NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
CHICAGO CHAPTER

MIDWEST US GOVERNMENT INCENTIVES COMPARISON

Prepared for NAIOP Chicago by Cushman & Wakefield's Business Incentives Practice
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INTRODUCTIONS

A site selector's job is to evaluate locations relative to one another based on specific metrics that are determined to be relevant for a project. Said metrics depend on a myriad of site-selection criteria which generally include labor, taxation, real estate, utilities, supply chain, regulatory environment, among many others. Compiling the aforementioned metrics into a financial pro forma provides key costs, or debits, representative of each location under consideration to make an informed site selection decision. Notwithstanding the foregoing, identifying cost offsets, or credits, in the form of state and local government incentives (collectively "Incentives") is an important part in any site selection decision. Incentives complete the business case by providing the credit component to specific debits identified in the financial pro forma. Understanding Incentives, however, requires its own due diligence and a trained eye. Incentives can vary significantly between states and municipalities, thus, evaluating how Incentives will impact a company is not homogeneous to every location under consideration. In fact, different operating scenarios may mean different Incentives even within the same municipality.

Cushman & Wakefield's Business Incentives Practice has been assisting companies globally with the identification, quantification, negotiations, documentation, and administration of Incentives for well over 20 years. The purpose of this article is to apply C&W's experience in the Incentives arena to provide a general comparison of select types of Incentives specific to the states of Illinois, Indiana, Michigan, and Wisconsin. This article, however, is not intended to replace the Incentives due diligence recommended for an informed site selection decision. Please consult with an experienced site selection consultant to assist your company through the site selection process.

INCENTIVES CATEGORIES

Incentives may be available in various forms; thus, the following categories are generally used to assign an Incentive, or credit, to the proper cost, or debit.

- **Grants**. Grants can come in the form of cash up-front or cash once defined project milestones (headcount and/or investment) have been reached. Grants can also come in the form of a reimbursement to a project.
- **Tax Credits**. Tax credits are calculated based on certain job creation and/or investment thresholds and can be used to offset up to 100% of a company's state income tax liability and in some cases other applicable business taxes. Tax credits are generally not refundable and unused credits can be carried forward for a certain number of years.
- **Tax Rebates**. Tax rebates generally come in the form of a rebate up to 100% of payroll withholding taxes that a company paid on behalf of its employees.
- **Tax Exemptions**. Tax exemptions are available for specific types of goods and services.
- **Tax Abatements**. Tax abatements generally apply to real and/or personal property taxes; however, abatements are also sometimes applicable to sales and use taxes. Tax abatements provide for a reduction in taxes paid for a defined period of time.

- **Workforce Development**. Workforce development incentives can come in the form of up-front grants, as reimbursement, as tax credits, and also as cost avoidance altogether, i.e. a company makes no sort of cash outlay for the benefit.
- **Utilities**. Incentives provided by utilities service providers come in the form of reduced consumption or demand rates based on a certain amount of projected utility usage. The reduced rates would be made available for a defined number of years. In some cases, utilities service providers can provide grants based on certain job creation and/or investment thresholds.
- **Miscellaneous**. Any potential benefits that do not fit the other categories outline above; e.g. land cost write-downs, building permit fee reductions/exemptions, special financing options, expedited permitting, etc.

The most common type of Incentive provided by each of the four states under consideration is a state income tax credit. Details about each state's main tax credit Incentive is provided in the following table.

TAX CREDIT	ILLINOIS	INDIANA	MICHIGAN	WISCONSIN
PROGRAM	**Economic Development for a Growing Economy (EDGE)**	**Economic Development for a Growing Economy (EDGE)**	**Michigan Economic Growth Authority Standard Job Creation Tax Credits (MEGA)**	**Economic Development Tax Credit**
DESCRIPTION	Tax credits taken against state corporate income tax liability over a period not to exceed 10 continuous taxable years. Tax credits are **not** refundable.	State income tax credit is a refundable corporate income tax credit calculated as a percentage of increased tax withholdings generated from new jobs creation.	Refundable tax credit for new or expanding businesses.	Under the program, tax credits are allocated for the creation or the retention of full-time jobs.
ELIGIBILITY	A company is required to make a capital investment of at least \$5.0 million and create a minimum of 25 new jobs, or the company must meet the investment and job creation, and/or retention requirements as set forth by the state.	Each company must create net new jobs and be economically sound. Requires a local government participation.	A company must create at least 50 new jobs (high-tech companies must create 25 new full-time jobs) within five years.	Ineligible businesses include payday loan and title loan companies; telemarketing; pawn shops; media outlets, such as newspapers and radio, unless the job creation is significant; retail; farms; primary care medical facilities; financial institutions; tourism, unless the job creation is significant; and the hospitality industry.
AMOUNT	Credit is calculated on a case by case basis. The	Credit is calculated as a percentage of the	Each credit may be awarded for up to 20	The amount of credits available are based on

	credit is based upon the personal state income tax collected on salaries paid to full-time employees holding the new or retained jobs. The annual tax credit cannot exceed the incremental income tax withholdings created. Unused tax credits can be carried forward for 5 years.	expected increased tax withholdings generated from new job creation. Varies on a project-to-project basis. The credit certification is phased in annually for up to 10 years based upon the employment ramp-up outlined by a project.	years and up to 100% of the wages and employer-paid health care benefits multiplied by the personal income tax rate in effect at the beginning of the company tax year.	the wage range of the jobs, number of jobs to be created or retained, capital investment made by the business, and training costs for new or current employees. Unused credits may be carried forward for up to 15 years.

INCENTIVES BENCHMARKING[1] BY STATE

Since calendar year 2010 Michigan provided the largest overall Incentives awards with an estimated value of $4.5 billion by a significant margin. Wisconsin provided the least amount of Incentives awards with an estimated value of $800 million.

Michigan also represents the largest average incentives award at an estimated $7.5 million while it also reported creating the largest number of new jobs and largest number of retained jobs. Illinois represents the least amount of jobs created at 17,000 compared to Michigan's 90,000. The following table provides the complete comparison by state.

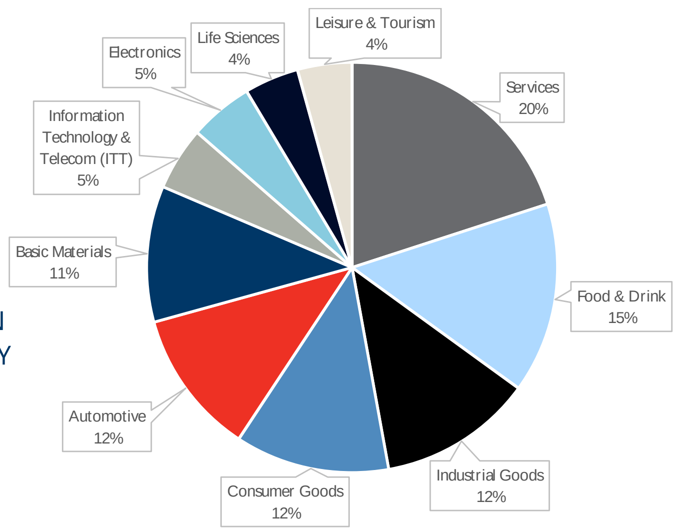
Metric	IL	IN	MI	WI
Incentives Awarded	$900.0 M	$1,000.0 M	$4,500.0 M	$800.0 M
Incentives Deals Tracked	150	700	600	450
Average Incentives Award	$6.0 M	$1.4 M	$7.5 M	$1.7 M
Average New Jobs Created per Deal	120	110	150	90
Jobs Created	17,000	80,000	90,000	40,000
Jobs Retained	28,000	6,000	50,000	40,000

While evaluating the Incentives benchmarking metrics herein, it is important to note that each state has its own way of reporting Incentives, measuring jobs created/retained, etc. There is no industry standard that would ensure that the metrics can be compared; thus, it is difficult to draw inclusions just from the presented Incentives data alone. What is arguably a reasonable conclusion is that the states of Michigan and Indiana seem to have greater resources to be able to manage economic development projects given the significantly higher deal count since 2010. Note that as of the date of this article, the state of Illinois placed a temporary freeze on proposing key Incentives for any projects; a measure it deemed necessary as it strives to pass a balanced budget. There is no known timeline for the lift of the ban.

[1] Data gathered from state economic development annual reports, press releases, announcements, third parties, and C&W research.

The most effective method to evaluate Incentives is to evaluate a comprehensive financial pro forma and analyze the Incentives specific to the situation. It is all about debits and credits.

IL - COMPOSITION OF NUMBER OF DEALS BY INDUSTRY



150 deals tracked in Illinois since 2010.

IL - COMPOSITION
INDUSTRY

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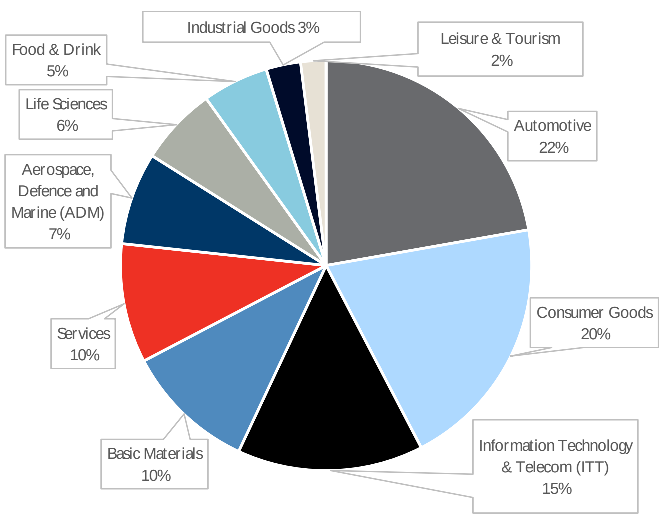
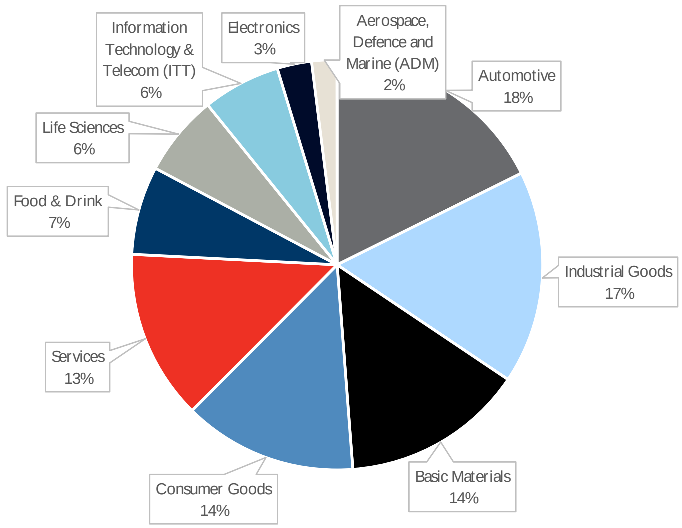


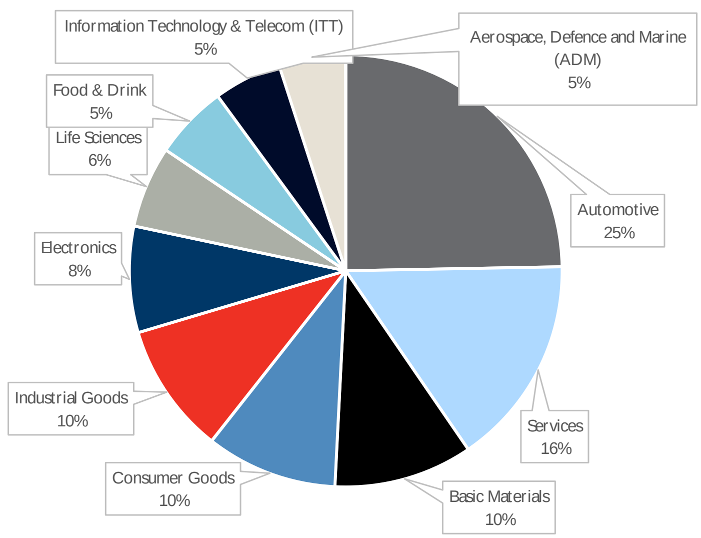
Over $900.0 M Incentives awarded in Illinois since 2010.

IN - COMPOSITION OF NUMBER OF DEALS BY INDUSTRY



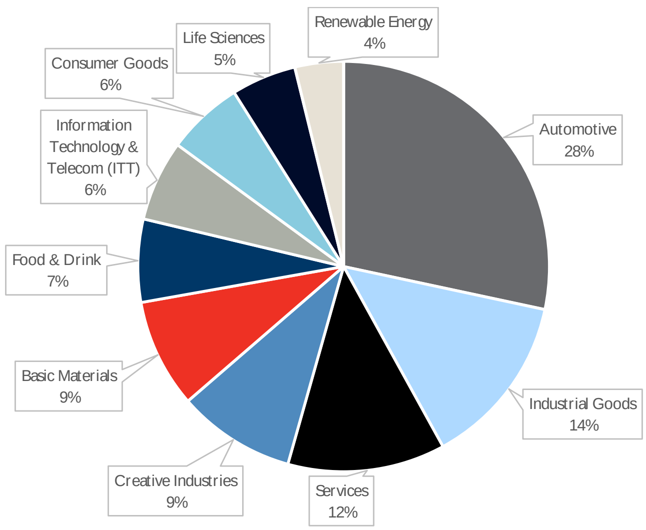
700 deals have been tracked in Indiana since 2010.

IN - COMPOSITION OF INCENTIVES VALUE BY INDUSTRY



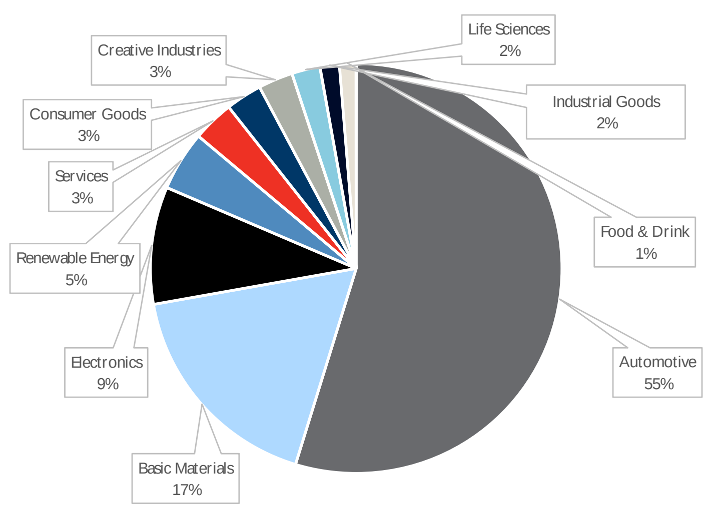
Over $1,000.0 M Incentives awarded in Indiana since 2010.

MI - COMPOSITION OF NUMBER OF DEALS BY INDUSTRY



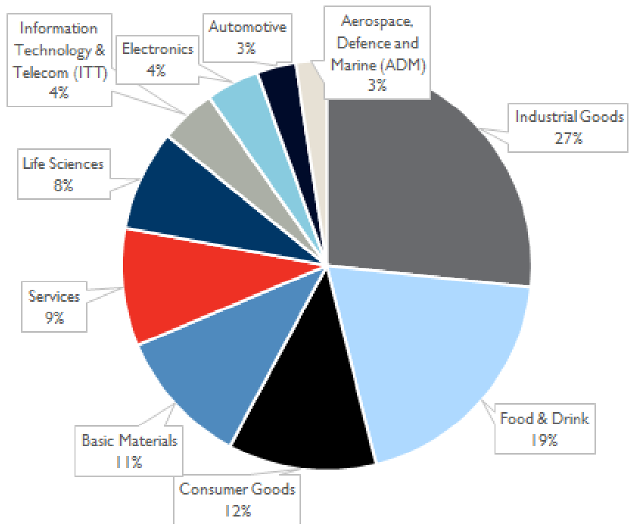
600 deals tracked in Michigan since 2010.

MI - COMPOSITION OF INCENTIVES VALUE BY INDUSTRY



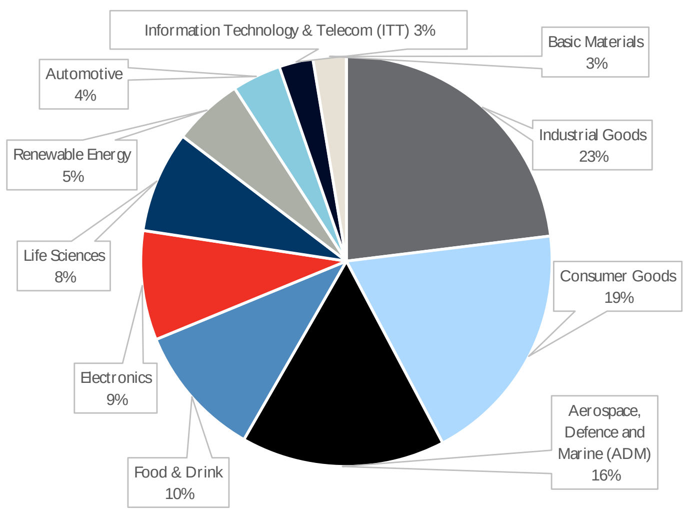
Over $4,500.0 M in Incentives awarded in Michigan since 2010.

WI - COMPOSITION OF NUMBER OF DEALS BY INDUSTRY



Over 450 deals tracked in Wisconsin since 2010.

WI - COMPOSITION OF INCENTIVES VALUE BY INDUSTRY



Over $800.0 M in Incentives awarded in Wisconsin since 2010.