

ILLINOIS EDGE TAX CREDIT PROGRAM

ECONOMIC DEVELOPMENT FOR A GROWING ECONOMY



2021 BIENNIAL REPORT ON THE EDGE TAX CREDIT PROGRAM



Illinois
Department of Commerce
& Economic Opportunity

JB Pritzker, Governor

This page intentionally left blank

TABLE OF CONTENTS

INTRODUCTION	4
1: EDGE PROGRAM OVERVIEW	5
Legislative Intent and Program Sunset.....	5
2017 Program Reauthorization.....	5
Approval Process	6
2: PROGRAM EVALUATION	8
Job Creation and Retention	8
EDGE Certificates Awarded	10
Program Revenue Impact.....	12
3: COMPETITOR STATE TAX INCENTIVE PROGRAMS	13
Indiana	13
Iowa.....	13
Kentucky	14
Missouri.....	14
Wisconsin.....	14
California	15
Florida	15
Georgia	15
Michigan.....	15
New York.....	16
North Carolina	16
Ohio.....	16
Texas	17
Virginia	17
4: CONCLUSIONS ON EFFECTIVENESS	18

INTRODUCTION

Pursuant to the Economic Development for a Growing Economy (“EDGE”) Tax Credit Act, 35 ILCS 10/5-1, *et seq.* (the “Act”), the Illinois Department of Commerce and Economic Opportunity (“DCEO” or the “Department”) administers the EDGE Program. Since 1999, the EDGE Tax Credit has been used to attract businesses to Illinois and help businesses in the state expand, providing a solid foundation for business growth in the State.

Section 75 of the Act requires the Department to provide an evaluation of the EDGE Program to the Governor and the General Assembly on a biennial basis in odd-numbered years. The biennial report “shall include an assessment of the effectiveness of the program in creating new jobs in Illinois and of the revenue impact of the program” and may also include a review of similar programs offered in competing States. 35 ILCS 10/5-75.

This is DCEO’s second biennial report on the effectiveness of the EDGE Program. Since Governor Pritzker took office, DCEO has been rigorously evaluating the impact of the EDGE Program and working with the General Assembly to implement changes that help ensure the Program has the intended impact and taxpayer funds are used efficiently, as well as, to ensure that the return on investment for the EDGE Program benefits both the corporation claiming the benefit and Illinois taxpayers. In addition, DCEO is finalizing agreements with Illinois sister agencies that will provide critical data to help us further evaluate the efficacy of the EDGE Program and other credit programs moving forward.

1: EDGE PROGRAM OVERVIEW

Legislative Intent and Program Sunset

In August 1999, the Illinois General Assembly noted that although the Illinois economy was strong, Illinois was facing a competitive disadvantage as other States were offering major financial incentives for businesses looking to relocate or expand. The EDGE Program was created to ensure Illinois' competitiveness by offering tax credits to companies looking to relocate or expand. In an increasingly global economy, the General Assembly determined that Illinois' long-term development would benefit from the strategic use of state resources to support business development and growth.

The EDGE Program originally sunset on December 31, 2016 (extended to April 30, 2017) and was restored in September of 2017.

2017 Program Reauthorization

On September 18, 2017, a significantly overhauled EDGE Tax Credit Program was enacted. The new law extended the EDGE Program on new agreements to June 30, 2022. Revisions included:

- **Eligibility Requirements**

- For companies with more than 100 employees, the minimum required capital investment was reduced from \$5 million to \$2.5 million, and the job creation requirement was modified to be the lesser of: (a) ten percent (10%) of the company's worldwide full-time headcount; or (b) 50 new jobs.
- For companies with 100 or fewer employees, the capital investment requirement, which had been \$1 million, was removed entirely. The job creation requirement was modified to the lesser of: (a) five percent (5%) of the company's worldwide full-time headcount; or (b) 50 new jobs.
- To be eligible for EDGE, a company must be able to demonstrate that multiple state options are available and that it could reasonable and efficiently located outside of the state.

- **Credit Amounts**

- The current EDGE Program allows for an annual tax credit that is equal to the lesser of: (1) the sum of fifty percent (50%) of the incremental income tax attributed to new employees at the project and ten percent (10%) of the training costs related to the new employees; or (2) one hundred percent (100%) of the incremental income tax attributed to new employees at the project location. In contrast, agreements under the prior EDGE Act provided annual tax credits equal to one hundred percent (100%) of the incremental income tax attributed to new employees at the project.

- In addition, the EDGE statute statutorily provides the Department with discretion to award an additional credit equal to and up to twenty-five percent (25%) of the incremental income tax attributed to full-time employees retained at an incentivized project location. Except for certain “Special EDGE” agreements, the prior version of EDGE did not statutorily provide DCEO with the authority to award a credit for retained employees. However, in many agreements under the prior EDGE statute, DCEO did provide credits for retained employees with percentages of withholding ranging from ten percent (10%) to one hundred percent (100%), with most agreements providing credits for fifty percent (50%).
- **Incentives for Underserved Areas**
 - Additional incentives are offered to encourage companies to expand or move to underserved areas (as defined by the Act) in the State.
 - The potential credit for these projects increases the tax credit award amount to the lesser of: (1) the sum of seventy-five percent (75%) of the income incremental tax attributed to new employees at the project and ten percent (10%) of the training costs related to the new employees; or (2) one hundred percent (100%) of the incremental income tax attributed to new employees at the project location.
- **Public Disclosure**
 - Codifying prior Department policy, Section 50 of the Act operates to increase transparency by requiring that DCEO post the terms of each EDGE Tax Credit Agreement on its website within ten (10) days of entering into any agreement. This posting must include:
 - the name of the recipient’s business;
 - the location of the project;
 - the estimated value of the credit;
 - the number of new jobs and, if applicable, retained jobs; and
 - whether the project is in an underserved area.
- **Enhanced Compliance Provisions**
 - Under the 2017 EDGE legislation, the entire credit amount awarded to a company is subject to recapture if, during the term of the agreement, the company ceases principal operations with the intent to permanently shut down the project in the State.
 - In the event of such a claw-back of funds, the amount recaptured will be allocated to the local workforce investment area in which the project was located.

- **Vendor Diversity and Sexual Harassment Reporting**
 - Companies claiming the EDGE Tax Credit must file an annual report on supplier diversity goals with DCEO by April 15 of each taxable year for which it is claiming the credit.

Approval Process

Companies that are interested in pursuing a project in Illinois may apply to the Department for an EDGE Tax Credit. Application materials submitted to DCEO include:

- Applicant Information
- Project Summary
- Project Description
- Jobs Impact
- Costs
- Competitive Requirements of the Project
- Cost Differential
- Company Certification
- Tax Clearance Documentation
- Certificate of Good Standing to Transact Business the Illinois
- Project Rationale
- Cost Differential Narrative

Once the formal application and required supporting documentation is received, a comprehensive due diligence process is initiated by agency staff. This process includes legal, fiscal, and compliance reviews. The materials are reviewed and approved by the DCEO Business Development Committee with final approval by the DCEO Director.

If approved, DCEO is authorized to designate the business as "eligible" and enter into an EDGE Tax Credit Agreement. The eligible business may claim a nonrefundable and nontransferable tax credit against State income taxes. The Act allows eligible companies to claim such credits for a period not to exceed ten (10) years.

2: PROGRAM EVALUATION

This section provides an overall evaluation of the EDGE Program for the period 2019 through 2021. (Please note that EDGE certificate requests are still being processed for calendar year 2021 so those numbers are incomplete). This section provides a summary of the various metrics tracked in the EDGE Program, including job creation, job retention, investment, and the costs to the State in terms of the amount of tax credits issued.

EDGE Agreements are structured to recognize that there is a certain “ramp up” period for projects as part of the capital construction and job hiring process. EDGE recipients are given until the end of the second full taxable year after entering into an agreement in which to make the requisite investment and hire the minimum number of new jobs associated with the project. For example, a company that signed an EDGE Agreement in June 2014 with a December 31 fiscal year-end would likely not seek its first EDGE Tax Credit until the taxable year ending December 31, 2016.

Job Creation and Retention

The primary goal of the EDGE Program is to promote the creation of new jobs, as well as, the retention of existing full-time employees by encouraging companies to move to or remain in Illinois. As demonstrated by Table 1, companies receiving EDGE Tax Credits reported creating 34,753 jobs in 2019; 36,959 jobs in 2020; and 32,776 jobs for 2021 to date. Additionally, a significant number of jobs have been reported to be retained in Illinois; 37,883 in 2019; 20,717 in 2020; and 18,980 in 2021 to date. Table 1 further shows a notable overall payroll paid to Illinois employees of over \$7 billion in additional payroll in 2019 and over \$5 billion in additional payroll in 2020 and 2021. These figures reflect only those jobs that have been reported by companies seeking an EDGE Tax Credit. They do not include employment at related corporate entities or other company locations that are not incentivized by way of EDGE or vendor and supplier hiring for companies receiving EDGE.

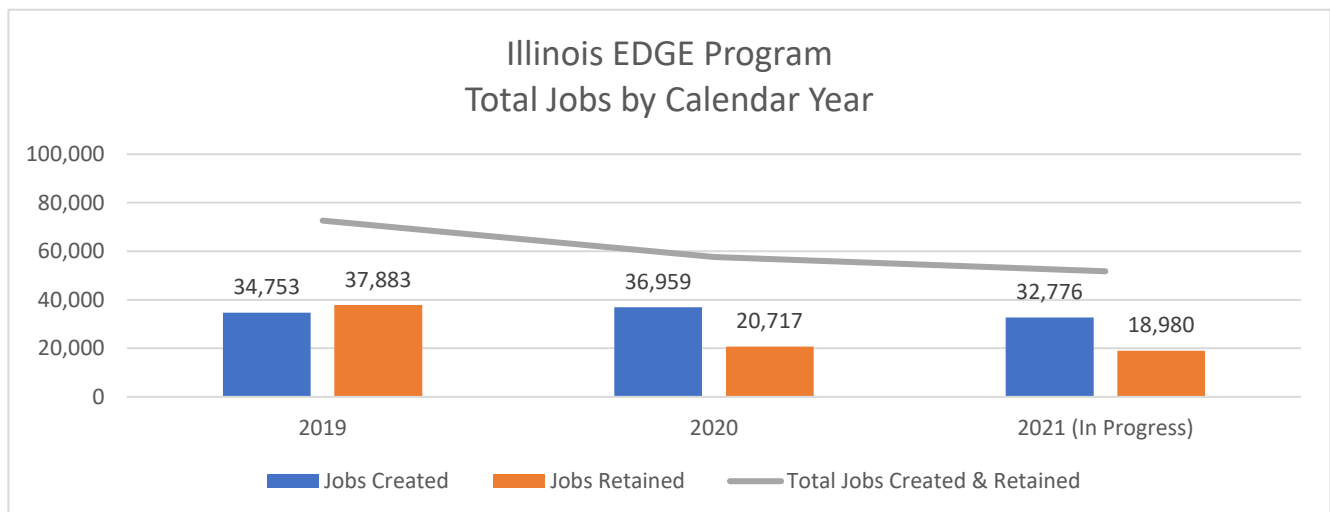
Table 1: Job Creation and Retention and Associated Payroll, 2019-2021

CALENDAR YEAR	Reported Jobs Created	Reported Jobs Retained	Reported Payroll Amount
2019	34,753	37,883	\$7,491,622,535.68
2020	36,959	20,717	\$5,264,085,964.84
2021 (In Progress)	32,776	18,980	\$5,056,074,425.61

As shown below in Graph 1, the metrics demonstrate a slight decline between 2019 and 2020 in terms of job creation and retention. The decrease in reported jobs retained can be attributed to the 2017 Program Reauthorization legislation, in which the incremental income tax attributed to retained employees at the project is no longer awarded. Furthermore, as noted above, the 2021 numbers are not yet final and will likely increase.

DCEO will continue to study methods for improving the effectiveness of the program in connection with job creation and retention.

Graph 1: Reported Job Creation and Retention Between 2019 and 2021



EDGE Certificates Awarded

The EDGE Program is an annual reporting program which generally allows companies to claim tax credits for up to ten (10) years. These credits are issued annually and based on the self-reported employment and payroll for the respective company's fiscal year. As demonstrated by Table 2, the number of EDGE certificates issued on an annual basis has stayed virtually the same over the last three years: 215 certificates issued in 2019; 186 issued in 2020; and 171 issued thus far for 2021.

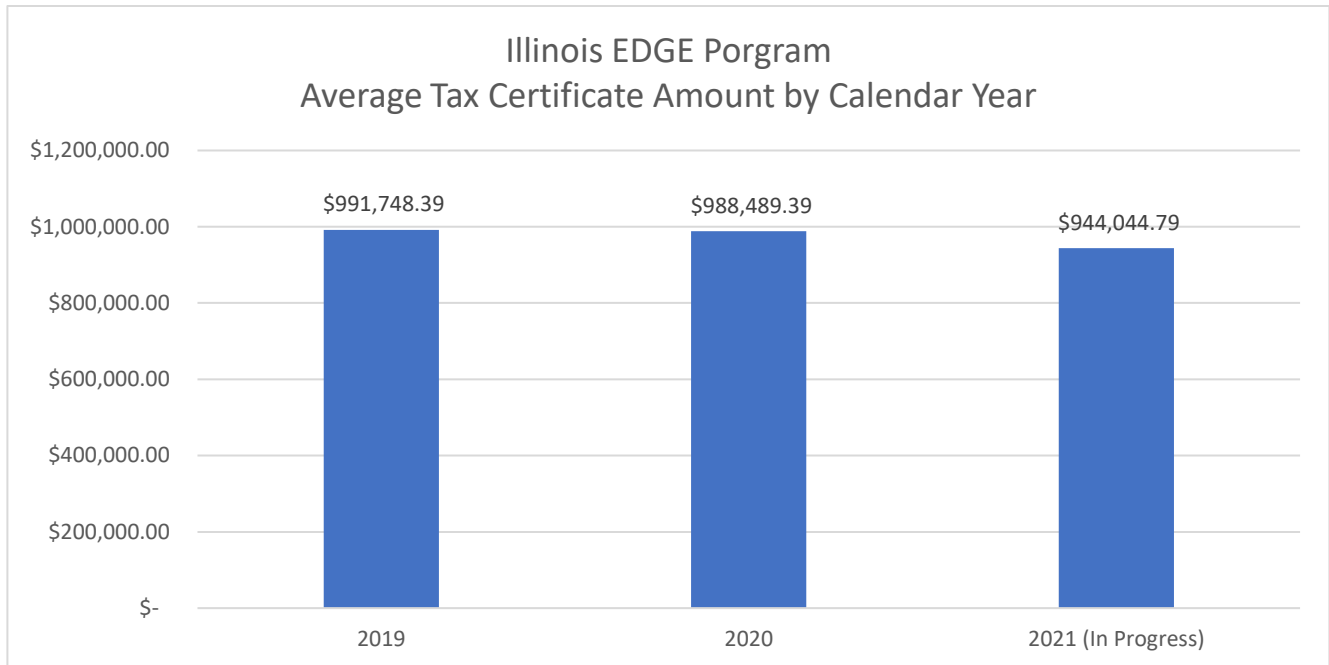
Table 2: Number of EDGE Certificates Issued and Number of Companies Losing Credits

CALENDAR YEAR	EDGE Certificates Awarded	Credits Not Claimed
2019	215	116
2020	186	72
2021 (In Progress)	171	23

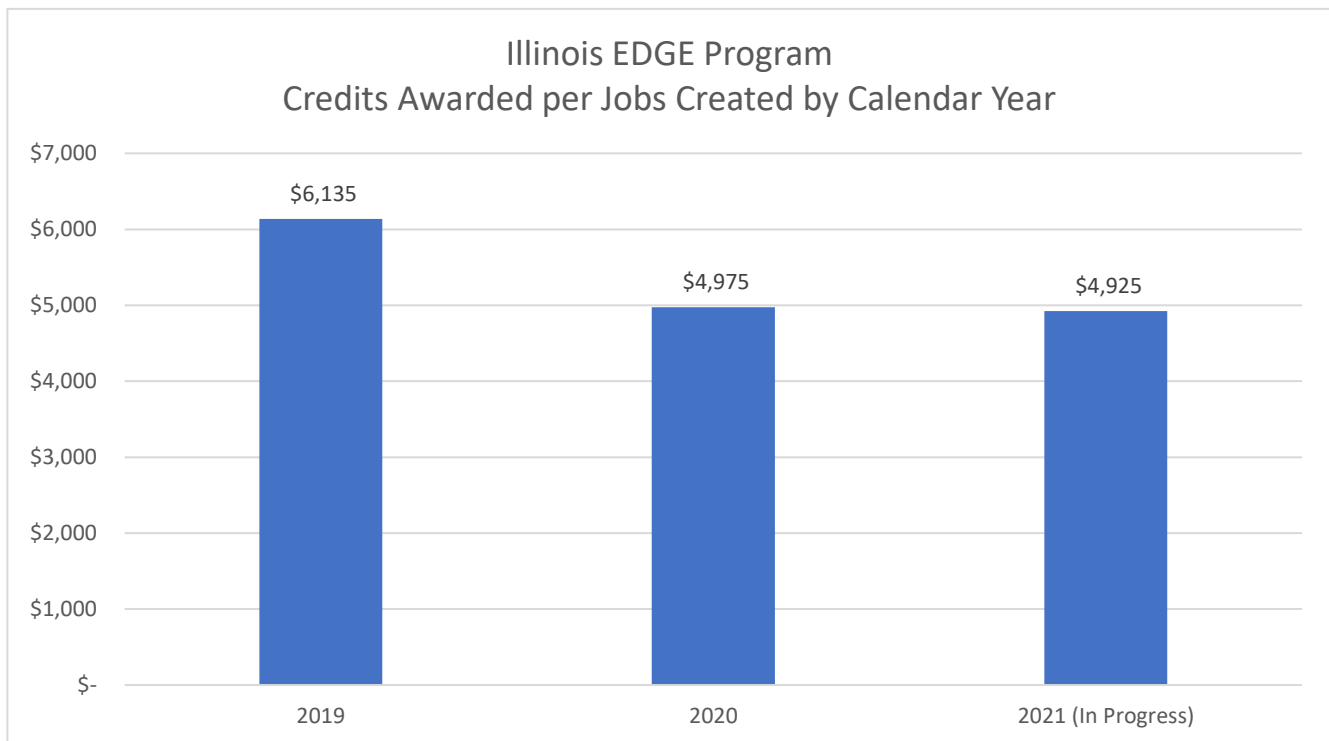
As reflected in Graph 2 (on page 11), the average value of tax credit certificates has remained consistent between 2019 and 2020. As neither jobs nor payroll have increased dramatically, it is likely this is a direct result of the increase in the personal income tax rate from 3.75% to 4.95% effective July 1, 2017 (Public Act 100-0303).

Since EDGE Tax Credits are not refundable and some businesses move or close before claiming all credits, tax credits *awarded* do not reflect tax credits *claimed*, and therefore do not directly reflect a revenue impact for the State. (See Program Revenue Impact on page 12 for more information). It should also be noted that companies cannot use this credit if they have no tax liability.

Graph 2: Average Value of Tax Certificates, 2019-2021



Graph 3: Tax Credits Awarded per Jobs Created, 2019-2021



Program Revenue Impact

The following is a summary of Tax Credit certificates issued since 2001 and the amount of credits claimed by the recipients. These aggregated numbers include carry-forward amounts which may be claimed up to five (5) years after issuance. The total amount of certificates issued, and amount of credits claimed for 2020 is not yet known as the DCEO and IDOR processes for calendar year 2020 are not yet complete.

Fiscal Year	Amount of EDGE Credit Used to Offset Corporate Income Tax Liability Per the Comptroller's Tax Expenditures Report	Amount of EDGE Credit Used to Offset Individual Income Tax Liability Per the Comptroller's Tax Expenditures Report	Value of EDGE Tax Credits Certificates Issued by DCEO
2001	\$0	\$0	\$6,510,316
2002	\$190,000	**	\$11,929,375
2003	\$3,330,000	**	\$22,898,697
2004	\$5,200,000	**	\$29,293,557
2005	\$9,082,000	**	\$35,885,149
2006	\$13,614,000	\$99,000	\$43,050,873
2007	\$24,862,000	\$4,717,000	\$60,825,257
2008	\$23,534,000	\$4,981,000	\$69,145,879
2009	\$25,567,000	\$3,651,000	\$68,090,549
2010	\$34,766,000	\$691,000	\$82,862,058
2011	\$36,149,000	\$3,082,000	\$163,243,486
2012	\$31,259,000	\$9,207,000	\$202,545,923
2013	\$45,085,000	\$38,943,000	\$116,548,826
2014	\$58,873,000	\$37,762,000	\$206,524,531
2015	\$90,757,000	\$45,760,000	\$215,118,188
2016	\$82,409,000	\$41,347,000	\$147,607,895
2017	\$76,702,000	\$56,171,000	\$186,246,794
2018	\$82,039,000	\$55,017,000	\$188,472,703
2019	\$78,112,000	\$47,629,000	\$249,618,350
2020	*	*	\$188,795,121
Total	\$721,530,000	\$349,057,000	\$2,295,213,527

*2020 Tax Expenditure Report Not Yet Available **Amount of Individual Income Tax Credits Not Reported Separately for EDGE.

In summary, in evaluating the EDGE Program, it is important to understand the overall costs to the State as well as the benefits generated by the Program. Assuming these projects would not have occurred in the State “but for” the EDGE Program, tens of thousands of new jobs would not have been created, tens of thousands of existing jobs may have been eliminated and billions in payroll and investment may have been lost.

3: Competitor State Tax Incentive Programs

Illinois' primary competitors for business locations and expansions are the bordering states of Kentucky, Indiana, Iowa, Missouri, and Wisconsin. These states have adopted similar tax credit programs as incentives for businesses locating or expanding operations. However, other non-border states have become increasingly aggressive in seeking to relocate business from Illinois as well. The information below shows the similarities of the programs from the most frequently cited out-of-state options and highlights the advantages of the Illinois EDGE Tax Credit Program. This illustrates that the EDGE Tax Credit Program is somewhat competitive with those of bordering states, as well as certain other states with whom Illinois regularly finds itself in competition. Other states regularly competing with Illinois that have roughly analogous incentive programs include the following: Arizona, Arkansas, Colorado, Connecticut, Florida, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, Nevada, New Jersey, New York, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

Neighboring State Tax Incentive Programs

Indiana

Program Name: Economic Development for a Growing Economy (EDGE) Tax Credit

Structure: Credit based on percentage of expected increased tax withholdings generated by new jobs created.

Requirements: No minimum for jobs created; duration of credit not to exceed 10 years. Must remain in IN for at least 2 years after receiving final tax credit.

Retention: Yes, provision for retention includes stiffer guidelines.

Transferable*: Yes

"But for:** Yes

Iowa

Program Name: New Jobs Tax Credit

Structure: Tax credits or direct financial assistance which includes loans, tax exemptions, and refunds.

Requirements: Eligible businesses must meet certain wage threshold requirements; amount of tax incentives varies by investment amount in relation to the number of jobs created/retained.

Retention: Yes, retained jobs can qualify the business for incentives, although wage thresholds apply.

Transferable*: Yes

"But for"**: No

Kentucky

Program Name: Business Investment Program

Structure: Corporate income tax credits and wage assessments (subsidies drawn from wages).

Requirements: Create and maintain minimum of 10 new full-time jobs for KY residents.

Retention: No

Transferable*: No

"But for":** No

Missouri

Program Name: Missouri Works Program

Structure: Benefits are either the retention of State withholding tax or State tax credits.

Requirements: Minimum of 2 new jobs or retention of 50; paired with minimum new capital investment and wage thresholds.

Retention: Yes, retention requirements differ slightly from creation requirements.

Transferable*: Yes

"But for":** Yes

Wisconsin

Program Name: Economic Development Tax Credits

Structure: Tax credit against Wisconsin tax liability.

Requirements: Limited specifics provided; credits are based on number of jobs created/retained, capital investment placed, wage range and training costs.

Retention: Yes

Transferable*: Yes

"But for":** Yes

Additional Competing States

California

Program Name: California Competes Tax Credit

Structure: Credit against corporate income tax liability.

Requirements: Credit amount based on factors including number of jobs created and retained, capital investment, compensation, etc.

Retention: Yes

Transferable*: No

"But for": No**

Florida

Program Name: Capital Investment Tax Credit

Structure: Annual credit for up to 20 years against the corporate income tax. Amount based on eligible capital costs.

Requirements: Located in designated high impact portions for various sectors. Create at least 100 new jobs; capital investment of at least \$25 million.

Retention: Yes, if there is significant evidence that the loss of jobs is imminent.

Transferable*: Yes

"But for": No**

Georgia

Program Name: EDGE

Structure: Grant and loans for business expansion and job creation and retention activities.

Requirements: Businesses held accountable for agreed upon capital investment and number of created or retained jobs.

Retention: Yes, retention of jobs is eligible for grant consideration.

Transferable*: No

"But for": No**

Michigan

Program Name: Michigan Business Development Program

Structure: Grants, loans, and other economic assistance to businesses for highly competitive projects that create jobs or provide investment resulting in a net-positive return.

Requirements: Varies, but business must certify at the time of disbursement that not less than 75% of the employees of that business are residents of state.

Retention: No

Transferable*: No

“But for”:** No; grants are provided as opposed to tax credits.

New York

Program Name: Excelsior Jobs Program

Structure: Refundable tax credits against various New York taxes over a 10-year period.

Requirements: Job requirements vary by industry; anywhere from 10 new jobs to 300 new jobs and \$6M investment for a larger firm.

Retention: Yes. Limited specifics provided, but job retention is an eligible activity.

Transferable*: Yes

“But for”:** No

North Carolina

Program Name: Job Development Investment Grant

Structure: Grant payments are paid annually over time, for terms of up to 12 years.

Requirements: Calculated weighing factors including location, counter tier designation, number of new jobs, wages compared county average wage, investment, and industry sector.

Retention: No

Transferable*: No

“But for”:** No; grants are provided as opposed to tax credits.

Ohio

Program Name: JobsOhio Economic Development Program

Structure: Reimbursement based grants for business expansion and job creation.

Requirements: Requires the creation of new jobs during a 3-year period; limited specifics provided.

Retention: Yes, may consider providing grant assistance for job retention.

Transferable*: No; grants are provided as opposed to tax credits.

“But for”:** No; grants are provided as opposed to tax credits.

Texas

Program Name: Texas Enterprise Fund

Structure: Award based on average wage, hiring timeline and number of jobs created, subject to adjustment based total proposed capital investment.

Requirements: New jobs exceed 75 in urban areas or 25 in rural areas. Total average wage must meet or exceed average county wage.

Retention: No

Transferable*: No

“But for”:** Yes

Virginia

Program Name: Economic Development Incentive Grant

Structure: Grants after capital investment and job creation or retention achieved. Minimum capital investment, new job, and wage thresholds are based on the area of state in which company is located.

Requirements: If in MSA with 300,000+: must create 400 new jobs with salary at least 150% of local prevailing wage or create 300 new jobs with salary at least 200% of the local prevailing wage; investment of greater of \$5M or \$6,500 per job. Elsewhere must create 200 new jobs with salary of at least 150% of local prevailing wage; investment of at least \$6,500 per job.

Retention: No

Transferable*: No

“But for”:** No; grants are provided as opposed to tax credits.

* “Transferable” refers to the company’s ability to sell or otherwise dispose of unused credits.

** “But for” refers to whether the company must demonstrate an out-of-state option in order to qualify for the program.

4: CONCLUSIONS ON EFFECTIVENESS

The Department believes that the EDGE Program can continue to be an effective and important tool to attract businesses to Illinois or help businesses in the State. Nonetheless, DCEO continues to explore enhancements to the Program and improvements to its own processes and procedures. In addition to completing this second biennial evaluation of the EDGE Program, the Department is conducting a review of the Program to improve its effectiveness and develop additional efficiencies.

Since January 2019, the Department has worked with the Office of the Auditor General (“OAG”) on the biennial compliance examination and EDGE performance audit, concluded an internal audit of the EDGE Program, worked with faculty and students of the University of Chicago Harris School of Public Policy on a review of the performance of the EDGE Program, and reviewed various policies and procedures related to the Program. The office has implemented many of these improvements and will continue to implement additional controls as we staff up over the coming fiscal year. Unfortunately, the Department recently faced turnover in significant program management roles, such as the EDGE Program Manager, and are prioritizing hiring additional staff for the Program. Despite these challenges, the Department continues to prioritize implementing the recommendations contained in the OAG audit as well as those of our internal auditors in improving Program performance. The Department looks forward to continuing to work with the General Assembly in revising the EDGE Act and its governing rules, where necessary, to improve the EDGE Program and fulfill the purposes of the EDGE Act.

DCEO continually evaluates the policies and procedures for the EDGE Program, including exploring alternatives to increase the overall effectiveness of the Program. In conjunction with stakeholders, the Department looks forward to working with the Governor’s Office and the General Assembly in implementing new statutory provisions as well as exploring potential additional statutory enhancements.