentive. To disentangle this conundrum, this paper follows the framework of the literature that identifies “two different poles” of economic development policy (Glaeser 2007). The first approach relates to the factors making a place generally attractive to workers, residents, and businesses. These factors include non-financial incentives such as access to raw materials, markets, infrastructure, quality and quantity of labor, as well as general tax policies for individuals and businesses. While local governments retain some degree of control over this approach, these factors are typically more region-wide (or state-wide) in scope and require longer-term investment with a wider reach. Beyond market forces, developing these factors also requires considerable government effort and coordination in areas like education, public safety, transportation, and housing.

The second approach relates to what Edward Glaeser of Harvard calls “large-scale production, where governments go out and lure businesses with tax cuts and other subsidies” (Glaeser 2007). These are more direct financial incentives, which come in a variety of financial assistance forms including access to below market rate capital and tax incentives. The main tax incentives that are used include credits, exemptions, and abatements. The focus of this paper is examining the use of this type of incentive, while keeping in mind the importance and reality of the other type of investment decisions that incentivize business and commercial development.

Glaeser considers financial incentives to be an “activist” approach, since it focuses on predicting which firms and industries will lead to fiscal and employment benefits, and providing them with customized assistance through programs like tax incentives, job training, and loans. This paper would also argue that Tax Increment Financing (TIF) districts, in which municipalities utilize a property tax increment to provide bundles of such assistance within a geographic boundary, should also be included under this approach. Fisher and Peters argue that these types of incentives are typically *explicit* (would not in all likelihood exist but for the public concern with promoting job creation) and often, but not always, *negotiated* (discretionary and competitive and not offered automatically as part of the tax code) (Fisher and Peters 1998).

The following table (Table 1) represents an attempt at presenting a typology of economic development incentive programs, based on a review of the work of Fisher and Peters, scholars who have conducted extensive research on the impact of incentives on business location decisions (Fishers and Peters 1998). While reasonable minds may disagree about the way this typology is constructed, it at least represents a way to begin considering the range of different programs.

Most of the available empirical research has studied the impacts of programs falling into the type “1” or “2” category. In addition, a more recent batch of research has also analyzed the impact of geographically-based bundles of programs, such as Tax Increment Financing (TIF) or Enterprise Zones. As geographically based tools offering a variety of incentive tools, TIF and Enterprise Zones may logically include various bundles of the type of elements found in type 1, 2, or 3.

Table 1: Economic Development Incentive “Typology”

Type	Type 1- “Tax” Programs	Type 2- “Non-Tax” Programs	Type 3- “Demand Side” or “New Wave” Programs	Type 4- Federal Programs
Basic Description	Typically offered automatically in an “all or nothing” fashion and based on certain criteria inherent in the tax code. “Prescriptive” in nature, they are typically entitlements to business.	Discretionary and competitive between governmental units and prospective firms. “Negotiated” in nature.	Aimed at increasing innovation, attentiveness to agglomeration economies, technology, and so on.	Federal incentive programs usually outside the purview of state and local governments.
Examples	Local property tax abatements for new business investment, investment and job creation credits against corporate income or franchise tax, sales tax exemptions	Grants, loans, loan guarantees, and loan subsidies to attract or retain business capital and jobs. Customized job training and wage subsidies, infrastructure subsidies	Entrepreneurship programs, R&D subsidies, technology transfer programs, providing venture capital, small business incubators	Industrial Revenue Bonds (IRB), Community Development Block Grants (CDBGs)

Appendix B: Federal Reserve Fiscal Impact Tool example

In this example, the proposed development project is a 150-job service-sector project in Des Moines, Iowa. The average salary is \$25,000, investment in building is \$1 million, and investment in equipment is \$500,000. The example assumes that the village captures \$25,000 in one-time construction fees. The tax rates come from public web sites from several years ago. No assumptions on the Data Entry sheet were overridden.

As shown on the Output sheet, FIT estimates that 150 indirect and induced jobs will be generated in addition to the 113 direct positions added by the project. Multiplier effects augment the \$3,750,000 of direct payroll by an additional \$2,812,500 to yield \$6,562,500 of new payroll in the county annually.

FIT estimates that each direct job will generate \$1,120.42 in direct tax increments in the county and an additional \$154.69 in multiplier impacts, for a total of \$1,275.11 per job or \$191,267 for the project per year.

On the Cost Module sheet, the analysis assumed that capacity in education and utilities was sufficient to handle increased demand. However, the project was assumed to have two fixed costs associated with it: \$150,000 for highway improvements, and \$50,000 in one-time other expenses in the form of a grant to the firm. (Actually, FIT assumed that any new utility costs would be matched by an equal amount in new utility revenues.)

The cost-benefit analysis estimates that the annual direct tax increments (benefits) from the project will exceed the costs by \$95,641. However, when the multiplier benefits are added in, the project generates a net tax benefit in the county of \$118,844. This amount would pay off the \$175,000 in net up-front costs (\$200,000 highway and other costs less \$25,000 in impact fees) in 1.5 years.

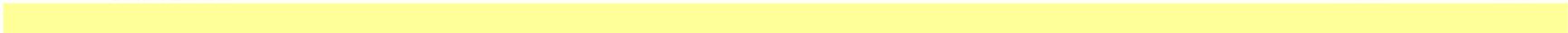
The \$175,000 up-front cost amounts to \$0.51 per resident, and the annual operating cost of \$72,422 amounts to \$0.18 per resident.

Note that just because the project generates positive cash flow in the county, this does not guarantee that each jurisdiction will come out ahead or that each taxing entity will have enough tax increment to meet its needs. In this case, however (using the specified marginal cost of providing government services and the specified assumptions about the shares of the cost borne by different entities), the city of Des Moines winds up with an annual operating surplus of \$32,902 (and a payback period of 2.3 years) while the other local jurisdictions receive an estimated annual net benefit of \$85,943 (and a payback period of just 1.2 years). Obviously, for some analyses, just some small changes in the assumptions related to the burden of government costs could significantly alter the results. In this example, however, even were all of the estimated incremental recreation and highway costs to be borne by the city rather than the way they were initially distributed, this would shift \$21,119 of costs but would still leave the Des Moines with a positive anticipated annual net revenue stream.

The Time Module – given a host of assumptions such as a ten year time frame, two year ramp-up, 3% inflation, and 5% discount rate – produces an aggregate Net Present Value (NPV) for all of the taxing jurisdictions in the county of \$818,215 in this case. Raising the discount rate to 10% (which would be equal to a 7% real rate given the 3% inflation rates) would reduce the projected NPV to \$561,915. Additionally, increasing the delay between start up to ongoing from 2 to 4 years (with a discount rate of 10%) would drop the calculated NPV to \$471,110. While the project's projected NPV is significantly reduced when using the real discount rate recommended by the OMB, detailed sensitivity analysis will show that even a discount rate of 44% will produce a projected positive NPV when using all of the other original assumptions. This suggests that the financials for this project are not overly sensitive to the discount rate used.

Data Entry Sheet:

City: Des Moines city
 County: Polk, Iowa
 State: Iowa



DATA ENTRY

Place and Tax Information

Place name

Property Tax Rates (per \$100 assessment)

	Real/Fixed	Personal
County	\$0.63480	\$0.63480
City	\$1.70490	\$1.70490
Schools	\$1.71400	\$1.71400
Other1	\$0.29120	\$0.29120
Other2	\$0.09280	\$0.09280
Total	\$4.43770	\$4.43770

Sales Tax Rates

<input type="text" value="6.00%"/>	Total
<input type="text" value="5.00%"/>	State
<input type="text" value="0.00%"/>	City
<input type="text" value="1.00%"/>	County

Utility Franchise Fee

Rate

Project Profile

<input type="text" value="s"/>	Manufacturing (enter M) or Service (S)
<input type="text" value="150"/>	Average employment
<input type="text" value="\$25,000"/>	Average salary
<input type="text" value="\$1,000,000"/>	Incremental increase in real property (market value of new buildings & structures associated directly with the project)
<input type="text" value="\$500,000"/>	Incremental increase in personal property (market value of new machinery & equipment associated directly with the project.)

Additional Revenue Streams (beyond sales, property, and utility taxes)

One-time	<input type="text" value="\$25,000"/>	Ongoing	<input type="text"/>
Source	<input type="text" value="Construction fees"/>	Source	<input type="text"/>
% to Place	<input type="text"/>	% to Place	<input type="text"/>

Additional Information for Output worksheet

Historical Sales Tax Data

Year	Tax Rate	Amount Collected
2006	<input type="text" value="Fill in"/>	<input type="text" value="Fill in"/>
2005	<input type="text" value="Fill in"/>	<input type="text" value="na"/>
2004	<input type="text" value="Fill in"/>	<input type="text" value="na"/>
2003	<input type="text" value="Fill in"/>	<input type="text" value="na"/>

Represents a tax on both gas and electric services	2002	Fill in	na
	2001	Fill in	na

FIT ASSUMPTIONS (DEFAULTS) AND OVERRIDES

Project wages		\$3,750,000			Is default used?
		Assumptions		Overrides	
Ratio: Wages (salary X empl) to Sales	50%	for a service firm		50%	Yes
Ratio: Energy costs to Sales	0.5%	for a service firm		0.5%	Yes
Ratio: Project \$s subject to sales tax	10.0%	for a service firm		10.0%	
Estimated project sales		\$7,500,000		\$7,500,000	Yes
Estimated project energy costs		\$37,500		\$37,500	Yes
Est. project purchases subject to sales tax		\$750,000		\$750,000	Yes
Est. proportion of retail leakage out of area		10%		10%	Yes
		Check figure: Pct. of workers commuting into county in 2000			19.9%
Estimated in-migration rate (default = 20%)		20%		20%	Yes
		Check figure: estimate of county in-migrant workers to job growth, 1999-2004			65.6%
		The check figure assumes that one-third of in-migrants are workers. It could be lower for retirement destinations, and it loses its validity for areas of low net in-migration, net out-migration, or employment declines during the period.			
Number of members per in-migrant family		3.0		3.0	Yes
School-aged (6-18) children per in-migrant family		1.0		1.0	Yes
Share of in-migrant families producing new housing		100%		100%	Yes
Estimated mean value of new or upgraded housing		\$63,000		\$63,000	Yes
Estimated economic impact multiplier		1.75		1.75	Yes

Investment mult. effect as a % of tot. impact multiplier	20%	20%	Yes
Estimated consumer retail sales occurring in city	35.0%	35.0%	Yes
Check figure: Ratio of city to county retail sales from 2002 Economic Census: [This figure is rounded to the nearest 5 percentage points.]			37.3%
Percent of consumer \$s spent subject to sales tax	30.0%	30.0%	Yes
Assessment ratio, Real property	100.000%	100.0%	Yes
Assessment ratio, Personal property	100.000%	100.0%	Yes
Assessment ratio, Residential property	100.000%	100.0%	Yes
Share of new project investment in city limits	100.0%	100.0%	Yes
Share of new project spending in city vs. county	100.0%	100.0%	Yes
Share of new project utilities bought from the city	100.0%	100.0%	Yes
Estimated share of new residential investment in city	50.0%	50.0%	Yes

This default is city's share of county population rounded to the nearest 5 percentage points

Analysis for Des Moines and Polk, Iowa County

This output worksheet provides estimates of the direct, indirect, induced, and total effects of the development on employment, income, and tax receipts. The estimates are based on the data entered in the Data Entry sheet. No data are to be entered on this sheet.

<u>Estimated Effects of Project on Employment, Investment, and Spending</u>			
	<u>Direct</u>	<u>Indirect & induced</u>	<u>Total</u>
Employment	150	113	263
Total payroll	\$3,750,000	\$2,812,500	\$6,562,500
Investment			
Real	\$1,000,000	\$150,000	\$1,150,000
Personal	\$500,000	\$75,000	\$575,000
Residential	\$1,890,000	na	\$1,890,000
Spending subject to sales or franchise tax			
Sales tax in county from project	\$750,000		
Franchise tax from project	\$37,500		
Consumers, total:	\$1,125,000		
in county	\$1,012,500	\$759,375	\$1,771,875
in city/town	\$354,375	\$285,781	\$620,156

<u>Estimated Effects of Project on Tax Receipts</u>			
	<u>Direct</u>	<u>Indirect & induced</u>	<u>Total</u>
Property tax receipts			
Project investment			
Real	\$44,377	\$6,857	\$51,034
Personal	\$22,189	\$3,328	\$25,517
Residential	\$83,873	na	\$83,873
Distribution of property tax receipts			
to schools	\$58,105	\$3,857	\$61,961
Elsewhere	\$92,333	\$6,128	\$98,462
Sales tax receipts			
to county from:			
Project spending	\$7,500	\$5,625	\$13,125
Consumer spending	\$10,125	\$7,594	\$17,719
to specific city/town from:			
Business spending	\$0	\$0	\$0
Consumer spending	\$0	\$0	\$0
to all other cities/towns in county from:			
Business spending	\$0	\$0	\$0
Consumer spending	\$0	\$0	\$0
Other ongoing tax receipts			
in specific city/town	na	na	na
elsewhere in county	na	na	na

Estimated Total Tax Receipts

	<u>Direct</u>	<u>Indirect & Induced</u>	<u>Total</u>
Total Tax Receipts	\$168,063	\$23,204	\$191,267
Sales tax receipts in city	\$0	\$0	\$0
Franchise fees in city from project	\$0	\$0	\$0
Sales taxes in other cities	\$0	\$0	\$0
Sales taxes for county	\$17,625	\$13,219	\$30,844
Property tax receipts in county	\$150,438	\$9,985	\$160,423
Other ongoing taxes in county	\$0	\$0	\$0

Estimated Tax Receipts per Direct New Job

	<u>Direct</u>	<u>Indirect & Induced</u>	<u>Total</u>
Tax Receipts per Direct Job	\$1,120.42	\$154.69	\$1,275.11
Sales tax receipts in city	\$0.00	\$0.00	\$0.00
Franchise fees in city from project	\$0.00	\$0.00	\$0.00
Sales taxes in other cities	\$0.00	\$0.00	\$0.00
Sales taxes for county	\$117.50	\$88.13	\$205.63
Property tax receipts in county	\$1,002.92	\$66.57	\$1,069.49
Other ongoing taxes in county	\$0.00	\$0.00	\$0.00

Summary Interpretation of Data

Additional Payroll.

The 150 new jobs associated with the proposed project are projected to directly result in \$3.75 million in additional payroll. Assuming a local economic impact multiplier of 1.75, each dollar of direct payroll will generate an additional 75 cents of indirect and induced wage income locally, for a total addition to payroll of \$6.563 million.

Property Tax Receipts.

Assuming that the \$1.5 million investment in plant and equipment associated with the project ultimately finds its way onto the property tax rolls, property taxes associated directly with the project could total \$150,438 annually. And assuming a local economic impact multiplier of 1.75, and a constant capital to output ratio, the \$1.5 million capital investment could also result in an additional \$0.225 million in indirect and induced investment subject to property taxes.

If the 150 new jobs generate demand for 30 new housing units with an average value of \$63,000, the proposed project could expand the residential property tax rolls by as much as \$1.89 million. Such an impact would be associated with approximately \$83,872 in new property tax receipts annually.

Sales Tax Receipts.

Assuming that the volume of consumer purchases subject to sales tax averages 30% of personal income, the additional payroll would add \$17,718 annually to sales tax collections in the county. Miscellaneous project purchases not exempt from sales taxes estimated at \$0.75 million, might, given the corresponding multiplier expenditures, add \$13,125 annually to sales tax collections in the county.

Appendix C: A Literature Review on the Impacts of Incentives

The impacts of economic incentives have been studied extensively by economists and others in academia and many of these studies can help guide policy, however, it is important to recognize that many realities, nuances, and unique circumstances of incentive packages cannot be captured in such studies. This does not mean they should be altogether discounted, but rather empirical and anecdotal evidence combined provide a more complete understanding. The following provides a brief summary of the main findings from a sample of several studies on incentives.

Available research indicates that tax incentives rarely tip the location choice for businesses across different regions. Lynch (2004) notes that firms are unlikely to move from one place to another to take advantage of state and local business tax differentials and abatements, since state and local taxes represent such a low (1%) cost of doing business, as opposed to labor costs (20%). In a review of econometric research performed between 1979 and 1994, Bartik concluded that taxes generally have a small negative effect on business location decisions, employment, and economic growth. In other words, taxes and tax abatements do contribute somewhat to interregional business location decisions, although the level of impact is not large.

However, research has indicated that local tax abatements and economic development incentives may substantially influence the intrametropolitan location of business activity. In the case of tax abatements, Bartik (1991), in a review of 99 empirical studies, suggests that the elasticity of intrametropolitan area business location with respect to taxes ranges from -1.0 to -3.0; thus a 10 percent tax difference may translate into a 10 to 30 percent change in business activity. Wasylenko (1997) as well as Anderson and Wassmer (2000) agree with Bartik's findings that local taxes and economic development incentives can substantially influence the intrametropolitan location of business activity.

A variety of research has found that incentives simply tend to shift growth from one part of the region to another, serving to distort the location choices of firms and lead to inefficiencies overall in the region. Bartik (1991), however, argues that incentives will overcome the "zero sum game" if they serve to encourage economic activity in depressed areas. In this case, regional efficiency and equity should rise.

Phillips and Goss (1995) and Wasylenko (1997) reviewed similar empirical studies and found results aligning well with Bartik's research. In an important finding, Wasylenko notes that taxes do play a significantly larger role when a business chooses among locations within the same region, rather than across different regions; in fact, he concludes that the tax elasticity in regards to firm location decisions within a region appears to be at least four times the interregional elasticity, meaning that businesses are much more responsive to these types of differences within regions than they are across

them. However, interviews with local experts indicate incentives are an important deciding factor when two or more similar regions are compared.

While businesses typically generate more in tax revenues than they require in public services — one study pegs this as \$1.70 in revenue for every dollar of public services (Oakland and Testa 1996) — the typical household normally consumes more in public services than it pays in tax revenues (Bartik 2003). While incentives may bring in new business and new tax revenues, they also bring in more households requiring more services and infrastructure from governments. These new service and infrastructure needs represent the “cost” side of the equation and often exist on a regional, not a local, scale. Bartik argues that creating one new job through a typical incentive outlay will, on average, cost a metropolitan area about \$7,000 annually (in 2002 dollars) in business tax revenue. This figure includes the revenue gained from induced business activity from any “multiplier effects.” This \$7,000 figure is derived from calculating the public services required for both new households and the businesses themselves.

This \$7,000 per job through incentives represents an investment for government, similar to other investments in education, infrastructure, recreational amenities, and so on. The larger question for composing an overall “incentives strategy” is to outline when such an investment is worthwhile. State and local governments should consider potential costs like this within their overall bundles of public services. This requires weighing the costs and benefits of using incentives for new jobs and business activity alongside other public services like education, infrastructure provision, and so on. It is also vital for governments to understand the relative benefits of new jobs to current residents as opposed to in-migrants. Fiscal and employment benefits increase when tax incentives generate new jobs for current unemployed or underemployed residents (Bartik 2003).

TIFs have also been the subject of a growing number of empirical studies attempting to quantify their impact. TIFs aim to encourage re-development in “blighted” areas by issuing debt from incremental (and frozen) property tax revenues to finance infrastructure and provide subsidies to developers. The overall goal of TIF is to boost development and property values in blighted areas, focus particular investment to take advantage of cluster economies, and generally offer firms and developers “good deals” to encourage them to locate in one particular municipality rather than another.

It appears that some TIFs may work better than others. In a study of 89 TIF districts in the Chicago metropolitan region, it was found that property values within industrial TIF districts grew more rapidly than in other types of TIF districts (Byrne 2002). However, in a similar study only focusing on the City of Chicago, Weber, Bhatta, and Merriman find that the value of industrial parcels located in mixed-use TIF districts, which contain commercial or residential properties, is higher than that of industrial parcels not located in these districts. However, these authors also found that industrial parcels located in homogenized industrial TIF districts did not achieve higher property values (Weber et al

2003). Dye and Merriman (2003) analyzed municipal data in the 6-county Chicago region from 1980 to 1995 and concluded that TIF adoption was actually correlated with slower growth in property values in adopting municipalities, compared to non-adopting municipalities.

Enterprise zones, which offer concentrated doses of a range of financial and non-financial incentives to firms in particular locations, have been found to have a minimal net effect on employment. Greenbaum and Engburg (2004), studying state enterprise zones from 1984 to 1993, again find that these zones are associated with more “churning” of activity from non-enterprise zones into enterprise zones, not any net new activity. A review of other empirical research finds little net benefit to enterprise zones, although the “studies and their results vary widely, delivering mixed conclusions” (Hirasuna and Michael 2005).

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