



CITIZENS RESEARCH COUNCIL
OF MICHIGAN



SURVEY OF ECONOMIC
DEVELOPMENT PROGRAMS
IN MICHIGAN

THIRD EDITION

FEBRUARY 2016

REPORT 392

CELEBRATING 100 YEARS OF INDEPENDENT, NONPARTISAN
PUBLIC POLICY RESEARCH IN MICHIGAN

BOARD OF DIRECTORS

Chair
Terence M. Donnelly

Laura Appel
Michigan Health & Hospital Association

Michael G. Bickers
PNC Financial Services Group

James Davlin
General Motors. Retired

Daniel Domenicucci
Ernst & Young LLP

Terence M. Donnelly
Dickinson Wright PLLC

Beth Dryden
Detroit Medical Center

Randall W. Eberts
W. E. Upjohn Institute

Sherrie L. Farrell
Dykema

Richard A. Favor, Jr.
Deloitte Tax LLP

Vice Chair
Aleksandra A. Miziolek

John J. Gasparovic
BorgWarner Inc.

June Summers Haas
Honigman Miller Schwartz and Cohn LLP

David R. Hay
Kelly Services

Marybeth S. Howe
Wells Fargo Bank

Gordon Krater
Plante Moran

William J. Lawrence III
Varnum

42 North Partners LLC

Kristen McDonald
The Skillman Foundation

Michael P. McGee
Miller, Canfield, Paddock and
Stone PLC

Treasurer
Kelly Rossman-McKinney

Aleksandra A. Miziolek
Cooper-Standard Automotive Inc.

Paul R. Obermeyer
Comerica Bank

Kevin Prokop
Rockbridge Growth Equity, LLC

Jay Rising

Milton W. Rohwer
TALENT 2025

Kelly Rossman-McKinney
Truscott Rossman

Candee Saferian
PVS Chemicals, Inc.

Carolee K. Smith
CMS Energy Corporation

Christine Mason Soneral
ITC Holdings Corp.

Larry Yachcik
Porter Hills

BOARD OF TRUSTEES

Chair
Eugene A. Gargaro, Jr.

Terence E. Adderley
Kelly Services, Inc.

Donald Bachand
Saginaw Valley State University

Jeffrey D. Bergeron
Ernst & Young LLP. Retired

Stephanie W. Bergeron
Walsh College

Beth Chappell
Detroit Economic Club

Richard T. Cole
Cole Creative LLC

Brian M. Connolly
Oakwood Healthcare, Inc., Retired

Matthew P. Cullen
Rock Ventures LLC

Stephen R. D'Arcy
Detroit Medical Center

Richard DeVore
PNC Bank

Terence M. Donnelly
Dickinson Wright PLLC

John M. Dunn
Western Michigan University

David O. Egner
Hudson-Webber Foundation
New Economy Initiative

David L. Eisler
Ferris State University

Fritz Erickson
Northern Michigan University

David G. Frey
Frey Foundation

Mark T. Gaffney
Eugene A. Gargaro, Jr.
Manoogian Foundation

Ralph J. Gerson
Guardian Industries Corporation

Allan D. Gilmour
Wayne State University, Emeritus

Alfred R. Glancy III
Unico Investment Group LLC

Ingrid Gregg
Earhart Foundation

Thomas J. Haas
Grand Valley State University

Richard C. Hampson
Citizens Bank

James S. Hilboldt
The Connable Office, Inc.

Paul C. Hillegonds
DTE Energy Company. Retired

Daniel J. Kelly
Deloitte. Retired

David B. Kennedy
Earhart Foundation

Mary Kramer
Crain Communications, Inc.

Gordon Krater
Plante & Moran PLLC

Edward C. Levy, Jr.
Edw. C. Levy Co.

Daniel T. Lis
Attorney-At-Law

Daniel Little
University of Michigan-Dearborn

Alphonse S. Lucarelli
Ernst & Young LLP. Retired

Sarah L. McClelland
JPMorgan Chase & Co.

Anne Mervenne
Mervenne & Co.

Aleksandra A. Miziolek
Cooper-Standard Automotive Inc.

Glenn D. Mroz
Michigan Technological University

Mark A. Murray
Meijer Inc.

James M. Nicholson
PVS Chemicals

Don R. Parfet
Apjohn Group LLC

Philip H. Power
The Center for Michigan

John Rakolta Jr.
Walbridge

Milton W. Rohwer
George E. Ross
Central Michigan University

Gary D. Russi
Nancy M. Schlichting
Henry Ford Health System

John M. Schreuder
First National Bank of Michigan

Amanda Van Dusen
Miller, Canfield, Paddock
and Stone PLC

Kent J. Vana
Varnum

Theodore J. Vogel
CMS Energy Corporation

Gail L. Warden
Henry Ford Health System, Emeritus

Jeffrey K. Willemain
Deloitte. Retired



CITIZENS RESEARCH COUNCIL OF MICHIGAN

SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN

THIRD EDITION

FEBRUARY 2016

REPORT 392

Current Through 98th Michigan Legislature (2015 Regular Session)

**This report was prepared with assistance from the law firm
Miller, Canfield, Paddock and Stone PLC**

CITIZENS RESEARCH COUNCIL OF MICHIGAN



MAIN OFFICE 38777 Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004

LANSING OFFICE 115 West Allegan, Suite 480 • Lansing, MI 48933-1738 • 517-485-9444 • Fax 517-485-0423

CRCMICH.ORG

SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN

Do you find this report useful?

The Citizens Research Council of Michigan is a non-profit organization that can only provide information to policy makers and citizens with support from people like you. You can learn more about the organization at www.crcmich.org/about. If you found the contents of this report useful and wish to provide financial support to help carry on CRC's mission, please fill out the form below and send it to:

Citizens Research Council of Michigan
38777 Six Mile Road, Suite 208
Livonia, MI 48152-3974

YES! I want to help in the support of sound public policy in Michigan!

NAME _____

ADDRESS _____

EMAIL / PHONE _____

- I wish to make a one-time, tax-deductible gift of: \$ _____
- I wish to pledge a total of \$ _____ with an initial payment of \$ _____ .
- I would like my contribution to support: Annual Fund Endowment
- Please mark my gift:
 Anonymous In Honor Of: _____
 In Memory Of: _____
- Gift will be matched by: _____

Or donate online at www.crcmich.org

LOANS

Federal Small Business Administration Loans
Freight Economic Development Program
Rail Loan Assistance Program
Urban Land Assembly Program

FEDERAL SMALL BUSINESS ADMINISTRATION 504 LOAN PROGRAM

ENABLING LEGISLATION;

STATUTORY CITATION: 15 U.S.C. 697e

SUMMARY PROGRAM

DESCRIPTION:

The SBA 504 program is a small business loan program administered by the United States Small Business Administration (SBA) in the Department of Commerce through Certified Development Companies (CDCs), non-profits and regionally-focused, public/private organizations certified by the Small Business Administration.

BENEFITS AND

ELIGIBILITY CRITERIA:

For-profit corporations, partnerships or proprietorships with a net worth of less than \$15 million and an average net profit after tax of less than \$5 million for the past two years are eligible. In addition, the small business applicant must be the user of the fixed assets being financed. Loans typically range between \$250,000 and \$10 million.

Borrowers must have an existing cash flow from business operations greater than the debt service needed to pay both existing debt and debt resulting from the proposed loan, and sufficient collateral to secure the loan. In certain cases, the SBA 504 program will finance start-up businesses. Loans cannot be made to passive income and real estate companies, financial institutions and nonprofit businesses, or to a business engaged in speculation or investment in rental real estate.

Borrowers must create or retain one new job for each \$65,000 of debenture (credit guarantee) (or \$100,000 for manufacturing). Projects that have low job creation, but achieve SBA public policy goals, may be considered.

TERMS AND PERFORMANCE

GUARANTEES:

Eligible Purposes:

Proceeds from 504 loans must be used for fixed asset projects such as: purchase of land and buildings or machinery and equipment with a useful life of at least ten years, land improvements, renovation or additions to existing buildings, and leasehold improvements. A 504 loan cannot be used for working capital or inventory or consolidating, repaying, or refinancing debt.

Terms:

Loan terms are offered for 10 or 20 years, depending on the type of assets financed, with the requirement that the useful life of the assets must equal or exceed the loan term. The participating private lender's loan must carry a minimum term of 7 years for projects involving machinery and equipment acquisition only, and 10 years for projects involving real estate financing.

Structure:

The typical loan structure consists of a 50/40/10 financing split between the senior private sector lender or bank (50 percent of financing), an SBA Certified Development Company backed by 100 percent SBA guaranty (40 percent of financing), and an equity contribution from the borrower (10 percent). Maximum SBA debenture (credit guarantee) is \$5 million for general projects, \$5.5 million for projects that achieve an SBA public policy goal, or \$4 million for small manufacturing firms. (A small manufacturer is defined as a company that has its primary business classified in sector 31, 32, or 33 of the North American Industrial Classification System (NAICS) and all of its production facilities located in the United States.)

FEDERAL SMALL BUSINESS ADMINISTRATION 504 LOAN PROGRAM (CONTINUED)

Fees:

A onetime processing fee equal to 3 percent of the loan for 20-year loans (2-5/8 percent for 10-year loans), and legal fees of \$2,500 is built into the actual loan amount and is financed over the term of the loan. A onetime participation fee equal to 1/2 percent of the bank's senior loan is due at closing. An ongoing servicing and SBA fee on the declining loan balance is built into and included in the effective loan interest rates.

Other Specifications:

The interest rate is fixed and is generally below market rates. The participating private lender's loan may be fixed or variable with a rate that is legal and reasonable.

SBA 504 loans are typically secured by a lien on fixed assets acquired with loan proceeds to reasonably assure loan repayment. The lien is subordinate to the private lender's position. In addition, the SBA requires personal guarantee(s) of the principal(s) who own 20 percent of the business.

DATA AND SOURCE:

Michigan SBA District Office:

477 Michigan Avenue, Room 515
 Detroit, Michigan 48226
 p: (313) 226-6075 f: (313) 226-4769
michigan@sba.gov
www.sba.gov/mi

Michigan Certified Development Companies:

Economic Development Foundation-Certified, Grand Rapids (888) 330-1776
 Lakeshore 504 - South Office, Holland (616) 392-9633
 Lakeshore 504 - North Office, Grand Haven (616) 846-3153
 Metropolitan Growth and Development Corporation, Southgate (734) 362-3447
 Michigan Certified Development Corporation – Northern Michigan Offices
 Cadillac (231) 878-1302
 Traverse City (231) 943-1024
 Michigan Certified Development Corporation – Headquarters,
 Lansing (517) 886-6612
 Michigan Certified Development Corporation – Greater Grand Rapids
 Grand Rapids (616) 773-3027
 Michigan Certified Development Corporation – Metro Detroit Offices
 East-St. Clair (810) 329-4340
 West- Plymouth (734) 222-4954
 Oakland County Business Finance Corporation, Waterford (248) 858-0765
 SEM Resource Capital, Livonia (734) 464-4418

DISCUSSION:

The SBA 504 program provides loan guarantees from the United States government to local participating lenders. The Small Business Administration offers many other types of small business assistance, which may be found on their Web site at www.sba.gov. Michigan Small Business & Technology Development Centers (see **Appendix D**) and satellite offices throughout the state can offer more information on available SBA programs.

The U.S. Economic Development Administration (EDA) offers a broad set of federally-sponsored local economic development programs, which are found on their Web site at www.eda.gov.

FREIGHT ECONOMIC DEVELOPMENT PROGRAM

**ENABLING LEGISLATION;
STATUTORY CITATION:**

1951 PA 51 (original appropriation); as amended by 1976 PA 295; M.C.L. 474.67

**SUMMARY PROGRAM
DESCRIPTION:**

Administered by the Michigan Department of Transportation, the Freight Economic Development Program finances projects that assist in the development of rail spurs and connector systems to improve the delivery and flow of rail commerce to applicant private sector concerns.

**ELIGIBILITY AND
BENEFITS:**

Businesses, or local units of government on behalf of businesses, may apply for a loans/grants, for up to 50 percent of eligible project costs associated with rail infrastructure improvement that facilitate economic development. Other private sector concerns related to rail shipping and receiving, such as silos or unloading devices, are not eligible. Loans are set to be repaid over a 5 year period, but can be totally or partially forgiven provided the facility is properly maintained and annual shipping commitments (built into the contract) are met. If the shipping commitments are met for each of the 5 years, the loan is effectively converted into a grant. The applicant must supply collateral for the loan in the form of an irrevocable letter of credit.

TERMS AND PERFORMANCE

GUARANTEES:

Priority is given to projects that anticipate multiple users or future public use; other considerations are expected job creation or retention, projected carloadings, local economic impact, total investment, relative project costs and the feasibility of transportation alternatives. MDOT accepts applications throughout the calendar year. The State Transportation Commission and the State Administrative Board must also approve all loan/grants, which generally takes about 60-90 days from receipt of application.

Loan terms include financing, at two percent less than the current prime rate, for up to 50 percent of allowable project costs, generally defined as the rail infrastructure itself.

DATA AND SOURCE:

According to the Michigan Department of Transportation, \$1.2 million was provided for project funding in 2006. The amount of funding available is based upon annual appropriations and competing priorities. Funding decisions are based upon exhibited needs and anticipated benefits.

From 1995-2006, the Freight Economic Development Program funded 36 projects, which represents over \$14 million in state investment. The program contributed toward the creation and/or retention of an estimated 3,100 jobs, and generated close to 90,000 annual carloads.

For more information, see the MDOT website at www.michigan.gov/mdot/0,4616,7-151-11056_22444_56500---,00.html

DISCUSSION:

A companion rail program, the Rail Loan Assistance Program, is discussed on page 22.

RAIL LOAN ASSISTANCE PROGRAM

ENABLING LEGISLATION;

STATUTORY CITATION: 1996 PA 341 (original appropriation); as amended by 2002 PA 747; M.C.L. 474.65a

SUMMARY PROGRAM

DESCRIPTION:

Administered by the Freight Services and Safety Division of the Michigan Department of Transportation (MDOT), the Michigan Rail Loan Assistance Program (MiRLAP) offers interest free loans to help preserve and improve Michigan's rail freight infrastructure.

ELIGIBILITY AND

BENEFITS:

Ten-year, no-interest loans are available to railroads, local governments, economic development corporations and current or potential users of freight railroad services for qualifying projects that help preserve or improve railroad infrastructure in Michigan. Qualified projects include, but are not limited to, track rehabilitation, bridge and culvert repair and construction of the rail portion of a transload facility. Loans may also be used to acquire rail property and to provide a nonfederal match for any federal rail infrastructure program.

MiRLAP is a competitive program and conducts an annual call for projects. Applications submitted during the call for projects must be for work scheduled for that construction season. Projects are evaluated using selection criteria, which are designed to determine the relative importance of projects in relationship to the program's goal of preserving and improving Michigan's rail freight infrastructure.

TERMS AND PERFORMANCE

GUARANTEES:

Successful applicants can receive loans that fund up to 90 percent of eligible project costs. The loan recipient must provide a funding match of 10 percent of eligible project costs; expenditure of the funding match is required before state funds may be drawn down. Loans are non interest-bearing, and the loan repayment period shall not exceed 10 years.

Loans are limited to \$1 million per project, per applicant. Applicants must demonstrate ability to repay the loan and provide one or more forms of collateral, e.g., an irrevocable letter of credit or first lien on assets. All loans must be approved by the State Transportation Commission and the State Administrative Board, which generally takes 60-90 days after applications are evaluated. Applications are due in January.

DATA AND SOURCE:

According to MDOT, approximately \$3.9 million was made available for project funding in 2014. These projects are projected to support approximately 460 new positions throughout the state and ship over 4800 carloads of freight via rail.

For more information, see the MDOT website at www.michigan.gov/mdot/0,4616,7-151-11056_22444_56500---,00.html

DISCUSSION:

The Freight Service and Safety Division administers a companion rail program, the Freight Economic Development Program, which is discussed on page 21.

URBAN LAND ASSEMBLY PROGRAM

ENABLING LEGISLATION;

STATUTORY CITATION: 1981 PA 171; M.C.L. 125.1851 et seq.

SUMMARY PROGRAM

DESCRIPTION:

A state-based revolving loan fund, administered by the Michigan Economic Development Corporation (MEDC), available to urbanized local units of government for the purpose of land assembly to facilitate industrial and commercial development.

ELIGIBILITY AND

BENEFITS:

Eligible local units are those with one of the following:

- An unemployment rate more than 70 percent of the annual average statewide unemployment rate most recently released by the Michigan Employment Security Agency ;
- Population growth less than 75 percent of the state's average growth rate based on the most recent U.S. Census Bureau's published figures; or
- a change in state equalized value less than 50 percent of the state's five year average as reported by the State Tax Commission.

Local units that require assistance for land assembly for economic development projects are eligible for low-interest loans that can be used for the direct costs of land acquisition, demolition, relocation and site improvements necessary to make the land marketable.

TERMS AND PERFORMANCE

GUARANTEES:

Land acquisition for industrial use must consist of at least 10 contiguous acres located within the legal boundaries of the municipality. Acquisition of less than 10 acres is allowable only if the project is industrial and of a "critical" nature. Acquisition of land for commercial use must be located within a Downtown Development Authority (see page 65) district.

According to the Act, priority shall be given to projects which yield the highest number of jobs per dollar of loan investment; receive private sector, local or federal government contribution of at least half of the project cost; make long-term contributions to the local tax base; contribute significantly to neighborhood revitalization; and identify a potential, immediate use for the property to be purchased.

Upon sale or lease of the real property, the municipality (or a nonprofit development organization designated by the municipality to plan and implement the project) will repay into the revolving fund a portion of the proceeds from the sale or lease of the land and improvements. The amount repaid shall be of the same proportion as the amount the original loan was to the total cost of the project; therefore, if the Urban Land Assembly Loan financed 30 percent of the total project cost, then 30 percent of the proceeds from the sale or lease of that project must be repaid to the Urban Land Assembly Fund. If the local unit is unable to fully repay the loan in this manner, or if the land had to be sold for less than the cost of the project to be competitive, then the remainder of the loan shall be repaid within 10 years of the sale or lease of the real property according to the provisions in the loan document.

The total amount of loan funding which a municipality may receive in any one year shall not exceed one-half of the assets in the fund.

The program also has an exit-visa provision for any project that has the effect of transferring employment from one municipality to another.

DATA AND SOURCE:

Since 1989, the Urban Land Assembly program has financed 32 projects. Three projects were open at the end of FY2014.

URBAN LAND ASSEMBLY PROGRAM (CONTINUED)

DISCUSSION:

The Urban Land Assembly program was created to address the difficulty of land assembly for the purpose of economic development. Given that urban parcels are typically smaller than non-urban parcels, it is typically a more time-consuming task to acquire land for projects in urban areas than in non-urban areas, insofar as a greater number of property interests must be dealt with, acre for acre.