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OF MICHIGAN



SURVEY OF ECONOMIC  
DEVELOPMENT PROGRAMS  
IN MICHIGAN

THIRD EDITION

FEBRUARY 2016

REPORT 392

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

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# SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN

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Current Through 98<sup>th</sup> Michigan Legislature (2015 Regular Session)

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

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## TAX ABATEMENTS OR CREDITS

*Brownfield Tax Credits*  
*Commercial Rehabilitation Tax Abatement*  
*State Historic Preservation Tax Credit*  
*Federal Historic Rehabilitation Tax Credit*  
*Industrial Facilities Tax Abatement*  
*Michigan Economic Growth Authority Tax Credits*  
*Neighborhood Enterprise Zones*  
*New Market Tax Credits*  
*Obsolete Property Rehabilitation Tax Abatement*  
*Renaissance Zones*



## BROWNFIELD TAX CREDITS

(WILL EXPIRE WHEN LAST CREDITS CLAIMED)

### ENABLING LEGISLATION;

### STATUTORY CITATION:

1996 PA 382; as amended by 2002 PA 726, 2006 PA 32, 2006 PA 112, 2006 PA 240; M.C.L. 125.2651 et seq.

### SUMMARY PROGRAM

#### DESCRIPTION:

An incentive-based tax credit program to foster redevelopment of contaminated (actual or presumed) industrial and commercial sites. Single Business Tax credits available for up to 10 percent of qualified expenses incurred for assessment and remediation of qualified brownfield properties.

Tax increment financing (TIF) is also available for certain projects to offset the costs associated with cleanup. TIF is described in a text box on page 66.

### ELIGIBILITY AND

#### BENEFITS:

SBT/MBT credits were available for qualified taxpayers' eligible investments on eligible properties sited in an approved Brownfield Redevelopment Authority (see page 59), owned by a land bank fast track authority (see page 109), or sited in an "economic opportunity zone" (see below).

With the repeal of the Michigan Business Tax, [previously approved MBT brownfield credits](#) will be honored; however, no new credits are being allocated. See MEGA on p. 42.

### TERMS AND PERFORMANCE

#### GUARANTEES:

Application for brownfield tax credits were made to the Michigan Economic Growth Authority (MEGA), a statutorily-created body in the Michigan Economic Development Corporation. MEGA authorized SBT/MBT credits by the following criteria:

#### Credit Amount:

*For SBT/MBT Credits under \$200,000:* The total of all credits for all projects could not exceed \$10 million in a calendar year.

*For SBT/MBT Credits under \$1 million:* The total of all credits for all projects could not exceed \$30 million in a calendar year. The credit was equal to 10 percent of the eligible investment.

*For SBT/MBT Credits over \$1 million but \$30 million or less:* The total of all credits for an approved project could not exceed 10 percent of eligible investment with the percentage being determined by the Michigan Economic Growth Authority (MEGA).

#### Project Cost:

*For Project Costs Between \$2 million - \$10 million:* Priority is given to projects on a "facility;" the total of all credits for an approved project could not exceed \$1 million; the total of all credits for all projects should not exceed \$30 million in a calendar year.

*For Project Costs Over \$10 million:* MEGA must approve these projects in concurrence with the state treasurer. If approved, MEGA determines the maximum total amount of all credits; if the amount was over \$10 million, then MEGA had to determine that the project would not occur in the state without the tax credit.

## BROWNFIELD TAX CREDITS (CONTINUED)

The number of project approvals for projects costing over \$10 million was limited to 17 projects for each calendar year.

- a. Of the 17, two projects could receive credits over \$10 million but not more than \$30 million.
- b. Of the 17, three projects were not required to be located within a qualified local government unit if they are "facilities;" one of these three is not required to be a "facility" if it is "functionally obsolete" or "blighted."
- c. Of the two projects permitted in part a.), one project could also qualify in part b) the Brownfield Tax Credit Program was allowed to sunset on December 31, 2007.

### CHANGES SINCE 2007 UPDATE:

2006 PA 325 repealed the Single Business Tax Act for tax years beginning after December 31, 2007.

2011 PA 39 repealed the Michigan Business Tax Act for tax years beginning after December 31, 2011.

### DISCUSSION:

The companion legislation to the brownfield Single Business Tax/Michigan Business Tax credits, the Brownfield Redevelopment Financing Act (see page 27), authorized communities to use tax increment financing to pay for environmental response and redevelopment activities. Once these activities began pursuant to a brownfield plan under the Brownfield Redevelopment Financing Act, brownfield tax credits were provided to private sector developers with incentives to assess and contain pollutants, reuse the property, and make site improvements. **(BOTH PROGRAMS WERE ALLOWED TO SUNSET ON DECEMBER 31, 2007)**



## COMMERCIAL REHABILITATION TAX ABATEMENT

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 2005 PA 210; as amended by 2006 PA 554, 2008 PA 118, 2008 PA 231, 2011 PA 82; M.C.L. 207.841 et seq.

### SUMMARY PROGRAM

#### DESCRIPTION:

Similar to the Obsolete Property Rehabilitation Act of 2000 (discussed on page 49), the Commercial Rehabilitation Act offers owners of certain rehabilitated commercial facilities in designated districts a property tax abatement for a period of 1 to 10 years, as determined by the local unit of government.

### ELIGIBILITY AND

#### BENEFITS:

Qualified commercial property rehabilitation projects in commercial rehabilitation districts are eligible for a commercial rehabilitation tax exemption certificate that would freeze the property at its pre-rehabilitated value, effectively allowing the rehabilitation to be property tax-free, with the exception of school operating taxes. Land and most personal property are not eligible for a tax reduction.

Commercial properties include commercial business enterprises and related property under the same ownership, multifamily housing consisting of five or more units, or a building or group of contiguous buildings previously used for industrial purposes that will be converted for a commercial business enterprise. Public utilities, stadiums and casinos are not eligible.

Qualified commercial property includes a building or group of contiguous buildings of commercial property that is 15 years or older, or that has been allocated New Market Tax Credits. See page 47 for a description of New Market Tax Credits.

A commercial rehabilitation district is an area not less than three acres in size, unless the area is located in a downtown or business area as determined by the local unit of government. Cities, villages and townships may establish one or more commercial rehabilitation districts by resolution.

### TERMS AND PERFORMANCE

#### GUARANTEES:

Owners of qualified commercial property within a district may apply for a commercial rehabilitation tax exemption certificate. An application shall not be approved unless:

- Commencement of rehabilitation did not occur more than 6 months prior to filing the application;
- When completed, the project constitutes a qualified commercial property;
- Completion of the project is expected to increase commercial activity, create and retain employment, increase the number of residents in the community and revitalize urban areas;
- The rehabilitation would not occur without the exemption certificate;
- The applicant is not delinquent in any taxes related to the property.

The commercial rehabilitation tax exemption certificate is in effect for 1 to 10 years, and may be extended by the local government unit so long as the original certificate states the conditions upon which an extension is valid, those conditions are met, and the certificate expires within 10 years of project completion. The certificate may be revoked if rehabilitation does not occur within the time authorized.

The cost of rehabilitation must be equal to 10 percent or more of the true cash value of the property at commencement. Rehabilitation includes changes to the property that are required to modify or restore the property to an economically efficient condition.

## COMMERCIAL REHABILITATION TAX ABATEMENT (CONTINUED)

The program sunsets on December 31, 2015; an exemption then in effect shall continue until expiration.

### CHANGES SINCE 2007 UPDATE:

2008 PA 118 amended the definition of “qualified facility” to include vacant property from which a previous structure had been demolished and on which new commercial property was to be constructed in Bay City.

2008 PA 231 amended the Act to include a “qualified retail food establishment” in the definition of “qualified facility”. A qualified retail food establishment is property that will be used primarily as a retail supermarket, grocery store, produce market, or delicatessen that offers USDA-inspected meat and poultry products, fresh fruits and vegetables, and dairy products for sale to the public and that is located in an underserved area.

2011 PA 82 amended the definition of “qualified facility” to include vacant property located in Detroit, from which a previous structure has been demolished and on which commercial property is or will be newly constructed, if an application for a commercial rehabilitation exemption certificate was filed before July 1, 2010; a hotel or motel located in Oakland County that is attached to a convention and trade center meeting specific criteria; and a building or group of contiguous buildings previously used for commercial or industrial purposes, obsolete industrial property, and vacant property that, within the preceding 15 years, was commercial property. It also excused the rehabilitation of a particular qualified facility from certain requirements for approval of a certificate.

### DISCUSSION:

The Commercial Rehabilitation Tax Abatement offers owners of commercial property benefits akin to the Obsolete Property Rehabilitation Tax Abatement, but extends these benefits to all cities, villages and townships and does not require the property to be blighted or functionally obsolete.

## STATE HISTORIC PRESERVATION TAX CREDIT

(WILL EXPIRE WHEN LAST CREDITS CLAIMED)

### ENABLING LEGISLATION;

### STATUTORY CITATION:

1998 PA 534; as amended by 1998 PA 535; 2001 PA 69, 2001 PA 70, 2006 PA 52, 2006 PA 53, 2006 PA 240, 2011 PA 38; M.C.L. 206.266

### SUMMARY PROGRAM

### DESCRIPTION:

A tax incentive program, administered by the State Historic Preservation Office (SHPO) and Department of Treasury, aimed at residential and commercial historic preservation efforts in Michigan. Qualified expenditures on qualified historic preservation projects were eligible for Single Business Tax/Michigan Business Tax and Income Tax credits.

### ELIGIBILITY AND

### BENEFITS:

#### Qualified Expenditures

Qualified expenditures under the State Historic Preservation Tax Credit Act were similar to those for federal tax credits, defined in the Internal Revenue Code 26 U.S.C. 47 (a)(2), and were defined generally as any project expenses for which a straight line accounting method is used as defined in the Internal Revenue Code. Additionally, the state program allowed site features to be included. Qualified expenditures did not include building acquisition costs or building expansion costs, except expansions that were required by state or federal law that promote preservation, safety or accessibility.

#### Qualified Taxpayers

Qualified taxpayers were assignees, owners or long-term lessees (27.5 years or more for residential, 31.5 years or more for non-residential) of the property to be rehabilitated that have qualified expenditures equal to or greater than 10 percent of the State Equalized Valuation of the property. If only a portion of the historic resource was to be rehabilitated, or if a historic resource did not have a State Equalized Valuation, taxpayers must have qualified expenditures equal to or greater than 5 percent of the appraised value to qualify. Qualified taxpayers may assign credits to partners, LLC members or Subchapter S Corporation shareholders in proportion to their ownership or by another method approved of by the Department of Treasury.

#### Tax Credits

Owners and long-term lessees who rehabilitate or restore qualified historic structures were eligible for up to a 25 percent tax credit against Single Business Tax or Income Tax liability for qualified expenditures associated with the restoration or rehabilitation.

For non-owner occupied residential properties, federal tax credits exist for qualified expenses related to rehabilitation or restoration of approved properties (see p. 40). Michigan enforces a 25 percent federal and state cap on historic preservation efforts and federal tax credits must be claimed before state tax credits. The maximum federal credit is 20 percent of approved expenses; the State of Michigan will allow an additional credit of up to 5 percent. If the project is not qualified for federal tax credits, Michigan allows up to a 25 percent credit for qualified expenses associated with the rehabilitation or restoration.

Previously approved MBT and income tax credits will be honored; however, no new credits are being allocated.

### TERMS AND PERFORMANCE

### GUARANTEES:

#### Historic Preservation Office Administrative Requirements

Michigan Historic Preservation Tax Credit applicants had to file a certification application with the State Historic Preservation Office. Historic preservation and restoration plans and activities were subject to final approval, pursuant to published standards, of the State His-

## STATE HISTORIC PRESERVATION TAX CREDIT (CONTINUED)

toric Preservation Office. According to SHPO, the following requirements had to be met for approval of the tax credit:

1. The resource had to be in the State of Michigan.
2. The resource had to be "eligible," defined as any historic building, structure, site, object, feature, or open space that:
  - was located in a local unit of government with a population of at least 5,000 and was located in a historic district established under Michigan's Local Historic Districts Act (1970 PA 169)
  - or
  - was located in a local unit of government with a population under 5,000 and is a contributing resource in a Local Historic District, or was listed in the State Register of Historic Sites or the National Register of Historic Places.
3. All project work had to conform to the United States Secretary of the Interior's Standards for Rehabilitation, codified in 36 CFR 67 (See p. 41).
4. Applicants had to complete three parts of the tax credit application. The first two parts, "Evaluation of Eligibility" and "Description of Rehabilitation," had to be submitted and approved by the SHPO before starting work. The third part, "Request for Certification of Completed Work," had to be submitted to the SHPO upon completion of work to qualify for the tax credit.
5. Qualified rehabilitation expenditures must be equal to or greater than 10 percent of the State Equalized Value of the property.
6. All rehabilitation work had to be completed within 5 years.
7. If the resource is sold or alterations to the approved plan are made within 5 years of the tax credit claim, an appropriate percentage of the tax credit will be subject to recapture according to the schedule in the following section.

### Premature Sale or Administrative Non-Compliance Consequences

In the event that the restored property is sold, or the restoration process revoked by the Historic Preservation Office, Income or Single Business Tax/Michigan Business Tax Credits are subject to rescission (through SBT/MBT or Income Tax recapture) in accordance with the following schedule (schedule applies to federal tax credits also):

- 100 percent rescission if the sale or revocation is less than one year after the year the credit was claimed;
- 80 percent if the sale or revocation is one year but less than two years after the year in which the credit was claimed;
- 60 percent if the sale or revocation is two years but less than three years after the year in which the credit was claimed;
- 40 percent if the sale or revocation is three years but less than four years after the year in which the credit was claimed;
- 20 percent if the sale or revocation is four years but less than five years after the year in which the credit was claimed;
- 0 percent if the sale or revocation is five years or more after the year in which the credit was claimed.

### CHANGES SINCE

#### 2007 UPDATE:

2006 PA 325 repealed the Single Business Tax Act for tax years beginning after December 31, 2007.

2011 PA 38 ended eligibility for income tax credits after January 1, 2012, allowing existing credits to continue until expiration.

2011 PA 39 repealed the Michigan Business Tax Act for tax years beginning after December 31, 2011.

## STATE HISTORIC PRESERVATION TAX CREDIT (CONTINUED)

**DATA AND SOURCE:**

As of November 2015, the following communities contained Historic District Commissions pursuant to Michigan's Local Historic Districts Act (1970 PA 169):

Adrian	Allegan*	Ann Arbor*	Battle Creek*
Bay City*	Belding	Benton Harbor	Birmingham*
Boyer City*	Cadillac	Calumet*	Calumet Twp.
Canton Twp.*	Charlevoix	Chelsea	Chippewa County
Clarkston	Coldwater	Detroit*	East Lansing*
Escanaba*	Farmington Hills*	Flint	Franklin*
Grand Rapids*	Green Oak Twp.	Greenville	Grosse Pointe Farms
Hart	Holland*	Holly	Highland Park
Huntington Woods	Jackson*	Kalamazoo*	Kentwood
Lansing*	Lathrup Village	Lexington	Linden
Livonia	Lowell	Mackinac Island	Manistee*
Mason*	Menominee*	Monroe*	Mount Clemens*
Mount Pleasant	Muskegon	New Baltimore	Niles
Northville*	Northville Twp.*	Oakland Twp.	Owosso*
Plymouth	Pittsfield Twp.	Pontiac	Portage
Port Huron	Rochester	Rochester Hills*	Royal Oak
Saline*	Saugatuck	Southfield	St. Clair
Saginaw	Three Rivers	Traverse City	Troy
Utica	Vergennes Twp.	Warren	Washtenaw County.*
Waterford Twp.	Ypsilanti*		

\* Certified Local Governments  
 † Ordinance only - No established districts

Source: Michigan State Housing Development Authority, [www.michigan.gov/msh-da/0,4641,7-141-54317\\_19320\\_62049-57490--,00.html](http://www.michigan.gov/msh-da/0,4641,7-141-54317_19320_62049-57490--,00.html)

SHPO also administers grants. The National Park Service annually awards SHPO with Historic Preservation Funds, which are 60-40 match grants, to support surveys, nominations to the National Register of Historic Places, public education programs, planning and development, and other projects. Ten percent of the annual allocation must be distributed to Certified Local Governments (CLG), which were established by the 1980 amendments to the National Historic Preservation Act as part of a new federal-state-local partnership. CLG must meet certain requirements, but are given financial aid, technical assistance, and more discretion in nomination and tax credit certification processes. As of November 2015, Michigan had 30 CLGs.

The Michigan State Housing Development Authority (MSHDA) Office of Community Development also offers grant and loan programs related to neighborhood preservation, rehabilitation, home ownership, demolition and beautification. For more information, contact the Office of Community Development at (517) 373-1974 or access the Web site at: [www.michigan.gov/mshda/0,1607,7-141-5564-31932--,00.html](http://www.michigan.gov/mshda/0,1607,7-141-5564-31932--,00.html)

**STATE HISTORIC PRESERVATION TAX CREDIT (CONTINUED)****DISCUSSION:**

With the passage of a historic preservation tax credit program, Michigan joined a majority of states in offering financial incentives for commercial and residential historic preservation efforts. According to the National Trust for Historic Preservation, 33 states provided tax incentives for historic preservation as of June 2015.

Source: <http://www.preservationnation.org/take-action/advocacy-center/additional-resources/historic-tax-credit-maps/State-Tax-Credit-Chart-Final-February-2014.pdf>

## FEDERAL HISTORIC REHABILITATION TAX CREDIT

### ENABLING LEGISLATION; STATUTORY CITATION:

Public Law 99-514, Internal Revenue Code 26 U.S.C. 47 (a)(2).

### SUMMARY PROGRAM

#### DESCRIPTION:

A federal tax incentive program, administered jointly by the National Parks Service and the Internal Revenue Service in partnership with State Historic Preservation Offices, which provides income tax credits to owners who rehabilitate historic buildings in accordance with their historic character. It is intended to save certified historic and other older properties and to help revitalize the economic prosperity of older locations. For a full description of eligibility requirements, benefits, and the application process, see [www.nps.gov/tps/](http://www.nps.gov/tps/).

### ELIGIBILITY AND BENEFITS:

#### Qualified Expenditures

Qualified rehabilitation expenditures are amounts chargeable to capital account for property that is depreciable and that is nonresidential real property, residential rental property, or real property that has a class life of more than 12.5 years. Straight line depreciation must be used. Qualified rehabilitation expenditures do not include the cost of acquisition, enlargement, or non-certified rehabilitation. Certified rehabilitation is rehabilitation of a certified historic structure or approved non-certified structure placed in service before 1936, which the Secretary of the Interior has certified is consistent with the historic character of the property or district.

Rehabilitation is defined as the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural, and cultural values.

The project must meet the "substantial rehabilitation test:" the cost of rehabilitation must exceed the pre-rehabilitation cost of the building. Generally, this test must be met within two years or within five years for a project completed in multiple phases.

The cost of a project must exceed the greater of \$5,000 or the building's adjusted basis.

The following formula is used to determine if the project is considered substantial:

$A - B - C + D = \text{adjusted basis}$ , where,

A = purchase price of the property (building and land)

B = the cost of the land at the time of purchase

C = depreciation taken for an income-producing property

D = cost of any capital improvements made since purchase

Some expenses associated with a project may not qualify for the tax credit, such as a new rear addition, new kitchen appliances, and landscaping.

#### Qualified Taxpayers

Qualified taxpayers are owners and long term lessees of property to be substantially rehabilitated who complete the Historic Preservation Certification Application process and have qualified expenditures at least equal to the greater of the adjusted basis of the building or \$5,000. If an application is made by someone other than the fee simple owner, the application must be accompanied by a letter from the fee simple owner indicating that he is aware of the application and has no objection to it.

#### Tax Credits

Owners and long term lessees who undertake approved rehabilitation projects on approved structures may receive a federal income tax credit. Expenditures incurred by a lessee do not qualify for the credit unless the remaining lease term on the date the rehabilitation is completed is at least as long as the applicable recovery period. The program includes two

## FEDERAL HISTORIC REHABILITATION TAX CREDIT (CONTINUED)

mutually exclusive credits: a 20 percent credit for qualified rehabilitation expenditures on income producing buildings that are certified historic structures and a 10 percent credit for qualified rehabilitation expenditures for non-residential income producing buildings originally used before 1936 which are not certified historic structures. Credits are earned by the owner (often an investor member of the real estate entity) immediately upon the property being placed in service. "Placed in service" means ready for its intended use, which is usually evidenced by a temporary or permanent certificate of occupancy. Tax credits may also be passed on to a tenant.

### TERMS AND PERFORMANCE

#### GUARANTEES:

The Historic Preservation Certification Application, which is available from NPS or the SHPO, contains three parts. Part 1 and Part 2 may be submitted separately or together, at any time during the year, but if submitted separately, Part 1 must be submitted before Part 2. Part 1 (Evaluation of Eligibility) requests a certification of historic significance or nonsignificance for properties located in registered historic districts, and preliminary determinations for properties that are expected to be included in a registered historic district. Part 2 (Description of Rehabilitation) is a request for evaluation of the rehabilitation project and may be for a proposed project, a project in progress, or a completed project, although the NPS strongly encourages owners to submit Part 2 of the application prior to starting the work. To be certified, a rehabilitation project must be consistent with the historic character of the structure and, where applicable, with the district in which it is located.

Completed and documented Parts 1 and 2 of the Historic Preservation Certification Application are sent by the applicant to the state Historic Preservation Office (SHPO), which will forward one copy of each to the National Parks Service (NPS), usually with a recommendation. State recommendations are generally followed, but NPS has the right to make a contrary decision. Notification of NPS decisions are made in writing and a copy of the decision is provided by NPS to the Internal Revenue Service and to the SHPO. Final reviews of Parts 1 and 2 are generally concluded within 60 days of receipt of a complete, adequately documented (documentation could include photographs, architectural plans, drawings, specifications, etc.) application.

Rehabilitation projects must be for certified historic structures, which are structures subject to the allowance for depreciation provided in section 167 of the Internal Revenue Code of 1986 and either individually listed in the National Register or located in a registered historic district and certified by the Secretary of the Interior as being of historic significance to the district, or for approved, non-historic, non-residential, income-producing structures originally placed in service before 1936. Projects must be completed within 60 months and must meet the Secretary of the Interior's standards for rehabilitation, which have been adopted by Michigan's SHPO. These standards pertain to the building, landscape features, the building's site and environment, as well as attached, adjacent, or related new construction.

- a. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
- b. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
- c. Each property shall be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
- d. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.



**FEDERAL HISTORIC REHABILITATION TAX CREDIT  
(CONTINUED)**

- e. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a property shall be preserved.
- f. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
- g. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.
- h. Significant archaeological resources affected by a project shall be protected and preserved. If such resources must be disturbed, mitigation measures shall be undertaken.
- i. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
- j. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

Part 3 of the Application is the Request for Certification of Completed Work, which must include the project completion date, a statement that the project meets the Standards of Rehabilitation and the work described in Part 2 of the application, a statement of costs attributed to the rehabilitation, photographs documenting the completed work, and social security or taxpayer identification numbers of all owners. Completed projects may be inspected by a representative of the Secretary of the Interior to determine if the work meets the Standards for Rehabilitation and conforms to the approved plan.

The fee for review of proposed or ongoing rehabilitation projects is \$250. The fees for review of completed projects over \$20,000 are based on the cost of the certified rehabilitation:

<u>Cost of Rehabilitation</u>	<u>Fee</u>
\$20,000-\$99,999	\$500
\$100,000-\$499,999	\$800
\$500,000-\$999,999	\$1,500
\$1,000,000 or more	\$2,500

An owner or the owner’s representative may file a written appeal of a denial of certification with the Chief Appeals Officer at NPS and may request a meeting to discuss the appeal. After rehabilitation, the historic building must be used for an income-producing purpose for at least 5 years. Owner-occupied residential properties do not qualify for the federal rehabilitation tax credit.

The 20% credit is available only to properties rehabilitated for income-producing purposes, including commercial, industrial, agricultural, rental residential or apartment use. The credit cannot be used to rehabilitate your private residence. However, if a portion of a personal residence is used for business, such as an office or a rental apartment, in some instances the amount of rehabilitation costs spent on that portion of the residence may be eligible for the credit.

## FEDERAL HISTORIC REHABILITATION TAX CREDIT (CONTINUED)

### Premature Sale or Administrative Non-compliance Consequences

If the property is sold within five years, or the restoration process is revoked, tax credits are subject to rescission according to the schedule on page 32.

### **CHANGES SINCE PROGRAM INCEPTION:**

Prior to 1976, there were no federal tax incentives that encouraged the preservation of historic buildings, although there were tax provisions that encouraged demolition and new construction. The Tax Reform Act of 1976 allowed the owner of a certified historic structure to amortize rehabilitation costs over 60 months. Changes to the tax credit program were made in 1978, 1981, and 1986. The Tax Reform Act of 1986 established the present two-tiered tax credit, which makes historic preservation and rehabilitation more competitive with new construction.

### **DISCUSSION:**

The program requires cooperation among multiple public sector entities and the private sector. The National Parks Service promotes the program, and is responsible for project approvals and program administration. The IRS provides information and ensures that only those parties eligible for the tax credits utilize them. SHPOs are the primary contact within the state, provide professional guidance and technical information, and make on-site visits. The private sector provides the buildings and capital.

Investor interest in partnering with developers has been encouraged by the complementary use of Michigan brownfield and historic tax credits and federal New Markets Tax Credits.

## INDUSTRIAL FACILITIES PROPERTY TAX ABATEMENT

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 1974 PA 198; as amended by, 1999 PA 140, 2000 PA 147, 2004 PA 323, 2007 PA 146, 2008 PA 170, 2008 PA 306, 2008 PA 457, 2008 PA 515, 2008 PA 581, 2010 PA 273, 2012 PA 397; M.C.L. 207.551 et seq.

### SUMMARY PROGRAM

**DESCRIPTION:** Locally-initiated property tax abatement program for industrial and high-technology developments, expansions or rehabilitation efforts. Property tax reductions for qualified new and rehabilitated projects.

### ELIGIBILITY AND

#### BENEFITS:

Local units of government may establish plant rehabilitation districts and industrial development districts that consist of one or more parcels or tracts of land, or a portion of a parcel or tract.

Eligible businesses include industrial or high-technology business concerns that propose to expand existing operations or initiate new facilities in Michigan. Businesses need to apply to the local unit for abatement approval; the local unit must receive approval from the State Tax Commission before the abatement is approved.

Qualified new projects within a district may apply for property tax liability limited to ½ of the rate of all (improved real and personal) property taxes, except the state education tax (6 mills), for a term of up to 12 years, as determined by the local unit. Liability for ½ of the six-mill State Education Tax may be waived if the state treasurer determines that a waiver is necessary to promote economic growth, reduce unemployment and increase capital investment. Applicants must apply for the waiver within six months of receiving Industrial Facilities Exemption Certificates.

For restoration of, renovation of, or addition to an existing facility within a district, taxable value (or real and personal property) of the facility may be frozen at the pre-restoration, pre-renovation or pre-addition level for a term of up to 12 years, as determined by the local unit.

### TERMS AND PERFORMANCE

#### GUARANTEES:

There is no minimum investment amount, but the proposed project must conform to the following industrial uses:

- Manufacturing and warehousing
- High-technology activities as defined by the MEGA Act (M.C.L. 207.801 et seq.)
- Research and development
- Processing of goods and materials by physical or chemical change, including the creation or synthesis of biodiesel fuels
- Hydroelectric dams operated by private companies other than public utilities
- Electric generating plant not owned by local units of government, including those fueled by biomass (for certificates approved before December 31, 2007.)
- Exposition Centers (at least 250,000 square feet)

#### Certificates

Tax abatement or exemption is contingent on receipt of an Industrial Facilities Exemption Certificate, issued by and subject to local approval, and approval by the State Tax Commission. Certificates are in effect for up to 12 years, subject to approval by the local unit. Certificates are transferable if approved by the local unit and the State Tax Commission. Local units may extend certificates of less than 12 years.

## INDUSTRIAL FACILITIES PROPERTY TAX ABATEMENT (CONTINUED)

### Fees

Local units may charge an Industrial Facilities Exemption Certificate application fee equal to the cost incurred in processing the application or two percent of the total property taxes abated for the entire term of the certificate, whichever is less. Administrative fees also apply for owners of new facilities, speculative buildings and replacement facilities.

### Liability

The owner or lessee of a tax-abated or exempt facility who leaves the district before the exemption certificate expires is liable to the local unit for the difference between the amount of the specific tax for the remainder of the certificate and the amount of regular property tax that would have been due without exemption.

In light of statutory and administrative time constraints, the Michigan State Tax Commission advises applicants to the Industrial Facilities Tax Abatement Program the following:

- 1) Section 4(3) of the Industrial Facilities Exemption Act (1974 PA 198) requires that the request for the establishment of a proposed plant rehabilitation or industrial district must be made prior to the start of construction of the property for which the exemption is being sought. (This subsection does not apply to speculative buildings.)
- 2) Section 9(2)(c) provides that the start of construction of the facility cannot occur more than six months before the filing of the application for the Industrial Facilities Exemption Certificate. (This subsection does not apply to speculative buildings.)
- 3) Section 5(1) of the statute provides that the application for the exemption is not officially filed until the district has been established.
- 4) Tax Commission Rule No. 57 states that a complete application (with all required attachments) received by the Tax Commission on or before October 31 will be acted on by the Commission before December 31 of that year. Applications received after October 31 will be processed contingent upon staff availability.
- 5) Section 3(8)(b) provides that a speculative building must be constructed before a specific user for the building is identified.
- 6) Section 16(1) states that the term of the exemption certificate is set by the local unit. The certificate ends on December 31 following the number of years approved by the local unit.
- 7) Section 7 provides that the exemption starts on December 31 following approval by the Tax Commission. However, the exemption may not start on December 31 of the year that is approved by the local unit if the application is received by the Commission after October 31, or if an incomplete application is submitted.

### CHANGES SINCE 2007 UPDATE:

2007 PA 146 amended the Act to allow an exemption certificate to be approved for certain facilities that did not meet statutory requirements regarding the timing of restoration, replacement, or construction.

2008 PA 170 amended the Act to include the operation of a "major distribution and logistics facility" in the Act's definition of "industrial property"; require the State Tax Commission to issue industrial facilities exemption certificates for certain facilities for which certificates had been revoked, and allow the Commission to reinstate a revoked industrial facilities exemption certificate upon the written request of the holder of a revoked certificate and the submission of a resolution by a local legislative body.

2008 PA 306 amended the Act to expand the period during which the owner or lessee of a replacement facility, new facility, or speculative building may apply for another tax exemption

## INDUSTRIAL FACILITIES PROPERTY TAX ABATEMENT (CONTINUED)

certificate: an owner or lessee could apply for another certificate within 12 months after the certificate expired or, as permitted by the local governmental unit, at any other time in which the certificate was in effect, but only if the original certificate was shorter than the 12 year limit.

2008 PA 457 amended the Act to revise the definition of “industrial property” by including certain convention and trade centers, require the delivery of industrial facilities exemption certificates by mail rather than certified mail; and include a formula for determining the personal property tax component of an exemption certificate for a new facility or speculative building located on commercial property.

2008 PA 515 amended the Act to allow an industrial facilities exemption certificate to be approved for a facility located in an industrial development district that has received approval from the chairperson of the Michigan Economic Growth Authority (MEGA), and that meets requirements of the Act other than certain procedural timetables.

2008 PA 581 amended the Act to change the definition of “qualified commercial activity.” It got rid of the requirement that an application must be filed before April 30, 2006 without setting a new date limit and lowered the threshold number of square feet of the building that the commercial activity occupies from 300,000 square feet to 100,000 square feet.

2010 PA 273 amended the act to allow a Next Michigan Development Corporation to offer tax abatements.

2012 PA 397 amended the act (as well as the Technology Park Development Act and the Enterprise Zone Act) to provide that if a facility was subject to an industrial facilities exemption certificate, a technology park facilities exemption certificate, or the specific tax levied under the Enterprise Zone Act, as applicable, on December 31, 2012, the portion of the facility that is eligible manufacturing personal property will remain subject to the tax levied under the respective Act and exempt from the property tax until it would otherwise be exempt under Section 9m, 9n, or 9o of the General Property Tax Act.

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### DATA AND SOURCE:

See **Appendix J** for the Michigan Department of Treasury reports on Industrial Facility Tax Abatements from Fiscal Year 1984 through March 18, 2014.

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### DISCUSSION:

The Industrial Facilities Property Tax Abatement program is Michigan’s oldest and largest tax abatement program. Since 1981, the local governments in Michigan have received over 17,000 applications for what are more commonly called PA 198s. Critics of the Act argue that tax abatements are no longer special incentives, but have come to be expected as part of business decisions to locate or expand in certain communities. Proponents say relieving manufacturers of personal property tax liability is crucial to retaining this industry in Michigan. The Act has been amended several times to benefit specific businesses—including non-manufacturing businesses.

## MICHIGAN ECONOMIC GROWTH AUTHORITY TAX CREDITS

(WILL EXPIRE WHEN LAST CREDITS CLAIMED)

### ENABLING LEGISLATION; STATUTORY CITATION:

1995 PA 24; as amended by, 2000 PA 144, 2000 PA 428, 2003 PA 248, 2007 PA 150, 2008 PA 87, 2008 PA 108-111, 2008 PA 257, 2009 PA 123, 2009 PA 125; M.C.L. 207.801 et seq.

### SUMMARY PROGRAM DESCRIPTION:

A Single Business Tax/Michigan Business Tax credit targeted at growing high-technology businesses, large-scale investments with significant job creation, as well as attraction and growth of companies located in rural areas of the state. MEGA applicants must certify that the project would not occur absent the MEGA grant.

Given the repeal of the Michigan Business Tax, [previously approved MEGA credits](#) will be honored; however, no new credits are being allocated. Executive Order No. 2012-9 dissolved the Michigan Economic Growth Authority and gives all continuing responsibilities to the Michigan Strategic Fund Board.

### ELIGIBILITY AND BENEFITS:

Michigan Economic Growth Authority considered applications from qualified high-technology businesses (See **Appendix G**) and businesses that proposed to maintain and create jobs in:

- Manufacturing
- Mining
- Research and Development
- Wholesale and Trade
- Office Operations

Businesses with an in-state presence at the time of application must have proposed to create at least 50 full-time, in-state jobs over and above their in-state pre-application employment level and maintain at least 50 of these new jobs for each year that a credit is authorized. Out-of-state businesses were required to create at least 100 full-time, in-state jobs within 12 months of location and maintain at least 100 of these new jobs for each year that a credit is authorized. Qualified high technology businesses and eligible rural businesses needed to create and maintain just 5 jobs for each year the credit is authorized and retain a minimum of 25 jobs within 5 years of expansion or location for MEGA consideration.

The MEGA Act also allowed tax credits for large-scale job retention investments. For example, the MEGA Board could consider applications from in-state concerns that proposed new in-state capital investment of at least \$250 million, while maintaining 500 jobs. See section 8(5) of the Act for more information on large-scale job retention investments. There were also limited circumstances in which a company would be eligible for a job retention credit outside of the preceding situation.

Local government commitment (e.g. staff, financial incentives) to the business was also required, and was often demonstrated with the local granting of an Industrial Facilities Tax exemption (PA 198, discussed on page 39) for the project.

### TERMS AND PERFORMANCE

#### GUARANTEES:

According to the Act, the amount and duration of MEGA grants were determined by the following factors:

- (a) The number of qualified new jobs to be created or retained jobs to be maintained.
- (b) The average wage level of the qualified new jobs or retained jobs relative to the average wage paid by private entities in the county in which the facility is located.

## MICHIGAN ECONOMIC GROWTH AUTHORITY TAX CREDITS (CONTINUED)

- (c) The total capital investment or new capital investment the eligible business proposed to make.
- (d) The cost differential to the business between expanding, locating, or retaining new jobs in Michigan and a site outside of Michigan.
- (e) The potential impact of the expansion, retention, or location on the economy of Michigan.
- (f) The cost of the credit, the staff, financial, or economic assistance provided by the local government unit, or local economic development corporation or similar entity, and the value of assistance otherwise provided by this state.

The duration of tax credits could not exceed 20 years.

### CHANGES SINCE PROGRAM INCEPTION:

The Act has been amended numerous times to make eligibility less restrictive. However, the most recent amendments were adopted to benefit individual businesses.

2006 PA 325 repealed the Single Business Tax Act for tax years beginning after December 31, 2007.

2007 PA 150 changed the credits available from those under the Single Business Tax Act to those under the Michigan Business Tax Act (MBT).

2008 PA 87 amended the Act to include a film and digital media production business among the businesses eligible for a business tax credit under the Act, and include technology used in the design and development of film and digital media production in the Act's definition of "high-technology activity".

2008 PA 108-111 amended the Act to include in the definition of "eligible business" a business that is a "tourism attraction facility" or a "qualified lodging facility"; redefined "qualified high-technology business"; authorized the awarding of credits to certain bidders for federal defense, energy, and homeland security contracts who have entered into an agreement with MEGA, submitted a competitive bid for a Federal procurement contract, have been awarded the Federal contract and have created a minimum of 25 qualified new jobs.

These acts also lowered the job creation standards for the program: instead of creating 100 qualified jobs, a business must create 50. It also deleted a requirement that the job creation occur within 12 months of an expansion or location in Michigan. The wage paid for each retained job and qualified new job must be at least 150 percent of the Federal minimum wage. If the eligible business is a qualified high-wage activity, the wage paid for each qualified new job must be at least 300 percent of the Federal minimum wage. MBT credits issued by MEGA are allowed to include the cost of health care benefits, as well as payroll, attributable to qualified new jobs for this measure.

Finally, these revisions specified that if the business moves jobs outside of Michigan, they are required to make a new tax credit agreement with MEGA to provide for the repayment of credits. A taxpayer that fails to meet requirements for claiming an MBT credit issued by MEGA may have its credit reduced or terminated or added to its tax liability.

2008 PA 257 amended the Act to allow MEGA to include health care benefits in calculating wages used in meeting wage requirements, and gave MEGA greater flexibility in considering credits for eligible businesses that do not meet criteria regarding qualified new jobs, full-time jobs, and wages, and instead seek eligibility by agreeing to make new capital investment at

## MICHIGAN ECONOMIC GROWTH AUTHORITY TAX CREDITS (CONTINUED)

a facility equal to \$50,000 or more per retained job maintained at the facility.

2009 PA 123 amended the Act to require MEGA to determine that, except for a qualified high-technology business, an eligible business's expansion, retention, or location in Michigan would not occur without the MBT credits and to prohibit MEGA from advocating one Michigan location over another. The act also provides for a financial penalty for a business's misrepresentation in its MEGA and revises the annual limits on new agreements for MBT credits under the MEGA Act, and prohibit MEGA from entering into an agreement for MBT credits under the limit for high-technology or rural businesses if the business had claimed a film tax credit. It also established a limit, based on forecasted State revenue growth, on the total amount of MBT credits certified by MEGA that could be claimed annually.

2009 PA 125 amended the Act to require MEGA to provide to the Legislature certain information about Michigan Business Tax credit agreements as well as copies of certificates issued to businesses for various credits, while providing that legislative recipients not willfully disclose the information for any purpose other than the proper administration of his or her legislative duties or disclose the information to anyone other than an employee of the Legislature.

2011 PA 39 repealed the Michigan Business Tax Act for tax years beginning after December 31, 2011.



## NEIGHBORHOOD ENTERPRISE ZONES

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 1992 PA 147; as amended by 2001 PA 217, 2004 PA 396, 2005 PA 338-340, 2008 PA 204 & 228, 2008 PA 284, 2010 PA 9, 2010 PA 65; M.C.L. 207.771 et seq.

### SUMMARY PROGRAM

**DESCRIPTION:** A locally initiated zone program that provides tax incentives for housing development and improvement. Qualified local units of government may designate 1 or more areas as Neighborhood Enterprise Zones (NEZs) for the purpose of extending property tax abatements for residential construction and rehabilitation.

### ELIGIBILITY AND BENEFITS:

See **Appendix E** for a definition and list of current "qualified local governmental units."

Qualified local units of governments and county seats may levy a reduced neighborhood enterprise zone specific tax in place of the ad valorem real property taxes that would otherwise be levied on qualified new construction projects or the rehabilitated portion of the existing property (not including the land), subject to the approval of the State Tax Commission.

Specifically, the NEZ tax rate for new principal residences is ½ of the statewide average property tax in proceeding calendar year. The NEZ tax for new properties that are not principal residences is ½ of the statewide average tax on commercial, industrial and utility property in the proceeding calendar year. The NEZ tax for rehabilitation projects is calculated by multiplying the taxable value of the rehabilitated facility, not including the land, for the tax year proceeding the effective date of the NEZ certificate by the total mills collected under the General Property Tax (M.C.L. 211.1-211.157) in the current year for each taxing jurisdiction within which the project is located. During the last three years of the NEZ certificate, these NEZs tax rates are gradually phased up to the current property tax rates.

### TERMS AND PERFORMANCE

#### GUARANTEES:

NEZs must be compact and contiguous, and contain either 10 or more platted parcels of land or, if the NEZ is within a qualified downtown revitalization district, 10 or more facilities. For new facilities or rehabilitated facilities, or a combination of both, the total zone acreage may not exceed 15 percent of the total acreage of the local unit. For designated homestead zones, the total zone acreage may not exceed 10 percent of the total acreage of the local unit, or with the approval of the county board of commissioners (and the county executive, if elected or appointed) the total zone acreage may be 15 percent of the total acreage of the local unit.

A "**rehabilitated facility**" is an existing housing structure or a portion of an existing structure which would create 1 to 8 units with a true cash value of \$80,000 or less per unit. The owner must propose improvements that will bring the structure into conformance with minimum local building code standards and that, if done by a licensed contractor, would cost in excess of \$5,000 per owner-occupied unit or 50 percent of the true cash value, whichever is less; or \$7,500 per non-owner-occupied unit or 50 percent of the true cash value, whichever is less.

A "**homestead facility**" is an existing structure purchased by an owner after December 31, 1997 that consists of 1 or 2 units, one of which is occupied by an owner as a principal residence, and that is located in a subdivision platted pursuant to state law prior to 1968.

With the exception of homestead facilities, qualified historical buildings, and other specific exceptions listed in section 4 of the Act, applications for NEZ certificates should be filed before a building permit for new construction or rehabilitation is granted.

## NEIGHBORHOOD ENTERPRISE ZONES (CONTINUED)

Neighborhood Enterprise Zone certificates are in effect for 6 to 12 years, as determined by the governing body of the local unit. Certificates may remain in effect 6 to 15 years; certificates issued before 2006 may be renewed for an additional 3 years. If the facility is a qualified historic building, the NEZ certificate is in effect for 11 to 17 years as long as the historic building was owner-occupied as a principal residence within 12 years after obtaining a certificate.

### CHANGES SINCE 2007 UPDATE:

2008 PA 204 & 228 amended the Act to allow a neighborhood enterprise zone located in a “qualified downtown revitalization district” to contain fewer than 10 platted parcels if the platted parcels together contain 10 or more facilities, and expanded the definition of “new facility” for new structures within a qualified downtown revitalization district.

2008 PA 284 amended the Act to transfer the authority to approve “homestead facilities” located within residential neighborhood enterprise zones from the State Tax Commission to the assessors of the local governmental units within which the homestead facilities are located. It also eliminated certain annual cost-benefit reporting requirements related to the program. 2010 PA 9 amended the Act to expand the definition of “homestead facility” to include structures in neighborhoods platted in 1999 or later in the City of Flint.

2010 PA 65 amended the Act to require a qualified historic building to be transferred or sold to a homeowner-occupant within 12 years, rather than six years, after a neighborhood enterprise zone (NEZ) certificate takes effect.

### DATA AND SOURCE:

26 local units of government have approved NEZs.  
Neighborhood Enterprise Zones in Michigan as of March, 2014:

Adrian	Alpena	Battle Creek	Detroit	Ecorse
Gladwin	Grand Rapids	Hamtramck	Highland Park	Hillsdale
Holland	Inkster	Iron Mountain	Ishpeming	Jackson
Kalamazoo	Lansing	Mt. Clemens	Muskegon	Owosso
Port Huron	River Rouge	Saginaw	Traverse City	Wyandotte
Village of Baldwin				

### DISCUSSION:

Neighborhood Enterprise Zones have gained popularity in recent years. During the years 1993 to 2003, the State Tax Commission received between 70 and 480 total NEZ applications each year. In the following years, the number of applications increased dramatically with 1,990 NEZ applications received in 2005, and 2,200 “homestead facilities” applications received in 2006 for the cities of Detroit and River Rouge alone. More recently, however, applications levels have returned to more modest levels.

## NEW MARKET TAX CREDITS

### ENABLING LEGISLATION;

**STATUTORY CITATION:** Community Renewal Tax Relief Act of 2000

### SUMMARY PROGRAM

#### DESCRIPTION:

The Community Development Financial Institutions (CDFI) Fund, administered by the U.S. Department of Treasury, allocates New Market Tax Credits (NMTCs) to Community Development Entities (CDEs) for the purpose of attracting private investment to low-income communities. When investors make qualified equity investments in CDEs, they receive the right to claim NMTCs on a proportion of their investment over a 7-year period; in turn, CDEs invest the proceeds in eligible projects in low-income communities.

### ELIGIBILITY AND

#### BENEFITS:

To qualify as a Community Development Entity, an organization must be a domestic corporation or partnership at the time of the certification application; demonstrate a primary mission of serving or providing investment capital for low-income communities or low-income persons; and maintain accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity. An organization must apply for CDE certification from the CDFI Fund before gaining eligibility to apply for a New Market Tax Credit allocation.

Qualified equity investments in CDEs include stock or other equity interests that are obtained from a CDE in exchange for cash. Qualified low-income community investments made by CDEs include loans and investments in businesses for the purposes of residential, commercial, industrial, and retail real estate development projects, or to secure a loan from another CDE.

A low-income community comprises a census tract that has a poverty rate of at least 20 percent, based on the most recent census; and has a median family income that does not exceed 80 percent of metropolitan area income or statewide median family income, whichever is greater.

Banks, individuals and corporations that make qualified investments in CDEs may reduce their federal income tax liability by 39 percent of the amount of investment over a seven-year period. In the first three years, investors receive a five percent credit each year; in the four following years, a six percent credit is allocated each year. Investors can carry the credit back for one year or forward for a 20-year period.

### TERMS AND PERFORMANCE

#### GUARANTEES:

CDE applications for NMTCs are reviewed based on the following criteria: community impact, business strategy, capitalization strategy, and management capacity. Priority points will also be given for CDEs with exceptional track records of successful low-income community investment.

Both for-profit and non-profit CDEs may receive NMTCs, but only for-profit CDEs can offer NMTCs to investors. Non-profit CDEs must filter NMTCs through for-profit subsidiaries. If a CDE does not sell equity interests equal to the amount authorized within 5 years, authorization to sell the remainder is canceled.

CDEs must spend 85 percent of investor proceeds within 12 months for years 1 through 6, and 75 percent for year 7.

### CHANGES SINCE

#### PROGRAM INCEPTION:

The American Jobs Creation Act of 2004 amended the Act to include "targeted populations" as eligible recipients of investment. Targeted populations are individuals or groups who work

## NEW MARKET TAX CREDITS (CONTINUED)

or reside in communities that do not meet the low-income community criteria, but that can meet other low-income qualifying criteria as individuals and businesses.

In 2005, Congress approved an additional \$1 billion in NMTC allocations for CDEs working to redevelop low-income communities in the Gulf Opportunity Zone, which is a specific area that was affected by Hurricane Katrina.

In 2006, the Tax Relief and Health Care Act extended the CDFI Fund's allocation authority through 2008 (1 additional year), and provided \$3.5 billion for allocations that year.

In 2010, the provision was extended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. No. 111-312. This act provided for an allocation limit of \$3.5 billion in each of 2010 and 2011 and extended for two years, through 2016, the carryover period for unused new markets tax credits.

### DATA AND SOURCE:

In 2011, the NMTC program expired on December 31. It was retroactively renewed in H.R. 8, the [American Taxpayer Relief Act of 2012](#) for another 2 years until January 2014.

Since the NMTC Program's inception, the CDFI Fund has allocated more than \$40 billion in tax credit authority to CDEs through a competitive application process. This \$40 billion includes \$3 billion in Recovery Act Awards and \$1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone.

### DISCUSSION:

New Market Tax Credits attract private investment to low-income communities. The federal government provides an initial benefit in the form of a tax credit, and then all participants—investors, for-profit CDEs, non-profit CDEs, and low-income communities—work together to invest in local businesses, provide business services, and to achieve returns on investment.

## OBSOLETE PROPERTY REHABILITATION TAX ABATEMENT

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 2000 PA 146; as amended by 2004 PA 251, 2006 PA 70, 2007 PA 193, 2010 PA 137, 2011 PA 272, 2013 PA 265 ; M.C.L. 125.2781 et seq.

### SUMMARY PROGRAM

#### DESCRIPTION:

A tax abatement program targeted specifically at the rehabilitation and reuse of obsolete structures. Qualified structures in approved Obsolete Property Rehabilitation Districts can receive significant property tax breaks on the improved value of the rehabilitated property.

### ELIGIBILITY AND

#### BENEFITS:

Properties eligible for obsolete property exemption certificates must be commercial properties or commercial housing properties located within a qualified local governmental unit that meet the definition of "blighted" or "functional obsolescence" as provided for within the Brownfield Redevelopment Financing Act of 1996; or be a "facility" as defined by the Natural Resources and Environmental Protection Act of 1994, Part 201.

See **Appendix E** for a definition and list of current "qualified local governmental units." See **Appendix F** for the definitions of "blighted," "functional obsolescence," and "facility."

Qualified obsolete property rehabilitation projects in qualified local units of government are eligible for a 1- to 12-year tax exemption certificate that would freeze the property at its pre-rehabilitated value, effectively allowing the rehabilitation to be property tax-free, with the exception of school operating taxes. The State Treasurer may waive ½ of the school operating taxes for a period of 6 years for up to 25 projects per year.

### TERMS AND PERFORMANCE

#### GUARANTEES:

Local units may establish 1 or more Obsolete Property Rehabilitation Districts if a portion of a parcel or tract of land within the district is either:

- Obsolete property in an area characterized as obsolete commercial or commercial housing property, or
- Obsolete commercial property that was owned by a qualified local governmental unit before June 6, 2000, but that has since been conveyed to a private owner.

Owners of obsolete property within a district may apply for an Obsolete Property Exemption Certificate. Applicants must demonstrate that completion of the rehabilitation will lead to increased commercial activity, the creation or retention of jobs, or an increase in residency. Applicants must also show that "but for" the exemption, the rehabilitation would not occur. Applicants must not be delinquent in payment of any taxes related to the property. The legislative body of the qualified local governmental unit will approve or disapprove the application for an exemption certificate; if approved, the local unit will forward the application to the State Tax Commission for final approval or disapproval.

Exemption certificates remain in effect for a period of at least 1 year, but no more than 12 years, as determined by the legislative body of the qualified local governmental unit. Certificates may be extended, but shall not exceed 12 years after the rehabilitation is complete. Certificates may be revoked if the proposed rehabilitation does not occur within the time authorized.

Qualified local governmental units that grant Obsolete Property Exemption Certificates must submit annual reports to the State Tax Commission on the status of each exemption. The current sunset date for obsolete property tax exemptions is December 31, 2016.

## OBSOLETE PROPERTY REHABILITATION TAX ABATEMENT (CONTINUED)

### CHANGES SINCE

#### 2007 UPDATE:

2010 PA 137 amended the Act to extend the deadline for granting new exemptions under the Act from December 31, 2010, to December 31, 2016.

2011 PA 272 amended the Act to allow an applicant for an obsolete property rehabilitation exemption certificate to submit an amended application, if an error or mistake in an original application were discovered after that application was approved.

2013 PA 265 amended the Act to make an exception for a specific project to the requirement that the rehabilitation of a facility not begin before the establishment of an obsolete property rehabilitation district.

### DATA AND SOURCE:

The Michigan State Housing Development Authority (MSHDA) administers several complementary federal programs, such as tax credits, low interest loans, and tax exempt financing programs, for the creation of affordable housing through rehabilitation of commercial rental housing or adaptive reuse of commercial facilities. For more information on the Low Income Housing Tax Credit, the HOME/TEAM tax exempt lending, and Modified Pass Through tax exempt bond financing programs, please contact MSHDA at (517) 373-6880 or visit their Web site at: [www.michigan.gov/mshda](http://www.michigan.gov/mshda)

### DISCUSSION:

The Obsolete Property Rehabilitation Act was tied-barred to companion economic development program expansions, including significant expansions of the Brownfield Financing Act (page 27) and the Michigan Economic Growth Authority Act (page 42). In 2005, the Legislature enacted a similar, but less restrictive bill called the Commercial Rehabilitation Act (page 29).

## RENAISSANCE ZONES

### ENABLING LEGISLATION;

**STATUTORY CITATION:** 1996 PA 376; as amended by 1999 PA 98, 1999 PA 139, 2000 PA 259, 2003 PA 266, 2006 PA 116, 2006 PA 270, 2006 PA 305, 2006 PA 440, 2008 PA 117, 2010 PA 368, 2010 PA 5, 2010 PA 277; M.C.L. 125.2681 et seq.

### SUMMARY PROGRAM

#### DESCRIPTION:

A targeted-zone program that waives all business or resident site-specific state and local taxes for a term of up to 15 years. Zone applications are developed locally and awarded competitively by the Michigan State Administrative Board or the Michigan Strategic Fund. The most recent annual report for the program, which includes a list of all active renaissance zones, is available at [http://www.michiganbusiness.org/cm/Files/Reports\\_to\\_MI\\_Legislature\\_Page\\_Docs/FY%202014%20Renaissance%20Zone%20Annual%20Report.pdf](http://www.michiganbusiness.org/cm/Files/Reports_to_MI_Legislature_Page_Docs/FY%202014%20Renaissance%20Zone%20Annual%20Report.pdf)

### ELIGIBILITY AND

#### BENEFITS:

In the first two rounds, a local unit of government, or a combination of local units, meeting certain criteria of economic distress, could apply for a renaissance zone. Applications were made under one of three categories: Urban, Rural, and Ex - Military Facility. In following rounds, the program became company and industry specific as opposed to geographically designated locations.

Qualified taxpayers enjoy the waiver of all state and local taxes (except for taxes mandated by the federal government, local bond obligations, school sinking fund or special assessments) for a term of up to 15 years from the time of Renaissance Zone approval.

### TERMS AND PERFORMANCE

#### GUARANTEES:

Renaissance Zone residents and business owners not substantially delinquent in any of the following state and local taxes are exempt from these taxes:

- City Income Tax
- City Utility Users' Excise Tax
- Commercial Forests Tax
- Commercial Property Facilities Tax
- Enterprise Zone Facilities Tax
- General Property Taxes, including tax on lessees or users of tax exempt real property
- Industrial Facilities Tax
- Neighborhood Enterprise Zone Tax
- Personal Income Tax
- Michigan Business Tax
- Technology Park Facilities Tax

Businesses and residents must not be "substantially" delinquent in state and local taxes, as determined by the taxing local unit, in order to claim renaissance zone credits. During the last three years of Renaissance Zone status, the exemptions of the above taxes are phased up to 100 percent of the current tax rates.

### HISTORY OF RENAISSANCE

#### ZONE DESIGNATIONS:

#### I. First and Second Round of Renaissance Zones

The designation of Renaissance Zones was first authorized within 1996 PA 376, and 9 geographic areas around the state successfully received designation starting in 1997 as the result of the first round of reviews. Approval for a second round of Renaissance Zones was passed into law in 1999 after Round I Renaissance Zones were less than 3 years active. The second round legislation, Public Acts 98 and 139, allowed the State Administrative Board to designate an additional 9 zones and sanctioned the board of the Michigan Strategic Fund (MSF) to designate up to 5 zones. The second round legislation also contained optional provisions that allowed for the alteration of Renaissance Zones awarded in the first round (in 1996). These options offered to first round zones were:

1. The ability to expand existing zones to accommodate the growth needs of existing zone businesses.

## RENAISSANCE ZONES (CONTINUED)

2. The ability to lengthen the term of the zone to a maximum of 15 years from the time the zones became active, January 1, 1997.
3. The ability to add distinct geographic areas (subzones) not to exceed a total of 10.

As of December 31, 2011, time extensions and new subzones are no longer available.

### II. Agricultural Processing Renaissance Zones

2000 PA 259 introduced a new type of renaissance zone specifically tailored to companies that operate an agricultural processing facility. Initially capped at 10 zones, subsequent legislation increased the cap to 30 zones designated by the State Administrative Board, upon recommendations of the MSF board and the Michigan Agricultural Commission. As of December 31, 2014, 27 of the 30 available zone designations had been utilized, and 18 zones were active during 2014.

### III. Third Round of Renaissance Zones

In 2001, a single rural Renaissance Zone remained. Four joint applications were submitted by multiple counties, which identified specific locations within their counties that they wanted designated as Renaissance subzones. Since only 1 Renaissance Zone was available, the 10 best locations in terms of development potential and infrastructure were chosen in accordance with the 10 subzones per Renaissance Zone rule. As a result, 1 comprehensive Renaissance Zone that stretched across the state was created. This zone is called the Border to Border Renaissance Zone.

### IV. Alternative Energy Renaissance Zone

2002 PA 512 amended the Act to allow the MSF board to designate one Renaissance Zone as an alternative energy zone for a term not to exceed 20 years. An alternative energy zone promotes research, development and manufacturing of "alternative energy technology" as defined in the Michigan NextEnergy Authority Act. 2006 PA 632 amended the Act to require Alternative Energy Renaissance Zones to promote and increase testing of alternative energy technologies and the research, development, testing and manufacture of alternative energy vehicles. This zone is located in the Wayne State University Research and Technology Park.

### V. Pharmaceutical Renaissance Zone

2002 PA 587 amended the Act to allow the MSF board to designate one Pharmaceutical Renaissance Zone before April 16, 2004. This amendment resulted in the creation of a Renaissance Zone in the City of Kalamazoo to encourage Pfizer to retain Michigan jobs after they acquired Pharmacia.

### VI. Tool and Die Renaissance Recovery Zones ("Recovery Zones")

2003 PA 266 allowed the MSF board to designate up to 20 Tool and Die Renaissance Recovery Zones with the consent of the local governmental unit, with the cap being increased to 35 in subsequent legislation. Each Recovery Zone supports a specific collaborative of tool and die companies, with the goal of sustaining the industry in Michigan. As of December 31, 2014, there were 29 such zones consisting of 277 companies.

### VII. Redevelopment Renaissance Zones

2006 PA 116 allowed the MSF board to designate not more than 5 Renaissance Zones as Redevelopment Renaissance Zones to promote the redevelopment of existing industrial facilities. This strategy was a follow-up to previous legislation (2004 PA 430) which aimed to facilitate business location and job replacement at the closed Electrolux industrial facility in Greenville.



**RENAISSANCE ZONES (CONTINUED)**

VIII. Renewable Energy Zones

2006 PA 270 allowed the State Administrative Board to designate up to 10 Renaissance Zones for renewable energy facilities, which create energy from residues of agricultural products, forest products, food production and processing, and from gaseous fuels produced from biomass, animal waste or landfills. 2008 PA 117 further amended the Act to include in the definition of “renewable energy facility” a system that creates energy from a process using agricultural crops or processed products from agricultural crops. The cap on Renewable Energy Renaissance Zones was raised to 15 through 2008 PA 329, which also required at least five renewable energy renaissance zones to focus primarily on facilities engaged in the production of cellulo-sic biofuels. As of December 31, 2014, nine zones had been designated, with five of these nine remaining active. Seven zones remain available for designation, two of which must meet the cellulosic biofuels production requirement.

IX. Forest Product Processing Zones

2006 PA 305 allowed the State Administrative Board to designate up to 10 Renaissance Zone for forest product processing facilities such as saw mills, paper mills and manufacturers of wood products like cabinets, furniture, floors, doors and windows, and other operations that do not primarily engage in retail. One zone in Dickinson County had been designated as of the end of 2014.

XII. Border Crossing Facilities

2010 PA 5 amended the Act to authorize the Michigan Strategic Fund (MSF) board to designate up to 25 additional Renaissance Zones for border crossing facilities within the State in qualified border local governmental units, if the city or township or combination of cities and townships consented. “Border crossing facility” would mean a business that meets one or more of the following: (1) Was located in a qualified border local governmental unit and was displaced or otherwise negatively affected by the development of the international border crossing and is unable to recover from the displacement or negative effect without the establishment of a renaissance zone. (2) Is associated with international trade, shipping, or freight hauling, including customs brokers, distribution centers, and truck supply and repair. As of December 31, 2014, no such zones had yet been designated.

XIII. Next Michigan Renaissance Zones

2010 PA 277, the Next Michigan Development Act, amended the Act to allow the Michigan Strategic Fund board to designate Next Michigan renaissance zones for eligible Next Michigan businesses within the boundaries of a Next Michigan development district. Eligible businesses are those engaged in multi-modal product shipment such as a logistics-based business. The zone and the eligible businesses must be certified by a local Next Michigan Development Corporation. While five Next Michigan Development Corporations had been approved as of the end of 2014, no Next Michigan Renaissance Zone certifications have yet taken place.

**DATA AND SOURCE:**

Originally, Michigan Renaissance Zones (Round I, Round II, and Round III zones) were regions of the state designated as virtually tax free for any business or resident presently in or moving into a zone for a period of up to 15 years. As of December 31, 2011, this portion of the program is being phased out and time extensions and new subzones are no longer available. Since then, the Renaissance Zone Act has been expanded shifting away from larger geographic area designations and now focuses on project specific, parcel specific designations. All Renaissance Zone types receive the same benefit.

## RENAISSANCE ZONES (CONTINUED)

### Geographic Renaissance Zones

1. Berrien County/City of Benton Harbor/Benton Township (5 subzones)
2. Border to Border Renaissance Zone (4 subzones)
3. City of Detroit Renaissance Zone (12 subzones)
4. City of Flint Renaissance Zone (9 subzones)
5. City of Grand Rapids Renaissance Zone (10 subzones)
6. City of Jackson/Jackson County Renaissance Zone (7 subzones)
7. Kalamazoo/Battle Creek Renaissance Zone (12 subzones)
8. City of Lansing Renaissance Zone (2 subzones)
9. Manistee County Renaissance Zone (4 subzones)
10. Mid-Michigan Economic Growth Corridor Renaissance Zone (12 subzones)
11. Military Renaissance Zones (City of Warren, Forsythe Township) (3 subzones)
12. Montcalm/Gratiot Counties Renaissance Zone (8 subzones)
13. Muskegon/Muskegon Heights Renaissance Zone (12 subzones)
14. North Country Renaissance Zone (3 subzones)
15. Northern Tier Renaissance Zone (10 subzones)
16. City of Saginaw Renaissance Zone (15 subzones)
17. Thumb Area Renaissance Zone (2 subzones)
18. Wayne County Renaissance Zone (9 subzones)

### Agricultural Processing Renaissance Zones

1. Arbre Farms & Willow Cold Food Storage (aka Chase Farms) Oceana County/Colfax Township
2. Graceland Fruit, Inc. Benzie County/Gilmore Township
3. Gray & Co. Oceana County/City of Hart
4. Green Plains Holdings II, LLC (aka Global Ethanol) Lenawee County/Riga Township
5. Kellogg Company Kent County/City of Grand Rapids
6. W.K. Kellogg Institute for Food and Nutrition Research (wkki) Calhoun County/City of Battle Creek
7. Leprino Foods Company Ottawa County/Allendale Township
8. Michigan Milk Producers Association Clinton County/Village of Ovid
9. Burnette Foods, Inc. (aka New Era Foods) Oceana County/Grant Township/Village of New Era
10. Peterson Farms Oceana County/Hart Township
11. Carbon Green Bioenergy (aka U.S. Bio Woodbury/Verasun) Barry County/Woodland Township
12. The Anderson's Albion Ethanol Calhoun County/Sheridan Township
13. Zeeland Farm Services Ottawa County/Zeeland Township
14. Gerber Products Company Newago County/City of Fremont
15. Request Foods, Inc. Ottawa County/Holland Charter Twp
16. Shoreline Fruit, L.L.C. Grand Traverse County/Acme Township
17. Dairy Farmers of America, Inc. Tuscola County City of Cass City (forthcoming)

### Forest Products Processing Renaissance Zones

1. Verso Quinnesec, L.L.C. Dickinson County/Breitung Township

### Michigan Strategic Fund (MSF) Designated Zones

1. Marathon Ashland Petroleum Wayne County/City of Detroit
2. NextEnergy Wayne County/City of Detroit
3. Dow Chemical Company Midland County/City of Midland
4. Greenville Industrial Park "Redevelopment RZ" Montcalm County/City of Greenville
5. Alpinist Endeavors Development "Redevelopment RZ" Kent County/City of Walker
6. Dow Corning Corporation "Redevelopment RZ" Midland County/City of Midland
7. Eaton Aeroquip "Redevelopment RZ" Jackson County/City of Jackson

## RENAISSANCE ZONES (CONTINUED)

8. MPI Research "Pharmaceutical Recovery RZ" Kalamazoo County/City of Kalamazoo
9. United Solar Ovonic Calhoun County/City of Battle Creek
10. Michigan Motion Picture Studios, L.L.C. Oakland County/City of Pontiac
11. Johnson Controls-Saft APS Production Allegan County/City of Holland
12. XALT Energy MI, LLC (fka Dow Kokam MI, LLC) Midland County/City of Midland
13. A123 Systems, Inc. Wayne County/City of Romulus
14. La-Z-Boy, Inc. Monroe County/Township of Frenchtown (forthcoming)

### Renewable Energy Renaissance Zones

1. Heat Transfer International, LLC Kent County/City of Kentwood
2. Alpena Prototype Biorefinery, LLC Alpena County/City of Alpena
3. LG Chem Michigan, Inc. (fka Compact Power, Inc.) Allegan County/City of Holland
4. The Dow Chemical Company Midland County/City of Midland
5. Grid Logic Incorporated Lapeer County/Lapeer Township

Source: Michigan Economic Development Corporation

### DISCUSSION:

The renaissance zone program has expanded significantly since its inception in 1997. In addition to geographic expansions, the zones also expanded the classes of businesses eligible for benefits, as evidenced by the creation of Agricultural Processing Renaissance Zones, Michigan Strategic Fund Designated Zones, Tool and Die Renaissance Recovery Zones, Renewable Energy Renaissance Zones, and Forest Products Processing Renaissance Zones.

The expansion also included a large class of Michigan businesses that were effectively prevented by threat of tax abatement rescission from their resident local unit from considering a move to a renaissance zone. This measure, commonly known as an "exit-visa" provision, was found in the enabling legislation of several state-based economic development programs, but was eliminated with regard to Renaissance Zones through legislation enacted in 1999.

