

**MICHIGAN RENAISSANCE ZONES IN THE  
ECONOMIC DEVELOPMENT CONTEXT**

**November 1998**

**REPORT NO. 324**

Governmental Research Since 1916

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was made possible by a grant from the Hudson-Webber Foundation.

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**Citizens Research Council of Michigan**

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# MICHIGAN RENAISSANCE ZONES IN THE ECONOMIC DEVELOPMENT CONTEXT

## Foreword

The following examination of renaissance zones is preliminary in nature. The zones are a long-term economic development program, ranging from 10 to 15 years in tenure. Having been up and running for over a year and a half, the six urban, three rural, and two closed military facility zones have not had adequate opportunity to prove their business attraction mettle. Business relocation decisions can sometimes take years just within the internal structure of the business, with additional months of bureaucratic approval beyond the organization's decision to proceed.

That said, the Michigan Jobs Commission reports favorable numbers of businesses that have moved into or plan to move into renaissance zones during the zones' short span of existence. Each week or two brings another story in print media about the latest business expansion or relocation to a renaissance zone. These expansions and relocations *are* important stories, because the benefiting business has the opportunity to operate with about a 95 percent discount on state and local taxes payable in the zone for the next decade. While major state and local tax abatements are nothing new, they are often awarded to larger employers, who sometimes threaten to leave unless they get a tax break. Small companies (fewer than 50 employees) typically have a much harder time securing such breaks, at least from the local unit of government. Renaissance zones are the smaller company's chance at a significant local tax break, and it is no surprise that they want in.

One distinguishing characteristic of renaissance zones is that they do not discriminate among the types of business (except for casinos) that may benefit from the tax waivers. As long as a business is current on state and local taxes, and is located in the zone, it is eligible. Extension of applicable tax benefits to residents is another characteristic unique to renaissance zones. While previous state and federal zone programs offered indirect benefits to zone residents (e.g., hiring preferences, social and infrastructure programs), none has offered such a comprehensive, direct tax exemption to non-employer, zone domiciles.

The sobering downside of the renaissance zones is that they are not prime real estate. While no zone is like any other (there are three different zone classifications), the typical zone parcel is either environmentally distressed or legally encumbered. As such, the process of securing title to the property and getting a green light for development can quickly turn the tax break carrot into a pickle. Many of the chosen zones were areas that had been given up on by local governance, with renaissance zone designation effectively being the last chance for near-term development on the site.

As the renaissance zone program begins to close in the next decade, evaluation models and cost-benefit analyses will no doubt be executed to assess their effectiveness. Indeed, the Michigan Jobs Commission (administering agency of renaissance zones) budgeted for and contracted with a Lansing-based policy research firm to perform such an evaluation. Given the conflicting views on the efficacy of previous state and federal zone programs, it is hoped that a stronger consensus evolves among evaluators and policymakers regarding renaissance zones' ability to produce meritorious economic development.

The Citizens Research Council of Michigan's Center for the Study of Economic Development Policy thanks John Czarnecki, Margaret O'Reilly, Kathleen Blake and Doug Adams of the Michigan Jobs Commission for their comments, clarifications and suggestions. The Center also thanks Gary Sands of Wayne State University's Department of Geography and Urban Planning, Annette Gattari-Ross of the City of Warren, Rick Chapla of The Right Place Program, Eric deKok of the City of Grand Rapids Planning Department, and Greg Borowski of the Lansing State Journal for significant factual contributions.

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# MICHIGAN RENAISSANCE ZONES IN THE ECONOMIC DEVELOPMENT CONTEXT

## Introduction

### **Background of Targeted Economic Development Programs in Michigan**

Geographically targeted economic development programs exist in various forms in most states. Often referred to as a “zone” program, 37 states (and the District of Columbia) now administer one form or another of a targeted, zone-type economic development program. This does not include federal targeted zone programs, including Empowerment Zones, Supplemental Empowerment Zones, Enterprise Communities (urban and rural), and Enhanced Enterprise Communities, now in 42 states.

**Tax Abatement as Incentive.** Although state-based zone program features vary from state to state, their overall premise is uncomplicated: move your business into a zone, and receive some form of state-sanctioned incentive. The aforementioned federal zone programs offer federal tax credits to employers who hire zone residents, in addition to accelerated tax depreciation schedules, while many state programs (including Michigan) offer state business and income tax breaks for being in the zone.

**Zone Program Types.** Targeted zone programs fall in to two classes: those that are competitively awarded, and those that are optional by virtue of enabling legislation. Competitively awarded zones involve a lengthy application process, pursuant to application requirements such as an inventory of local resources and a carefully conceived strategic plan. Examples of competitively awarded zones include Federal Empowerment Zones and Enterprise Communities, and the zones that are the focus of this report, Michigan Renaissance Zones. Optional zone programs give qualifying local units of government the option of setting up the zone, with far less stringent application requirements, relative to competitively awarded zones. Examples of optional zone programs in Michigan include Downtown Development Authorities and Neighborhood Enterprise Zones.

### **Use of Distress Criteria for Competitively Awarded Programs.**

The most common feature of competitively awarded state and federal zone programs is that they are targeted at areas that have suffered economic disinvestment, usually defined in terms of depressed socio-economic status of residents, or declining property values for land and development. Typically, the unit of aggregation considered for inclusion in a targeted zone is a large, legally defined area such as a census tract or a municipal boundary. Such areas must meet eligibility criterion of economic distress. For example, eligibility requirements for the federal Empowerment Zone program mandated that the proposed zone be comprised of a contiguous set of census tracts, that do not collectively contain more than 200,000 persons, or more than 10 percent of the entire applicant city's population. Criterion of distress included that at least one-half of the tracts in the zone have household poverty rates of at least 35 percent.

While causes of local economic distress are complex, the solution, as presented by targeted zone programs, has been to provide tax incentives to businesses that locate in them. Although provision of incentives to businesses is not the only function of targeted zone programs (the federal zones offer significant direct subsidies to community-based organizations and non-profit community ventures), the ultimate aim is to spur business development through the provision of such incentives. Theoretically, an increase in business activity and development should improve distressed areas by hiring local residents into new jobs, and by increasing local property tax revenue.

### **Distinguishing Characteristics of Renaissance Zones.**

Michigan renaissance zones deviate from typical state or federal targeted zone programs for two major reasons: they are more accurately described as a tax exemption program rather than a tax abatement program, and; zone boundaries need not respect established, bounded areas such as municipal borders or census tracts.

Unlike Michigan enterprise zones (located in Benton Harbor and Muskegon), renaissance zones effectively eliminate major state and local taxes payable by businesses and residents, except for state sales and use taxes. This applies to existing business and those that move there after the zones' inception. In contrast, Michigan enterprise zones waive, for "qualified" enterprise zone businesses, the Single Business Tax, the Sales Tax on purchases made by qualified zone businesses, and approximately 50 percent of the real and personal property taxes levied in the zone. In order to qualify for state enterprise zone tax exemptions, a business must either relocate all or part of its operations to the zone, or expand operations by at least 50 percent if already located in the zone.

Renaissance zones are also unique because of their flexible, hyper-targeted characteristics. The sponsoring agency, the Michigan Jobs Commission, allowed renaissance zones to range from 20 to 5,000 acres in size, and allowed the entire zone to be subdivided into up to six "subzones." Furthermore, the Jobs Commission encouraged joint applications from neighboring

local units of government, when previous programs only considered applications from single units of government. The resulting 11 renaissance zones, chosen from an applicant pool of 20, represent a wide-ranging set of local economic development approaches—from the City of Lansing, which requested only 110 acres of zone divided among two subzones, to the 2,900 acre, three-county joint application submitted by Gogebic, Houghton and Ontonagon Counties, each with two subzones.

Renaissance zones are more precisely targeted than other zone programs, in that the only boundaries that they must respect are property lines. This provision allowed renaissance zone application drafters to run zone boundaries through alleys in business areas, and even over waterways, in the case of Manistee County's zone. This flexible boundary strategy allowed drafters to pinpoint those properties—usually abandoned or in a severely reduced state of use—that were generating little or no property tax revenue, and selectively include only such properties in the renaissance zone.

## I. Renaissance Zone Characteristics

### Renaissance Zone Legislation

Michigan Public Act 376 of 1996, entitled the "Michigan Renaissance Zone Act," authorized the creation of six urban, three rural, and two ex-military facilities for designation as renaissance zones. The defined purpose of the Act is

...to foster economic opportunities in this state; to facilitate economic development; to stimulate industrial, commercial, and residential improvements; to prevent physical and infrastructure deterioration of geographic areas in this state; to authorize expenditures; to provide exemptions and credits from certain taxes; to create certain obligations of this state and local governmental units; to require disclosure of certain transactions and gifts; to provide for appropriations; and to prescribe the powers and duties of certain state and local departments, agencies, and officials.

### Specific Tax Incentives

**Tax Exemptions.** For any business<sup>1</sup> or resident of a renaissance zone, the following major state and local taxes are waived:

- Michigan Single Business Tax (2.3 percent of business income plus compensation)
- Michigan Personal Income Tax (4.4 percent)
- Michigan State Education Tax (6 mills)
- Local Real and Personal Property Tax (variable)
- Local Income Tax (if any; 1 percent maximum in most cities; 3 percent maximum in Detroit)
- Utility Users Tax (5 percent of utility consumption; levied in Detroit only)

A complete list of specific taxes waived in renaissance zones is found on pp. 46-47. State and local taxes that residents and employers must continue paying include the state sales tax (6.0 percent), the state use tax (6.0 percent), state unemployment insurance taxes (adjustable rate of .1-9 percent of the first \$9,500 of each em-

<sup>1</sup> Recent amendments to the Renaissance Zone Act and applicable tax statutes have limited the eligibility of tax benefits for casinos locating in renaissance zones.

ployee's wages), local school and non-school debt service (variable, if any), utility property taxes (if applicable), and all other state and local taxes not specifically waived by the Act. Renaissance zones do not waive any federal taxes.

**Disposition of Foregone Tax Revenue.** It is important to note that county portions of local property taxes are also waived, and the affected counties are not reimbursed by the state. Counties that contain renaissance zones were required, in the application process, to file an affidavit acknowledging this. Local school district tax revenues lost because of renaissance zones, on the other hand, are reimbursed by the state. In addition, affected local libraries are reimbursed by the state for revenue forgone by renaissance zones.

**Exemption Limits.** Renaissance zone tax waivers are available for up to \$10 million per individual or organization during the term of the zones. Residents of zones enjoy applicable waivers as long as their annual gross income does not exceed \$1 million.

**Eligible Areas.** Renaissance zones, awarded by application, complied with the following criteria:

- A total of six renaissance zones awarded to urbanized areas, three to rural areas, and two to closed military facilities.
- One or more qualified local governmental units could apply.
- Qualified local governmental units included either counties or local units of government (cities, villages or townships) that contained "Eligible Distressed Areas" as defined by the Michigan State Housing Development Authority. Criteria of distress included poverty rates exceeding the state level, average area incomes of less than 80 percent of the statewide or area median and lower than state average increases in state equalized value of real and personal property.<sup>2</sup>

<sup>2</sup> In 1995, the Michigan State Housing Development Authority designated 87 Eligible Distressed Areas in Michigan.

## **Additional Renaissance Zone Incentives for Local Units of Government**

In July 1997, six months after the zones became eligible for tax waivers, the State of Michigan announced two auxiliary programs to aid renaissance zone communities in business attraction. These include grants of up to \$50,000 each to zone communities to assist in a land inventory process and a low-interest loan program to assist zone communities in building infrastructure required for business attraction. The loan program, known as the Renaissance Park Fund, offers a \$20,000 per job created credit toward principal and interest; loan terms are for five years and up to \$5 million per community. Local communities using the loan program must match at least ten percent of the project's cost, not recoverable through the job credit.

Forgone state and local tax revenues alone could easily amount to a \$100 million subsidy over the 10 to 15 year terms of the zones. The state's willingness to provide additional subsidy strongly suggests its interest in producing results in the zones—even if it means providing funding for activities such as a simple parcel inventory.

With renaissance zones, the Jobs Commission is effectively providing a significant direct subsidy to a small segment of the state, with no assurances that beneficiary businesses will remain in-state (or in a renaissance zone) at the close of the tax-free period. One may presume that the Jobs Commission views such an approach as a loss leader, where the state stands to recoup its forgone tax revenues, and direct subsidies, from spin-off business resulting from new development (and jobs) in the zones.

- Up to six noncontiguous subzones allowed in each zone community.
- Subzones had to be at least 20 acres in size (30 in Detroit), but could not exceed 5,000 acres collectively in each zone community.
- Not more than 50 percent of the property in each community's subzone could be owned by the same ownership interest.

**Terms of Zones.** Renaissance zones carry specific terms of tenure and tax benefit.

- Renaissance zone terms of tenure vary from 10 to 15 years, all beginning on January 1, 1997. Applicants were given the option of determining individual zone tenure in their application.
- Renaissance Zone tax benefits phase out, in 25 percent increments, during the last three years of zone designation. For example, if a given zone has a 12-year term, year 9 offers full tax benefits, year 10, a 75 percent benefit; year 11, 50 percent; and year 12, 25 percent.

## **Selected Renaissance Zones**

The Renaissance Zone Review Board reviewed 20 applications for zone designation. Only two applications from closed military facilities were submitted, effectively guaranteeing approval of each. Unless otherwise stated, all renaissance zone "subzones" lie within the corresponding county or local unit of government.

The six urban renaissance zones selected by the Renaissance Zone Review Board were:

**Benton Harbor/ St. Joseph/ Benton Township --** Located in Berrien County, the Benton Harbor/ St. Joseph/ Benton Township renaissance zone comprises five subzones totaling 120 acres, with a ten-year term of tax waiver. The five subzones are located in the City of Benton Harbor (3), Benton Charter Township (1), and the City of St. Joseph (1). The subzones vary in character from downtown Benton Harbor retail stores to a Benton Township industrial park.

**Detroit --** The City of Detroit renaissance zone is comprised of six subzones, 1,345 acres collectively, and primarily industrial in land use character. The zone offers a 12-year term.

**Flint** – Two of five subzones in the City of Flint renaissance zone have a residential zoning designation, and comprise nearly 80 percent of the total acreage in the entire 836-acre zone. Zone terms are 15 years.

**Grand Rapids** – The six subzones in the Grand Rapids renaissance zone are primarily commercial and industrial in character, and have a term of 15 years. The entire zone is 536 acres.

**Lansing** – The Capitol City's renaissance zone is the smallest of all renaissance zones, with 110 acres divided among two subzones. The zone term is 12 years.

**Saginaw** – The City of Saginaw renaissance zone's five subzones are concentrated downtown, with a significant portion dedicated to residential use. The zone is 743 acres in size. The zone term is 12 years.

The three rural zones are:

**Gogebic/ Ontonagon/ Houghton Counties** – Michigan's largest renaissance zone was awarded to this three-county area in the Western Upper Peninsula. Each of the three counties hosts two subzones, with a collective area of 2,917 acres. The zone term is 15 years.

**Manistee County** – The two subzones in the Manistee County renaissance zone are zoned for heavy industrial uses, and total 556 acres. One of the subzones is located on the deepwater port of Manistee Lake. The zone term is 15 years.

**Montcalm/ Gratiot Counties** – Located in the geographic center of the Lower Peninsula, the joint application submitted by Gratiot and Montcalm County proposed six subzones (three in each county) totaling 1,870 acres. About two-thirds is zoned for light industrial use, the balance for commercial use. The zone term is 15 years.

The two ex-military facilities are:

**Oscoda** – The former Wurtsmith Airforce Base in Oscoda Township, which closed in 1993, was awarded a 15-year renaissance zone. As a single, contiguous unit, this zone contains residential, commercial, office, and industrial uses, and is over 2,200 acres.

**Warren** – Michigan's third largest city won a 153-acre, 15-year renaissance zone for the former General Dynamics Tank Manufacturing facility, which closed in 1995. The City was successful at accelerating the deed transfer process from the United States Government, absent which the City would not have been able to secure the renaissance zone.

**Residential Renaissance Zones**

Land use characteristics of renaissance zones strongly suggest that the local units of government who won zone designation wish to stimulate commercial and industrial development in them—over 95 percent of all zone acreage has a commercial or industrial zoning designation. While it is not known how many housing units exist in renaissance zones, only two of the zones have residentially zoned portions.

Although a vast majority of renaissance zone acreage is zoned for commercial and industrial use, there is no prohibition against using the tax exemptions for residential housing development. A green light for housing development would benefit developers and owners with the same incentives offered to commercial development.

Furthermore, since the passage of Proposal A in 1994, local communities have less incentive to initiate business and industrial development, inasmuch as school districts are less dependent (post-Proposal A) on business and industrial bases for local school financing.<sup>3</sup> Prior to Proposal A, local communities pursued economic development strategies that focused primarily on commercial and industrial development, in part because such development served to enhance local school district revenues, while at the same time *not* adding students (and higher administrative costs) to the local school district(s). The passage of Proposal A changed this dynamic by reducing local school district dependency on local property tax revenue for local school funding.

Although most state and local taxes are waived in renaissance zones for at least a ten-year term, local school districts are unaffected. Local tax revenues dedicated to schools are reimbursed by the state, and the per-pupil state funding allocation remains unchanged. It is therefore possible that a renaissance zone could increase net school revenue simply by attracting families with children who attend local public schools.

New housing projects in renaissance zones face three surmountable obstacles:

1. Local Zoning – Given that most of the renaissance zones have commercial or industrial zoning designations, a governmental unit would have to rezone parcels to a residential designation—at the risk of creating undesirable “spot” zones. Generally speaking, spot zones are undesirable in that they depress property values by interrupting continuity of place. However, because many renaissance zones abut residential areas, it would be possible to avoid a spot zone should a residential zoning change be considered.
2. Marketability – In most cases, housing developers will need to be creative when making renaissance zones an attractive place to live. Zones are generally located in manufacturing or commercial districts, areas not typically associated with housing development. Given the reduced costs to develop in zones, however, developers can roll the tax savings into infrastructure that softens the impact of neighboring land uses, such as screening walls and landscaping. Furthermore, the aesthetic questions of living in a zone may be balanced by the economic benefits to homeowners, who need not pay income or property taxes for the life of the zone.
3. Environmental – Environmental remediation standards are most stringent in areas where people live. A proposed housing development in a renaissance zone will encounter major environmental concerns, given that most zones include manufacturing operations, the primary source of environmental taint. With the recent advent of brownfield legislation, however, cleanup and liability standards have been eased to stimulate development of tainted areas.

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<sup>3</sup> See Albert A. Bogdan, “New Property Tax Laws Cut Revenue Benefits of Industrial and Commercial Development”, *Michigan Planning and Zoning News* November 1994.

## II. Michigan Renaissance Zones in the Economic Development Policy Context

### Renaissance Zones and Economic Development Programs in Michigan

With the passage of renaissance zone legislation, Michigan has upped the ante in terms of economic development incentives. Not only do renaissance zones offer a waiver of nearly all state and local taxes borne by businesses and residents, they provide significant subsidies to local governments for bricks and mortar. Coupled with existing state and local economic development programs, such as the Michigan Economic Growth Authority, the Michigan Strategic Fund, tax increment financing, and others, local communities with renaissance zones now have a considerable toolbox of incentives to attract business and development. A fully developed discussion of these and other economic development incentives is offered

in the Citizens Research Council Memorandum "*Renaissance Zones as an Economic Development Tool*," (September 1995), and "*Selected Michigan Economic Development Programs - 1997*," (December 1997).

Because Michigan is a manufacturing state, economic development policymakers recognize that an active, hands-on approach is required to retain and attract value-added industries such as manufacturing and raw goods processing. Michigan offers comparative advantages and disadvantages in manufacturing site selection, and the Michigan Jobs Commission administers economic development programs with local units of government and businesses to offset the real and perceived disadvantages. Renaissance zones attempt to offset the disadvantages of locating businesses in economically depressed areas.

### Brownfield Remediation

Approximately one year after the passage of renaissance zone legislation, Michigan passed a set of bills relating to "brownfield" redevelopment. Brownfields are parcels of real estate that show evidence of environmental contamination, or are presumed to contain such contamination. Acquisition of financing from commercial lenders for redevelopment of brownfields is often a difficult task, as commercial lenders typically do not want to assume the additional liability of potential lawsuits stemming from the environmental condition of the site. Public Acts 380 and 381 of 1996 allow local units of government to set up brownfield redevelopment authorities on state-approved sites for industrial cleanup. The financing tools for remediation are considerable: brownfield authorities may use tax increment financing for environmental cleanup, and set up revolving loan funds for private cleanup efforts.

In addition, recently enacted federal brownfield legislation offers substantial federal income tax credits for brownfield remediation, including a full tax deduction for costs associated with remediation. Previously, such cleanup costs were capitalized and depreciated over time, offering less incentive for remediation.

### Incentive-Based Economic Development Policy as Interstate Competition

In addition to encouraging start-up businesses and job growth, many state-sponsored economic development programs have another dimension: the drive to compete with other states for business.<sup>4</sup> States routinely engage in bidding wars for businesses and jobs, as they stand to gain a direct infusion of new jobs and capital from the transient employer. Several states have en-

tered into "no compete" compacts for major economic development projects, only to have the pact broken by a member within a short period of time. Calls for federal proscription of such bidding wars among states have not been seriously considered, inasmuch as they are probably in violation of the U.S. Constitution's Commerce Clause.

### Renaissance Zones in the Economic Development Policy Context

The following discussion focuses on renaissance zones' unique position in the economic development

<sup>4</sup>See James D. Laughlin and Graham S. Toft, "The New Art of War," *Commentary*, Spring 1995.

policy context, citing those features common to and distinct from other economic development programs.

**Subsidy Types** Economic development subsidies come in two forms: financial and structural. Most financial subsidies come in the form of tax abatements to the business and developer. Structural subsidies involve site improvements for the business interests, often including road and utility upgrades. An emerging form of subsidized structural upgrade is environmental remediation, where local communities are offered state and federal subsidies to clean up tainted properties. In many cases, however, the development subsidy is a unique combination of financial and structural incentives, where the local unit of government, the county, or the state may be contributing.

**Subsidy Amount** In the renaissance zone program, the state and renaissance zone communities are endeavoring to forego millions of tax dollars (conservatively estimated at \$100,000,000), with no guarantee of return on investment. The state is also offering significant structural subsidies to zone communities through the Renaissance Park Fund (see "Additional Renaissance Zone Incentives for Local Units of Government," p. 4).

**Anti Pirating Provisions** Given this strong tax incentive, policymakers took steps to prevent most Michigan communities from losing existing businesses or employers to renaissance zones. In most cases, in-state businesses that relocate to a zone may be prohibited, by a "veto power" given to their home community, from benefiting from renaissance zone tax waivers. Absent this veto, renaissance zones would likely attract voluminous interest from Michigan employers eager to move to the zones, at the expense of the abandoned communities. Similarly, a community with a renaissance zone has a similar veto over a business wishing to relocate from a non-zone part of the city to a zone. Such veto power makes clear part of the legislative intent of renaissance zones: to attract out-of-state and startup businesses, and to avoid in-state business churning. Renaissance zones are the first state-sponsored economic development program that explicitly discourages existing in-state businesses from relocating (at least 25 jobs) in order to benefit from the program.

**Tax Incentive Performance Standards** Historically, local units of government have been victimized by businesses that received tax abatements based partly on jobs promises, and then failed to live up to such promises. Consequently, local units of government have recently begun to use rescissions and clawbacks to guarantee initial job promises.

Renaissance zones require no commitment from businesses or residents. That is, renaissance zones do not compel any promise or contract from businesses (or residents) to produce jobs or investment. The only performance standards that exist in the renaissance zone program are those mandating that any beneficiaries of renaissance zone tax exemptions must be current on all state and local taxes.

There is nothing preventing a business from moving to a zone and enjoying its tax-free status, and then moving on to the next offer at the close of the zone program. With renaissance zones, the state is betting that zone businesses will stay put when the tax waivers expire.

**The Dynamics of Renaissance Zone Application and Selection** Renaissance zones were awarded to 11 areas out of 20 applications. It is important to note that there were over 60 local units of government that qualified for a renaissance zone, but chose not to apply. It is probably safe to assume that the primary reason that these communities chose not to apply was the significant local tax forfeiture if awarded a zone. That is, the perceived disincentive borne by the local unit of government outweighed the longer-term inducement of potential business spin-off, and the potential for the continued presence of zone businesses at the close of the tax-free period.

**Opportunity Costs** An economist's concept of "opportunity cost" refers to the opportunity(s) not pursued when one policy path is taken. For instance, taking into account all administrative costs associated with renaissance zones, plus all forgone state and local taxes, it is possible to arrive at an accurate estimate of total program costs. Choosing to spend this amount on renaissance zones necessarily means that it cannot be spent elsewhere.<sup>5</sup> When one poses the question of

<sup>5</sup> The political salability of Renaissance Zones is partially based in their ability, like any other tax break program, to

program opportunity costs, one is really asking whether this is the best way to spend the resources.

Taking this argument further, the state may be penalizing communities that chose not to apply for a renaissance zone, or applied for but were not awarded a zone. State economic development resources dedicated to renaissance zones necessarily means that those resources will not be spent in any of the otherwise "qualified areas" that chose not to apply for a renaissance zone.

***Measures of Zone Success*** Assuming that the barriers to moving to renaissance zones are minimal, out-of-state and startup businesses will be taking a long look at them. With state and local taxes estimated at approximately five percent of the total costs of running a business, it will be surprising if renaissance zones fail to attract tangible business growth. However, success or failure of the zones cannot be measured in jobs or business growth alone. Factors such as quality of jobs, local hiring and job training practices, and length of business tenure are among the final criteria in judging their success.

Lastly, any meaningful evaluation of renaissance zones' success should include a holistic community analysis, addressing quality of life issues such as schools, crime rates, and improved local services. Although the legislation is not explicit about desired program outcomes beyond business attraction, it is assumed, from the language of the Renaissance Zone Act preamble, that the state anticipates some measure of community improvement will result from the zones.

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keep their true costs from showing up in the wash. The amounts that businesses do not pay in state and local taxes are far less visible than direct cash or in-kind subsidies to businesses, which tend to be reflected in balance sheets.

### III. Renaissance Zone Descriptions

Given the economic and geographic diversity of renaissance zones, it is important to examine them collectively and separately. While aggregate analyses of renaissance zones are necessary to describe the program as a whole, the experiences of the zones on an individual basis will serve to shed qualitative light on what is effective practice in renaissance zones.

While the following descriptions of renaissance zones focuses on business and jobs creation activity, it does not document residential construction and sales activity beyond the multi-unit projects described herein.

The eleven communities and regions with renaissance zones have subdivided the zones into 47 sub-zones, ranging from 20 acres to 2,200 hundred acres in size. The zones as a group are diverse in character, ranging from typical urban blight as found in the Detroit sub-zones to hard-hit rural areas as found in the Upper Peninsula's three county plan. Also in the group are two decommissioned military facilities, and viable commercial and industrial areas in Grand Rapids and Lansing.

For all of the following renaissance zone maps, arrowheads corresponding to renaissance zones approximate, to the closest level of detail possible, the geographic center of the zone.<sup>6</sup>

#### Note on Renaissance Zone Business and Economic Descriptors

The following profiles of renaissance zones present local employment, labor and socio-economic data as aggregated on the census tract and county level.

**Countywide Data, 1988-95** – Chart "a" in each renaissance zone description offers a cumulative percent change in each business or economic factor for the period of 1988 to 1995. The "Total Employment" factor represents seasonally adjusted total employment growth over the period. The "Total Payroll" factor is the percent change in total payroll, unadjusted for

inflation, over the defined period. "Small Employers" represents the number of public, private, and non-profit employers in the county with 49 or fewer employees. "Large Employers" are those defined as having 50 or more employees. Chart 12 (page 37) summarizes each renaissance zone accordingly.

Note the distinction between "Total Employment" in the "a" charts and "Unemployment" in the "b" charts: Total Employment represents non-farm, civilian employment, while Unemployment represents the percentage of persons in the labor force seeking work. The data source for all Charts "a" is the Bureau of Economic Analysis in the United States Department of Commerce.

**Local Data, 1990** – Charts "b" are poverty<sup>7</sup> and unemployment rate descriptors for local units of government and census tracts that contain renaissance zones. Note that the Renaissance Zone Tracts category refers to all United States Bureau of the Census tracts that are touched upon by each renaissance zone. Also included are state and county comparisons. The data source for all Charts "b" is the Bureau of the Census in the United States Department of Commerce.

**Business Attraction and Business Origins** – Business attraction is defined as any actual or planned move to a site in a renaissance zone, and includes site expansions by existing businesses in renaissance zones. Business attraction listings are current through July 31, 1998.

The "Business Origin" descriptors in the business attraction sections are intended to provide a history of the business (or employer) using the following five classifications: business startups, in-zone expansions, instate expansions, out of state expansions, and structural developments. "Business Origin" descriptors are defined in Appendix A, "Renaissance Zone Business Activity through July 31, 1998," at page 44.

<sup>6</sup> For more information on renaissance zone boundary detail, contact the Citizens Research Council at (248) 474-0044, or the Michigan Jobs Commission at (800) 946-6829.

<sup>7</sup> Poverty statistics in 1990 are defined as the number of persons living in poverty, defined as not more than \$6,800 of annual income and benefits for a single individual, under 65 years of age, or \$13,359 for a typical family of four.

**Michigan Renaissance Zones**

***Benton Harbor/ St. Joseph/ Benton Township***

***Detroit***

***Flint***

***Gogebic/ Ontonagon/ Houghton***

***Grand Rapids***

***Lansing***

***Manistee***

***Montcalm/ Gratiot***

***Oscoda-Wurtsmith***

***Saginaw***

***Warren***

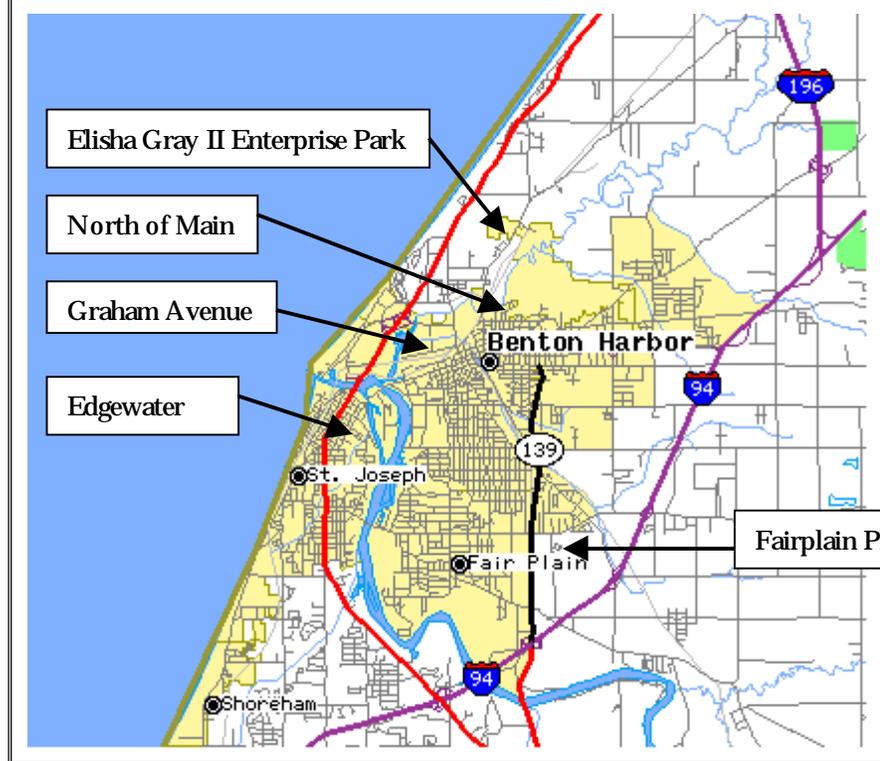
**Benton Harbor/ St. Joseph/ Benton Township Renaissance Zone**

Berrien County's renaissance zone is comprised of five subzones located in the City of Benton Harbor, Benton Township, and the City of St. Joseph. The City of Benton Harbor, containing three subzones, is also home to a state enterprise zone, the first targeted zone program in Michigan. Now closed to new businesses, Benton Harbor's enterprise zone was considered ineffective at improving the economic status of the City's residents, and mildly effective at improving business growth and investment.<sup>8</sup> Enterprise Zone status offered significant tax exemptions to new businesses, or to existing businesses that



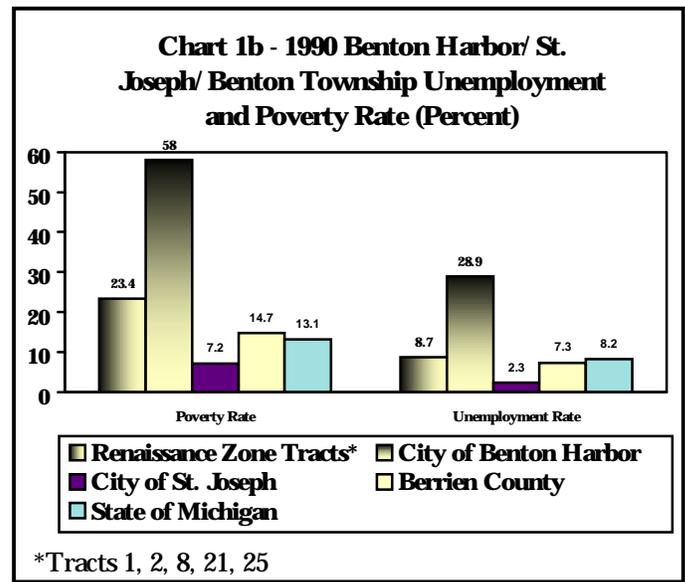
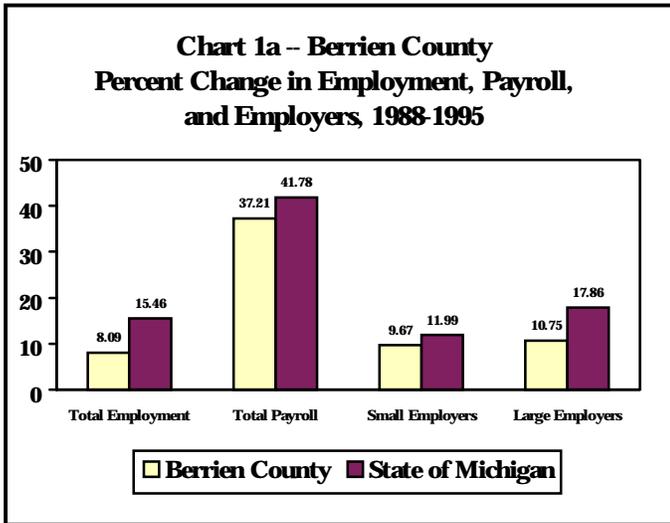
expanded operations in the zone. In 1994, state enterprise zone status was offered to all federal empowerment zones and enterprise communities in Michigan. Enterprise zones were closed to new businesses in 1996.

The City of Benton Harbor's symptoms of urban distress cannot be overstated. The City was once a major manufacturing and shopping area, hitting its population and economic peak around 1960. Hard hit by manufacturing disinvestment and suburban shopping malls, the City has declined to one of the poorest in Michigan, with a 1990 household poverty rate of 58 percent. When the State of Michigan passed the Enterprise Zone Act of 1985, the criteria of distress were drafted to include Benton Harbor only. In March 1998, Benton Harbor had an unemployment rate of 21.9 percent, over five times the 1997 state average of 4.2 percent. As shown in Chart 1b, unemployment in Berrien County is also above the state average. In contrast, the neighboring City of St. Joseph is well



below state unemployment levels.

<sup>8</sup> Ann Workman Sheldon and Richard C. Elling, "Michigan's Enterprise Zone Program: Progress, Prospects, Problems and Recommendations" (Detroit, MI: Wayne State University, April, 1988).



**Benton Harbor, St. Joseph, and Benton Township Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Nuway Paper (Division of Oakbrook International Corp.)	Out of state expansion	300/ 240	\$20,000,000	Paper product manufacturer
Old World Stone	Business startup	5/ 5	\$100,000	Construction materials
Product Design Services	Business startup	12/ 12	\$1,000,000	Computer numerical control (CNC) prototyping
WAVE	Business startup	75/ 75	\$10,000,000	Ceiling suspension systems
<b>Total Jobs and Investment</b>		<b>392/ 332</b>	<b>\$31,100,000</b>	

**City of Detroit Renaissance Zone**

The City of Detroit's six renaissance subzones are dispersed throughout the city, primarily on abandoned industrial sites. The most proximate grouping is a three-zone corridor that runs north and south between the City of Hamtramck to the west and Van Dyke Avenue to the east. Most of Detroit's six subzones were drawn outside of

the city's federal Empowerment Zone, with the two exceptions: a 68-acre parcel on the northeast corner of Interstates 75 and 94, the Central City zone, and a several block area in the Southwest Delray zone.

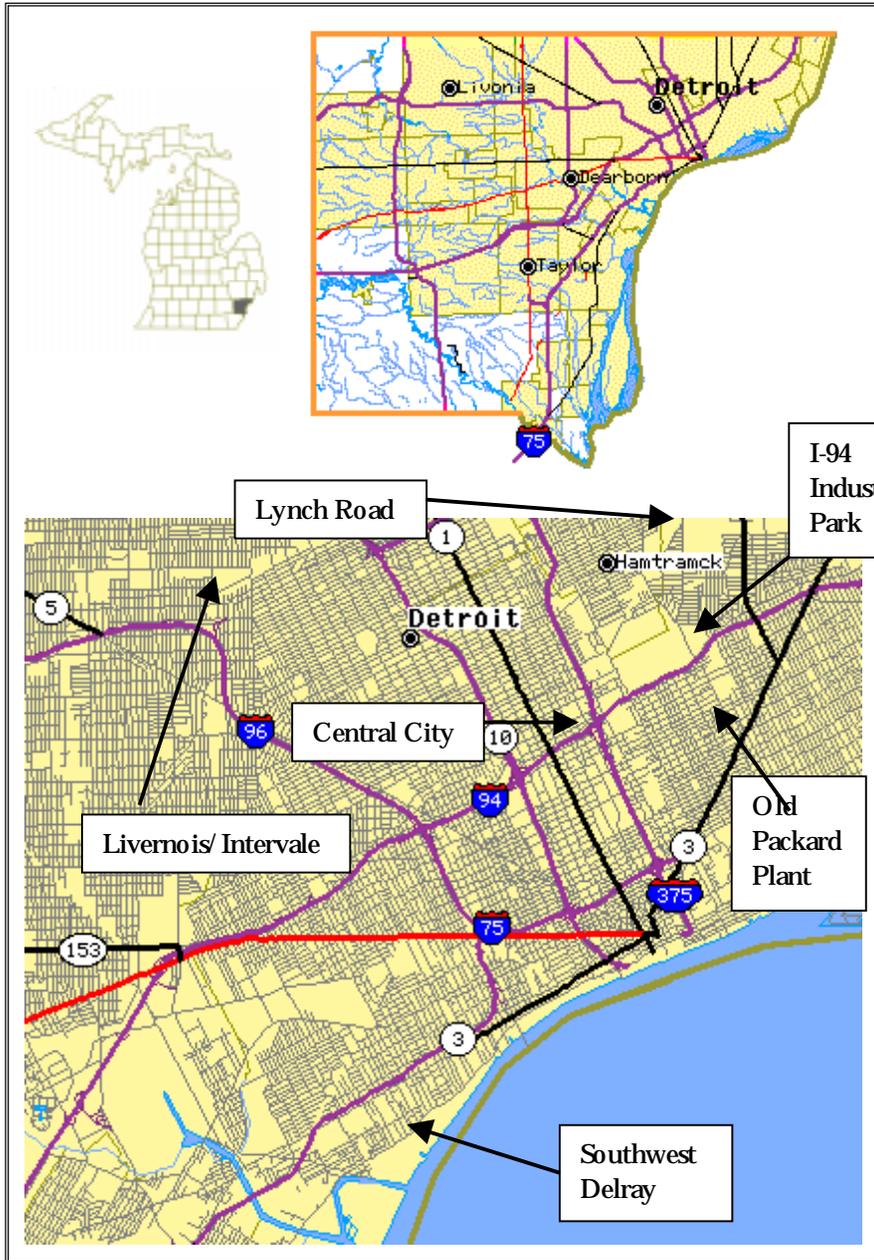
These areas of zone overlap are among the most heavily tax-abated in the state, with full renaissance zone and Empowerment Zone benefits.<sup>9</sup> Collectively, the subzones comprise over two square miles of Detroit.

The subzones and the Empowerment Zone cover over 20 square miles, or about 14 percent of the entire city.

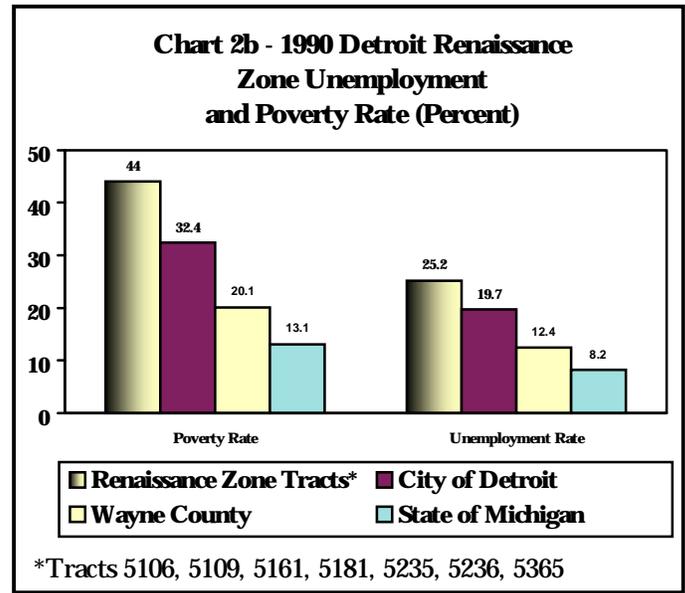
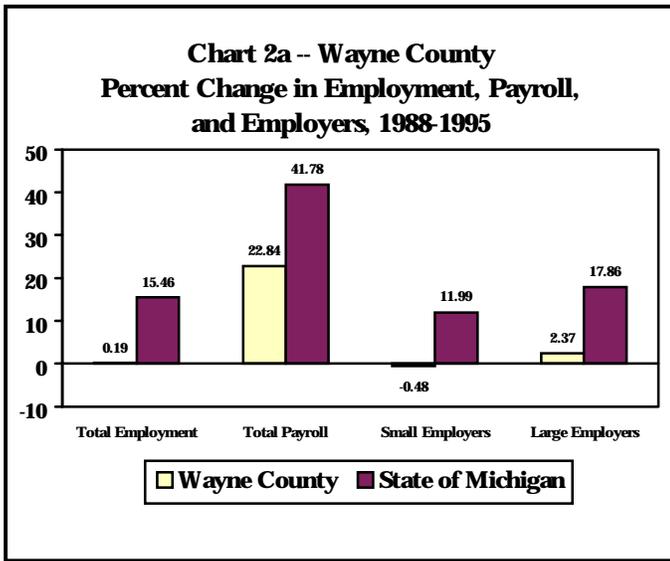
The majority of subzones are urban brownfields, where environmental contamination exists or is presumed to exist. Five of the six subzones have an industrial zoning classification, with the sixth classified as commercial.

An interesting historical artifact in one of the subzones is the former Packard Automotive assembly plant, unused since 1954. The City anticipates that renaissance zone designation will attract developers willing to pay for its demolition and site redevelopment.

Businesses relocating or expanding into the zone include Strong Steel Products, bringing an estimated 50 jobs, and Renaissance Global Logistics, an export packaging venture planning to hire 400 employees.



<sup>9</sup> The federal Empowerment Zone offers federal tax credits for hiring zone residents. Zone employers who hire zone residents are eligible for federal credits of up to 20 percent of the first \$15,000 (per zone employee) in wages and training costs. See Citizens Research Council Report No. 323, "Selected Michigan Economic Development Programs – 1997," (December 1997) for additional federal Empowerment Zone benefits.

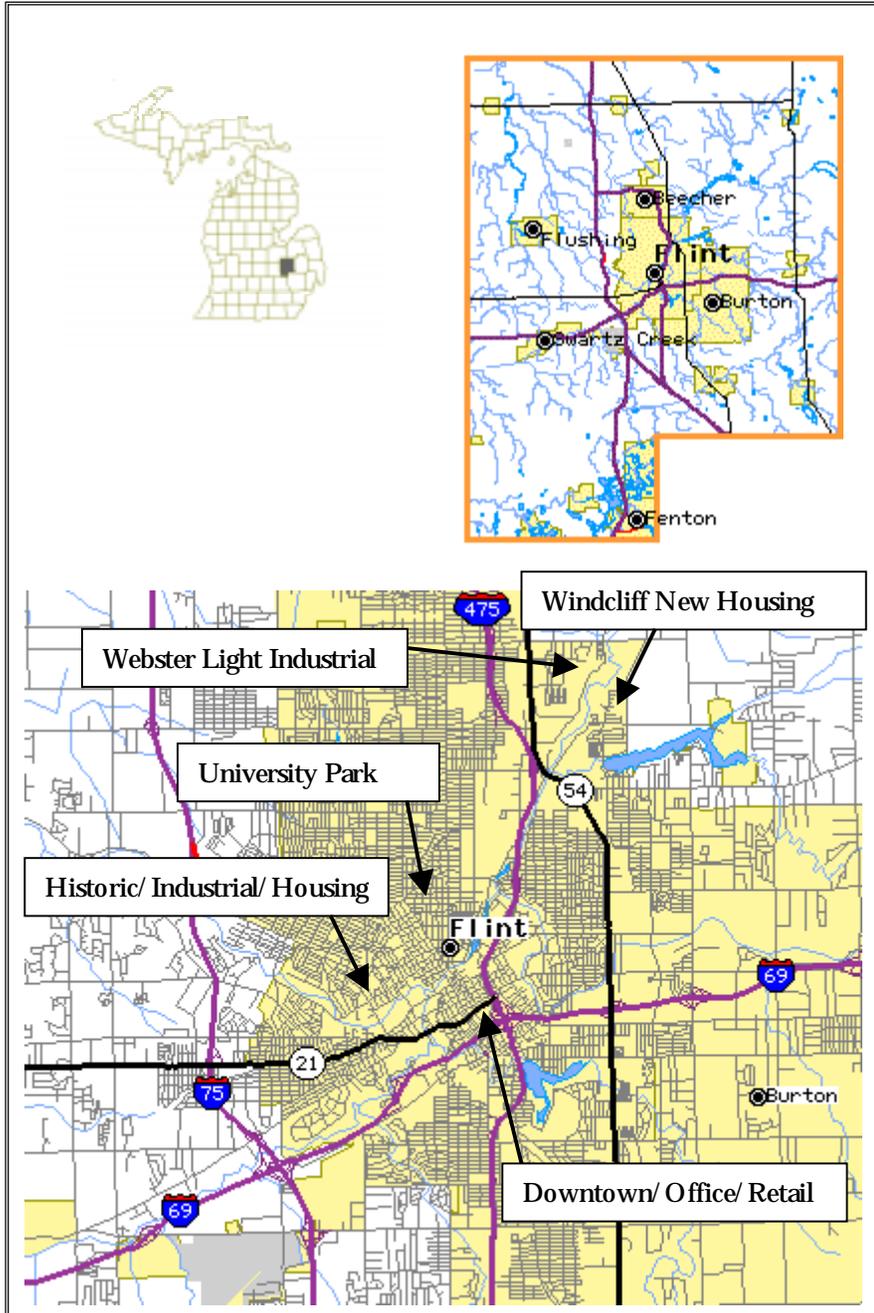


**City of Detroit Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Johnson Controls	Instate expansion	220/ 220	\$5,000,000	Automotive parts manufacturer
Pre-stressed Systems	Out of state expansion	30/ 20	\$1,000,000	Structural concrete products
Renaissance Global Logistics	Instate expansion	400/ 400	\$16,000,000	Export packaging
SBF Automotive	Instate expansion	20/ 10	\$700,000	Auto supplier
Strong Steel Products	Instate expansion	50/ 50	\$14,500,000	Scrap metal recovery
<b>Total Jobs and Investment</b>		<b>720/ 700</b>	<b>\$37,200,000</b>	

**City of Flint Renaissance Zone**

The City of Flint, with a 1996 estimated population of 135,000, experiences the business fluctuations of the auto industry with perhaps more sensitivity than any other city in Michigan. A Flint-based labor force that has shrunk to 27,000 from nearly 80,000 over the 20-year period of 1978 to 1998 evidences General Motors' pursuit of capital intensive rather than labor intensive auto production. Nonetheless, Flint will continue to have a significant manufacturing presence in the state despite General Motors' diminished presence. This is due in part to the US Interstate 69, which has been designated as a National Highway System High Priority Corridor, likely to soon run from Canada to Mexico.



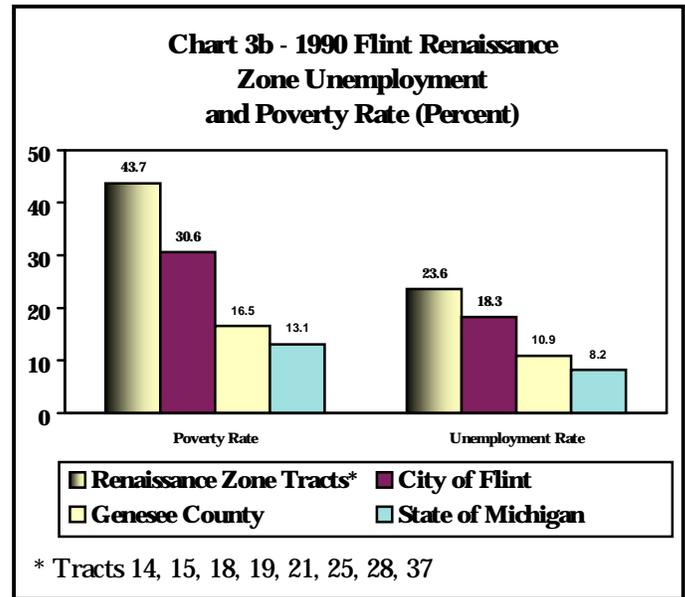
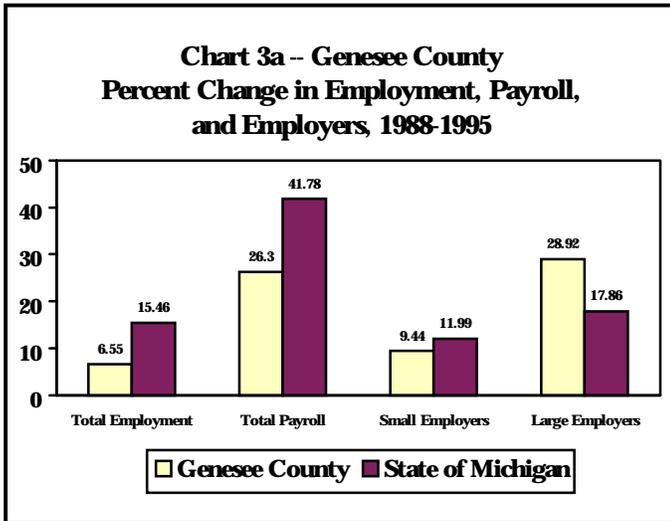
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In 1994, Flint was awarded a federal Enterprise Community, offering the same tax credits (offered for hiring zone residents) to employers as Detroit's Empowerment Zone, and a \$3 million direct subsidy to the community. Approximately two-fifths of Flint's geography is included in the Community, concentrated primarily in the northern portion of the City.

Flint's renaissance zone is almost entirely within its Enterprise Community, and offers both sets of incentives where the zones overlap. In contrast, the City of Detroit offers relatively little overlap between its federal Empowerment Zone and its state renaissance zone.

Flint's business and economic climate has shown steady growth through the 1990s, and Genesee County has kept pace with

statewide economic measures since that time. Business attraction since the startup of the zone includes one large employer, Genesee Packaging.

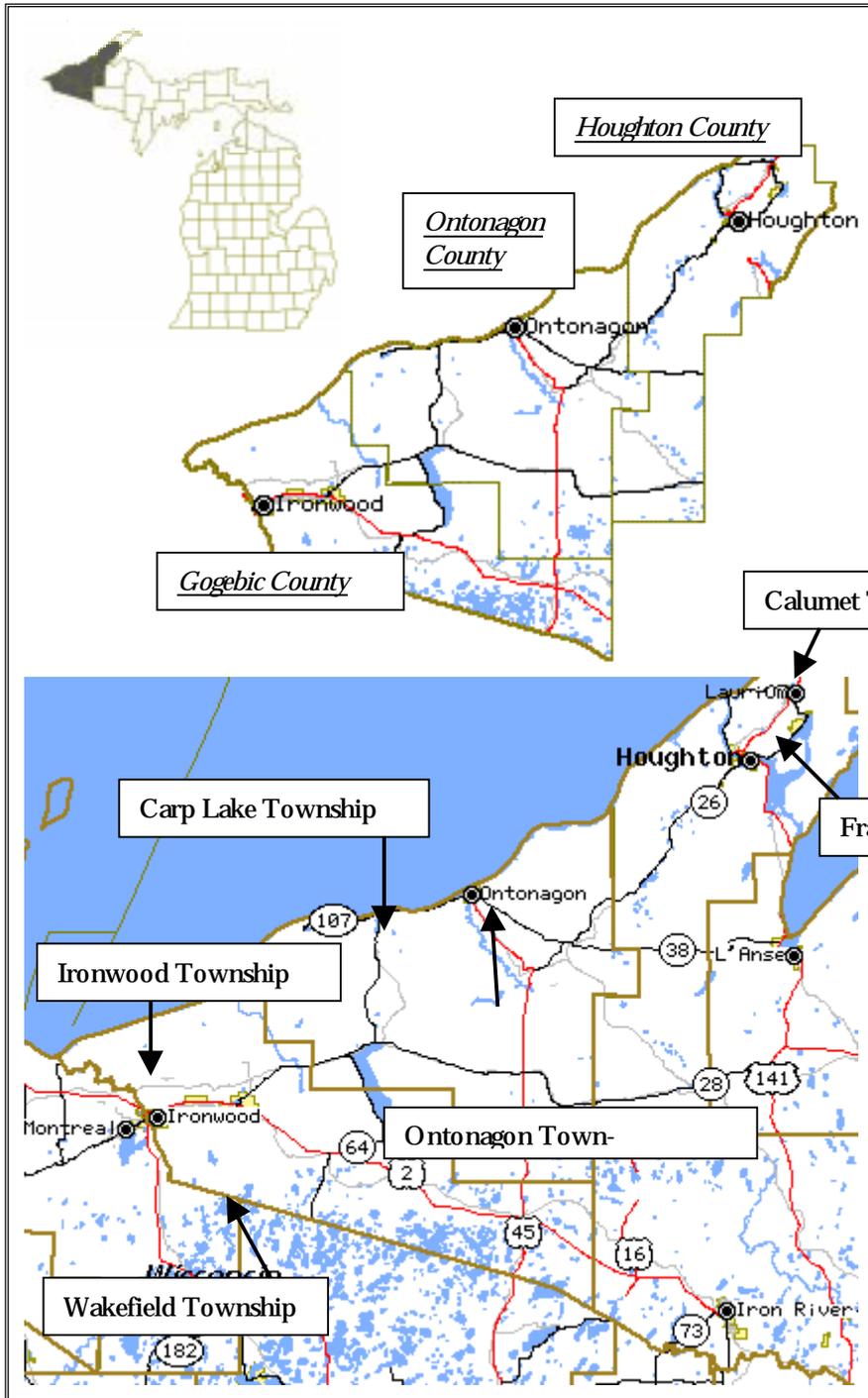


**City of Flint Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Genesee Packaging	Instate expansion	120/ 120	\$4,000,000	Packaging/ Assembly
Rizzo's Pizza	Instate expansion	4/ 4	\$85,000	Restaurant
Rossner Engineering	Instate expansion	Not provided	\$850,000	Design engineering
<b>Total Jobs and Investment</b>		<b>124/ 124</b>	<b>\$4,935,000</b>	

**Gogebic/ Ontonagon/ Houghton County Renaissance Zone**

Michigan's Upper Peninsula was the recipient of one renaissance zone, an amalgam of six subzones within a three county area. Were renaissance zones awarded on a per capita basis, the Upper Peninsula's sparse population base would not have justified a zone, inasmuch that the Upper Peninsula contains only 3.4 percent of the state population. When measured in needs-based terms, however, a strong case can be made for the Upper Peninsula to have more zones.



Employment estimates<sup>10</sup> for the 1996-97 period indicate that the Upper Peninsula has nearly double the state unemployment rate. In addition, the Upper Peninsula as a region has Michigan's highest ratio of public to private jobs, with approximately one in four jobs being governmental, compared to a statewide average of about one in six. Development disadvantages

have long plagued the Upper Peninsula in terms of isolation and declining major industries. The last major mining company ended operations in 1995, signaling the close of what was once the Upper Peninsula's largest industrial sector. Presently, the lumber and wood product industry is the largest manufacturing sector, by employment, in the three-county area. In 1995, this industry supported seven percent of the total three-county employment pool of 17,000.

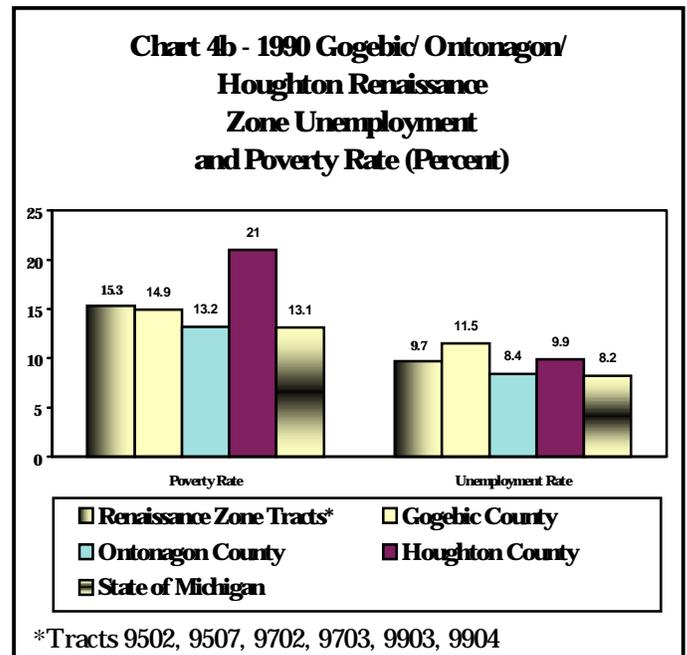
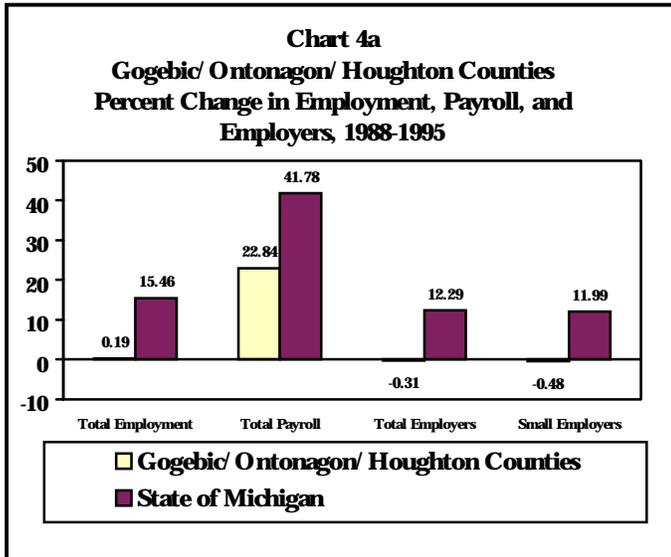
Each of the three counties in the Upper Peninsula's Renaissance Zone contains two subzones. The state's largest renaissance zone offers over 2,900 acres, or about 4.5 square miles of tax-abated real estate.

Business attraction efforts have been

<sup>10</sup> Annual Planning Information Report - Program Year 1996, Michigan Employment Security Commission.

**MICHIGAN RENAISSANCE ZONES IN THE ECONOMIC DEVELOPMENT CONTEXT**

sparse in the first year of the zone. The first and only committed development in 1997 was Superior Polymer, which expanded their Houghton County operations.

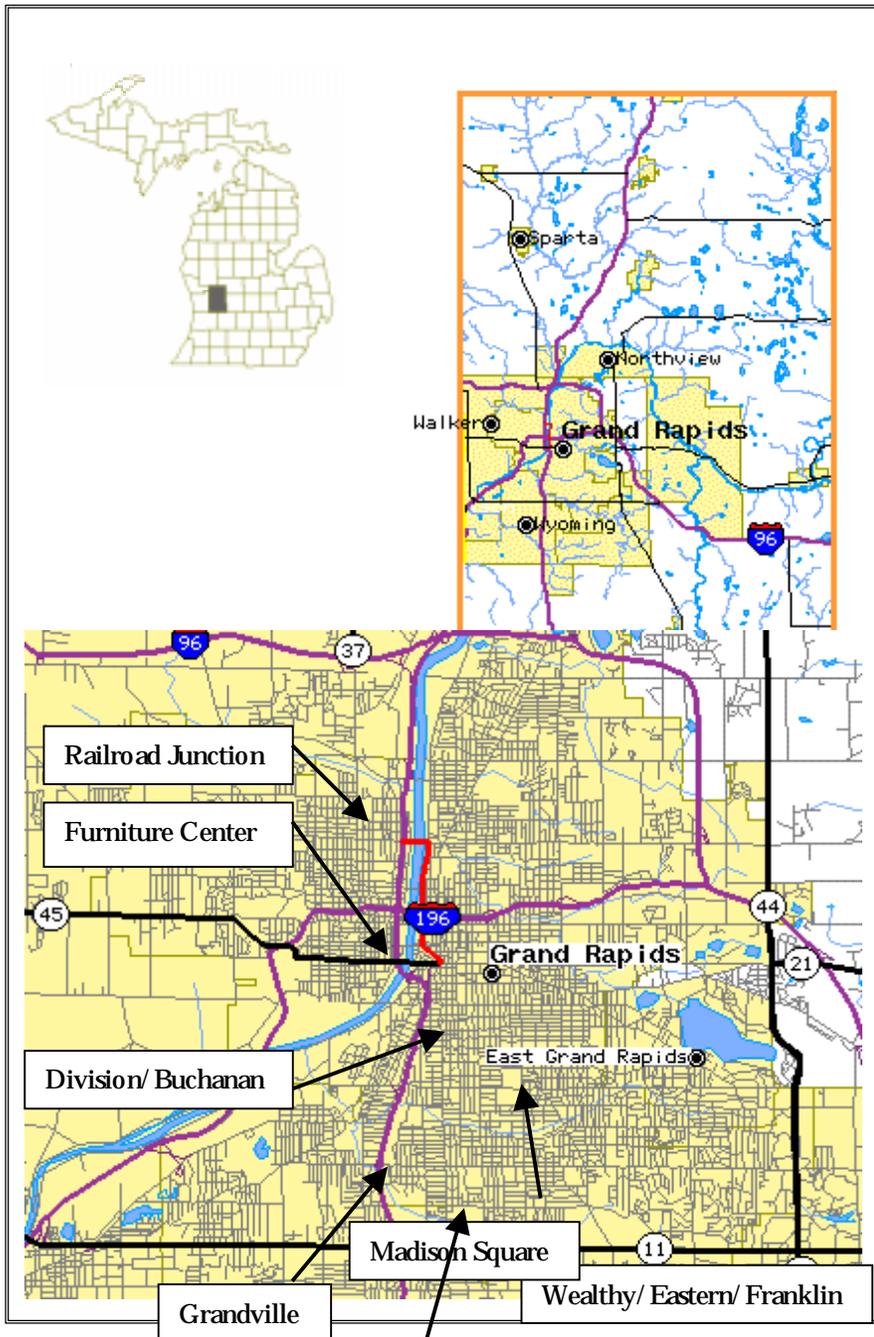


**Gogebic/ Ontonagon/ Houghton Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Superior Polymer	Instate expansion	5/ 4	\$150,000	Polymer coating processor
<b>Total Jobs and Investment</b>		<b>5/ 4</b>	<b>\$150,000</b>	

**City of Grand Rapids Renaissance Zone**

Grand Rapids' six subzones consist primarily of developed commercial, industrial and residential uses. The second largest city in the state is home to major furniture manufacturers. Grand Rapids chose to include viable, tax-paying businesses on the theory that new businesses would be attracted to the tax benefits and the existing business environment.



Estimates of annual local and county tax revenues forgone by zone designation amount to over \$1.94 million, including real and personal property taxes, and local income taxes.<sup>11</sup>

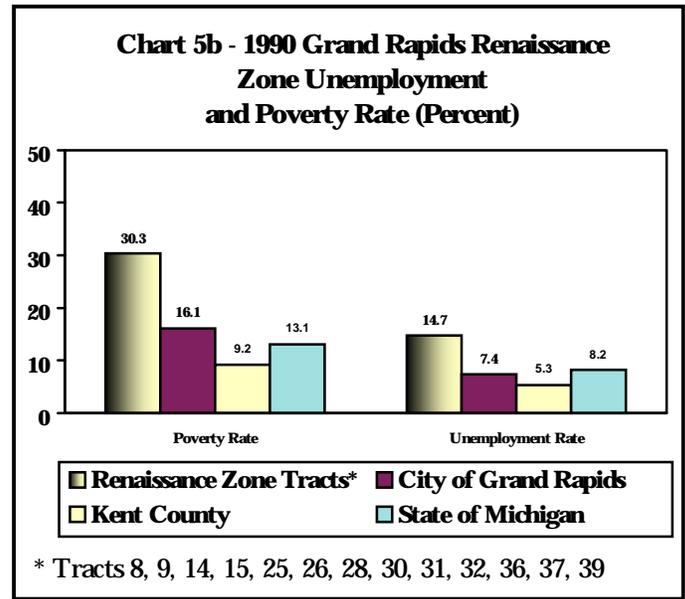
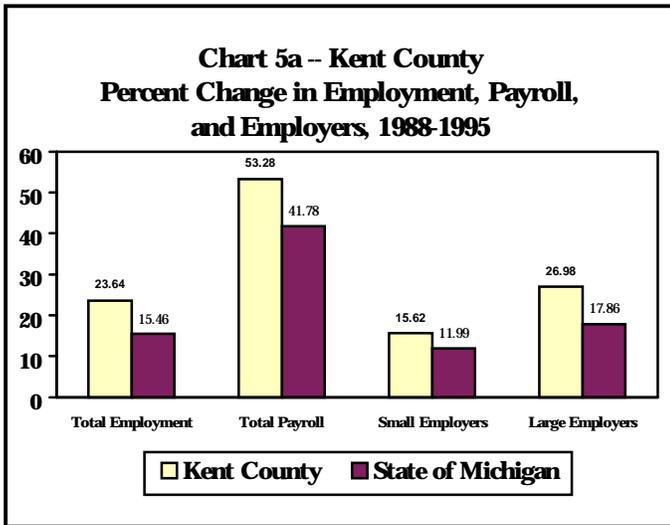
Kent County is the only county hosting a renaissance zone to have matched or outperformed the state in the six major business and employment indicators.

While Grand Rapids has a decided advantage in business attraction by virtue of being a strong growth area, the City's relative success in zone development is also due to local economic development efforts. Grand Rapids' clear lead in zone business attraction, relative to other renaissance zones, is as attributable to the step-by-step efforts of the City's non-profit economic development organization as it is to a strong local economy. Working closely with the Grand Rapids Chamber of Commerce, the Right Place Program functions as an all-in-one economic development organization for the city, administering specialized economic development programs, including Walk to Work, where job-seekers with transportation problems are matched with employers in their neighborhoods.

Business types that have located in the Grand Rapids renaissance zone include retail startups, a non-profit health clinic, non-profit housing, manufacturers and

manufacturing processors, and speculative office and commercial development.

<sup>11</sup> City of Grand Rapids Renaissance Zone application to Michigan Jobs Commission, September 30, 1996.



**City of Grand Rapids Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Ainslie Upholstery	Business startup	Unknown	\$160,000	Upholstery services
Acanthus Antiques	Business startup	2/ 0	Not Provided	Antique retailer
Allen-White Group (Brown Office Center—formerly Ferris Hotel)	Structural development (Grand Rapids based developer)	5/ 0	\$675,000	Commercial offices
Canal Street Foundry	Structural development	400/ 300	\$5,000,000	Commercial Offices
Dwelling Place	Instate expansion (non-profit development)	30/ 0	\$1,000,000	Residential housing
Fab Tool	Business startup	7/ 5	\$50,000	Automotive machine tools
Franklin Metals	Instate expansion	25/ 25	\$1,000,000	Metals processor
P.B. Gast	In zone expansion	10/ 5	\$1,600,000	Janitorial supplier
The Hair Net	Business startup	2/ 1	\$10,000	Hair salon
Half Moon Entertainment	Business startup	30/ 30	\$400,000	Restaurant/ Nightclub

**CRC REPORT**

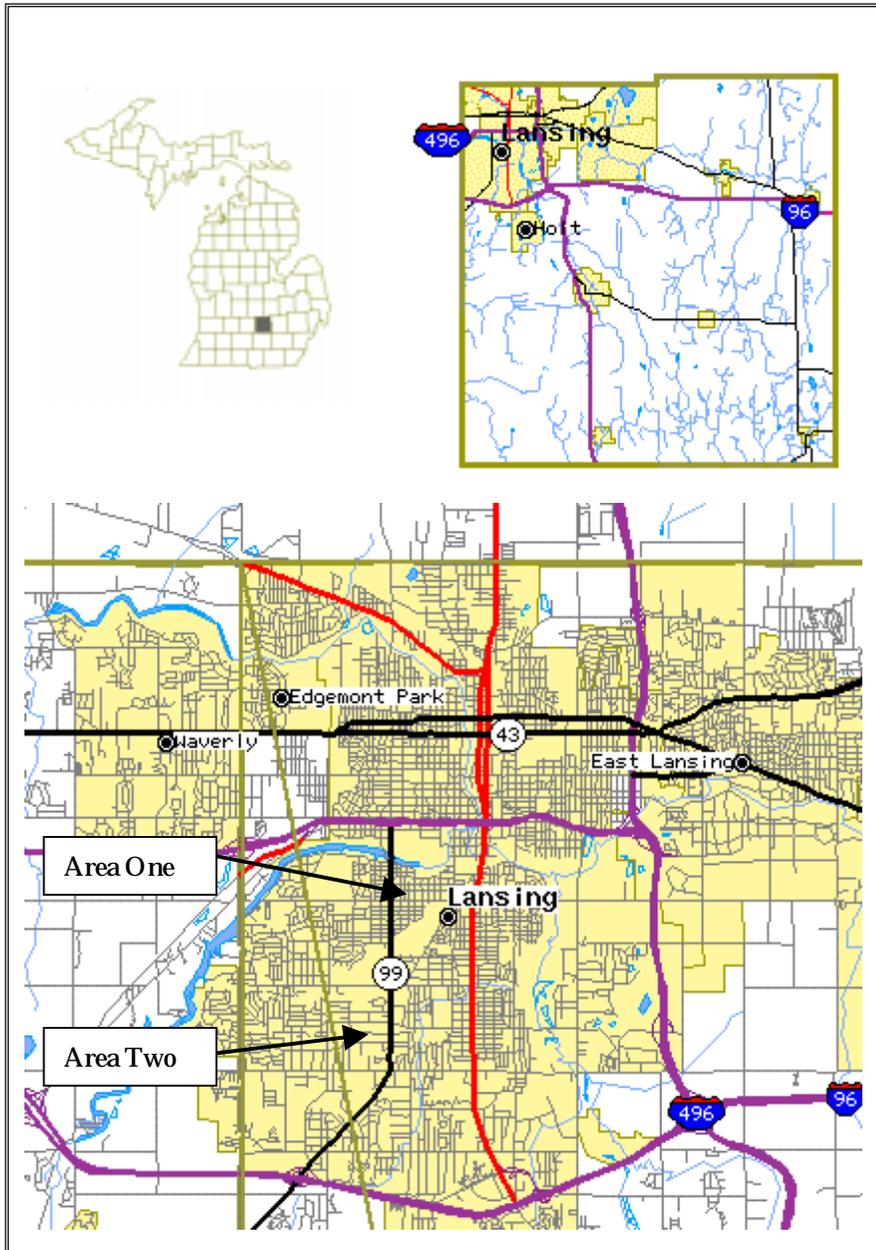
Center				
<i>Grand Rapids business attraction, continued</i>	<b>Business Origin</b>	<b>Expected number of jobs (High/ Low)</b>	<b>Planned Initial Investment</b>	<b>Business Type</b>
<b>Business</b>				
Hat HMS	Business startup	0/ 0	\$35,000	Clothing retailer
Haviland Enterprises	Instate expansion	35/ 35	\$10,000,000	Chemical products
KL Lawn Sprinkling	Business startup	1/ 1	\$150,000	Sprinkler installer
McDonald's	Instate expansion	50/ 45	\$500,000	Restaurant
McGraw Construction	Instate expansion	5/ 0	\$225,000	Commercial construction
Miller Welding Supply	In zone expansion	3/ 3	\$400,000	Commercial welding supply
Old Kent Bank	In zone expansion	0/ 0	\$300,000	Renovation of existing branch office
Polymer Products	Instate expansion	10/ 5	\$1,000,000	Specialty resin manufacturer
Chuck Posthumus Architect	Instate expansion	3/ 3	\$10,000	Architecture firm
Pridgeon and Clay	Instate expansion	0/ 0	\$125,000	Improvement of existing stamping facility
Radiology Imaging Solutions	Instate expansion	12/ 12	Unknown	Radiology lab
Roosevelt Market	Instate expansion	16/ 16	\$500,000	Grocery store
SEED/ Calatico Inc.	Instate expansion	Not provided	\$242,000	Residential apartments
Spectrum Industries	Instate expansion	100/ 75	\$3,000,000	Electrodeposition coating
St. Mary's Health Service	Instate expansion	20/ 12	\$1,500,000	Non-profit health clinic
John Widdicomb Company	Instate expansion	10/ 5	\$3,000,000	Furniture manufacturer
<b>Total Jobs and Investment</b>		<b>776/ 578</b>	<b>\$30,882,000</b>	



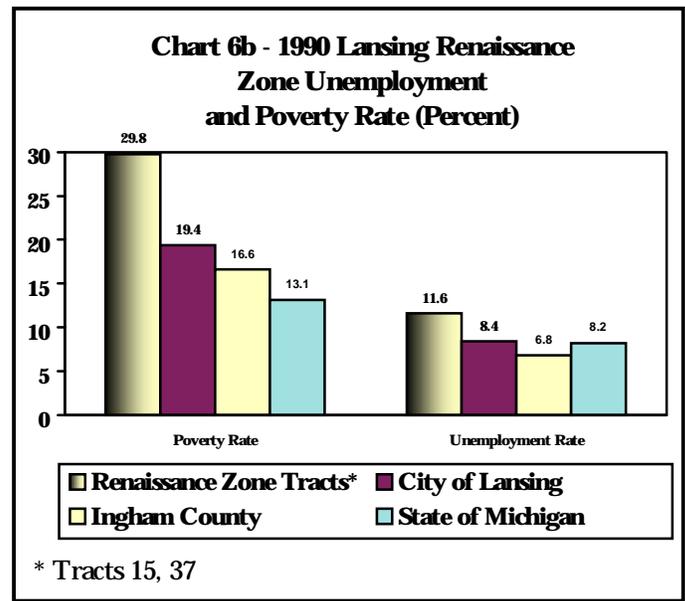
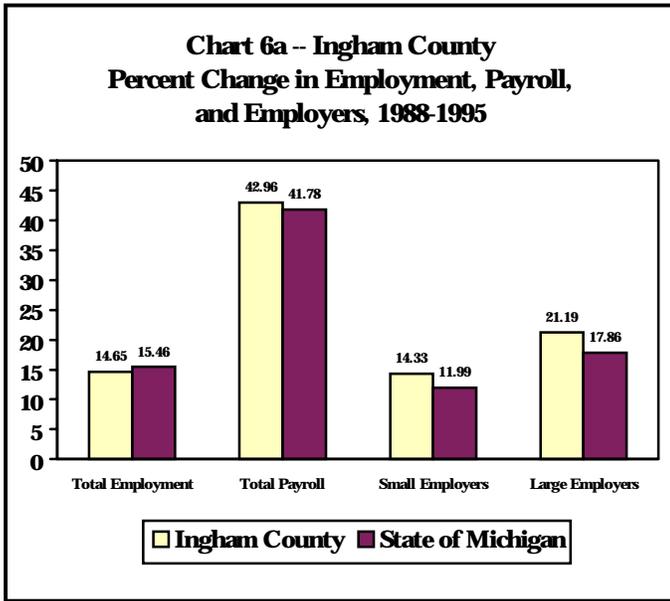
**City of Lansing Renaissance Zone**

The Capitol City's renaissance zone application included provisions for two relatively small subzones, one zoned for residential and commercial use, the other light industrial, containing 36 and 74 acres respectively. With less than one-fifth of a square mile of renaissance zone, Lansing is especially challenged in attracting business, if only due to the small number of property parcels in the zone.

As of June 1998, the Lansing renaissance zone had not had any businesses relocating to it. As reported by the Michigan Jobs Commission and local media, business investment in Lansing's zone has been limited to the BRD Printing Company, which is expanding its plant, eventually expecting to add five to seven new jobs.



Ingham County as a labor market and business attraction destination has outperformed the state in all categories except for unemployment and total employment growth. Locally, the City of Lansing and the renaissance zone census tracts had unemployment and poverty levels exceeding Ingham County and the State of Michigan in 1990.

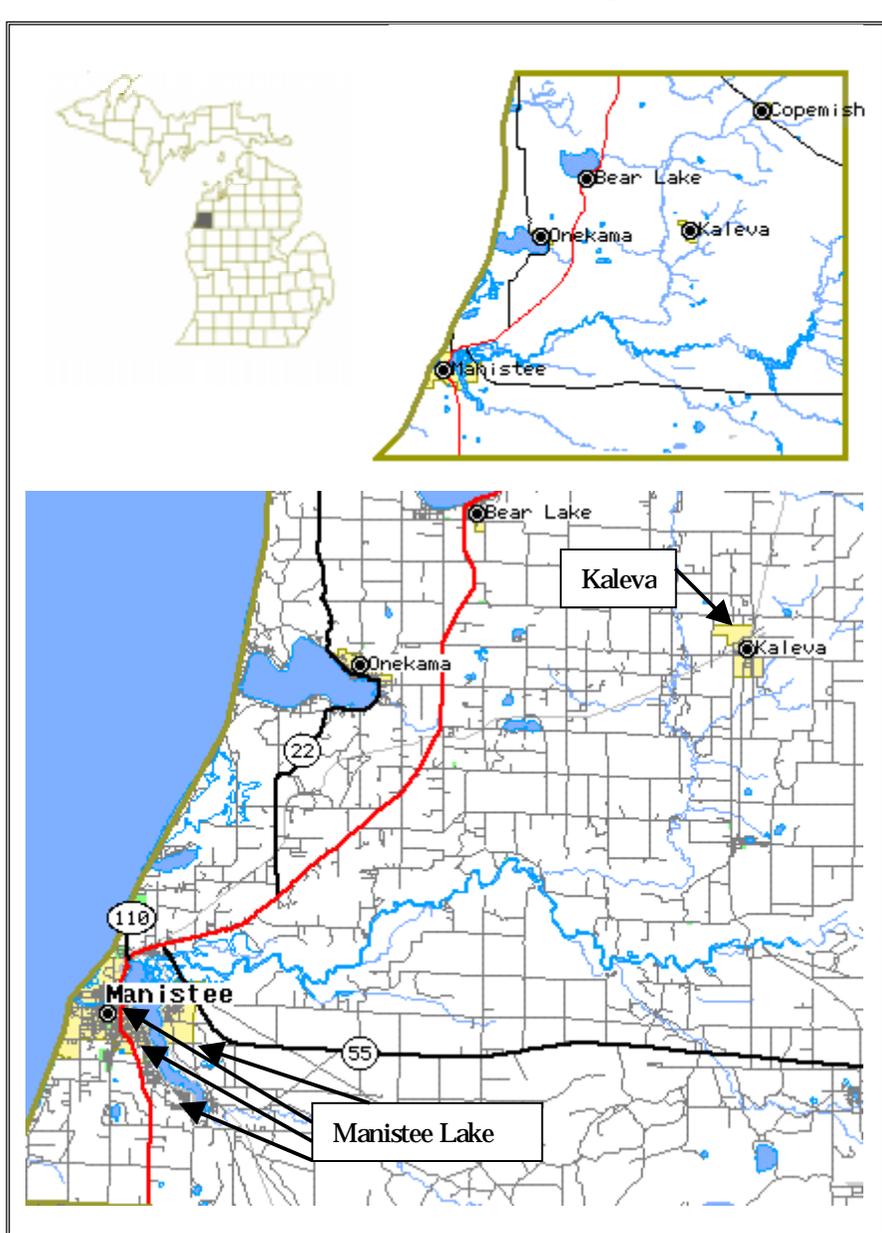


**City of Lansing Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
BRD Printing	In zone expansion	7/ 5	\$300,000	Printing
<b>Total Jobs and Investment</b>		<b>7/ 5</b>	<b>\$300,000</b>	

**Manistee County Renaissance Zone**

Located on Lake Michigan's coast in the northwest portion of the state, Manistee County offers two subzones, one in the Village of Kaleva and Maple Grove Township, and the other in Manistee Township and the City of Manistee.

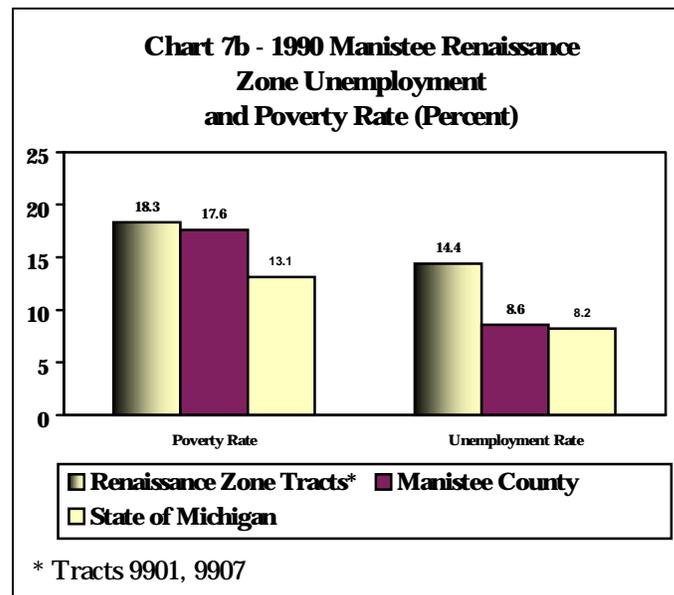
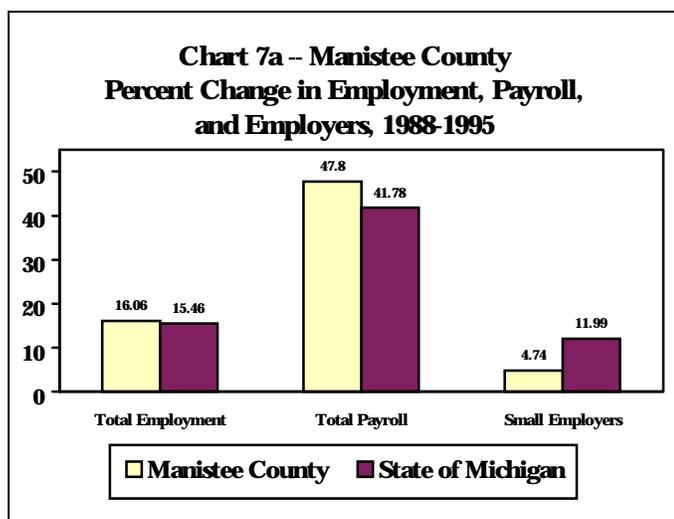


The Manistee County Renaissance Zone offers significant growth potential, for two primary reasons: namely, that it is the least developed single-county renaissance zone, in terms of total employment and employers, and because of its transportation routes. Despite its relatively remote setting, Manistee County offers a commercial airport, direct access to all-weather state and federal highways, rail lines, and deepwater port access.

Each subzone is zoned for heavy industrial use, consistent with Manistee County's history as a major lumber-processing center.

The Manistee Lake subzone is the only marine-based renaissance zone in the state, where portions of the lake are included in the zone, to maintain contiguity and size requirements that would otherwise prevent the small, land-based portions of the zone to be treated as separate subzones. Therefore, the Manistee Lake subzone is represented with several arrows, corresponding, as closely as possible, to the portions of the lakeshore with zone designation.

One of the portions of the Manistee Lake subzone is the 200-acre Manistee City Renaissance Park, an industrial park with a commitment from a major employer (Metal-Line) to locate 25 jobs and approximately \$800,000 of new investment.

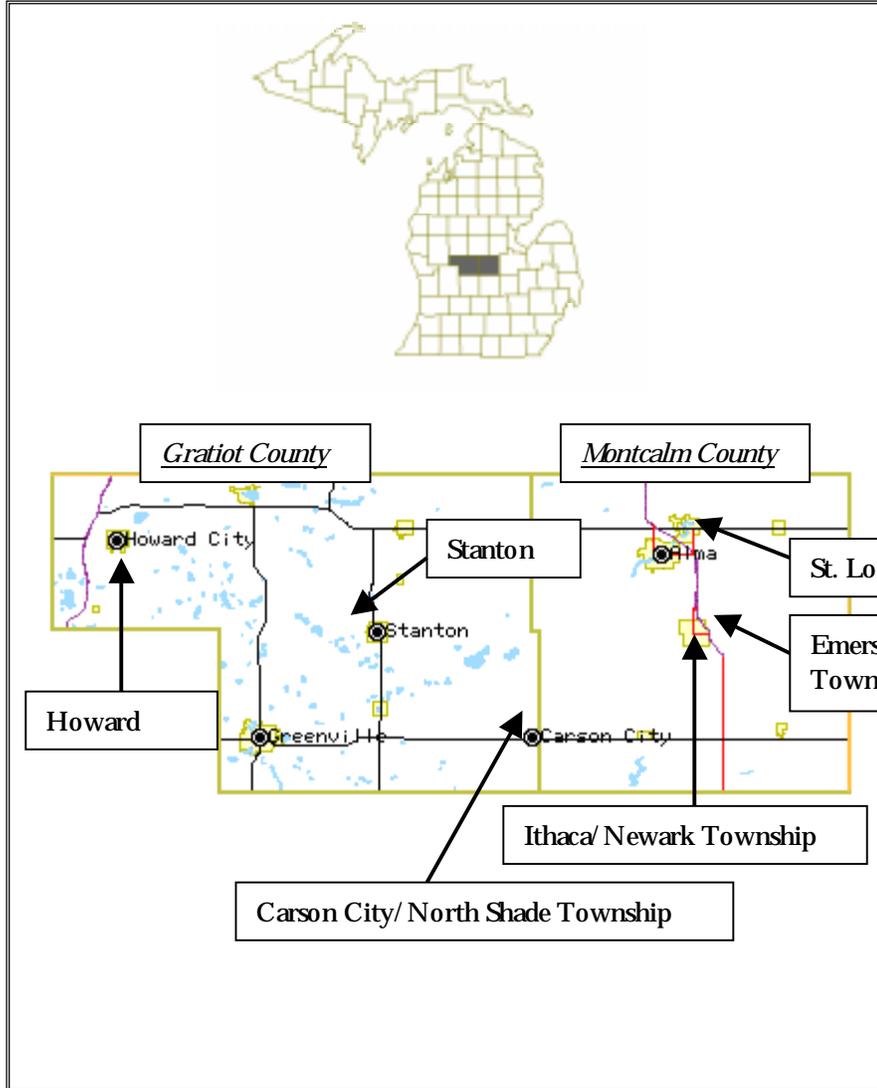


**Manistee County Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Metal-Line Inc.	Instate expansion	25/ 25	\$800,000	Machine repair
Myers Engineering	Instate expansion	10/ 10	\$300,000	Engineering
Pandrol-Jackson	Instate expansion	30/ 30	\$208,000	Railroad Equipment Manufacturer
Sadler Machine Tool	Business startup	10/ 10	\$350,000	Rebuilt industrial machinery
Stewart Investment Group	Structural development	Not provided	\$2,383,000	Manufactured housing project
<b>Total Jobs and Investment</b>		<b>75/ 75</b>	<b>\$4,041,000</b>	

**Montcalm/ Gratiot County Renaissance Zone**

One of two multi-county renaissance zones, Montcalm/ Gratiot is located in the geographic center of the lower peninsula, within a three-hour drive of any point therein. Situated between the Greater Grand Rapids area and the Tri-Cities area of Saginaw, Bay City and Midland, Gratiot and Montcalm counties offer proximity to several major Michigan cities.



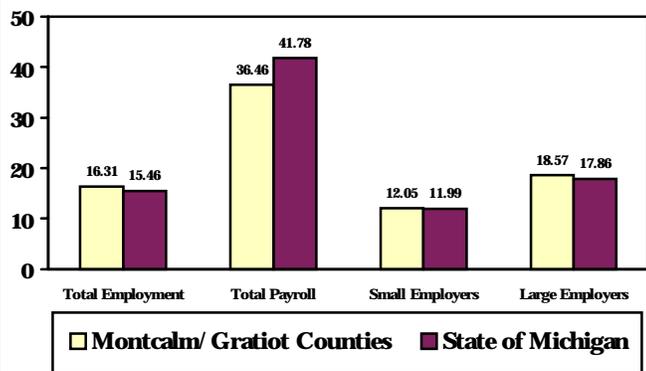
The six subzones in the Montcalm/ Gratiot renaissance zone lie in close proximity to five cities and villages. All but one of the subzones has a light industrial zoning classification. With frontage along U.S. Highway 27, the Emerson/ Northstar Township subzone is zoned for commercial use, and is 498 acres in size.

The Montcalm/ Gratiot zone has been successful in attracting a large Michigan-based automotive supplier, the Paulstra CRC Corporation, with plans to invest \$24 million in the Ithaca/ Newark Township subzone, introducing an estimated 100-115 jobs. Additional planned business investment in the zone totals \$16 million in equipment and infrastructure, and an anticipated 170-200 jobs.

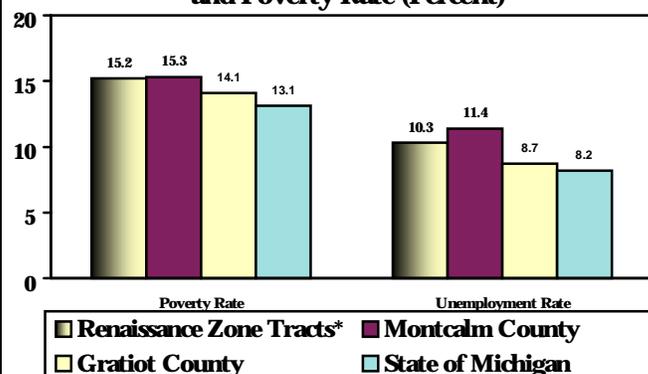
In 1988-95, the counties collectively kept pace with the state in total employment growth, and small and large employer growth. In 1990, the counties each had

poverty and unemployment rates above the state averages.

**Chart 8a -- Montcalm/ Gratiot Counties  
Percent Change in Employment, Payroll,  
and Employers, 1988-1995**



**Chart 8b - 1990 Montcalm/ Gratiot  
Renaissance  
Zone Unemployment  
and Poverty Rate (Percent)**



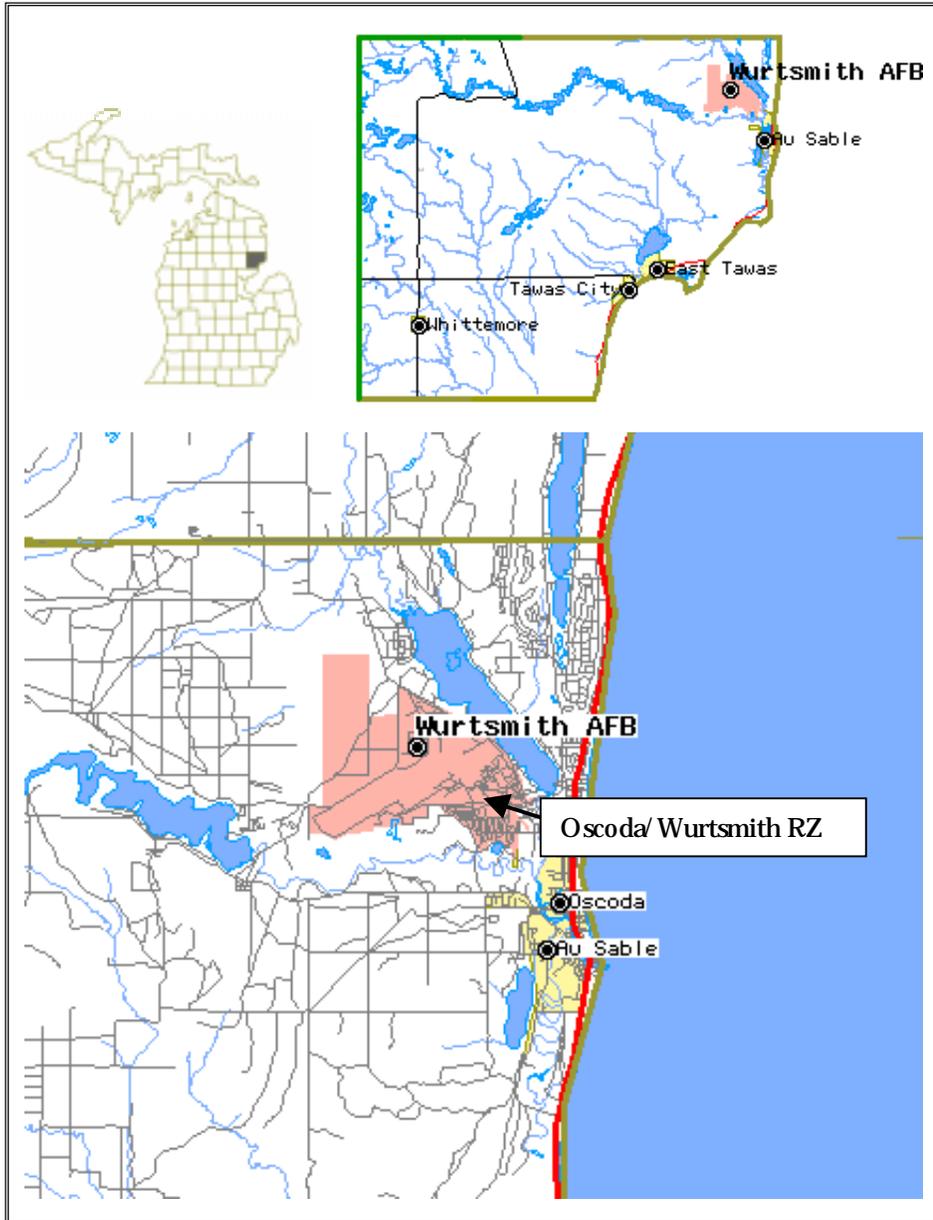
\* Tracts 9805, 9808, 9810, 9902, 9903, 9909

**Montcalm/ Gratiot Renaissance Zone business attraction:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Montcalm Fibre	Instate expansion	50/ 50	\$1,800,000	Fuel pellets
National Surface Preparation	Instate expansion	35/ 20	\$800,000	Finished concrete processor
Paulstra CRC Corporation	Instate expansion	115/ 100	\$24,000,000	Auto supplier
Riverside Plastics	Instate expansion	13/ 13	\$950,000	Plastics processor
Wolverine Worldwide	Instate expansion	100/ 85	\$13,000,000	Shoe distribution center
<b>Total Jobs and Investment</b>		<b>313/ 268</b>	<b>\$40,550,000</b>	

**Oscoda Wurtsmith Renaissance Zone**

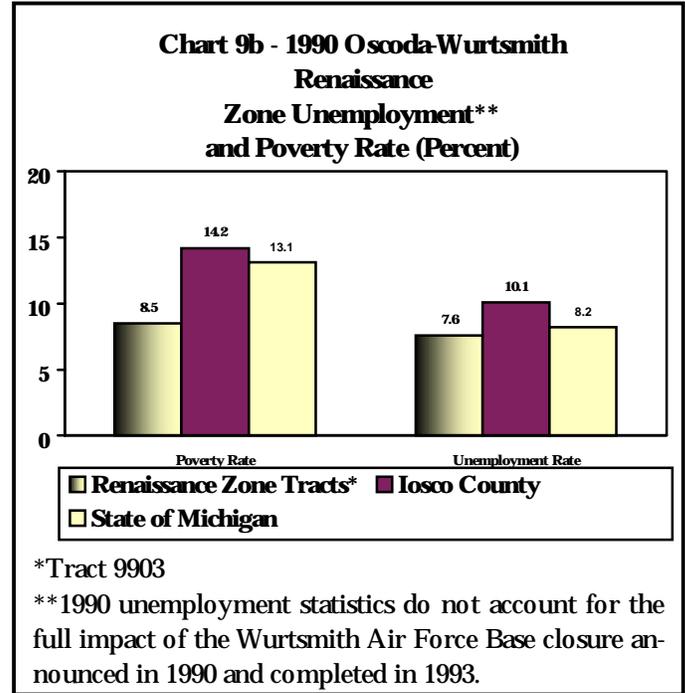
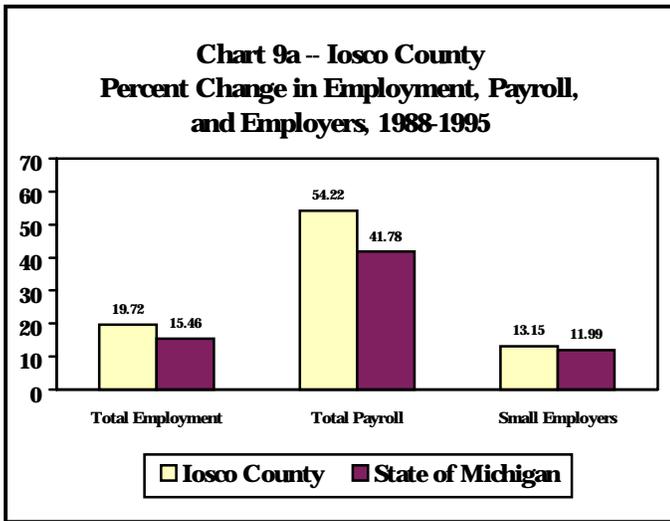
The former Wurtsmith Air Force Base, located near Oscoda, is one of the two former military facilities to be awarded a renaissance zone. At over 2,200 acres, it is the largest contiguous zone. It offers a large, year-round airport, and adequate port access on Lake Huron.



In 1990, the U.S. military announced that it was closing the base, displacing thousands of government and military jobs from the area. The military completed the closure by the summer of 1993. The loss of the county's largest employer caused the local housing market to plummet, and economic doom was predicted for the county.

Despite the loss of the military base, Iosco County has outperformed the state in all economic and business indicators except for unemployment, from which it is now at a level significantly below the dire period that immediately followed the base closure.

Base closure consequences were not as baleful as predicted, primarily because the local community planned for the closure. Specifically, a Base Reuse Master Plan was enacted, along with an Economic Recovery Strategy and an aviation study for reuse of the airport.

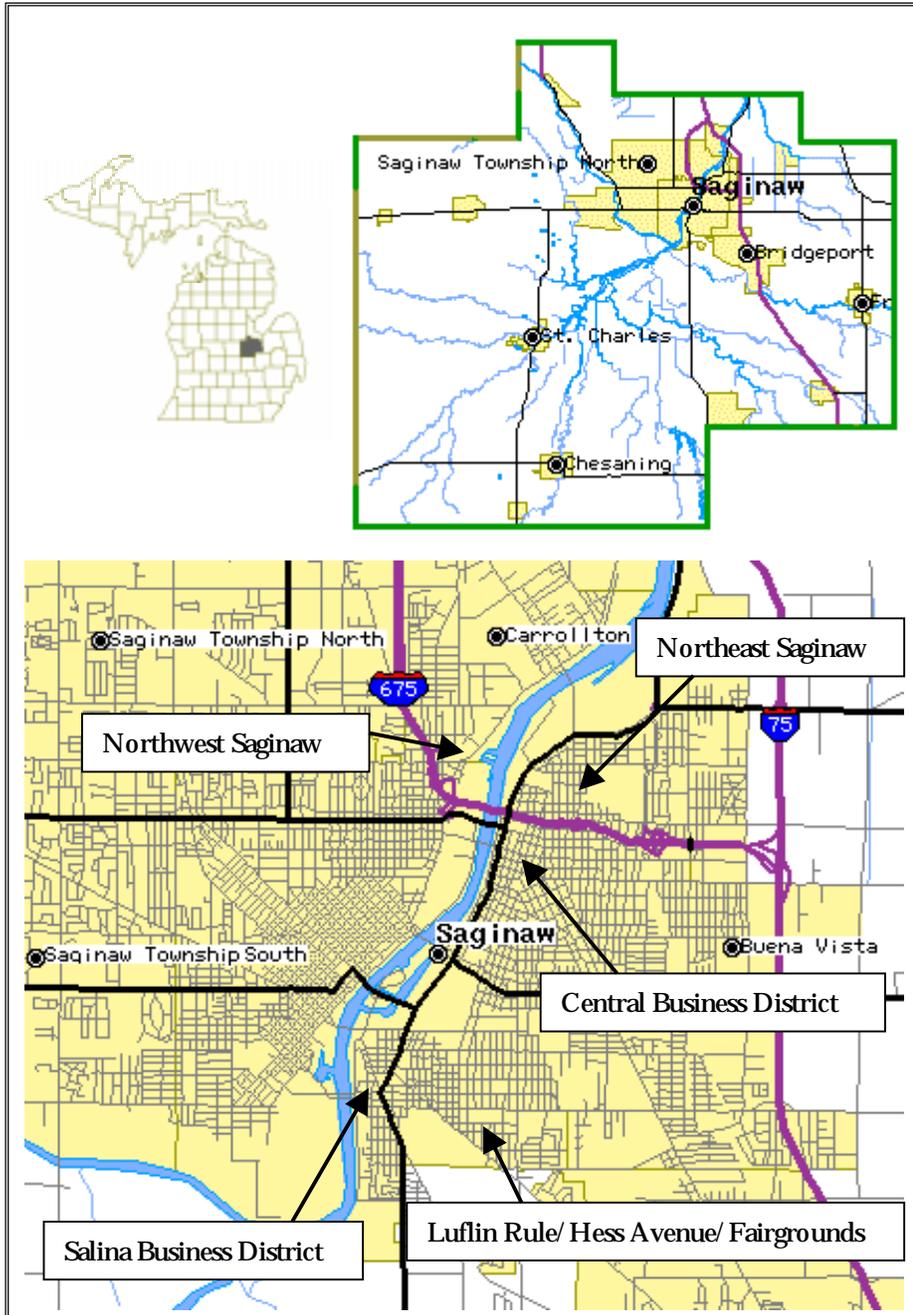


**Oscoda-Wurtsmith Renaissance Zone Business Activity:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Fletcher Coated Products	Instate expansion	10/ 10	\$5,000,000	Paper coating manufacturer
<b>Total Jobs and Investment</b>		<b>10/ 10</b>	<b>\$5,000,000</b>	

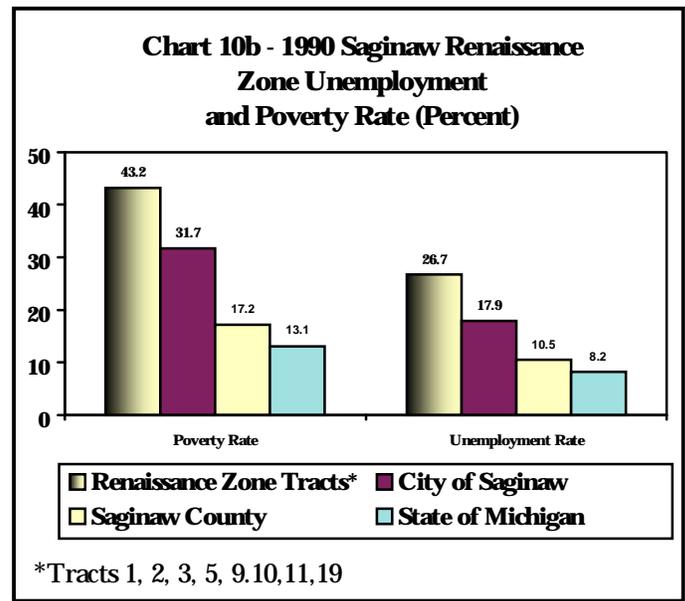
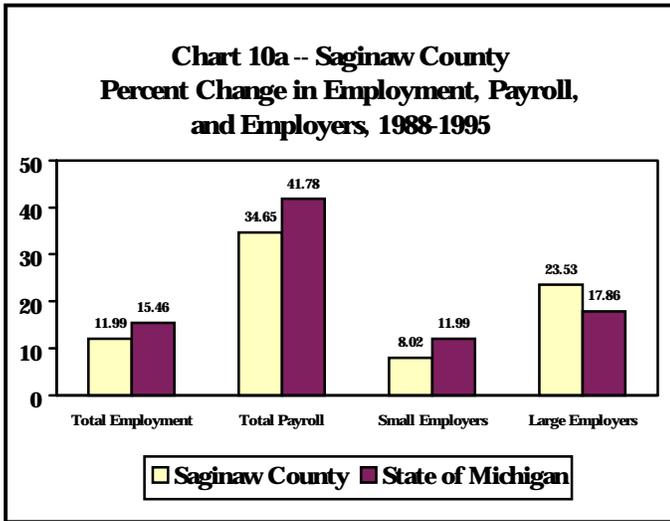
**City of Saginaw Renaissance Zone**

Michigan's Tri-City area was the recipient of one renaissance zone, in the City of Saginaw. The City of Saginaw is within a three-hour drive of any point in the Lower Peninsula, and offers direct access to Interstate 75, Great Lakes ports and major rail lines. Saginaw is within a few minutes' drive of Tri-Cities Airport, a major commuter and commercial facility.



Four of five of Saginaw's subzones are proximate to the Central Business District or the Saginaw River. A majority of the zone acreage is zoned for commercial or industrial uses, with only one subzone offering an exclusively residential zoning designation (Lufkin Rule/ Hess Avenue/ Fairgrounds Complex). The largest subzone, Northeast Saginaw, contains over 75 percent of the total renaissance zone acreage, and is zoned for industrial, commercial and residential use. The Central Business District subzone has a boundary that was drawn to largely exclude occupied, tax-revenue-producing properties.

While Saginaw County has underperformed the state in major business and economic indicators, it has outperformed the state in the number of large employers over the 1988-95 period. The 1990 poverty rate for Saginaw's renaissance zone census tracts is 43.2 percent, among the poorest of renaissance zone tracts statewide. The 1990 unemployment rate in the census tracts that touch upon Saginaw's renaissance zones was 26.7 percent, highest of all similarly described renaissance zones in the state.

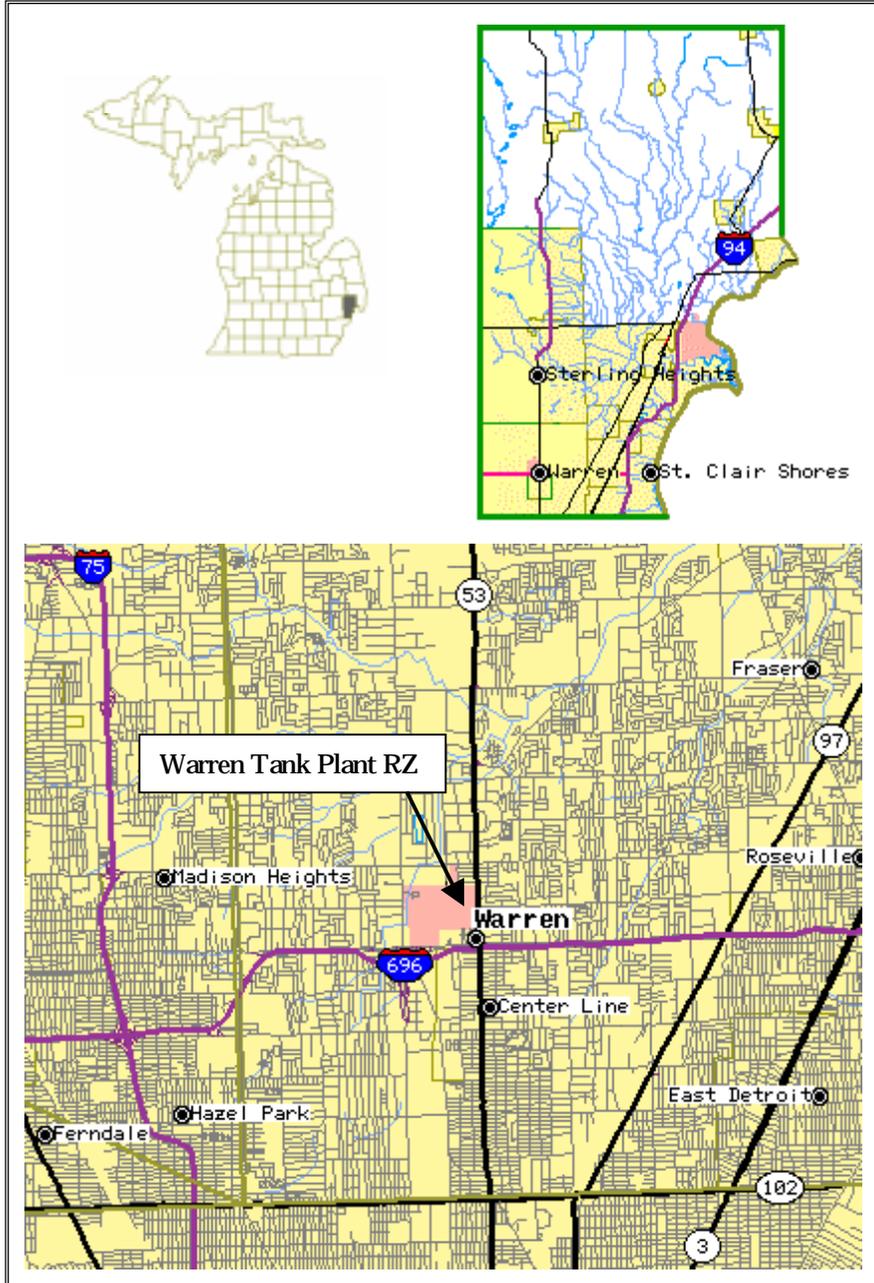


City of Saginaw Renaissance Zone Activity:

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
Browne's Mortuary	In zone expansion	2/ 1	\$500,000	Mortuary services
Discount Transmission	Instate expansion	8/ 8	\$100,000	Auto repair
Gallade Technologies	Out of state expansion	30/ 30	\$9,000,000	Auto chassis components
Health Delivery	In state expansion	12/ 12	\$1,500,000	Medical services
Michigan Photo	Instate expansion	8/ 8	\$154,500	Photo finishing
Peerless Environmental	Instate expansion	10/ 10	\$120,000	Environmental services
Spicer Engineering	Instate expansion	30/ 20	\$1,220,000	Engineering services
<b>Total Jobs and Investment</b>		<b>100/ 89</b>	<b>\$12,594,500</b>	

**City of Warren Renaissance Zone**

The City of Warren is home to one of two ex-military facilities awarded a renaissance zone. Warren's site, former home to the General Dynamics tank manufacturing facility, is one of the most desirable of all renaissance zones, with its central location in Michigan's third-largest city. It lies in close proximity to the General Motors Tech Center, the City's largest employer, and has frontage on its densest commercial thoroughfare, as well as direct access to Interstate 696. Preliminary environmental tests, however, indicate that the site is environmentally contaminated, with remediation estimates ranging from two to twelve million dollars.



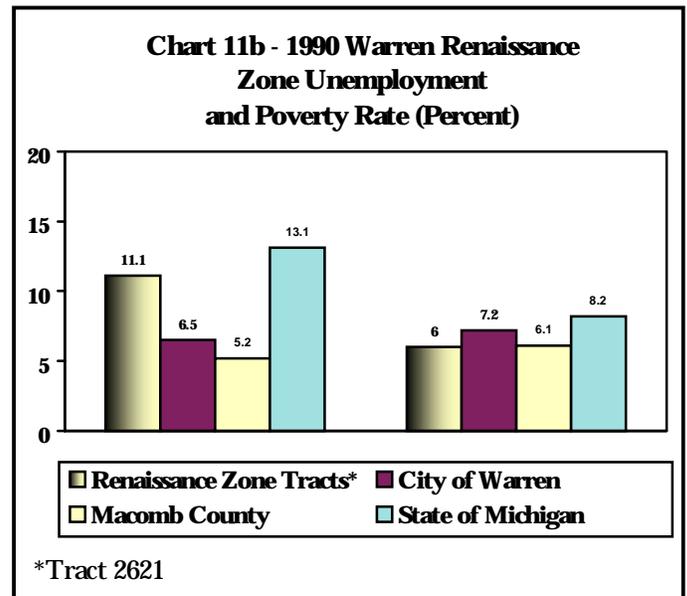
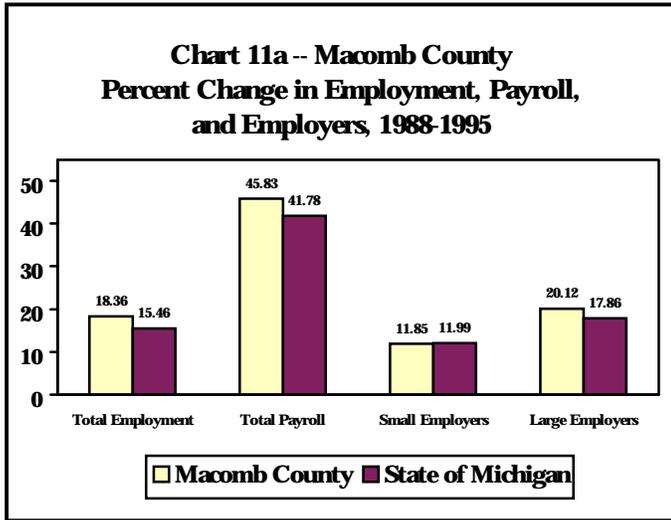
The City has significant interest in getting the site developed, inasmuch that the federal government did not pay ad valorem property tax during their term of ownership (although they did pay an annual fee for local services, it did not approach what a private concern would generate in property taxes). With the permanent closure of the facility, Warren no longer enjoys the spin-off benefits associated with locally spent payroll dollars of government employees. The City was challenged with getting the site redeveloped. There was a major hitch: the site was still owned by the United States Government, and the preparation, sale and transfer of title to local interests is typically a years-long process.

Warren cleared the first hurdle to quick redevelopment by winning a renaissance zone. According to their renaissance zone application, the site was attracting scant development interest in an unremediated state, and designation as a renaissance zone was necessary to attract such interest. The second hurdle was more difficult: finding a way to circumvent the federal government's slow pace in cleaning up and

selling its contaminated property. Renaissance zone designation was contingent upon receiving property title by December 31, 1997. Warren expedited the title transfer process with a novel approach. The City invoked a never before used Department of Defense regulation pertaining to accelerated base transfers. The regulation allows for the transfer of property in an unremediated state only if the purchaser agrees to hold the Department of Defense harm-

**MICHIGAN RENAISSANCE ZONES IN THE ECONOMIC DEVELOPMENT CONTEXT**

less as to liability. The City agreed to the hold harmless clause and a purchase price of \$5.9 million for the entire 153 acres.



**City of Warren Renaissance Zone Business Activity:**

Business	Business Origin	Expected number of jobs (High/ Low)	Planned Initial Investment	Business Type
DCT Corporation	Instate expansion	1,700/ 1,700	\$6,300,000	Machine tool manufacturer
<b>Total Jobs and Investment</b>		<b>1,700/ 1,700</b>	<b>\$6,300,000</b>	

**Summary Business Activity Report on Michigan's Renaissance Zones**

From January 1, 1997 through July 31, 1998, renaissance zones report the following business and investment activity:

**Table 1**  
**Performance Report of Michigan's Renaissance Zones**

<b>Renaissance Zone</b>	<b>Number of Projects</b>	<b>High/ Low Estimate of Jobs Created</b>	<b>Estimate of New Investment</b>
Benton Harbor/ St. Joseph/ Benton Township	4	392/ 332	\$31,100,000
City of Detroit	5	720/ 700	37,200,000
City of Flint	3	124/ 124	4,935,000
Gogebic/ Ontonagon/ Houghton Counties	1	5/ 4	150,000
City of Grand Rapids	26	776/ 578	30,882,000
City of Lansing	1	7/ 5	300,000
Manistee County	5	75/ 75	4,041,000
Montcalm/ Gratiot Counties	5	313/ 268	40,550,000
Oscoda-Wurtsmith	1	10/ 10	5,000,000
City of Saginaw	7	100/ 89	12,594,500
City of Warren	1	1,700/ 1,700	6,300,000
<b>Totals</b>	<b>59</b>	<b>4,222/ 3,885</b>	<b>\$173,052,500</b>

Note: For a complete list of renaissance zone projects by community, including business origin see **Appendix A, Renaissance Zone Business Activity through July 31, 1998**. For periodic updates on renaissance zone business activity, visit the Citizens Research Council website at [www.crcmich.org](http://www.crcmich.org).

Source: Michigan Jobs Commission and Renaissance Zone Communities.

**Renaissance Zones: Early Report**

Through July 31, 1998, renaissance zones have attracted 59 businesses, expansions, or structural developments, bringing approximately 4,000 jobs to the zones, with an estimated total infrastructure investment of \$173 million. Of the 59 projects, only three involve direct investment from concerns entirely outside of Michigan: namely, Nuway Paper of Glen Ellyn, Illinois (Benton Harbor/ St. Joseph/ Benton Township); Gallade Technologies, a German auto parts supplier (Saginaw); and Pre-stressed Systems, a specialized concrete manufacturer (Detroit). These three projects account for approximately 290-360 jobs, and \$30 million in direct investment.

Of the 59 businesses attracted by the zones through July 1998, 41 were some form of expansion, where a

business either expanded existing operations inside of a zone, or expanded existing Michigan operations to a zone. Although the final tally on renaissance zones will not be available for over a decade, the zones have not been very effective at out of state business attraction, as only 3 of the 59 announced projects were purely from out of state. Conversely, the zones have served to retain numerous large instate employers, who might have moved out of the state if not for renaissance zones.

The top performing renaissance zone to date in terms of total business attraction is Grand Rapids. This is due in part to the City's commitment of a significant number of existing businesses to the zones. Grand Rapids effectively sacrificed the tax revenues of existing businesses on the hope that their presence would attract new businesses to the zone.

**Renaissance Zone Countywide Economic Comparisons**

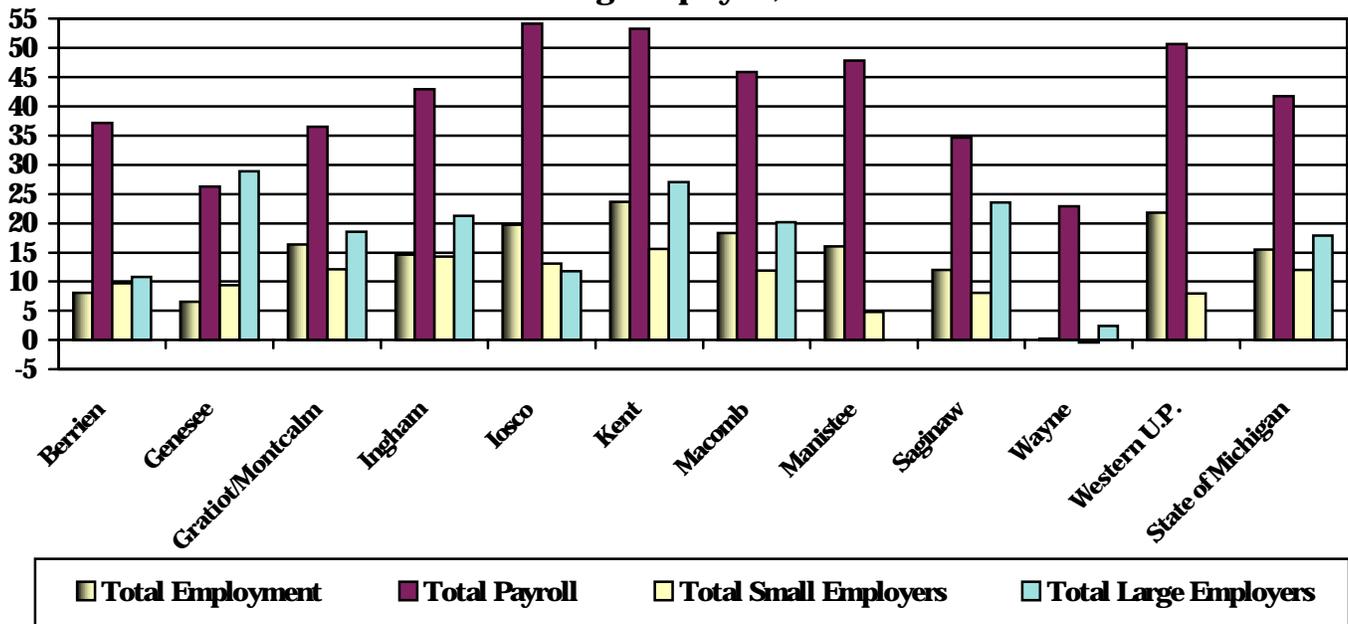
Charts 12, 13 and 14 offer a comparison of economic, business and unemployment statistics among all renaissance zone counties. Chart 12 is a compendium of the "a" charts in the individual renaissance zone descriptions. Charts 13 and 14 describe countywide unemployment trends for urban, and rural and ex-military facility renaissance zones.

A majority of renaissance zone counties exceeded the rate of total employment growth and payroll growth in the state for the 1988-95 period. Outperforming the state in total employment growth were Gratiot/Montcalm, Iosco, Kent, Macomb, Manistee and the Western U.P. counties. Outperforming the state in total payroll growth were Ingham, Iosco, Kent, Macomb, Manistee and the Western U.P. counties. Kent and Macomb counties outperformed the state in all four of the categories in Chart 12, while Berrien and Wayne Counties underperformed the state in all four categories.

Charts 13 and 14 (page 38) describe standardized countywide unemployment trends for all renaissance zone counties (or combinations thereof), against the benchmark year of 1990. For example, Chart 13, "Change in Unemployment, Urban Renaissance Zone Counties, 1990-97", indicates that Berrien County, with a 7.2 percent unemployment rate in 1990, is assigned the benchmark factor of 100 for that year. In 1997, unemployment in Berrien County was 5.1 percent, reflecting a 30 percent drop over the period, corresponding to a standardized factor of 70 for 1997.

Although unemployment rates for urban renaissance zone counties generally followed state trends for the 1990-97 period, rural and closed military facility renaissance zone counties did not generally follow state trends. Specifically, the Western U.P. counties experienced a significant rise in unemployment during the 1994-96 period, a time when the state unemployment rate was declining. In addition, Iosco and Manistee counties had unemployment rates well above the state levels for the 1990-97 period.

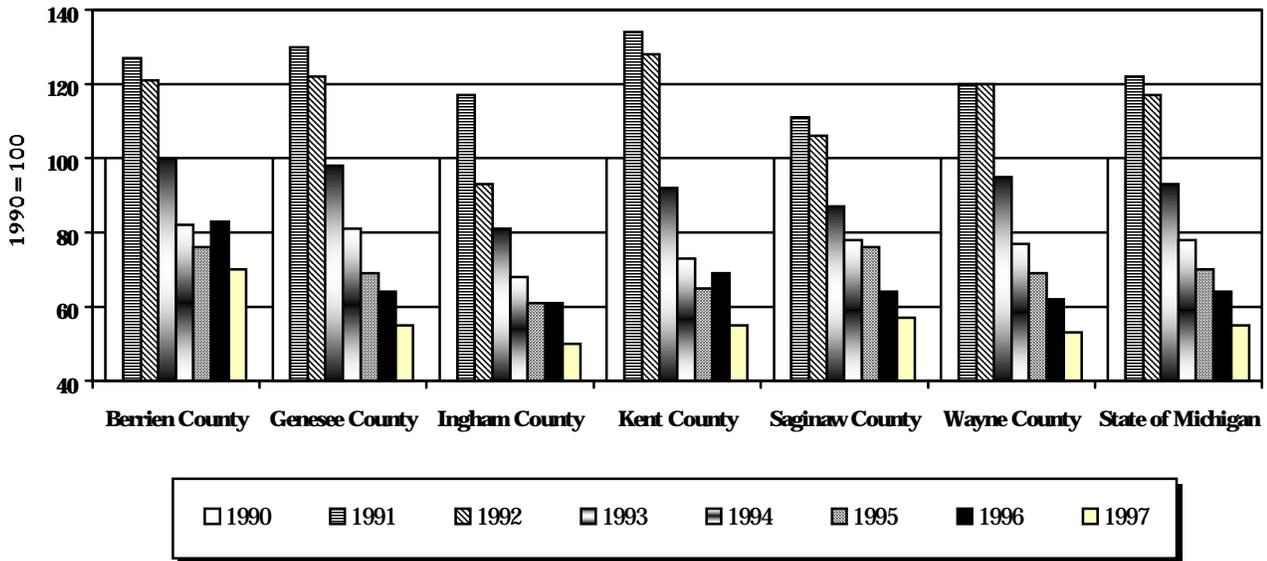
**Chart 12 -- Renaissance Zone Counties  
Percent Change in Employment, Payroll,  
Small and Large Employers, 1988-1995**



Note: Due to small data population size, the percent change in large employers is not reported for the Manistee and Gogebic/ Ontonagon/ Houghton (Western U.P.) County renaissance zones.

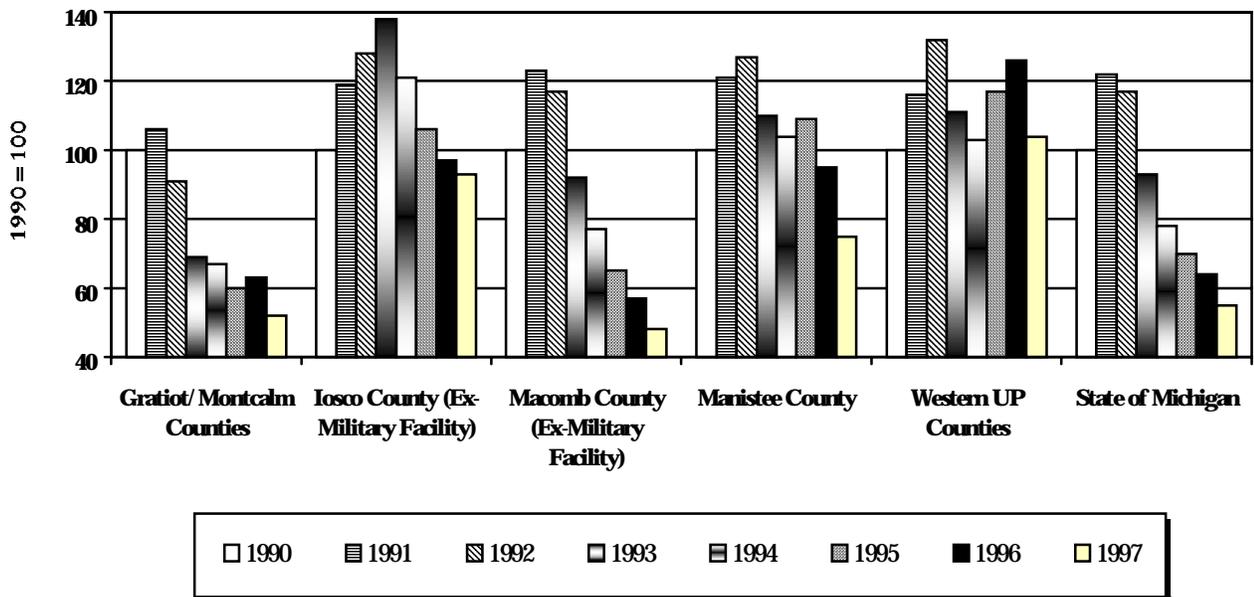
Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Chart 13 -- Change in Unemployment, Urban Renaissance Zone Counties, 1990-1997**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

**Chart 14 -- Change in Unemployment, Rural and Closed Military Facility Renaissance Zone Counties, 1990-97**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

#### **IV. Specific Policy Considerations for Renaissance Zones**

Any assessment of renaissance zones or other economic development incentive programs must consider various overlapping factors and variables. The following list of general economic development concepts seeks to relate such factors and variables to renaissance zones.

##### **Loss of State and Local Revenue**

The economic developer's justification that "absent the tax abatement/incentives, we couldn't have gotten the business" assumes that the spin-off benefits brought by a development will offset the tax abatement. Although typical tax abatements amount to a very small percentage of the total tax base, business relocations and expansions can exact significant costs on the entire community in the form of increased local governmental services. Small accretions of development often bring relatively large costs to local communities, even beyond expanded police and fire department presence—primarily in the form of new utility installation or upgrades. Other cost externalities are higher school enrollments and traffic congestion.

While many renaissance zones had negligible state and local tax revenue prior to zone designation, several local units of government chose to forgo significant future tax revenue by locating their renaissance zone in a tax-revenue producing area. Presumably, these local units of government are counting on two things to offset the lost revenue: namely, that the new businesses attracted by the zone will benefit non-zone areas of the local unit of government with spin-off development, and that the new businesses attracted by the zone will remain in the zone at the close of the tax-free period and begin paying the previously waived state and local taxes.

##### **Community Development v. Economic Development**

The economic development battle cry for job creation wrongly assumes additional jobs as a panacea for local community improvement. Perhaps the most oft-cited example of major job growth failing to improve the local community is the Atlantic City, New Jersey ex-

perience with legalized casino gambling. A more local example is Benton Harbor's experience as a Michigan enterprise zone. As previously reported by the Citizens Research Council in "*Renaissance Zones as an Economic Development Tool*," (September 1995), Benton Harbor's zone, rated as a moderate success in business attraction terms, did little to reduce the social ills associated with the depressed local economy. This occurred for two reasons: Benton Harbor lacked an adequately skilled work force, forcing employers to hire outside of the zone; and, locally-hired employees who possessed necessary skills were soon in a sound enough economic position to move out of the zone. Consequently, the desired multiplier effect of locally earned dollars failed to be realized.<sup>4</sup>

In order to avoid the economic development versus community development pitfall that characterized the Michigan Enterprise Zone program, administrators of renaissance zones, and their respective local units of government, must not assume that an increased business presence alone will serve to revive their zone. Such local governments should take steps to insure that increased business activity in renaissance zones brings a trickle down effect to the local community. These steps include public-private job training partnerships for residents, adequate housing and transportation routes for employees, and a continuing concern for private-sector business growth.

##### **Premature Successes and Failures**

To avoid the problem of throwing good money after bad, it is important to recognize that some renaissance zones will have a difficult time attracting investment, regardless of the magnitude of the incentive. Policy-

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<sup>4</sup> This is not to say that the state failed to learn some lessons from the experience. In 1990, lowering qualification standards expanded the Enterprise Zone Act, enabling more businesses to qualify for reduced tax rates. Tellingly, Public Act 80 of 1990 included provisions for the financing and establishment of two critical economic development tools to aid the zone—a full-time administrative assistant and a Master Plan for the zone. Presumably, the state and Benton Harbor came to the realization that the zone was not selling itself on the strength of tax incentives.

makers shouldn't assume that early success in one or a few zones is a mandate for program expansion. The recent federal budget agreement includes provisions for expansion of the Empowerment Zone/ Enterprise Community Program, only two and a half years after its start, based largely on the strength of anecdotal evidence attesting to its success.<sup>5</sup> Federal budget authorizations were made in 1997 to fund an additional 15 Empowerment Zones and 5 Enterprise Communities.

In October 1997, only ten months into the renaissance zone program, the Michigan House of Representatives Committee on Urban Affairs discussed extending the term of the tax-free zones. Additionally, a bill pending in the state Senate proposes an expansion of the geographic boundaries of renaissance zones.<sup>6</sup>

Similarly, zones that underperform in business attraction (by any standard) are not necessarily serving as barometers for the entire program, and should not cast doubt on the potential effectiveness of the entire renaissance zone program.

### **Counterfactual Economic Development Scenarios**

In targeted economic development areas, one must consider the amount and type of growth that would

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<sup>5</sup> Empowerment Zone evaluation reports are in various stages of progress. A HUD-sponsored report titled "Empowerment Zone Initiative - Building a Community Plan for Strategic Change," examined the Empowerment Zone/ Enterprise Community formative process, focusing primarily on the degree of community involvement in assembling EZ/ EC applications. Subsequent HUD evaluation reports also have a formative character, examining the subcontracting progress attendant to Title XX funding (the \$100M and \$3M direct subsidy awarded to Empowerment Zones and Enterprise Communities, respectively). Given that Empowerment Zones and Enterprise Communities are less than four years old, outcome-based analyses are still years away.

<sup>6</sup> Senate Bill 761 seeks to amend the Renaissance Zone Act by allowing businesses who have operations inside of a zone, and property interests outside of the zone but contiguous to their zone operation, to expand to the non-zone property, and receive full zone benefits for the expansion. This is contingent on the business maintaining their original zone presence.

have occurred absent the incentive(s). Other factors, such as an improving local economy, easier credit, or other state and local incentives may be the primary reason for the business' startup or expansion in the zone.

Renaissance zone assessment will prove difficult, given the plethora of state and local economic development programs available to many businesses. Development of models to estimate renaissance zones' ability to attract businesses must incorporate the notion that another program might have been used by a private investor to facilitate development, at less cost to state and local taxpayers. Compounding this difficulty is an exceptionally strong state and national economy, capable of producing above-average business growth without governmental inducements.

### **Workforce Characteristics of Development Area**

Employers are increasingly concerned with workforce skills, for two simple reasons: workers must be smarter and better trained, and employers do not want the added costs of training them. Such concerns become readily apparent in tight labor markets and times of low unemployment. Emerging economic development philosophies focus on people-oriented solutions to economic development, including improved education and job skills training.<sup>7</sup>

Although the typical renaissance zone census tract is beset with relatively high levels of poverty and unemployment, a majority of the counties that contain renaissance zones have poverty and employment levels lower than the state average. Inasmuch that counties serve as labor markets to their local communities, a renaissance zone in an economically healthier-than-average county is at a disadvantage for the following two reasons:

1. The overall labor market (county), with lower unemployment levels than the state, is in a relative labor shortage, possibly compelling renaissance

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<sup>7</sup> Hal Wolman, Royce Hanson, Edward Hill, Marie Howland and Larry Ledebur, "National Economic Development Policy," *Journal of Urban Affairs* vol. 14, no. 3/4, pp. 217-38, 1992.

zone businesses to hire skilled labor outside of the local labor market, bringing little or no new spin-off wages to the local economy;

2. The immediate labor market (local municipality or census tracts) to the zone has relatively less skilled labor for zone businesses to hire, often with unemployment levels at double or triple the rates of the local county.

Renaissance zone business will be particularly challenged in finding qualified workers, especially if they are hiring skilled employees, which, during labor shortages, are difficult to find in renaissance zone counties, and even more difficult to find in the zones themselves.

### **Long Term Business Viability**

Given that typical economic incentive programs have honeymoon periods of low or no taxes, one must weigh the long-term success rate of a business. Renaissance zones feature no "clawback" provision to insure that the state gets a return on investment. Furthermore, renaissance zone businesses are not committed to hiring any number of employees, local or otherwise, and are not legally bound to the zone for any length of time. That is, a business could avail itself to the tax-free status offered by zones, and then simply relocate to the nearest state with a similar program at the close of renaissance zones.

### **Intrastate Business Churning**

Waiver of most state and local taxes in renaissance zones will undoubtedly attract the interest of instate businesses. In fact, the vast majority of businesses who have relocated to renaissance zones are headquartered in Michigan. Presumably, these relocations are occurring with the blessing of the community losing the business, as anti-pirating provisions of the Renaissance Zone Act serve to remove the incentive for

Michigan businesses that relocate to a renaissance zone.<sup>8</sup>

Although the losing community (if located in Michigan) can veto the renaissance zone tax credits to an abandoning business, such a dynamic will open the door for resentment or animosity between local communities and businesses considering moving to renaissance zones, when the losing community is forced to threaten this veto power at the business's suggestion of moving to a renaissance zone. Any economic development program without such a veto will be playing a zero-sum game if businesses are given the opportunity to "community shop" for tax incentives.<sup>9</sup>

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<sup>8</sup> House Bill 5365 seeks to close a loophole in the "anti-pirating" provision of the original legislation. Specifically, this bill seeks to prevent a business from receiving renaissance zone tax waivers if it relocates from a local unit of government with a renaissance zone to a renaissance zone in another local unit of government. As current law stands, a Michigan business residing in a non-renaissance zone community that relocates to a renaissance zone, without the blessing of the abandoned local community, can be prevented from receiving the tax benefit. The abandoned community needs to file a simple resolution of objection with the Jobs Commission and Treasury to accomplish this. The anti-pirating provision was not accorded, however, to local units of government that have renaissance zones. Had this loophole been closed in the original legislation, the City of Detroit may have been able to prevent the loss of a major employer, Detroit Center Tool Corporation, to Warren's Renaissance Zone.

<sup>9</sup> Timothy Bartik characterizes the zero-sum argument as weak, primarily because of his conclusion that economic development incentive programs are more cost effective in areas of high unemployment than areas of low unemployment. His theoretical argument is based on the idea that the benefits of reducing unemployment in high unemployment areas outweigh the costs of increasing unemployment in low unemployment areas. See Bartik, Who Benefits From State and Local Development Policies?, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1991, pp. 190-93.

**Renaissance Zone Experiences in Detroit and Warren**

In October 1997, DCT Corporation (formerly Detroit Center Tool) announced plans to relocate 400 employees to the City of Warren renaissance zone by January 1998, and 1,700 after completion of its new headquarters there in 1999. DCT, which is effectively relocating the bulk of its Detroit operations to Warren's renaissance zone, is taking advantage of a loophole in the anti-pirating provision of the renaissance zone legislation. House Bill 5365 (see footnote on page 41) seeks to prevent local units of government with renaissance zones from losing businesses to other renaissance zones in the state.

In August 1997, the SBF Automotive Corporation relocated their entire operations, including 50 employees, to the City of Detroit's renaissance zone from the City of Livonia. Although statutory protections existed at the time for Livonia to effectively remove the incentive for SBT to leave the city, discussions with city officials revealed their lack of knowledge of any such anti-pirating provision.

## IV. Conclusion

Renaissance zones, scattered throughout Michigan, break new ground in state-based economic development policy. A waiver of virtually all state and local taxes besides sales and use taxes eclipses previous and existing targeted zone programs, in terms of the magnitude of tax incentive. Renaissance zones also offer the same tax exemptions to residents, offering them full exemptions from several tax liabilities, including state and local income, property, and utility taxes.

Through approximately the first year and a half of the program, renaissance zones have produced 59 (announced) business or employer development projects. These projects are as varying in character as the zones and subzones themselves, which range from small, single parcels in decrepit urban areas to a 3.5 square mile area surrounding an ex-military facility. Projects include large, previously out of state business interests such as Nuway Paper in Benton Harbor, and Gallade Technologies in Saginaw, to numerous instate relocations or expansions (DCT in Warren, Superior Polymer in the Western Upper Peninsula, Wolverine Worldwide in Grand Rapids).

Program evaluation of renaissance zones remains years away, as their long terms have only recently begun. Although determination of when the zones will attain sufficient maturity for critical examination is debatable, it is a safe assumption that there will be no shortage of zone evaluations by the time the zone tax benefits sunset. The uniqueness of renaissance zones, in terms of the intensity of the incentive, renders them eminently attractive to social scientists seeking

to produce more conclusive results about targeted zone programs.

Like any other major public policy initiative, renaissance zones have experienced growing pains in their first year and a half of existence. Because the zones affect many state and local tax statutes, significant legislative fine-tuning has been necessary to iron out oversights and policy gaps in the original Renaissance Zone Act. Several pending bills propose significant alteration or expansion of the program, long before the zones have had a chance to take root.

At this early stage, a tentative conclusion is that tax inducements alone do not assure significant business development in targeted zones. Although state and local tax-free status serves as a major inducement for prospective businesses to consider in site location, the tax status does not change hindrances usually associated with distressed areas, including sufficient utility and transportation access, acreage requirements, and trained workforces, to name a few.

Multifaceted, coordinated efforts, involving local units of government or their agents, acting on behalf of the interests of all involved parties, is a mandatory prerequisite for development of distressed areas. For renaissance zones to pass a strict cost-benefit analysis, at any point in their tenure, local zone administrators must redouble their business attraction efforts, and treat the zones as economic development works in progress, instead of the proverbial bird in hand.

## V. Appendices

### Appendix A

#### Renaissance Zone Business Activity through July 31, 1998

Renaissance Zone and Business	Business Origin <sup>3</sup> Business Startup (S); In-Zone Expansion (IZ); Instate Expansion (IS); Out of State Expansion (OS); Structural Development (SD)	High and Low Estimate of Jobs Created (High/ Low)	Planned Initial Investment (\$)	Business Type
<b>Benton Harbor</b>				
Nuway Paper	(OS)	300/ 240	\$20,000,000	Paper product manufacturer
Old World Stone	(S)	5/ 5	\$100,000	Construction materials
Product Design Services	(S)	12/ 12	\$1,000,000	Computer numerical control (CNC) prototyping
WAVE	(S)	75/ 75	\$10,000,000	Ceiling suspension systems
<b>Detroit</b>				
Johnson Controls	(IS)	220/ 220	\$5,000,000	Automotive parts manufacturer
Pre-stressed Systems	(OS)	30/ 20	\$1,000,000	Structural concrete products
Renaissance Global Logistics	(IS)	400/ 400	\$16,000,000	Export packaging
SBF Automotive	(IS)	20/ 10	\$700,000	Auto supplier
Strong Steel Products	(S)	50/ 50	\$14,500,000	Scrap metal recovery
<b>Flint</b>				
Genesee Packaging	(IS)	120/ 120	\$4,000,000	Packaging/ Assembly
Rossner Engineering	(IS)	Not provided	\$850,000	Design engineering
Rizzo's Pizza	(IS)	4/ 4	\$85,000	Restaurant

<sup>3</sup> Classification of renaissance zone business origins is as follows: Business startups (S) are those businesses that began initial operations in the zone, after the zones became operational; In-zone expansions (IZ) are pre-existing zone businesses and who are expanding or plan to expand in the zone after the zones became operational; Instate expansions (IS) are pre-existing businesses with a presence in the state (but not in a renaissance zone) who are expanding to or plan to expand to a zone; Out of state expansions (OS) are businesses with no known instate presence who are expanding to or plan to expand to a zone; Structural developments (SD) are in-zone structural development projects without a known tenant (speculative development). While several of the announced renaissance zone projects are actually business relocations, and not expansions, they are treated here as expansions.

***MICHIGAN RENAISSANCE ZONES IN THE ECONOMIC DEVELOPMENT CONTEXT***

<b>Renaissance Zone and Business</b>	<b>Business Origin</b>	<b>High and Low Estimate of Jobs Created (High/ Low)</b>	<b>Planned Initial Investment (\$)</b>	<b>Business Type</b>
<b>Gogebic/ Ontonagon/ Houghton Counties</b>				
Superior Polymer	(IS)	5/ 4	\$150,000	Polymer coating processor
<b>Grand Rapids</b>				
Ainslie Upholstery	(S)	Not provided	\$160,000	Upholstery services
Acanthus Antiques	(S)	2/ 0	Not provided	Antique retailer
Allen-White Group (Brown Office Center—formerly Ferris Hotel)	(SD)	5/ 0	\$675,000	Offices
Canal Street Foundry	(SD)	400/ 300	\$5,000,000	Commercial development
Dwelling Place	(IS)	30/ 0	\$1,000,000	Residential housing
Fab Tool	(S)	7/ 5	\$50,000	Auto machine tools
Franklin Metals	(IS)	25/ 25	\$1,000,000	Metals processor
P.B. Gast	(IZ)	10/ 5	\$1,600,000	Janitorial equipment
The Hair Net	(S)	2/ 1	\$10,000	Hair salon
Half Moon Entertainment Center	(S)	30/ 30	\$400,000	Restaurant/ Night Club
Hat HMS	(S)	0/ 0	\$35,000	Clothing retailer
Haviland Enterprises	(IS)	35/ 35	\$10,000,000	Chemical products
KL Lawn Sprinkling	(S)	1/ 1	\$150,000	Sprinkler installer
McDonalds	(IS)	50/ 45	\$500,000	Restaurant
McGraw Construction	(IS)	5/ 0	\$225,000	Construction
Miller Welding Supply	(IZ)	3/ 3	\$400,000	Welding supply
Old Kent Bank	(IZ)	0/ 0	\$300,000	Renovation of existing branch office
Polymer Products	(IS)	10/ 5	\$1,000,000	Specialty resins
Pridgeon and Clay	(IS)	0/ 0	\$125,000	Improvement of existing stamping facility
Chuck Posthumus Arch.	(IS)	3/ 3	\$10,000	Architecture firm
Radiology Imaging Solutions	(IS)	12/ 12	Not provided	Radiology lab
Roosevelt Market	(IS)	16/ 16	\$500,000	Grocery store
SEED/ Calatico Inc.	(IS)	Not provided	\$242,000	Residential apartments
Spectrum Industries	(IS)	100/ 75	\$3,000,000	Electrodeposition coating
St. Mary's Health Service	(IS)	20/ 12	\$1,500,000	Non-profit health clinic
John Widdicomb Co.	(IS)	10/ 5	\$3,000,000	Furniture manufacturer
<b>Lansing</b>				
BRD Printing	(IZ)	7/ 5	\$300,000	Printing
<b>Manistee</b>				
Metal-Line Inc.	(IS)	25/ 25	\$800,000	Machine repair
Myers Engineering	(IS)	10/ 10	\$300,000	Tool and die manufacturing
Pandrol-Jackson	(IS)	30/ 30	\$208,000	Railway maintenance machinery

**CRC REPORT**

<b>Renaissance Zone and Business</b>	<b>Business Origin</b>	<b>High and Low Estimate of Jobs Created (High/ Low)</b>	<b>Planned Initial Investment (\$)</b>	<b>Business Type</b>
<b><i>(Manistee, continued)</i></b>				
Sadler Machine Tool	(S)	10/ 10	\$350,000	Rebuilt industrial machinery
Stewart Investment Group	(SD)	Not provided	\$2,383,000	Manufactured housing project
<b>Montcalm/ Gratiot</b>				
Montcalm Fibre	(IS)	50/ 50	\$1,800,000	Fuel pellets
National Surface Preparation	(IS)	35/ 20	\$800,000	Finished concrete processor
Paulstra CRC Corporation	(IS)	115/ 100	\$24,000,000	Auto supplier
Riverside Plastics	(IS)	13/ 13	\$950,000	Plastics processor
Wolverine Worldwide	(IS)	100/ 85	\$13,000,000	Shoe distribution center
<b>Oscoda-Wurtsmith</b>				
Fletcher Coated Products	(IS)	10/ 10	\$5,000,000	Paper coating manufacturer
<b>Saginaw</b>				
Browne's Mortuary	(IZ)	2/ 1	\$500,000	Mortuary services
Discount Transmission	(IS)	8/ 8	\$100,000	Auto repair
Gallade Technologies	(OS)	30/ 30	\$9,000,000	Auto chassis components
Health Delivery	(IS)	12/ 12	\$1,500,000	Medical services
Michigan Photo	(IS)	8/ 8	\$154,500	Photo finishing
Peerless Environmental	(IS)	10/ 10	\$120,000	Environmental services
Spicer Engineering	(IS)	30/ 20	\$1,220,000	Engineering services
<b>Warren</b>				
Detroit Center Tool	(IS)	1,700/ 1,700	\$6,300,000	Machine tool manufacturer
<b>TOTALS</b>				
<b>Business Startups</b>	<b>12</b>	<b>194/ 189</b>	<b>\$26,755,000</b>	
<b>In-Zone Expansions</b>	<b>5</b>	<b>22/ 14</b>	<b>\$3,100,000</b>	
<b>Instate Expansions</b>	<b>36</b>	<b>3,241/ 3,092</b>	<b>\$105,139,500</b>	
<b>Out of State Expansions</b>	<b>3</b>	<b>360/ 290</b>	<b>\$30,000,000</b>	
<b>Structural Developments</b>	<b>3</b>	<b>405/ 300</b>	<b>\$8,058,000</b>	
<b>GRAND TOTAL</b>	<b>59</b>	<b>4,222/ 3,885</b>	<b>\$173,052,500</b>	

**Appendix B**

**Renaissance Zone Amendments**

The following list of Public Acts are amendments to the Renaissance Zone Act of 1996. Included is a description of the problem(s) prompting legislative action. For the purposes of the following discussion of renaissance zone acts and amendments, the term “casino” applies only to those such establishments that fall under the Michigan Gaming Control Act of 1996.

**Public Acts 441 and 469 of 1996**

The first amendments to renaissance zones were passed four months after the zones became active (except for Warren’s zone, which became active in late 1997). PA 441 and PA 469 of 1996 were enacted to prevent casinos from locating in zones and reaping certain tax benefits. Specifically, PA 441 rescinds the Single Business Tax credit for casinos in renaissance zones, while PA 469 rescinds the property tax exemption for casinos in renaissance zones.

**Public Act 448 of 1996**

PA 448 of 1996 establishes terms of residency requirements for persons living in renaissance zones. PA 448 amends the Michigan Income Tax Act, PA 281 of 1967, by adding a new section to accommodate renaissance zone income exemptions. Specifically, PA 448 allows income tax exemptions for zone residents, including, but not limited to; interest, dividend, capital gains and lottery income. In order to qualify for the income exemptions, residents must maintain domicile in the zone for at least 183 consecutive days.

**Public Act 18 of 1998**

In order to qualify for the renaissance zone exemption, the original law required that personal property had to be sited in the zone on tax day, and also required that the property be sited in the zone for at least one half of the previous tax year. The original law was designed to prevent businesses with multiple locations from moving equipment to a zone location to avoid paying taxes on it.

PA 18 of 1998 was passed to rectify a problem encountered by renaissance zone businesses that had purchased taxable equipment and had it shipped to the zone by tax day—but didn’t satisfy the previous tax year requirement. The previous year requirement was

unfairly penalizing good faith businesses in the zones, which had made new equipment purchases as part of an expansion or business startup. PA 18 allows the personal property exemption, even if it had not been sited in the zone for half of the previous year, if both of the following conditions are met:

- 1) the property had not been previously located in Michigan;
- 2) The owner filed an affidavit stating that the property would remain in the zone for at least half of the current tax year.

**Public Acts 239, 241, 242, 243 and 244 of 1998**

The original Renaissance Zone Act (PA 376 of 1996) amended a total of 12 separate tax laws to allow for the comprehensive tax breaks offered by the zones. Specifically, the Act exempted businesses and residents from the following taxes as long as the business or resident was not delinquent under any of them:

- 1) Single Business Tax (1975 PA 228)
- 2) Personal Income Tax (1967 PA 281)
- 3) City Income Tax (1964 PA 284)
- 4) City Utility Users Tax (1990 PA 100)
- 5) General Property Taxes (1893 PA 206)
- 6) Industrial Property Tax Abatement (1974 PA 199)
- 7) Commercial Redevelopment Act (1978 PA 255)
- 8) Enterprise Zone Act (1985 PA 224)
- 9) Taxation of Lessees and Users of Tax Exempt Property (1953 PA 189)
- 10) Technology Park Development Act (1984 PA 385)
- 11) Natural Resources and Environmental Protection Act (1994 PA 451)
- 12) Neighborhood Enterprise Zone Act (1992 PA 147)

The following series of public acts amend many of the above-listed tax acts by creating specific exceptions for casinos. Public Act 239 amended the Renaissance Zone Act to exempt casinos, and all real and personal property associated with them, from zone benefits. Public Acts 241, 242, 243, 244 amended, respectively, the City Utility Users Tax, the Enterprise Zone Act, the Commercial Redevelopment Act, and the Taxation of Lessees and Users of Tax Exempt Property Act to exclude casinos from renaissance zone exemptions.

**Notes**