

***The costs and benefits of industrial
real estate tax abatements:
The case of Champaign***

by

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Overview

- Question
- Motivation
- Design
- Methods
- Possible pitfalls
- Expected results

Question

***What is the city of Champaign's
return on its investment in the
industrial real estate tax
abatement program?***

***What is the time path of the
returns?***

Motivation

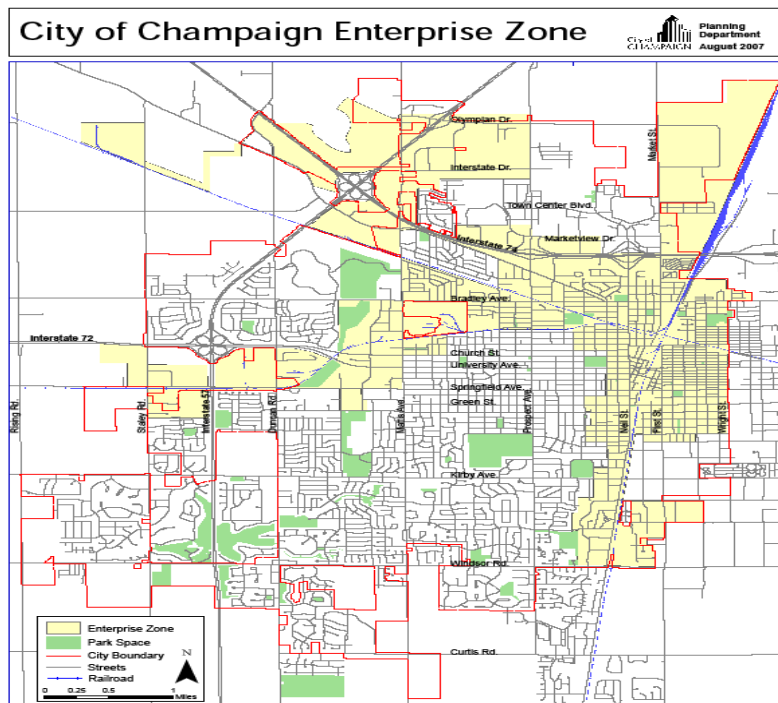
- Tax incentives:
- Instruments provided on a subnational level
- **Abatement**, credit, exemption, special treatment
- Used to reduce the cost of doing business in a particular region – attract investment
- Critics:
- **Social benefits < public costs**
- No impact
- Redistribution of jobs
- Tax war

Motivation

- With existing literature it is difficult to justify tax incentives
- Controversial discussion
- Yet, tax incentives are widely provided on the local and the state level
- In localities which serve as substitutes to each other tax incentives might make the difference between that localities
- Market failure approach

The industrial real estate tax abatement program of Champaign

- Real Estate Tax Abatement is part of the Enterprise Zone (EZ)
- The abatement is spelled out in the EZ application and amounts to 10 years
- Abates the City/County portion of the tax (about \$2/\$100 of equalized valuation)



Research design

Cost/Benefit analysis using the payroll estimates, amount of tax rebate and a local multiplier to indicate how long it takes to recover the incentive

Methods

- 1) General Literature Review on tax incentives
- 2) Review records of the EZ, abatements and pre tax value (from city government), select case companies
- 3) Interview the companies to find out payroll numbers; or estimate from knowledgeable sources; ask if real estate tax abatement played a crucial role in their location decisions
- 4) Counterfactual analysis on location flexibility (that is, how footloose is the company?, was the EZ the only logical location?)
- 5) Multiplier analysis on payroll values
- 6) Estimate opportunity costs (qualitatively)
- 7) Interview local experts

Possible Pitfalls

- Difficulty obtaining expert interviews, especially from the companies in the EZ
- Poor data in the city's records
- Estimating the multiplier effects (taking a class on this later in the semester)
- How to consider opportunity costs of the city's investment in the abatement
- Too many assumptions needed

Expected Results

- Show the return on investment Champaign has from providing a Real Estate Tax Abatement
- Show the time it does (would) take until the "investment" pays back for the city, for selected companies
- Give a evidence/counter-evidence for the effectiveness of tax benefits, make policy recommendations

Literature and other sources reviewed to date

- Anderson, John E.; Wassemer, Robert W.: Bidding for Business (2000)
- Bartik, T.J.: Who Benefits from state and local Economic Development Policies (1991)
- Bartik, T.J.: The market failure approach to Regional Economic Development Policy; in Economic Development Quarterly, Vol.4, No.4, November 1990 361-370
- Courant, P.N.: How would you know good Economic Development Policy if you tripped over one, in Synopsium on state and Local Development Policy
- Dabson, D.; Rist, C.; Schweke, W.: Bidding for Business (1994)
- Sridhar, Kala S.: Incentives for Regional Development (2005)
- **City and County of Champaign: Commercial**
- **Enterprise Zone Application Packet**
- **Interview with Craig Rost, Deputy City Manager for Development in Champaign**