

THE BENEFITS OF DOING



BUSINESS IN ILLINOIS

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Frank Manzo IV
Policy Director



The Benefits of Doing Business in Illinois

SUMMARY: This Illinois Economic Policy Institute (ILEPI) Policy Brief analyzes the benefits of doing business in Illinois. Yes, labor is costly in Illinois, but high incomes raise consumer demand in the economy. High labor costs also reflect Illinois' well-educated, high-skilled workforce. Additionally, businesses benefit from Illinois' intermodal port— the largest inland port in the Western Hemisphere— as well as low energy costs, relatively cheap occupancy costs, high construction productivity, and declining crime rates. Finally, although taxes are slightly higher in Illinois than in the rest of the region, state revenue per capita is smaller only in Missouri. Billions of dollars, on the other hand, are expended by Illinois governments on economic development, worker training programs, and transportation spending to the benefit of Illinois businesses. Ultimately, Illinois remains a great place to do business.



Frank Manzo IV, MPP is the Policy Director of the Illinois Economic Policy Institute. He specializes in labor market analysis, economic development, infrastructure investment, the low-wage labor force, and public finance. Prior to working at ILEPI, he worked at the University of Illinois Labor Education Program and in the Federal Reserve system. He is a lifelong Illinois resident and holds a Master of Public Policy from the University of Chicago Harris School of Public Policy, a Bachelor of Arts in Economics and Political Science from the University of Illinois at Urbana-Champaign, and an Advanced Certificate of Labor Studies from the University of Illinois Labor Education Program. He can be contacted at fmanzo@illinoiseipi.org.

ILLINOIS ECONOMIC POLICY INSTITUTE

“A Higher Road for a Better Tomorrow”

P.O. Box 298
La Grange, Illinois 60525
P: (708) 375-1002
F: (708) 375-1006

www.illinoiseipi.org



Executive Summary

This Policy Brief analyzes the benefits of doing business in Illinois compared to eight neighboring states (Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, and Wisconsin) and the rest of the nation.

Economic Outlook

The Illinois economy has grown faster than the eight neighboring states since 2000 and since 2005 but slower than the national economy.

Labor and Income

Per capita income in Illinois has increased by \$2,306 (5.3 percent) since 2000 compared to \$1,995 (5.2 percent) for the eight neighboring states. At 8.6 percent, Illinois' unemployment rate was 1.9 percentage points higher than both the nation and the rest of the region at the end of 2013, but the percentage of the Illinois population that is employed was 59.4 percent, higher than the nation (58.8 percent) and comparable to the eight neighboring states (59.7 percent).

Education and Technology

In Illinois, 42.3 percent of the population has a high school degree equivalent or less while 30.8 percent hold a bachelor's or advanced degree. The comparable figures are 46.5 percent and just 23.3 percent for the rest of the region. Three of the Top 50 universities and eight of the Top 150 universities in America are located in Illinois.

Location and Transportation

Illinois has 145,000 miles of highway, 113 public-use airports, 41 freight railroads, and the largest intermodal port in the Western Hemisphere. Additionally, nearly half of the nation's rail freight originates in, terminates in, or comes through Chicago.

Other Business Costs: Energy, Construction, and Office Space

Energy costs are generally lower in Illinois than in the rest of the country. Labor costs per construction worker are higher in Illinois but the state's construction workers are far more productive than the average construction worker in America and in the rest of the region. Office space in Chicago is relatively available and inexpensive compared to comparable cities.

Taxes and Incentives

The combined state and local tax burden as a percentage of total income is 10.2 percent in Illinois compared to 9.9 percent in the rest of the region. However, *state* general revenues per capita are \$4,527 annually in Illinois compared to \$5,429 in the eight neighboring states. Federal aid accounts for 33.7 percent of Illinois' general revenues (\$1,526 per capita). In comparison, federal aid accounts for 36.6 percent (\$1,987 per capita) of state budgets of the eight neighboring states. At 9.5 percent, Illinois corporations face a higher marginal tax rate than both the national average (7.1 percent) and those in six of the eight neighboring states. Despite Illinois' high corporate tax rate, 69.5 percent of corporations in Illinois pay no corporate taxes. Finally, in the Midwest, economic growth and income growth has actually been highest in states with the largest tax burdens and lagging in states with low tax rates.

Quality of Life

Illinois ranks 39th out of the 50 states plus the District of Columbia with a murder rate of 5.8 per 100,000 population, but the homicide rate has fallen by 1.3 in the past decade. Illinois ranked 21st in property crime, lower than both the nation and the eight neighboring states. Additionally, outside of Chicago, the cost of living is at or below the national average in Illinois.

Policy Recommendations

- To address Illinois' persistent unemployment problem, increase investment in updating, modernizing, and expanding Illinois' infrastructure.
- To keep the unemployment rate down, avoid further cutting public sector jobs.
- To pay down Illinois' bills, keep the personal income tax at 5.0 percent for an additional four years until 2019 to maintain the \$4.7 billion increase in tax revenues. An extension would allow the state government to reduce its unpaid obligations to \$2.8 billion by 2020 through annual repayments of between \$0.8 billion and \$1.2 billion.
- A 1.75 percentage point drop in corporate income taxes would encourage job growth but cause a \$665.0 million dip in tax revenues.
- State officials need to do a better job of procuring federal funds. If federal aid was increased by just \$150 per person, Illinois would have earned \$1.9 billion more in annual revenue.
- Continue reducing the crime rate, particularly by finding new revenue to increase the police force.

Conclusions

Despite sluggish economic growth and a high unemployment rate, Illinois maintains a high-income, highly-educated, and well-connected economy. Ultimately, Illinois continues to remain a great place to do business.

Introduction

The heart of the American economy, Illinois provides easy access to the nation and the world. Over 100 airports, almost 10,000 miles of railroad tracks, about 140,000 miles of public roads, and bodies of water as large as Lake Michigan and as significant as the Mississippi River serve as intermodal arteries pumping economic life from Illinois to the rest of the United States. The state's strategic location, highly-educated workforce, cutting-edge research and innovation, reasonable business costs, and superb quality of life all offer enticing reasons for businesses to locate in Illinois. These factors help explain why 32 Fortune 500 call Illinois "home" and why hundreds more are headquartered in the state. They explain why Chicago, Illinois' largest city, is the 9th-most competitive city in the world (2nd-most competitive in America)¹ and one of the "Top 10 Cities People Are Moving To."² And they explain why—despite proclamations by some commenters in the public policy dialogue that business costs are too high—the positives of doing business in Illinois far outweigh the negatives.

This Illinois Economic Policy Institute (ILEPI) Policy Brief analyzes the benefits of doing business in Illinois. Where appropriate, comparisons are made between Illinois and the nation as a whole and between Illinois and eight neighboring comparison states. The eight neighboring states include the five states which border Illinois—Indiana, Iowa, Kentucky, Missouri, and Wisconsin—and three close-by states with similar Midwestern economies—Michigan, Minnesota, and Ohio. In the next section, the current economic outlook of Illinois is first presented. The subsequent sections investigate labor costs and benefits in Illinois and before examining the state's strategic educational and technological advantages. The following sections detail Illinois location and transportation benefits, other business costs such as energy and construction, the tax climate in Illinois, and quality of life factors. Policy actions which follow from the analysis are then recommended before a concluding section recaps the Policy Brief.

This Policy Brief often refers to the "27th Annual Survey of Corporate Executives" by *Area Development*, published in 2013.³ The survey received responses from over 200 corporate presidents, CEOs, financial officers, and decision-makers who consider and weigh various site selection and quality-of-life factors as either "very important," "important," a "minor consideration" or "of no importance." Figure 1 combines the "very important" and "important" responses for each factor and presents the combined score as a ranking from most important to least important. Any ties are conceded to the factor for which a higher percentage of respondents indicated that the feature was "very important" to them. As shown, the Top 5 business location and quality-of-life factors to corporate executives in order of importance and labor costs, highway accessibility, availability of skilled labor, availability of advanced information and communications technology (ICT) services, and occupancy or construction costs (Figure 1).

¹ Sauter, Mike. (June 30, 2013). "Can Your Town Compete? What Makes Competitive Cities." *USA Today*, available at <http://www.usatoday.com/story/money/2013/06/30/most-competitive-cities-future/2455975/>

² Christie, Les. (February 3, 2014). "Top 10 Cities People Are Moving To." *CNNMoney*, available at http://money.cnn.com/gallery/real_estate/2014/01/27/cities-moving/

³ Available at <http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2013/27th-Corporate-Executive-RE-survey-results-37376241.shtml>.

Figure 1: 27th Annual Survey of Corporate Executives, 2013

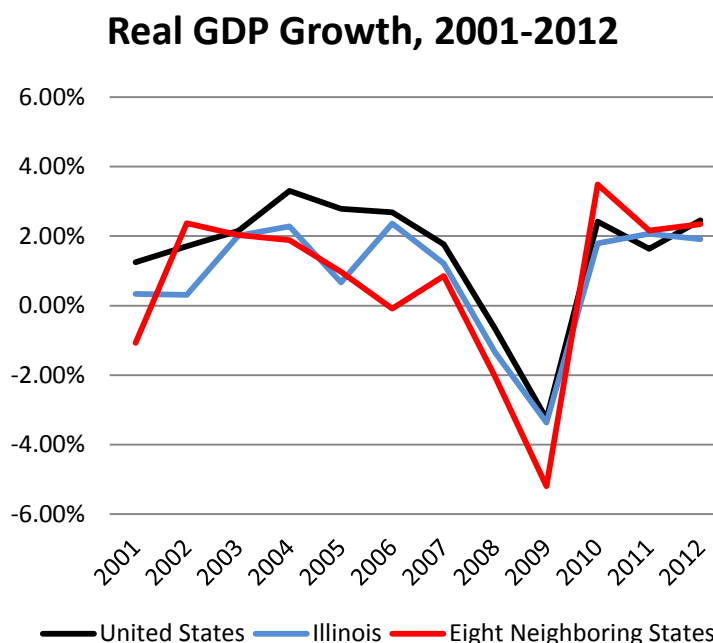
Rank	Corporate Survey 2013	Important or Very Important
1	Labor costs	90.8%
2	Highway accessibility	90.1%
3	Availability of skilled labor	89.4%
4	Availability of advanced ICT services	85.1%
5	Occupancy or construction costs	82.8%
6	Energy availability and costs	81.3%
7	Corporate tax rate	79.3%
8	Low crime rate	79.3%
9	Available buildings	78.4%
10	Tax exemptions	75.4%
11	Low union profile	73.5%
12	Right-to-work state	72.6%
13	Proximity to major markets	72.2%
14	State and local incentives	71.1%
15	Environmental regulations	71.1%
16	Healthcare facilities	69.8%
17	Housing availability	69.8%
18	Expedited or "fast-track" permitting	67.2%
19	Housing costs	66.9%
20	Inbound/outbound shipping costs	63.7%
21	Ratings of public schools	63.3%
22	Availability of long-term financing	63.1%
23	Colleges and universities in area	61.6%
24	Available land	59.0%
25	Climate	55.0%
26	Proximity to suppliers	54.9%
27	Training programs	54.7%
28	Accessibility to major airport	52.9%
29	Recreational opportunities	52.9%
30	Proximity to technical college/training	50.3%
31	Raw materials availability	49.7%
32	Cultural opportunities	48.9%
33	Railroad service	43.6%
34	Availability of unskilled labor	42.9%
35	Waterway or oceanport accessibility	19.9%

Source: "27th Annual Survey of Corporate Executives," Area Development Magazine (Winter 2013), available at areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2013/27th-Corporate-Executive-RE-survey-results-37376241.shtml.

Economic Outlook

The Illinois economy has only been tepidly growing during the recovery from the Great Recession. In each of the years since the recession's end in 2009, the Illinois economy has improved, but by less than other states in the region (Figure 2). Illinois' real gross domestic product (GDP) contracted by less than the aggregated economy of Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio, and Wisconsin (or "eight neighboring states"). The Illinois economy has only marginally improved since before the Great Recession, expanding by just 4.6 percent since 2005. This growth, however, compares favorably to the 1.3 percent GDP gain experienced in eight neighboring states, a sluggish gain driven by economic decline in Michigan and Ohio and subpar progress in Missouri and Wisconsin (Figure 3). Dating back to 2000, the real GDP of Illinois has improved by 10.6 percent compared to 7.6 percent in the eight neighboring comparison states. Thus, while it is true that the Illinois economy has been slower to recover from the recession, it has historically performed better than the rest of the region overall through both bust and boom economic periods.

Figure 2: Real GDP Growth by Region, 2001-2012



Source: "Real GDP by State (Millions of Chained 2005 Dollars)," U.S. Department of Commerce Bureau of Economic Analysis (2013), available at www.bea.gov/itable/index.cfm.

Figure 3: Real GDP and GDP Growth by Region, 2000-2012

Real GDP and GDP Growth (Billions of Chained 2005 Dollars)							
Region	2000	2005	2012	Since 2000	(%)	Since 2005	(%)
United States	\$11,225.4	\$12,539.1	\$13,430.6	\$2,205.2	19.6%	\$891.5	7.1%
Illinois	\$537.4	\$568.1	\$594.2	\$56.8	10.6%	\$26.1	4.6%
Eight Neighbors	\$1,872.6	\$1,990.8	\$2,015.7	\$143.1	7.6%	\$25.0	1.3%
Indiana	\$222.3	\$239.3	\$255.4	\$33.1	14.9%	\$16.1	6.7%
Iowa	\$105.3	\$120.0	\$129.8	\$24.5	23.2%	\$9.8	8.2%
Kentucky	\$128.5	\$138.8	\$146.8	\$18.3	14.2%	\$8.1	5.8%
Michigan	\$372.1	\$375.8	\$348.9	-\$23.3	-6.3%	-\$26.9	-7.2%
Minnesota	\$211.5	\$237.8	\$253.0	\$41.4	19.6%	\$15.2	6.4%
Missouri	\$204.9	\$216.3	\$221.7	\$16.8	8.2%	\$5.4	2.5%
Ohio	\$429.0	\$444.1	\$435.1	\$6.1	1.4%	-\$9.0	-2.0%
Wisconsin	\$198.9	\$218.7	\$225.1	\$26.2	13.2%	\$6.4	2.9%

Source: "Real GDP by State (Millions of Chained 2005 Dollars)," U.S. Department of Commerce Bureau of Economic Analysis (2013), available at www.bea.gov/itable/index.cfm.

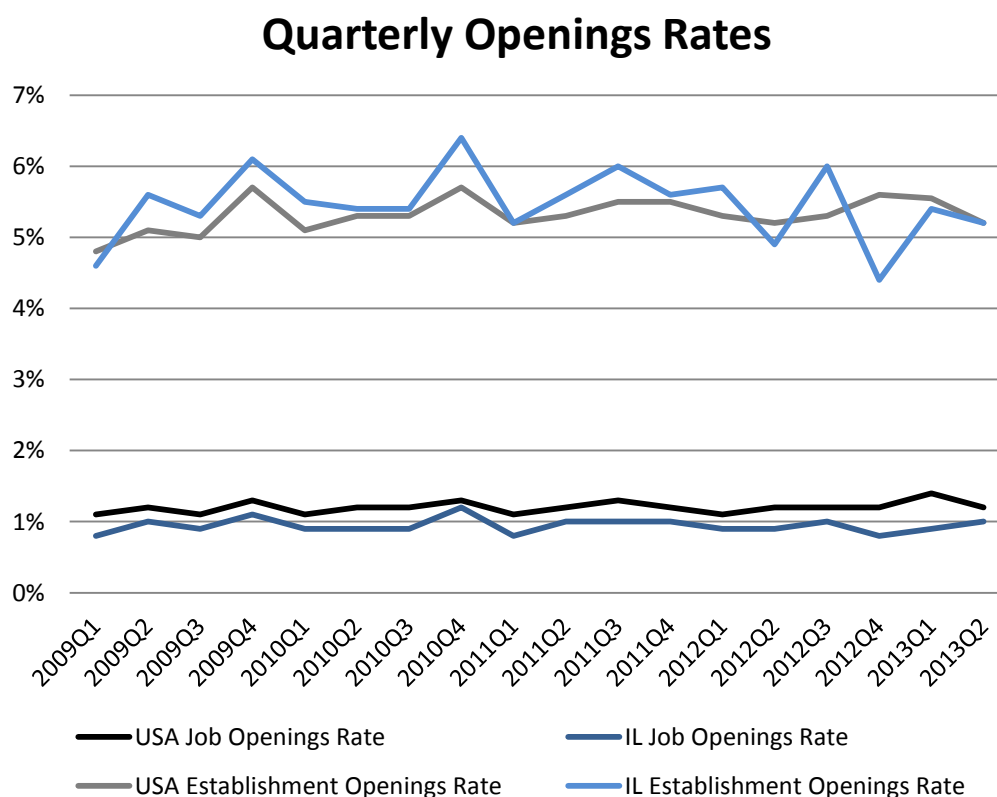
The opening of new small businesses is essential to the health of an economy because young firms create jobs, generate value to local communities, and bring new innovation to established industries and sectors. Since the beginning of 2009, more business establishments have opened up in Illinois than the national average (Figure 4). The quarterly openings rate has been 5.5 percent in Illinois on average from the first quarter of 2009 to the third quarter of 2013 compared to an average of 5.3 percent for the nation as a whole. Unfortunately, however, the higher establishment openings rate has not translated into a comparably higher rate of employment growth. The United States has seen a small 1.2 percent quarterly increase in employment openings since the beginning of 2009 while Illinois's job market has only grown by 0.9 percent on average each quarter. In fact, while Illinois has experienced a higher or equivalent rate of establishment growth than the nation in 13 of the previous 18 quarters, it has fallen shy of the nation in job growth in each of the past 18 quarters (Figure 5). The higher job growth rate in the rest of the nation could be because new firms opening in other states have been larger while those in Illinois have employed fewer workers or because extant firms in other states have been expanding employment faster than existing businesses in Illinois.

Figure 4: Average Quarterly Openings Rates, Illinois vs. the United States, 2009-2013

2009Q1-2013Q3 Average	United States	Illinois
Employment Openings Rate	1.20%	0.94%
Establishment Openings Rate	5.31%	5.46%

Source: "Business Employment Dynamics," U.S. Department of Labor Bureau of Labor Statistics (2013), available at www.bls.gov/bdm/.

Figure 5: Quarterly Openings Rates, Illinois vs. the United States, 2009-2013

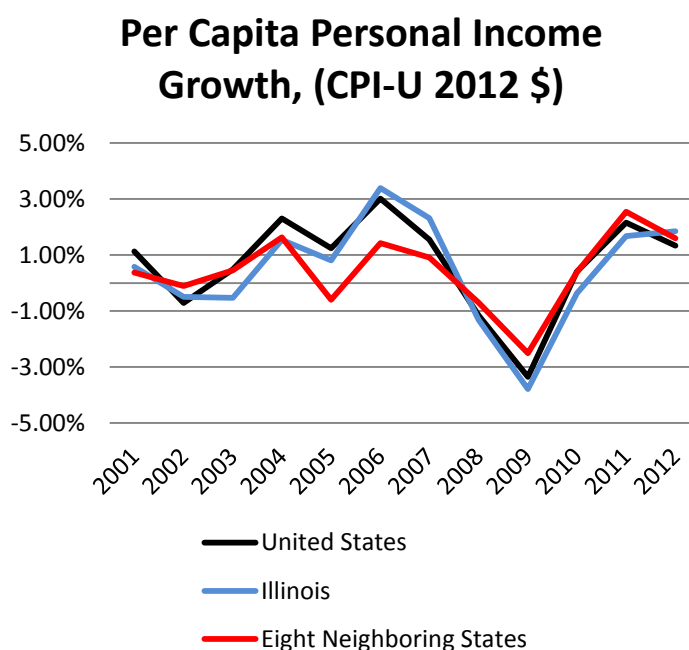


Source: "Business Employment Dynamics," U.S. Department of Labor Bureau of Labor Statistics (2013), available at www.bls.gov/bdm/.

Labor and Income

Illinois has fared better than the rest of the region in income growth per capita over time (Figure 6). While real per capita personal income growth has been slower to rebound from the Great Recession in Illinois than in the rest of the region, it has increased by 3.4 percent since 2005, in line with growth in the region (3.5 percent) and the country (3.7 percent) (Figure 4). After adjusting for inflation, income has increased by \$2,306 (5.3 percent) since 2000, compared to \$1,995 (5.2 percent) for the eight neighboring states. Overall, income in Illinois has grown faster than in Indiana, Michigan, Missouri, and Ohio. Per capita personal income in Illinois was \$45,832 in 2012, compared to \$40,165 in the rest of the region and \$43,735 in the nation (Figure 4).

Figure 6: Per Capita Personal Income Growth by Region, 2001-2012



Source: "Personal Income Per Capita," U.S. Department of Commerce Bureau of Economic Analysis (2013), available at www.bea.gov/itable/index.cfm. Income is adjusted by the Consumer Price Index for All Urban Consumers (CPI-U) of the U.S. Department of Labor Bureau of Labor Statistics, available at www.bls.gov/cpi/.

Figure 7: Per Capita Personal Income and Income Growth by Region, 2000-2012

Per Capita Personal Income and Income Growth (Constant 2012 Dollars)							
Region	2000	2005	2012	Since 2000	(%)	Since 2005	(%)
United States	\$40,424	\$42,190	\$43,735	\$3,311	8.2%	\$1,545	3.7%
Illinois	\$43,526	\$44,322	\$45,832	\$2,306	5.3%	\$1,510	3.4%
Eight Neighbors	\$38,170	\$38,824	\$40,165	\$1,995	5.2%	\$1,340	3.5%
Indiana	\$36,611	\$37,009	\$38,119	\$1,508	4.1%	\$1,110	3.0%
Iowa	\$36,379	\$38,795	\$43,935	\$7,556	20.8%	\$5,140	13.3%
Kentucky	\$33,046	\$34,319	\$35,643	\$2,597	7.9%	\$1,324	3.9%
Michigan	\$39,199	\$38,740	\$38,291	-\$908	-2.3%	-\$449	-1.2%
Minnesota	\$43,464	\$44,369	\$46,925	\$3,461	8.0%	\$2,556	5.8%
Missouri	\$37,179	\$38,444	\$39,133	\$1,954	5.3%	\$689	1.8%
Ohio	\$38,259	\$38,496	\$40,057	\$1,798	4.7%	\$1,561	4.1%
Wisconsin	\$38,854	\$40,401	\$42,121	\$3,267	8.4%	\$1,720	4.3%

Source: "Personal Income Per Capita," U.S. Department of Commerce Bureau of Economic Analysis (2013), available at www.bea.gov/itable/index.cfm. Income is adjusted by the Consumer Price Index for All Urban Consumers (CPI-U) of the U.S. Department of Labor Bureau of Labor Statistics, available at www.bls.gov/cpi/.

Illinois remains one of the richest states in the region, but the state's personal income per capita and gross domestic product would both be improved if the unemployment rate were reduced. At 8.6 percent, Illinois' unemployment rate was 1.9 percentage points higher than

both the nation and the rest of the region at the end of 2013 (Figure 8). This, however, was partially due to a higher labor force participation rate among Illinois residents. While the employment rate of the entire Illinois population (59.4 percent) was higher than the nation (58.8 percent) and comparable to the state's neighbors (59.7 percent), a smaller share of the population was looking for a job in both the nation and in the rest of the region. At 65.0 percent, the labor force participation rate was 2.0 percentage points higher in Illinois than in the nation as a whole and 1.0 percentage point higher than rest of the region in December 2013 (Figure 8). In fact, if Illinois' labor force participation rate was equal to that of the eight neighboring states (e.g., if more workers gave up searching for a job as in the rest of the region), Illinois' unemployment rate would have been reduced to 7.4 percent, a 1.2 percentage point drop.

In the year 2012, the Illinois workforce differed from both the rest of the region and the nation in interesting ways (Figure 8). The public sector share of the workforce was larger in the region (12.5 percent) and in the nation (14.3 percent) than in Illinois (11.9 percent of all workers). Larger government shares of the eight neighboring states and the nation contributed significantly to lower unemployment rates in those areas compared to Illinois. Additionally, a greater share of the employed population in Illinois was born in another country and immigrated to America (16.6 percent) than in the country (16.2 percent) and in the eight neighboring states (6.0 percent), indicating that Illinois remains an attractive state for new residents to locate and contribute to the American economy. Finally, the share of the workforce that earned less than \$10.00 per hour in wage and salary income was lower in Illinois. In 2012, 18.5 percent of workers made less than \$10.00 an hour in Illinois compared to 19.0 percent in the United States and 20.3 percent in the rest of the region. Higher wages for lower-skilled workers helped keep millions of Illinois residents out of poverty.

Figure 8: Population and Employment Characteristics by Region, 16 Years or Older, 2012

2012 Population and Employment Characteristics, 16 Years or Older						
Region	Labor Force Participation (Dec. 2013)	Employment Rate (Dec. 2013)	Unemployment Rate (Dec. 2013)	Public Sector (2012)	Immigrant Share (2012)	Worker Earns <\$10 Per Hour (2012)
United States	63.0%	58.8%	6.7%	14.3%	16.2%	19.0%
Illinois	65.0%	59.4%	8.6%	11.9%	16.6%	18.5%
Eight Neighbors	64.0%	59.7%	6.7%	12.5%	6.0%	20.3%

Source: Center for Economic and Policy Research (2003-2012). CPS-ORG Uniform Extracts, Version 1.7. Washington, DC. Current Population Survey statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. The total number of observations of employed persons was 1,730,969. Available at ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data.

Another labor market institution that shields workers from poverty is the labor union (Figure 9). In 2013, the national union membership rate increased slightly to 11.2 percent. After accounting for demographics, educational attainment, veteran status, sector of employment, usual workweek, occupation, and industry of employment, the union wage premium is found to have raised a worker's hourly wage by 18.2 percent on average in America in 2012.⁴ The effect of right-to-work laws, on the other hand, was a 5.4 percent

⁴ This union wage premium is larger than the 11.9 percent estimate found by Schmitt, John. (2008). "The Union Wage Advantage for Low-Wage Workers," Center for Economic and Policy Research but includes occupational variables and is in line with the estimates of Hirsch, Barry and David Macpherson. (2006). *Union Membership and Earnings Data Book: Compilations from the Current Population Survey* (2006 Edition). Washington, DC: Bureau of National Affairs, Table 2b.

reduction in the average worker's wage— an impact which affects both union and nonunion workers.

In the Midwest, the union membership rate is higher, the union wage premium slightly lower, and the impact of right-to-work laws less negative than in the rest of the nation (Figure 9). In 2013, the rate of unionization was 15.7 percent in Illinois and 12.0 percent in the eight neighboring comparison states. Although the share of union members was higher than in the nation, the positive wage impact of labor unions on workers was lower in both Illinois (17.7 percent) and the neighboring states (17.6 percent). This smaller wage benefit is due to the larger spillover effects in Midwest states as a result of higher union membership rates— that is, unions also raise the wages of nonunion workers who perform similar work through a “threat effect.”⁵ Finally, at -1.7 percent, the impact of right-to-work laws on the average worker's hourly wage was smaller in the Midwest but still lowered incomes. The smaller figure is also likely due to the fact that right-to-work laws have not taken full effect in Indiana and Michigan, the two states which have most recently adopted the policy (Figure 9).

Figure 9: Labor Union Characteristics by Region, 2012 and 2013

Labor Unions Characteristics			
Region	Union Membership Rate (2013)	Union Wage Premium (2012)	Right-to-Work Wage Effect (2012)
United States	11.24%	18.16%***	-5.38%***
Illinois	15.74%	17.68%***	N/A
Eight Neighbors	11.96%	17.56%***	-1.68%***

Source: Barry T. Hirsh and David A. Macpherson, “Union Membership and Coverage Database from the CPS” (2014), available at www.unionstats.com. Center for Economic and Policy Research (2003-2012). CPS-ORG Uniform Extracts, Version 1.7. Washington, DC. Current Population Survey statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. The total number of observations of employed persons was 1,730,969. Available at ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data. For full regressions, contact the author at fmanzo@illinoisepi.org.

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings

Rank	Factor	Importance	Illinois
1	Labor costs	90.8%	Yes, labor costs are high in Illinois and union membership is strong, but higher incomes translate into more household spending in the Illinois economy. With a high employment ratio, high per capita incomes, fewer low-income workers, and a fair-share collective bargaining policy which keeps wages up, businesses in Illinois benefit from high consumer demand and a larger market for their products and services.
11	Low union profile	73.5%	
12	Right-to-work state	72.6%	

Education and Technology

The primary reason that labor is more costly in Illinois than in both the rest of the region and the nation is that the Illinois workforce is more educated. Higher levels of educational attainment lead to increased worker productivity levels, which in turn lift incomes as workers are compensated for their economic contribution. In Illinois, 42.3 percent of the population has a high school degree equivalent or less while 30.8 percent hold a bachelor's or

⁵ Eren, Ozkan. (2011). “Union Threat and Nonunion Wages: Evidence from the Case Study of Oklahoma,” available at http://faculty.bus.lsu.edu/oeren/eren_ozbeklik_paper3.pdf.

advanced degree. By contrast, 46.5 percent of those in the rest of the region have either no degree or a high school degree while just 23.3 percent have earned at least a bachelor's degree; the respective figures for the nation are 44.9 percent and 27.4 percent. Ultimately, firms in Illinois have access to a noticeably higher-educated labor force (Figure 10).

Figure 10: Educational Attainment Characteristics by Region, 16 Years or Older, 2012

2012 Population Educational Attainment Characteristics, 16 Years or Older					
Region	Less than High School	High School	Some College or Associates	Bachelor's	Advanced
United States	15.73%	29.19%	27.66%	17.95%	9.47%
Illinois	13.79%	28.49%	26.89%	20.07%	10.76%
Eight Neighbors	15.39%	31.08%	28.97%	15.64%	7.66%

Source: Center for Economic and Policy Research (2003-2012). CPS-ORG Uniform Extracts, Version 1.7. Washington, DC. Current Population Survey statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. The total number of observations of employed persons was 1,730,969. Available at ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data.

The State of Illinois is also disproportionately home to first-rate scholarship, research, and postsecondary educational institutions. According to the 2013 ranking of “National University Rankings” by the *U.S. News and World Report*, three of the Top 50 universities in America are located in Illinois: the University of Chicago, Northwestern University, and the University of Illinois at Urbana-Champaign. The eight neighboring comparison states, by contrast, accounted for four Top 50 universities in total. In fact, in the region, the top two universities are located in Illinois and the state's third-best institution is ranked 6th (Figure 11). Furthermore, of America's Top 150 national universities, Illinois houses 8 compared to just 21 in the eight neighboring states, an average of 2.6 top universities per state (Figure 12). The prevalence of top-tier universities in Illinois has significant positive impacts on the state economy, as they provide exceptional education services to the state's future workforce and support cutting-edge research which spills over to private development and innovation.

Figure 11: Best National Universities in Nine States Studied, 2014

2013 Best National Universities in Region, U.S. News & World Report		
Rank	University	National Rank
1	University of Chicago	5
2	Northwestern University	12
3	Washington University – St. Louis	14
4	University of Notre Dame	18
5	University of Michigan – Ann Arbor	28
T-6	University of Illinois – Urbana-Champaign	41
T-6	University of Wisconsin – Madison	41
8	Ohio State University – Columbus	52
9	Purdue University – West Lafayette	68
10	University of Minnesota – Twin Cities	69

Source: “National University Rankings,” U.S. News & World Report (2014), available at colleges.usnews.rankingsandreviews.com/best-colleges/rankings.

Figure 12: Best National Universities by Region, 2014

2013 Best National Universities, U.S. News & World Report			
Region	Top 50	Top 150	Top 150 State Average
United States	50	150	2.9
Illinois	3	8	8.0
Eight Neighbors	4	21	2.6

Source: “National University Rankings,” U.S. News & World Report (2014), available at colleges.usnews.rankingsandreviews.com/best-colleges/rankings.

The spillover effects of a highly-educated population and world-class universities result in a dynamic information and communications technology sector of the state economy (Figure 13). Information and communications technology (ICT) services are more available in Illinois than in the rest of the region. Approximately 1.9 percent of all employed persons in Illinois work in the ICT sector, resulting in 11.2 ICT workers per 1,000 Illinois residents. In the eight neighboring states, ICT workers comprise 1.7 percent of the workforce and account for just 10.0 workers per 1,000 persons. Driven especially by California's Silicon Valley, the United States economy has a slightly larger technology and telecommunications sector than Illinois: the ICT worker share of total employment is 2.1 percent (12.3 ICT workers per 1,000 residents) in America.

The ICT workforce is more-educated in Illinois than in both the region and the United States (Figure 14). Of employed persons in the ICT services industry in Illinois, 37.7 percent hold a bachelor's degree and 19.0 percent hold an advanced degree. In comparison, bachelor's degree holders account for 30.5 percent of the ICT workforce in the rest of the region and 35.1 percent of 35.1

percent of the workforce in the nation as a whole, and the comparable advanced degree estimates are just 8.7 percent and 12.9 percent. Given that the average hourly income, at \$24.78 per hour, is lower for ICT employees in Illinois than in the nation, businesses in Illinois benefit from a wide availability of *advanced* ICT services at a comparatively low cost.

Figure 13: ICT Services Employment Share of the Economy, 2012

Information and Communications Technology Sector, 2013			
Region	Employment in Industry	Share of Total Employment	ICT Workers Per 1,000 Population
United States	2,998,545	2.11%	12.3
Illinois	112,584	1.87%	11.2
Eight Neighbors	410,696	1.69%	10.0

Source: Center for Economic and Policy Research (2003-2012). CPS-ORG Uniform Extracts, Version 1.7. Washington, DC. Current Population Survey statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. The total number of observations of employed persons was 1,730,969. Available at ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data.

Figure 14: Hourly Wages and Educational Attainment of Workers in the ICT Industry by Region, 2012

Information and Communications Technology Sector, 2012				
Region	Employment in Industry	Wage or Salary Per Hour	Bachelor's Degree	Advanced Degree
United States	2,998,545	\$26.87	35.10%	12.85%
Illinois	112,584	\$24.78	37.67%	19.02%
Eight Neighbors	410,696	\$23.29	30.53%	8.68%

Source: Center for Economic and Policy Research (2003-2012). CPS-ORG Uniform Extracts, Version 1.7. Washington, DC. Current Population Survey statistics are adjusted by the outgoing rotation group earnings weight to match the total population 16 years of age or older. The total number of observations of employed persons was 1,730,969. Available at ceprdata.org/cps-uniform-data-extracts/cps-outgoing-rotation-group/cps-org-data.

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings

Rank	Factor	Importance	Illinois
3	Skilled labor availability	89.4%	Illinois workers are more educated than those in the region and the nation. Businesses in Illinois benefit from an intelligent, creative, high-skilled, and productive labor pool as well as continuous flows of talent and technological innovation from top-tier universities. ICT services are advanced, widely available, and cost-effective in Illinois.
4	Advanced ICT services availability	85.1%	
23	Colleges and universities in area	61.6%	

Location and Transportation

Illinois is positioned at the crossroads of the American economy. The state's 145,000 miles of highway, including nearly 139,600 public road miles, provide access to both the Great Lakes and the Mississippi River.⁶ Additionally, the state's highways connect Central Illinois to nine major metropolitan statistical area (MSA) economies in less than 350 miles (Figure 15). These nine urban regions alone provide businesses in Illinois access to 22.4 million consumers.

There are 113 public-use airports and 41 freight railroads in Illinois. Airports include Chicago O'Hare International Airport and Chicago Midway International Airport which are able to move goods, services, and passengers anywhere in the United States in under four hours.⁷ O'Hare is the fifth-busiest airport in the world, enplaning and deplaning 66.6 million passengers, and ranks second in total aircraft movements with 878,000 total take-offs and landings.⁸ Illinois' comprehensive rail network includes seven freight (Class I) carriers who operate 7,800 miles of railroad tracks. An additional 2,200 miles are operated by 34 regional, local, and short line (Class III) companies. Between one-fourth and one-third of all rail traffic originates in, terminates in, or comes through the City of Chicago, the nation's largest rail hub. Furthermore, nearly half of the nation's rail *freight* touches Chicago.⁹

Figure 15: Proximity of Springfield, Illinois to Major Regional Markets via Highway

Springfield, IL to:	Market Proximity Via Highways	City Population, 2012	MSA Population, 2012
St. Louis, MO	96 miles	318,172	2,795,794
Chicago, IL	202 miles	2,714,856	9,522,434
Indianapolis, IN	209 miles	834,852	1,928,982
Milwaukee, WI	250 miles	598,916	1,566,981
Madison, WI	279 miles	240,323	620,778
Kansas City, MO	309 miles	464,310	2,038,724
Cincinnati, OH	321 miles	296,550	2,128,603
Louisville, KY	323 miles	605,110	1,251,351
Des Moines, IA	337 miles	206,688	588,999

Source: "State & County QuickFacts," United States Census Bureau (2012), available at quickfacts.census.gov/qfd/index.html. Highway travel distance provided by Google Maps.

Illinois' extensive road network, aviation capacity, role as the rail freight gateway, and 1,100 miles of inland waterways combine to make Northeastern Illinois the largest intermodal port in the Western Hemisphere and third-largest in the world after Hong Kong and Singapore.¹⁰

⁶ "2013 Report Card Illinois for America's Infrastructure: Illinois." (2013). American Society of Civil Engineers, available at www.infrastructurereportcard.org/illinois/illinois.

⁷ *Ibid* 6, ASCE.

⁸ Airports Council International. (2013). "Preliminary 2012 World Airport Traffic and Rankings," available at <http://www.aci.aero/News/Releases/Most-Recent/2013/03/26/Preliminary-2012-World-Airport-Traffic-and-Rankings->.

⁹ Illinois Department of Transportation. (2014). "Illinois State Rail Plan: Project Overview," available at <http://www.dot.il.gov/ilrailplan/ProjectOverview.html>.

¹⁰ Illinois Department of Commerce & Economic Opportunity. (2014). "Why Illinois: Grade A Logistics," available at <http://www.illinois.gov/dceo/whyillinois/GradeALogistics/Pages/default.aspx>.

Illinois' first-class logistics network, though impaired by congestion costs and deteriorating infrastructure, nevertheless remains a cost-effective option for businesses to bring their products to market and export goods internationally.

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings			
Rank	Factor	Importance	Illinois
2	Highway accessibility	90.1%	<i>Transportation and logistics costs are relatively low in Illinois. The hemisphere's largest inland port is located in Northeastern Illinois, and allows the private sector to efficiently export their products to major markets. Illinois businesses also benefit from close proximity to (or location in) Chicago, the largest market in the Midwest, and eight other urban economies with over half a million residents.</i>
13	Major market proximity	72.2%	
20	Shipping costs	63.7%	
28	Major airport accessibility	52.9%	
33	Railroad service	43.6%	
35	Waterway accessibility	19.9%	

Other Business Costs: Energy, Construction, and Office Space

Energy costs, on the whole, are lower in Illinois than in the rest of the country (Figure 16). Crude oil petroleum costs \$0.65 less per barrel at first purchase in Illinois than the national average. At \$9.65, the price of natural gas is \$2.83 cheaper per thousand cubic feet in Illinois than the rest of the country. Businesses also save between 1.0 and 2.3 cents per kilowatt-hour in electricity costs than other commercial and industrial firms in the United States. The only major energy source with a higher price in Illinois than the national average is coal.

Figure 16: Energy Prices, Illinois vs. the United States, January 2014

January 16, 2014 Energy Prices			
Energy Source	United States	Illinois	Illinois Savings
Crude Oil Petroleum (1 st purchase)	\$96.24/barrel	\$95.59/barrel	\$0.65/barrel
Natural Gas (Residential)	\$12.48/thousand cubic ft.	\$9.65/thousand cubic ft.	\$2.83/thousand cubic ft.
Coal Sales Price	\$39.95/short ton	\$53.08/short ton	-\$13.13/short ton
Electricity (Residential)	12.31 cents/kWh	10.86 cents/kWh	1.45 cents/kWh
Electricity (Commercial)	10.30 cents/kWh	7.98 cents/kWh	2.32 cents/kWh
Electricity (Industrial)	6.80 cents/kWh	5.84 cents/kWh	0.96 cents/kWh

Source: "Illinois: State Profile and Energy Estimates," U.S. Energy Information Administration (2014), available at www.eia.gov/state/data.cfm?sid=IL#Prices.

Construction industry data is from the 2007 Economic Census, the latest year for which data are available. In 2007, there were 30,204 construction establishments in Illinois (Figure 17). The average construction establishment employed 9.0 workers in Illinois, the same rate as the regional average but 1.0 worker fewer than the national average.

A discussion around construction costs in Illinois can be misleading (Figure 18). Construction costs in Illinois are in fact high. The annual payroll cost per worker to a construction firm was \$53,638 in Illinois in 2007 compared to \$45,261 in the nation and \$44,663 on average in

the eight neighboring states. However, Illinois construction workers are extremely productive. The value added per worker—equal to the value of business done minus costs for work subcontracted to others and the costs for materials, components, supplies, and fuels—is significantly higher in Illinois than in the United States and the rest of the region. Construction workers in Illinois added \$126,111 worth of value on average to their employer in 2007, or \$72,573 more than their payroll cost. Illinois construction workers added \$18,574 more value than the average American construction worker (\$10,197 more after accounting for labor costs) and \$25,546 more than the rest of the region (\$16,571 more after labor costs). Put differently, to add \$1 million worth of value, it would have cost just \$425,000 in payroll in Illinois compared to \$444,000 for the rest of the region (\$420,000 for the United States). In fact, the only neighboring state where construction workers were more productive was Minnesota, the state with the second-highest construction worker union membership rate in the region in 2007 (31.3 percent), behind Illinois (37.6 percent).¹¹

Figure 17: Construction Costs and Productivity by Region, 2007

Construction Costs and Value Added, 2007					
Region	Establishments	Workers Per Firm	Payroll Per Worker	Value Added Per Worker	Worker Value Added Minus Labor Cost
United States	728,020	10.0	\$45,261	\$107,637	\$62,376
Illinois	30,204	9.0	\$53,638	\$126,211	\$72,573
Eight Neighbors	122,624	9.0	\$44,663	\$100,665	\$56,002
Indiana	15,623	9.4	\$43,821	\$93,864	\$50,043
Iowa	8,006	8.7	\$41,258	\$90,702	\$49,444
Kentucky	8,592	9.6	\$37,752	\$89,206	\$51,454
Michigan	21,781	7.4	\$45,011	\$104,875	\$59,864
Minnesota	15,843	8.5	\$50,672	\$133,786	\$83,114
Missouri	15,213	10.8	\$43,406	\$89,787	\$46,381
Ohio	22,898	9.7	\$44,551	\$97,514	\$52,963
Wisconsin	14,668	8.6	\$47,063	\$100,737	\$53,674

Source: "2007 Economic Census," United States Census Bureau (2007), available at www.census.gov/econ/census07.

In urban areas, Illinois also compares favorably in terms of office space availability and price (Figure 18). Of the Top 10 markets by sale volume, Chicago's 17.0 percent office vacancy rate falls behind only Dallas, Atlanta, and Los Angeles in terms of availability. The unfilled supply of office space has led to relatively low occupancy costs per square foot in Chicago. In 2013, the price of office space in Chicago was \$176 per square foot, far less expensive than the \$744 and \$358 prices for Manhattan and the District of Columbia respectively and only above Dallas (\$146) and Atlanta (\$151). Certainly, compared to other mid-sized Midwestern cities, Chicago office space is a bit pricier—office space can be found for as cheap as \$82 per square foot in Detroit (23.1 percent vacancy rate) up to \$149 per square foot in Milwaukee (20.9 percent vacancy rate). But assessed against other markets with comparable demand, Illinois' largest city provides businesses with relatively inexpensive occupancy costs.

¹¹ Hirsch, Barry and David Macpherson. (2014). "Union Membership, Coverage, Density and Employment by State, 2007," available at www.unionstats.com.

Figure 18: Office Space Volume, Price, and Vacancy Rate by Major Market, 2013

Office Space, 2013				
Rank	Market	Sale Volume	Average Price (Sq. Ft.)	Vacancy Rate
1	Manhattan, NY	\$17.35 billion	\$744	11.3%
2	Los Angeles, CA	\$7.86 billion	\$263	18.0%
3	Washington, DC	\$5.92 billion	\$358	10.4%
4	Houston, TX	\$4.78 billion	\$220	13.3%
5	Chicago, IL	\$4.59 billion	\$176	17.0%
6	Atlanta, GA	\$3.14 billion	\$151	19.2%
7	Boston, MA	\$3.12 billion	\$252	12.0%
8	Dallas, TX	\$2.98 billion	\$146	19.9%
9	San Jose, CA	\$2.64 billion	\$330	12.7%
10	Seattle, WA	\$2.59 billion	\$305	11.0%
18	Minneapolis, MN	\$1.10 billion	\$123	16.5%
20	Milwaukee, WI	\$0.91 billion	\$149	20.9%
26	St. Louis, MO	\$0.43 billion	\$93	15.7%
27	Detroit, MI	\$0.42 billion	\$82	23.1%
33	Indianapolis, IN	\$0.32 billion	\$86	19.5%
35	Columbus, OH	\$0.31 billion	\$105	16.1%

Source: "U.S. Office Trends Report," Cassidy Turley (4th Quarter 2013).

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings

Rank	Factor	Importance	Illinois
5	Occupancy or construction costs	90.1%	Energy and occupancy costs are generally lower in Illinois relative to the rest of the nation. Chicago's 17.0 percent office vacancy rate also demonstrates an oversupply of buildings, further reducing the price of occupancy. While construction costs are high in Illinois, businesses in the state benefit from an extremely productive construction workforce.
6	Energy availability and costs	81.3%	
9	Available buildings	78.4%	

Taxes and Incentives

The tax burden in Illinois is significant but not nearly as onerous as some politicians and commenters suggest (Figure 19). According to the Tax Foundation, a nonprofit research institute, the combined state and local tax burden as a percentage of total state income is 10.2 percent in Illinois. The state and local tax burden is only slightly less in the rest of the region and the United States, at 9.8 percent and 9.9 percent respectively. However, Illinois residents contribute a smaller amount of income toward *state* general revenues than the region and the nation. Illinois general revenues per capita are \$4,527 annually compared to \$5,429 in the eight neighboring states and \$5,323 on average in all states.

An often untold story about Illinois is that it is a donor state. Federal aid accounts for 33.7 percent of Illinois' general revenues, or \$1,526 per capita. In comparison, as a percentage of state general revenues, federal aid accounts for fully 36.6 percent (\$1,987 per capita) for the eight neighboring states and 35.9 percent (\$1,911 per capita) for the nation as a whole (Figure 19). But, because Illinois is a high-income state as shown in Figure 7, the Land of

Lincoln funds a disproportionate share of federal government tax revenues through higher federal income tax contributions. In effect, Illinois workers are subsidizing the operating budgets of other states (including every nearby state except Minnesota and Wisconsin), even though the state government faces an \$8.7 billion backlog in unpaid bills and obligations.¹²

As a result of temporary tax hikes enacted by the state legislature in 2011, the individual income tax rate is a flat 5.0 percent rate until 2015 and the corporate income tax rate is 7.0 percent (plus a separate 2.5 percent Personal Property Replacement Tax) until 2015. If the temporary tax increases are not extended, the individual income tax rate will drop back to 3.0 percent and the corporate tax rate will drop to 5.25 percent (plus 2.5 percent) in 2015. The flat personal income tax rate means that an individual or household pays 5.0 percent of their gross adjusted income in taxes regardless of how much they earned. The tax burden is 5.0 percent whether one earns \$50,000 in taxable income or \$100,000 in taxable income. By contrast, six of the eight neighboring states have progressive income tax policies where the rich pay a slightly larger percentage of their income in taxes. Effective income tax rates are only lower in Indiana, Michigan, and Ohio. Compared to Illinois' 5.0 percent rate, an individual or family with \$50,000 of taxable income could be taxed up to an average rate of 6.2 percent in the rest of the region (in Minnesota) and an individual or family with \$100,000 of taxable income could effectively be taxed up to 7.2 percent in the rest of the region (in Iowa). If the Illinois income tax increase is not extended, the state will lose \$4.7 billion in annual revenue and revert to having the lowest income tax rate in the region except for the burden placed on Ohio's poorest residents (Figure 19).

Figure 19: State and Local Taxes and Tax Revenue Metrics by Region, Early 2010s

Region	State and Local Tax Burden (2010)	State General Revenues (2011)		Effective Income Tax Rate (2013)		Marginal Corporate Tax (2013)
		Per Capita	Federal Aid %	\$50,000 Taxable	\$100,000 Taxable	\$100,000+ Taxable
United States	9.9%	\$5,323	35.9%	0.0%-8.5%	0.0%-8.8%	7.1%
Illinois	10.2%	\$4,527	33.7%	5.00%	5.00%	9.5%
Eight Neighbors	9.8%	\$5,429	36.6%	3.4%-6.2%	3.4%-7.2%	0.0%-10.0%
Indiana	9.6%	\$4,836	34.5%	3.40%	3.40%	8.0%
Iowa	9.6%	\$5,921	38.9%	5.77%	7.19%	10.0%*
Kentucky	9.4%	\$5,409	38.3%	5.43%	5.62%	6.0%
Michigan	9.8%	\$5,541	36.4%	4.25%	4.25%	6.0%
Minnesota	10.8%	\$6,279	29.4%	6.22%	6.80%	9.8%
Missouri	9.0%	\$4,511	44.4%	5.55%	5.78%	6.25%
Ohio	9.7%	\$5,347	38.9%	2.88%	3.59%	0.0%
Wisconsin	11.1%	\$5,636	32.8%	6.02%	6.22%	7.9%

Source: "Facts & Figures 2013: How Does Your State Compare?," Tax Foundation (2013), available at taxfoundation.org/article/facts-figures-2013-how-does-your-state-compare. *Iowa's marginal corporate income tax rises to 12.0% for corporate income over \$250,000.

Finally, Illinois' corporate income tax rate is relatively high compared to the region and the nation. At 9.5 percent, Illinois corporations with \$100,000 of taxable income have a larger tax burden than both the national average (7.1 percent) and those in six of the eight neighboring states. The marginal corporate tax rate is 9.8 percent in Minnesota and 10.0 percent in Iowa

¹² Wills, Christopher. (May 2, 2012). "Illinois Democrats Face Budget Woes: Can Make the Painful Cuts Needed?" *Huffington Post*, available at http://www.huffingtonpost.com/2012/05/02/illinois-democrats-face-b_n_1472403.html.

up to \$250,000, at which point it rises to 12.0 percent (Figure 19). If the Illinois corporate tax hike is not extended, the rate will drop to 7.75 percent, closer to the national average and below the rate in Iowa, Minnesota, Indiana, and Wisconsin. Nevertheless, despite Illinois' high corporate tax rate, 69.5 percent of all corporations in Illinois pay no corporate income taxes. Indeed, just 0.3 percent of filing corporations, or 309 corporations, had a tax liability greater than \$1,000,000 in 2010. Together, those 309 corporations accounted for 67.5 percent of all revenue from corporate taxes (Figure 20).

Figure 20: Corporate Income Tax Liability of Filing Illinois Corporations, 2010

Illinois Corporate Income Tax Liability (2010)			
Liabilities	Filers	Percent of Filers	Percent of Revenues
No Tax Liability	76,868	69.5%	0.0%
Less than \$50,000	31,127	28.2%	6.4%
\$50,000 to \$1,000,000	2,173	2.0%	26.2%
More than \$1,000,000	309	0.3%	67.5%

Source: Center for Tax and Budget Accountability analysis of data provided by the Illinois Department of Revenue (May 2013).

It is worth noting that, since 2000, economic growth has been highest in Iowa and Minnesota and incomes have increased most in Iowa and Wisconsin (Figures 3 and 7). Similarly, economic growth was lowest in Michigan and Ohio during that time while Indiana joined Michigan as the two worst-performers in income growth. Yet Wisconsin and Minnesota have the highest state and local tax burdens in the region while Iowa and Minnesota have the highest tax rates for both individuals and corporations with more than \$100,000 in taxable income. At the same time, Michigan, Ohio, and Indiana have the lowest income tax rates and (but for Indiana) the lowest corporate income tax rates (Figure 19). Thus, high tax burdens *do not* necessarily deter economic development and low tax burdens do not guarantee economic success.

Figure 21: Illinois Primary Government Expenses by Line Item, 2008-2012

Illinois Primary Government Expenses (Millions of Constant 2012 Dollars)					
Line Item	2008	2009	2010	2011	2012
Employment & Economic Development	\$929.46	\$922.45	\$1,325.37	\$1,616.66	\$1,332.41
Transportation	\$4,457.56	\$4,487.23	\$5,109.72	\$4,974.81	\$4,471.25

Source: Comprehensive Annual Financial Reports, State of Illinois Comptroller's Office (2008-2012), available at www.ioc.state.il.us/index.cfm/resources/reports/cafr.

The State of Illinois expends billions of dollars to stimulate economic development. Since 2008, state government spending on employment and economic development (which consists mostly of workforce training and tax credits to businesses) has risen from \$929.5 million to \$1.33 billion. Expenditures on this budgetary line item peaked at \$1.62 billion in 2011. Additionally, the state has invested \$4.46 billion or more each year on transportation since 2008 to rebuild and update infrastructure, stimulate employment, and grow the economy (Figure 21). Individual local governments further subsidize incentives to attract businesses to their town, city, or county. Chicago, for example, has 154 tax increment financing (TIF) districts which aim to attract new businesses by holding property tax burdens constant for up to 23 years and reinvesting new tax revenue growth in the area or surrounding districts.

TIF districts alone generate over \$500 million in new tax revenues for the City of Chicago each year, which the City then re-spends on economic development.¹³

At the state-level, notable tax incentive programs include, but are not limited to:

- *Illinois Small Business Job Creation Tax Credit*– a \$2,500 tax credit for each newly created job which pays at least \$10 an hour for businesses with 50 or fewer employees (until July 2016);
- *Research and Development Tax Credit*– a corporate income tax credit equal to 6.5 percent of qualified R&D expenditures;
- *High Impact Business Tax Credit*– a capital investment tax credit that exempts businesses from various sales taxes if the business conducts projects in Illinois that create 500 full-time jobs and invest \$12 million in the state or conducts projects that create 1,500 full-time jobs and invest \$30 million in the state;
- *Economic Development for a Growing Economic (EDGE) Tax Credit*– a performance-based corporate income tax credit paid over 10 years and only claimed when the company has met job creation and capital investment thresholds which has resulted in over 700 agreements and \$8 in private investment for every \$1 granted in tax credits;¹⁴
- *Employer Training Investment Program*– pays for 50 percent of training costs up to a maximum of \$500 to businesses and organizations for job training; and
- *Enterprise Zones*– 97 geographic regions in the state which offer tax credits to companies worth 0.5 percent of qualified investments.

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings

Rank	Factor	Importance	Illinois
7	Corporate tax rate	79.3%	Taxes are slightly higher in Illinois than in the region, but state revenue per capita is only lower in Missouri. While the 9.5 percent corporate tax rate is higher than the rate in six out of eight neighboring states, only 30.5 percent of corporations pay any corporate tax. If the state does not extend the temporary tax hike, the corporate rate will decline to 7.75 percent in 2015, close to the national average of 7.1 percent. Illinois firms benefit from billions of dollars spent on economic development and transportation by Illinois governments.
10	Tax exemptions	75.4%	
14	State and local incentives	71.1%	

Quality of Life

Eight-in-ten corporate executives (79.3 percent) report that a low crime rate is an “important” or “very important” quality-of-life factor. Although Illinois has a reputation for exorbitant levels of criminal activity, a closer examination reveals that crime is both lower in Illinois than in many other states and is declining significantly. Although Illinois ranks 39th out of the 50 states plus the District of Columbia with a murder rate of 5.8 per 100,000 persons, the rate is just 0.9 fewer than the nation and is lower than both Michigan and

¹³ Bruno, Robert and Alison Dickson Quesada. (2011). “Tax Increment Financing and Chicago Public Schools: A New Approach to Comprehending a Complex Relationship,” available at http://www.ler.illinois.edu/labor/images/Bruno_Quesada_12152011.pdf.

¹⁴ IDOC presentation

Missouri. Perhaps the most important indicator for businesses is the property crime rate per 100,000 population. On this metric, Illinois fares better than 30 other states. The property crime rate in Illinois was 2,578.7 per 100,000 persons in 2012, lower than both the nation (2,859.2) and the eight neighboring states (2,793.6) (Figure 22) Additionally, both the murder rate and the property crime rate have declined significantly over the past decade. There are now 1.3 fewer murders and 709.2 fewer property crimes per 100,000 people in Illinois than in 2003 (Figure 23). Furthermore, indications are that 2013 FBI data will show historically low rates of crime and violence in Chicago, perhaps the lowest number of homicides since the 1960s.¹⁵

Figure 22: Murder Rate, Property Rate, and Crime Rankings by Region, 2012

2012 Crime Rate Comparison (Per 100,000 Population)				
State	Murder	(Rank)	Property	(Rank)
United States	4.7		2,859.2	
Illinois	5.8	(39 th)	2,578.7	(21 st)
Eight Neighbors	4.6		2,793.6	
Indiana	4.7	(31 st)	3,029.2	(31 st)
Iowa	1.5	(3 rd)	2,271.8	(10 th)
Kentucky	4.5	(29 th)	2,552.9	(18 th)
Michigan	7.0	(47 th)	2,530.5	(17 th)
Minnesota	1.8	(6 th)	2,568.3	(19 th)
Missouri	6.5	(45 th)	3,314.4	(37 th)
Ohio	4.3	(26 th)	3,117.4	(33 rd)
Wisconsin	3.0	(15 th)	2,453.8	(15 th)

Source: "Crime Statistics," Federal Bureau of Investigation (2012), available at www.fbi.gov/stats-services/crimestats. Rank includes the District of Columbia.

Figure 23: Declining Annual Crime Rates in Illinois, 2003-2012

Annual Illinois Crime Rates (Per 100,000 Population)		
Year	Murder	Property
2003	7.1	3,287.9
2004	6.1	3,174.1
2005	6	3,092.0
2006	6.1	3,019.6
2007	5.9	2,935.8
2008	6.1	2,932.6
2009	6	2,736.9
2010	5.5	2,718.1
2011	6.1	2,678.7
2012	5.8	2,578.7
10-Year Decline	-1.3	-709.2

Source: "Crime Statistics," Federal Bureau of Investigation (2003-2012), available at www.fbi.gov/stats-services/crimestats.

The cost of living is not particularly burdensome for most regions in Illinois (Figure 24). In an analysis of 325 metropolitan areas, the U.S. Census Bureau reports that Chicago was the 37th—most expensive place to reside, with goods and services costing 16.9 percent more than the national average in 2010. Compared to the nation, groceries cost 11.2 percent more and

¹⁵ Corley, Cheryl. (January 3, 2014). "Big Cities See Violent Crime Rates Fall in 2013." *NPR*, available at <http://www.npr.org/2014/01/03/259396677/big-cities-see-violent-crime-rates-fall-in-2013>.

housing cost 34.8 percent more in Chicago. Outside of Chicago, however, the cost of living is at or below the national average. While the cost of living is 2.2 percent higher in the Joliet-Will County region than the rest of the country, living expenses are between 3.1 and 14.2 percent lower than the national average in the eight other large urban areas in Illinois. Thus, businesses who are attracted to Illinois' highly-educated workforce, extensive transportation capabilities, and low energy costs should not be dissuaded from the high cost of living in Chicago because there are many affordable alternatives throughout the state.

Figure 24: Cost of Living Compared to National Average, Illinois Metropolitan Areas, 2010

Cost of Living Compared to National Average (325 Metropolitan Areas)				
Urban Area	Composite	Groceries	Housing	Rank
Chicago, IL	16.87%	11.21%	34.78%	37
Joliet-Will County, IL	2.24%	0.85%	2.31%	73
Champaign-Urbana, IL	-3.12%	-1.49%	-9.16%	130
Peoria, IL	-3.72%	-6.61%	-5.00%	139
Quincy, IL	-4.49%	-2.56%	-5.53%	158
Galesburg, IL	-7.01%	-0.34%	-20.04%	207
Rockford, IL	-7.59%	-7.39%	-25.33%	225
Decatur, IL	-8.60%	-10.94%	-11.85%	248
Danville, IL	-8.94%	-5.42%	-25.82%	255
Springfield, IL	-14.21%	-10.33%	-29.93%	320

Source: Council for Community and Economic Research (2010), Arlington, VA, ACCRA Cost of Living Index, available at www.census.gov/compendia/statab/cats/prices/consumer_price_indexes_cost_of_living_index.html

Finally, Illinois offers a high quality of life to its residents. In Chicago, 10 professional sports teams, 40 first-rate museums, dozens of famous restaurants, more than 25 farmers markets, over 200 miles of bike trails, “Magnificent Mile” shopping, and renowned music and comedy scenes are available to residents.¹⁶ Illinois also offers Lake Michigan, smaller chains of lakes, and great rivers such as the Mississippi River, the Ohio River, the Illinois River, and the Fox River. Additionally, Illinois is home to world-class hospitals such as the Northwestern Memorial Hospital, the Rush University Medical Center, and the University of Chicago Medical Center.

Summary: Pertinent 27th Annual Survey of Corporate Executives Ratings

Rank	Factor	Importance	Illinois
8	Low crime rate	79.3%	Illinois' crime rate has declined rapidly over the past decade and the state's property crime rate is lower than both the region and the nation. Although the cost of living is high in Chicago, the rest of the state boasts housing costs and living expenses similar to or below the national average. Finally, Illinois businesses benefit from excellent cultural, dining, and recreational opportunities in Chicago and proximity to first-rate hospitals.
16	Healthcare facilities	69.8%	
19	Housing costs	66.9%	
29	Recreational opportunities	52.9%	
32	Cultural opportunities	48.9%	

¹⁶ World Business Chicago. (2010). “Quality of Life,” available at www.worldbusinesschicago.com/data/quality-of-life.

Policy Recommendations

To continue making Illinois an attractive state to do business, several policy actions are recommended.

TO ADDRESS ILLINOIS' PERSISTENT UNEMPLOYMENT PROBLEM, INCREASE INVESTMENT IN UPDATING, MODERNIZING, AND EXPANDING ILLINOIS' INFRASTRUCTURE. Increasing nonresidential construction employment by 1,000 workers in Illinois generates 669 additional jobs and \$104.2 million in new economic activity on average that would not otherwise occur.¹⁷ Improving Illinois' extensive highway system so that commuters, families, and trucks are not stuck in congested traffic would provide additional economic value to the state. Traffic congestion costs the Chicago region alone \$7.3 billion annually; an estimated 87,000 jobs would be created by eliminating excess congestion.¹⁸ Constructing the South Suburban Airport, a planned third major Chicagoland airport, in Peotone would generate an additional 7,737 direct jobs, 42,739 additional jobs, and \$7.0 billion to the Chicagoland economy.¹⁹ An escalation in infrastructure improvements can be funded by a minor increase in user fees, such as a 3-cent increase in per-gallon motor fuel taxes, and an expansion of public-private partnerships which bring the business community in as stakeholders and allow for consistent follow-up so that both the private sector and the public sector are held accountable.

ANOTHER WAY TO KEEP THE UNEMPLOYMENT RATE DOWN IS FOR THE STATE TO AVOID CUTTING PUBLIC SECTOR JOBS. Discretionary state government spending in Illinois is now lower than it was in 2008.²⁰ At just 11.9 percent, Illinois' public sector share of total employment is far below the national average (14.3 percent). Layoffs to public sector workers, as a budgetary practice, typically have the unintended consequences of "removing workers from well-paying jobs, lowering consumer demand, and raising minority and gender income inequality."²¹

TO PAY DOWN ILLINOIS' BILLS, EXTEND THE PERSONAL INCOME TAX AT 5.0 PERCENT FOR AN ADDITIONAL FOUR YEARS UNTIL 2019. The Illinois business climate is now threatened most by its inability to meet current and future obligations, leading to uncertainty over the future tax rates, and the state's long-term solvency. Extending the temporary personal income tax hike for another four years would provide a level of certainty through the next gubernatorial term and keep the \$4.7 billion revenue increase in the General Revenue Fund. Even if the corporate income take hike is allowed to expire, this extension would allow the state

¹⁷ Manzo IV, Frank. (2013). "A State of Lost Labor: Who Are the Unemployed in Illinois?," available at <http://illinoisepi.org/countrysidenonprofit/wp-content/uploads/2013/10/ILEPI-Economic-Snapshot-A-State-of-Lost-Labor1.pdf>.

¹⁸ Metropolitan Planning Council. (2008). *Moving at the Speed of Congestion: The True Costs of Traffic in the Chicago Metropolitan Area*, available at www.metroplanning.org/uploads/cms/documents/mpcreport_movingatthespeedofcongestion.pdf.

¹⁹ Murtha, Tom and Tom Palzer. (August 2007). *South Suburban Airport: Community and Mobility Benefits*. Chicago Metropolitan Agency for Planning, available at <http://www.cmap.illinois.gov/documents/20583/6f9cbb59-5c61-4164-9996-843f306b79cf>. Figures estimated up to 2013 dollars by the Consumer Price Index (CPI-U).

²⁰ State of Illinois. (2014). *State Budget: Fiscal Year 2014*, available at <http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202014/FY2014IllinoisOperatingBudgetBook.pdf>.

²¹ Manzo IV, Frank and Robert Bruno. (2013). "The State of Working Illinois: Labor in the Land of Lincoln," available at http://www.ler.illinois.edu/labor/images/State%20of%20Working%20Illinois_Final%20LEP%20Version.pdf.

government to reduce its unpaid obligations from \$8.7 billion today to \$2.8 billion by 2020, at an average repayment contribution between \$0.8 billion and \$1.2 billion per year.

THE \$4.7 BILLION IN TAX REVENUE SAVED EACH YEAR BY THE PERSONAL INCOME TAX EXTENSION SHOULD BE PARTIALLY USED TO ALLOW THE CORPORATE INCOME TAX HIKE TO EXPIRE. The corporate income tax only applies to 30.5 percent of corporations in Illinois, discourages corporations from locating in and bringing jobs to Illinois, and is far higher in Illinois than the national average. Allowing the two corporate tax rates to fall to 7.75 percent combined will bring Illinois' rate closer to the 7.1 percent national average and put Illinois below the rates in Iowa, Minnesota, Indiana, and Wisconsin. In total, the 1.75 percentage point drop in corporate income taxes would encourage job growth but cause a \$665.0 million dip in tax revenues.

ADDITIONALLY, STATE OFFICIALS NEED TO DO A BETTER JOB OF PROCURING FEDERAL GOVERNMENT FUNDS. Yes, Illinois is a high-wage state, but Illinois currently suffers from high unemployment and large debt obligations. In 2011, federal aid accounted for just \$1,526 (33.7 percent) of the state's general revenues per person compared to the nationwide average of \$1,911 per capita (35.9 percent). If federal aid was increased by just \$150 per person in Illinois to \$1,776 (subtracting less than \$7 per person from every other state), then Illinois would have earned \$1.9 billion more in annual revenue. Instead of being able to address its unemployment situation and budget crisis, Illinois is paying a disproportionate share of federal income tax revenues and subsidizing the rest of the country.

FINALLY, THE STATE NEEDS TO CONTINUE REDUCING ITS CRIME RATE. One potential policy change supported by over 500 economists (including three Nobel Prize winners)²² and 55 percent of Americans which has been gaining traction is the legalization and taxation of marijuana.²³ In 2014, Colorado is expected to generate \$70 million in revenues from the 15 percent excise tax of marijuana and 10 percent special sales tax on products sold in state-licensed stores.²⁴ Most of this revenue is earmarked for school construction and additional law enforcement. The legalization and taxation of marijuana in Illinois would turn a cost (incarceration and police work) into a benefit for the state, potentially reducing the murder rate by eliminating some murders related to the drug trade and creating new jobs for Illinois workers. Increased revenues (likely surpassing \$100 million annually) should be used to hire additional police officers— a practice which researchers have found unambiguously reduces crime— and to increase education and awareness of illegal drugs.²⁵

²² Miron, Jeffery et al. (2005). "The Budgetary Implications of Marijuana Prohibition," available at www.prohibitioncosts.org/endorsers.

²³ CNN Political Unit. (January 6, 2014). "CNN Poll: Support for Legal Marijuana Soaring," available at <http://politicalticker.blogs.cnn.com/2014/01/06/cnn-poll-support-for-legal-marijuana-soaring>.

²⁴ Sullum, Jacob. (November 6, 2013). "Colorado Voter Approve Hefty Marijuana Taxes By Large Margins." *Forbes*, available at www.forbes.com/sites/jacobsullum/2013/11/06/colorado-voters-approve-hefty-marijuana-taxes-by-large-margins.

²⁵ Levitt, Steven. (2004). "Understanding Why Crime Fell in the 1990s: Four Factors that Explain the Decline and Six that Do Not," available at <http://pricetheory.uchicago.edu/levitt/Papers/LevittUnderstandingWhyCrime2004.pdf>; "Policing." (2014). University of Chicago Crime Lab, available at <http://crimelab.uchicago.edu/page/policing>.

Conclusions

Despite sluggish economic growth and a high unemployment rate, Illinois maintains a high-income, highly-educated, and well-connected economy. Yes, labor costs are high in Illinois and union membership is strong, but those features benefit businesses in Illinois by increasing consumer demand in the economy. High labor costs also reflect Illinois' well-educated, high-skilled workforce— which is a significant benefit to firms in Illinois. Additionally, businesses further benefit from Illinois' inland port— the largest in the Western Hemisphere— as well as low energy costs, relatively cheap occupancy costs, high construction productivity, and declining crime rates. Finally, although taxes are slightly higher in Illinois than in the rest of the region, state revenue per capita is smaller only in Missouri. Billions of dollars, on the other hand, is expended by Illinois governments on economic development, worker training programs, and transportation spending to the benefit of Illinois businesses. Ultimately, Illinois continues to remain a great place to do business.

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