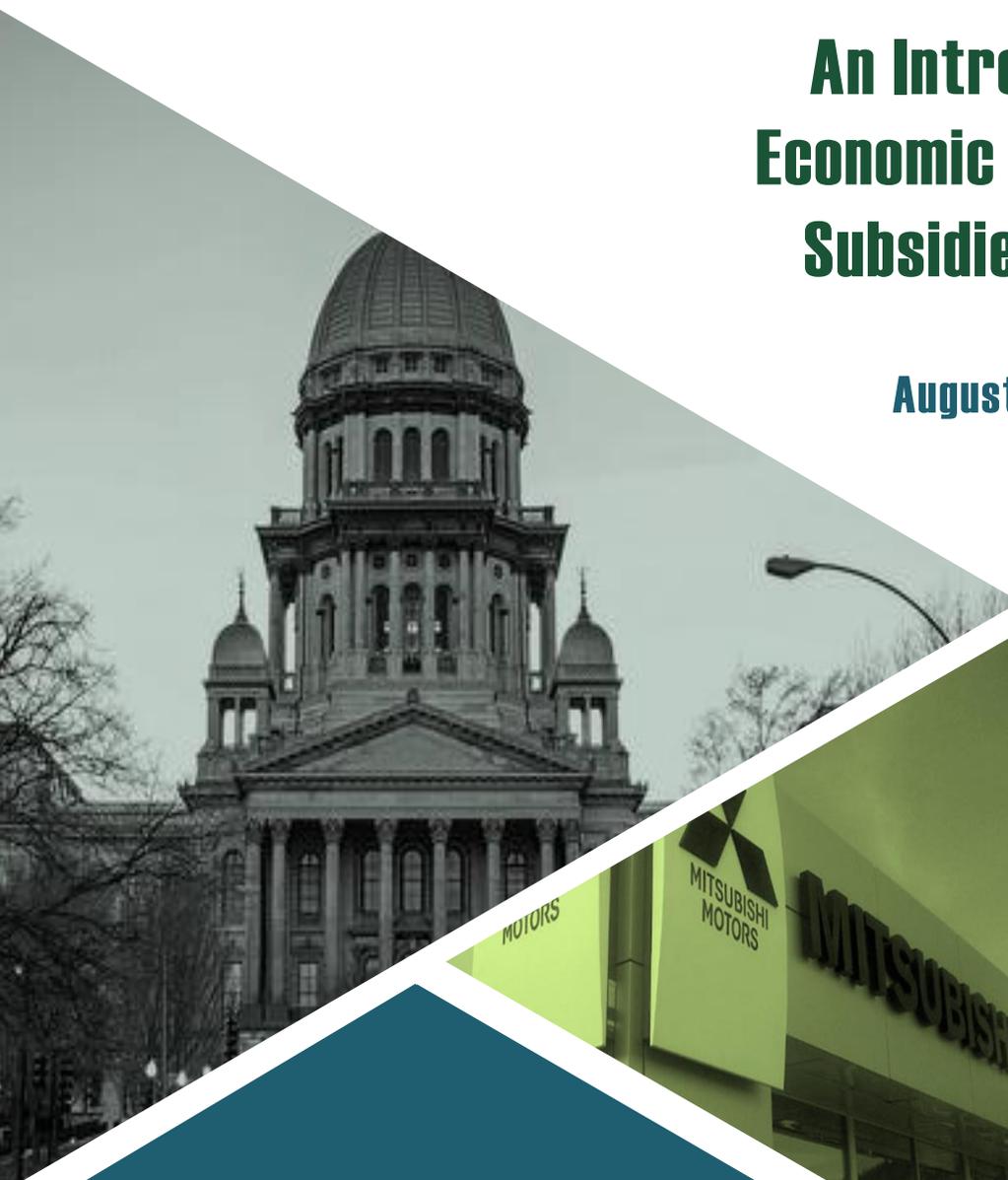


Subsidizing the Few: An Introduction to Economic Development Subsidies in Illinois

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Mary Craighead, AICP

INTRODUCTION

Since 1985, state and local governments have doled out at least \$5 billion in economic development subsidies. In particular, three companies have received over \$900 million from Illinois taxpayers: Sears, Mitsubishi Motors, and Motorola. In these three cases, employment eventually fell and plants even closed despite the massive amounts of money provided. This Policy Brief – the first in a series on economic development subsidy programs by the Illinois Economic Policy Institute – evaluates the costs of subsidizing private corporations.

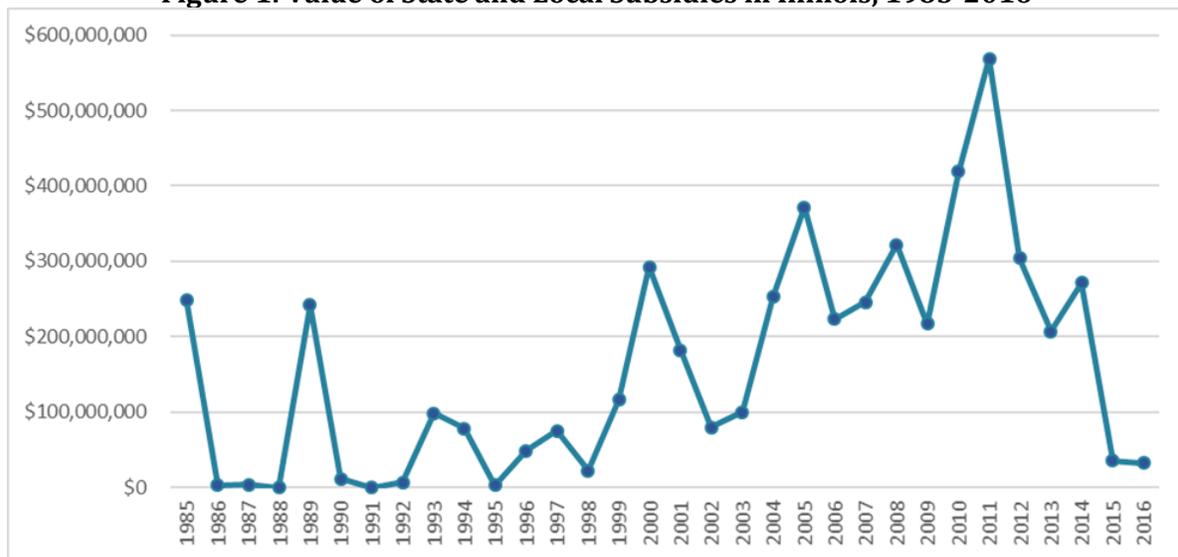
As stated in the 2014 Illinois Economic Development Plan, an effective plan for the state’s economy must depend on both economic stability and the understanding that it is not the government’s responsibility to generate jobs; it is merely responsible for creating an environment that may promote job growth (DCEO, 2014). Despite this sentiment, Illinois and local governments have expended significant taxpayer money in the name of job creation and retention through subsidies.

In light of the recent announcement that Wisconsin is awarding Foxconn, a Taiwan Electronics Manufacturer, roughly \$3 billion in taxpayer incentives – and some arguing that the deal comes at a loss to Illinois (Maisch, 2017) – it is worthwhile to understand the historical context of Illinois’ own subsidy programs and how excessive deals can even harm the state’s economy. Furthermore, given Illinois’ current budget situation, after a protracted two-year dispute and ongoing funding woes, taxpayers have the right to know how their money is being spent and whether it is being spent effectively. The General Assembly made tough decisions to finally pass a budget, and it is in the taxpayers’ best interests to carefully consider the benefits of economic development subsidies and ensure their money is supporting worthwhile programs.

SUBSIDIES IN ILLINOIS

The use of subsidies in the State of Illinois came about as a method to lure companies away from other states and promote a positive image of Illinois. The late 1970s brought about stiff competition between states to attract large manufacturing projects (McCort et al., 2003) and led to the expansion of state and local economic development programs (Bartik, 1991).

Figure 1: Value of State and Local Subsidies in Illinois, 1985-2016



Source: [Good Jobs First](#)

The most comprehensive database of national economic development subsidy data is maintained by Good Jobs First, a national policy resource center. Their Subsidy Tracker 3.0 compiles data from over 900 state, local, and federal programs and allows the public to understand the number, type, and magnitude of subsidies afforded to companies. This data for the State of Illinois was compiled and summarized below.

Figure 1 illustrates the total value of both state and local subsidies since Illinois began offering modern economic development incentives in 1985. Initially, only one subsidy was granted to a single company during each year. This was the case between 1985 and 1990, with 1985 and 1989 being particularly noteworthy for the large incentives offered to Mitsubishi Motors and Sears. Following 1992, the number of subsidies offered, particularly at the local level, quickly grew. With the exception of a handful of large deals supplemented by the state in 1993, 2000, and 2001, local subsidies accounted for all giveaways until 2004.

Figure 2: Illinois State and Local Subsidy Types and Programs, 1985-2016

Subsidy Type	Program	Source	Number	Total Amount	Percent of Total Amount	Years
Tax Increment Financing	Chicago: Tax Increment Financing	Local	335	\$2,325,435,911	45.71%	1986-1987, 1990, 1992-2016
Megadeal*	Multiple	Multiple	8	\$1,215,937,000	23.90%	1985, 1989, 1993, 2000, 2001, 2010, 2011
Tax Credit / Rebate	Local Sales Tax Rebate	Local	218	\$459,572,691	9.03%	1992-1997, 1999-2015
	EDGE Tax Credit	State	384	\$210,270,568	4.13%	2004-2010, 2012-2014
	Illinois Film Tax Credit	State	945	\$200,331,967	3.94%	2005-2013
	Enterprise Zone Expanded M&E Sales Tax Exemption	State	74	\$102,238,046	2.01%	2004-2010, 2012-2014
	Enterprise Zone State Utility Tax Exemption	State	115	\$83,484,175	1.64%	2004-2010, 2012-2014
	High Impact Business Designation	State	27	\$32,918,575	0.65%	2004-2010, 2012-2014
	Lake County: Sales Tax Incentive	Local	2	\$1,125,000	0.02%	2008, 2015
	TOTAL			1,765	\$1,089,941,022	21.43%
Infrastructure Assistance	IDOT Economic Development Program	State	127	\$122,414,592	2.41%	2004-2010, 2012-2014
Grant	Coal Competitiveness Program	State	144	\$80,516,277	1.58%	2006-2015
	Chicago: Small Business Improvement Fund	Local	1,767	\$75,854,738	1.49%	2001-2016
	Other	Multiple	57	\$65,311,295	1.28%	
	Employee Training Investment Program	State	386	\$56,029,435	1.10%	2004-2014
	Large Business Development Assistance Program	State	71	\$53,992,134	1.06%	2004-2010, 2012-2014
	TOTAL			2,425	\$331,703,879	6.52%
Cost Reimbursement	Corporate Headquarters Relocation Program	State	1	\$1,442,354	0.03%	2004
Property Tax Abatement	Lake County: Property Tax Abatement	Local	1	\$30,000	0.00%	2015
		TOTAL	4,662	\$5,086,904,758		

* Megadeals are classified by Good Jobs first as deals given to a single company, made up of a variety of subsidy programs that total over \$50 million

Source: [Good Jobs First](#)

Following 2004, the value of subsidies offered each year in the state remained above \$300 million until 2015. Figure 2 summarizes the types of subsidies used in Illinois over the years and highlights the most significant programs. Chicago’s Tax Increment Financing program has awarded the most subsidies since 1985 – a total of 335 making up over 45 percent of all subsidies in Illinois – followed by “megadeals” and tax credits or rebates, both of which account for approximately 24 and 21 percent, respectively. It should be noted that while the amounts awarded through megadeals and tax credits or rebates are comparable, there were only eight megadeals, compared to over 1,700 tax credits or rebates. To put that into perspective, the average amount per tax credit or rebate is approximately \$617,000, compared to just under \$152 million per megadeal.

SUBSIDIZING THE FEW

Good Jobs First defines a “megadeal” as an economic development package made up of multiple incentives that total more than \$50 million (previously \$75 million); the data was obtained not strictly from official disclosure sources, but takes into account news sources, state and tax budget group reports, and a variety of other sources (Mattera et al., 2013). The eight megadeals in Illinois are summarized in Figure 3.

Figure 3: Megadeals in Illinois, 1985-2016

Company	City	Project Description	Year	Subsidy Value	Number of Jobs or Training Slots	Cost Per Job
Sears Holdings Corp	Hoffman Estates	Headquarters retention	2011	\$275,000,000	unknown	-
Diamond-Star Motors (now Mitsubishi Motors)	Bloomington-Normal	Assembly plant	1985	\$249,300,000	2,900	\$85,966
Sears Roebuck	Hoffman Estates	Headquarters retention	1989	\$242,000,000	unknown	-
Motorola Mobility	Libertyville	Headquarters retention	2011	\$117,900,000	2,500	\$47,160
Ford Motor	Chicago	Manufacturing and supplier park	2000	\$100,900,000	800	\$126,125
RJR Nabisco (now Mondelez International)	Chicago	Expansion of plant	1993	\$90,000,000	2,400	\$37,500
Navistar International	Lisle, Joliet	Intrastate relocation of truck company headquarters and distribution center	2010	\$84,837,000	3,000	\$28,279
Boeing	Chicago	Relocation of corporate headquarters	2001	\$56,000,000	500	\$112,000

Source: [Good Jobs First](#)

Figure 4: Top 10 Parent Companies in Illinois Receiving Tax Subsidies, 1985-2016

Company	Total Subsidy Amount	# of Subsidies	Percent of Total Value of Subsidies in IL Since 1985
Sears	\$531,717,810	9	10%
Mitsubishi Group	\$253,561,339	3	5%
Lenovo	\$117,900,000	1	2%
Ford Motor	\$105,812,688	14	2%
United States Steel	\$104,252,237	6	2%
Mondelez International	\$90,000,000	2	2%
Navistar	\$89,193,000	9	2%
Archer Daniels Midland	\$87,534,030	11	2%
University of Illinois	\$75,000,000	1	1%
Rush University Medical Center	\$75,000,000	1	1%

Red Text = Received megadeal

Source: [Good Jobs First](#)

Sears, Mitsubishi Motors, and Motorola have received the largest single subsidies in the State of Illinois, in addition to their parent companies receiving the most money from public subsidies over time (Figure 4). Most egregiously, Sears has received 43 percent of total megadeal subsidy money (\$517 million) and 10 percent of the over \$5 billion of total state and local subsidies issued in Illinois since 1985.

ARE SUBSIDIES WORTHWHILE?

The three companies that benefitted most from Illinois taxpayers' money are explored below. While subsidies are advertised as economic development tools to create jobs, it is important to understand their ultimate impacts.

Sears

Sears initially received \$242 million in 1989 as an incentive to stay in Illinois after threatening to vacate their headquarters at the Sears Tower in downtown Chicago. The company ultimately decided to relocate to suburban Hoffman Estates; the move was touted as a means to maintain the company's competitive edge amongst other retailers. Despite receiving significant funds to retain existing jobs, the retailer did not reach the number of pre-move headquarters jobs until 1998. Furthermore, the company's move to the suburbs impacted existing workers who could no longer take public transit to reach work, exacerbating inequality issues by moving away from minority workers from the south side of Chicago (McCort et al., 2003).

Sears again threatened to leave the state in 2011 and was offered \$275 million to remain in their Hoffman Estates headquarters (Figure 3). The Illinois General Assembly and Governor argued that this staved off the loss of 6,000 jobs. However, two months following the deal, Sears laid off 100 employees from its headquarters (Keyser, 2012). The *Chicago Tribune* has since reported headquarters layoffs totaling 115 in 2015 (Elejalde-Ruiz, 2015) and 250 in 2016 (Shropshire, 2016). In 2017, the company announced plans to close stores and cut jobs (Zumbach, 2017), which could potentially impact headquarters employment; additionally, Sears reported a \$10.4 billion loss since 2011 and expressed "substantial doubt" in its ability to remain open (D'Innocenzio & Weikel, 2017).

Sears headquarters employed 5,400 employees prior to their move to Hoffman Estates (McCort et al., 2003). In 2016, *Crain's Chicago Business* reported that Sears had only 4,850 corporate employees plus 800 contract workers at their headquarters, which, in total, is 300 less than the time of the 2011 subsidy agreement (Sweeney, 2016). It begs the question of whether it was valuable to supply Sears over \$530 million in subsidies to essentially retain relatively constant levels of employment, particularly when the company is facing lackluster earnings and store closures in 2017.

Mitsubishi Motors

The Diamond-Star Motors plant, now known as the Mitsubishi plant, was the first public economic development subsidy offered in Illinois. Mitsubishi was offered \$249 million in 1985 to locate their auto assembly plant in Bloomington-Normal. Illinois won this development in a competition against five other states and state officials touted its ability to create not only direct assembly jobs, but over 11,000 indirect "ripple-effect" jobs. The plant was successful in surpassing the number of projected assembly jobs, peaking at 4,000 in 1995, yet severely lacked in related supplier jobs. In McLean County, home of the Mitsubishi plant, only 400 supplier jobs were identified in 1995, compared to the 1,100 estimated for

the county. In fact, it was determined that a large number of suppliers were actually located in Michigan as opposed to Illinois (McCort et al., 2003).

Mitsubishi again sought more subsidies from the state in both 2013 and 2014. The company was awarded \$600,000 under an Employee Training Investment Program in 2013 and \$3.66 million from Illinois' EDGE Tax Credit program in 2014 (Good Jobs First, 2016). Despite these subsidies, the Bloomington-Normal Mitsubishi plant closed in 2016. The plant employed 1,200 employees at the time it produced its final vehicle in December 2015 (*Chicago Tribune*, 2016).

Motorola Mobility (Lenovo)

Similar to the deals Sears received, Motorola Mobility was offered almost \$118 million in 2011 to keep its headquarters in Illinois (Figure 3). Motorola Mobility was founded in 2011 as the former Motorola split between it and Motorola Solutions; the location of Motorola Mobility's headquarters was up for debate, but ultimately decided to remain in Libertyville, praised by politicians as retaining 3,000 jobs for Illinois (Grom, 2011).

Soon after receiving the subsidy, Motorola Mobility announced plans to move to Chicago. While this move kept jobs in Illinois, the company later faced layoffs after it was bought by Lenovo. The company moved 2,000 employees into its Chicago office in 2014, then cut 500 a year later. The company announced in September 2016 another round of layoffs was forthcoming in the near future.

The experiences of these three companies elicit questions of whether these taxpayer-funded subsidies were worthwhile. In all three cases, massive amounts of money were provided to companies that have already proven to be unsustainable or have provided limited employment growth. In the case of Sears, the company was subsidized to move their existing workforce to a suburban location and has since reduced the number of employees. The ultimate question is whether these three companies were worth over \$900 million of Illinois' money.

CONCLUSION

As Illinois and local governments continue to face budget shortfalls, officials must carefully consider the benefits of economic development subsidies, particularly "megadeals" that stem from statewide competition in the name of job creation and retention. The recent deal awarded to Foxconn in southern Wisconsin is the perfect example of such a deal, and Illinois taxpayers can be thankful that \$3 billion of their hard-earned money will not be supporting this private corporation with a mixed record of success (Culpan, 2017).

As stated by the Federal Reserve Bank of Minneapolis, "[w]hile states spend billions of dollars competing with one another to retain and attract businesses, they struggle to provide such public goods as schools and libraries, police and fire protection, and the roads, bridges and parks that are critical to the success of any community" (1995). Arguments can be made for small-scale subsidies and those that aid low-income and high unemployment areas, yet it is crucial to understand who they are really benefiting: a private corporation that may soon lay off employees or the local community?

While the three companies discussed in this report exemplify the most egregious form of publicly-funded subsidization, Illinois' business subsidy practice has been widespread and costly over decades. Considering the state's protracted two-year budget dispute that resulted in a tax hike – not to mention the over \$251 billion in unfunded pension liabilities and \$15 billion in overdue bills the

state owes – taxpayers have a right to know that their money is being spent effectively. The state’s economic development policy deserves strict scrutiny to ensure future policies truly benefit the states’ citizens and not private corporations. The subsequent reports in this ILEPI series will seek to answer these important questions, provide a thorough history of the geographic distribution of subsidies in Illinois, consider alternative policies that would more effectively use taxpayers’ money, and suggest best-practices for the state’s economic development policy.

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