FISCAL FOCUS

Comptroller Daniel W. Hynes | **September/October 1999**

WHAT'S NEW

This month's Fiscal Focus includes a new section:

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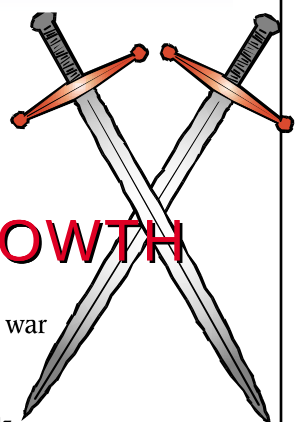

Cover Story...

DUELING FOR ECONOMIC GROWTH

There is an economic development war being waged between states.

For most of the last half of the 20th century, states have been locked in a duel over job opportunities and economic growth. Proponents of the use of business incentives to foster economic growth argue that incentives effect business location decisions, are cost-effective, help foster competitiveness, and have a positive impact on the overall economic well being of the country. Opponents argue that incentives are a minor factor in business location decisions, are not cost-effective, divert valuable public resources from other uses, and result in a zero sum proposition with large positive and large negative impacts on select communities. Some that hold this second opinion even argue that Congress should end the economic development war between the states.

Over the last 50 years, the tools of the trade and the attitudes toward economic development have changed dramatically. During the 1950s and 1960s, state economic development policies focused largely on trying to lure heavy manufacturing firms to move from one state to another. This form of industrial recruitment came

- ✔ Tax Credits
- ✔ Job Training
- ✔ Tax Incentives
- ✔ Loan Programs
- ✔ Business Incentives

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A Note From Dan Hynes

Dear Reader:

During the past nine months, I have had the opportunity to meet with a number of groups and organizations. Two groups that I met with piqued my interest in the subject of this *Fiscal Focus*. One group, the Southland Chamber of Commerce, brought to my attention the difficulties they face in attracting and keeping businesses in their area. The other group was an organization of business leaders from the Illinois Quad-City area, who are also grappling with competing with their Iowa sisters for business.

While each of these two groups are dealing with circumstances unique to their area, it is clear they face common problems. This issue of *Fiscal Focus* looks at the different types of incentives used to attract business and how each area's state and local mix of taxes and incentives play an important role in the location decision.

The Local Government Line makes its debut in this issue with an article on Tax Increment Financing (TIF) districts, keeping with the economic development incentive theme. The Local Government Department in our office is charged with collecting information on TIFs as well as all local government finances.

Finally, the results from the first **Fiscal Forum** are included in this issue, with respondents indicating that the majority of the tobacco settlement should go for tax rebates, followed closely by anti-smoking efforts. I appreciate the participation of our readers in this survey and encourage you to respond to this month's question on page 6.

As always, I encourage your input into the workings of our office. You can e-mail us at www.ioc.state.il.us or call us at (217)782-6000 or (312)814-2451. Your comments and suggestions are appreciated.

Sincerely,

Daniel W. Hynes
Comptroller

Fiscal Focus

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest and in compliance with state statutes.

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Fiscal $marts

Tax Increment Financing in Illinois

Tax increment financing (TIF) is a tool used by cities to finance certain types of development costs. The primary purposes of TIF are redeveloping blighted areas, constructing low and moderate-income housing, providing employment opportunities, and improving the tax base.

Tax increment financing enables a city to use the additional property taxes generated by development to pay for infrastructure and other improvements within the TIF district boundaries. With TIF, a city "captures" the additional property taxes generated by the development that would have gone to other taxing jurisdictions and uses the "tax increment" to finance the development costs. Through TIF, a municipality works hand-in-hand with private developers and businesses to rehabilitate or redevelop property in an area that satisfies the Act's eligibility criteria.

In 1977, the first TIF law passed in Illinois. The new law allowed municipalities to redevelop locally designated conservation and blighted areas (known as redevelopment areas) through tax increment financing under the Tax Increment Allocation Redevelopment Act (65 ILCS 5/11-74.4). Municipalities can designate eligible residential neighborhoods, commercial business districts or industrial areas for redevelopment. All of the increase in property taxes generated after the implementation of the TIF, is collected by the municipality for up to 23 years to pay some of the costs of redeveloping the designated area. [PA 91-0477, passed this session, allowed for East St. Louis, Kankakee, and Sauget to extend their TIF districts to 35 years.]

Between 1977 and 1986, the TIF law was not widely utilized by municipal governments, with only 38 TIF districts created during that period. In 1986, however, PA 84-1417 drastically changed the funds TIF districts could collect by amending the law to allow tax increment financing districts to capture the increase in state and local sales taxes and local utility tax. It was also around this time the federal revenue sharing funds were being eliminated. Due to the new funding available, and fewer federal funds, TIFs have grown at a much faster rate since 1986. In 1987, 107 new TIF districts were created. TIF districts were created at a rate of 20 to 30 per year until the mid 1990's.

In 1994, The Industrial Jobs Recovery Law was enacted. This law allows Illinois municipalities to establish industrial tax increment districts in areas of high unemployment or vacant industrial buildings or properties with significant environmental contamination without having to designate the areas as "blighted" or "conservation." Under certain circumstances, redevelopment project areas established under this Act may be extended to 28 years rather than the 23-year life authorized by the basic TIF Act.

This new law helped create more TIF districts. Municipal governments began to expand the theory of TIFs by broadening the concept of "blighted land". According to critics, some local governments claimed that farmland and older housing areas were blighted and some started finding ways to call areas that were expected to be develop in the future "blighted" simply to provide developers tax incentives. Between 40 and 60 TIF districts per year have been created since 1995.

Several other laws have been enacted and amended over the years to create various types of TIF districts. Currently the Department of Commerce and Community Affairs has eleven different classifications of TIF districts. They are: 1) Central Business District; 2) Central Business District Area; 3) Strip Mall; 4) Strip Mall and Commercial Area; 5) Mixed Non Central Business District; 6) Housing; 7) Industrial; 8) Industrial Conservation; 9) Industrial Blighted; 10) Industrial Labor Surplus; and 11) Industrial Substantial Labor Surplus.

The following table indicates how many TIFs exist by categories of classifications:

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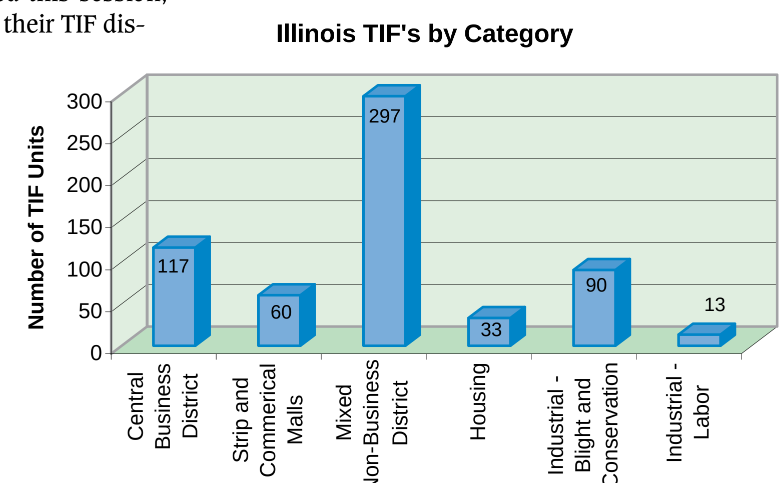
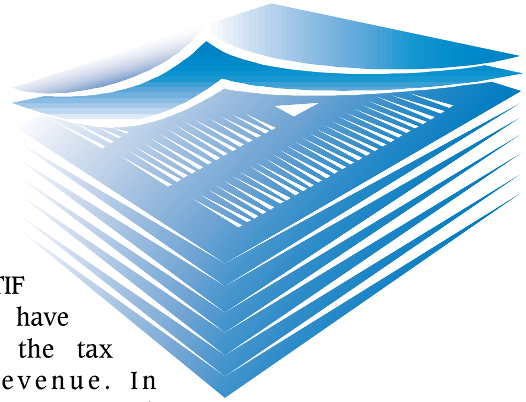


How Illinois Stacks up

Tax Increment Financing

Tax increment financing has been an economic tool used for over 45 years to redevelop urban areas that are designated as "blighted" or deteriorating. TIFs began in California in 1952 but did not become widely accepted until the early 1970s, largely as a result of the federal urban renewal program closing down. TIF was used for commercial revitalization from the 1950s through the 1970s, and by the 1980s its use had broadened to include commercial, industrial, and mixed-use development.

TIF is generally limited to "blighted" areas but the definition of 'blighted' or deteriorating varies greatly among the states. Illinois' law stipulates that the districts cover only "blighted" areas where development would not occur "but for" the presence of the district. The argument has been made that "blighted" and " but for" are terms undefined and vague.

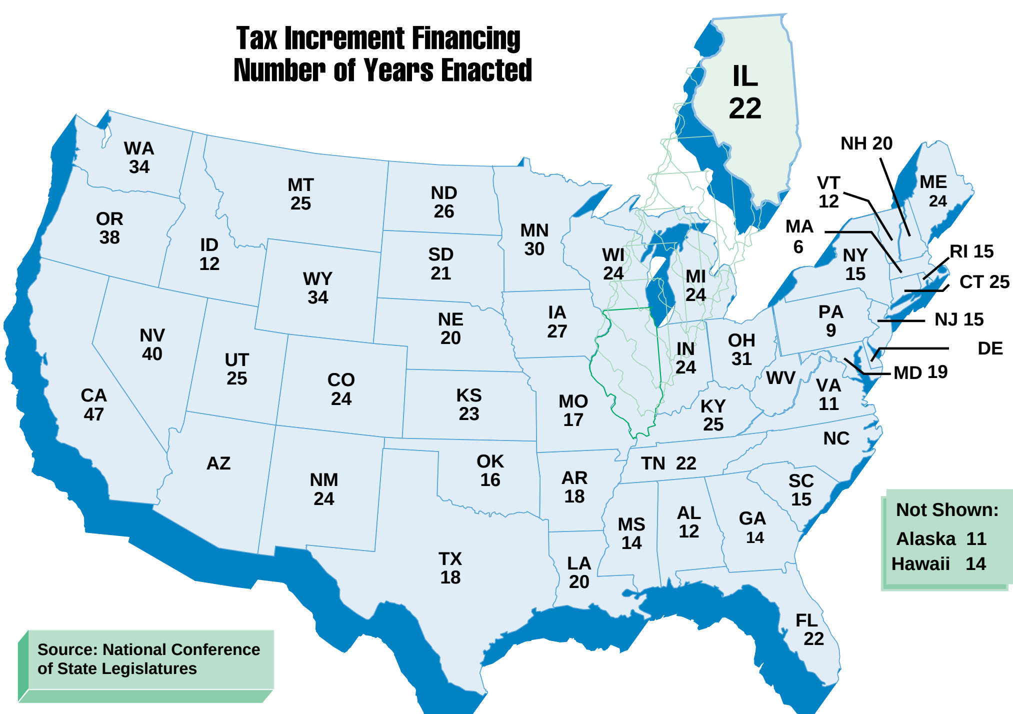


Each state's statutes determine which units of local government have authority to create TIF districts and have control over the tax increment revenue. In Illinois, only municipalities have the authority to set up TIF districts. In some states, the municipality, county, state agency or official, voter consent, or school district can grant the authority or may have veto power. Nationwide, the most common way to establish the power to set up TIF districts has been granted to local municipalities.

One important fiscal limit is the maximum life of the TIF district. Illinois allows TIFs to remain in effect for 23 years while other states range up to 32 years. Another important aspect of TIFs is reporting. Annual reports are required by some states in order to maintain accountability on the effects of TIFs. In Illinois, municipalities are now required to file a detailed annual TIF report with the Comptroller's Office.

According to the National Conference of State Legislatures, there are 46 states that statutorily authorize tax increment financing and four states (Arizona, Delaware, West Virginia, and North Carolina) do not have TIF statutes. Twenty states adopted TIF legislation in the 1970s while only two states; California and Nevada have been using TIFs since the 1950s. Massachusetts and Pennsylvania are the only two states that adopted TIFs in the 1990s.

Although Illinois has had TIFs for 22 years, it is a relative newcomer in terms of our neighbors. Iowa leads with 27 years, while Kentucky is at 25 years and Indiana and Wisconsin are at 24 years. Only Missouri has offered TIFs for a shorter period of time (17 years).



Focus On Revenue

Comparison of Selected State Taxes

It is difficult to make an overall assessment of the business climate based solely on tax rates. However, it is one of the factors businesses look at in determining where to locate or expand. Businesses also consider other factors such as education and skill levels of employees, accessibility to reliable transportation systems, and location of suppliers.

Rates alone do not tell the story, though. Differences in tax bases, credits, exemptions, deduction and abatements all contribute to that portion of the location decision that deals with taxes. The table illustrates the differences in tax rates and tax bases, not including exemptions, deductions, credits and abatements for Illinois and its bordering states.

The type of business also plays a role in determining which taxes are more important. To a retailer, sales taxes will be the major factor. For a manufacturing firm with a large physical presence, property taxes and payroll taxes will be the most influential factor, while a gas station may look more closely at motor fuel and sales taxes.

In comparing taxes across borders, each situation must be examined individually since local government taxes may also be tacked on to state taxes, i.e. motor fuel, sales, public utility, etc. For instance, the highest combined sales tax rate in Illinois is 8.75% compared to Missouri which can reach as high as 7.52%. In addition, Illinois has numerous sales tax exemptions that may result in a lower net rate for a particular business.

Property taxes must also be compared on a case-by-case basis given the diversity of bases and rates. Looking at Illinois' neighboring states, three of the five levy a statewide property tax in addition to the local taxes and four of the five states tax personal property. Illinois has neither of these taxes; however, Cook County businesses pay a premium in property taxes because of classification that could result in border wars not only with other states but with neighboring counties as well.

The table below illustrates the different rates and bases for 4 of the major taxes that can be considered factors in the business location decision. As is shown, taxes can vary widely between location and may not always be the determining factor in where a business decides to locate or expand.

		Corporate Income Tax	Sales Taxes	Property Taxes	Motor Fuel Taxes
ILLINOIS					
	Rate	7.3%	6.25%	Aggregate of local levies	19 cents
	Base	Federal Taxable income with adjustments	Tangible personal property	Assessed on real property at 33.3% of fair cash value	gallon
INDIANA					
	Rate	3.4% - 7.9%	5.00%	Aggregate of local and state levies	15 to 16 cents
	Base	3.4% on adjusted gross income and 4.5% supplemental on net income	Tangible personal property	Assessed on real and personal property at 33.3% of true tax value	gallon
IOWA					
	Rate	6.0% to 12.0%	5.00%	Aggregate of local levies	20 to 22.5 cents
	Base	Nonunitary single-factor formula based on profits from sales	Tangible personal property, admissions, rentals and certain services	Assessed on real property at 100% of actual value	gallon
KENTUCKY					
	Rate	4.0% to 8.25%	6.00%	Aggregate of local and state levies	9.00%
	Base	Net taxable income apportioned to the state	Retail sales, admissions, rentals and leases	Assessed at fair cash value on real and personal property	Average wholesale price plus additional fees
MISSOURI					
	Rate	5.0% to 6.25%	4.225%	Aggregate of local and state levies	17 cents
	Base	Federal Taxable income with adjustments	Tangible personal property and enumerated services	Assessed on personal property at 33.3% of true value and real property at various percentages depending on use	gallon
WISCONSIN					
	Rate	7.90%	5.00%	Aggregate of local and state levies	Computed annually
	Base	Taxable income	Retail sale or leasing of tangible personal property and selected services	Real property assessed at full value at private sale of real estate and personal property at true cash value	Based on CPI and amount of fuel sold

* Note that the bases do not include exemptions, deductions, credits, or abatements.

Source: Commerce Clearing House

Focus On Spending

Wrap-up of Fiscal Year 1999 General Funds Spending

Final General Funds expenditures from fiscal year 1999 appropriations totaled $19.439 billion, $1.520 billion or 8.5% greater than fiscal year 1998 expenditures. The $1.520 billion increase is by far the largest year-over-year dollar increase in the history of the General Funds. For the year, four agencies had spending in excess of one billion dollars, and together, they accounted for 68.5% or $13.319 billion of total General Funds' expenditures.

The State Board of Education earns the distinction of the largest General Funds spending agency for fiscal year 1999. State Board spending of $4.524 billion was $383 million or 9.2% higher than fiscal year 1998 and accounted for 23.3% of total General Funds' expenditures. Spending from the Common School Fund was $2.498 billion while General Revenue Fund spending totaled $1.602 billion and Education Assistance Fund spending was $424 million.

The Department of Public Aid was the second largest spending agency from the General Funds. Fiscal year 1999 expenditures of $4.352 billion were $363 million or 9.1% larger than fiscal year 1998. Nearly all of the Department's spending ($4.239 billion or 97.4%) was for medical assistance grants.

Spending by the Department of Human Services of $3.402 billion was $154 million or 4.7% higher than fiscal year 1998. Awards and grants spending by the Department totaled $2.392 billion (70.3% of total spending) and operations spending totaled $1.007 billion (29.6%). Large grant programs of the Department include TANF ($715 million) and grants to intermediate care facilities ($331 million).

General Funds' expenditures by the Department of Corrections totaled $1.041 billion for fiscal year 1999, $112 million or 12.1% higher than fiscal year 1998. Operations spending of $1.019 billion accounts for nearly all (97.9%) of the expenditures by the Department.

Of the twenty-one largest General Funds spending agencies, only the Department of Children and Family Services showed a decline in expenditures. Fiscal year 1999 expenditures of $889 million are $32 million or 3.5% less than 1998. The decrease is due to a decline in foster care caseloads.

Agencies with significant percentage increases for 1999 include Teacher's Retirement System (up $91 million or 20.0%), Natural Resources (up $17 million or 20.2%), and Commerce and Community Affairs (up $26 million or 41.9%).

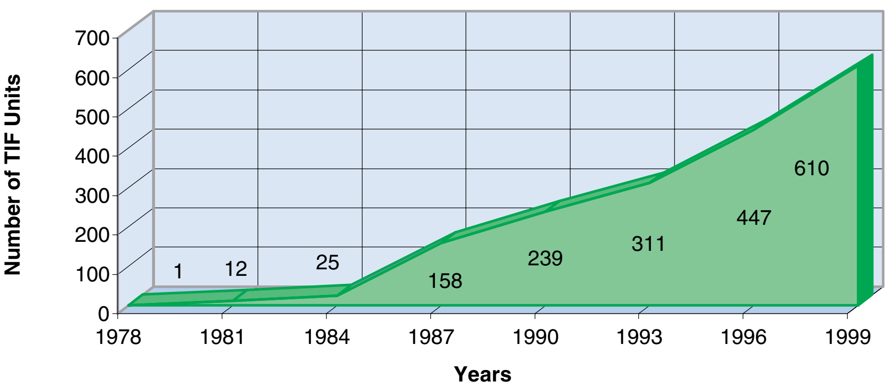
Comparison of General Funds Expenditures By Agency (Dollars in Millions)

Agency	Fiscal Year 1998	Fiscal Year 1999	Change From 1998 -1999 $	Change From 1998 -1999 %
State Board of Education	$4,141	$4,524	383	9.2
Public Aid	3,989	4,352	363	9.1
Human Services	3,248	3,402	154	4.7
Corrections	929	1,041	112	12.1
Children and Family Services	921	889	-32	-3.5
University of Illinois	647	684	37	5.7
Central Management Services	538	580	42	7.8
Teacher's Retirement System	455	546	91	20.0
Student Assistance Commission	325	352	27	8.3
Community College Board	273	288	15	5.5
Supreme Court	217	236	19	8.8
Revenue	206	223	17	8.3
Southern Illinois University	199	209	10	5.0
State University Retirement System	186	206	20	10.8
State Police	184	201	17	9.2
Aging	168	191	23	13.7
Secretary of State	98	108	10	10.2
Natural Resources	84	101	17	20.2
Public Health	98	101	3	3.1
Northern Illinois University	97	101	4	4.1
Commerce and Community Affairs	62	88	26	41.9
All Other	854	1,016	162	19.0
Total	**$17,919**	**$19,439**	**1,520**	**8.5**

Fiscal Smarts concluded

As one of the few development tools available to local governments, TIFs have become more important as federal and state funds for economic development have diminished. Over the last three years, Illinois TIF districts have grown 46% from 416 units to 610 units. The following chart shows the growth of TIF districts since first implemented in 1977:

Illinois TIF Districts By Year



Some unanticipated problems have occurred with the explosive growth of TIF districts. The use of an expanded definition of "blighted" or "conservation" areas to create TIF districts caused many problems for overlapping taxing districts such as school, fire, and library districts. After a TIF district is established, the tax base is frozen, which effects all governments collecting property taxes from the area residents and businesses. When the desired effects of growth are achieved, the municipality often finds it can not keep up with necessary services such as police and fire protection due to restricted revenues.

TIFs often had negative effects on bordering neighborhoods or communities by luring a business to close down in one spot and relocate to another. In addition, TIFs are locally based and therefore are not tied into any larger regional planning programs.

One of the most difficult side effects of a TIF district can be its impact on school districts. In many TIFs that were realizing their redevelopment goals, school enrollments would often increase. However, schools could not collect additional revenue due to the restrictions resulting from a frozen tax base. In addition, TIF districts often have a negative effect on the school aid formula the state uses to distribute money to schools based on local taxing effort.

Many advocates for the poor argued against the gentrification effect that TIF had on neighborhoods driving poor and low-income people from affordable housing.

With the number of TIFs growing at an exponential rate, the problems became more obvious and the demand for reform became more widespread. A lack of streamlined reporting has made it difficult for researchers and analysts to evaluate the success or consequences of any particular TIF programs or components. The lack of analytical information has also made it difficult for policy makers to feel comfortable implementing changes.

In response to the calls for reform, this year two laws were enacted (Public Act 91-0478 and 91-0474) which provided substantial reform. The new laws are meant to support the continued use of TIF with provisions to mitigate the negative effects. Most importantly, the new laws called for stringent reporting requirements that will allow policy makers, advocates, proponents, and citizens to better evaluate the effects of TIFs. See the Local Government Line (page 7) for more details on the new laws.

Fiscal Forum

Last month's Fiscal Forum asked readers: How would you spend the anticipated $9.1 billion in proceeds from the Tobacco Settlement? The distribution of the 866 web responses is presented below.

Category	Survey Average
Taxpayer Rebates	36.29%
Anti Smoking Efforts	36.05%
Health Care Initiatives	12.39%
Disease Research	10.44%
Other	4.83%

Over the next month, we are asking readers for input on the following question: Should the State of Illinois provide tax and other financial incentives to encourage:

	YES	NO
Outside businesses to move their operations to Illinois?	❑	❑
Inside businesses to expand their operations within Illinois?	❑	❑

To respond to our question, simply log onto our web site at www.ioc.state.il.us.

Local Government Line

TIF Reporting in Illinois

The Local Government Division in the State Comptroller's Office maintains a central registry of all local governments in Illinois. In addition, the Division collects standardized financial data for all local governments except school districts. The data is used for multiple purposes including reports to the General Assembly and county clerks for policy making purposes, insurance bonding, labor negotiations, and academic research, as well as distribution to the U.S. Census Bureau, citizen advocates, interested taxpayers and researchers.

For several years, advocates of TIF reform have attempted to pass legislation that would require the Comptroller's Office to annually collect TIF information as well. This spring, two bills were enacted providing substantial reform (PA 91-0478 and PA 91-0474).

One of the important TIF reforms established by the two new laws was to provide standardized reporting that would be accessible to other government bodies, citizens, and policy makers. Existing data are not adequate to fully measure the impact and effectiveness of TIF.

The new laws provide for extensive reform in creating and managing TIF districts that will take effect in November 1999. The main components of reform are as follows:

- **Restrictions on municipal powers and duties:** If review boards advising municipalities oppose creation of a TIF, the municipality involved will have to approve the TIF with more than a simple-majority vote. Township and fire protection districts are added to taxing bodies represented on the board with which the municipality must negotiate. Municipalities are required to provide administrative support for review boards.

- **Local competition:** Funds for redevelopment projects will be eliminated if the project provides funds to support a retail entity in the new project area which terminates operations in another location within 10 miles of the new TIF projects.

- **Reimbursements to schools:** In residential areas where TIFs may impact both the school enrollment and its tax base, the schools will receive some TIF proceeds based on a formula to compensate for the additional costs.

- **Housing changes:** A housing impact study will have to be performed if any tax increment revenue is to be used for the removal of 10 or more inhabited residential units or 75 individuals. This provision also requires the TIF to provide relocation assistance and increases TIF funds to be used to get lower interest loans to build low-income housing.

- **Child care:** Provides day care costs for low-income families working for businesses located in the redevelopment area.

- **Public notice:** Municipalities are required to develop a registry of interested parties and keep them informed of the progress of the projects. More public hearings (with extended notices) are also required to be held by the TIFs.

- **Restrictions on eligibility:** TIF funded incentives are barred for the development of golf courses and related clubhouses. The term "blighted area" is redefined to eliminate some provisions referring to "age of area" and to add components such as a stagnant EAV.

- **Restrictions on expenditures:** TIF funds can not be used for lobbying, municipal overhead costs that are not related to a TIF, marketing for any project outside the TIF, or specific long term consulting contracts.

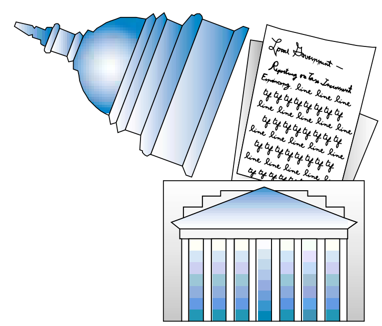
- **Standardized reporting:** Each TIF district will have to annually file a report with the State Comptroller's Office.

TIFs have always been required to provide development and financial data to taxing districts affected by the TIF upon request. The major change regarding TIF reporting is that municipalities must file uniform information in a state government depository so it will be available for comparative purposes.

The Comptrollers Local Government Division is working with legislators and TIF district administrators to develop standardized forms that will be available on the Internet for each municipality with a TIF district. The forms will allow statewide comparisons of each district. Internet filing will allow the municipal government to enter data directly into the central database. The public will also have better access to all data filed.

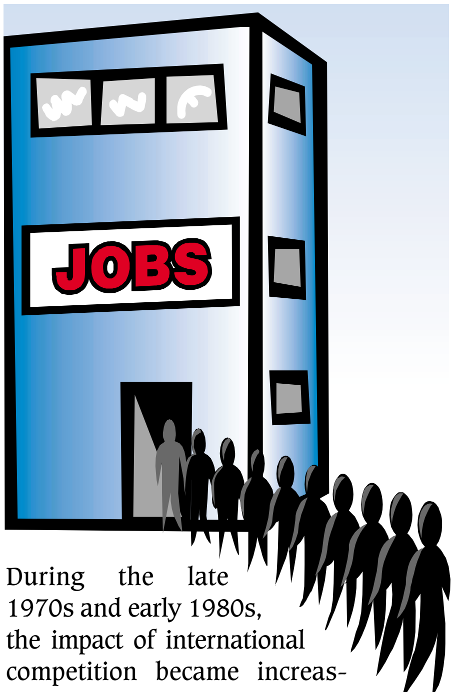
The reporting forms are expected to be available via the Internet by May of 2000. Two hundred and eighty six municipalities (representing 610 TIF districts) will be required to annually file a report with the Comptroller. The report will be due 180 days after the end of each municipality's fiscal year. Specific financial information will be available on the Comptroller's web site (www.ioc.state.il.us).

For more information about the new TIF reporting requirement call the Local Government Division at (312) 814 - 2451 or e-mail them at locgov@mail.ioc.state.il.us.



Cover Story continued

to be known as "smokestack chasing". As some states succeeded, the states that lost jobs responded with policies of their own aimed at reducing business costs within their borders. Until the mid-1970s, these practices seemed to work largely because states were vying for a piece of what seemed to be an ever-growing economic pie.



During the late 1970s and early 1980s, the impact of international competition became increasingly clear - the U.S. was no longer the world's only economic powerhouse. It began to appear that future economic development battles would be concerned with maintaining a share of a shrinking pie. Through the 1980's the emphasis shifted to survival and the focus of economic development efforts in many states turned to helping existing business grow and modernize. Nationwide, the result was a proliferation of job training programs, enterprise zones, and other initiatives aimed at improving communities and expanding worker skills. With the economic prosperity of the 1990s and the growing globalization of economic activity, state development policies have become increasingly oriented toward management, accountability, work force development, public-private partnerships, and access to capital.

The table shows a few of the business incentives commonly offered by states with particular attention to Illinois and its five neighboring states. Incentives are separated into two broadly defined classifications. Tax incentives include credits, exemptions, and abatements of corporate income, personal income, sales/use, property or other taxes. Financial incentives include any type of direct loan, loan guarantee, grant, infrastructure improvement, or job training assistance. Under each broad classification, states offer a multitude of programs.

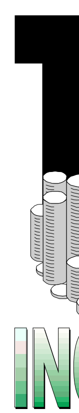
This information illustrates several points. First, although the specific elements of individual programs might be different, there is not much difference in the types of economic development incentives available in Illinois and the surrounding states. Second, the kinds of incentives offered in the mid-west are also available elsewhere. Third, the changing emphasis of economic development efforts is reflected in the growth of non-tax incentives over time. Fourth, in spite of that changing emphasis, tax incentives are still a major component of states' development arsenals. Finally, neither the public or private sectors seem to be particularly interested in a level playing field.

Much of the proliferation of incentives is the result of efforts to keep pace with competing states. Evidence indicates that new programs are quickly copied in other states so that any advantage gained from new programs is short-lived. Recent actions in Illinois illustrate this point. On August 11, the Governor approved a new income tax credit linked to income generated in Illinois as the result of new jobs. The Illinois Economic Development for a Growing Economy (EDGE) Tax Credit Act was enacted in response to similar programs adopted in Indiana, Missouri, Kentucky, Michigan, and Ohio.

Examples of State Tax and Financial Incentives Available to Business in Illinois, Indiana, Iowa, Kentucky, Missouri, and Wisconsin (As of 1996)

State Tax Incentives	IL	IN	IA	KY	MO	WI	Number of States Offering in 1977	Number of States Offering in 1996
Corporate Income Tax Exemptions	X	X	X		X	X	21	37
Personal Income Tax Exemptions	X	X	X		X	X	19	33
Excise Tax Exemption	X		X		X		10	24
Tax Exemption or Moratorium on Land, Capital Improvements	X	X	X	X	X		23	37
Tax Exemption or Moratorium on Equipment, Machinery	X	X	X	X	X	X	28	42
Tax Exemption on Manufactures' Inventories	X	X	X	X	X	X	37	46
Sales/Use Tax Exemption on New Equipment	X	X	X	X	X	X	33	47
Tax Exemption on Raw Materials Used in Manufacturing	X	X	X	X	X	X	44	49
Tax Incentives for Creation of Jobs	X	X	X	X	X	X	31 (1986)	44
Tax Incentive for Industrial Investment	X	X		X	X	X	29 (1986)	39
Tax Exemption to Encourage R & D	X	X	X		X	X	9	36
Accelerated Depreciation	X	X	X	X	X	X	25	41
State Financial Incentives								
State-Sponsored Industrial Development Authority	X	X	X	X	X	X	37	42
Privately Sponsored Development Credit Corporation	X	X	X		X		36 (1986)	39
State Authority or Agency Revenue Bond Financing	X	X	X	X	X	X	20	44
State Loans for Construction	X	X	X	X	X	X	19	42
State Loans for Equipment and Machinery	X	X	X	X	X	X	13	43
State Loan Guarantees for Construction	X	X	X		X		14	28
State Loan Guarantees for Equipment and Machinery	X	X	X		X		13	30
State Incentives for Establishing Industrial Plants in Areas of High Unemployment	X	X		X	X	X	17	41
Standard and Customized Job Training and Work Force Development	X	X		X	X	X		

Source: The Council of State Governments *State Business Incentives: Trends and Options for the Future*



ECONOMIC DEVELOPMENT TOOLS AVAILABLE TO ILLINOIS LOCAL GOVERNMENTS

In addition to their access to state level programs, Illinois local governments also have several tools available to attract and retain business. These tools are provided by state law and include general authority tax abatements, tax increment financing districts (TIFs), and enterprise zones.

General Authority Tax Abatements

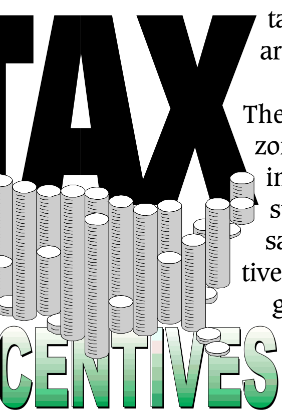
Under state law there are two primary types of general authority abatements available to local governments. These are commercial and industrial, and urban decay abatements.

The commercial and industrial abatement generally applies to the property of any commercial or industrial firm. Urban decay abatements apply to any area demonstrating conditions of a "blighted" or "conservation" area as defined in the TIF law.

Enterprise Zones

Enterprise zones are specific areas designated by the state in cooperation with local governments to receive various tax incentives and regulatory relief to stimulate economic activity and neighborhood revitalization.

The tax benefits associated with enterprise zones include: investment tax credit, dividend deduction, corporate contribution deduction, jobs tax credit, income tax deduction for financial institutions, sales tax deductions, and utility tax exemption. These are applied to state taxes.



There are currently 92 zones in Illinois, the maximum allowed under state law. All offer the same mix of state incentives. In addition, local governments can offer distinctive local incentives including property tax abatements on business improvements added to real estate in a zone, homesteading and shopsteading programs, waiver of business licensing and permit fees, streamlined building code and zoning requirements, and special local financing programs and resources.

Tax Increment Financing (TIF)

Tax increment financing is a financing tool used to redevelop blighted areas and foster economic recovery. As an area is redeveloped, property values rise. TIF captures the incremental increase in property taxes resulting from the increase in property values and uses those amounts to pay for infrastructure and other improvements. TIFs are generally dissolved after all redevelopment costs are paid or after 23 years, whichever comes first.

Tax increment financing began in Illinois in 1977 with property tax TIFs. The TIF law was expanded in 1986 to allow TIFs to capture the incremental increase in state and local sales taxes and local public utility taxes. The law was latter expanded to allow Illinois municipalities to establish industrial tax increment districts in areas of high unemployment or vacant industrial buildings or properties with significant environmental contamination without having to designate the areas as "blighted" or "conservation". Illinois now has more than 600 TIF districts. (For more information on Illinois TIFs, see Fiscal Smarts, page 2.)

CROSS-BORDER COMPETITION

Incentive packages intended to lure business or convince them to expand in a given location will generally include both state and local incentives. With 92 enterprise zones and more that 600 TIFs, many Illinois local governments have access to virtually the same tools. That does not mean that they all assemble identical incentive packages, only that they have largely the same opportunity.

When the contest is between communities within the state's borders, each community faces the same state-imposed taxes with the same state-granted tax

COVER STORY continued, page 10

Estimated Property Tax (per $1,000 of market value)

	ILLINOIS		
	Rock Island	Moline	East Moline
City	9.72	6.03	6.03
School	17.14	19.08	18.91
County	2.3	2.3	2.22
Other	2.33	1.03	3.06
Total	31.49	28.44	30.22

	IOWA		
	Davenport	Bettendorf	Eldridge
City	13.96	11.46	7.16
School	15.27	14.69	17.73
County	3.91	3.91	3.91
Other	0.9	0.86	0.87
Total	34.04	30.92	29.67

	ILLINOIS	IOWA
Sales Taxes Rates	5% state 1.25 – 2% local	5% state 2% local
Tangible Personal Property	Yes	Yes
Specific Services	No	Yes
Computers Used in Processing	Generally Yes	Generally No
Manufacturing Machinery	No	No
Pollution Controls	No	No
Materials in Product	No	No
Materials Consumed	Yes	Yes
Gasoline (gallon)	0.19	0.20
Diesel (gallon)	0.215	0.225
City add-on tax	0.01	–
Unemployment Compensation (new employer rate)	3.1% (First $9,000 paid each employee)	1.05% (First $15,700 paid each employee)
Average Worker's Compensation (per $100 of payroll)	Overall $3.77	Overall $2.17
Corporate Income Tax (base varies among states)	Flat Rate 7.3%	Graduated 6% - 12% marginal rates
Personal Income Tax (base varies among states)	Flat Rate 3.0%	Graduated 0.36% - 8.98% marginal rates

Source: Quad City Development Group (September 1999).

Cover Story continued

and financial incentives. But when communities compete across state borders, they face sometimes radically different tax structures. Although states might offer similar tax incentives (credits and exemptions), those incentives are applied against taxes whose rates and bases vary considerably among the states. The same basic idea applies at the local level as well.

DO BUSINESS INCENTIVES MATTER?

Both proponents and opponents of incentives seem to agree that taxes are a cost of doing business and that business is interested in paying as little as possible. They also agree that incentives matter, if for no other reason than the fact that all states offer them. But there is little agreement concerning how large a role incentives play in business location and expansion decisions. Each business or industry has its own specific criteria for making those decisions. However, there are several broad criteria that commonly include: the cost, quality, and availability of labor; proximity to markets; efficient transportation networks; access to raw materials and supplies; utility costs; the cost of property and construction; and quality of life for employees (elementary, secondary, and higher education; recreational facilities; health services; housing; crime; and even the weather).

At this point, it is not possible to say how important incentives are with any degree of certainty. Although many states now employ cost-benefit analysis for individual projects, that analysis is done at the beginning of a project as justification for providing incentives. There is little, if any, follow up on the long-term implications. As a result, little can be said about which companies (or types of companies) receive incentives and whether communities realize the benefits promised when the project was initiated.

If incentives were the driving factor, it would be reasonable to expect that closely located communities with no clear advantage in terms of incentives would exhibit similar economic growth over time. An examination of growth in the Illinois-Iowa Quad Cities area (Rock Island County in Illinois and Scott County in Iowa) shows that has not been the case. (See table on page 9.)

	1970	1980	% Change 1970-1980	1990	% Change 1980-1990	1997	% Change 1990-1997
Population (thousands)							
Rock Island IL	166.517	167.022	0.3%	148.620	-11.0%	147.916	-0.5%
Scott IA	143.004	160.128	12.0%	151.310	-5.5%	157.842	4.3%
Personal Income (millions)							
Rock Island IL	699.104	1,792.516	156.4%	2,806.429	56.6%	3,657.934	30.3%
Scott IA	592.869	1,734.509	192.6%	2,757.208	59.0%	3,785.545	37.3%
Per Capita							
Rock Island IL	4,198	10,732	155.6%	18,883	75.9%	24,730	31.0%
Scott IA	4,146	10,832	161.3%	18,222	68.2%	23,983	31.6%
Employment	Rock Island County IL						
Total Nonagricultural	82,588	92,497	12.0%	89,145	-3.6%	94,091	5.5%
Manufacturing	24,608	27,230	10.7%	14,329	-47.4%	14,914	4.1%
Retail Trade	12,495	14,445	15.6%	17,113	18.5%	15,924	-6.9%
Services	12,140	15,400	26.9%	20,375	32.3%	24,694	21.2%
Government	17,318	17,037	-1.6%	17,627	3.5%	15,612	-11.4%
All Other	16,027	18,385	14.7%	19,701	7.2%	22,947	16.5%
	Scott County IA						
Total Nonagricultural	59,222	81,441	37.5%	86,193	5.8%	101,884	18.2%
Manufacturing	15,765	19,456	23.4%	13,843	-28.8%	14,390	4.0%
Retail Trade	10,778	15,396	42.8%	18,179	18.1%	21,100	16.1%
Services	11,644	19,110	64.1%	25,805	35.0%	34,029	31.9%
Government	6,632	8,106	22.2%	8,320	2.6%	9,406	13.1%
All Other	14,403	19,373	34.5%	20,046	3.5%	22,959	14.5%

	1970	1980	1990	1997
Shares of Nonagricultural Employment	Rock Island County IL			
Manufacturing	29.8%	29.4%	16.1%	15.9%
Retail Trade	15.1%	15.6%	19.2%	16.9%
Services	14.7%	16.6%	22.9%	26.2%
Government	21.0%	18.4%	19.8%	16.6%
All Other	19.4%	19.9%	22.1%	24.4%
	Scott County IA			
Manufacturing	26.6%	23.9%	16.1%	14.1%
Retail Trade	18.2%	18.9%	21.1%	20.7%
Services	19.7%	23.5%	29.9%	33.4%
Government	11.2%	10.0%	9.7%	9.2%
All Other	24.3%	23.8%	23.3%	22.5%

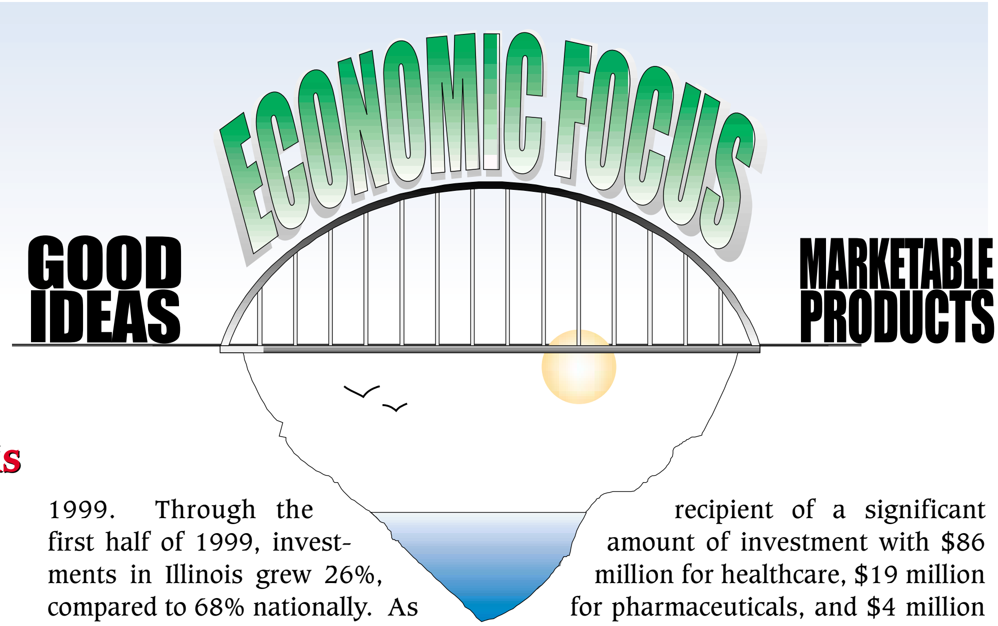
Source: U.S. Bureau of Economic Analysis, Regional Economic Information System, May 1999.

Based on information provided by the Quad City Development Group, neither Illinois nor Iowa exhibits a clear tax advantage. While property taxes appear to be lower on the Illinois side, unemployment insurance and worker's compensation taxes are lower in Iowa. Sales tax rates are similar but Iowa taxes some services while Illinois does not.

In terms of financial incentives as well, neither area appears to offer an overwhelming advantage. Both provide various business loan, grant, and training options. In addition, both offer enterprise zones and tax increment financing.

In spite of these similarities, growth on the Iowa side of the river has consistently outpaced growth in Illinois. (see table above). In 1970, Scott County was well behind Rock Island County in terms of sheer size. By any of the broad measures presented, Scott County outperformed Rock Island County by a wide margin over the last three decades so that in 1997, the population, total personal income, and nonagricultural employment on the Iowa side surpassed that of its Illinois neighbors. This does not mean that the Illinois Quad Cities area has declined over time, only that the Iowa Quad Cities have done better. This was true over each of the time periods presented.

COVER STORY continued, page 16



Venture Capital in Illinois

The venture capital industry serves as a bridge between good ideas and productive enterprises that have converted those ideas into marketable products. Venture capitalists are not passive investors. Instead, they provide equity financing and management expertise to developers of promising concepts. They don't expect every venture they back to be a winner, but they hope a few will become such major successes that huge gains in their share value will more than offset losses from less successful investments.

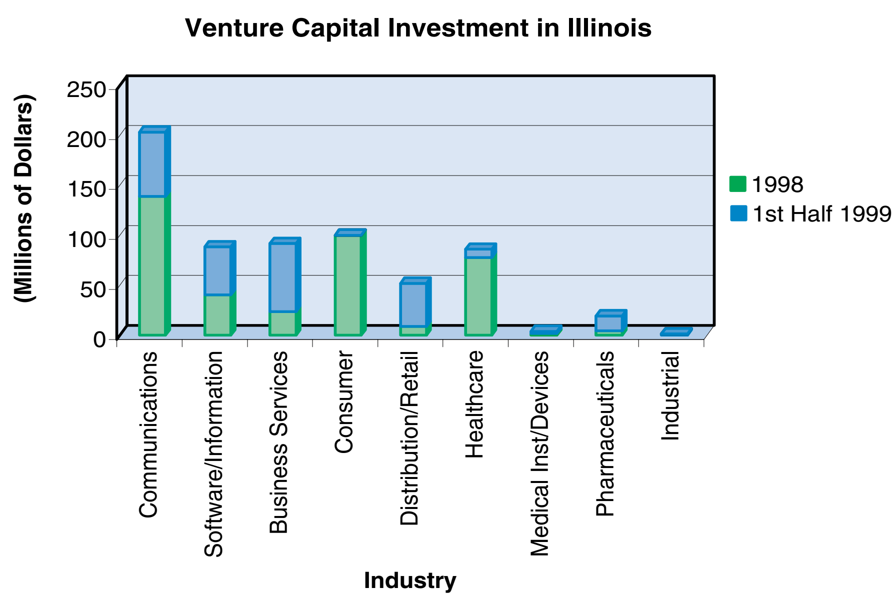
Besides making money for the investors taking part in venture capital funds, a vibrant venture capital sector can have a very positive impact on a region's economy. It is this sector that finances the high tech start-ups that every region hopes to attract. The prime example is the myriad of jobs created by technology firms financed by venture capital firms in the Silicon Valley outside of San Francisco.

Each quarter, PricewaterhouseCoopers surveys venture capital firms to identify the regions and industries that are currently attracting these investments. The survey results can be used to measure the amount of venture capital being invested in Illinois and the industries receiving these investments.

During the past six quarters, the survey identified $645 million in venture capital investments in Illinois including 56 deals involving $396 million in calendar 1998 and 38 deals involving $249 million during the first half of 1999. Through the first half of 1999, investments in Illinois grew 26%, compared to 68% nationally. As a result, the share of venture capital investments in Illinois declined from 2.8% during 1998 to 2.1% during the first half of 1999. The Silicon Valley continues to be a magnet drawing a disproportionate amount of venture investments receiving over 1/3 of the total value during the past quarter.

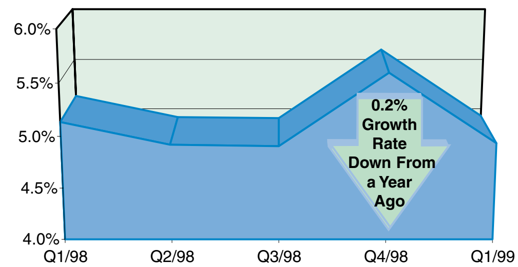
Over half of the venture capital invested in Illinois has been in the rapidly changing information technology area. Communications ventures in Illinois received $203 million, with $88 million for software and information services ventures and $92 million for start-ups providing business services (which includes Internet marketing). The health industry also was the recipient of a significant amount of investment with $86 million for healthcare, $19 million for pharmaceuticals, and $4 million for medical instrument and device start-ups.

Although venture capital investments tend to be rather small, they can play a key role in establishing new industries in an area. In Illinois, these investments averaged $6.9 million per deal over the past six quarters. Nationally, they averaged $5.7 million over the same period. Since venture capital is provided to firms with limited track records and few assets, they have few alternatives for expansion funds if venture capital is not available. Next month's edition of Economic Focus will examine how Illinois agencies help increase the availability of venture capital in Illinois.

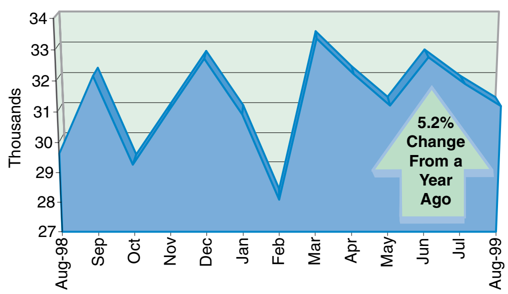


Illinois Stats: Economic and Financial

Illinois Personal Income
Change From Prior Year (Reported Quarterly)

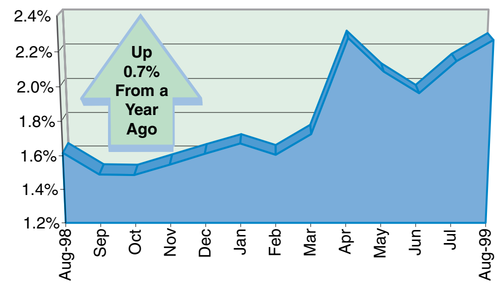


New Claims Unemployment Insurance

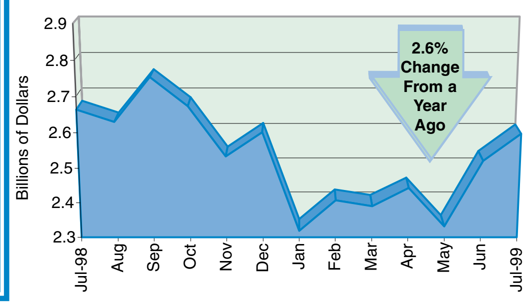


The August Illinois unemployment rate equaled 4.7%, the thirty-first consecutive month this rate has been below 5.0%. The August Illinois rate was 0.5% greater than the August national rate, 0.1% greater than the July Illinois rate, and 0.2% greater than its prior year level. Inflation remained modest in August with the national Consumer Price Index up 2.3% from its year earlier level. Finally, the September Chicago Purchasing Managers Index (53.8) remained above the 50 level that indicates equal numbers of reports of increasing economic activity and decreasing activity for the eighth consecutive month.

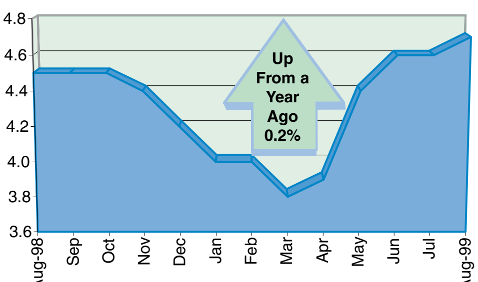
Inflation Rate
Change From Prior Year



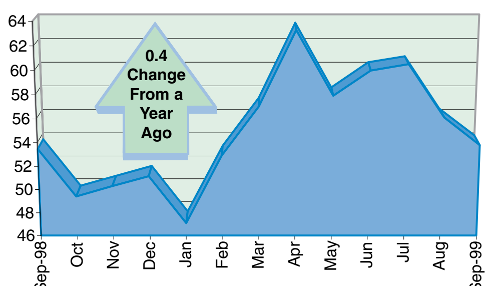
Illinois Direct Exports



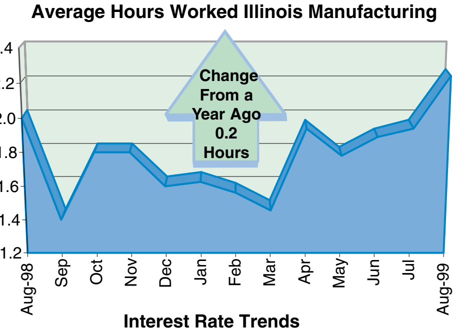
Illinois Unemployment Rate



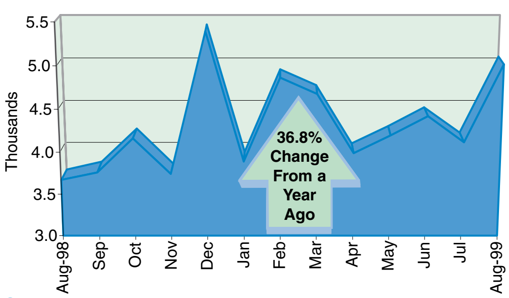
Chicago Purchasing Managers Index



Average Hours Worked Illinois Manufacturing

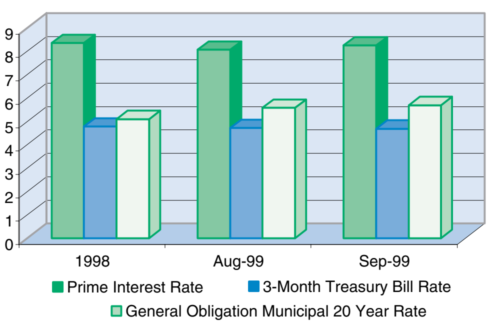


Illinois Housing Permits

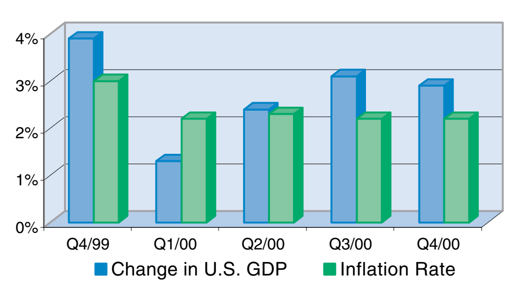


The latest Standard & Poor's DRI forecast of the U.S. economy expects moderate economic growth and continued low inflation during calendar 2000. During the final quarter of 1999, U.S. real Gross Domestic Product (GDP) is expected to increase at a 3.9% rate and the inflation rate is forecast at 3.0%. During 2000, the rate of growth for U.S. GDP is forecast to vary between 1.3% and 3.1%; while, the inflation rate is forecast to remain at rates below 2.5%.

Interest Rate Trends



Economic Outlook



Sources:

Illinois Department of Employment Security:
Hours Worked in Manufacturing, Unemployment Insurance Claims

U.S. Census Bureau:
Direct Exports, Housing Permits

U.S. Bureau of Labor Statistics:
Unemployment Rates, Consumer Price Index

U.S. Bureau of Economic Analysis:
Personal Income

Purchasing Managers Association of Chicago:
Purchasing Mangers Index

Standard & Poor's DRI:
Economic Forecasts

Federal Reserve System:
Interest Rates

A Monthly Look At State Finance

Vital Statistics

The Heartbeat of Illinois' Finance

At the end of the first quarter of fiscal year 2000, the available cash balance in the General Funds totaled $1.180 billion, $7 million or 0.6% below last September. However, due to end-of-year maintenance to the Statewide Accounting Management System (SAMS), the posting of $156 million of revenues were posted on October 1st rather than September 30th, which skewed the quarterly comparison. In addition, $15 million of expenditures were not processed until October 1st.

Although the revenues were deposited in the State Treasury, the accounting entries were not made to the respective funds until after the close of September. If the end-of-month data had reflected both the higher revenue and spending amounts, the General Funds ending cash balance would have been $141 million higher. While the later posting date does not adversely affect the state's fiscal condition, they do skew comparisons to last year's data. Comparisons for the month of October will also be skewed, but the year-to-date amounts will accurately reflect activity through four months.

The following provides a description of revenues and spending as actually recorded. Of the revenue sources that were posted on October 1st rather than the end of September, federal source revenues accounted for $69 million. Other sources impacted include individual income taxes ($40 million), sales taxes ($17 million), insurance taxes ($14 million), corporate income taxes ($8 million), and all other sources ($8 million).

General Funds Revenues Through Three Months - Up 0.8% Over FY 1999

Through the first quarter of fiscal year 2000, General Funds' revenues totaled $5.341 billion, $45 million or 0.8% higher than last year. Significant increases in sales, public utility, inheritance and liquor taxes as well as transfers in were partially offset by a decline in federal source revenues (down $173 million or 15.3%) and Cook County Intergovernmental transfers (down $40 million or 42.6%).

Personal income taxes are up $39 million or 2.5% compared to the first quarter of fiscal year 1999, including a $15 million decrease in September. Sales taxes have increased $75 million or 5.3% over last year with $12 million of the increase occurring in September. Public utility taxes jumped $64 million in September alone (due in part to timing) and are up $87 million or 41.6% for the year. Inheritance taxes are up $32 million or 53.3% through the first quarter of the year as a couple of large estates were settled and liquor taxes have increased by $14 million or 107.7% due to the rate increases instituted as part of Illinois FIRST.

The strong increase in transfers in (up $88 million or 28.8%) reflects a new transfer of $76 million in surplus monies from the Income Tax Refund Fund to the General Revenue Fund in August. In addition, gaming fund transfers from riverboat gambling proceeds are up $25 million or 35.7% due in part to the implementation of dockside gambling.

General Funds Spending Through Three Months Up 3.8% Over FY 1999

Through September, General Funds cash spending totaled $5.512 billion, $201 million or 3.8% above last year. The $201 million increase includes a $103 million increase in spending for operations, a $32 million increase in awards and grants, a $35 million increase in transfers out, a $41 million increase in all other, and a $10 million decline in vouchers payable. After three months of fiscal year 2000, expenditures have exceeded revenues by $171 million resulting in a decrease in the available cash balance from $1.351 billion at the beginning of the fiscal year to $1.180 billion at the end of September.

Spending for operations totaled $1.575 billion through September, $103 million or 7.0% higher than comparable expenditures last year. Higher education operations are up 0.5% or $2 million, while all other operations increased $101 million (9.2%).

Of the $32 million increase in grant spending, Public Aid is up $69 million or 6.8% through September while the Department of Human Services has increased by $63 million or 9.0%. Awards and grants spending by the State Board of Education is down $149 million or 15.2% due in part to the acceleration of general state aid from July back to June.

Budgetary Balance Sets Record

With the books closed for fiscal year 1999, Illinois recorded its third consecutive balanced General Funds budget. Lapse period spending of $848 from an available balance of $1.351 billion at the end of June, leaves the General Funds with a positive budgetary balance of $503 million - the highest on record surpassing last years' $356 million. Each of the funds comprising the General Funds registered a positive budgetary balance with $184 million in the General Revenue Fund and $319 million in the school funds. The $147 million increase in the General Funds budgetary balance includes a $96 million decrease in the General Revenue Fund and a $243 million increase in the school funds.

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	August 1998	August 1999	Change	Two Months FY 1999	Two Months FY 2000	Change Amount	Change Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 1,456	$ 1,534	$ 78	$ 1,202	$ 1,351	$ 149	12.4 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 488	$ 522	$ 34	$ 931	$ 985	$ 54	5.8 %
Corporate	16	17	1	53	52	(1)	(1.9)
Total, Income Taxes	504	539	35	984	1,037	53	5.4
Sales Taxes	439	493	54	939	1,003	64	6.8
Other Sources:							
Public Utility Taxes	67	93	26	147	170	23	15.6
Cigarette Taxes	33	36	3	70	66	(4)	(5.7)
Inheritance Tax (gross)	22	27	5	42	46	4	9.5
Liquor Gallonage Taxes	4	8	4	9	17	8	88.9
Insurance Tax and Fees	3	4	1	32	15	(17)	(53.1)
Corporation Franchise Tax and Fees	7	11	4	19	19	0	0.0
Investment Income	23	18	(5)	42	34	(8)	(19.0)
Cook County IGT	40	0	(40)	94	54	(40)	(42.6)
Other	16	17	1	37	34	(3)	(8.1)
Total, Other Sources	215	214	(1)	492	455	(37)	(7.5)
Total, Cash Receipts	$ 1,158	$ 1,246	$ 88	$ 2,415	$ 2,495	$ 80	3.3 %
Transfers In:							
Lottery Fund	$ 30	$ 39	$ 9	$ 51	$ 55	$ 4	7.8 %
State Gaming Fund	27	29	2	45	67	22	48.9
Protest Fund	1	0	(1)	3	0	(3)	(100.0)
Other Funds	18	92	74	115	180	65	56.5
Total, Transfers In	$ 76	$ 160	$ 84	$ 214	$ 302	$ 88	41.1 %
Total, State Sources	$ 1,234	$ 1,406	$ 172	$ 2,629	$ 2,797	$ 168	6.4 %
Federal Sources:							
Cash Receipts	$ 426	$ 320	$ (106)	$ 763	$ 679	$ (84)	(11.0) %
Transfers In	0	0	0	10	0	(10)	(100.0)
Total, Federal Sources	$ 426	$ 320	$ (106)	$ 773	$ 679	$ (94)	(12.2) %
Total, Revenues	$ 1,660	$ 1,726	$ 66	$ 3,402	$ 3,476	$ 74	2.2 %
Expenditures:							
Awards and Grants:							
State Board of Education	$ 397	$ 362	$ (35)	$ 550	$ 447	$ (103)	(18.7) %
Public Aid	323	391	68	663	733	70	10.6
Human Services	254	248	(6)	465	524	59	12.7
Teachers Retirement	51	54	3	92	108	16	17.4
Higher Education	170	170	0	178	175	(3)	(1.7)
All Other Grants	127	184	57	250	320	70	28.0
Total, Awards and Grants	1,322	1,409	87	2,198	2,307	109	5.0
Operations:							
Other Agencies	404	446	42	746	835	89	11.9
Higher Education	154	149	(5)	236	233	(3)	(1.3)
Total, Operations	558	595	37	982	1,068	86	8.8
Transfers Out	101	124	23	279	339	60	21.5
All Other (Includes Prior Adjustments)	6	48	42	9	51	42	466.7
Total, Expenditures	$ 1,987	$ 2,176	$ 189	$ 3,468	$ 3,765	$ 297	8.6 %
Adjustment for Vouchers Payable	(4)	(23)	(19)	3	(45)	(48)	N/A
Total, Cash Expenditures	1,983	2,153	170	3,471	3,720	249	7.2
AVAILABLE CASH BALANCE, ENDING	$ 1,133	$ 1,107	$ (26)	$ 1,133	$ 1,107	$ (26)	(2.3) %

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	September 1998	September 1999	Change	Three Months FY 1999	Three Months FY 2000	Change Amount	Change Percent
AVAILABLE CASH BALANCE, BEGINNING	$ 1,133	$ 1,107	$ (26)	$ 1,202	$ 1,351	$ 149	12.4 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	$ 633	$ 618	$ (15)	$ 1,565	$ 1,604	$ 39	2.5 %
Corporate	154	119	(35)	206	171	(35)	(17.0)
Total, Income Taxes	787	737	(50)	1,771	1,775	4	0.2
Sales Taxes	466	478	12	1,406	1,481	75	5.3
Other Sources:							
Public Utility Taxes	62	126	64	209	296	87	41.6
Cigarette Taxes	33	36	3	103	102	(1)	(1.0)
Inheritance Tax (gross)	19	46	27	60	92	32	53.3
Liquor Gallonage Taxes	3	10	7	13	27	14	107.7
Insurance Tax and Fees	28	19	(9)	61	34	(27)	(44.3)
Corporation Franchise Tax and Fees	11	9	(2)	29	27	(2)	(6.9)
Investment Income	20	14	(6)	62	48	(14)	(22.6)
Cook County IGT	0	0	0	94	54	(40)	(42.6)
Other	12	17	5	49	51	2	4.1
Total, Other Sources	188	277	89	680	731	51	7.5
Total, Cash Receipts	$ 1,441	$ 1,492	$ 51	$ 3,857	$ 3,987	$ 130	3.4 %
Transfers In:							
Lottery Fund	$ 49	$ 34	$ (15)	$ 100	$ 89	$ (11)	(11.0) %
State Gaming Fund	25	28	3	70	95	25	35.7
Protest Fund	0	0	0	3	0	(3)	(100.0)
Other Funds	18	29	11	133	210	77	57.9
Total, Transfers In	$ 92	$ 91	$ (1)	$ 306	$ 394	$ 88	28.8 %
Total, State Sources	$ 1,533	$ 1,583	$ 50	$ 4,163	$ 4,381	$ 218	5.2 %
Federal Sources:							
Cash Receipts	$ 282	$ 236	$ (46)	$ 1,044	$ 914	$ (130)	(12.5) %
Transfers In	79	46	(33)	89	46	(43)	(48.3)
Total, Federal Sources	$ 361	$ 282	$ (79)	$ 1,133	$ 960	$ (173)	(15.3) %
Total, Revenues	$ 1,894	$ 1,865	$ (29)	$ 5,296	$ 5,341	$ 45	0.8 %
Expenditures:							
Awards and Grants:							
State Board of Education	$ 434	$ 387	$ (47)	$ 983	$ 834	$ (149)	(15.2) %
Public Aid	350	349	(1)	1,013	1,082	69	6.8
Human Services	238	242	4	703	766	63	9.0
Teachers Retirement	49	54	5	141	162	21	14.9
Higher Education	6	7	1	184	182	(2)	(1.1)
All Other Grants	134	94	(40)	385	415	30	7.8
Total, Awards and Grants	1,211	1,133	(78)	3,409	3,441	32	0.9
Operations:							
Other Agencies	347	358	11	1,093	1,194	101	9.2
Higher Education	142	149	7	379	381	2	0.5
Total, Operations	489	507	18	1,472	1,575	103	7.0
Transfers Out	135	110	(25)	414	449	35	8.5
All Other (Includes Prior Adjustments)	4	3	(1)	12	53	41	341.7
Total, Expenditures	$ 1,839	$ 1,753	$ (86)	$ 5,307	$ 5,518	$ 211	4.0 %
Adjustment for Vouchers Payable	1	39	38	4	(6)	(10)	N/A
Total, Cash Expenditures	1,840	1,792	(48)	5,311	5,512	201	3.8
AVAILABLE CASH BALANCE, ENDING	$ 1,187	$ 1,180	$ (7)	$ 1,187	$ 1,180	$ (7)	(0.6) %

Cover Story concluded

There is considerable speculation about why these areas have performed so differently and much of that speculation has to do with the non-incentive reasons for making business decisions. Are Iowa schools better; is labor less costly; is land for expansion more readily available? The answers to these questions are difficult to quantify. However, it is possible to gain some insight into why the two areas have grown differently by looking at how the mix of employment by industry changed over time.

In 1970, employment in Rock Island County was heavily concentrated in the manufacturing and government sectors. Although Scott County was dependent on manufacturing as well, it also had much higher concentrations in retail trade and services. During the 1970s employment increased in both areas. Although manufacturing employment grew, the most notable increases were in services in Rock Island County and in services and retail trade in Scott County. By 1980, manufacturing was still the dominant employment sector in Rock Island. On the other side of the border, however, the manufacturing sectors' share dropped and the service sectors' share rose so that the sectors were nearly equal in size.

Through the turbulent 1980s, recession, restructuring, downsizing, and reorganization in both the public and private sectors resulted in a dramatic drop in manufacturing employment in both counties, and only small increases in the government sector. This period also saw sizeable increases in the retail trade and service sectors on both sides of the river. In

spite of this growth, however, Illinois' manufacturing losses were large enough to reduce total employment over the decade. By 1990, total employment in Scott County was nearly equal to Rock Island County.

Thus far in the 1990s, employment in Scott County has grown more than three times faster than in Rock Island County (as of 1997). As in each of the prior periods, service sector growth has been particularly strong in both areas. In Scott County, all major employment sectors have exhibited considerable growth. In Rock Island, however, service sector strength has little more than offset losses in retail trade and government.

Scott County has dominated employment growth in the region for at least 27 years. That dominance was clearly evident during the 1970s, before the explosion of economic development efforts. It was also clear during the 1980s when approximately three quarters of Illinois' business tax incentives were enacted. That pattern has continued during the 1990s.

Have Iowa's incentive programs been more successful than those offered in Illinois? Has Iowa been more aggressive in offering incentives? Is the Scott County employment growth more related to incentives or to industry mix or to some other factor? Are Illinois' incentives reaching the businesses that will be vital to building the state's future? These questions can not be answered until there is better information regarding the importance of incentives in business decisions.

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