



# Potential Impact of a Data Center Incentive in Illinois

Prepared For: The Illinois Chamber of Commerce Foundation

Executive Summary

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## Acknowledgements

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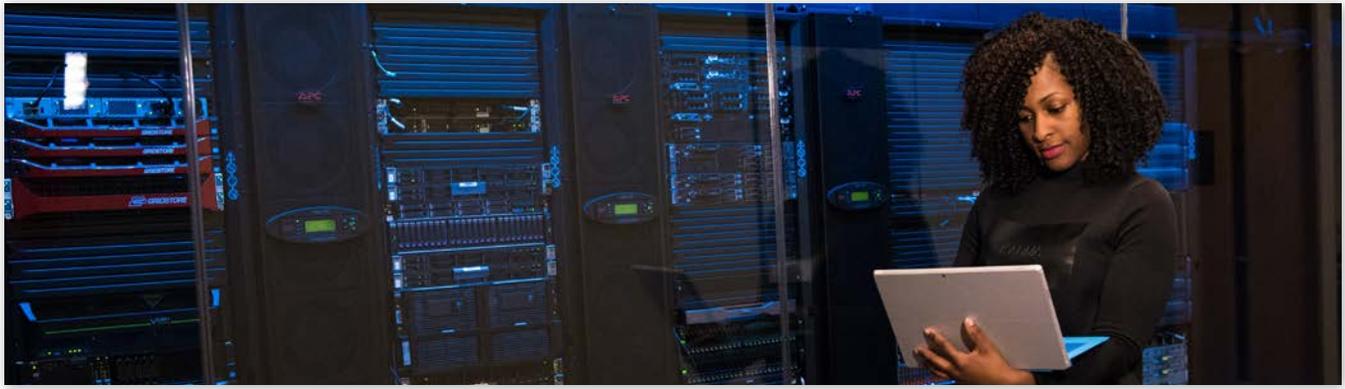
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## Executive Summary

**This report compares the disparity of data center capital investment growth and jobs created between Illinois and neighboring and competitive states and examines the state tax policies used to attract and grow the industry.**

In an increasingly digitally-connected world, data centers are critical infrastructure facilities providing for the storage and transmission of data related to financial services, health care, retail, transportation, telecommunications, academia, entertainment, and almost every industry. Additionally, data centers are essential to the functioning of all networked, computer-centric devices, such as smart phones and tablets, and GPS systems. Data centers are part of the core infrastructure that supports the technology sector and constitute the backbone of the modern economy. Nearly every business operates a data center, either in-house or as a contracted service. Data centers are special real estate assets that require multimillion-dollar, up-front capital investments and on-going operating and maintenance costs, as the computer equipment is refreshed on a two- to three-year cycle. As the world's economy continues its reliance upon digital information, the need for facilities to store and transmit the ever-expanding universe of data will continue to grow.

The area around Chicago accounted for 93 percent of employment in Illinois' data center industry. According to CBRE, the Greater Chicago area is the third largest data center market in the United States, but the rest of the state of Illinois has very few data centers. While the Chicago market is large, it is 40 percent smaller than the size of the Northern Virginia market. And it is growing much more slowly than other major markets. According to CBRE, from June 2017 to June 2018, the Chicago data center market grew at a rate of 7 percent. At the same time, the Atlanta market grew 12 percent, the Northern Virginia market grew 16 percent, and the Phoenix market grew 26 percent.

The data center industry's total 2017 economic impact on Illinois was approximately 31,500 jobs, \$2.4 billion in labor income, and \$7.1 billion in economic output. Illinois data centers generated a total of approximately \$877.5 million in tax revenue in 2017, of which \$321.7 million was state and local tax revenue.<sup>1</sup> Construction expenditures for new data centers in Illinois were \$122.3 million in 2017, including \$54.1 million in labor income for 820 construction workers.

<sup>1</sup> It is important to realize that this \$321.7 million estimate of state and local taxes paid by the data center industry in 2017 is comprised of all state and local taxes paid by the industry. As such, it would include all government revenue from property taxes, sales taxes, corporate income taxes, electricity excise taxes, license fees, and all other applicable taxes at both the state and the local levels. Data to disaggregate this overall state and local tax estimate is not available.



Illinois showed significantly weaker growth in data center markets than any of the surrounding states that have data center incentives. The data center markets in the state of Illinois beyond the Chicago area have not been doing as well as the markets in surrounding states that have data center incentives.

The data center industry in Illinois under-performs the nationwide trends for the data center industry in terms of growth in employment and wages.

In addition to providing capital improvements that add to Illinois' tax base, this capital investment also fuels an on-going demand for data center construction which often uses union labor. This has particular relevance for Illinois, where employment growth in the state's construction sector has lagged behind the national norm in recent years.

Today, 30 states (from Washington to Florida, New York to Arizona) have incentives that are specifically targeted at attracting data centers as part of expanded economic development efforts. However, 24 of these states have enacted legislation since 2012 in an effort to capture a greater percentage of the growth. Illinois is surrounded by states that offer data center incentives.

If a large data center were to be located in Illinois like the one that Apple is building in Waukegan, Iowa, the potential total economic impact on the Illinois' statewide economy would be approximately 3,360 jobs, \$203.9 million in labor income, and \$521.7 million in economic output. That much economic activity would generate approximately \$66.7 million in tax revenue, of which \$20.2 million would be state and local tax revenue.

Hammond, Indiana was selected as the site for a new data center because of its proximity to Chicago and the "tax-friendliness" of Indiana. It could be a harbinger of more data center development on the significant amount of underutilized property in Hammond, East Chicago, and Gary, Indiana. Significant data center development in the Indiana suburbs of Chicago would likely slow growth in Illinois, especially in the Chicago suburbs.