



Michigan Economic Development Corporation

An Overview for:

Joint Select Committee on Economic Growth

August 23, 2006



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Fiscal Analysts



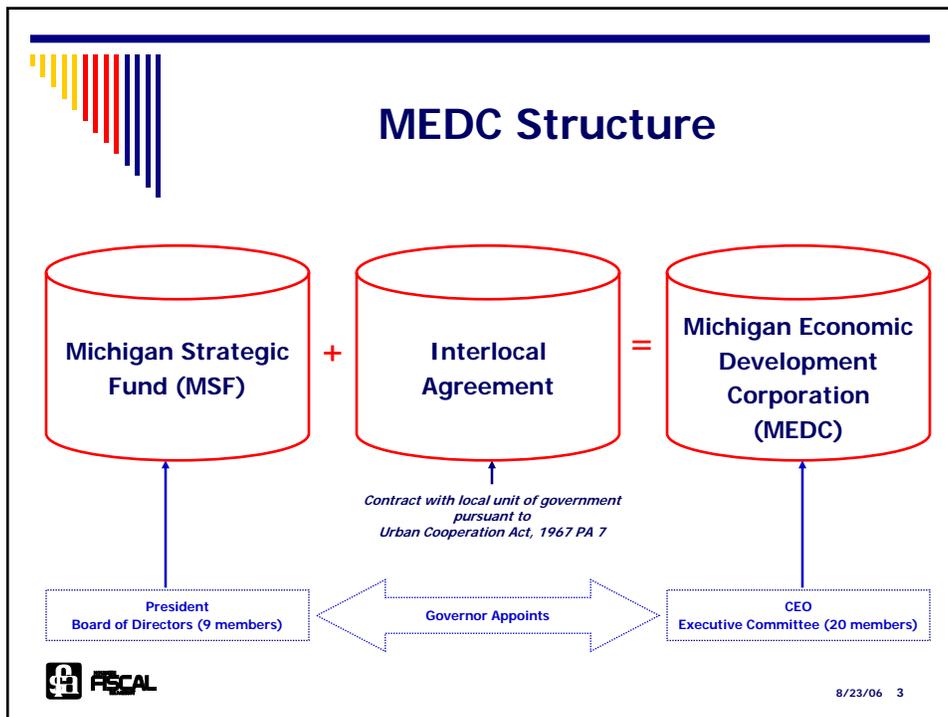
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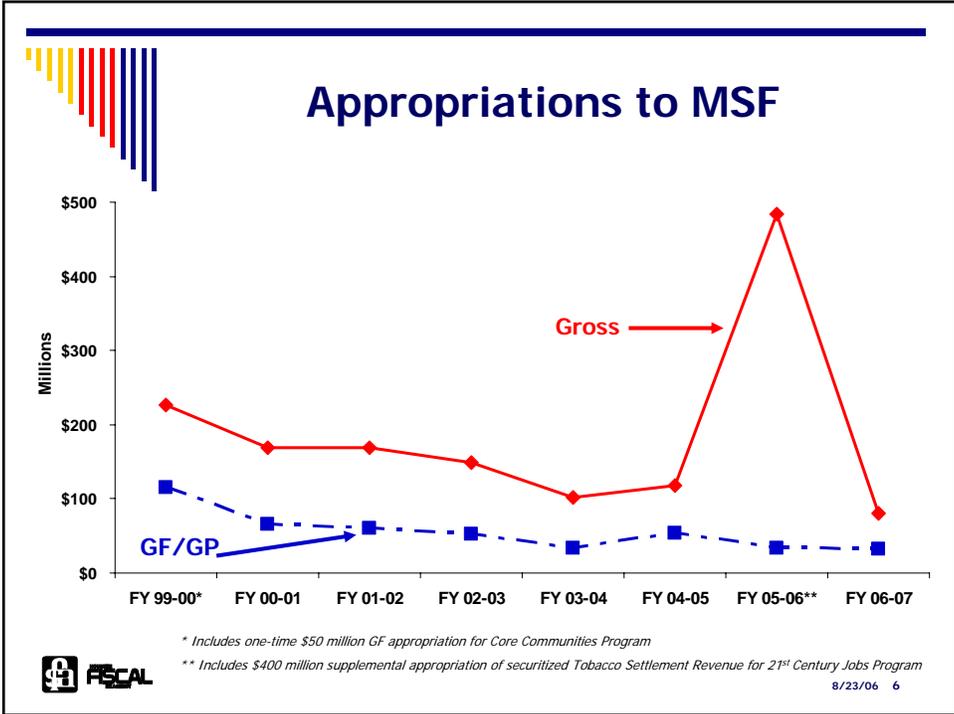
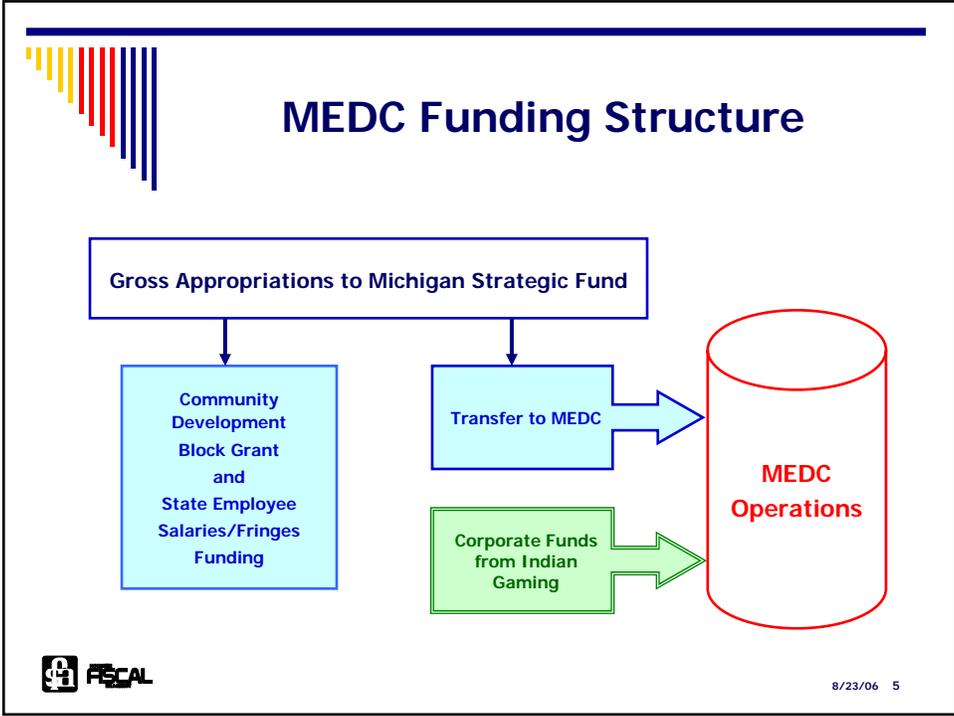
MEDC STRUCTURE/FUNCTIONS

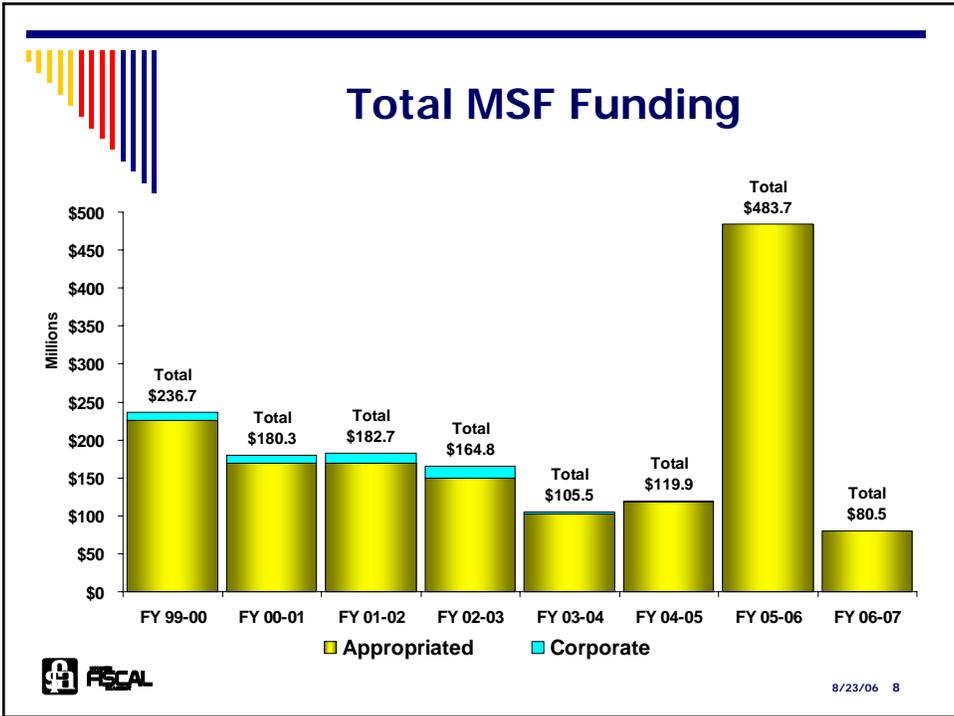
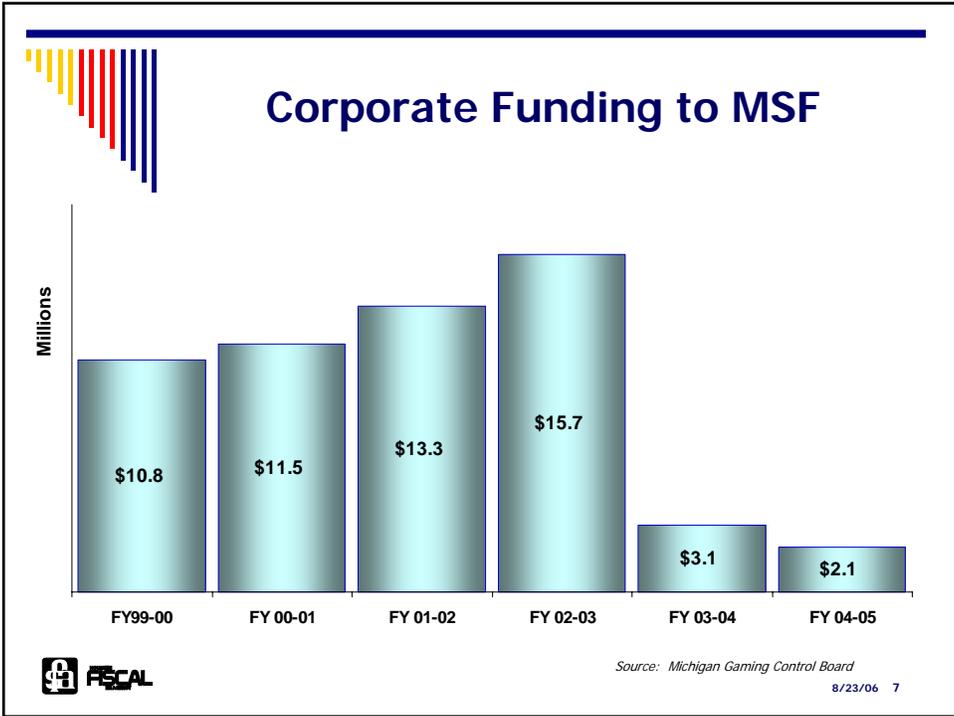


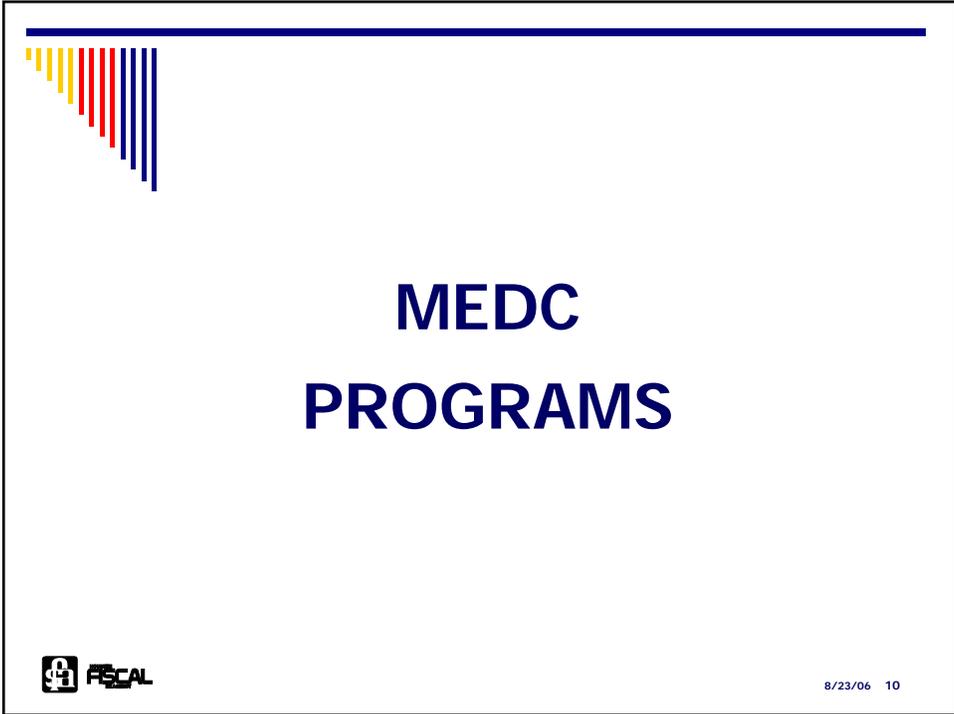
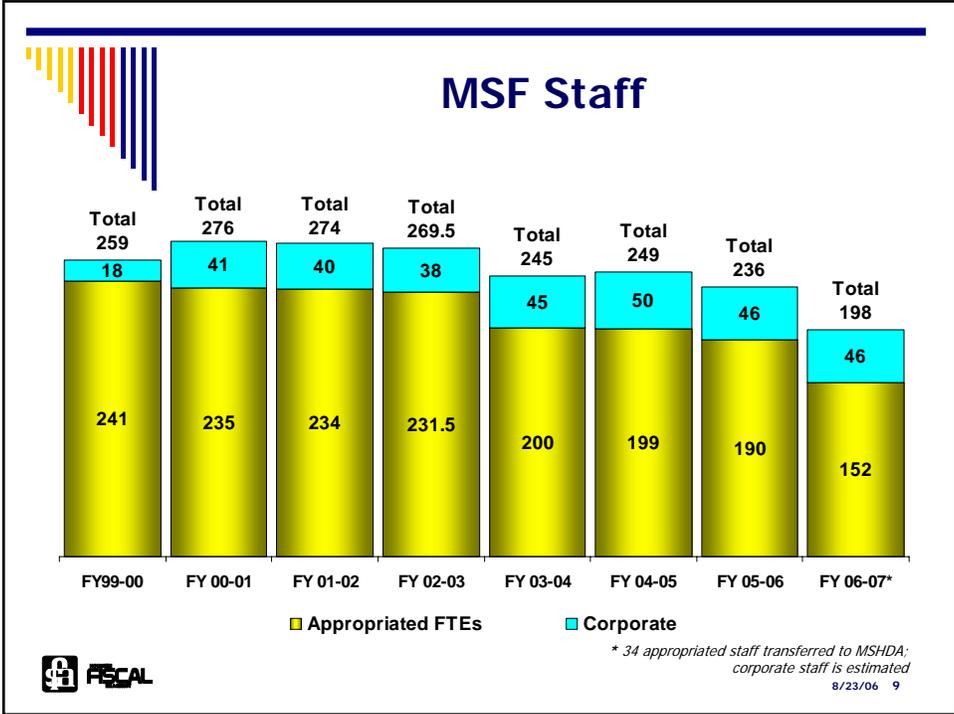
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- ## MEDC Functions
- Administer economic development and tourism matters
 - Services targeted to:
 - Businesses (in-state/out-state/international)
 - Tourism industry
 - Local governments
- In the bottom left corner is the FISCAL logo, and in the bottom right corner is the date '8/23/06' and the number '4'.









MEDC Programs

- Consultation and information
- 21st Century Jobs Trust Fund
- Travel and tourism
- Financial incentives
- Tax incentives



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Consultation and Information

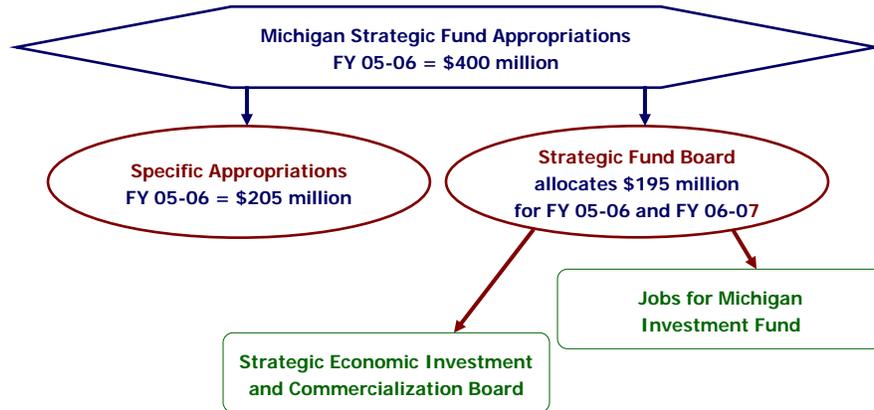
- MEDC provides services, including referrals, for:
 - Employee stock ownership plans
 - Federal small business administration (SBA) loans
 - Business site selection
 - Business permits
 - Local property tax abatements
 - Job training
 - State and local business regulations
 - Travel and tourism
 - Community economic development programs
 - Charter One job creation loans through Charter One Bank



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21st Century Jobs Trust Fund



Travel and Tourism

- Travel Michigan
 - Administers Welcome Centers
 - Administers funds for tourism promotion
 - \$5.7 million GF/GP for tourism promotion in FY 06-07
- 21st Century Jobs Fund
 - Administers funds for business promotion
 - \$15 million from this fund for tourism promotion for FY 05-06 and FY 06-07 combined



FINANCIAL AND TAX CREDIT INCENTIVES



Financial Incentives

- Capital Access Program
 - Loan guarantee program
 - \$3.5 million earmark from 21st Century Jobs Trust Fund

- Industrial Development Revenue Bond
 - Federally-authorized tax exempt bonds
 - Bond issues approved by MSF board





Financial Incentives

- Economic Development Job Training Grants
 - Training grants to education provider partnered with business
 - Grants approved by MEDC
 - \$9.8 million budget for FY 06-07



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Tax Incentives

- Renaissance zones
 - Virtually tax free zones
 - Statutory authorization allows:
 - 10 urban zones
 - 8 rural zones
 - 30 agricultural processing zones
 - 3 former military bases
 - 25 tool and die recovery zones
 - 10 MSF-designated zones
 - 10 Renewable energy zones
 - 10 Forest products processing zones



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Tax Incentives

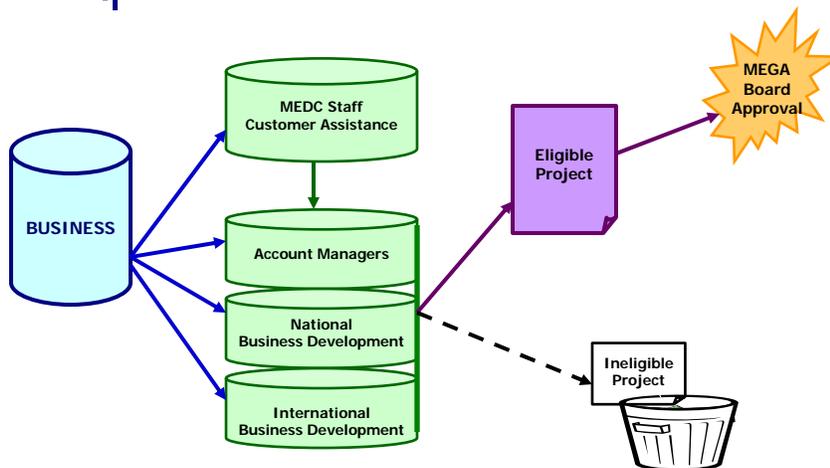
- Brownfield redevelopment credits
 - SBT credits for redeveloping contaminated, blighted, or functionally obsolete property
- Michigan Economic Growth Authority (MEGA)
 - Refundable credits against the Single Business Tax (SBT)



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Tax Incentive Project Process



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Renaissance Zones

- Exemption, deduction, or credit for up to 15 years allowed for person or business within zone boundary
- Exemption/deduction/credit allowed:
 - Under the following tax acts
 - Single Business Tax Act
 - Income Tax Act
 - City Income Tax Act
 - City Utility Users Tax Act
 - For most property taxes



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Renaissance Zones

- 152 locations and over 400 projects designated*
- \$2.4 billion in private investment*
- \$21.4 million FY 06-07 estimated reduction in SBT and income tax revenue for zones**



* Michigan Economic Development Corporation

** Michigan Department of Treasury

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Brownfield Redevelopment Credits

- Brownfield redevelopment act (2000 PA 145) absolves buyers/lenders of blighted/abandoned property from liability for environmental cleanup
- Offers non-refundable SBT credits
- Credit awarded for up to 10% of eligible investment
- 3 categories of projects:
 - Mini- Brownfield projects
 - Small SBT Brownfield projects
 - Large SBT Brownfield projects



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Brownfield Projects

- Mini- Brownfield projects
 - Approved by MEGA chair
 - Up to \$10 million in credits per year
 - \$200,000 maximum credit per project
- Small SBT Brownfield Projects
 - Approved by MEGA chair
 - Up to \$30 million in credits per year
 - \$200,000 to \$1 million credit per project



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Brownfield Projects

- Large SBT Brownfield projects
 - Approved by MEGA board
 - Up to 17 projects per year
 - 15 projects per year:
\$1 million to \$10 million in credits
 - 2 projects per year:
\$10 million to \$30 million in credits
 - Credit approved for up to 10% of eligible investment
 - 10% of approved credit each year for 10 years



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SBT Brownfield Credits Approved



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Michigan Economic Growth Authority (MEGA)

- Created by 1995 PA 24
- Provides refundable SBT credits in exchange for commitment to create/retain Michigan jobs
- Approved for up to 20 years
- Criteria include a minimum number of new jobs for expansion/relocation
- Eligible companies engaged in:
 - Manufacturing
 - Research and development
 - Wholesale trade
 - Office operations



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MEGA Job Creation Criteria

- Minimum number of jobs required:
 - Standard: 50 expansion/100 relocation
 - Rural: 5 in first year and 25 by fifth year
 - High Tech: 5 in first year and 25 by fifth year
 - Retention: 150 retained at a site and 1,000 statewide



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Negotiating MEGA Projects

- MEGA credits are used as a tool for business attraction and/or retention
 - MEDC
 - Reviews company total operating cost in Michigan and compares to other locations
 - Identifies gap in cost
 - Uses refundable credit against SBT to reduce cost gap
 - Negotiates amount of SBT credit
 - MEGA board approves credit



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Negotiating MEGA Projects

- To date:
 - 287 projects have been approved, totaling \$3.1 billion in potential MEGA credits
 - Average credit is good for 13 years



Source: MEDC 8/23/06 30



Estimated Impact of MEGA Credits

- A business estimates direct jobs it will create from new business activity and new capital investment
 - Initial estimated impact over the life of all approved MEGA projects:
 - 103,000 direct new jobs
 - \$14.2 billion in new capital investment



Source: MEDC 8/23/06 31



Estimated Impact of MEGA Credits

- U of M economists and MEDC staff use projected job impacts and an input-output model to estimate overall economic/revenue impact
 - Estimated impact over the life of all approved MEGA projects:
 - 227,100 indirect new jobs
 - \$18.5 billion in new state government revenue



Source: MEDC 8/23/06 32



Estimated Impact of MEGA Credits

- Estimates assume the following:
 - New business activity would not occur without MEGA credits
 - New business activity will locate in another state if not in Michigan
 - Regardless of location, business will compete with existing Michigan businesses
- Economic impact estimates are for the life of the credits (impact in a particular year is difficult to estimate)



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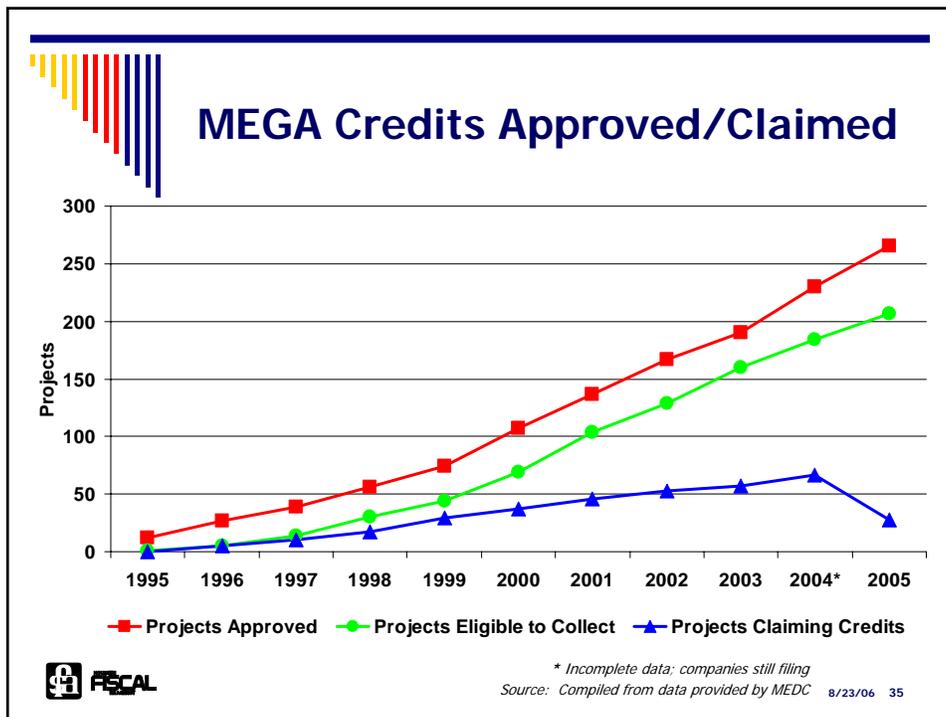


Estimated Impact of MEGA Credits

- Estimated economic impact from new MEGA credits accounts for less than 0.2% of economic activity in Michigan in each of the past three years
- In actuality, the total estimated economic/revenue impact will not be realized because only a portion of the credits will be claimed



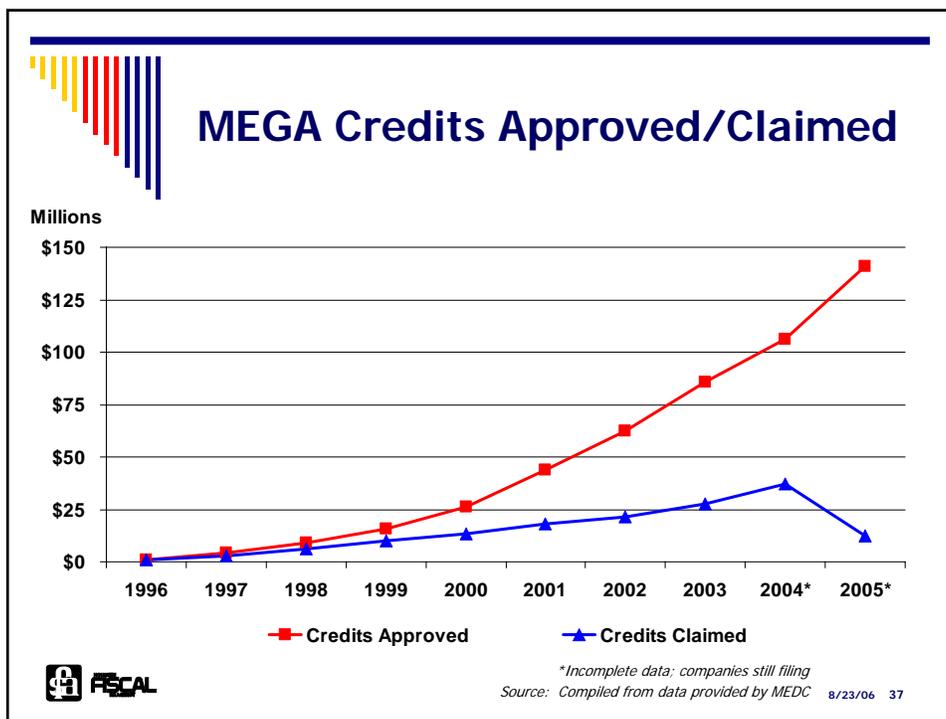
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Actual MEGA Credits Claimed

- From 1995 to 2005:
 - Businesses were eligible to claim almost \$500 million of their maximum approved credits
 - Approximately \$150 million in credits were actually claimed
 - Only about 30% of potential credits were actually claimed because:
 - Businesses were too optimistic about the number of jobs they would create
 - A poor economy reduced jobs below expectations
 - Some credits were never claimed
 - Some businesses left state or went out of business

Source: MEDC 8/23/06 36



Future MEGA Credits

- **Currently:**
 - Approximately \$2.5 billion in approved potential credits are scheduled to be claimed from 2007 to 2028
 - If 40% of the potential credits are claimed, outstanding credits will total about \$1 billion

Source: MEDC 8/23/06 38



Future MEGA Credits

- To date, the value of MEGA credits actually claimed has increased each year through 2004
- MEDC estimates \$75 million will be claimed in FY 06-07
- As credits for initial projects begin to expire, it is estimated that the value of MEGA credits will level off in 2009 at about \$85 million each year



Source: MEDC 8/23/06 39