Subsidizing Low-Wage Jobs:

An Analysis of the First Economic Development Deals Disclosed Under Illinois' New Accountability Law

by
Good Jobs First

Jeff McCourt

with
Anna Purinton, Philip Mattera and Greg LeRoy

February 2006

Good Jobs First, 1616 P Street NW, #210, Washington, DC 20036
202-232-1616, www.goodjobsfirst.org

Subsidizing Low-Wage Jobs:
An Analysis of the First Economic Development Deals Disclosed Under Illinois' New Accountability Law

Executive Summary

An analysis of the first economic development deals disclosed under Illinois' new accountability law reveals that the State frequently subsidizes jobs that pay so little a family of four would not be self-sufficient; these jobs could leave families dependent upon social safety-net programs.

Over 62 percent of the jobs pledged for creation or retention were projected to pay less than $38,000 annually, the self-sufficiency standard for an Illinois family of four in urban areas (excluding the higher cost Chicago area), based on research released in 2001 by the Women and Poverty Project of Wider Opportunities for Women/Women Employed.[1] In fact, just under 60 percent (59.3 percent) of these jobs had projected wages below the $34,000 annual wage needed for self-sufficiency in rural Illinois.

More than a third of the jobs (35 percent) were to pay even less – below $27,040, or only twice Illinois' annual minimum wage.

A significant number of the jobs (3.6 percent) were approved even though Illinois companies pledged to pay below $20,000 yearly. The federal poverty line for a family of four in 2004 was $19,307.[2]

The analysis covers 25,278 jobs at 90 companies that received one or more economic development subsidies from Illinois during 2004. As required by the Corporate Accountability in Tax Expenditures Act of 2003, each company reported on its progress in meeting its project goals in December 2004 to the Illinois Department of Commerce and Economic Opportunity. DCEO collated and disclosed the data on a website in July of 2005.

The disclosures include jobs created and retained as well as wages, but do not reveal whether the companies provided healthcare or other benefits. As well, because the data cover many deals that are not yet complete (i.e., companies are still building and hiring), this initial data does not enable a meaningful analysis of outcomes: whether companies are achieving job goals or falling short.

Disclosure is a bedrock reform for any public program. Good Jobs First hopes that Illinois taxpayers will exercise their new rights under this system to become more informed about and involved in their state's economic future.

Disclosure Background: Illinois' Corporate Accountability in Tax Expenditures Act

In August 2003, when Governor Rod Blagojevich signed the Corporate Accountability in Tax Expenditures Act (House Bill 235, now Public Act 93-552),[3] Illinois became the tenth state with some form of annual company-specific disclosure of the costs and benefits of economic development deals. Other states with notable disclosure systems enacted prior to Illinois include Minnesota, North Carolina, Ohio, and Maine. Three more states have enacted disclosure since Illinois: Washington state in 2004 and North Dakota and Nebraska in 2005.[4]

In June 2005, pursuant to the law, DCEO launched the Web-based business subsidy reporting system which included these reports.[5] With this new system – one of the most user-friendly in the nation and only the fourth state disclosure system on the Web – Illinois took a big step towards more accountable use of business location incentives and tax breaks.

Administered by DCEO, the new database discloses business subsidy data from several agencies in an accessible and centralized format. Each company receiving state subsidies in and after 2004 must report basic data on promised job creation and job retention, including job classifications with average wage levels. This information must be updated annually in a progress report while these subsidies are in effect or until they are revoked.

The implementation of the new disclosure system provides a major new tool for Illinois taxpayers, public policy organizations and public officials. However, as supporters of the 2003 Act expected from disclosures made in other states, the limited data already generated indicates some subsidized companies are paying low wages.

Wage Findings: Low Wages, Wage Shortfalls, Big-Box Retailing

Good Jobs First analyzed 93 annual progress reports, representing 90 company projects, which were filed by individual companies in December 2004. We found that Illinois state agencies provided subsidies for projects pledged to retain or create 25,278 jobs, at an average wage of $39,758.[6] This average and others in the attached spreadsheet are based on rounding of underlying wage and payroll data included in the individual company reports.

The wage and job quality picture derived from this data is mixed. On the positive side, this average wage for jobs to be created or retained is above the Illinois self-sufficiency standard for a family of four in urban areas outside of Chicago, based on data from the 2001 Women Employed report *The Self-Sufficiency Standard for Illinois*.[7]

However, over 62 percent (15,703) of the jobs paid under the $38,000 per annum self-sufficiency standard. This alternative to the federal poverty rate is based upon an extremely Spartan family budget that includes no savings, no home equity, no entertainment, no large consumer items like cars, and no emergency expenses; it is only slightly above the eligibility threshold for the Earned Income Tax Credit (EITC), which is $35,548 with two or more qualifying children.[8]

In fact, just under 60 percent (59.3 percent) of the jobs benefitting from state subsidies had projected wages below the $34,000 annual wage needed for self-sufficiency in rural Illinois.

Well over a third of the jobs (35 percent, or 8,961) were to pay below $27,040, only twice Illinois' annual minimum wage. In 2004, the Illinois Department of Public Assistance set the income level for Family Care health care (Medicaid) coverage for a family of four at $25,068.[9]

A significant number (903, or 3.6 percent) of the jobs promised by Illinois companies contracting for state subsidies were to pay below $20,000 yearly. The federal poverty line for a family of four in 2004 was $19,307.

Although manufacturing is usually and rightly seen as a source of better-paying jobs, these low wages occurred in both manufacturing and service sector projects.

In addition to these aggregate low-wage findings, we found several companies that applied for subsidies and then hired workers at lower wage rates than were pledged on the subsidy applications. We also found some cases of subsidies going to low-wage sectors of the economy, such as big-box retailing.

Wage Shortfalls: In their annual reports, several companies reported significant and even sharp reductions from wage levels originally promised in their applications for subsidies. These included Exel Inc. in Romeoville (between 30 and 50 percent lower); Holten Meat in Sauget (in several occupations, as much as 7 percent lower); and Imperial Trailer Manufacturing and Sales in Olney (30 percent lower).

ZF Boge Elastmetall reported an18.5 percent wage cut for production employees. R.R. Donnelly reduced wages for several job categories (material handler, hoist operator, and several categories of press technician, between 25 to 30 percent or more). Genco cut projected wages for the lift work operators still to be hired by nearly $1,900.

Big-Box Retailing: Both Wal-Mart and Target will receive state subsidies, apparently for warehouse projects. Although the two Wal-Mart facilities pledged better wages than

the company's stores generally pay – up to $30,000 annually – the average promised wage for Target warehouse workers was only $21,000 yearly.

Although retailing warehouses tend to pay better wages than retail stores and provide a greater share of jobs that are full-time, retailing is a poor choice for economic development dollars because it produces such poor secondary ripple effects compared to other economic activities such as manufacturing.

Additionally, subsidies to retail facilities are dubious as "incentives." That is, it is rare that they cause a company to make an investment it would not have made otherwise. That's because what drives retail site location decisions is proximity to markets, i.e., the existence of disposable personal income. If people have buying power, the stores (and supporting warehouses) will come. In addition, highly sophisticated logistics operations are essential components in big box retailing cost-containment strategies.

Hidden Taxpayer Costs: When workers at subsidized companies are paid low wages, taxpayers can end up subsidizing the company twice: once with the economic development subsidy, and again with social safety net programs such as food stamps, Medicaid, State Children's Health Insurance Program (SCHIP), Section 8 housing assistance, free or reduced-price school lunches, and/or energy assistance.

For example, U.S. Congressional staff estimates that each Wal-Mart store with 200 employees costs U.S. taxpayers $420,750 a year in safety-net costs.[10] In response to concerns about this issue, 19 states have now disclosed company-specific data on the numbers of employees or dependents who are on Medicaid and/or SCHIP.[11]

Given that data on healthcare and other benefits is not required under PA 93-552, the full taxpayer cost of low-wage jobs subsidized by Illinois state business incentives is almost certainly understated.

Job Creation Findings: Some Shortfalls

Many companies in the first round of reports were still planning to hire workers in 2005 or later to meet contract commitments. In several cases, however, hiring was complete with employment falling below promised levels. For example, its annual subsidy report indicates Champion Laboratories has completed hiring for its Albion project, with 89 fewer jobs than promised in its subsidy contract. No explanation is offered in its December 2004 disclosure report.

The DMS Holdings report indicates 41 fewer full-time jobs than promised, although this may reflect confusion between retention and creation. Shore Inc. pledged to

create or retain 725 jobs, but had only 643 at the site when its report was filed, with no indication of further hires being planned. R.R. Donnelly's Dwight site was also 86 jobs below projections, with no indication that future hires were planned. Although Pactiv Corporation planned to create 12 more jobs (in addition to the 25 already in place), this would be still be 7 jobs short of their original pledge of 44.

Whether the state will act in 2006 to claw back, or recapture, at least part of the subsidies in such cases will be an important test of the full implementation of the Corporate Accountability Act. In addition, while EDGE tax credits are directly linked to jobs actually created, not just promised, there is no indication from the individual company subsidy reports of the minimum number of jobs that must be created or retained if all credits are not to be forfeited.

Technical Flaws in the Disclosure System

Although most of the individual company reports complied with the new law, we found some cases of missing or contradictory data in individual company annual reports.

For example, for Aisin Manufacturing in Marion, there were significant differences between projected wage levels in the company's reports for two different subsidies, one from the Illinois Department of Transportation and the other from DCEO. The International Steel Group submitted conflicting wage data in two separate subsidy reports for the same site; we used the data reported for the bigger subsidy.

Another example is Marketing Alternatives, where some wage data is missing and where job retention is apparently confused with job creation. Although it could usually be inferred from other parts of the report, wage or employment data was also missing from the reports submitted by Genco, J.R. Rentals, Patterson Technology Center, Hormel, and Johnstown America Corporation Freight Car Services Division. The STEP subsidy for Main Street Hospitality was not reported.

Public Policy Options

Based upon this analysis of the first wave of Illinois business subsidy disclosures, we offer the following public policy options:

Extend Disclosure to Include Healthcare: Given that 46 million Americans lack healthcare coverage, whether or not subsidized employers provide health insurance is especially salient to evaluating the quality of their jobs. This is especially true in the case of the

lower wage jobs revealed here for two reasons: 1) it is a critical measure of job quality; and 2) it affects the likelihood that workers and their families will need to rely upon publicly funded healthcare.

Reconcile Discrepancies Between Applications and Reports: When discrepancies on such basic matters as jobs and wages appear between a company's application and its annual disclosure report, DCEO should query the company to either reconcile the difference or make an additional disclosure that a shortfall has been determined, and then report if it is subject to clawback.

Correct Incomplete or Inaccurate Reports: DCEO should require companies to provide missing data or correct confusing data before it posts the reports. The law gives DCEO six months between the December filing deadline and the June posting deadline to make such corrections.

Appendix A: Key to Accompanying Spreadsheet

A Note on Program Disclosure Data: Programs currently included in the website database are the Large Business Development Program, the Business Development Public Infrastructure Program (BDPIP), the Employer Training Investment Program (ETIP), Enterprise Zone credits (state only), the High Impact Business (HIB) tax credit program, the Illinois Department of Transportation's Economic Development Program (IDOT-EDP), the Corporate Headquarters Relocation Program, and the State Treasurer's Economic Program (STEP).

The STEP program provides an incentive for banks to provide cheaper loans to eligible businesses, rather than providing outright grants or credits like other state programs. The exact savings from these cheaper, below-market rate loans for individual companies are not reported in the annual reports. However, since PA 93-552 covers the program, which is directly linked to job creation, we include it.

With one exception, the new system does not yet include company-specific data on the state corporate income tax credits now commonly awarded under the Economic Development for a Growing Economy (EDGE) program. Consequently, complete data on the value realized from many 2004 subsidy deals is not available.

Despite the absence of EDGE data, it is now possible to use this comprehensive and accessible database to begin to assess the impact and effectiveness of state business subsidies. As noted earlier, the spreadsheet accompanying this report is based on the annual project progress reports filed in December 2004 by each company receiving subsidies.

Project Name/Locality. In a few cases we combined data from subsidy reports when they clearly were related to the same project. In a few reports from companies with several subsidy contracts related to the same project, we ignored small differences in reported job creation or retention figures.

Jobs to Be Created Promised in Original Agreement/Jobs to Be Retained Promised in Original Agreement/Total Jobs Promised to Be Created and Retained. Except for one case, we exclude part-time jobs from our calculations, since there are no data on hours worked or wages for these jobs. In addition, only a few companies include part-time jobs in their report at all. Larger discrepancies are noted in the "Comments" section of our spreadsheet. We exclude temporary jobs since such jobs are not generally the goal of economic development.

For jobs promised, we include only those jobs, whether described as retained or

created, that are counted towards fulfillment of the subsidized company's contract with the state. A company may have 4,000 workers at a particular site, but if their subsidy contract refers only to creating 50 jobs and retaining 100, we use only those 150 jobs as the basis for assessment of the deal.

Standard Industrial Classification Number (SIC#)/North American Industry Classification System (NAICS). This data, included in the annual company subsidy reports, identifies the industrial sector the subsidized project belongs to.

Actual Jobs Created/Retained as of 12/04 Report Filings. Since subsidized projects start at different times and have different end-dates (some several years away) for employment calculation purposes, this figure does not necessarily indicate progress or its lack. However, if the project's hiring/retention activities are complete, the jobs figure can be compared with those in the "Jobs Promised" column.

Many deals involved hiring or retention activities that were supposed to be completed in 2005, but the actual results of those efforts will not available until June 2006.

Jobs Above/Below Projection as of 12/04. We indicate how many jobs over/under they are from the job creation/retention goals stated in their subsidy application(s).

Projected Date for Last Hires Associated with Project indicates the date in the subsidy report when the last hire to fulfill the subsidy contract is made, as well as hires in excess of those originally promised.

Receiving EDGE/EDGE Subsidy Amount. Except for one company, no EDGE data was included in the 2004 company reports.

Non-EDGE Subsidies/Subsidy Amount Excluding EDGE/ Subsidy Amount per Job, Based on Job Creation/retention Promises, Excluding EDGE/Actual Subsidy Amount per Job Created to Date, Excluding EDGE. Although many projects will receive EDGE credits, which must be included to determine overall state assistance to an individual company, these columns summarize the data available to date.

Subsidy Amount per Job Based on Job Creation/Retention Promises Excluding EDGE is the result of dividing the amount of the subsidy by the number of jobs projected to be created or retained. If the project hires or retains more employees than specified in the project contract, these additional employees are excluded in calculating the subsidy per employee. We make this exclusion *so the price per job the state agency was willing to pay in the original contract can be noted*.[12]

Actual Subsidy Amount to Date per Job Created to Date, Excluding EDGE simply indicates the subsidy per job as of 12/04.

Similar considerations about job quality and evaluation of state policy guide the following the measures: **Projected Payroll Pledged for Retention/Creation, Average Wage per Job Pledged, Projected Number of Subsidized Jobs below $27,040, and Projected Number of Contracted Jobs below $38,000.**

An annual wage of $27,040 is 200 percent of Illinois' annual minimum wage. (We used 2080 hours to annualize hourly data). In their 2003 paper "Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois," researchers at the University of Illinois' Center on Urban Economic Development defined $38,000 as the minimum self-sufficiency standard for a family of four in Illinois metro areas, excluding the higher cost Chicago region, and $34,000 for rural areas. Their figures were based on 2001 self-sufficiency income data from the Women Employed Institute. These standards help us assess job quality (as represented by wage levels) at state-subsidized private sector projects. As indicated earlier, over 60 percent of the jobs covered in state subsidy agreements had projected wages that would not permit family self-sufficiency in most parts of Illinois, whether rural or urban.

Anticipated Total Payroll of Completed Project (Both Subsidized and Unsubsidized Jobs), as Estimated in 12/04 Report Filings combines the payroll reported 12/04 with additional projected total payroll when the last hire to fulfill the subsidy contract is made, including hires in excess of those originally promised.

Projected Average Wage at Site (of Both Subsidized and Unsubsidized Jobs) When Hiring Complete is based on combined payroll divided by the total number of employees projected in open projects, or by total jobs in projects where hiring is complete, including jobs created or pledged in excess of the total promised in the contract. This allows a better sense of the overall economic impact of the project. (As noted earlier, the average wage per subsidized project is based on the wage ranges given per occupation in the annual subsidy report, and reflects "rounding off" of that data).

The **Comments** column takes note of facts related to specific deals, including wage cuts (compared to original wages promised in contract), additional hires, and contradictory, incomplete or ambiguous data, etc.

Notes

[1] Wider Opportunities for Women and Women Employed Institute, *The Self-Sufficiency Standard for Illinois*, December 2001, http://www.sixstrategies.org/files/ILFullReport.pdf
Cited in Center for Urban Economic Development, University of Illinois at Chicago *Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois*, 2003, p. 9,
http://www.uic.edu/cuppa/uicued/npublications/recent/MinimumWageStudy.pdf

[2] U.S. Department of Labor, Bureau of Labor Statistics, Poverty Thresholds 2004, at http://www.census.gov/hhes/www/poverty/threshld/thresh04.html

[3] The text of the law is available at
http://www.ilga.gov/legislation/publicacts/fulltext.asp?name=093-0552&GA=093

The Act was first introduced by Representatives Jack Franks and Don Moffit and Senator James F. Claiborne. They were eventually joined by fifty other Illinois legislators who introduced HB 235 in February 2003. The bill had the strong support of the Illinois AFL-CIO, as well as SEIU, AFSCME, the Machinists, Illinois Citizen Action, and the Center for Tax and Budget Accountability. The law addressed many of the problems identified in Good Jobs First's January 2003 report, *A Better Deal for Illinois: Improving Economic Development.*

This sweeping bi-partisan reform was driven by grassroots anger over decades of failed deals. The initial sponsors of HB 235 represented districts where companies like Motorola and Maytag had shut down production after getting big state and local development subsidies. The bill as passed mandated the following:

An annual unified development budget, listing all state aid including tax breaks, the Treasurer's low-interest STEP loans, and the Illinois Department of Transportation's Economic Development Program.

Standardized information (including number, type, and average wage levels of jobs to be created) to be included in all subsidy assistance applications, and an electronic tracking system for all state economic development aid.

Annual progress reports to the Department of Commerce and Economic Opportunity (DCEO) from companies receiving subsidies, to be posted electronically.

Clawbacks, or recapture, provisions to be extended to the Business Development Public Infrastructure program, Industrial Training Program, and Large Business Development program. EDGE corporate income tax credits will be recaptured in full if a recipient

company shuts down a subsidized project in the first five years.

Annual DCEO reporting of the number of companies getting subsidies, and the number of defaults and recaptures of state subsidies.

Reasons for waivers of recapture by DCEO must be published electronically.

Companies getting subsidies must reach job and investment goals within time limits set by authorizing legislation or administrative rules, or be subject to full or partial recapture.

Companies that default or fail to meet investment/job goals must repay subsidies received in the year of the default.

[4] Other states with disclosure prior to Illinois are Louisiana, Texas, West Virginia and Connecticut. Other state systems on the Web are Ohio, Minnesota and North Carolina.

[5] Department of Commerce and Economic Opportunity, Illinois Corporate Accountability Progress Reports, http://www.corpacctportal.illinois.gov/ProgressReport.aspx

[6] Based upon the North American Industrial Classification System, the jobs in subsidized projects were in the following sectors: manufacturing (15,750 or 63 percent); retail and food services (3,678 or 15 percent); other services (1,905 or 7.6 percent); transportation/warehousing (2,273 or 9 percent); wholesale sector (470 or 2 percent); finance, insurance, and real estate (590 or 2.4 percent); and information technology (174 or .7 percent).

[7] *The Self-Sufficiency Standard for Illinois,* op.cit.

[8] Illinois Department of Human Services, "The Earned Income Tax Credit (EITC) - The Tax Break for Hard-Working People," http://www.dhs.state.il.us/projectsInitiatives/EITC/eitc2004.asp

[9] Office of the Illinois Governor, "Governor announces KidCare tops enrollment target," November 10, 2004, http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=6&RecNum=3519

[10] "Everyday Low Wages: The Hidden Price We All Pay for Wal-Mart," A report by the Democratic staff of the Committee on Education and the Workforce, U.S. House of Representatives. Representative George Miller (D-CA), senior Democrat. February 16, 2004. At http://edworkforce.house.gov/democrats/WALMARTREPORT.pdf

[11] The 19 states' data are summarized at http://www.goodjobsfirst.org/corporate_subsidy/hidden_taxpayer_costs.cfm

[12] The individual company annual reports as posted could not be put directly in a spreadsheet format, and totals for jobs/payroll were only provided in the section in each company report on hires projected to be made after December 2004. For this reason, and due to time constraints, we relied on rounding off the wage data for individual occupations. As a result, and as noted above, project wage averages included in the accompanying Good Jobs First spreadsheet may diverge slightly but not significantly from figures obtained without rounding.