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Business Incentives and Economic Development Expenditures: An Overview of Michigan's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state administered incentives programs from every state, and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Michigan's full array of incentive programs, including an examination of the available outcome data analyses that are used by state policy makers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of Michigan's economic development landscape, we reviewed and culled data from a range of state statutes, reports and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives in the state of Michigan.

At the beginning of 2011, Michigan began emphasizing the need for structural improvements to its economic business climate, and focusing on keeping and growing businesses located in the state. The result to date has been a simplification and reduction in corporate income tax, the elimination of the personal property tax, and the net elimination of over 1,500 regulatory requirements. Additionally, the new approach significantly reduced reliance on tax credits as an economic development tool, and increased investment in a cash-based "closing fund" and business services including export and procurement support for small and medium sized businesses.

In 2012, the most recent year for which spending data are available for all program types, Michigan spent \$200 million on economic development program expenditures, and \$1.2 billion on economic development tax expenditures. However, during this fiscal year the state awarded no Michigan Economic Growth Authority (MEGA) tax credits, after awarding a high of \$4.0 billion in 2009.

Overview of Michigan's Business Incentives

Compared to other states, Michigan has a moderate number of incentive programs, with a total of 36 active programs in 2014. The C2ER State Business Incentives Database defines state business incentives

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states, including Michigan. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.



Figure 1: Michigan State Business Incentives by Agency, 2014

| State Agency | Number of Programs |
|---|--------------------|
| Michigan Economic Development Corporation | 24 |
| Michigan Energy Office | 2 |
| Department of Agriculture and Rural Development | 2 |
| Grosvenor Capital Management | 2 |
| Glencoe Capital | 1 |
| Michigan Accelerator Fund 1 | 1 |
| Michigan Community College Association | 1 |
| Michigan Department of Treasury | 1 |
| Michigan Film Office | 1 |
| State Tax Commission | 1 |

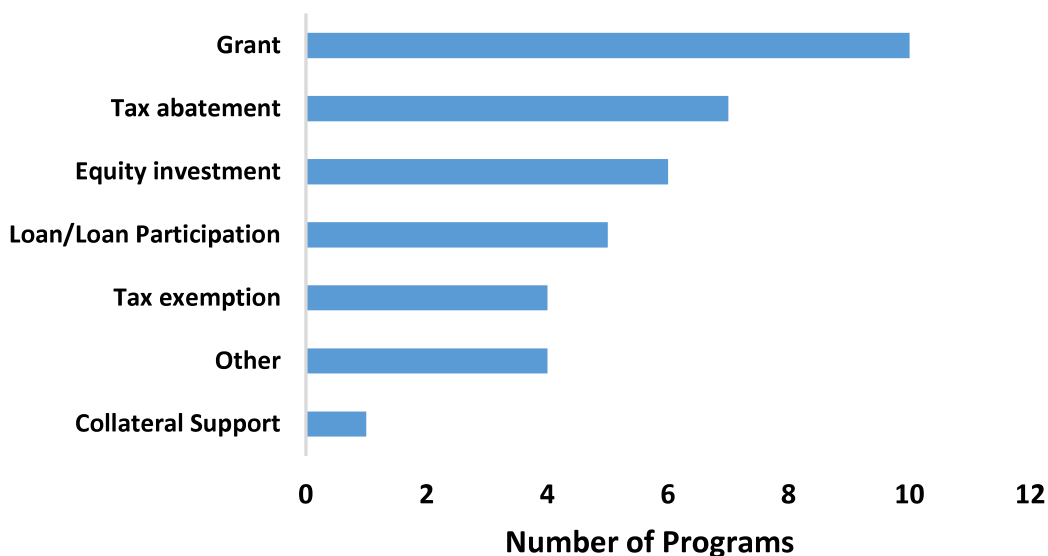
Source: C2ER State Business Incentives Database

as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more business needs, such as capital access formation, workforce preparation, technology transfer, site facility improvements, and so forth.

Michigan’s incentive programs are administered by 10 different state agencies. The Michigan Economic Development Corporation (MEDC) is the state’s lead economic development agency and administers two-thirds of the state’s incentive programs. The other agencies involved in economic development incentives oversee only one or two programs. (See Figure 1.)

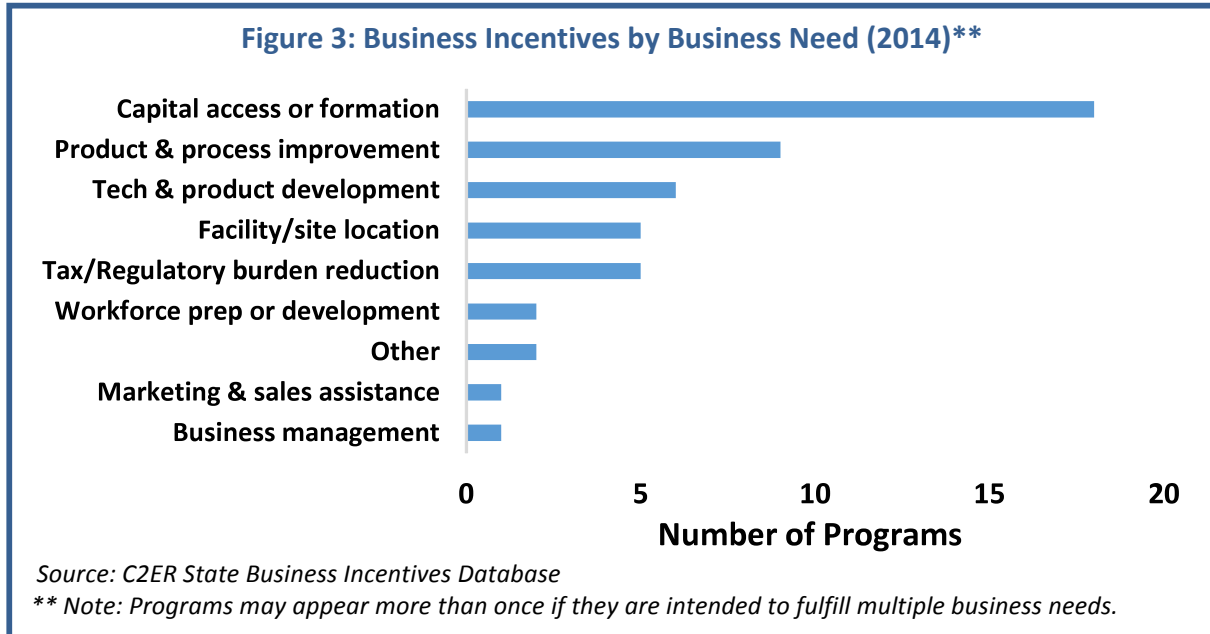
Michigan and the MEDC have de-emphasized tax-based incentives as a leading tool of their economic

Figure 2: Business Incentives by Type (2014)**



Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they provide multiple incentive types.



development strategy. The state has instead invested in a cash-based “closing fund” and developed or expanded a variety of financing and business service activities commonly grouped together as “economic gardening.” Activities include business financing (debt capital and equity capital), export and procurement support, and community development financing programs (community revitalization programs, brownfield programs, and CDBG administration).

The MEDC has oversight and/or reporting responsibility for a broad range of other programs that affect economic development, broadly defined. These include the Michigan Film Office, the Michigan Energy Office and the Michigan Council for Arts & Cultural Affairs. MEDC often collaborates with economic development offices in other state agencies, such as the Department of Agriculture and Rural Development (MDARD), the Michigan State Housing Development Authority (MSHDA) and Department of Transportation (MDOT). MEDC is expanding its role in workforce issues (via Community Ventures, for example) while continuing to work with other workforce organizations in the state (such as the Workforce Development Agency).¹

Grant programs constitute a large share of Michigan’s incentive programs. (See Figure 2.) Helping facilitate capital access and business formation is the focus of the overwhelming majority of Michigan’s incentive programs. Product and process improvement and facility and site location are other notable businesses needs that are emphasized in Michigan’s incentives portfolio. (See Figure 3.)

Economic Development Program Expenditures

Examining Michigan’s state budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15

¹ The MSF, the primary source of funding for the MEDC, has recently been reorganized into the new Michigan Department of Talent and Economic Development.



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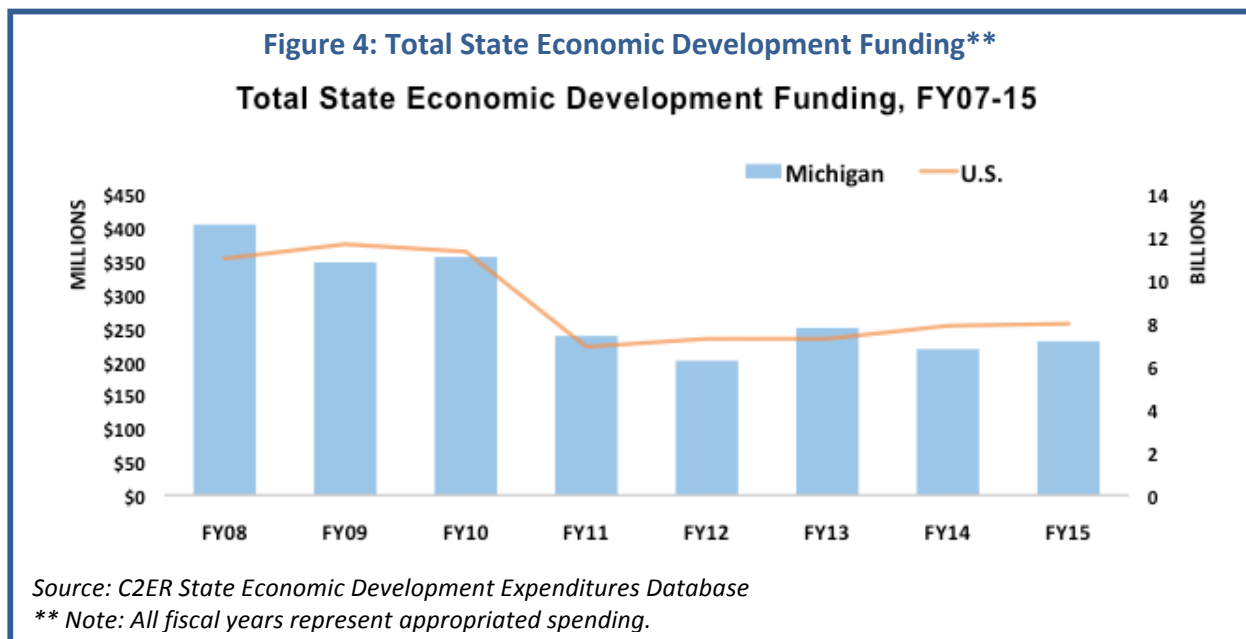
functional areas for economic development, as defined by the C2ER State Economic Development Expenditures Database.²

According to Michigan’s appropriated [FY 2012 state budget](#), the state appropriated \$200 million for economic development in FY 2012. This level of spending represents an average of \$834 per business establishment, which is slightly higher than the national median level of \$791 in spending per business establishment. All of Michigan’s proposed economic development expenditures went to the Michigan Strategic Fund (MSF)/MEDC, the Governor’s Office, and the Department of Agriculture and Rural Development. The MSF/MEDC received the bulk of funding, with almost 72 percent of proposed spending.

State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

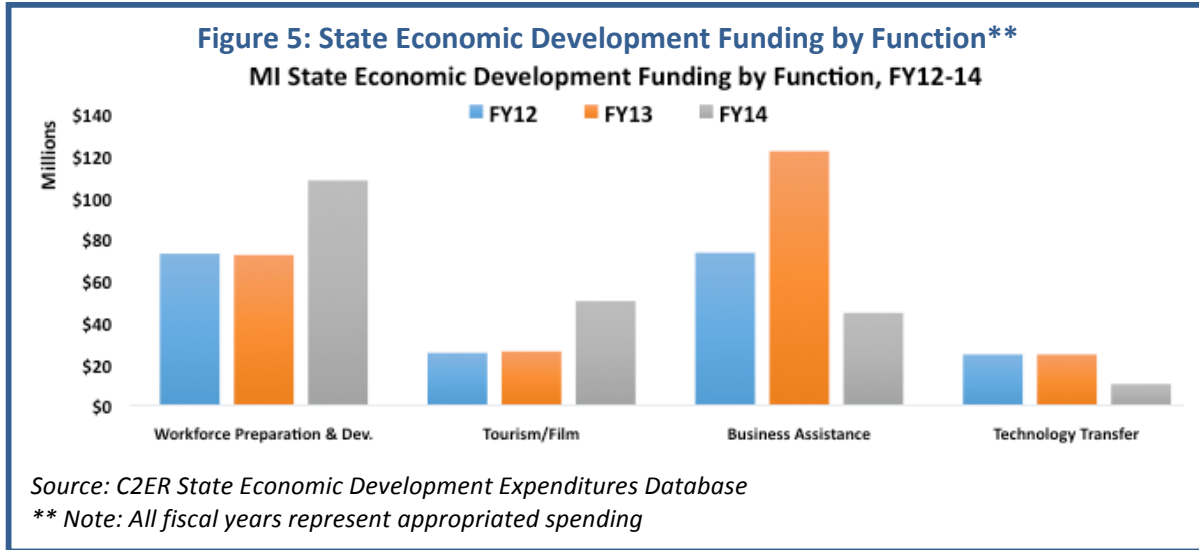
Michigan has increased economic development spending by around nine percent since the low of \$200 million set in FY 2012. Despite spending increases since that fiscal year, FY 2015 economic development spending is 43 percent lower than the high of \$403 million set in FY 2008. This is consistent with national trends. (See Figure 4.) Between FY 2010 and FY 2011, there was an overall 40 percent drop nationally in state economic development expenditures, as states decreased spending across the board following the Great Recession. While economic development expenditures have increased markedly nationally since



² See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf



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FY 2012, they have not yet reached pre-Recession spending levels.

Compared to other states in FY 2012, Michigan devoted a higher proportion of its economic development budget than average in the functional areas of business assistance, technology transfer, and workforce preparation and development. The state dedicated a lower proportion of its economic development budget than the average for other states on business finance, community assistance, special industry assistance, and tourism and film. (See Figure 5.)

Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”³ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [FY2012 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions](#), published by the Michigan Department of Treasury (Treasury), was used for the analysis in this section. Data were collected by reviewing and recording all line items in the Report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. It is important to note, however, that since the release of the data used in this analysis, Michigan has been making a major shift away from the use of tax incentives for economic development.

In FY 2012, the state of Michigan spent a total of approximately \$1.2 billion in tax expenditures.⁴ Michigan administered tax expenditures related to economic development through several different state agencies, including MEDC, Treasury, Michigan Economic Growth Authority (MEGA), Michigan Film Office, the Department of Energy, Labor and Economic Growth Workforce Development Agency, and Department of Agriculture and Rural Development.

³ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

⁴ Tax expenditures total may include credits taken FY12 for which commitments were made in years prior to FY12.



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For FY 2012, over 90 percent of Michigan tax incentives were for corporate taxes, and the remainder were for individual and other tax types. The primary economic development functions for these tax incentives were domestic recruitment, special industry assistance, community assistance, tourism and film, technology transfer, and business assistance.

Michigan used tax incentives to assist many different industries in FY 2012, with about 40 percent of line items going toward specific industries. The primary industry categories that received tax assistance were transportation equipment manufacturing (72 percent); motion picture and sound recording (6 percent); and professional, scientific, and technical services (4 percent). Other prominent industries included agriculture, motor vehicle and parts dealers, and chemical manufacturing.

Analysis of Available Outcome Data

Michigan has made significant strides in scorecard development and use in the last three years. All outcomes from incentive efforts (and other efforts driving investment and job creation) by the MEDC are captured monthly in a scorecard that identifies targeted and actual outcomes to date. These scorecards are distributed broadly, including to the public on the State of Michigan and MEDC websites.⁵ Incentive awards and outcomes are broadcast “live” via the MEDC’s data warehouse to provide up-to-the-minute understanding of incentive-driven outcomes to staff.

The organization also adheres to Return on Investment (ROI) targets that reflect strategic priorities, the economic and competitive landscape, and other factors. The MEDC’s primary tool for calculating ROI with incentive data is a Michigan-specific econometric model from Regional Economic Models, Inc. (“the REMI model”) coupled with a rigorously developed tax rate factor that estimates state tax revenue flows from the personal income generated by a proposed private investment or job creation opportunity. ROIs generated by the REMI model are assessed both prospectively and retrospectively. Prospectively, as part of the award decision process for business incentives, an ROI is calculated factoring in the incentive amount (cost) with the proposed private investment and job creation (benefit), and reviewed for compatibility with organizational targets. Retrospectively, after milestone dates have been reached, ROIs are calculated with actual private investment and job creation outcomes and evaluated against targeted, prospective outcomes.

In certain strategic circumstances, the MEDC engages third parties to develop ROI assessments. For example, Michigan’s nation-leading Pure Michigan travel and tourism campaign is assessed annually by an industry leader in brand strategy and ROI research (and in 2011, the Pure Michigan campaign won a prestigious David Ogilvy Award for Excellence in Advertising Research); and national accounting firms have been engaged to measure the impact of Michigan’s film incentive program. Likewise, the MEDC strategically engages academic economists, and public policy and labor market experts from the state’s top universities to provide independent reviews of major attraction opportunities and pilot programs.

Most efforts at determining incentive ROI typically identify direct incentives as the totality of the state’s cost burden. The MEDC has begun incorporating a more rigorous and conservative approach that integrates activity-based costing (“ABC”) to allocate associated general and administrative expenses (“G&A”) to incentive packages. These costs—including program administration wages, legal, marketing, and communication expenses – often vary significantly by program and contribute non-trivially to the

⁵ See <http://www.openmichigan.gov> and <http://michiganbusiness.org/about-medc/transparency>, respectively.



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overall ROI of an effort. In addition to incorporating G&A into a comprehensive ROI, the MEDC also plans to review G&A regularly as an important measure of operational efficiency.

The MEDC distinguishes between “good ROI” and “program effectiveness.” Because incentive programs are typically designed to distribute milestone payments based on outcomes, there is no downside risk to ROI subsequent to a contractual award (i.e., if fewer jobs are created than targeted, then proportionally less award is distributed and the ROI is not diluted). However, at the same time that marginal ROI may remain “good” in the face of underperformance, the effectiveness of the program in driving outcomes may be negatively impacted. The MEDC performs regular assessments of program effectiveness together with retrospective ROI evaluations.

Conclusion

Michigan’s economic development structure has changed drastically over recent years with its large shift away from tax incentives and a move toward “economic gardening.” Compared to other states, Michigan has an average number of incentive programs, concentrated in one major agency (MEDC). In addition, the actual amount of overall economic development spending per business establishment in the state is about average relative to other states. Michigan’s outcomes analysis is spearheaded by its Scorecard, which has been continually improving. They use an analysis of ROI to evaluate programs based on their current priorities.



Appendix A: Full List of Michigan State Business Incentives (2014)

| Program Name | Program Provider | Business need | Type |
|---|--|---|---------------------------------|
| Biomass Gasification and Methane Digester Property Tax Exemption | Department of Agriculture and Rural Development | Product & process improvement | Tax exemption |
| Invest Michigan -- Michigan Opportunities Fund | Glencoe Capital | Capital access or formation | Equity investment |
| Venture Michigan Fund (VMF) | Grosvenor Capital Management | Capital access or formation | Equity investment |
| Invest Michigan! Growth Capital Program | Grosvenor Capital Management | Capital access or formation | Equity investment |
| Accelerator Fund | Michigan Accelerator Fund 1 | Capital access or formation | Equity investment |
| New Jobs Training Program | Michigan Community College Association | Workforce prep or development | Grant |
| Strategic Growth Initiative (SGI) | Michigan Department of Agriculture and Rural Development | Capital access or formation; Tech & product development | Grant |
| Michigan Sales and Use Tax Exemptions | Michigan Department of Treasury | Product & process improvement | Tax exemption |
| Personal Property Tax Abatement | Michigan Economic Development Corporation | Tax/Regulatory burden reduction | Tax abatement; Tax exemption |



| | | | |
|--|---|---|--|
| Michigan Collateral Support Program (MCSP) | Michigan Economic Development Corporation | Capital access or formation | Collateral Support |
| Michigan Business Development Program | Michigan Economic Development Corporation | Capital access or formation | Grant; Loan/Loan Participation |
| Next Michigan Development Act | Michigan Economic Development Corporation | Capital access or formation | Grant; Tax exemption |
| Capital Access Program | Michigan Economic Development Corporation | Capital access or formation | Loan/Loan Participation |
| Michigan Loan Participation Program (MLPP) | Michigan Economic Development Corporation | Capital access or formation | Loan/Loan Participation |
| Tool & Die Recovery Renaissance Zones | Michigan Economic Development Corporation | Capital access or formation; Product & process improvement | Tax exemption; Tax credit; Tax deduction |
| 21st Century Investment Fund | Michigan Economic Development Corporation | Capital access or formation; Product & process improvement; Tech & product development; Workforce prep or development | Equity investment; Grant |
| Renewable Energy Renaissance Zones (RERZ) | Michigan Economic Development Corporation | Capital access or formation; Tax/Regulatory burden reduction | Tax exemption |
| Michigan Community Revitalization Program (MCRP) | Michigan Economic Development Corporation | Facility/site location | Grant; Loan/Loan Participation |
| Commercial Rehabilitation Act | Michigan Economic Development Corporation | Facility/site location | Tax abatement; Tax exemption |
| Industrial Property Tax Abatement | Michigan Economic Development Corporation | Facility/site location; Tax/Regulatory burden reduction | Tax abatement; Tax exemption |
| Tax Increment Financing Authority (TIFA) | Michigan Economic Development Corporation | Other | Other; Grant |
| Alternative Fuel Fueling Station Grants (Ethanol and Biodiesel Matching Grant) | Michigan Economic Development Corporation | Product & process improvement | Grant |
| Forest Products Processing Renaissance Zones (FPPRZ) | Michigan Economic Development Corporation | Tax/Regulatory burden reduction | Tax abatement |



| | | | |
|--|--|---|------------------------------|
| Pure Michigan Micro Lending Initiative | Michigan Economic Development Corporation (MEDC) | Capital access or formation | Loan/Loan Participation |
| Private Activity Bonds (PAB) | Michigan Economic Development Corporation (MEDC) | Capital access or formation | Other |
| Pre-Seed Capital Fund/SmartZones | Michigan Economic Development Corporation (MEDC) | Capital access or formation; Tech & product development | Equity investment |
| Michigan Emerging Technology Fund (ETF) | Michigan Economic Development Corporation (MEDC) | Capital access or formation; Tech & product development | Grant |
| Urban Land Assembly (ULA) Program | Michigan Economic Development Corporation (MEDC) | Facility/site location | Loan/Loan Participation |
| Agricultural Processing Renaissance Zones | Michigan Economic Development Corporation (MEDC) | Product & process improvement; Tax/Regulatory burden reduction | Tax abatement |
| Border Crossing Renaissance Zones | Michigan Economic Development Corporation (MEDC) | Tax/Regulatory burden reduction | Tax abatement |
| Centers of Energy Excellence (COEE) | Michigan Economic Development Corporation (MEDC) | Tech & product development | Grant |
| Business Connect | Michigan Economic Development Corporations | Marketing & sales assistance; Product & process improvement; Tech & product development | Other |
| Energy Revolving Loan Program | Michigan Energy Office | Capital access or formation | Loan/Loan Participation |
| Michigan Biomass Energy Program Grants (MBEP) | Michigan Energy Office | Product & process improvement | Grant |
| Film and Digital Media Incentive | Michigan Film Office | Product & process improvement | Other |
| Obsolete Property Rehabilitation Act (OPRA) | State Tax Commission | Other; Facility/site location | Tax abatement; Tax exemption |



Appendix B: MI Economic Development Program Expenditures (2012)

| Function | Activity | Total State Funding |
|---|---|---------------------|
| Administration | Info systems, accounting, human resources, etc. | \$2,719,386 |
| Business Assistance | Business retention/expansion | \$48,800,990 |
| Business Assistance | Other Business Assistance | \$24,400,495 |
| Special Industry Assistance | Agriculture/agribusiness | \$2,266,929 |
| Technology Transfer | Other Technology Transfer | \$24,400,495 |
| Tourism/Film | Film Promotion | \$25,149,005 |
| Workforce Preparation & Dev. | Customized training | \$15,804,005 |
| Workforce Preparation & Dev. | Other Workforce Preparation & Dev. | \$56,935,500 |



Appendix C: MI Economic Development Tax Expenditures (2012)

| Description | Total Funds |
|--|---------------|
| Agricultural Producers | \$47,800,000 |
| Anchor Company Credit | \$0 |
| Biodiesel Infrastructure Credit | \$250,000 |
| Brownfield Redevelopment Credit | \$76,800,000 |
| Entrepreneurial Credit | \$260,000 |
| Film Credits | \$75,000,000 |
| Floor Plan Interest Deduction | \$3,400,000 |
| Historic Preservation Credit | \$14,662,000 |
| Hybrid Technology R & D Credit | \$1,500,000 |
| International Auto Show Credit | \$250,000 |
| Investment Tax Credit | \$223,700,000 |
| MEGA Federal Government Credit | \$0 |
| MEGA Photovoltaic Technology Credit | \$7,500,000 |
| MEGA Polycrystalline Silicon Manufacturing Credit | \$0 |
| MEGA Vehicle Battery Credit | \$40,000,000 |
| Michigan Early Stage Venture Capital Voucher | \$0 |
| Michigan Economic Growth Authority (MEGA) | \$109,400,000 |
| Motion Picture Gross Receipts Exclusion | \$2,100,000 |
| Motor Vehicle Sales Finance Company Gross Receipts Exclusion | \$0 |
| NASCAR Speedway Credit | \$1,800,000 |
| New Motor Vehicle Dealer Inventory Credit | \$25,000,000 |
| Private Equity Fund Credit | \$0 |
| Renaissance Zone Credit | \$108,600,000 |
| Research and Development Credit | \$24,200,000 |
| Small Brewer's Credit | \$90,000 |
| Small Business Alternative Tax Credit | \$431,500,000 |
| Stadium Credit | \$1,700,000 |