

THE MICHIGAN ECONOMIC DEVELOPMENT TOOLKIT: FINDING POLICIES  
THAT MATTER

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## THE MICHIGAN ECONOMIC DEVELOPMENT TOOLKIT: FINDING POLICIES THAT MATTER

Cities throughout North America are increasingly faced with the challenge of retaining and attracting employment, and thus residents, to ensure their continued vitality; those in Michigan are no exception. The State of Michigan has been enabling local economic development incentives since the 1970s and development policy is on the agendas of almost all municipalities in the state, at least to some extent. Several general observations can be made about the field of economic development policy as a whole. First, absent a uniform and robust understanding of the dynamics of local growth, economic development policies have largely been driven by fads and fashions, as policy-makers emulate strategies employed in other communities. Second, a general absence of analysis and evaluation, either before and after the application of economic development tools, has served to trap local officials into these fads because they lack information about which policies should be pursued and which should be stopped or forgone entirely. Third, because every state and municipality is different and because there is no “one best way” to stimulate growth that applies to every case, the reliance on widely used policies and the lack of evaluation combine to virtually guarantee that economic development tools are less effective in their application to specific local goals and conditions. Fourth, conceptions of what constitutes an economic development tool or incentive tend to be narrow and are most commonly focused on efforts to offset the perceived disadvantages of a location or to make an already attractive place more so, through combinations of subsidies and abatements to lower the costs of living for residents and production costs for businesses. Finally, as a result of all of these factors, economic development policies tend to be highly path dependent; older techniques continue to be used even while new ones are added. The end result is often a scattershot approach to growth with limited benefits at high cost to local communities.

The most common economic development tools increasingly target business interests rather than residents. And because cities generally, and those in the State of Michigan in particular, lack sufficient local resources to offer extensive subsidies, economic development has often focused on various forms of incentives. This report constitutes an assessment of five of Michigan's local economic development programs: Cool Cities Grants and Planning Programs; Industrial Facilities Tax Abatements; Renaissance Zones; Tax Increment Financing Authorities; and MEGA (Michigan Economic Growth Authority) grants. These specific tools are the focus of the research for several important policy and theoretical reasons:

- Their widespread use;
- Their availability to a broad spectrum of Michigan municipalities;
- Statewide data availability;
- The inherently different natures of these tools in terms of public costs and their potential effectiveness in diversifying Michigan's economic base and generating healthy communities for residents of the State.

In addition to the five economic development programs enabled at the state level, local spending for a variety of basic government functions, including economic development, is also considered. These data provide a local context for the programmatic assessment and broaden the definition of what constitutes a local development strategy.

This review of economic development incentives and strategies excludes federal programs such as empowerment zones, enterprise communities, and foreign trade zones. This was done because the focus is on local programs and there is only very limited representation of these programs in the State. For example Michigan had only one empowerment zone (Detroit), two enterprise communities (in Clare and Lake Counties), and six foreign trade zones (Battle Creek, Detroit, Flint, Kent/Ottawa/Muskegon Counties, Sault Ste. Marie, and St. Clair County (CRC, 2007).

The primary questions addressed in this project are: What contributions do each of these programs make to the economic health of municipalities in the State? In a time of increasingly limited state and local government resources, which economic development tools appear to offer the greatest potential contribution to prosperous local communities? Are there other types of local activities that might be more effective in contributing to local economic prosperity?

## ASSESSING THE STANDARD TOOLKIT

### **Fads and Fashions**

Local economic development strategies have evolved through three phases in the last half of the 20<sup>th</sup> Century (Eisinger, 1988; Tassonyi, 2005). These phases have been cumulative rather than evolutionary; once in place, early tools and strategies continue to be used. Businesses come to expect particular incentives once they are offered by a number of cities or states, and the tool becomes locked in place as a standard part of development packages. This is clearly a case of path dependency where political and economic forces converge to institutionalize the use of tools once they arise on the scene (Reese, 2006; Sands and Reese, 2012).

In the first period, lasting until the mid-1980s, the emphasis of economic development was on the attraction or retention of businesses by subsidized infrastructure or by direct incentives such as tax abatements. Such strategies reflected the intense competition among jurisdictions (cities, states) for investment and jobs, resulting in a “race to the bottom” in terms of the generosity of incentive packages (Burstein and Rolnick, 1995). For big ticket items such as an automobile assembly plant, incentive packages and the public cost per job have appeared to be well beyond any reasonable expectation of recovery (*Economist*, 2003; Ledebur and Woodward, 1990).

The second period introduced a new focus on financial, technological and knowledge infrastructure (Tassonyi, 2005). Rather than emphasizing lower factor costs and real estate development, the new era sought to establish a flexible and supportive context to foster capacity building, especially for small and medium sized enterprises. Technology transfer from universities and public venture capital funds, along with business incubators and job training, became the touchstones of state economic development strategies (Clarke and Gaile, 1992).

In recent years, the emphasis has again begun to shift to strategies based on human capital development and quality of life enhancement. A logical extension of the evolution from highly targeted bricks and mortar strategies to more flexible and enabling approaches, the new conventional wisdom assumes that highly mobile capital and talent will flow to locations that offer the richest amenities and highest quality of life. Desirable locations will attract talented individuals who will either become entrepreneurs (Florida, 2002) or attract employers that take advantage of the available talent pool. As a corollary of this approach, arts and culture-driven economic development strategies have also become common (Stern and Seifert, 2010; Grodach, 2011).

Again, it is important to remember that older strategies, such as tax abatements or industrial parks, never go away. New tools and incentives are added to the standard arsenal. The Michigan programs under study span these three phases, ranging from abatements and development districts that have been used for decades, to the more recent Cool Cities grants that were based on creative class theories.

### **Typology of Strategies and Evaluations of Tools**

From a fiscal perspective, most economic development incentives can be arrayed along a continuum based on “who pays.” At one extreme are subsidies and incentives that require the

direct expenditure of public funds to achieve specific economic outcomes. At the other extreme are incentives that are self financing; that is, the cost burden is born entirely by the private firm receiving the benefits. In between are tools that involve a sharing of costs between the public and private sectors. Another continuum along which economic development policies can be arrayed is based on “who benefits:” all community residents, business interests generally, specific firms, or, more likely, some combination of interests.

For example, particularized tax abatements granted to a single firm for retention, relocation or expansion clearly provide the greatest direct benefit to the recipient firm. Direct costs for this type of abatement are borne entirely by the local government if all tax liability is abated. It is more common that abatements are granted for some percentage of the local tax burden. Costs for these latter types of abatements are shared between the local government (in terms of forgone revenue) and the firm. There are, however, substantial indirect costs and benefits to this same abatement. If residents and other businesses must pay more in taxes to compensate for revenue lost to the abatement then they share in the costs. If the tax abatement is successful and additional jobs result, local residents benefit, as do local businesses that may experience increased sales by virtue of the increase in residential buying power.

As noted earlier, economic development policies have been found to be highly path dependent with little change in local arsenals from year to year other than a gradual increase in the number of incentives employed (Reese, 2006; Reese and Sands 2007). Table 1 highlights this tendency using data from the three most recent waves of the International City/County Management Association’s (ICMA) national economic development surveys, one of the few data sources allowing a glimpse of incentive trends over time. The Table shows the most commonly used economic development strategies and tools as reported in the three most recent surveys:

1999, 2004, and 2009. In each year, the incentives listed are utilized by at least 50% of responding communities. Respondents indicated what incentives have been used in the prior five years.

There are significant similarities among the most popular development tools over the decade represented here. Most communities claim strong ties between the public and private sectors, with business leaders consulted in the policy-making process. Collaboration between local government and chambers of commerce is a frequent way of engaging in the economic development policy process. These linkages are often enhanced by the use of business surveys and calls on individual businesses to assess needs among leaders in the private sector. Beyond this, other common activities across time include the delivery of on-line services and streamlined zoning and permitting processes (two activities which are frequently related). Promotional and marketing materials highlighting attributes of the local community are also common.

All of these activities require relatively modest investments of local resources and impose low risks. Consulting local businesses, marketing materials, and on-line services are inexpensive and generally benefit a broad array of stakeholders; citizens and business leaders can use on-line systems. Marketing materials can include attributes of the local housing market, schools, and services as well as promoting the municipality as a place for doing business.

The prevalence of investment in infrastructure to foster economic development represents a greater allocation of local resources but again may benefit citizens as well as businesses. It is impossible to judge from the ICMA survey whether investments relate to the development of a specific business site or generally improve local roads, water and sewer systems, or indeed, may represent investment in schools or parks.

There are some important differences over time, however. Consideration of quality of life in the context of economic development was not included on the 1999 survey. Yet, over 50% of communities indicate that quality of life is an important attribute of economic development in both of the latter surveys. Two activities prevalent in 1999 and 2004 disappear in 2009: job training and working with community development corporations; the latter experienced a particularly precipitous drop.

Table 1: Most Common Incentives Over Time\*

	2004	1999	2009
Used by Over 50%			
	Partner with chamber	Promotional materials	Partner with chamber
	Business calls	Partner with chamber	Quality of life
	Quality of life	Job training	Zoning/permitting assistance
	Job training	Business calls	On-line services
	CDCs	On-line services	Business calls
		CDCs	Business surveys
		Infrastructure	Promotional materials
			Infrastructure
			Trade shows
Used by 40%-50%			
	Promotional material	Business surveys	TIFA
	Business surveys	Zoning/permitting assistance	Partner with local govts.
	Community development loans	Trade shows	Affordable housing
	Business calls		Tax abatements

\* Activities shown in order of prevalence, Source, ICMA

The most common economic development tools primarily involve business interests rather than residents. By 2009, tax increment financing districts and tax abatements had moved up and are among the most commonly used incentives—a change in trend over recent years. On the other hand, the provision of affordable housing as an economic development tool, (added to the 2009 survey for the first time) is commonly used. And, it appears that more communities are



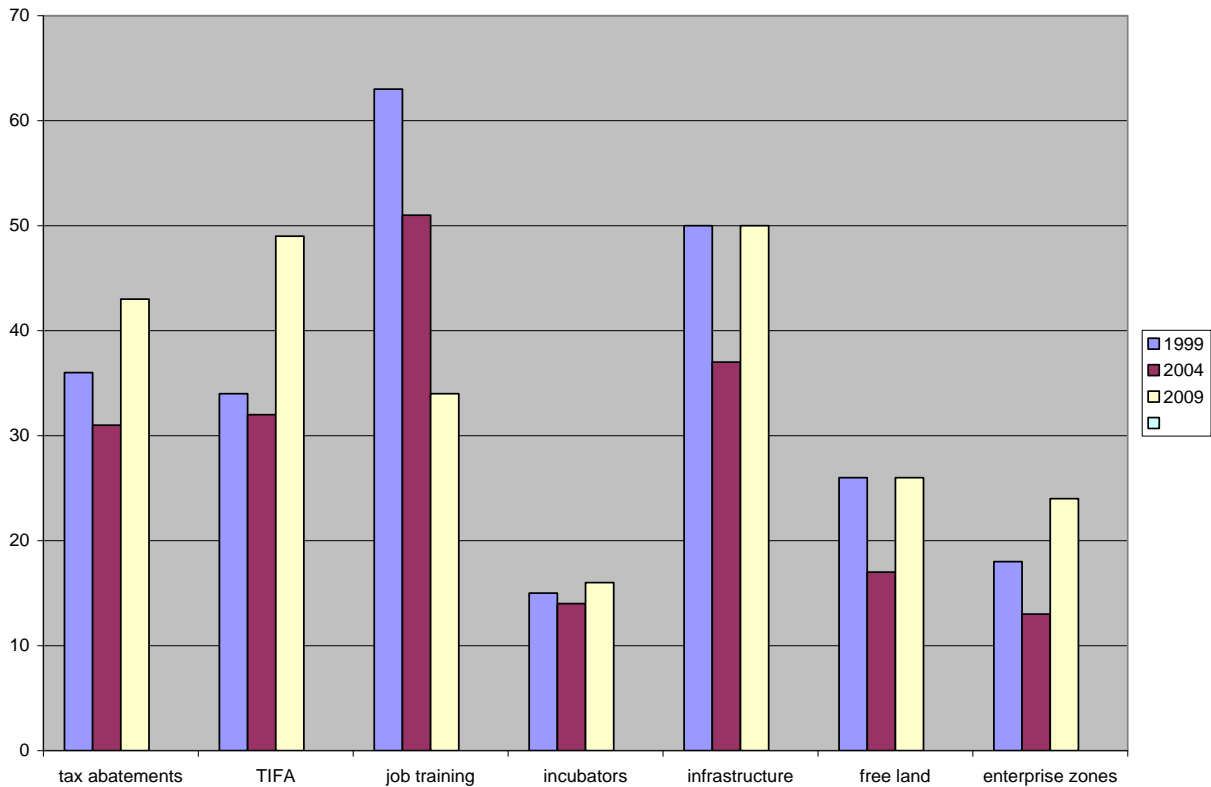
working with each other to pursue economic development and implement development strategies. Partnering with other local governments becomes more common by 2009 with over 40% of respondents engaging in collaborative activity.

Generally, there was a drop off in use of most incentives in the 2004 survey which covered the preceding five years. Over time, however, clear increases in the use of several traditional incentives are visible: tax abatements, tax increment financing, and locally designated enterprise zones (Figure 1). These are all common incentives in Michigan and are assessed specifically in this report. All of these financing incentives tend to benefit specific businesses and represent often significant tax expenditures for local governments. Efforts to provide job training for local residents displaced by economic shifts have lessened significantly. The creation of business incubators, investment in public infrastructure, and the provision of free or low cost land for development are relatively stable. Providing infrastructure is very common and incubators significantly less so. With these general trends as a frame, the next section provides summaries of extant evaluative assessments of these incentives.

### **Public Subsidies.**

Communities may provide direct subsidies to private firms to reduce costs of operation. Eliminating property and other local taxes, workforce training programs, onsite infrastructure and land assembly fall in this category. These can be costly propositions, with funding often dependent on senior levels of government or bonds. Although public land assembly for development purposes receives a great deal of press (often relating to the controversial use of eminent domain), the provision of free land for private development is relatively uncommon. Enterprise Zones are a more common public subsidy and are even more widespread at the state level; 39 states had zones as of 2000 (Elvery, 2009).

Figure 1: Trends in Specific Incentives



Source: ICMA, 2009

Michigan's Enterprise Zone program is a typical example where designated districts provide incentives to induce business relocation. These incentives vary but generally include combinations of property and income tax abatements, lenient permitting and regulations, infrastructure improvements, tax credits for job creation, and in some state versions, abatement of property taxes for residents (Peters and Fisher, 2002). Much has been written about the effectiveness of Enterprise Zones (see Wilder and Rubin, 1996; and Peters and Fisher, 2002 for reviews). Generally, research has suggested that zones tend to move firms around rather than creating new enterprises, displace current residents and businesses due to increases in land values, and do not create economic growth commensurate with their inherent tax expenditures. While early assessments tended to find conflicting effects, more recent studies have been less

positive. It appears that zones do not create significantly more employment than areas not designated (Greenbaum and Engberg, 2000) although firms located in zones may increase employment at a somewhat faster rate (Bondonio and Engberg, 2000). In particular, there does not appear to be any significant job benefits for the residents of the zones themselves (Elvery, 2009), nor any significant returns for either neighborhoods specifically or in general revitalization (Lambert and Coomes, 2001).

Michigan's Renaissance (RZs) and Neighborhood Enterprise Zones (NEZs) represent more radical options in terms of foregone revenues (Sands, 2003). RZs and NEZs are both aimed at generating neighborhood or targeted area redevelopment. The programs are different, however, in that the former includes industrial, commercial, and residential tax reductions, while the latter—in two forms (NEZs focusing on new housing and Homestead NEZs directed at current housing)—focuses exclusively on residential tax relief to stabilize neighborhoods. The only significant state or local taxes that continue to be collected within the Renaissance Zones is the state sales tax, along with any *ad valorem* taxes pledged to the repayment of bonded indebtedness. The exemption from taxes applies to all residents and businesses within the zones that are not delinquent in state and local taxes. Although there is a paucity of empirical evaluations of either program, an early assessment of the then eleven Renaissance Zones in the state, indicated some visible success although some zones were more successful than others (Sands, 2003). While all of the zones reported some development activity, 16 of the 41 subzones had seen little or no private investment in the first three years of their existence, however. And, the zones appeared to have had little effect on state-wide revitalization, have had only mixed results in promoting area redevelopment, and have generated virtually no spillover effects (ibid).

## Shared Costs.

Perhaps the best example of a shared cost incentive program is the granting of partial tax abatement on new private investment (Michigan's MEGA program is another example involving state business and income tax credits along with local tax abatements). A typical cost sharing arrangement would provide for a 50 percent reduction in property taxes for a fixed period. A recipient firm is still required to pay a portion of the normal tax burden, while the public sector contributes the tax expenditures. The municipality receives some tax revenues in the short run and benefits from the full tax revenues at the end of the abatement period (if the firm is still there and further abatements are not granted). The public investment is justified by two arguments: that no revenue would have been received if the abatement had not been granted and that full tax revenues that will ultimately be realized. Tax abatements and several other common shared cost programs are assessed below.

*Industrial Property Tax Abatements:* Using meta analysis of tax abatement studies, Peters and Fisher note, "the best case is that incentives work about 10 percent of the time, and are simply a waste of money the other 90 percent" (2004, p. 32). More generally research on property tax abatements has raised concerns that they:

- are only effective at the margins in business location decisions;
- serve to increase the "zero sum" aspect of local development;
- tend to redistribute public sector revenues to private sector interests;
- are used primarily by healthy cities that can "afford" to forgo the potential tax revenues;
- tend not to produce jobs and tax base benefits commensurate with the loss of local revenues;
- have not achieved the levels of growth desired and have negative secondary impacts;
- are essentially useless because firms would have remained in place, or even expanded, absent the incentives, thus cities and states "pirate" jobs from each other;
- fail to have an additive impact on overall business activity and have only very short-lived positive effects; and,

- are not large enough to counter-balance negative attributes of otherwise high cost or undesirable locations. (see Sands and Reese, 2012; Peters and Fisher, 2004; and Krugman, 1996 for summaries of this literature).

Analysis of the history of Michigan's industrial tax abatement program finds that abatements contribute to metropolitan decentralization because of their extensive use by peripheral townships. It can also be expensive; Detroit in particular, pays a high price in foregone property tax revenue for each job and still lags in economic growth. Other cities appear to use abatements much more effectively with relatively less foregone property tax revenue and improving economic health. In short, it appears that the patterns of tax abatement use are exacerbating existing inter-city inequities in economic health (Sands and Reese, 2012). Indeed, the PA 198 program in Michigan has been widely used, with most exemptions targeted to modernization of existing facilities and the retention of existing jobs. While the program has been effective in some instances, it has not succeeded in retaining manufacturing jobs. Moreover, PA 198 abatements appear to have facilitated the transfer of jobs to suburban locations, where they likely would have located without abatements. The estimated annual cost in foregone property taxes of the PA 198 abatements is \$256 million, with lost revenue per job highest in distressed central cities such as Detroit (ibid).

*Creative Enterprises:* The interest in promoting arts and culture as an economic development strategy is often attributed to Florida's book on the creative class (2002). According to "creative class" proponents, successful local economies will need to rely on information and creativity for their well-being as a source of economic vitality (Florida, 2005; Glaser and Mare, 2001; Ley, 2003). The literatures on the creative class and culture and the city argue that three goals can be achieved by a focus on these issues: economic development, regeneration or revitalization, and cultural effects (Markusen and Gadwa, 2010). Of these,

however, economic development goals often take the fore (Grodach, forthcoming). This is evidenced by research showing many cities moving to place cultural affairs, education, and recreation within economic development functions (Grodach and Loukaitou-Sideris, 2007) and local officials indicating that their primary motivation for investment in artist housing is economic development (Strom, 2010). Michigan's Cool Cities grant initiatives are based on creative class arguments and were designed to use culture and art as an economic development stimulus through business creation and retention of creative class populations.

Although an attractive argument on paper (the creative class concepts have been described as "politically seductive" [Peck, 2005, p.766]), extant research has questioned many of the operational components, and more importantly, the effectiveness and efficiency of creative class economic development policies. The connections and processes required to support the notion that creativity, or "creatives," lead to economic prosperity have not been sufficiently tested empirically, the assumptions embedded within creative class arguments have raised many questions among academics and other policy evaluators (Ley, 2003; Peck, 2005; Scott, 2006; Thomas and Darnton, 2006; Markusen and Gadwa, 2010; and many others), and much policy activity has proceeded robust evaluations.

There is a growing body of research exploring whether the creative class actually leads to, or is even correlated with, economic growth. Indeed, there appears to be no discernible relationship between improved economic health (economic growth) and any of the commonly used creative class indicators (Sands and Reese, 2008; Hoyman and Faricy, 2010). Recent work of this nature suggests that high tech employment, in particular, is unrelated to economic health or, in some cases, appears to be negatively correlated with economic growth (Hoyman and Faricy, 2010). Research has found entertainment employment to be negatively related to health

and only finance, insurance and real estate (FIRE) employment to be positively related; most typical creative class employment categories do not remain significantly correlated to health in multiple regression (Reese, 2012). Other research indicates that education and skill development appear more important than culture or amenities in economic growth (Glaeser and Mare, 2001; Glaeser, 2005) and, indeed, that innovation (and hence economic growth) appears just as likely in older manufacturing centers as newly creative cities (Chapple, et al. 2004). Of all the aspects of the creative class arguments, having a highly educated population appears important; however, graduation rates from local schools (a possible proxy for the quality of the local school system), appear more critical than higher education (Reese and Ye, 2011).

But the individuals within the creative class are only a small part of the creative economy arguments as noted earlier. Investments in physical art spaces and artist housing have been found to have many beneficial economic and community-building outcomes including acting as neighborhood anchors (Seifert and Stern, 2010; Strom, 2010) allowing often marginalized groups to have a space for activities or ventures (Borup, 2006), serving as incubators for artists (Montgomery, 2007), and creating a place to build social networks (Grodach, 2010). Artists and community cultural activity have been argued to revitalize neighborhoods (Lloyd, 2005) and create bridges between classes and cultures (Alvarez, 2005; Wali et al., 2006).

### **Private Financing.**

Some economic development incentives require little or no public expenditure. The most common example of this is tax increment financing (TIF). Once a TIF district has been established, any subsequent growth in aggregate property tax revenues, either as a result of new construction or rising values of existing properties, is “captured” by the district and used for investments within the district. The property tax rates are the same within the TIF district as

elsewhere in the community; the incentive for being included in the district is that taxes paid result directly in public investments in the district. Firms within the district are likely to have fewer objections to paying property taxes, as they are being returned in the form of improved services and infrastructure.

TIF districts can take a number of different forms (Weber, 2003; Sands et al., 2007). They may provide the basis for bond financing of a specific public improvement, such as a water or sewer line. TIF has also been used to meet the cost of remediation of brownfield sites. Downtown Development Authorities may use revenue from TIF districts for a range of activities, including ongoing operating expenses, infrastructure improvements (parking decks and street improvements for example), subsidies to firms or community events. Virtually all states allow some type of tax increment financing. Michigan law allows seven different types of TIF, the most common of which are for Downtown Development, Local Development Finance, Brownfield Redevelopment, and Tax Increment Finance Authorities.

TIF is often an attractive option because it allows municipalities to undertake important and costly improvements (particularly when bond financing is required) without levying new taxes.<sup>1</sup> But the use of TIF diverts tax revenues from the general fund to the TIF authority. Thus, there may be substantial opportunity costs. If TIF's capture more than a small amount of total tax base growth, the community will be faced with the choice of reducing services or raising taxes city-wide. The relationship between TIFs and other taxing jurisdictions, such as school or other special districts, is often problematic, raising equity issues (Weber, 2003). In this case potential revenues are diverted from these entities, as well as the general revenue fund budget, toward what is typically a business district.

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<sup>1</sup> In some states TIF-backed bonds are outside municipal debt limits.



Studies of TIF districts in Illinois and Missouri suggest that TIFs are subject to abuses through overuse and lack of transparency and accountability (Sands et al. 2007). Generally TIF strategies have raised a number of issues (ibid):

- TIF governance could be problematic if adequate governance structures were not provided or if the district did not provide for a sunset;
- some TIF districts divert funds from other taxing jurisdictions without their consent;
- extensive use of TIF can impact the general fund budget (necessitating increases in taxes or reductions in services), while in some cases creating substantial off-budget fund balances; and
- TIF is only likely to be effective when new development does in fact occur or where property values are increasing.

### **Public Spending and Investment.**

The whole premise of economic development policy, from location incentives through human capital development, to the creative class, is based on the assumption that public policy matters. But a variety of local policies can have effects on the economic health of a community beyond traditional economic development incentives including infrastructure, services, education, and a host of other local amenities and services. While not commonly considered to be economic development “tools” per se, investment in the quality and quantity of local services can make a significant contribution to the economic health of residents and serve as an attractive feature for businesses and entrepreneurs considering alternative locations (Gottlieb, 1994; Florida, 2002; Trip, 2007; Besser, et al., 2010; Liu, et al., 2010; Reese and Ye, 2011; Reese, 2012).

To assess the relationship between community economic health and these quality of life contextual features, a number of public policy variables are considered here including economic development policy, public spending for a variety of services, and education spending and performance. Investment in education and public services has been shown in past research to contribute to economic prosperity. Specifically, investment in local schools has been suggested

as a driver of economic growth (Gottlieb, 1994; Wrigley and Lewis, 2002). On a more macro scale, research has indicated casual connections between human capital accumulation and economic growth (Lucas, 1988; Krueger and Lindahl, 2001; Toya et al., 2010, for example). Similarly, scholars have argued that public services or investment in amenities such as recreational opportunities can contribute to a local economy (Deller et al, 2001; Goe and Green, 2005).

## RESEARCH QUESTIONS

As previously noted, the central research question posed here is: What contribution is made to the economic health of cities in Michigan by: MEGA, tax abatements, Renaissance Zones, Cool Cities, and TIFA? More specific research questions include the following:

- What are the patterns of use of these programs in Michigan cities?
- How do these economic development programs compare to local government spending on services and amenities in their relationship to local economic health?
- Are there specific combinations of these programs that are more strongly related to economic health; in other words, are strategies more important than individual policies?
- What are the relative contributions of these economic development programs and local service spending to economic health?
- What do the findings suggest for economic development policy in the state?

## METHODOLOGY

The root of the database used in this project are budget and revenue data from Michigan's cities beginning in 2005 and for this project, ending in 2010 (these data are now being updated annually). While municipalities in Michigan are required to file Annual Local Unit Fiscal Reports with the state, the budget and revenue data therein had not been compiled into a usable and standardized manner; thus, systematic analysis of local government finances has been limited. Michigan State University Extension (MSUE) worked with the State of Michigan Department of Treasury to develop a new web-based local government financial data management system. An array of local fiscal data are now available and have been employed

here (see Skidmore and Scorsone, 2011 and Michigan Department of Treasury F65 Government Fiscal Data Portal, <http://f65.mitreasury.msu.edu/>).

Although township and village data were also collected by MSUE, they were not fully compiled at the time of this project. The focus on the state's cities, however, controls for form of government and legal status while still providing significant variation in unit size (from 290 in Lake Angelus to 713,777 in Detroit with a mean of 16,961 and a median of 3,735 residents in 2010), geographic location, and economic conditions.

Selected census data from 1980, 1990, 2000, and 2010 (to the extent currently available) were also added to the data set. Data included relate to demographic composition, employment, and economic conditions (poverty, income). Finally, data from the five economic development programs and policies of interest were compiled and added to the data set. Program characteristics and the respective data are described below.

#### Independent Variables: Local Economic Development Programs and Spending

*Tax Abatements:* tax abatement data come from the files of the Michigan Economic Development Corporation (MEDC) and its predecessor agencies. These data cover all abatements awarded from 1980-2006 and include the number of abatements, projected real and personnel property investment, and projected retained and created jobs.<sup>2</sup> The data set thus represents the population of tax abatements granted in the state up to 2006.

*Renaissance Zones:* Renaissance Zone data were also drawn from the MEDC. Because MEDC files do not contain much detail on the zones (such as sizes and activities) all communities with zones were contacted directly in an effort to obtain specific data on size, tenants, investments, and other activity measures. To keep the request manageable and to match the fiscal data, information from 2005 onward was requested. This proved to be an unsuccessful

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<sup>2</sup> Prior to 1980 (1974-1980), only aggregate data are available.

undertaking; only a handful of communities responded, most who did supplied only partial data. Thus, data on the existence of zones for the whole state were obtained by a FOIA request to MEDC for their annual Legislative Reports.

*Tax Increment Financing Districts:* The State of Michigan does not compile lists of tax increment finance districts. Data for TIF districts were assembled from the Michigan Department of State and Treasury, individual city websites, and then through snowball sampling as part of a statewide population survey of TIFs (Khan, 2012). Most TIFs in the state are believed to be included in the dataset, however, it is possible that some are missing.

*Cool Cities Initiative:* Data for the complete history of the Cool Cities Program came from reports of the Senate Fiscal Agency and from files supplied from the former Cool Cities program director now with the Michigan State Economic Development Authority (MEDA) as well as information drawn from <http://www.coolcities.com/main.html>. The population of Cool Cities grants is included in the dataset.

*MEGA Grants:* Data for all MEGA grants for the history of the program were provided by the Michigan Economic Growth Authority, a division of the MEDC, now the Michigan Economic Growth Authority.

*Local Spending:* Local government spending data were included in the Department of Treasury Fiscal Dataset. The reporting form for local spending includes seven categories of spending: general government (salaries of elected officials, finance and tax administration, buildings and grounds); public safety (police and fire services, jails, building inspection); public works (roads, sewers, water, public transportation); health and welfare (health departments, medical examiner, emergency services); community and economic development (economic

development, redevelopment and housing, planning and zoning); recreation and culture (parks and recreation, libraries, culture); and “other” (fringes and benefits, debt service, capital outlay).

#### Dependent Variable: Residential Economic Health

The focus of the project is on the relative effectiveness of a variety of common economic development incentives. The obvious question, then, is: effectiveness in what? Selection of a dependent variable is not straightforward in this case for a variety of reasons.

First, there is little agreement in either the academic or political spheres on the appropriate definition of success for economic development policies. In many communities, the implicit goal of economic development is growth – more jobs, tax base, or income. In others, the focus is on preventing deterioration of current economic conditions – preservation of existing jobs and tax base. But the simple total of jobs affected by economic development activities may not be a sufficient indicator of success (Beauregard, 1999). Other attributes also matter: Are the jobs resulting from economic development incentives a net gain? Are the jobs “good” ones? That is, do they pay well, provide benefits, and can they be viewed as permanent? Do they provide employment opportunities accessible to local residents, especially those that are under or un-employed? Economic development success is also commonly measured in terms of induced investment, producing property tax base growth for the local government. There are also equity concerns such as who benefits from local tax revenue expended on economic development: businesses, citizens, tourists?

Second, there are significant data availability problems that have hampered evaluations over time. For tax abatements and Renaissance Zones relevant outcome measures are included in the applications: investment and new and retained jobs. However, these are only estimates used for the purposes of the application, in most cases actual data for these variables do not exist.

Firms in most communities are not required to report on these indicators and there are no requirements that municipalities report these data to the state (the absence of the former is directly related to the latter). Attempts to use ES202 data to establish the jobs data proved unworkable because of issues related to missing data and complications that arise from the reporting of branch plants and multiple sites of the same corporation (see Sands and Reese, 2009 for an extended discussion of this). Data on outcomes for the Cool Cities program and various tax increment finance programs are similarly non-existent; to try and collect data such as downtown business improvements, residential population in downtown, or even the actual tax increment levels from 234 cities would be difficult at best and impossible at worst. Nevertheless, such data collection was attempted; very few cities responded. To obtain even basic Renaissance Zone data such as their size and location, a FOIA at the state level was necessary.

Given these circumstances, assessments of economic development policies in the past have been forced to use a variety of proxy indicators. The indicator of “success” used in this study is a commonly used proxy. The dependent variable, economic health, is an index comprised of three items drawn from the census: median family income, unemployment, and poverty.<sup>3</sup> To create the index, the variables were entered into a factor analysis and standardized scores were saved. For the factor analysis the standard SPSS defaults of varimax rotation and listwise deletion of missing data were used. Factor loadings for each of the composite variables are indicated in Table 2 below using 2010 census estimates as an example.

Table 2: Economic Health Index Factor Analysis

	Factor Loading
% employed	.82
% not in poverty	.65
Median household income	.82

<sup>3</sup> Since these data are not yet available from the 2010 census, ACS estimates were used for the 2010 index.

This variable has been used in a number of other studies to represent the economic health or well-being of a city's population (Rubin and Rubin, 1987; Sharp, 1991; Feiock, 1992; Fleischman et al., 1992; Wolman, 1996; Moss, 1997; Reese and Rosenfeld, 2002; Sands and Reese, 2008; Reese and Ye, 2011; Sands and Reese, 2012). Thus, the specific question posed in this research is: what is the relationship between each of the economic development programs and the economic health of city residents.

A general caveat about issues of causation or time ordering is important at this point. Because of the nature of the data available, it is impossible to establish with certainty that a particular economic development activity or program *causes* a particular level of residential economic health. There are simply too many variables for which data are unavailable. Thus, the project is very careful to use the language of correlation, specifically which economic development tools are correlated with health in what ways.

However, because data over time are included in most cases, the ordering of variables in time can be specified. Census data from four decades provide a sense of trends as past demographics and economic conditions emerge as current ones. In addition, for most of the development incentives explored it is possible to compare past use to future residential economic health. Thus, while the lagged relationships are not conclusive, they may be considered indicative of time ordered relationships. Given this caveat, the analysis proceeds to identify the correlates of economic health and also the temporal ordering of relationships where possible.

## ECONOMIC DEVELOPMENT PROGRAMS

### Cool Cities Grants and Planning Programs

While the Cool Cities Grants and Planning Programs are no longer in existence and were not widely used, they are included in this analysis because they represent an alternative to the

other types of incentives considered which are directed at the relocation, expansion or retention of industrial facilities. This program, under which a number of separate programs were consolidated by Governor Granholm, was a clear effort to address Florida's contention that a focus on the creative class would bring economic growth benefits to communities. Michigan's initiative, begun in 2004, created new programs and consolidated some older initiatives under the Cool Cities rubric. The program ended in 2008, although some support continued, such as the Cool Cities Internship Program pairing students from major universities (Michigan State, Wayne State, and University of Michigan) with Cool Cities neighborhoods and communities.

In general the Cool Cities Program was an effort to support "building vibrant, diverse downtowns and neighborhoods that will attract talent, create jobs, and support innovation" (CRC, 2007: 22). All of the programs were competitive in that eligible communities applied to the State for the limited program benefits. There were four individual programs under the Cool Cities Initiative: Neighborhoods in Progress (begun 2004), Michigan Main Street (moved to Cool Cities in 2005 along with both Blueprint programs), Blueprints for Downtowns and Blueprints for Neighborhoods. All four are included in the dataset.

The Neighborhoods in Progress program was the only piece of the Cool Cities initiative that actually provided funding for local projects through significant matching state money to invest in downtowns to attract and retain residents living in the downtown area. The Main Street program was directed at preserving and managing historic downtowns by providing customized technical training. Blueprints for Downtowns and Neighborhoods were directed at creating plans for the revitalization of downtowns and of neighborhoods contiguous to a traditional downtown through support for a consultant (for the former) and a reward of eligibility for community development block money (for the latter).



Table 3: Cool Cities Grants and Planning Programs

	Purpose	Incentive	Eligibility
Neighborhoods in Progress	Create environments to attract and retain urban residents	50/50 catalyst matching grants; up to \$100,000; three years access to State Resource Toolbox	City with a 2 or 4-yr higher education institution; local historic district or nationally registered historic district; arts agency; plan for mixed-use, mixed income housing; pedestrian friendly
Main Street	Preserve historic districts and build long term management capacity	5 years of customized technical training in NTHP <sup>4</sup> community-driven downtown revitalization; up to \$166,000 in training grants	Cities, villages and townships with downtown or commercial center; hire full time Main Street Manager. Detroit and Oakland County communities with Main Streets excluded.
Blueprints for Downtowns	Conduct market study and create revitalization strategy for downtown	Support for 3-5 yr community planning process; consultant fees 50/50 match	Cities, villages, townships with traditional downtowns <sup>5</sup>
Blueprints for Neighborhoods	Create revitalization plan for a neighborhood adjacent to downtown	Consultant (paid for by community) works with locality to develop plan; at completion municipality becomes eligible for CDBG funding	51% of residents at or below 80% of area median income; must be qualified community under Obsolete Property Rehabilitation Act; not eligible for direct federal CDBG

Drawn from CRC, 2007

The Cool Cities program provided only limited financial assistance and represented a modest effort to foster creative class strategies. For the Neighborhoods in Progress program, 31 municipalities received grants, 25 of them for a single project. Four cities received four separate grants; Flint, Kalamazoo, Lansing and Saginaw. Grand Rapids received five grants and Detroit received ten. Each grant was either for the full \$100,000 possible or very near that amount (one was for \$90,000 and another for \$99,000). Thirteen municipalities received Main Street

<sup>4</sup> National Trust for Historic Preservation

<sup>5</sup> Traditional downtowns were defined as a grouping of 20 or more commercial parcels that include multi-story buildings of historical or architectural significance and the area must have had commercial zoning or been used primarily for commercial for 50 years. Downtowns must have primarily zero-lot-line development, an appropriate mix of business and services, a downtown business organization, and be pedestrian friendly.

support, 44 Blueprints for Downtowns, and six Blueprints for Neighborhoods. Program attributes are illustrated in Table 3.

### Industrial Facilities Tax Abatement Program

The Industrial Facilities Tax Abatement Program (IFT) and Renaissance Zones (RZ) are the two most widely used tax abatement programs in the State. The tax abatement process under Michigan Public Act 198 of 1974 allows a local government unit to establish a plant rehabilitation district, an industrial development district, or both, if it levies taxes that equal or exceed thirty mills. This criterion was met by virtually every one of Michigan's 1,774 municipalities. The establishment of the district may be initiated by the locality or at the request of the owner of industrial property located within a proposed district. The eligible industrial facility may consist of both real and personal property related to a manufacturing operation under the same ownership. The local government must approve or disapprove an application within sixty days. If approved, the state issues an industrial facilities exemption certificate. The applicant/facility must meet several requirements:

- will create or retain employment or prevent loss of employment in the community in which it is situated;
- increase in employment at the facility is not the result of transfer of employment from one or more cities in Michigan, unless granted permission by the negatively affected locality (later amended);
- investment primarily restores, replaces, or updates the technology of obsolete industrial property; and
- total value of property covered by abatements does not exceed five percent of the total state equalized valuation of the local government unit unless the local government and the state determine such an amount shall not substantially impede the operation of the local government or impair its financial soundness.

The duration of the tax abatement is a maximum of twelve years from the completion of the facility. Abatements can be granted for a shorter period at the discretion of the local government but seldom are. The abatement can be revoked if the industrial facility improvements or

construction are not complete within two years or if the company leaves the area. Properties in these districts are not completely tax-free. In the case of improvements, the company pays taxes based on the value of the obsolete property, not on the improved property. In the case of a new facility, the industrial facility tax is determined by “multiplying  $\frac{1}{2}$  of the total mills levied in proportion for that year by all taxing units within which the facility is situated by the SEV of the facility excluding land and the inventory of personal property.” Hence, the company is required to pay half of what would be paid if not granted an exemption.

The tax abatement legislation has since been amended more than twenty times. Many of these have been relatively minor “technical” changes, often redefining the list of eligible investments so as to broaden eligibility. PA 198 was first amended in 1974 to provide incentives for new construction, expansion of existing operations, and to make abatements available to out of state firms willing to move to Michigan. Senate Bill 177 of 1982 further expanded what were considered “eligible properties” by providing tax incentives for speculative buildings such as industrial parks and research/development facilities. A 1994 amendment requires a written agreement between the local government and the owner of the industrial facility establishing more effective local control over abatement terms. In 1999, House Bill 4844 eliminated the provision requiring the consent of the local unit of government losing employment in cases in which the granting of an exemption would transfer employment from one local unit to another. Amendments after this point again expanded the breadth of the program to include high-technology activity (2000), federal reserve banks (2002), start-up businesses (2004), and logistical optimization centers (2005), for example.

Public Act 198 has been a popular program with both firms and local governments. From its inception in 1974 through 2005, Michigan local governments granted a total of almost 18,600

PA 198 tax abatements. Tables 4 and 5 summarize the number of PA 198 abatements granted by Michigan cities since 1980 and 2006. While research on abatement use by all municipalities in the state (cities, townships and villages) has shown that usage began slowly and increased over time, abatement use by cities has been high and relatively steady over the twenty-six year period of data here (Sands and Reese, 2012).

Total PA 198 abatement activity has been cyclical, however, rising in times of economic expansion and falling during slowdowns; the percentage of cities using abatements ranges from 71% in periods of greater fiscal stress to 84% during more prosperous times. While there are a handful of cities that have granted large numbers of abatements, mean numbers of abatements per community are much lower, ranging from six to eleven. The top ten highest cities have each granted over 200 abatements as follows: Grand Rapids 558; Holland 424; Wyoming 306; Detroit 274; Kalamazoo 244; Walker 234; Zeeland 228; Battle Creek 224; Kentwood 224; Cadillac 209. Thus, it is clear that there are a few cities that use the program heavily with most cities using it sparingly. Only 53 cities have never given an abatement.

As was discussed in the methodology section, there are no uniform and readily available outcome data for economic development incentives in Michigan since none of the incentive programs require reporting. For the IFT program, estimated values for jobs retained and created, and investment must be included in the application for the abatement. But, no further reporting on performance is required nor typically collected. Thus, the figures in Tables 4 and 5 are estimates. It is evident from both tables that personal property (equipment) exceeds real property (new facilities) investment and that estimated retained jobs far exceed new ones. This pattern

has led to the conclusion that the primary result of the PA 198 program is to provide tax breaks for the same firms to retool their facilities, sometimes repeatedly (Sands and Reese, 2012).<sup>6</sup>

Table 4: Total City PA 198 Activity 1980-2006

	1980-85	1986-90	1991-95	1996-2001	2002-06
Certificates Issued	2070	1906	2042	2608	1475
Number (%) cities issuing	197 (84%)	182 (78%)	167 (71%)	189 (81%)	166 (71%)
Promised:					
Real Property	1173485516	1316292569	1384546175	3597153324	9927195004
Personal Property	2973046874	5195482157	6644637130	18618307504	NA
New Jobs	14835	23618	37927	63433	41612
Retained Jobs	71975	138979	97344	284749	161717

Drawn from: Citizens Research Council (1986); MEDC.

Table 5: Average City PA 198 Activity 1920-2006

	1980-85	1986-90	1991-95	1996-2001	2002-06
Certificates Issued	8.85	8.15	8.73	11.15	6.30
Real Property	5014895	5625182	5916864	15372450	42423910
Personal Property	12705329	22202915	28395885	79565417	NA
New Jobs	63	101	162	271	178
Retained Jobs	307	594	416	1217	69

Drawn from: Citizens Research Council (1986); MEDC.

### Renaissance Zones

In 1996, the State of Michigan created its Renaissance Zone initiative (Public Act 376 of 1996), an economic development program that offers greater tax concessions than any previous development incentive program (Michigan Jobs Commission, 1997; Tyszkiewicz, 1997; Rothwell, 1997). PA 376 allows all occupants of Zones exemptions from a dozen different state and local taxes, including state and local income taxes and most property taxes; the state sales

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<sup>6</sup> PA 198 was specifically intended to encourage manufacturers to rehabilitate and update existing facilities and equipment (Sands and Zalmazak, 2000).

tax, and any *ad valorem* taxes pledged to the repayment of bonded indebtedness are the only non-Federal taxes that continue to be collected.<sup>7</sup>

State-designated distressed communities could apply for Renaissance Zone designation to the State Administrative Board. Within the broad parameters of enabling legislation, localities were given considerable latitude in the design of zones. The initial zones were primarily in aging industrial centers and declining rural communities but also in relatively prosperous small towns and suburbs. In 1999, the Michigan Legislature amended the RZ Act by PA 98 of 1999, allowing for creation of additional Renaissance Zones. This same legislation allowed existing zone communities to make changes to zones; including creating additional sub zones, enlarging existing sub zones, and extending the life of zones. The 1999 amendment also removed a clause that granted municipalities the ability to rescind tax abatements to businesses that moved at least 25 full-time jobs from their jurisdiction to an RZ. The law was expanded to include Agricultural Processing RZs in 2000, with their cap increased to 20 in 2003 and 30 in 2006. Amendments in the 2000s further expanded the use of RZs to include a Border to Border zone that stretches across the state (2001); alternative energy (2002), pharmaceuticals (2002), tool and die (2003), redevelopment (2006), renewable energy (2006), forest products (2006); and additional subzones (2006).

In comparison to tax abatements, RZs imply greater levels of property and income tax revenue loss for cities but their duration is limited, at least opening the possibility that at some point the community will recoup some of the tax revenue. Because firms may be granted multiple IFTs for a single location (so long as property owners make multiple qualifying

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<sup>7</sup> Other exempted taxes include: city utility users excise tax; commercial forests tax; commercial property facilities tax; enterprise zone facilities tax; industrial facilities tax; neighborhood enterprise zone tax; state education tax, personal income tax; single business tax; technology park facilities tax; general property taxes including tax on lessees or users of tax exempt real property (CRC, 2007).

investments), it is likely the communities will never recoup the 50% of property taxes forgone. On the other hand, some level of investment is guaranteed with PA 198 abatements while, for RZs, the creation of the zone is largely speculative. Investment will only occur if businesses and residents find the zone an attractive place to relocate or reinvest. RZs wave taxes but do not require investment; qualifying zone properties experience an immediate and substantial tax savings, with no required investment.

Finally, the two incentive programs differ significantly in “who benefits” from the tax breaks. For IFTs the beneficiaries are exclusively industrial facilities while RZs have broader potential beneficiaries since all occupants of the zone are covered; commercial, industrial, or residential. In this last case it would be up to an individual municipality to designate the desired emphasis for zone development. Of the incentives, the most speculative with the greatest cost in forgone revenue are the Renaissance Zones. While most RZs do not include residentially zoned property, some zones in Grand Rapids and Detroit have attracted residential loft development. IFTs, with the highest level of taxes paid upfront are only given when actual investment occurs, making them, perhaps, the safest bet, particularly when given for *new* jobs and investment.

Table 6: Active Renaissance Zones 2005-2010

	2005	2006	2007	2008	2009	2010
Zones/Subzones	86	76	68	58	60	67
Municipalities with zones	15	19	18	18	22	22
Mean investment	\$67,750,000	\$50,222,222	\$50,222,222	1.18E8	\$83,593,750	1.42E8
Mean created jobs	562	618	588	614	663	729
Mean new jobs	98	66	78	311	443	548
Mean retained jobs	335	335	335	190	590	390
Size in acres	644	578	557	536	2825	722

By design the communities with early Renaissance Zones, from program inception in 1996 to just prior to program extension in 2000, were fiscally stressed by most any definition; Benton Harbor, Detroit, Flint, Lansing, and Saginaw had early zones. However, as different types of zones became eligible for the program, the number and range of municipalities with zones expanded to include a number of rural and arguably healthy communities; Holland, Kentwood, Midland, Marysville, and Walker for example. Over the course of the program, the ten cities making the greatest use of RZs (with more than 12 zones) are: Detroit, Grand Rapids, Muskegon, Saginaw, Flint, Kalamazoo, Jackson, Benton Harbor, Alpena, and Lansing. Table 6 provides descriptive data on RZs from 2005 to 2010). Although types of zones eligible have increased over time, the absolute number of zones has declined somewhat as early zones have expired. Job and investment data are, as with tax abatements, estimates drawn from applications. Again, retained jobs far exceed new ones.

An evaluation of the outcomes of the RZ program in Michigan as of 2000 concluded that although they contributed to the state's image as "business friendly" and cost less in lost tax revenue than they might have (due to local judiciousness in designating tax free areas), the elimination of taxes alone was not enough to attract investment and jobs to some locations. Additionally there were very few positive spillover effects (Sands, 2003). The data here provide a sense that investment and jobs continue to be modest.

#### Tax Increment Financing Authorities

There are a variety of other special authorities and zones in Michigan enabled for the purposes of local economic development, all under the general rubric of Tax Increment Finance Authorities. Five of the most common are general Tax Increment Finance Authorities (TIFA), Brownfield Authorities (BFRA), Corridor Improvements Authorities (CIA), Downtown



Development Authorities (DDA), and Local Development Finance Authorities (LDFA); these are explored here.

*TIFA*: Tax Increment Finance Authorities allow local governments to establish districts that can capture increases in property levies above a base rate set when the district is established. PA 450 of 1980 allowed municipalities broad use of tax increment financing; the program has been closed to new applicants since 1987.<sup>8</sup> The TIFA legislation allowed for any type of land use including commercial, residential, and industrial. Basically TIFA constituted an expansion of the DDA act of 1975. TIFAs have been replaced with the more restrictive LDFA program, as well as a number of more specialized tax increment finance programs including the BFRA and CIA (discussed below) as well as Historic Neighborhood, Corridor Improvement and Neighborhood Improvement TIFs. Tax increment financing is alive and well in the state but is restricted to a variety of specific program purposes, some of which (Historic Neighborhood and Neighborhood Improvement Authorities), have not been implemented in any Michigan municipality to date. Generally TIFs may not capture millages for debt obligations and usually the State Education Tax cannot be captured (CRC, 2007). Ninety one cities in the state have TIFs or 32% of all cities.

*BFRA*: Brownfield Redevelopment Authorities were established in 1996; the program allows municipalities to establish BFRAs and use TIF financing for environmental remediation of brownfield sites. A local unit of government may create one or more brownfield authorities by resolutions adopted by the majority of the municipality's governing body. The municipality may then designate a brownfield board and create and implement a brownfield plan that identifies the properties from which taxes will be captured and where eligible activities will be conducted. BFRAs can be municipality-wide but may only exercise powers on eligible (as

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<sup>8</sup> TIFA established prior to the sunset date continue.

defined in Part 201 of the Natural Resources and Environmental Protection Act, 1994) property that is “blighted” or “functionally obsolete.” BFRAs can only capture taxes from approved brownfield plan sites. The Michigan Department of Environmental Quality (MDEQ) and/or the Michigan Economic Growth Authority (MEGA) must also approve the brownfield plan. As with the other incentive programs included here, amendments to the original act since 1996 have expanded the program to cover non-site-specific brownfields, extend the sunset, and allow BFRAs to select the initial taxable value that maximizes tax increment revenues among others.

BFRAs have the following powers (CRC, 2007: 73):

- Create and implement brownfield plans to promote the reuse of blighted, tax reverted or functionally obsolete property and other eligible purposes;
- Determine the captured taxable value of each eligible property;
- Make loans and mortgages, bid to purchase property;
- Make and enter into contracts;
- Borrow money and issue bonds or notes in anticipation of collections of tax increment revenues, and;
- Establish a local site remediation revolving loan fund.

One hundred thirty-two cities in the state have BFRAs; of this, thirteen have two and one city, Kalamazoo, has five. Thus, 46% of cities have a BFRA making it the second most common type of tax increment financing program (after DDAs) currently in the state.

*CIA*: Corridor Improvement Authorities were enabled by PA 280 in 2005. Under the program municipalities may establish one or more CIAs that use tax increment financing to make capital improvements within an established commercial district. Communities with existing DDAs can extend similar benefits to commercial corridors that may lie outside the district or that extend through more than one municipality. The designation allows for the use of tax increment financing, bonds, special assessments and fees to improve land and buildings within the development area. CIAs are established by resolution in the municipality which can also alter the boundaries of the CIA. CIAs are not common among cities with only four having one;

Birmingham, Holland, Owosso, and Sterling Heights. Requirements for the CIA include (CRC, 2007: 76):

- The CIA must be adjacent to an arterial or collector road and contain at least 10 contiguous parcels or at least 5 contiguous acres;
- More than half of the existing ground floor footage must be classified as commercial real property;
- Residential, commercial, or industrial use has been allowed under zoning for the immediately preceding 30 years;
- The area is served by municipal water and sewer;
- The area is zoned for mixed use that includes high-density residential; and
- The municipality agrees to expedite development processes and modify its master plan to provide for walkability.

*DDA*: Downtown Development Authorities were enabled in Michigan in 1975 through PA 197. As is common, DDAs can raise revenue for physical infrastructure improvements, property acquisition, marketing, and operations through tax increment financing for a designated downtown area. Indeed, DDAs were the first application of tax increment financing in the state. Any village, city, or townships may establish a DDA, they may create separate distinct business districts under special conditions and may also operate them jointly with an adjoining municipality. DDAs may levy up to 2 mills in municipalities with fewer than one million persons. Most of the amendments to the original enabling act address specific conditions in municipalities ranging from allowances for jointly administered DDAs through inter-local agreements (2004) and changes to the DDA board qualifications to require a majority of members with a property interest in the district or an interest in a legal entity with interest in property in the district (2006). DDAs are the most common form of special economic district among Michigan cities, with 203 cities having at least one and 10 having two; 74% of the cities in the state use DDAs.

*L DFA*: Local Development Finance Authorities were enabled by the State of Michigan in 1986 through PA 281. LDFAs are designed to allow local governments to target industries by

type with eligibility limited to: manufacturing or processing of goods or materials by physical or chemical change; agricultural processing; high technology activities; energy production primarily by biomass or wood waste; or business incubators (CRC, 2007: 83). Under the program a city, village or township may use tax increment financing to fund public infrastructure improvements. Twenty-six percent of cities have LDFAs (75). Activities eligible for funding include: public infrastructure improvements in the district, acquisition of land, site preparation and relocation costs, and administrative costs of the district. There are a number of financing options for a LDFA including: Tax Increment Financing revenues from eligible properties; Contributions to the LDFA from the local unit of government; Revenues from ownership of property; Proceeds of revenue bonds; and, Donations and grants to the authority.<sup>9</sup> Table 7 provides a summary of the legislative nature of TIFA programs explored in this report.

Table 7: Comparison of Tax Authorities

	DDA	BRA	LDFA	CIA
Tax increment financing	Yes	Yes	Yes	Yes
Levy millages or special assessments	Yes depending on population	No	No	Yes
Joint application/administration by multiple local govts.	Yes if adjoining	No	Yes for technology parks	Yes if adjoining
Allows more than one non-contiguous district	Yes	Yes prior to June 2000	Yes	Yes
Allows grants for district improvements	Yes	Yes	Yes	Yes
Amend district boundaries	Yes	Yes prior to June 2000	Yes	Yes
Receive general funds for the district	Yes	Yes	Yes	Yes
Issue municipally-authorized General Obligation Bonds	Yes	No	No	Yes
Issue Revenue Bonds for the district	Yes	Yes	Yes	Yes

Source: CRC, 2007: 92

<sup>9</sup> (<http://www.michiganadvantage.org/cm/files/Fact-Sheets/LocalDevelopmentFinancingActPA281.pdf>)

## MEGA

The state MEGA grant program was enabled in 1995 and discontinued in 2011 with the gubernatorial change from Granholm to Snyder, although benefits continued for businesses already receiving awards from the program. The program offered single business tax and income tax credits targeting large-scale investment and job creation. Although it was administered at the state level and thus is not based on local decisions or policy-making, MEGA does have significant local effects. Further, local financial commitments were required, typically an IFT (PA 198) tax abatement.

In-state business applicants had to propose creating or retaining 75 full-time jobs while out-of-state applicants were held to at least 175 jobs over the term of the tax credit. High technology firms, however, were required to create only five jobs to be eligible for MEGA. The MEGA program also allowed tax credits for large-scale job retention investments. To be considered the following criteria had to be met: in-state firms; capital investment of at least \$250 million while maintaining 500 jobs or in-state firms that proposed to relocate production of a product to the state with an investment of \$500 million while retaining at least 500 jobs (CRC, 2007). Applicant firms had to be in the areas of: manufacturing, mining, high technology, wholesale and trade, or office operations.

MEGA grants varied from 8-20 years, with annual audits to assess if job promises were being met. If performance was not as promised the small business tax credit was revoked for the year in which promised levels were not reached; the multi-year grant remained in effect. MEGAs constituted the only program examined here that had a performance guarantee component. Any locally committed tax abatements would continue in effect, however. Over the

course of the program amendments were made generally to extend sunset provisions and relax program qualifications.

Under half of the cities in the state are the location of a firm receiving a MEGA grant (45%). And, numbers of MEGAs per community are quite small; 79% of those with MEGAs have had five or less, 60% have had only one or two. The highest number of MEGA projects (47) has been in Troy, while Ann Arbor and Auburn Hills have had 43, Detroit 28, and Grand Rapids and Southfield 25. Other cities with 15 or more MEGAs include Holland and Farmington Hills. Thus, on the surface, with the exception of Detroit, MEGAs have not been granted in distressed cities, indeed their location reflects just the opposite pattern. Data on retained and created jobs are drawn from applications and hence do not reflect actual outcomes. The proposed mean number of created jobs per city is 567 and the mean of retained jobs is 645. There are interesting differences among the cities with the most retained versus created jobs. Presuming that created jobs are more desirable because they increase the employment pie and direct subsidies to firms that would not otherwise be employing Michigan residents, it appears that healthier communities benefit most. The ten cities with the highest number of new jobs include: Troy, Auburn Hills, Ann Arbor, Southfield, Holland, Detroit, Grand Rapids, Wixom, and Midland. Those with the most retained jobs are: Dearborn, Detroit, Auburn Hills, Wayne, Troy, Sterling Heights, Lansing, Ann Arbor, Livonia and Ypsilanti.

#### Other Forms of Local Spending

Local spending data are important for several reasons. Clearly local governments engage in many more economic development activities than the major statewide programs already noted. Indeed, national data indicate that marketing, promotion, site inventories and other boosterism activities are among the most common types of economic development techniques in

municipalities (Reese and Sands, 2012). Thus community and economic development spending from the local general fund supports many other development activities on the parts of cities.

Table 8: Mean Spending By Category\*

	2005	2006	2007	2008	2009	2010
General Government	2,391,765	2,329,734	2,269,737	2,554,901	2,653,384	3,507,024
Public Safety	4,582,733	4,731,087	4,759,441	5,580,890	5,754,570	7,813,652
Public Works	7,017,660	7,251,589	7,150,489	8,542,614	8,758,236	12,334,155
Health and Welfare	1,545,972	261,564	1,485,630	1,380,565	1,488,108	2,100,401
Community and Econ Development	969,903	1,192,799	987,035	1,204,093	1,235,799	2,143,950
Recreation and Culture	1,372,705	1,359,260	1,254,336	1,422,741	1,451,812	1,696,074
Other	6,236,213	6,752,307	6,338,646	6,924,111	6,860,729	10,146,906
N	274	274	274	274	274	276

\*Data represent total spending not corrected for population size

Recent research has shown that other types of local government services, and associated expenditures, *also* should be considered as economic development policies. Investment in public school systems, public safety, libraries, recreation, and other public amenities have been shown to be consistently and positively related to local economic health (Reese and Ye, 2011; Reese, 2012). Thus, consideration of the whole range of local spending is necessary to assess the relative merits of investments in economic development, tax expenditures, and basic local services and amenities.

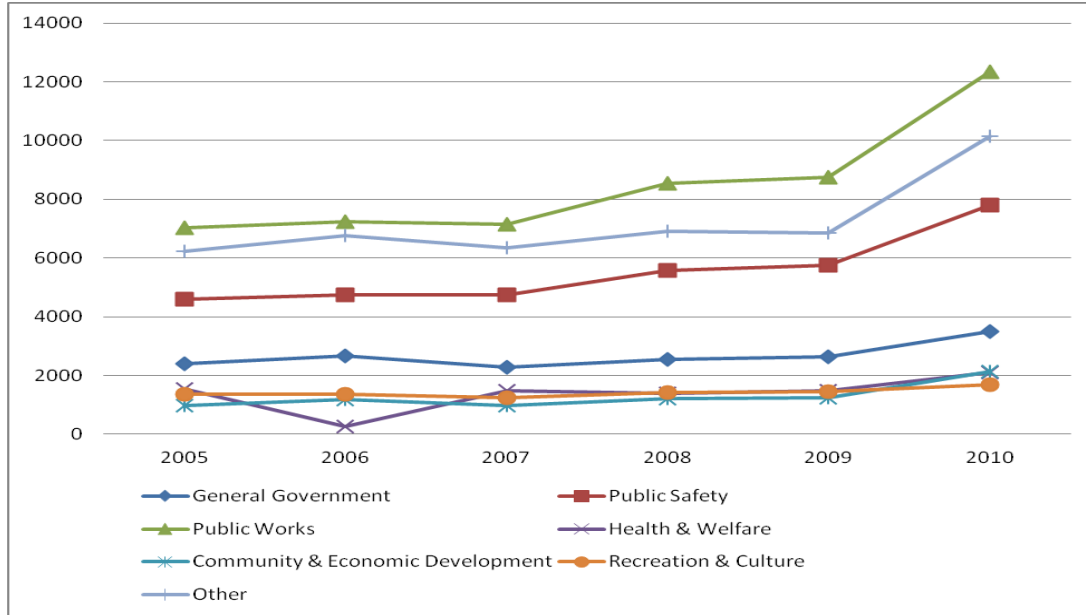
The average budget data for this study are grouped by the seven spending categories indicated in Table 8. General Government spending includes all expenditures for the functions of the legislative and judicial bodies, chief executive, treasurer, assessing, clerk, elections, finance and tax administration, building and grounds, and all other general government functions including investment in public spaces. Public Safety includes expenditures for police, fire, emergency dispatch, corrections, and building inspection and regulation. Public Works includes roads, streets, sanitation, water and sewer, utilities, airports, public transportation, and all other

public works activities. Health and Welfare includes expenditures for health departments, clinics, substance abuse programs, hospitals, medical examiners, mental health, emergency services, child care, human services, area agency on the aging, veterans programs and all other health and welfare expenditures. Community and Economic Development represents expenditures for the functions of redevelopment and public housing, planning and zoning, and economic development. Finally, Recreation and Culture includes expenditures for parks and recreation, libraries, cultural activities and fine arts, historical societies, museums, and other cultural or recreation activities. Expenditures in the “other” category are quite diverse and hence the category is not used in further analysis. This category includes expenditures for fringes, benefits, FICA, insurance, capital outlay, debt service, transfers and special items.

The data in Table 8 and Figure 2 indicate a general pattern of stability in local government expenditures. The relative spending on all categories is quite static over time, except for a slight increase in health and welfare and community and economic development over recreation and culture in the 2009-2010 period. Spending levels were flat during the Great Recession in 2008 and 2009 but increased in 2010. Public Works spending is highest in all years, followed by Other and Public Safety. Much less is spent on average for the remaining categories with general government the next highest expenditure category. Health and welfare spending appears the most volatile over time but by 2010 is similar to general government along with community and economic development. Recreation and Culture and General Government are quite flat over time. Community and economic development shows the same pattern until an uptick in 2010.



Figure 2: Spending Trends By Category



### ANALYSIS

The core of the assessment presented here relies on correlation analysis to explore the relationships between the various economic development programs and local spending and resident economic health over time; the primary goal is to explore connections between specific policies and health as opposed to attempting to “explain” residential health. The availability of economic health measures over time allows exploration of some interesting, and policy relevant questions:

- Given a community’s level of resident economic health at an early point in time, what is the likelihood that that community will utilize one or more of the available economic development tools?
- Does the use of particular economic development tools precede higher levels of economic health in subsequent time periods?
- Are communities that employ these incentives subsequently better off than communities that do not use any incentives?

Similar questions may be raised about municipal spending patterns.

There are two important caveats that apply to the interpretation of the answers to these questions, however. The first has been mentioned previously: Correlations, even time-lagged

relationships, do not prove causation. There are simply too many uncontrolled (and often immeasurable) relevant variables, and too much multicollinearity to draw cause and effect conclusions. The second caveat relates to the time lags, specifically to the time ordering of the policy measures (incentive use and budget allocations) and the economic health measures. Not all of the possible correlations are relevant. For example, what a community spent on public safety in 2005 is likely not determinative of that community's economic health in 1980, or indeed any time prior to 2005. (The opposite relationship may be relevant, however; how healthy a community was in 1980, or 1990, or 2000, could affect its public safety budget in later years.)

Much the same can be said about the economic development incentives; they are only relevant during the time period when they are actually available. Some types of TIF and Industrial Facilities Tax abatements have been available to communities throughout the entire period of study. Renaissance Zones and Cool Cities have been available only in recent years. It is not appropriate to consider their impact on municipal economic well-being in 1980 or 1990. It is also reasonable to expect that the (presumed positive) effects of an incentive will diminish over time. That is, a PA 198 abatement granted in 1996 could be expected to have its greatest impact on community economic health in 2000, with a decline in benefits by 2010.

Figure 3 illustrates issues related to time ordering by showing the beginning, and in some cases, ending dates of the various economic development programs. Incentives such as tax abatements, DDAs, and TIFA have been enabled since the 1980s. Thus, it is reasonable to think about use of these incentives in relationship to future economic health in any time period. Other incentive programs such as BFRAs, LFDAs, MEGA and Renaissance Zones were not enabled until the mid-1990s. Any impact would logically not occur until after that point potentially

showing up in the 2000 census data. Cool Cities Initiatives and CIAs were not available until the mid-2000s with any potential effect not visible until 2010. Again, the analysis and narrative that follows makes clear where economic conditions are likely to be independent variables related to future use of incentives, or where incentive use would logically pre-date economic change.

Tax Abatements (IFT)

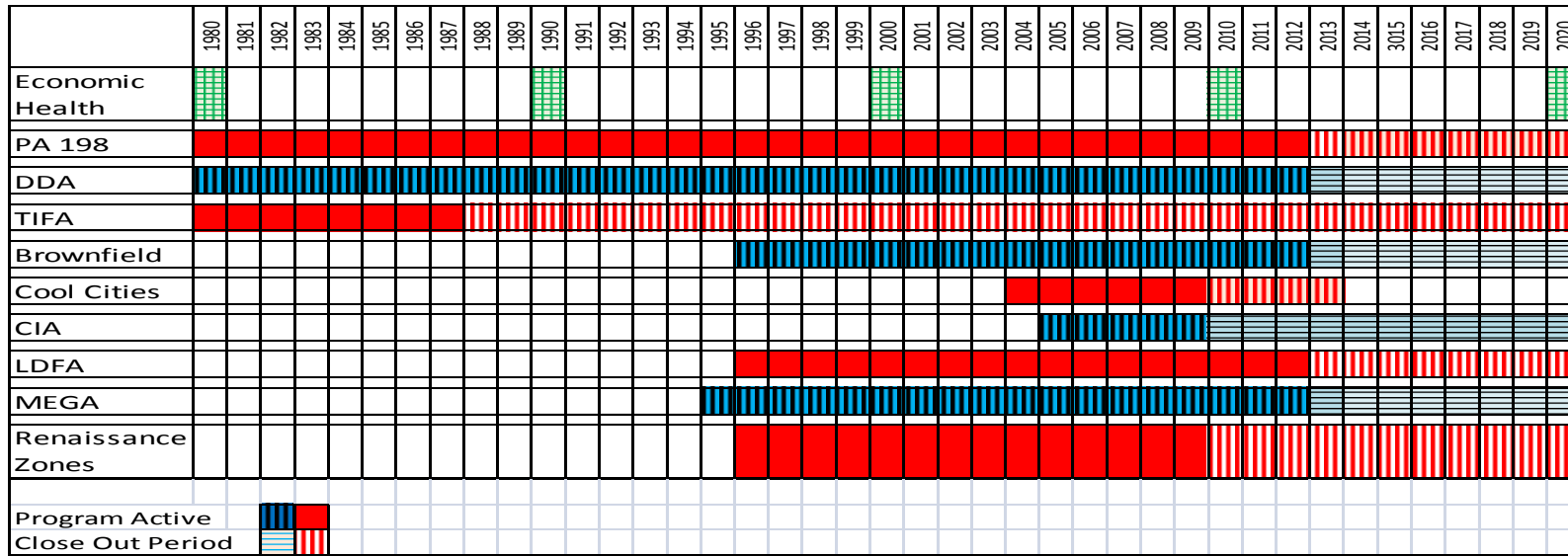
For ease of analysis, the use of tax abatements has been grouped into five time periods. Table 9 presents the correlation coefficients for each time period of abatements and economic health. The obvious observation is that there is no significant correlation between tax abatements and economic health or change in health over time.

Table 9: Tax Abatement and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
1980-85	.02	-.02	-.04	-.03	-.07	-.05	.03
1986-1990	.04	.05	.02	.03	.02	-.06	.01
1991-1995	.02	.03	-.01	.001	.03	-.07	.01
1996-2001	.03	.03	.01	.002	.01	-.04	-.02
2002-1006	.07	.09	.05	.02	.06	-.08	-.05

N=221

Figure 3: Program Timeline



Cool Cities Initiatives

Table 10 presents the same data for the cool cities initiatives and here there are some correlations with residential economic health. Most of the Cool Cities Initiatives, by definition, were directed to more financially stressed communities and that pattern is evident in the data. Again, the programs were funded from 2004 to 2008. Thus, cities that were more financially stressed in 1980 and 1990 received more Cool Cities support. The negative relationship between Cool Cities Initiatives and health did not go away, however, as cities moved into the 2000s.

However, both the Neighborhoods in Progress and Blueprints for Michigan Downtowns cities appear to have experienced residential health improvements between 2000 and 2010. These two programs are significantly and positively related to health improvements in this time period. Again, there are too few cities receiving grants to posit a conclusion that the grants were successful or *caused* the economic improvement. But, unlike tax abatements, a significant positive correlation is present for these two programs (and for NIP funding as well which simply mirrors the award of an NIP grant since all cities received the same funding amount).

Table 10: Cool Cities Initiatives and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
NIP	-.16**	-.23**	-.21**	-.16**	-.13*	-.03	.14*
Main street	-.05	-.05	-.02	-.01	-.001	.04	.03
BMD	-.14*	-.07	-.15*	-.09	.09	-.17**	.12*
BMN	-.09	-.10	-.09	.05	-.04	-.01	.08
NIP \$	-.16*	-.22**	-.21**	-.15*	-.12*	-.03	.13*

N=273

Tax Increment Financing

Similar to tax abatements, there are very few significant correlations between the different types of tax increment finance schemes and economic health. Only Downtown

Development Authorities are significantly correlated with health. The negative correlations in early years suggests that DDAs were more likely to be used in more fiscally stressed communities. Continued use is not correlated with better health, however (Table 11).

Table 11: Tax Increment Financing Programs and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
LDFA	-.04	.02	-.02	-.02	.11	-.07	.01
CIA	.10	.05	.08	.08	-.05	.06	-.02
BRFA	-.03	-.05	-.07	-.12*	.02	-.12	-.04
TIFA	-.08	-.08	-.12	-.07	.01	-.09	.11
DDA	-.16*	-.14*	-.19**	-.20**	.05	-.14*	.06

N=223

### Renaissance Zones

The number of RZs in a community is consistently and negatively correlated to economic health. Cities that were stressed early on are more likely to have zones and, (at least in a static sense), the zones continue to be negatively correlated with health at later points in time (Table 12). However, cities with improving health between 2000 and 2010 have more RZs/sub-zones. It is impossible to establish with certainty the causal ordering here, but it could be the case that RZs need time to become established and contribute to the economy of a city. The negative correlations with early economic growth, the lack of correlations from 1990 to 2000, and then later positive correlations with health change from 2000 to 2010 suggest that this may well be the case. Only limited data were available on the start dates of the RZs so it is not possible to specifically pinpoint establishment and future effects.

Table 12: Renaissance Zones and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
Zones 05	-.22**	-.31**	-.27**	-.20*	-.17*	-.01	.17**
Zones 06	-.23**	-.34**	-.28**	-.21**	-.20**	.00	.17**
Zones 07	-.15*	-.24**	-.22**	-.16*	-.15*	-.04	.15*
Zones 08	-.15*	-.24**	-.20**	-.15*	-.15*	-.01	.13*
Zones 09	-.15*	-.24**	-.21**	-.15*	-.15*	-.01	.13*
Zones 10	-.16*	-.24**	-.23**	-.16*	-.15*	-.04	.15*

N=273

MEGA

There are no significant relationships between the use of MEGAs and residential health or health change over any period of time (Table 13). Up until the 2004-2007 period, insufficient numbers of MEGAs had been granted to be able to run correlations. It seems clear from this analysis that MEGAs alone have no relationship to the wellbeing of city residents. This is not to say, however, that when used in combination with other economic development incentives that MEGAs were ineffective. Indeed, since some sort of local incentives were required with this program, typically in the form of PA 198 tax abatements, it is likely that any effect would need to be observed when including consideration of other incentives in a local package.

Table 13: MEGAS and Health\*

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
MEGA 04-07	.30	.20	.23	.01	-.25	.25	.18
MEGA 08-11	-.39	-.15	-.15	-.23	.27	-.06	-.08
Total MEGA	.09	.08	.08	.09	.01	.02	-.01

N=273 \*1995-2003 numbers are insufficient to calculate correlations; the lack of correlations may be due in part to the few MEGAs that were granted.

## Government Spending

In this section each category of government spending is correlated with economic health. In all cases, per capita spending is used in the analysis. As noted earlier, general government spending includes expenditures for the essential functions of running the city administration as well as upkeep for public facilities such as government buildings and grounds. Table 14 presents the correlations between general government spending and residential economic health. Two patterns are clear. First, past and current spending on general government is significantly and positively related to future economic health. Second, cities that were improving in residential health between 1990 and 2000 spent more on general government in later years. This suggests a pattern where economically healthy cities were able to spend more on civic infrastructure and this spending potentially fostered further economic prosperity.

Table 14: General Government Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	.05	.04	.07	.04	-.01	.06	-.05
2006	.01	.05	.07	.12*	.06	.04	.05
2007	-.02	.01	.08	.16**	.03	.12*	.09
2008	.01	.03	.12*	.18**	.02	.17**	.04
2009	.04	.03	.10	.14*	-.05	.14*	.02
2010	.00	.00	.08	.14*	-.02	.14*	.06

N-273

From Table 15 it appears that there is no correlation between spending on public works and residential economic health and/or growth. Cities that prospered between 1980 and 1990 spent more on public works in future years but again, this appears to have no relationship to present or future economic health.



Table 15: Public Works Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	.08	.11	.05	.03	.07	-.07	-.03
2006	-.09	.05	-.03	.03	.22*	-.13*	.09
2007	-.09	.04	-.02	.07	.21**	-.10	.12
2008	-.08	.04	-.03	.03	.21**	-.11	.08
2009	-.10	.02	-.04	.03	.20**	-.10	.10
2010	-.11	-.01	-.05	.00	.17**	-.09	.09

N=273

It also appears that there is no relationship between community and economic development spending and economic health. This suggests that spending on housing, planning, and more explicitly development-related activities has no relationship with resident economic health or change in health (Table 16).

Table 16: Community and Economic Development Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	-.03	-.02	-.02	-.06	.02	-.01	-.05
2006	-.08	-.03	-.05	-.07	.08	-.04	.01
2007	-.12*	-.10	-.10	-.09	.03	-.03	.04
2008	-.117	-.08	-.10	-.10	.06	-.06	.03
2009	-.11	-.06	-.07	-.06	.09	-.05	.03
2010	-.09	-.05	-.04	-.06	.07	.00	-.01

N-273

Spending on public safety appears quite strongly related to residential economic health (Table 17). Again, two patterns are evident. Cities that have prospered in the past are able to spend more money on public safety; past and current spending on public safety is positively and significantly correlated with future economic health.

As with public works and community and economic development, health and welfare spending is not related to residential economic health or change in health over time (Table 18).

It should be noted that health and welfare spending does not generally involve local money but relies largely on state and federal programs.

Table 17: Public Safety Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	.46**	.37**	.46**	.41**	-.07	.25**	-.19**
2006	.26**	.27**	.33**	.35**	.06	.18**	-.08
2007	.26**	.23**	.33**	.37**	.00	.23**	-.05
2008	.30**	.28**	.37**	.39**	.03	.23**	-.09
2009	.31**	.28**	.38**	.39**	.01	.24**	-.09
2010	.26**	.20**	.30**	.33**	-.07	.23**	-.04

N=273

Table 18: Health and Welfare Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	-.03	-.08	-.10	-.11	-.07	-.07	.03
2006	-.01	.00	-.06	-.06	.02	-.11	.01
2007	-.04	-.07	-.10	-.10	-.05	-.08	.03
2008	-.04	-.06	-.10	-.10	-.05	-.08	.03
2009	-.05	-.08	-.11	-.11	-.05	-.08	.04
2010	-.05	-.09	-.12	-.11	-.07	-.07	.04

N=273

Finally, the correlations in Table 19 indicate significant and positive correlations between spending on recreation and culture and residential economic health although the relationships are not as consistent as those for public safety and general government. Cities that were healthier in 1990 spent more in all future time frames. However, health in 2000 does not appear to have the same effect. Spending on recreation and culture in 2005, 2006 and 2009 is significantly correlated to economic health in 2010. The correlations for 2007 and 2010 spending are close to significance.

Table 19: Recreation and Culture Spending and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
2005	.15*	.20**	.11	.13*	.03	.00	-.01
2006	.15*	.17**	.12*	.15*	.06	-.04	.01
2007	.08	.13*	.07	.11	.04	.03	.03
2008	.11	.17**	.08	.10	.06	-.01	.00
2009	.16**	.22**	.17**	.18**	.14*	-.03	-.04
2010	.08	.15*	.07	.11	.10	-.04	.02

N=273

Looking across the spending areas (Tables 14-19) suggests that three categories of expenditures are significantly and positively related to community economic health: general government services and civic infrastructure, public safety, and recreation and culture. While it cannot be concluded from these data that spending on these services causes economic prosperity, past spending in these areas is correlated with future health. But, not all categories of spending exhibit the same positive relationship. Absent any significant correlations between public works, health and welfare, and community and economic development and health, it seems safe to conclude that spending in these areas will not measurably contribute to improving the economic health of residents. Past economic health appears to allow cities to spend more on the three critical categories. While in one sense this suggests a “rich get richer” dynamic, it also indicates that greater local spending in these areas may well be a good investment strategy for local governments.

#### Overall Economic Development Strategies

Assessments of the outcomes of economic development policies have tended to focus on a single policy or closely related sets of policies such as tax incentives, business incubators, enterprise zones, and so on. Yet, few local governments engage in a single incentive, rather

packages of incentives combined into an overall strategy are employed. While a single development incentive or tool may not be successful in promoting redevelopment or growth, (and could not reasonably be expected to be), perhaps certain combinations of incentives are particularly advantageous. This section of the analysis explores this possibility by considering the relationships between combinations of economic development incentives and economic health.

To begin, Table 20 shows the correlations between total economic development effort and economic health. Total effort is an additive total of the number of individual incentive programs used over the full course of the data included in this study. Thus, what is measured is cumulative incentive use over time. Generally the data suggest that communities with poorer economic health employ more development incentives overall. The lack of correlation between cumulative incentive use and economic change between 2000 and 2010 implies that greater effort is not related to change in economic health.

Table 20: Total Economic Development Program Use and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
Total ED	-.14*	-.17**	-.23**	-.23**	-.03	-.17**	.09

N=287

Table 21 explores all possible combinations of development incentives and economic health. In each case the incentive measure indicates whether a city has ever used a particular combination of development tools. Because this creates a dichotomous variable, t-tests are used to compare mean economic health between those cities using a particular combination and those not using that combination. The combinations are mutually exclusive; in other words a city is coded as 1 or a “user” of only a single combination of policies. Again, these tables only show

variation in patterns of economic health, time ordering is not possible to ascertain. The narrative that follows identifies the tools within each incentive category.

MTARC represents those cities using all policy options explored in this report: MEGA, TIF, abatements, Renaissance Zones, and Cool Cities. As implied in the correlations between total effort and economic health, cities with poorer health over time use more incentives.

However, use of all possible policies appears to be related to growth in residential economic health between 2000 and 2010 implying that doing everything over time may finally contribute to health.

Table 21: T-tests Package of Strategies and <sup>Health</sup>l

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
MTARC (16)	-2.97**	-2.93**	-4.19**	-3.30**	-2.36*	-.87	2.25*
TARC^ (1)	-.34	-1.02	-.72	-.54	-1.17	.26	.45
MTAC (24)	-1.20	-.76	-1.94*	-1.05	.68	-2.37*	1.76
MRC (27)	-1.97*	-.95	-1.56	-1.05	1.48	-1.21	1.17
RC (6)	.82	1.16	.80	.46	.67	-.37	-.60
MAC (4)	.03	-.45	.21	.34	-.73	1.04	.16
AC^ (1)	-1.16	-1.13	-.69	-.57	-.07	.47	.36
ARM (2)	-.43	-.76	-1.02	.52	-.54	-.69	2.33*
AR (5)	-1.17	-.08	-.29	.10	.57	-.41	.61
TR^ (1)	-.05	.11	.37	.26	Na	.26	.32
MTA (65)	3.43**	2.82**	3.38**	1.73	-.16	.60	-2.37*
TA (76)	-1.82	-.86	-.89	-2.36*	1.63	-.43	-1.44
MA (3)	.94	-.28	.33	.63	-1.84	1.00	.35
A (10)	-1.27	-.66	-.30	-.10	.64	.43	.41
MT (4)	1.50	1.87	1.91	1.44	.81	.52	-1.06
T (19)	1.54	.28	1.16	.25	-1.35	1.59	-1.40
M (3)	.89	1.32	1.06	2.28*	-2.81**	3.61*	-2.20*
NONE	1.00	2.07*	1.05	2.73*	.35	.32	1.22

\* indicates that mean health of users and non-users is significantly different at .05

\*\* indicates that mean health of users and non-users is significantly different at .01

^ a single case in the user groups prohibits significance testing

<sup>l</sup>No cities do C or MARC (Cool Cities Initiatives alone or a combination of MEGA, abatements, RZs, and Cool Cities)

There are several combinations of policies that have only a handful of cities in the user group. Thus, it is not possible to interpret the t-tests and significance levels. These include use of TIF, abatements, Renaissance Zones and Cool Cities without any MEGAs (TARC); abatements, Renaissance Zones, and Cool Cities without TIF (ARC); use of only MEGA (M); use of only abatements and cool cities (AC); and use of TIF and Renaissance Zones without other incentives (TZ). The cities using TARC and AC have had poorer health over time. The city using TR is generally less stressed.

There are a number of cities with the MTAC combination of MEGA, TIF, abatements, and Cool Cities. The cities using this combination were significantly less healthy in 2000 and saw significantly more improvement between 1990 and 2000. Continued use of this combination is not related to growth in the most recent decade, however. Cities using only MEGA and Cool Cities appear to have done better.

Twenty-seven cities use a combination of MEGA, Renaissance Zones, and Cool Cities. The only significant difference between the cities using this combination and those using other combinations of incentives is that the former were significantly less healthy in 1980.

The combination of Renaissance Zones and Cool Cities is relatively rare (6) since more communities using RZs also implement a number of other development incentives. There are no significant differences in health between these cities and those not using this combination. There are even fewer cities using only MEGA, abatements and Cool Cities (4) and again, no significant differences in health are present. Similarly, five cities use a combination of abatements and Renaissance zones and no significant correlations are visible. Only two cities use abatements, Renaissance Zones, and MEGA; these cities had significantly more improvement in economic health between 2000 and 2010. There are also only three cities using the combination of MEGA

and local abatements only, with no significant differences between them and cities not using this combination. For the ten cities using only abatements and the four using only MEGA and TIF the situation is identical.

The use of MEGA, TIF and abatements (MTA) is a very common strategy (65 cities). Because MEGAs require some type of additional local incentive, local tax abatements are a typical accompaniment. In general, healthier cities are more likely to use this combination of incentives which all imply tax expenditures. The significant negative correlation between use of this combination and change in economic health in the last decade suggests that this may not be an optimal strategy.

Using a combination of TIF and abatements (TA) is the most common economic development combination used by 76 cities. Both are local programs with wide local discretion. There is only one significant difference between cities using this combination and those not; a negative correlation with health in 2010. Because both of these programs have been widely used since the early eighties it seems safe to conclude that this combination appears to be related with poorer health in later years. There is no correlation between use of this combination and any change in economic prosperity.

Nineteen cities use only some form of tax increment financing and show no significant differences with other cities in economic health. Another three cities use only MEGA. Again, because MEGA must be used in combination with some other type of local incentive it appears that these three cities must be using some other type of incentive not included in this analysis. These cities were significantly healthier in 2010 but worsened in residential health between 1980 and 1990 and between 2000 and 2010.

Finally, there are nineteen cities that used none of the incentives explored here. This group of cities was significantly healthier in 1990 and also in 2010, suggesting that forgoing any of these incentives does not appear to relate to economic decline and that any effects may be counter cyclical.

Overall then, the combinations of policies most consistently related to either current economic health or economic improvement in the most recent decade include doing everything, or very close to everything (abatements, Renaissance Zones, and MEGA) or doing only a MEGA, a state level incentive along with some local incentives that do not involve a tax expenditure or, doing absolutely nothing at all. Considering the cities that have employed the all or nothing approach is useful since both extremes may offer some promise for economic health.

Table 22: The All or Nothing Cities

ALL	NOTHING
Adrian	Bloomfield Hills
Alpena	Carson City
Battle Creek	Clarkston
Benton Harbor	East Grand Rapids
Detroit	Flushing
Flint	Frankfurt
Freemont	Gaastra
Grand Rapids	Gobles
Holland	Grosse Pointe
Jackson	Grosse Pointe Woods
Kalamazoo	Harrisville
Lansing	Huntington Woods
Muskegon	Lake Angelus
Pontiac	Mackinaw Island
Saginaw	Olivet
Warren	Orchard Lake Village
	Petersburg
	Stambaugh
	Stephenson
	Sylvan Lake
	Grosse Pointe Shores



Table 22 lists the cities that have used the all or nothing approaches. The cities using all economic development options are clearly the largest in the state and include a mix of extremely stressed places (Detroit, Benton Harbor, Flint and Pontiac) and relatively healthy communities (Grand Rapids, Holland, and Battle Creek). The cities using no incentives are smaller and include some wealthy bedroom communities (the Grosse Pointes, Bloomfield Hills, Huntington Woods, the city of Orchard Lake Village, East Grand Rapids, and Lake Angelus) and small, relatively isolated communities (most of the rest).

Table 23: Mean Health Scores of the “Alls”

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
Adrian	.13	-.36	-.52	-.61	-.49	-.17	-.08
Alpena	-.01	-.10	-.70	-.28	-.09	-.60	.42
Battle Creek	-.59	-.51	-.61	-.19	.07	-.09	.40
Benton Harbor	-.3.41	-.5.525	-.4.27	-.2.93	-.1.84	.98	1.35
Detroit	-1.20	-2.48	-2.37	-1.75	-1.28.	.11	.62
Flint	-.63	-.2.19	-2.37	-1.53	-1.56	-.17	.84
Freemont	.51	.43	-.52	-.73	-.08	-.95	-.21
Grand Rapids	.03	-.04	-.62	-.21	-.07	-.58	.41
Holland	.60	.43	.08	.33	-.17	-.35	.25
Jackson	.00	-1.00	-1.00	-.89	-1.00	.00	.11
Kalamazoo	-.28	-.79	-1.88	-.86	-.50	-1.09	1.01
Lansing	.07	-.44	-.82	-.29	-.50	-.39	.53
Muskegon	-.72	-1.05	-1.22	.07	-.33	-.16	1.28
Pontiac	-.56	-1.49	-1.69	-1.25	-.93	-.21	.44
Saginaw	-1.12	-2.24	-2.60	-1.42	-1.12	-.37	1.18
Warren	1.00	1.00	.00	-.04	.00	-1.0	-.04

Table 23 presents the health index and health change scores for the 16 cities that have used all types of economic development incentives. The values in the table represent standardized scores on the health index. The cities in black generally have not seen any improvement in health score even in the face of the use of a complete package of development

tools. The nine cities in color, on the other hand, have seen some improvement in health scores over time, moving from below the mean to above it in all cases. Of this group, the four cities in red—Benton Harbor, Detroit, Flint, and Saginaw—are still among the 20 cities with the lowest health scores in the state. In other words, they have seen definite improvements in the health of their residents but remain among the worst in the state. The five cities in green—Battle Creek, Jackson, Lansing, Muskegon, and Pontiac—have experienced increases in health and are no longer among the worst in the state. Only Muskegon has managed to move its health score above the mean by 2010, although Lansing and Battle Creek are close to this mark. While not among the weakest cities in 2010, Jackson and Pontiac still have health scores more than one standard deviation below the mean. Is there a consistent relationship between extensive economic development incentive use and improvements in health? The answer seems to be a clear “no” although it is uncertain whether these cities would have been far worse off if they had not offered a variety of incentives. Yet, to the extent that all of these incentives involve substantial tax expenditures it seems likely that these communities have had fewer resources that can be used to provide the services which are correlated with economic health such as public safety, recreation and culture, and general civic infrastructure.

#### COMPARING THE RELATIVE EFFECTS OF DEVELOPMENT STRATEGIES

To explore the relative effects of various economic development policies, regression analyses were run with 2010 health index scores as the dependent variable and all of the development programs that were significantly correlated with 2010 health as independent variables. Based on previous analysis, these variables include the following: using all types of incentive programs; using no incentive programs; using a combination of TIF and abatements; using only MEGA; Neighborhoods in Progress as part of the Cool Cities Initiatives; Brownfield

Redevelopment TIF, DDAs, spending for general government services, spending for public safety, and spending for recreation and culture.<sup>10</sup> Table 24 provides the results of the regression analysis including all of these variables.

Of the variables included based on their bivariate correlations with health, only three remain significantly correlated with health in multiple regression; not using all incentives, lower general government spending, and higher public safety spending. Using no incentives and not having a DDA approach significance. A reduced model is presented in Table 25 including all the variables at or near significance in multiple regression. Spending for all three categories has been combined into a single index variable because of significant multicollinearity among these categories which also likely to have caused the general government spending variable to change direction in multiple regression. The reduced model indicates that cities with healthier economies in 2010 were those that did not offer all possible incentives, that indeed offered none, and that had higher spending for general government, public safety and recreation and culture services. It should be noted that the  $R^2$  values for both equations are quite low. The reduced model accounts for only 19% of the variation in economic health. Clearly there are other factors, either other development incentives, or more likely, other aspects of individual cities that need to be included to provide a complete accounting of residential economic health.

These findings beg the question: if traditional and widely used economic development incentives are not doing a very effective job of accounting for variations in residential economic health among cities in Michigan, what does? While the focus of this report is not to explain economic health, it is useful to consider this question in order to place economic development activities in the larger context of what forces are related to economic prosperity. Extant literature

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<sup>10</sup> In the case of spending only the 2009 per capita values were used to eliminate multicollinearity, although spending in these categories for all years were correlated with health in 2010 with the exception of 2010 recreation and culture spending.

identifies a number of important factors including crime rates, quality of local schools, spending for local public schools, presence of family households, and public amenities such as parks and libraries (see Reese and Ye, 2011, and Reese, 2012 for a more detailed discussion of this literature). Data for some of these critical variables were collected as part of this project and provide some interesting insights.

Table 24: Regression Results: Economic Development Policy and Health

Variable	B	Standard error	Beta	Significance
MTARC	-.67	.34	-.16	
TA	-.12	.13	-.06	.05
M	.65	.64	.05	.33
None	.44	.26	.11	.32
NIP	-.05	.11	-.04	.09
BRFA	-.13	.09	-.08	.67
DDA	-.21	.13	-.10	.15
General govt.	.00	.00	-.12	.09
Public safety	.00	.00	.42	.05
Recreation	.00	.00	.07	.00
Total RZs	.00	.01	-.04	.21
Constant	-.30	.18		.08

$R^2 = .27$

Table 25: Reduced Model, Policies and Health

Variables	B	Standard error	Beta	Significance
MTARC	-.76	.23	-.18	.00
None	.69	.23	.17	.00
Total local spending	.00	.00	.33	.00
Constant	-.70	.13		.00

$R^2 = .19$

First, education data were examined. Table 26 presents correlations between various aspects of the local public school system and economic health.<sup>11</sup> Per student spending on instruction is positively correlated with residential economic health in all time periods. The

<sup>11</sup> Identifying a single school district for each city is necessary because spending and achievement data are reported by district. However, districts do not always follow municipal boundaries. Thus, the largest school district serving each city has been identified and those are the data reported for each community. This is not a perfect measure but has been used in previous research (Reese and Ye, 2011) with similar results.

correlation between instruction expenditure per student and change in health from 2000 to 2010 is negative although the relationship is somewhat less significant. Spending on student support services shows a similar pattern. Education spending in other areas such as administration, capital, and construction has no relationship to economic health. Per student spending for operations tends to be significantly and negatively correlated with health. Total spending is unrelated to health. Thus, simply spending more on education is not necessarily a correlate of economic health – spending on instruction and student services is key. Finally, graduation rates are significantly and positively related to economic health although there is no relationship with health change.

Table 26: Education Data and Health

	Health 80	Health 90	Health 00	Health 10	Change 80-90	Change 90-00	Change 00-10
Instruction \$ per student	.25**	.17**	.20**	.16**	-.09	.10	-.14*
Support \$ per student	.25**	.15*	.20**	.05	-.12*	.13*	-.27**
Administration \$ per student	.02	-.08	-.05	-.04	-.15*	.04	.02
Operation \$ per student	-.07	-.17**	-.15*	-.17**	-.19**	-.01	.03
Capital \$ per student	.12*	.09	.10	.11	.00	.03	-.02
Construction \$ per student	.12	.10	.10	.11	.02	.01	-.01
Total \$ per student	.05	.00	.01	-.21**	-.07	.02	-.29**
Student/teacher ratio	.03	.03	.01	-.03	.01	-.02	-.05
District Performance Score	.09	.06	.07	.05	-.02	.04	-.07
Graduation Rate 1988	.21**	.22**	.20**	.34**	.07	.00	.11
Graduation Rate 2000	.26**	.26**	.26**	.33**	.05	.07	.01
Graduation Rate 2008	.20**	.22**	.22**	.23**	.05	.07	-.09

N=226

Time ordering is more problematic regarding the education data. Spending data are from the 2009/2010 school year. Thus the change variables are the logical independent variables with

spending the dependent. Districts serving cities with improving health have lower total spending as well as lower spending for construction and support services.

Again, based on previous literature, several other contextual variables were examined regarding their relationship with local residential health. Because full 2010 census data are not available, the opportunity to examine local contextual variables is somewhat limited. Table 27 presents correlations for selected census variables and some other local data found to be correlated with economic health in previous research (Reese and Ye, 2011; Reese, 2012). Cities were significantly healthier in 2010 if they had a lower percentage of African Americans, more households with children, less vacant housing, lower crime rates, were closer to a college or university with more than 2,000 students, had more databases available in the local public library, and had fewer public employees in the area of community and economic development.

Table 27: Correlations: Contextual Variables and 2010 Health

Percent black 2010	-.302**
Percent household with kids 2010	.243**
Percent vacant housing 2010	-.200**
Change in crime rate 00-10	-.080
Crime rate 10	-.262**
Number of colleges	-.065
Distance to closest college over 2,000	-.202**
Library Books	-.117
Print Subscriptions	-.077
Local Databases available	.208**
Government Employees: Full Time	-.116
Employees: Parks and Rec	-.057
Employees: Com and Econ Dev	-.185**
Employees: Library	-.070
Building Permits10	.104
Population 2010	-.066

N=273

All economic development variables significantly correlated to health were included in a multiple regression along with education data and other contextual factors in Table 27. The best

fitting regression model is presented in Table 28. Adding the indicated structural variables increased the  $R^2$  to .45, thus 45% of the variation in economic health in 2010 is explained by the variables in the model. Cities are healthier if they spend more on general government services, recreation and culture, and public safety, have lower crime rates and fewer vacant housing units, have higher graduation rates from the local public schools, spend more on instruction and support services in the schools, and offer *no* economic development incentives.

Table 27: Best Fitting Model for Economic Health 2010

Variables	B	Standard error	Beta	Significance
Total local spending	.001	.00	.41	.00
Crime 2010	-.001	.00	-.31	.00
Percent vacant homes	-1.31	.45	-.18	.00
Instructional support per capita	6.024E-5	.00	.09	.13
Graduation rate	.01	.00	.25	.00
None	.92	.26	.21	.00
Constant	-1.68	.35		.00

$R^2 = .45$

## POLICY RECOMMENDATIONS

### Conclusions

Given the complexity of the forgoing analysis, it is useful to provide an “executive summary” of the findings as a way of moving the discussion to logical policy recommendations.

The summary below is organized by the various economic development and government spending policies detailed in the report (see Figures 4 and 5).

**Tax Abatements:** there are no significant relationships between economic health and the use of tax abatements regardless of which factor is considered the independent variable. In other words, consistent with extant research on Michigan municipalities, there is no relationship between the health of a city and its use of PA 198 tax abatements and there is no relationship

between past use of tax abatements and future economic health or changes in health. In short, abatements are completely unrelated to economic health as measured in this report.

**Cool Cities Grants:** there are several significant relationships between the use of Cool Cities grants and the economic health of Michigan cities. First, more economically stressed cities received more Neighborhoods in Progress and Blueprints for Downtown grants. And, the use of these grants is significantly correlated with improvements in economic health over time.

**Tax Increment Finance Authorities:** In most cases, there are no significant relationships between the use of TIFA and economic health. Poorer cities have tended to exhibit greater use of downtown development authorities, however use of DDAs does not appear to have eased the economic stress in these cities. For the other TIFA programs, there is no relationship between program use and health.

**Renaissance Zones:** Cities with poorer economic health have used RZs to a greater extent and this is related to improved economic health over time.

**MEGA:** there are no relationships between the use of MEGA and economic health.

**Government Spending:** There are a number of significant and positive relationships between government spending and economic health. Spending for public safety, recreation and culture, and general government services and buildings is positively correlated with economic health. Additionally, investment in instruction and support services in local public schools also shows consistent and positive relationships with economic health. Although per capita education spending does not appear to be positively correlated with economic growth over time it is important to note that research has not found consistent relationships between gross spending levels and educational quality in terms of test scores. Clearly, many factors in addition to money lead to a quality public education system. Yet, the consistent positive correlations between



graduation rates and economic health support the contention that local school quality is an important element in local prosperity.

Figure 4: Incentive Summary

Incentive	Relationship to future health	Relationship to change in health
<b>Tax Abatements</b>	None	None
<b>Cool Cities</b>		
Neighborhoods in Progress	Negative	Positive
Main street	None	None
Blueprints for Downtowns	Negative	Positive
Blueprints for Neighborhoods	None	None
<b>TIF</b>		
Local development Finance Authorities	None	None
Community improvement areas	None	None
Brownfield Redevelopment Financing Authorities	None	None
Tax increment Finance Authorities	None	None
Downtown Development Authorities	Negative	None
<b>Renaissance Zones</b>	Negative	Negative
<b>MEGA</b>	None	None
<b>Government Spending</b>		
General government	Positive	Positive
Public works	None	None
Economic Development	None	None
Public Safety	Positive	Positive
Recreation/culture	Positive	None
Education	Positive	Negative

**Combinations of Development Incentives:** Of the 17 combinations of economic development programs examined, 12 have either negative or no relationship with economic health, with the latter predominating. The combinations that appear to offer some promise include: doing all types of incentives; utilizing no incentives at all; TIFA and RZs; MEGA, TIFA, abatements, and Cool Cities; and, RZs and MEGA. Doing all types of incentives appears to have had positive results for only the very sickest cities and it has not allowed them to make health improvements relative to other cities in the state.

Figure 5: Strategy Summary

Incentive Combination	Relationship to future health	Relationship to change in health
All	Negative	Positive
TIF, IFT, RZ, Cool	None	None
MEGA, TIF, IFT, Cool	None	None
MEGA, RZ, Cool	None	None
RZ, Cool	None	None
MEGA, IFT, Cool	None	None
IFT, Cool	None	None
IFT, RZ, MEGA	None	Positive
IFT, RZ	None	None
TIF, RZ	None	None
MEGA, TIF, IFT	Positive	Negative
TIF, IFT	Negative	None
MEGA, IFT	None	None
IFT	None	None
MEGA, TIF	None	None
TIF	None	None
MEGA	Positive	Negative
None	Positive	None

### Caveats

Before policy recommendations are offered a number of caveats must be raised about the limitations of the data and analysis contained in this report. These are delineated below.

- The variables measuring combinations of economic development incentives simply indicate whether a particular number or combination is used, not the extent to which it is used. It is possible that very high and intensive use of all incentives (large numbers of large abatements, many TIF districts with a lot of land for example) would be more effective.
- Much census data for 2010 is not available.

- Causation cannot be ascertained with certainty even with the comparison of past incentive use to current economic health due to the inability to identify an instrumental variable which would allow the establishment of cause.
- Absent an experimental design it is impossible to determine what would have happened without the use of development incentives in the cities that rely on them heavily. It is possible that cities like Detroit and Benton Harbor would be even worse off absent the use of incentives.
- The findings here apply only to cities in the state. Townships also use many of these development incentives at high rates. Indeed, this is particularly true of tax abatements. Based on past research including townships it seems safe to conclude that the findings including them would be very similar, however (see Sands and Reese, 2012).
- Related to the above, because the criteria for inclusion was incorporation as a city, there is wide variation in population size from Lake Angeles to Detroit.
- It should be remembered that the health measure used here is residential economic health. Other measures of economic wellbeing might elicit different results. Further, only relative health is measured.
- In some cases such as the Cool Cities program, there are relatively few cities using the incentive. Thus, some significant relationships might be muted in the data; this is unlikely to change the direction of the relationships however. In particular Cool Cities may have had a greater positive effect than is represented here.

### Policy Recommendations

The factors most consistently and positively related to economic health are investments in the downtown, spending on basic local public services, and doing no economic development

incentives at all. These findings suggest one primary policy recommendation; the wisest course of action for most cities in the state would be to eschew particularized development incentives, particularly those that require tax expenditures, and instead, husband local revenues to be able to support basic services to residents and allow for investments in place. Using municipal revenues to provide high quality local services, particularly in the areas of public safety, education, recreation, and the arts appears to be the most effective economic development strategy.

Again, there are limitations to this study, most importantly, the lack of controls to determine time ordering and to rule out other local forces that logically effect residential health. However, including such controls will not likely create relationships between most of the incentives and health where none exist here. It is possible, however, that the problem with incentives lies not in the use of them but in their application. In other words, if incentives were used differently, greater effectiveness might result. Indeed, past research on Michigan's tax abatement and Renaissance Zone programs and national studies of tax increment financing authorities has highlighted how such incentives can be used to greater effect.

It has been suggested that **tax abatements** can be used more effectively if they are targeted, limited, and evaluated (Sands and Reese, 2012). More specifically it is recommended that tax abatements:

- Be limited in their use based on need of the local unit, type of investment proposed, the likelihood of verifiable new jobs, and industry of the firm.
- Incorporate limits on the length of time periods for use, the number of abatements received by the same firms, and on the number of the same jobs supported by abatements.
- Link benefits to performance whereby tax relief is in proportion to the achievement of specific targets involving jobs and investment.

- Include evaluation of requests based on necessity and consistency with local economic objectives.
- Include monitoring of results including mandatory reporting of investment and job creation.

Policy research on **TIFs** has made similar recommendations again focusing on targeting and assessment but also involving community oversight (Sands et al, 2006). Specifically it has been recommended that:

- Designation criteria at both the state and local levels should include findings of blight and “but for” requirements to ensure that TIF districts are being targeted to areas that really need them.
- TIFs should be targeted regarding both which municipalities are eligible to use them and which areas within eligible communities may receive designation understanding that there are some areas so distressed that TIF alone or even in combination with other activities, is unlikely to help.
- State enabling statute should require the development of a neighborhood plan that assesses existing deficiencies and outlines steps proposed to address them. If necessary improvements cannot reasonably be expected to achieve objectives, designation as a TIF would not be appropriate. Plans should address site selection, infrastructure or capital plans, process specifications, and public participation.
- Limitations should be considered on the number of TIFs allowed, and the length of time that a TIF district can remain in effect.

- TIF governance should involve citizens in project and spending decisions to assure that public needs and goals are addressed also increasing the transparency of the TIF decision-making process.
- Financial strategies in designating TIFs should be made explicit. Designating some already growing areas as TIF districts will allow prior investments to generate revenue that can be used in other locations (if TIF life spans are limited) or contribute to other projects within the initial area.
- Developers should be required to assist with upfront costs via developer notes.

Early research on **Renaissance Zones** made similar recommendations with respect to targeting and assessment (Sands, 2003):

- Communities should make the benefits of zone designation known to current occupants.
- Instead of emphasizing the creation of new industrial parks or reusing derelict sites, zones should be designated so as to include significant amounts of established businesses. Nurturing the local job base may be more effective than efforts to expand it where markets do not exist.
- Municipalities should limit the size of the areas designated as tax free so as to avoid having more space than the market can absorb. The overextension of the zone boundaries results in costs to the State and local governments that produce no direct benefits
- A more thoughtful and targeted approach to the utilization of this tax benefit is recommended. This would include a negotiated approach, with the geographic area of the zone tailored to a specific development proposal. Tax exemptions should be tied directly to a firm commitment with respect to the amount and timing of investment and

job creation. Consideration is should also be given to adjusting the length of the zone tax benefits to the amount of investment or job creation. Proposals that would produce few jobs should be given a shorter tax free period.

- Assessments of zones should include: project activity tracking; benchmarking to compare outcomes in the absence of zones, spillovers to areas and businesses outside the zones; resident surveys; the extent of property speculation; additional public costs from the zones; and impacts from an expansion of tax free zones.

In summary, these findings from the state of Michigan suggest that public subsidies in the form of tax abatements, tax increment financing arrangements, and the most extreme tax remission, RZs appear to do little to change local economic fortunes either for better or worse, at least as typically implemented. Recommendations for more effective use focus on better planning and evaluation, targeting, and limitations. While it is tempting to suggest that these types of incentives should be “disabled” at the state level, it is unlikely that this would be a politically feasible solution given their widespread use and long history. But, it is just as unreasonable to expect that local governments will curtail their use voluntarily even in the face of negative evaluations. As the old saying goes, “if all you have is a hammer, then every problem looks like a nail.” Unless limitations are built into state enabling legislation then municipalities will continue to use these hammers because they are readily available.

A broader understanding of the process and goals of economic development and greater limitations on particularized development tools may foster an environment where local officials look to other ways of fostering fiscal prosperity. Recognizing investment in local services, including public schools, as a potentially effective economic development strategy is a critical first step. Making clear the trade-offs between tax expenditures and the ability to provide high

quality local services is another. Exploring how the state might support and enhance the ability of its municipalities to provide essential local services may be the best way to offer local policy-makers a more complete and sustainable toolbox.



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