Chicago Metropolitan Agency for Planning

233 South Wacker Drive
Suite 800, Sears Tower
Chicago, IL 60606

312-454-0400 (voice)
312-454-0411 (fax)
www.cmap.illinois.gov

MEMORANDUM

To: **Economic and Community Development Committee**

Date: **April 20, 2009**

From: **Annie Byrne, Assistant Regional Planner**

Re: **Economic Incentives Strategy Update**

Last month staff provided the committee with a document summarizing the subcommittee's discussion on economic incentives and outlining the next steps. This is an update on the progress made on these next steps to date, followed by a short report showing how an infrastructure-focused program could be analyzed (this is related to the 6th bullet below).

- *Obtain newer and more comprehensive data from DCEO.* Staff had a phone meeting with Bob Westover from DCEO; committee members suggested speaking with him on the availability of more current data as well as other information on the usage of state incentives. Mr. Westover is checking with the legal department on the availability of information and will be sending CMAP available reports on the various State incentive programs. Every program has different reporting requirements and Mr. Westover cautioned little consistency exists, which may challenge aggregation. In addition to providing information on data, Mr. Westover provided insight on the Business Location Efficiency Act, which increases the EDGE incentive amount to qualifying companies based on their proximity to transit and affordable housing. He also explained the methods DCEO uses for performing a cost-benefit analysis and gave an example of an incentive deal that has positive long term benefits. This information will be included in the paper.

- *Overview of incentive programs in other states.* Staff researched state incentive programs from Wisconsin, Massachusetts, and Texas. The report will include a summary of these states' programs and describe how the State of Illinois compares.

- *Include a better description of local incentives.* A section on commonly used local incentives is being drafted. This section includes the five case studies submitted by committee members. Committee discussion on one particular use of incentives is requested. The

Miller-Coors relocation to downtown Chicago is one of the case studies that will be included in the paper. Recently, there was negative coverage of the use of incentives to attract Miller-Coors in a Chicago-based weekly paper (link to article). Staff requests that the committee review the article and provide counter-arguments that can be used in the incentives paper.

- *Provide examples of impact and cost/benefit analysis tools*. Staff obtained the Federal Reserve's Fiscal Impact Tool (FIT), which is a free fiscal impact tool in the form of an excel spreadsheet. A description of this tool and examples of how it has been used will be included in the paper. It will also be made available for download from CMAP's website.

- *Frame the use of incentives in the context of tax policy*. This will be included in the paper as part of the local incentives section above. Please note that this will not be a full study of tax policy and its impact on development decisions, but will address the importance of the issue.

- *Continue the analysis of targeting state-level incentives.* Staff evaluated a sample incentive program that focuses on infrastructure investment and the freight industry; a detailed description of this analysis is attached.

###

Economic Incentives – Analysis and Modeling Assumptions

Introduction and Purpose

The *GO TO 2040* plan will make recommendations for policies, strategies, and investments needed for northeastern Illinois to reach its potential. For the plan to be viable, it is critical that the benefits and costs of these recommendations be understood. This document is part of a series that begins to analyze potential plan recommendations in this context by developing "sample programs" for the implementation of potential plan recommendations.

In this case, a "sample program" for economic incentives related to infrastructure improvement and promotion of infill development was developed for the "reinvest" scenario. This scenario includes significant additional investment in infrastructure, as well as a focus on retaining and attracting jobs in the areas of goods movement and production. The purpose of the analysis and modeling exercise is to determine how the "sample program" would affect job and household distribution, how much the program would cost, and how it would impact key indicators.

Key Assumptions

Any regional analysis and modeling process involves making generalities and assumptions. These assumptions were based on available literature and/or interviews with regional and national experts. Assumptions include:

- The amount and type of incentives included in the sample program
- The geographic distribution of incentives, based on the economic goals of the "reinvest" scenario
- The effects of incentives on business locations and job creation

The assumptions within each of these stages of analysis will be fleshed out in greater detail below.

1. The type and amount of incentives included in the sample program

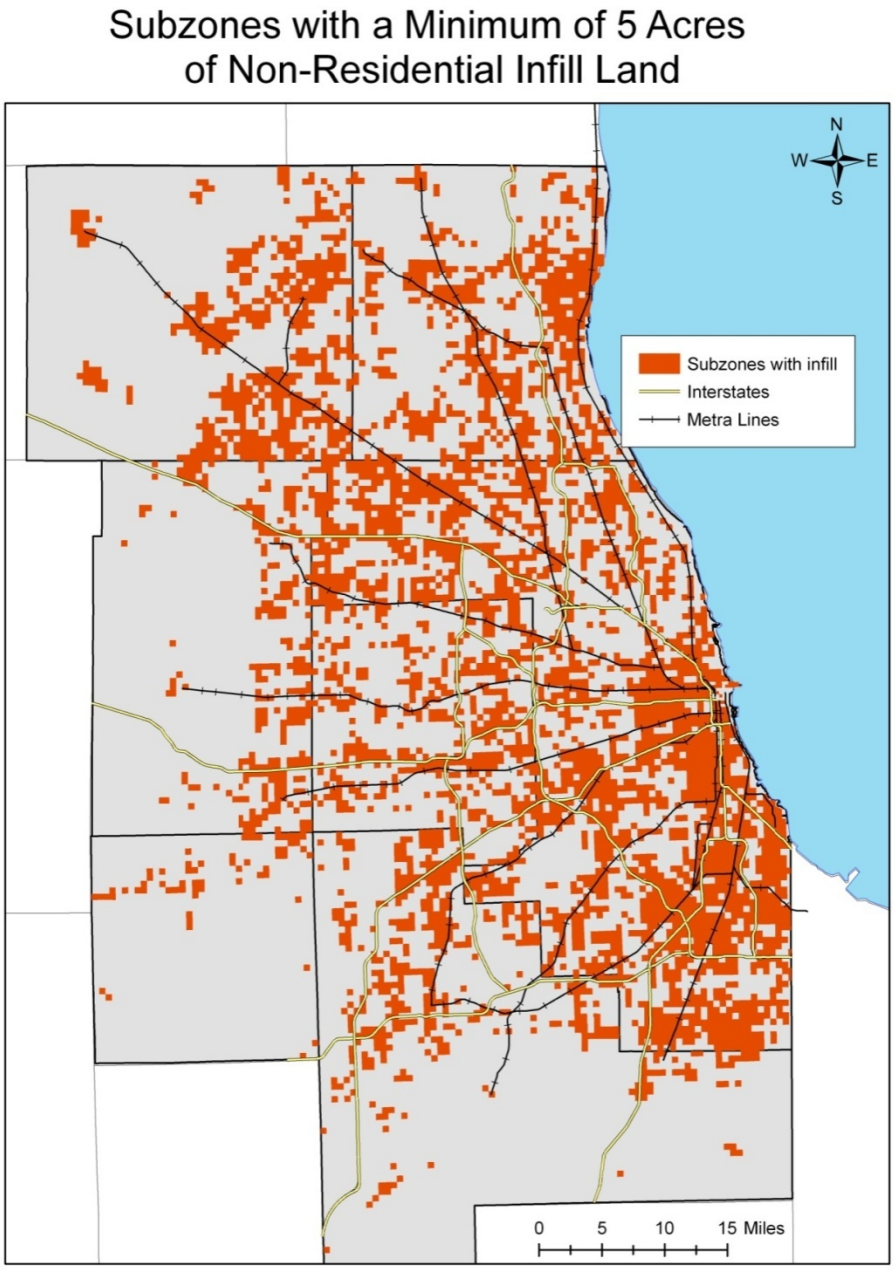
The purpose of the sample program is to encourage businesses to make use of existing infrastructure by providing incentives for development on infill sites. Infill is defined in this analysis as land that already is served by existing infrastructure; sites within existing municipal boundaries or that have certain minimum density thresholds are considered to be infill (see map on page 2). This program would probably be structured as a State-level funding source that businesses could apply to if they wished to locate in an infill location. Alternatively, the program could be structured as a grant program to local governments seeking to attract businesses to infill sites within their communities.

Because the "reinvest" scenario includes a focus on strengthening goods movement and goods producing industries in the region (including freight, manufacturing, warehousing, and similar industries), this sample program is further targeted to sites that are most appropriate for these types of businesses. This will be described further in the next section.

An important assumption made concerned the size of the sample program. Existing State-level incentives programs were examined, including seven of these that were specifically reviewed, including the Business Development Public Infrastructure Program, the Employer Training Investment Program, Enterprise Zone credits, Large Business Development Program, Corporate Headquarters Relocation Program, EDGE, and the High Impact Business Program. Together, $175 million was spent in these programs between 1990 and 2004, or approximately $12.5 million per year.

As a starting point, the sample program was assumed to be funded at this approximate level. A program that grants incentives to local governments would likely reflect the current size of existing such programs, including DCEO's Business Development Public Infrastructure Program and IDOT's Economic Development Program.

The following map shows subzones that have a minimum of five acres of non-residential infill land.



2. The geographic distribution of incentives

Incentives can be used to help a region achieve its goals; several existing incentive programs already include eligibility criteria, such as minimum number of jobs that must be created or minimum amount of investment that must be made. In addition, the widely popular TIF program is focused on financing investment in blighted commercial areas within fixed geographic boundaries. The idea of targeting incentives to specific areas, as described in this sample program, is not new.

A major component of the "reinvest" scenario is focusing job growth in areas that are targeted for reinvestment. This scenario includes reinvestment in the region's existing infrastructure, which will promote job growth in existing communities. A second, linked component of the "reinvest" scenario is to expand the capacity of commercial transportation, namely the freight industry, and related goods movement and production industries. These components are highly compatible, because high-quality infrastructure is critically important to support a strong freight economy. This sample program will assume incentives are distributed based on geographic criteria to promote job growth in specific areas of the region which will contribute to achieving these goals of the "reinvest" scenario.

Several criteria are used to identify reinvestment areas where incentives would be targeted through this sample program. (The geography used is the subzone, which is approximately ¼ square mile.) The first criteria is a minimum of five acres of non-residential underutilized or vacant infill land. A full definition of how infill land was identified is available in the snapshot report on this subject, available here. Briefly, vacant land was identified as such in County assessor data; underutilized land is based on a comparison of the assessed land value to the assessed improvement value on a parcel (the I/L ratio). A low ratio indicates that the land is likely not being used to its full economic potential and may be underutilized. Areas that contain infill land have existing infrastructure but are likely in need of some investment to achieve full utilization. Additionally, these areas likely have available physical space to accommodate growth. There are 4,328 subzones (out of approximately 16,000 total) that have five or more acres of non-residential infill land.

Subzones that meet this criteria have been selected and are further targeted using four additional criteria, based proximity to transportation infrastructure: transit (CTA and Metra), highways, and intermodal facilities. A fifth criteria was added to highlight areas that are economically distressed.

- Census tracts have a lower median income than the 2000 Area Median Income for the Chicago PMSA of $51,680 and;
- Census tracts have an unemployment rate higher than the median regional unemployment rate of 4.5% (based on the 2000 Census, the latest year for which this detail of geography is available).

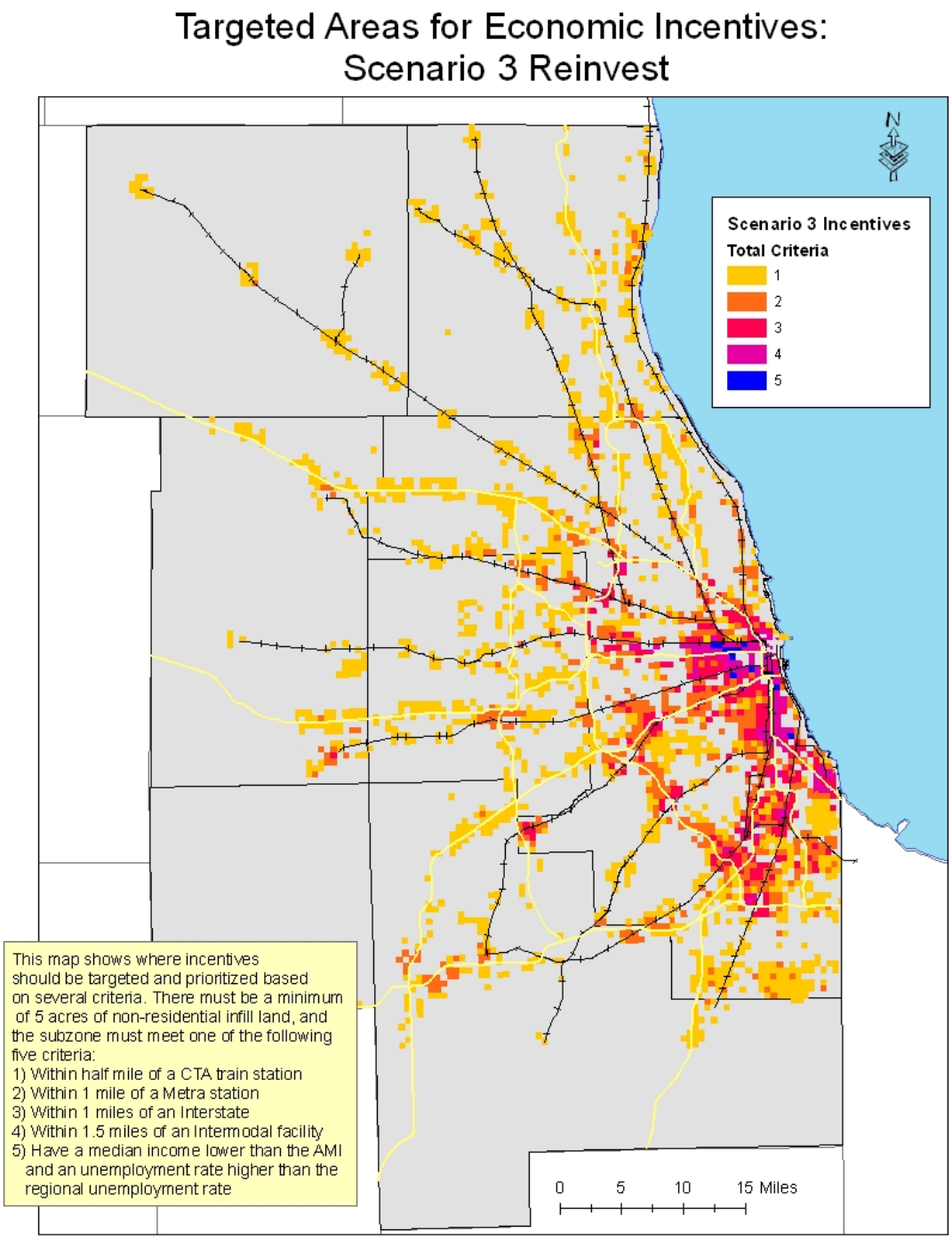
The following table shows how many meet each of the criteria:

Criteria	Number of Subzones
Within 1/2 mile of CTA Stations	189
Within 1 mile of Metra Stations	1040
Within in 1.5 miles of intermodal facilities	942
Within 1 mile of an interstate	1316
Meets economic criteria	417

Many subzones meet more than one of the criteria:

Number of Criteria	Number of Subzones
1	1506
2	562
3	247
4	117
5	13
Total with Criteria	2445

The following map shows the number of criteria in subzones with a minimum of five acres of non-residential infill land. These are the locations where incentives would be targeted using the sample program described in this paper.



To develop the sample program, all areas with one or more criteria were considered eligible; additional priority could be given to areas that met two or more criteria.

3. The effect of incentives on business locations and job creation

A major assumption of this sample program is that targeted incentives effectively attract business growth in the selected areas. This strategy would not be implemented in isolation, but with other supporting strategies such as additional infrastructure investment and brownfield redevelopment.

The number of jobs created through incentives undoubtedly varies. In this paper, we assume that a $10,000 investment in an incentive "buys" one job. This is based on research that shows that creating one new job through a typical incentive outlay will, on average, cost a metropolitan area about $7,000 (in 2002$) annually in business tax revenue.[1] This was increased to $10,000 to account for inflation and to be slightly more conservative in the assumption of benefits.

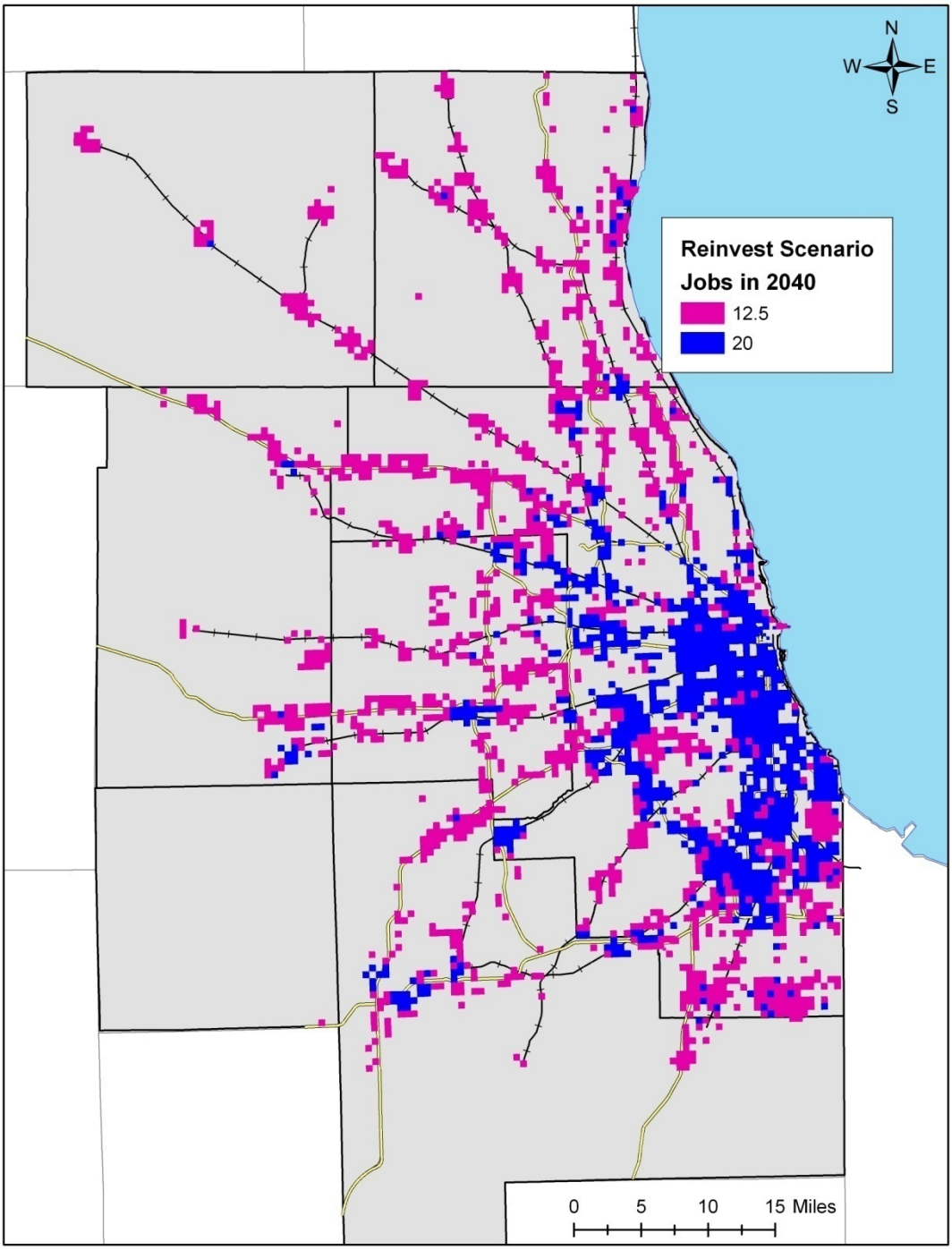
To be most consistent with the intent of the "reinvest" scenario, this sample program would focus the expenditure of incentives on infrastructure improvements. However, it is difficult to draw clear lines between infrastructure expenditures, for example, and tax incentives that are given in return for businesses making infrastructure improvements. For this reason, this analysis considers all incentives to be similar in impact, regardless of whether they are for infrastructure, workforce, tax reductions, or others.

An important and highly questionable assumption of this analysis is that once an incentive is given, the positive job creation impacts are permanent (or at least 30 years in duration). Despite research by staff, no standards have been found for how to estimate the duration of incentive benefits.

Number of Criteria	Number of Subzones	Jobs created each year	Jobs per subzone each year	Jobs created per subzone in 2040	Total created by 2040
2+	939	625	0.7	20.0	18,750
1	1,506	625	0.4	12.5	18,750
Total	2,445	1,250			37,500

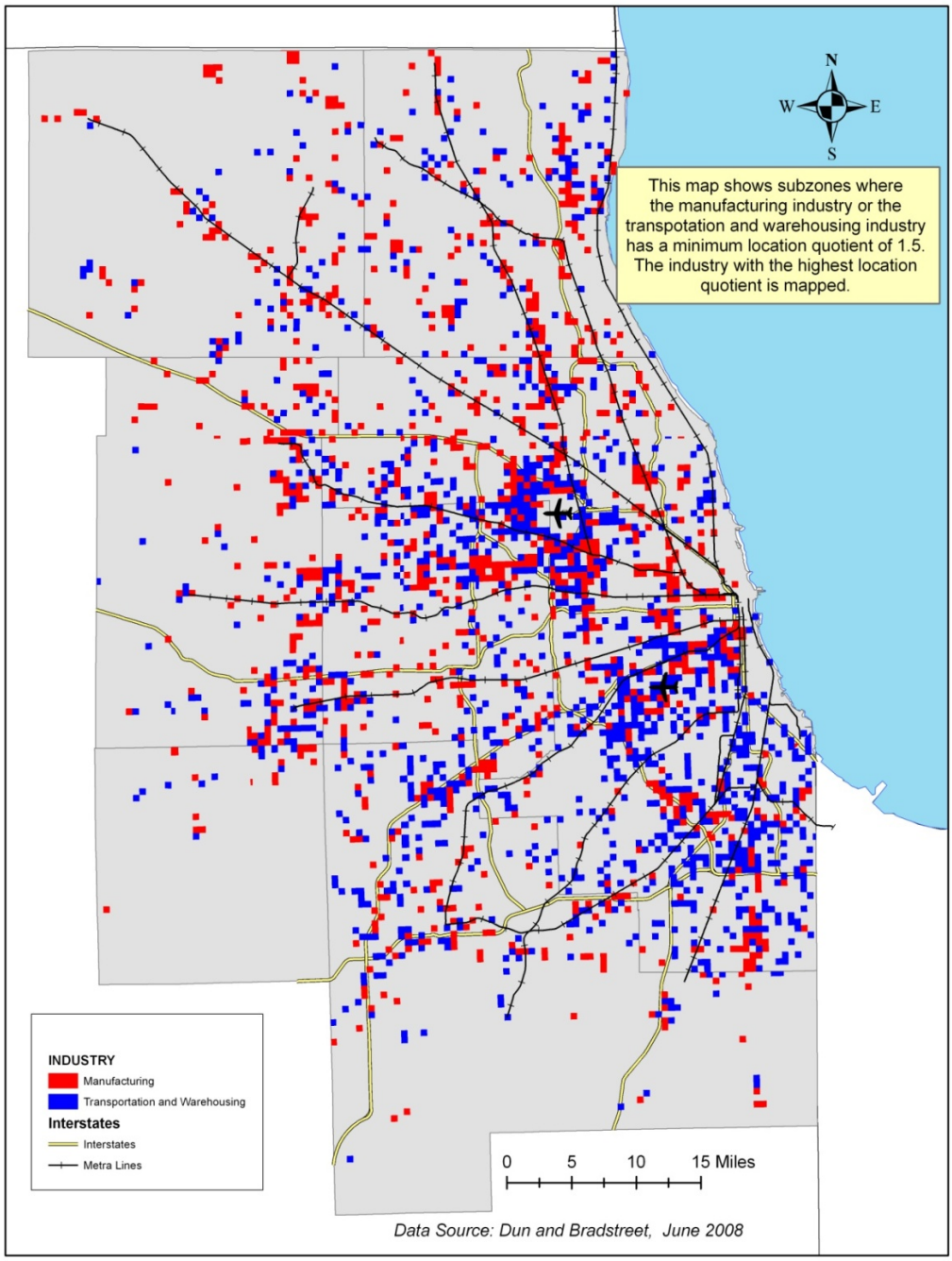
[1] Bartik, Timothy. January 2003. Local Economic Development Policies. Kalamazoo, MI: Upjohn Institute Staff Working Paper No. 03-91.

Jobs in 2040 from Incentives



The following map shows where firms in the manufacturing and transportation and warehousing industry are currently concentrated, as further discussed in the snapshot on business location decisions. This map reveals that the sample program would support job growth in areas where freight and related businesses have an existing presence.

Manufacturing and Transportation and Warehousing Locations



Next Steps

This paper is designed to lay out initial assumptions that can be discussed before more detailed analysis and modeling is done. Acknowledging the assumptions laid out in this paper, the economic incentives sample program would cost $375 million over 30 years ($12.5 million each year), and result in 37,530 jobs created or retained in targeted areas of the region. Due to the location of these jobs, they are likely to be in good movement or goods production industries. Understanding the benefits and costs of this

sample program – or other “sample programs” like this that could be developed – is critical to developing viable plan and recommendations for economic incentives.

Next steps include:

- Determining the benefits of the program, including the economic growth that would occur due to the creation of these jobs. In addition to increases in jobs, there are other indicators to be modeled and measured, such as how the sample program impacts local budgets, transportation, economic growth, and the environment.
- Determining whether the sample program is something that would replace, or supplement current state economic incentive awards.
- There are other ways to target incentives, beyond focusing on infill and freight. For example, an incentives program within the “innovate” scenario might target incentives to promote development of green jobs and high-tech industry clusters. Different focuses of the incentives programs would result in different geographic location of jobs.

CMAP staff is encouraging feedback and suggestions on this sample program. We welcome ideas and recommendations how to improve this program.