Improving local
development
incentives

Effective practices for local governments in northeastern Illinois


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Introduction

Local governments across northeastern Illinois commonly provide incentives to businesses and developers to encourage development. However, without a clear strategy and purpose, incentives can have higher costs and lower public benefits than intended. ON TO 2050 — the region’s long-range, comprehensive plan — recommends reforming development incentives to better achieve local and regional goals. This technical guide introduces evidence about the prevalence and effectiveness of local incentives, and outlines strategies for local practitioners to improve their use.

Many local elected officials and policymakers use incentives in pursuit of goals like generating jobs, improving vibrancy on main streets, and increasing public revenues. Leaders often turn to incentives in response to competition from other communities, proximity to lower-tax states, and substantial variation in tax burden around the region. However, research indicates that incentives often do not effectively achieve these goals. Financial incentives can also result in eroding or negative returns for the region and do little to make northeastern Illinois a better place to do business.

Incentive reform can benefit many parties. Local governments are more likely to benefit from incentive use when they are intentional about targeting, writing, and evaluating incentive agreements. Businesses and developers can derive increased value from incentives designed to directly address their needs. Communities will be better served by deals that result in lasting upgrades to our infrastructure, workforce, or supports for entrepreneurs. And the region overall is more likely to experience lasting gains when local incentives bring new economic activity to northeastern Illinois and facilitate growth in disinvested areas.

The framework for this guide revolves around four principles — equity, transparency, performance-driven use, and pursuit of regional benefits — to make our region more competitive. Efforts to collaborate with neighboring jurisdictions and develop policies to guide incentive use can help the region achieve these goals.

This technical guide presents strategies and practices for improving the use of local development incentives that are tailored specifically to northeastern Illinois. Local governments — including municipalities, counties, school districts, and other special taxing districts — should implement these recommendations and help make the region a national leader in effective incentive use.
Local governments use incentives to encourage development in many ways. A broad range of motivations, applications, and limitations complicate the job of understanding and improving local development incentives. The following pages establish a shared understanding of incentive use in northeastern Illinois.
Understanding local development incentives

What are local development incentives?

How prevalent are local development tax incentives?

What are the limitations of incentive use?
What are local development incentives?

Most local development incentives are case-by-case decisions to decrease a prospective business’ tax burden or return tax revenues to them in the form of cash grants or reimbursements. Such incentives attract growth by shrinking or closing financial gaps in development costs or day-to-day business operations. This technical guide focuses on the tax incentives commonly used by local governments in northeastern Illinois to recruit, assist, and retain individual developments and businesses.

Local and regional governments can also foster business development in ways that do not involve a tax burden reduction. These non-tax incentive tools can directly address the risks and concerns of prospective businesses but are often overlooked. State and federal incentive programs can also impact local development decisions, but they are less likely to affect local government finances, and local governments often have little say in their administration.

Use of local development incentives is motivated by separate, overlapping, and sometimes ill-defined goals. Common motivations — and the benefits of making them explicit — are described later in this report. Additionally, specific challenges in northeastern Illinois drive taxing districts to use incentives. Development in some areas of the region has been slow, particularly in communities with high property tax burdens. Communities near Indiana and Wisconsin use incentives to compete with communities across state borders. And, the tax structure in Illinois provides large fiscal rewards to municipalities for sales tax-generating development, driving intraregional competition.
Examples of development tools and related practices

**Local tax incentive programs**
- Sales tax rebates
- Tax increment financing (TIF) districts
- Business district tax rebates
- Property tax abatements
- Cook County property tax incentive classifications

**Other incentives and related practices**
- Job training and workforce hiring assistance
- Small business incubation services
- Streamlined development review practices
- Discounted land sales
- Site preparation
- Public goods and services, such as modern water infrastructure or an effective transportation network
- Façade improvement grants
- Revolving loan programs

**State and federal incentive programs**
- Enterprise zones
- River Edge Development Zones
- High Impact Business program
- The Economic Development for a Growing Economy (EDGE) tax credit program
- Historic preservation tax credits
- Opportunity zones
How prevalent are local development tax incentives?

The use of tax incentives to encourage development is widespread. Varied and inconsistent reporting standards prevent a definitive summary, but leading estimates suggest that state and local governments around the country spend at least $45 billion on tax incentives to private business every year. Nationwide, use of incentives has increased in recent decades, with some researchers finding a notable uptick after the 2007-09 recession. More than 30 percent of businesses with over 1,000 employees receive some sort of incentive.

Recent CMAP analysis of five common types of local tax incentives reveals that many local governments in northeastern Illinois — including 216 of the seven-county region’s 284 municipalities — use them to promote development.

**Tax increment financing (TIF)**

TIF districts are created to fund development projects in blighted areas or in conservation areas. Property tax rates applied to increases in property value that occur after the district is established (the tax increment) are used to fund projects in the district, thus reserving a portion of tax revenues for economic development rather than general governance.

Over 60 percent of municipalities in the region contain TIF districts, with 602 districts active in 2018. That year, $16.7 billion of equalized assessed value (EAV) — more than one-quarter of which was located in suburban communities — was used to generate TIF funds.
Sales tax rebates

Municipalities and counties can enter into revenue-sharing agreements with businesses and developers to rebate a portion of the sales tax they collect. Local governments may rebate their local share of the state sales tax and/or any local option sales tax that exists.

More than 120 municipalities reported participation in 320 active sales tax-sharing agreements at the end of 2019. These agreements have a median duration of 15 years. Approximately half of these agreements reported lifetime maximums, which total over $350 million.

Business district tax rebates

Illinois municipalities may designate Business Development Districts and administer an additional tax on goods and services sold within the district. This additional tax can be used to pay for development costs or can be rebated to a business or a developer for improvements within the district.

Ten municipalities have implemented business districts with revenue-sharing agreements for 15 developments as of the end of 2019, levying an additional sales tax (typically 1 percent) and returning some or all associated revenues to the business. The median duration of these agreements is 20 years.

Property tax abatements

Any local government that extends a property tax can abate (or decrease) any portion of its taxes for specific properties to incentivize development.

Forty taxing districts — primarily municipalities and school districts — were engaged in 72 property tax abatement agreements in 2018. That year, more than $4 million of property tax was abated.

Property tax incentive classes

Cook County assesses commercial and industrial property at a higher percentage than residential property. (The collar counties do not use this classification system.) In Cook County, commercial and industrial properties awarded an incentive class (Class 6, 7, or 8) are assessed at a lower rate for a 10-year period, which is renewable for certain classes.

Property in Cook County receiving a lower assessment rate via an incentive classification had a total assessed market value of approximately $6 billion in 2016. These properties represent 7.4 percent of the county’s total commercial and industrial property value.
What are the limitations of incentive use?

Local governments have valid reasons for pursuing incentives, but research has indicated that incentives are less effective than their supporters hope. Local governments should be aware of their drawbacks and implement practices to address or avoid common issues.

**Limited impact**
The actual impact of incentives on business decisions is often limited. Recent research estimates that in at least 75 percent of cases nationally, incentives are given without swaying the recipient’s final decision about where to operate their business.  

**High costs**
Incentivized developments, especially large projects, can create indirect costs (for example, new burdens on public infrastructure or increased enrollment in schools) that are larger than the revenues they generate.

**Diminishing returns**
Regardless of the effectiveness of any individual incentive, local governments’ willingness to use incentives to compete within the region can lead to bidding wars with diminishing fiscal returns. Research links this sort of competition to greater numbers of incentive deals and lower public sector revenues.
Surface-level solutions
Incentives often do not directly address or correct for the local challenges or larger trends that motivate their use. Addressing these underlying challenges directly can lead to better, more sustainable outcomes.9

Limited local benefits
Since businesses draw on regional labor and supplier pools, meeting local economic development goals with incentives can be difficult. Incentive use frequently does not result in local employment gains.10 New hires and business purchases may come from outside the jurisdiction that provides an incentive.11 As a result, research suggests that incentives often do not improve the quality of life for existing local residents.12

Barriers to equity
The region’s inclusive growth goals can be challenging to meet with incentives.13 Requirements to promote greater racial and economic equity can change the compliance costs of a project, lowering the value of an incentive offer to the business and raising financial risks if the business is unable to meet requirements. Additionally, incentives come at a steep opportunity cost, as rebated tax revenues could otherwise have been allocated to programs that directly promote inclusive growth.
Local governments can make incentive use more effective by adopting the following principles and strategies. Each strategy includes standard and best practices that local governments can implement based on their local context.
Improving the use of development incentives

Four key principles to guide incentive use

Ten strategies for improving local development incentives
Four key principles to guide incentive use

Equity
The region cannot achieve its economic goals without addressing the effects of racial segregation, discrimination, and disinvestment. Inclusive economic growth demands policies that support development in disinvested communities and provide equitable access to high-quality amenities and employment. Incentives can enhance equity, such as by leveling tax rates across jurisdictions, encouraging local hiring and good wages, and coordinating investment in training programs. However, incentives may also contribute to inequitable outcomes, including decreasing budgets for public services. Communities should carefully weigh the impact of incentive use on equity and inclusive growth.

Performance-driven use
Incentives should always be considered as one in a suite of development tools and used only when they are the most effective tool available for achieving desired outcomes. Communities should establish clear goals and performance measures with which to guide, evaluate, and improve their incentive programs. Local goals and contexts should serve as a blueprint for establishing performance measures, which may include restarting growth in disinvested areas, leveling tax rates across jurisdictions, or creating needed jobs.
Pursuit of regional benefits
Regional prosperity can make every community in northeastern Illinois successful. Yet incentives often drive communities to vie over specific businesses, leading to inefficient, intraregional competition that does little to improve the region’s position in national and global markets. Smart practices can make the region as a whole more competitive and more attractive to businesses and residents in the long run. Policies should maximize broad economic benefits and minimize the use of incentives only for local fiscal gain.

Transparency
Communities benefit from practicing transparency in their use of incentives. Publishing clear incentive policies and sharing agreement details can help smaller businesses access incentive programs, establish expectations for early negotiations, and increase accountability. Public evaluation of outcomes can improve incentive use over time.
Establishing clear goals and conditions for incentive use can help local governments understand whether or not potential incentives are wise investments. Transparent processes and expectations can help potential applicants — especially small and under-resourced businesses — better navigate the process. There is no evidence to suggest that published incentive policies increase incentive use, as long as local governments retain discretion over incentive approvals.

**Strategy 1**

**Establish goals and conditions publicly**

Establishing clear goals and conditions for incentive use can help local governments understand whether or not potential incentives are wise investments. Transparent processes and expectations can help potential applicants — especially small and under-resourced businesses — better navigate the process. There is no evidence to suggest that published incentive policies increase incentive use, as long as local governments retain discretion over incentive approvals.

**Standard practices**

- Build community consensus around goals and the types of development a local government is willing to incentivize. Then, select incentive strategies that pursue those goals and limit spending on projects that are unnecessary or out of alignment.
- Align goals for incentive use with existing local and regional plans, which are built on extensive analysis and community input. For example, design incentives to encourage the vibrant, compact, infill development called for in ON TO 2050, metropolitan Chicago’s comprehensive regional plan.
- Articulate goals publicly, such as in plain text descriptions online, to make them more accessible. Clearly stated goals can signal to prospective businesses that a local government is ready to be an effective partner and that policy adherence is likely to result in public approval.
- Make incentive processes transparent and scalable to improve accessibility for small local businesses. Large and well-connected businesses are more likely to ask for incentives regardless of clear policies and timelines.

**Best practices**

- Publish goals, processes, guidelines, and targets in a formal incentive policy, such as a local ordinance or resolution. Such a policy makes it easier for businesses to comply with these expectations and enables coordination across jurisdictions.
Clarifying common motivations for incentive use

Communities typically use incentives to address specific perceived challenges. However, these objectives are often implicit or ill-defined. Clarifying objectives — and understanding the trade-offs between them — is an important first step toward improved incentive use. Most communities are motivated to use incentives for the following reasons:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic development</td>
<td>Increase the availability of good jobs or enhance core economic assets</td>
<td>Recruit new businesses that employ middle-skill workers, sell goods and services to outside markets, strengthen unique industries with regionally related firms, or diversify the industrial base</td>
</tr>
<tr>
<td>Community development</td>
<td>Improve quality of life and amenities for local residents</td>
<td>Recruit a grocery store into a neighborhood with limited food options or fill vacant storefronts on a community main street</td>
</tr>
<tr>
<td>Expanded tax base</td>
<td>Increase or broaden a community's tax base</td>
<td>Recruit a sales tax-generating business, such as a car dealership</td>
</tr>
<tr>
<td>Inclusive growth</td>
<td>Provide equitable opportunities for people of color, people with disabilities, and other marginalized groups</td>
<td>Partner with a business to hire, train, and promote local workers; encourage living wages; and contract with businesses owned by people of color or people with disabilities</td>
</tr>
</tbody>
</table>

Objectives can overlap: a new grocery store can provide an important neighborhood amenity (community development) and new tax revenue. They can also be conflicting: new development can cost more than the revenue it generates, and inclusive growth requirements may limit economic development if they increase compliance costs too much. Incentive use in pursuit of any objective faces specific pitfalls (see page 10).

ON TO 2050, the region’s comprehensive plan, states that communities should minimize the use of incentives that are only for fiscal gain, focusing instead on maximizing broad benefits. By making motivations explicit, communities can better evaluate whether incentive use aligns with community goals as well as with local and regional plans.
Use incentives to develop community benefits and advance racial and economic equity

Regions limit their potential growth when they leave some people and places behind. Disparities persist in part because disinvested neighborhoods face greater difficulty attracting new growth. Incentive programs can be structured to ask more of employers and to recognize those that create positive impacts beyond their business. Research suggests that encouraging investment in struggling neighborhoods can be a particularly effective use of incentives. Carefully targeted incentives with achievable but aggressive equity commitments can spur growth in distressed areas and result in new community amenities.

Standard practices

- Identify neighborhoods struggling to attract investment and use incentives to support sustainable business development in these areas in line with community needs and goals.
- Use incentives to attract businesses that meet specific community needs, such as a full-service grocery store or mixed-use development with residential, retail, and office space.
- Collaborate with businesses to incorporate meaningful public benefits into every incentive agreement. This may include partnering with local schools or community-based organizations, making a joint investment in neighborhoods of need, and providing public green spaces.

Best practices

- Engage community partners in predefining a “menu” of public benefits or other contributions that prospective businesses can offer to support equity goals, so that community expectations are clear upfront.
- Use community benefits agreements to formalize shared values and commitments among large developments, their investors, and impacted communities.
- Use racial equity impact assessments during economic development planning to explicitly evaluate the potential impact or unintended consequences of proposed developments on people of color.
Case study: Portland, Oregon

Community services fees and an equity fund

Local governments in Oregon regularly collect a community services fee as part of incentive agreements in the state’s certified enterprise zones. Unlike Illinois’ Enterprise Zone program, which primarily provides rebates of sales and utility taxes, Oregon’s program exempts businesses from all local property taxes on qualified capital investments for three to five years. Local governments have broad authority to add stipulations to Enterprise Zone agreements in their jurisdiction, including requiring businesses to pay a community services fee equivalent to a portion of their property tax exemption. Participating businesses typically pay up to 30 percent of the abated property taxes and meet other expectations for local procurement of supplies, services, and equipment; job quality; and hiring efforts targeted toward local and/or economically disadvantaged workers.

For example, Prosper Portland — the city’s economic and urban development agency — requires all businesses receiving Enterprise Zone abatements to enter a public benefits agreement and contribute 15 percent of the value of the abatement to the agency’s Business and Workforce Equity Fund. Contributions have been used to provide community-based workforce navigators and technical assistance for small businesses owned by people of color, among other programs.

Improving the use of development incentives
Strategy 3

Give incentives only when they make a difference

Although incentives can fill a financial gap for a particular development, they often do not sway business location decisions. Ideally, local governments should use incentives only where they are tied directly to meaningful outcomes. In practice, with access to imperfect information, this is difficult to know. However, local governments can take steps to understand what is driving a prospective business or development’s financial challenges and offer only incentives that directly mitigate key financial gaps.

Standard practices
• Assess whether the development would be financially feasible but for an incentive, by evaluating the prospective business’ financials and other location options. This includes understanding what other incentives the applicant may be eligible for from other taxing districts.
• Make it the developer’s job to provide evidence that the incentive is necessary to move the project forward.
• Give incentives with shorter time horizons to protect taxing district revenues, while still encouraging sustained, multi-year commitments from recipients. Longer-term incentives may be appropriate in some circumstances, but shorter durations can often provide equal benefits to local governments at a lower overall cost.

Best practices
• Share the cost of independent financial evaluations with the prospective business in complex negotiations or when the local government does not have the capacity to assess projects on its own.
Foregoing revenues to incentivize development has real fiscal costs, and research suggests that many incentives may not be worth these costs. Incentives can be most effective when they are used for specific types of businesses and developments. For example, in many cases, business retention will have greater returns than new business attraction.

**Strategy 4**

**Target projects with the greatest potential impact**

Foregoing revenues to incentivize development has real fiscal costs, and research suggests that many incentives may not be worth these costs. Incentives can be most effective when they are used for specific types of businesses and developments. For example, in many cases, business retention will have greater returns than new business attraction.

**Standard practices**

- Do not incentivize intraregional moves unless the applicant can demonstrate the move provides a net benefit to the metropolitan region.
- Use incentives to support firms that export products and services beyond the region, generating new local income. Prioritize those that support local supply chains.
- Use incentives to reward riskier entrepreneurial investments that align with identified goals, rather than incentivizing businesses flocking to demonstrated markets.
- Avoid targeting industries for which market analysis has indicated that no market exists within the community or subregion; incentives can change outcomes on the margins but cannot generate non-existent demand.
- Prioritize projects that maximize use of existing transit, freight corridors, and public utilities and projects that do not require new infrastructure.

**Best practices**

- Focus on small businesses by making sure incentive application processes are clear and accessible. Research suggests that incentivizing small businesses tends to be a more effective strategy to create jobs. Establishing a maximum incentive amount is one way to make incentives more meaningful to small businesses than large ones.
- Increase the competitiveness of existing businesses by identifying and targeting strategic industries that will fill gaps in existing supply chains and talent pools.
- To promote job creation, target labor-intensive — rather than capital-intensive — projects. One way to achieve this is limiting the maximum incentive per job created.
Ensure the benefits of each incentive outweighs its cost

Incentives are designed to increase tax revenues over time by attracting business activity that would not have occurred otherwise. However, the associated public costs of development may outstrip new revenues. Local governments should understand any development’s short- and long-term impact on public services and infrastructure as well as the resulting net fiscal impact. The upfront costs of assessing these impacts may be lower than the lost revenue associated with an incentive.

**Standard practices**

- Assess the direct and indirect fiscal impact of each incentive proposal relative to the development’s economic impact. This includes capturing lifecycle costs of any public sector investments, such as maintaining new infrastructure.
- Structure incentives as rebates on tax revenue rather than as cash grants, so that the total direct costs of the incentive never exceed the revenues generated by the associated business.
- Cap incentives by establishing maximums beyond which the incentivized business receives no additional funds.

**Best practices**

- Hire independent external consultants to perform evaluations where complexity exceeds staff capacity.
- Share the cost of these analyses with the prospective business, such as by building their cost into incentive application fees.
- Guarantee the local government retains enough tax revenue to cover fixed costs associated with development by establishing a tax minimum or floor (e.g., in sales tax rebate agreements, include a base sales amount on which no tax is abated).
- Use collaborative, multi-step incentive application processes. Where possible, take initial steps to vet and provide feedback on applications before charging substantial fees or engaging in expensive evaluations.
Assessing the benefits and costs of potential development

Local governments may undertake several different types of analysis as part of assessing the benefits and costs of a development and related incentives:

A **financial feasibility analysis** of a development allows local governments to assess the need for an incentive by reviewing the developer’s projections for costs, revenues, and rates of return.

A **fiscal impact analysis** assesses revenue flowing to a local government from a development, minus the local government’s related upfront and ongoing costs. This analysis should account for the provision of public services and infrastructure, as well as revenue decreases associated with any granted incentives.

An **economic impact analysis** is more regional in nature and examines how a development affects regional employment and wages. One aspect of this analysis involves measuring the multiplier effect of new growth — in other words, how many additional jobs or sales at other firms in the region are indirectly created. Although this analysis is important, research suggests that the modeled data often overstate these multipliers.29
Strategy

Consider non-financial solutions to challenges faced by prospective businesses

Incentives may offer short-term, one-off fixes to challenges faced by business owners and developers, but they do not provide durable, sustainable solutions. These challenges create costs (e.g., congestion, low-quality infrastructure) and risks (e.g., complex development review processes, unproven markets) that can hinder growth. Where possible, fixing the underlying issue — for example, by minimizing uncertainty, shortening development timelines, and enhancing public services and infrastructure — can be more effective and less expensive than offering incentives.\(^{30}\)

Standard practices

- Provide streamlined development review, permitting, and incentive negotiation processes. Making these processes more straightforward and transparent may be a larger incentive than an actual cash grant.
- Re-activate key sites by sharing parcel-specific costs and risks that constrain redevelopment. Examples include challenging demolitions and brownfield cleanups.
- Use development incentives strategically, as one tool in a larger economic and community development toolbox.\(^{31}\)

Best practices

- Focus on providing solutions that will benefit the public and that will outlast the business if it closes or relocates in the future. Negotiate the provision of high-quality public goods and services instead of tax incentives to solve specific challenges faced by prospective businesses. Examples include improved traffic signaling or upgraded roads and interchanges.
- Provide development review fast-track programs that allow local governments to offer expedited approval for prioritized uses or projects.
- Offer an inventory of sites that are “shovel ready” for immediate development and meet industry standards for zoning, utilities, access, environmental concerns, and other requirements.
Case study: Village of South Elgin

Streamlined practices

In 2018, the Village of South Elgin approved a new unified development ordinance. By updating and combining its zoning and subdivision codes in a graphic-heavy format, the village helped to ensure user-friendly development review processes and facilitated clear, predictable expectations for all types of development. Following adoption, corresponding new application forms and guidance materials were created and posted on the village’s website for 24/7 access by potential investors in the community.

Other municipalities have also addressed and streamlined underlying processes to implement and achieve planning goals. For example, some municipalities make pre-development meetings available by appointment prior to application submittal. This enables potential applicants to gain feedback on proposals from city staff, as well as clarity on the timeline and expectations of the review process.
Matching skilled workers to good jobs is a pillar of inclusive economic development. However, financial incentives are imperfect tools for addressing labor market mismatches. For employers, workforce availability is a leading driver of location decisions.\textsuperscript{32} Incentives that provide custom workforce training and entrepreneurial support can be a more efficient and sustainable way to attract development.\textsuperscript{33} For communities, research suggests that local residents often do not benefit from new jobs with incentivized businesses, as commuters and new residents tend to fill open positions.\textsuperscript{34} Incentives that encourage local hiring, high-quality jobs, and investments in workforce training help local workers benefit from new growth.

**Strategy 7**

**Design incentives to promote high-quality local employment**

**Standard practices**
- Include job quantity and quality requirements in every incentive, such as minimum wages, benefits, and number of new employees.
- Require incentivized businesses to advertise jobs directly to current residents and make good-faith efforts to hire local and/or economically disadvantaged workers (frequently called first-source hiring).
- Partner with prospective businesses by facilitating connections to existing training opportunities, fostering job referral networks, and providing work placement or hiring assistance.
- Invest in ongoing workforce development initiatives and use local talent as a primary business recruitment device.

**Best practices**
- Require the development and maintenance of career pathways, on-the-job training programs, and partnerships with local schools at incentivized businesses.
- Coordinate or fund job training tailored to the specific needs of prospective businesses as a leading part of any incentive package.
- Include specific thresholds or bonuses for local hires as factors in determining the total value of an incentive.
- Provide technical assistance to adapt work arrangements or occupational health and safety to better accommodate people with disabilities and other marginalized groups.
- Use incentive agreements to reward or require local business-to-business purchasing and investments in local supply chains.
Case study: Village of Park Forest

Local partnerships and local hiring

The Village of Park Forest actively partners with businesses to foster jobs in manufacturing, research and development, and other fields with meaningful career potential. In 2017, the village sold a two-story office building and an industrial facility totaling 124,800 square feet on 7.5 acres to a nutritional supplement company — its first international manufacturer. The property, vacant since 2006 and obtained in 2010 on a tax deed, needed substantial site improvements. The village combined a unique property tax abatement and the Will Cook Enterprise Zone with a discounted land purchase price to reduce development costs. The manufacturer committed to giving first preference to local job applicants and agreed to provide internships for high school and college students. Recognizing the need for new investment, letters of support were provided by local school districts, Rich Township, Cook County, and Prairie State College.
Strategy 8

Give incentives in partnership — rather than competition — with other local governments

The impacts of most development are multijurisdictional. Development that generates revenues for one taxing district may create costs for overlapping or adjacent districts (e.g., new students for a school district). Jobs generated in one location are likely to be filled by workers from many municipalities. Businesses buy from and sell to a wide geographic area. Pollution and congestion impacts often cross district boundaries.

Standard practices

- Be aware of incentives being offered by other taxing bodies and work together to create an effective total package that provides just enough for the development to be financially feasible.
- Work in collaboration with overlapping and nearby taxing bodies to understand the cumulative net fiscal impact of a development on all impacted local governments. Public reporting of any incentive that reduces tax revenues, including incentives approved by other taxing bodies, is required by GASB Statement 77.35
- Avoid incentive-based bidding wars with neighboring jurisdictions.

Best practices

- Establish revenue- and cost-sharing agreements with neighboring local governments, especially when labor and product markets span multiple jurisdictions.
- Develop non-poaching agreements through which local governments commit to not using incentives to fuel intraregional competition.
Understanding the requirements of GASB Statement 77

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for U.S. state and local governments that adhere to Generally Accepted Accounting Principles (GAAP). Although Illinois local governments are not required by statute to comply with GASB standards, many do because they represent accepted best practices and in order meet other accounting requirements.

GASB Statement 77, issued in 2015, requires that state and local governments include in their financial reports details on tax abatements that impact their fiscal position. Governments are instructed to provide details about the purpose of the incentive program, commitments made by all parties, any eligibility and compliance requirements, and gross abatement amounts for the reporting period.\(^{36}\)
Establish, monitor, and enforce business commitments

The negotiation of an incentive package is an opportunity to clarify and record commitments from businesses to meet specific community needs. Common conditions include the development of a specified amount of property and the hiring of a target number of new, full-time employees for a certain number of years. Other conditions worth considering include paying living wages, hiring locally, and managing pollution or truck traffic. Incentive agreements are opportunities to cement these commitments and establish remedies for situations in which they are not met. Local governments must then engage in fair and consistent monitoring and enforcement.

**Standard practices**
- List business commitments in the terms of every incentive agreement. Commitments should be measurable reflections of the values and goals of the community.
- Always include clawback provisions — clauses that allow local governments to take back incentives already paid when businesses do not meet agreed-upon targets.
- Monitor business compliance with agreement terms annually; work with businesses to support compliance and enforce terms where necessary.

**Best practices**
- Structure incentives as pay for performance: confirm compliance with agreement terms over a period before issuing the applicable rebate or incentive for that period.
All economic development policies, including development incentives, should seek inclusive economic growth. Yet research indicates that most development incentives do not sway business decisions or are not worth the cost. Local governments have an obligation to taxpayers to evaluate incentive programs, confirm their effectiveness, and improve incentive use over time. Improving incentives requires investment in staff capacity and continued training about best practices, common pitfalls, and evolving regulations.

### Standard practices

- Evaluate the actual short- and long-term fiscal, economic, and social impact of approved incentive agreements, including evaluating performance measures and the impact of any community benefits requirements.
- Track, publish, and discuss in public forums the results of program evaluations. Comply with GASB Statement 77, which requires publication of details about incentives (including the gross incentive amount) in financial statements such as Comprehensive Annual Financial Reports.
- Use the outcomes of program evaluations to improve incentive policies over time.
- Invest in professional development and training opportunities about incentive use for staff and elected officials.

### Best practices

- Incorporate expectations about consistent public program evaluation into any guiding documents or policies governing incentive use.
- Evaluate how well incentives create economic, environmental, and social value.
Moving forward on incentives

ON TO 2050, our region’s comprehensive plan, calls for reforming development incentives to help northeastern Illinois grow and thrive. CMAP encourages local governments to become more intentional and systematic in their incentive use.
Making decisions about incentives in reaction to business requests, without a clear strategy and purpose, can result in public expenditures for limited economic gain. Local governments should create and adopt an incentive policy or framework in coordination with neighboring and overlapping taxing districts. Expending the resources to do this — including establishing goals, targets, criteria, and evaluation practices — can be difficult in the short term. But determining guiding principles and implementing better practices for incentive use can help communities better pursue their priorities for a prosperous future.

Ranging in population from hundreds to millions, communities in our region have unique challenges, capacities, and development goals. Determining what is feasible — for example, finding the right balance between increasing process transparency and expediting development reviews — will depend on each community’s local context. The strategies and practices on these pages provide guidance for mitigating or avoiding risks like intraregional competition, inequitable outcomes, and inefficient use of limited public resources. Incentives can be more effective tools when guided by these four key principles: equity, transparency, performance-driven use, and pursuit of regional benefits.

Local governments should do everything in their power to increase the effectiveness of the incentives they use to provide the greatest return on limited public dollars. Establishing partnerships, implementing best practices, and publishing policies to guide incentive use can improve outcomes. With the reforms described in these pages, incentive use can more effectively achieve local goals while increasing access for small businesses and businesses owned by people of color; directing investment toward disinvested areas; and promoting inclusive, sustainable, and regional economic growth.
CMAP resources

CMAP has resources to support implementing the practices described in this guide. Reach out to CMAP staff by sending an email to info@cmap.illinois.gov, or apply to the Local Technical Assistance program for support in updating incentive practices.

Additional resources

Interested in learning more about best practices for incentive reform? Consider exploring the following resources:


Equitable Development Principles & Scorecard, a 2016 checklist developed by the Minneapolis Alliance for Advancing Regional Equity, http://thealliancetc.org/our-work/equitable-development-scorecard/


GASB Statement 77: Tax Abatement Disclosures, a pronouncement requiring publication of certain details about incentives for compliance with Generally Accepted Accounting Principles (GAAP), https://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391


References


2 For more information about state of Illinois incentive programs, see https://www2.illinois.gov/dceo/ExpandRelocate/Incentives/Pages/default.aspx.


6 Bartik, “‘But For’ Percentages for Economic Development Incentives.”


9 Goetz et al., “Sharing the Gains of Local Economic Growth.”


13 One of ON TO 2050’s three principles is inclusive growth: offering economic opportunity for residents regardless of race, income, or background. For more information, see https://www.cmap.illinois.gov/2050/principles#IG1.

14 For more information, see Partridge and Rickman, “Do We Know Economic Development When We See It?”; Goetz et al., “Sharing the Gains of Local Economic Growth”; Feldman and Lowe, “Evidence-Based Economic Development Policy.”

15 Scholarship for the most part does not directly address this question. Interviews CMAP staff conducted with several local and national incentive experts confirm that public incentive policies are unlikely to cause increased incentive use. One reason for this is that large firms (and their site selection consultants) are likely to seek incentives regardless of the presence of a policy. For related conversations, see Maryann Feldman and Nichola Lowe, “Evidence-Based Economic Development Policy,” *Innovations: Technology, Governance, Globalization* 11, no. 3–4 (2017): 34–49, https://doi.org/10.1162/inov_a_00255; Slattery and Zidar, “Evaluating State and Local Business Tax Incentives.”

16 https://www.cmap.illinois.gov/2050/prosperity/incentives

For more information, see Goetz et al., “Sharing the Gains of Local Economic Growth”; Donegan, Lester, and Lowe, “Striking a Balance”; Parilla and Liu, “Examining the Local Value of Economic Development Incentives.”


Donegan, Lester, and Lowe, “Striking a Balance”; Bartik, “‘But For’ Percentages for Economic Development Incentives.”


Businesses have high discount rates: they value the near-term much more than they value the future. Bartik, Making Sense of Incentives, 17, 82.

Patrick, “Identifying the Local Economic Development Effects of Million Dollar Facilities”; Bartik, Making Sense of Incentives.


See CMAP’s existing research on taking a clusters approach to understanding regional economies.

LeRoy et al., “Shortchanging Small Business.”


Interviews conducted with developers, site selection consultants, and others with experience representing developers in location negotiations confirm this.


Partridge and Rickman, “Do We Know Economic Development When We See It?”; Goetz et al., “Sharing the Gains of Local Economic Growth”; Kline and Moretti, “People, Places, and Public Policy.”


For more information about GASB Statement 77, see https://www.gasb.org/ and https://www.goodjobsfirst.org/gasb-statement-no-77.

For more information about living wages and how to calculate them, see https://livingwage.mit.edu/.

See the ON TO 2050 Prosperity chapter (https://www.cmap.illinois.gov/2050/prosperity) and Feldman and Lowe, “Evidence-Based Economic Development Policy.”


The Chicago Metropolitan Agency for Planning (CMAP) is our region’s comprehensive planning organization. The agency and its partners developed and are now implementing ON TO 2050, a new long-range plan to help the seven counties and 284 communities of northeastern Illinois implement strategies that address transportation, housing, economic development, open space, the environment, and other quality-of-life issues.

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