Economic Development Practitioners’ Perspective
An Initiative to Remake Michigan
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We also wish to thank the many members who contributed to these recommendations through participating in focus groups and completing our survey.
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INTRODUCTION:

The Michigan Economic Developers Association (MEDA) with over 470 members is in its 50th year of existence. Throughout this time the association has worked closely with its membership to attack difficult issues, provide technical assistance to Michigan’s governance and to constantly enhance the professional standards of the economic development practitioner in Michigan.

Economic development practitioners exist at the nexus of businesses and public sector. They hear the needs and wants of the employer community and they have the challenge of mobilizing the public sector to meet these needs and wants. Michigan economic development practitioners are in competition with other states, provinces, even countries for investment and jobs. Their perspective is forged by a hard and hyper-competitive environment. Their perspective contains real life reasons why site location decisions and are made the way they are.

From Business Leaders for Michigan to The Center for Michigan to Michigan Future, plans have been formulated and published, adding to the rich idea environment dealing with the building of a new resilient economy for our great state. Yet these studies all lack one rather essential element, not one of them has substantial input from professional economic development practitioners.

The election in 2010 will see a significant turnover in the Michigan legislature and will see the election of a new governor. It is vitally important that Michigan’s new governance be presented with as much information as possible, organized toward a comprehensive strategy that accounts for all possible changes Michigan must make if it is to regain its economic preeminence. Therefore MEDA’s board of directors initiated a study that called upon the expertise, experience, anecdotes and wisdom of Michigan’s economic development practitioner community so that a new legislature and a new governor could be instantly aware of the opportunities, problems, issues, and possible solutions from those professionals who work directly with businesses as they make decisions on jobs and investment.

As you read this report you will find that many of the changes MEDA is proposing are, in fact, revenue neutral and may, in some cases, reduce process costs, and stimulate income for the state. The reorganization and improvement of processes can be administrative actions to weed out the unpredictable, confusing, and overly complex processes needed to obtain permits, incentives, and other interactions with state and local government.

The severity of Michigan’s economic crisis has had a profound effect on the ability of the economic development practitioners to do their work on behalf of Michigan communities. Therefore MEDA offers our association as a potential partner with state and local government, associations, and industry sectors to work toward a vision of a new Michigan economy that is sustainable and supportive of Michigan families.
EXECUTIVE SUMMARY:

The Michigan Economic Developers Association is observing its fiftieth year of existence. Age fifty comes when Michigan faces some very big challenges, but also very big opportunities. Thus, MEDA has endeavored to thoroughly sample the expertise of its members, those who, every day, do the work of the professional economic development practitioner in Michigan. This is the first time this perspective has been formally published and we do it in order to present a view on how the Michigan economy can be improved and made to work better for Michigan families.

A survey and six focus groups provided the bulk of the data, but other plans for Michigan were researched and compared to our findings. Within the study, problems have been identified and solutions have been presented. It is important to note that changes in state processes are most acutely needed and these changes will cost the taxpayer very little, and could, in fact, improve revenues to the state.

We divided our findings into three broad categories and then weighed the intensity and significance of the issues. There were many, but the following problems and proposed solutions constitute the bulk of the findings.

- = Problem
  ✔ = MEDA Solution

BUSINESS CLIMATE ISSUES:

- Michigan business-related taxes are complex, defy comparison, uncertain, unpredictable, and costly to administer.
  ✔ MEDA suggests eliminating or replacing the Michigan Business Tax and the surcharge. Replace with a simple, predictable, and stable form of taxation.

- Permitting and regulatory processes are complex, slow, unpredictable, and uneven.
  ✔ The report identifies four possible ways to improve the permitting and regulatory processes with a customer service orientation.

- Workforce programs have grown away from economic development even though the two appear to be joined at the hip. Practitioners fear programs are not preparing people for new economy ventures, for the advances of technology in occupations, and the environmentally responsible mobilization of our natural resources.
  ✔ Our recommendation is that a comprehensive workforce program review should be one of the first orders of business for the new administration.

- Michigan's reputation as a stronghold for the unions causes many site selection consultants to not even consider Michigan in any site selection searches, despite the fact that Michigan allows many competitive advantages for business.
  ✔ MEDA believes that a new message has to be sent that labor-management relations are much more collaborative than they were, even ten years ago.
Access to capital was cited by many practitioners as putting the brakes on small business expansions. The problem is much more severe for the entrepreneur and start-up.  
✓ MEDA suggests revamping all small business financing programs in the state. Utilize tax credits to induce investments or create a tax climate where venture investing is encouraged.

THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT:

• The state lacks the expertise about what works at the local level and cannot design programs without the input of experienced local practitioners.  
✓ MEDA believes that the state must provide local practitioners a seat at the table to assure appropriate coordination and execution of duties in a cost effective way.

• Economic development appears to be of diminished importance at the state level. Many perceive the Michigan Economic Development Corporation (MEDC) to be lost in The Department of Energy, Labor, and Growth.  
✓ We strongly urge making economic development and job creation the top priority of the new administration.

• The slow, complex, and bewildering regulatory and permitting processes rob the state of the very things capital investment seeks: stability, consistency, predictability, and a reasonable expectation of a return.  
✓ MEDA suggests at least three different ways in which the permitting processes can be simplified and expedited.

• State programs are arbitrary and often are incongruent with local and regional efforts to build new economies.  
✓ MEDA suggests elimination of a number of programs which could be replaced by a new strategy with regional sub-strategies crafted to the competitive strengths of the state’s various regions.

• There is no international economic development strategy despite the successes of committed local programs in the state.  
✓ This report stresses that too much economic change is occurring for the State of Michigan to be sitting on the sidelines. The state must work with the local programs to create a new global effort.

INCENTIVES:

• The incentives debate is a poster child for the gap between theory and practice. Study after academic study has concluded that incentives are not necessary and yet, economic development practitioners are confronted with the need for competitive incentives every day.  
✓ MEDA advocates a new rationale and strategy for the accountable use of incentives.
Those critical of incentives believe that lower taxes and lower regulatory activity would improve the business climate to the extent that incentives would no longer be necessary.

- Michigan economic development practitioners have shown that states with far lower tax rates and far less regulation still utilize incentives as part of their respective job retention and attraction strategies.

Incentives do not assist small businesses and entrepreneurs.

- MEDA contends that there are ways to change incentives policy to help smaller businesses and start-ups.

Many people, developers, notwithstanding, believe there is a lack of accountability in the process of awarding and monitoring incentives.

- MEDA advocates for more self-regulating incentives that trigger economic benefits upon reaching certain thresholds of job creation activities.

Incentives do not reflect net present value.

- We recommend designing a system that “frontloads” benefits early in the investment and development process.

Michigan does not derive full leverage from its current array of incentives.

- We strongly advise fostering the sale of research and development tax credits, MEGA tax credits, and create credit enhancements for Tax Increment Financing Authorities.

OTHER ISSUES:

- MEDA members are concerned that the multitude of local governing units creates slow, confusing, duplicative, and conflict-ridden approaches to regional economic development.

- MEDA members have consistently articulated the need for fast, simple, and predictable approaches to economic development strategies at the local level.

There is concern that far too little effort is expended upon the recruiting of immigrants, foreign students, and foreign entrepreneurs.

- MEDA believes that Michigan economic development programming needs a strategy for recruiting the talented and best educated people in the world.
OUR METHODOLOGY:

In May of 2010, we surveyed the MEDA membership and national and international site consultants on barriers and strengths of Michigan's business and economic development environment. Also, we gathered feedback on the Business Leaders of Michigan's "Turnaround Plan" and the Center for Michigan's "Michigan's Defining Moment" plans. Other plans for Michigan turnaround were studied as well.

Beginning in Mid-June, MEDA held six focus groups from Detroit to Marquette to be sure that every economic development practitioner had the opportunity for input. The focus groups started with a review of the survey findings, testimony before house committees, and other business plans with recommendations for how Michigan can recover.

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<thead>
<tr>
<th>Date</th>
<th>Location</th>
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<tbody>
<tr>
<td>June 18, 2010</td>
<td>Detroit</td>
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<td>July 19, 2010</td>
<td>Flint</td>
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<td>July 20, 2010</td>
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<td>July 22, 2010</td>
<td>Marquette</td>
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<td>July 23, 2010</td>
<td>Traverse City</td>
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The focus groups each ran three hours in duration. The cumulative results from the survey and the additional information gathered by the focus groups were then reviewed by a committee of economic development practitioners.

At the September Board of Directors meeting of the Michigan Economic Developers Association, the recommendations were accepted and the board granted approval to publish our findings.

It is important that we thank our members and participants for their time and their input. These are very difficult times for the economic development profession in Michigan and the effort to provide input as to how we can improve our state speaks well of the commitment and passion with which Michigan economic developers bring to their jobs every day.

THREE AREAS FOR REFORM:

Throughout the survey and the focus groups our participants tended to settle on three areas where they believe real change can be accomplished. Other issues were mentioned with some frequency and we will devote some time to those miscellaneous concerns.

BUSINESS CLIMATE:

Actually, this area had previously been labeled "the cost of doing business;" however, costs are a relative thing throughout our state. Energy costs in the southwest corner of the state differ from rates in the southeast corner. Other cost indices may differ by region such as the availability and cost of broadband.

By identifying costs in common to all parts of Michigan, we began to focus on taxes. Our membership found that while studies are all over the place on where Michigan ranks in terms of tax load, the participants believe the Michigan Business Tax is too complex, difficult and costly and is cited by economic development practitioners as a real issue, raised frequently by prospective business and investors.
Business taxes need to be predictable, stable, and simple to calculate. The Michigan Business Tax is none of these. Nor does it lend itself to good comparisons with tax structures in other, sometimes, competing states. Shoppers do not like to compare un-priced items, and businesses shopping for business locations expect to compare the prices of every aspect of community indicators.

Moreover, annual budget crises are commonplace in state government, thus, further militating against a business’s ability to plan and to make projections about the future.

As noted in the introduction, investment capital craves predictability, simplicity, and the expectation of a reasonable return on investment. The tax uncertainties at the federal and state level have created a climate uncertain enough to keep investment capital on the sidelines. Economists are beginning to refer to this phenomenon as “capital on strike.”

Nowhere were expressions so pointed as when members discussed the permitting and regulatory processes in Michigan. By one practitioner’s estimate, as many as thirty nine different agencies could potentially be involved in a permitting process. Because so many diverse interests come to play in the permitting process, it too, is unstable, unpredictable, and, in too many cases, unfriendly.

While there are also permitting issues at the local level, much attention was focused on the state’s slow processes, wildly differing interpretations, and a general lack of customer service orientation. Increasingly, time is money. First to market is an extremely competitive advantage in the so-called new economy. State and local regulators must learn to move as fast as our business clients and investors wish to move. It is the responsibility of all of us to make the investment infrastructure of Michigan as capital friendly as possible.

In 2009, the World Bank released a study that accounted for new business registrations in 115 nations concluded that cheaper and more efficient business registration processes fostered greater entrepreneurial activity.¹

Bluestone and Barrett go on to note that the State of Hawaii has devised an online process that enables an entrepreneur to walk through a business registration along with necessary filings in less than one day.² That is five and one-half days faster than Michigan.

Michigan’s closest competitor, Indiana, has also recognized the importance of speed and efficient regulatory, permitting, and incentives processes.

In 2005, Indiana established the public-private Indiana Economic Development Corporation (IEDC) to replace its Department of Commerce. Armed with an annual budget of $37 million to focus solely on retaining, growing, and attracting business, the IEDC operates like a business. “We can move quickly,” said Indiana businessman, Mickey Maurer, who served as the IEDC’s first president. “We don’t have bureaucratic red tape. I could speak for the state like a normal president or CEO of a business.”

Deals under three million can be cut on the spot. Larger deals go to a board consisting of 11 business executives and chaired by the governor.³

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¹ Bluestone, Adam, and Barret, Amy, “Cutting Incorporation Bureaucracy”, INC., July 1, 2010,
² Ibid.
³ Vuong, Andy, “Keeping Good Companies;” Denver Post, July 25, 2010
With this kind of competition, Michigan economic development practitioners find themselves at an extreme competitive disadvantage where other states have made regulatory, permitting, and incentive processes simple, fast, and predictable. Time is money and Michigan takes more time than its competitors.

The process issue is also relevant when we discuss incentives and incentives policy in a separate section.

Business climate discussions also focused on workforce issues. Members registered concern that education and training programs had been cut, were unresponsive, and had, unfortunately, little relationship to the practice of economic development. Other concerns involved the spatial mismatch between programs geared to a manufacturing economy and the difficulty training workers for “new economy” ventures, not to mention Upper Peninsula concerns about the preparation of a workforce toward environmentally friendly practices of mobilizing natural resources.

Within workforce development issues, the unions were discussed in great detail. Members ran the full spectrum of responses to the issue of unions and Michigan economic development. We know from discussions with site selection consultants that states with Right-to-Work laws are on the preferred list. Michigan and its economic development practitioner community miss out on many site selection searches because of the preference for states with Right-to-Work laws.

MEDA members also believe that outside perceptions of Michigan, unions, and labor relations do not reflect the new realities of management and union relations in Michigan. The number of private sector workers involved in collective bargaining agreements has dropped below 10% in the state and is much lower in certain regions. Public sector unionization continues to grow, but that trend is hardly peculiar to Michigan.

Access to capital is another problem for Michigan businesses, particularly, small businesses and start-ups. The absence of capital prevents business expansion, job creation, and wealth accumulation. Economic development practitioners believe that the traditional industrial mix in Michigan is largely red-lined by the lender community. The contractions within the automotive industry do not enable the highest degree of confidence in the growth plans articulated by an entity related in any way to the automotive sector.

At the same time small technology businesses, despite great promise, are having equally difficult times trying to access capital. Traditional lenders seeking collateralization for loans made to technology based small businesses struggle with everything from business feasibility to understanding growth trajectories of small businesses.

Access to capital is a problem intensified by the uncertainty of federal programs and state processes. Reference was made earlier to a strike by capital. The national climate and that of the State of Michigan are so fraught with uncertainty and the unknown, that investment capital has run to the sidelines and stayed there.

Without certainty and predictability in the environment, investment capital will do nothing or it will go elsewhere. Michigan economic development practitioners believe the state needs to take steps to immediately correct the uncertainty and create a welcoming climate of opportunities for investment capital.

MEDA members also believe that outside perceptions of Michigan, unions, and business do not reflect the new realities of management and union relations.
Finally, energy concerns were articulated by our participants. The intensity of the concern varies by region, but generally, our participants cited the cost of energy operations and infrastructure. Some believe that capital improvements to energy transmission systems need to be amortized over time to reduce the upfront costs of expansion or site development. Others believe the state should offer an economic development incentive rate as has occurred in the past and still continues in the states with which Michigan competes.

**Business Climate Problems and Solutions:**

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<tr>
<th>Problems</th>
<th>Solutions</th>
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<tr>
<td>Taxes are complex, uncertain, unpredictable, and costly to administer.</td>
<td>Eliminate or replace the Michigan Business Tax and the surcharge. Replace with a simple, predictable, understandable, and stable form. Require budget adoption by the state government by a certain date.</td>
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<tr>
<td>Permitting and regulation are similarly complex, slow, unpredictable, and uneven.</td>
<td>Allow most forms of business registration to be done within hours and online. Create a “turbo tax” form of software that can red flag problems before the permit application is submitted. Allow self-permitting where a licensed engineer can be hired by the applicant to complete all aspects of the permit process. The liability for permit satisfaction would be transferred to the licensed engineer. Another solution is to require that all permitting be completed within a thirty day period. Fully completed permit applications would automatically be granted approval after thirty days of a review period, even if the state has not completed its work. Create a similar timeline at the local level.</td>
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<td>Workforce Issues</td>
<td>Programs must be comprehensively reviewed to determine what is still effective. Money is needed for education and training to enable the Michigan worker to be as globally competitive as possible. Programs need to be adjusted to allow for the training of workers in “new economy” ventures.</td>
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<td>Unions</td>
<td>Address the national and international perspectives of Michigan and unions, taking into account regional, public sector/private sector dynamics. Articulate a new era of collaboration where unions are cooperating with reasonable wage levels and drastically reduced numbers of job classifications to increase management flexibility and boost productivity. MEDA is prepared to craft such a statement to be used by state and local economic developers and targeted to site selection consultants in particular.</td>
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<tr>
<td>Access to capital</td>
<td>Thoroughly revamp state small business</td>
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assistance to foster credit worthiness and access to capital among Michigan entrepreneurs and small businesses. Creation of a revolving loan fund to provide expansion assistance to Michigan’s second stage companies. Create a tax credit for Michigan investors who capitalize small business lending funds.

**Additional Comments:**

In our dealings with businesses, prospects, and investors, we can never overstate the need for simple, easy-to-understand, and comparable rates of taxation. Local economic development practitioners frequently stated that the amount of taxes is not as important as the unknown and unpredictable. “Just tell me what I’ll have to pay. That is all I need to know,” is a statement that we have heard time and time again.

Tax rates are partially contingent upon state government getting an approved annual budget in place. The annual budget war carried on by the legislature and executive branch contribute significantly to the uncertainty and unpredictability to the cost of taxes in Michigan. MEDA is aware of attempts to hold state government accountable for a budget, but irrespective of those attempts, we have to inject some predictability into the process.

Much of the same rationale exists in the area of permitting and regulation. At this point, Michigan is not tooled for a level of customer service that appreciates the speed at which business must move to stay competitive or the important strategy of being first to market whether it be a new product, a new process, or a new service. MEDA suggests several ways to shorten and strengthen the permitting process including online filings, approvals by licensed engineers who accept liability for their work, and a total review period of no more than thirty days. Failure to approve a permit application within thirty days triggers an automatic approval and permission to proceed.

Though it has been said over and over, we must create an investment welcoming climate where employers, investors, and job creators can be met with clear, simple, predictable, and effective processes. Failure to update and correct these processes for compatibility in the global investment climate will militate against the attraction and keeping of investment capital and job creation. The good news for Michigan lawmakers is that these changes will not cost money. In fact, if there is a serious effort to restore simplicity, predictability, and understanding to the Michigan tax load, it could very well result in a growing income level for the state.

**THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT:**

Michigan economic development practitioners believe that the role of state government in economic development is of vital importance. Participants believe that the MEDC no longer enjoys the pre-eminence in state government that it has enjoyed in the past. The lack of an aggressive and focused approach at the state level means there is no thinking about game changing tactics, new strategies, and "next practices."
In terms of philosophy, Michigan’s economic development practitioners believe the state needs to be a leader in its relationships with local economic developers. They believe the state needs to be a partner.

Practitioners are concerned about the slow, complex, and bewildering regulatory and permitting processes at the state level and how they negatively impact the job creation process. Under the burden of many programs and responsibilities, the MEDC unintentionally has evolved to an entity comprised of program administrators rather than job creators and marketers on behalf of the state.

Deals are not tied to the schedules of the clients. Many practitioners believe that state schedules and processes add to the perception that the state climate is uncertain, unpredictable, and hopelessly complex.

Indeed, local practitioners wonder who is making things happen at the state level. Who is doing the marketing for the state? Who is seeking out deals?

State economic development efforts have foregone national and international marketing endeavors. There is no impactful international program operating on behalf of the state. All international marketing and development in Michigan is being done, credibly, at the local level by eight to ten very active communities while the state’s international economic development staff has been reassigned to alternative energy pursuits.

Speaking of alternative energy, there was great dissatisfaction with the state’s “one size fits all approach.” What works in Grand Rapids may not work in the Upper Peninsula. A $10 per hour job may be more valued in Seney than in Sterling Heights. Therefore, local practitioners do not believe a centralized authority in Lansing should be in the business of selecting target industries for a diverse state like Michigan. Target industry strategy leads to the picking of winners and losers by state government, oftentimes, at the expense of robust, diversified programs at the local level.

Local practitioners believe that the fundamental task of retention calls needs to be re-worked with the state. Lack of coordination and lack of communication lead to duplications at best and missed opportunities at the worst.

It was felt that state economic developers need to be experienced at the local level in order to be able to understand the process of job creation in Michigan communities. Some practitioners firmly believe that people working at the state economic development level should have previous experience working at the local level.

In conclusion, local economic development practitioners believe strongly that state policy, programs, and approach must be re-tooled and redeployed.

**The Role of the State in Economic Development Problems and Solutions:**

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<th>Problems</th>
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<tr>
<td>Economic development is diminished under the status quo, doesn’t appear as a priority, messaging is unclear.</td>
<td>Economic development should be a cabinet level position. Ideally, the chief economic development officer in the state should be the governor. The chief economic development officer for the state should be, at least, at the governor’s side. Reorganize state economic development to a stand-alone department. Put</td>
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<td>State does not lead; There is no partnership between state and local practitioners.</td>
<td>Create a new deployment of economic development resources. State economic development entity cannot be cloistered in Lansing. New entity must have reduced numbers in Lansing and increased numbers out in the field. Require experience at the local level in order to be employed at the state economic development entity.</td>
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<td>State programs are arbitrary and often do not match up with locals or regions.</td>
<td>Eliminate target industries and disproportionate targeting of certain business sectors. Work with locals to create targets that can be supported by the respective regions. Adopt strategies that are compatible with locals rather than “the one-size fits all” approach.</td>
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<td>There is no impactful international program in state economic development despite the restructuring of the world economy.</td>
<td>Utilizing the credibility of long standing international programs, create a new role for the state in international economic development. Realize that the governor must become the chief salesperson for the state in all international venues. This can no longer be ignored.</td>
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<tr>
<td>Retention calls are duplicative and confusing, causing bewilderment among Michigan's employer community.</td>
<td>Work with locals to better divide the labor of retention. Many of these calls are unnecessary from the state perspective and could easily be handled by the local partners.</td>
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**Additional Comments:**

The role of state government in economic development is preeminent throughout the nation. Many states have adopted new structures that enable them to act much more like the businesses and investors they pursue. Michigan’s original model of the MEDC has been adopted and improved upon by competing states, particularly, Indiana. Consequently, the opportunity is, again, before Michigan to establish a leading edge, “next-practices” structure for state economic development.

The new governor and legislature have a significant opportunity to restructure economic development in Michigan. Without abrogating agreements made in the past, the state needs to start down a new road where it is clear to every investor and every business that the investment climate in Michigan is welcoming, nurturing, and friendly.

Michigan must devise a new structure for the delivery of economic development services within the state. Local economic development practitioners believe the state should adopt a regional structure and work within those regional groups to establish competitive, cost effective, and relevant policy. Lansing should become a “front office” operation while the real work is done in the fields of the respective regions. Regional associations need to be on a voluntary basis which could be incented by resources coming from the state to foster the affiliations. Proper and appropriate design of a new structure, coherent and speedy processes, and a new regional deployment can all be accomplished without significant budget impact. It needs to get done.
INCENTIVES:

Obviously, incentives would boil to the surface as a significant concern to professional economic development practitioners. It is the incentives scenario where local practitioners see the wide crevice between theory and practice. Survey data and focus group input was reflective of the concern that economic development practitioners have over a better, wiser use of incentives.

Much of the debate over the worth of incentives has centered on repeated criticisms of incentives by the Mackinac Center for Public Policy and, more recently, by the Michigan Education Association. Local practitioners believe that the rationale for incentives needs to be updated and better articulated.

While it can be stated that local economic development practitioners would jump to the front of a parade designed to restrict the use of incentives across the board, Michigan competes, often, against the Province of Ontario as well. Restricting incentives via national policy would still not fix Michigan’s competitive situation. This reality is either unknown or ignored by studies critical of incentives.

Another befuddling aspect of the incentives debate is what actually constitutes an incentive. States with Right-to-Work laws advertise their “open shop” status as an incentive to locate. This is another everyday reality encountered by local economic development practitioners that is either unknown or ignored by studies critical of incentives.

Incenting energy rates as is done by the federally subsidized Tennessee Valley Authority allows southern economic development practitioners to tout their lower energy costs to Michigan employers and job creators. This reality is also either unknown or ignored by studies critical of incentives.

Finally, the federal and state governments incent all kinds of behavior. Michigan Public Act 116 incents farmers and rural landowners to keep current land uses. The Neighborhood Enterprise Zone program incents homemakers to make repairs and renovations to their dwellings. Low interest mortgages have incented people to buy homes for decades.

Our discussion will involve cash-oriented incentives such as tax credits, tax forgiveness, tax abatements, and other aspects of state and local tax policy that allow the use of incentives.

It should be stated very strongly that Michigan’s local economic development practitioners categorically reject the idea that if tax rates and regulatory activities were at a bare minimum, incentives would be unnecessary. One need look no farther than many of the southern states where tax rates are low and where regulatory activity is much lower than in Michigan, who nonetheless, still provide cash inducements to companies to come to their states. South Carolina and Alabama paid handsome inducements to attract BMW and Mercedes, respectively. The South Carolina package for BMW totaled up to $186 million.

At any rate, participants were also clear that incentives should not be used to compensate for bad tax or regulatory policies and practices.
In addition to the political climate surrounding the use of incentives, Michigan economic development practitioners have plenty of comments about incentives and how they are utilized in Michigan. Again, process came in for extreme criticism with all the words we have used previously in this study: slow, unpredictable, and complex. Further, it was noted constantly that incentives were not managed based on the needs of the prospective investor or job creator. Thus, a business may have to wait up to three months or more in order to receive approval of a state incentive package. Other states complete this process within thirty days. When time is money, and it almost always is, especially, in the new economy, Michigan does not compete.

There is more and more concern about the age and application of Michigan's incentives offerings. Do incentives designed for manufacturing have application to new economy ventures? What constitutes job gain for the Upper Peninsula may not be so appreciated downstate.

Practitioners were also concerned that target industry incentives roll back to a “one size fits all” approach and ignore the potentially rich and diversified sectors of the Michigan economy, especially, at the regional level, which could form the basis of a new Michigan economy. In the Upper Peninsula, for example, the climate for investment is changing because the prices on precious and frequently used metals are on the rise to the extent that some Upper Peninsula mining operations could be restarted and help to mitigate high unemployment rate. Technology has changed in mining operations. Although safety and environmental protection are important considerations in the mining industry, the technology of mining has also progressed to the extent that its effectiveness needs to be measured against the safety and environmental issues associated with mining.

In particular, incentives are not fitted to the needs of the entrepreneur or the small business owner. Certainly, Michigan does not induce the entrepreneur with tax incentives. Michigan does incent some small businesses, but only because the definition of small business is so broad. Members believe that incentives need to more appropriately assist entrepreneurs and second stage companies.

Finally, the issue of accountability was significant among survey respondents and focus group participants. It is important that we know what we are incenting and what we get for our investments. Many localities use “claw-back” arrangements in incentives practices. If money is advanced in any way, shape, or form, and business does not meet the goals, the incentive can be required to return the inducement to the state or local unit of government. Tax credits similar to MEGA are already self-regulating to the extent that a business must approach a certain level of hiring, taxation, etc., to trigger a tax credit from the granting agency. Participants agreed that this was the simplest way to continue to infuse accountability in the performance of the recipient.

Incentives Problems and Solutions:

<table>
<thead>
<tr>
<th>Problems</th>
<th>Solutions</th>
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<tbody>
<tr>
<td>Rationale for incentives is not clear or clearly stated. Many institutions are attacking use of incentives.</td>
<td>Restate the rationale. Institute a comprehensive review for use of incentives in order to generate a smart and concise new set of incentives.</td>
</tr>
<tr>
<td>Incentives are a means to compensate for a bad</td>
<td>Incentives should be used to affect human</td>
</tr>
<tr>
<td>business climate.</td>
<td>behavior in a positive way. They cannot and should not be used to compensate for bad tax policy or overregulation.</td>
</tr>
<tr>
<td>One size fits all, which overloads certain sectors and areas and deprives local level of the innovation and diversity needed to shape sound regional economies within Michigan.</td>
<td>The nature of Michigan’s rich diversity in regions militates against a “one size fits all” application. Devolve into a regional approach which respects the economic conditions of the locality.</td>
</tr>
<tr>
<td>Incentives processes are slow, unpredictable, and confusing.</td>
<td>See section on Permitting</td>
</tr>
<tr>
<td>Incentives do not help entrepreneurs or smaller businesses.</td>
<td>Work with MEDA to craft a system of rewards for entrepreneurs and smaller businesses that create jobs. Reward on a percentage basis as opposed to a numbers scenario.</td>
</tr>
<tr>
<td>There is little accountability in incentives.</td>
<td>Rely more on self-regulating tax credits to reward business expansions once thresholds are met.</td>
</tr>
<tr>
<td>Incentives lack net present value.</td>
<td>Create a system that “front loads” incentives so that capital which is needed more in the early stages of the venture is not tied up down the road.</td>
</tr>
<tr>
<td>Strengthen other aspects of Michigan incentives.</td>
<td>Create saleable tax credits to attract more investment from third party capital sources. Create credit enhancements for TIFAs and their bonding processes to free up more investment capital.</td>
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</table>

**Additional Comments:**

Incentives tend to be among the most controversial of economic development policies. Their validity is questioned by think tanks and by affected organizations. Despite the questioning, no less than forty two states currently have incentives programs in place. National policy on incentives will not help Michigan as Michigan competes against the Province of Ontario, Canada, as much or more than it does with North Carolina.

Local economic development practitioners believe that incentives should be used to gain a favorable outcome, not to compensate for a costly business and tax climate.

Incentives have to be tailored to the regional level instead of a “one size fits all” approach. We believe a comprehensive review is immediately necessary to determine the design and nature of incentives for use in the future. At the same time, we believe it is necessary to caution lawmakers, particularly, newly elected legislators to stick by existing commitments while they evaluate tools for future use.

**ISSUES FOR HONORABLE MENTION:**

The aforementioned is where the concentration of activity occurred among our members. But it is clear that Michigan economic development practitioners had other thoughts in mind.

**Too Many Units of Governments Make for Slow, Confusing, Conflict-Ridden Processes that Throttle Down Our Speed When We Need It the Most:**
There was a strong expression of feeling that Michigan has far too many local governments and subdivisions that feed the complexities, confusion, and uncertainty of regulatory processes and permitting. Michigan has 2,816 units of local government. General purpose local units of government include:

- 83 Counties
- 1,241 townships
- 273 cities
- 262 villages

In addition, Michigan has more than 500 school districts.

Detroit ranks as one of the most fragmented metropolitan areas in the United States. Studies exist that contend that highly fragmented areas are unprepared to cope with the rapid changes being brought on by the new economy drivers of information technology and globalization. They contend that:

“Large numbers of decision points, actors, and units of government make it easy to block actions and ultimately preserve status quo.”

There is significant concern among the participants that this multitude of local governments, many with overlapping jurisdictions, contribute to the difficulty in executing stable, predictable, and cost effective economic development policies and programs.

Intensity of feelings differed between urban and rural areas when it came to governing jurisdictions, however, there was a solid consensus that local units of government need to collaborate to a much greater degree if they are to keep pace with a faster moving employer and investor community.

**If We are Serious about Start-Ups and Entrepreneurs, We Need an Aggressive Immigration Program:**

Michigan’s local economic development practitioners believe that the state must work harder to attract immigrants. There is a lot of good common sense in this strategy as immigrants are thought to be involved in the founding of 25% of the new companies established in the United States.

Michigan needs to establish a program to attract talented people in general, and immigrants in particular. Our large universities should be ground zero for the recruiting of highly educated, highly skilled foreign students to establish new ventures in Michigan.

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Michigan’s congressional delegation needs to support relaxed visa requirements that will allow Michigan to capture the entrepreneurial energies of the immigrant and foreign born populations.

Michigan has a rich history of embracing immigrant entrepreneurs and now would be an excellent time to capitalize on that legacy.

**CONCLUSIONS:**

Extensive information exchanges with dozens of Michigan local level economic development practitioners has culminated in the first “boots on the ground” perspective of issues that pertain to the establishment of a different economy in Michigan, one that is not solely auto-related, but still contains opportunities for Michigan families and entrepreneurs.

A premise that has shaped many of our conclusions and recommendations has to do with the nature of capital and investment. Capital seeks a predictable, consistent, and coherent environment where there is a reasonable expectation of return on investment.

The systems of business taxation, regulatory, permitting, and incentives are not predictable; are not consistent, and is not very stable with respect to a return on investment. All of these characteristics are an anathema to the investor and job creator. Michigan can and must redesign and implement new processes that culminate in an investment friendly climate.

The positive news about these reforms is that they will not cost the taxpayers any more money. Implementing process improvements, which are streamlined, effective, and efficient, will see a return of the investor and job creators. That means a revenue stream for Michigan, at very little cost.

Re-tooling Michigan’s workforce is a necessary element in the restoration of prosperity for Michigan families. Specifically, there is a spatial mismatch between how we prepare workers today and the needs of new technology ventures. We believe that economic development and workforce development have lost their intimacy and that has allowed a gap to open and divorce the two from the complementary activities necessary to prepare the workforce for jobs wrought through the efforts of job creators.

Michigan’s economic development practitioners included unions in the discussions of workforce. Most of the site selection searches in this country begin and end with states that have Right-to-Work laws. Michigan is, perfunctorily, excluded from these searches, even though the state may have other attributes necessary and desirable for a new business location.

It is believed the best way to counter this activity is to make a strong effort at correcting the misperceptions, accidental and deliberate, by discussing the evolution of the union movement in Michigan toward reasonable wage structures, significant reductions in work rules and job classifications, and other initiatives toward increasing collaborative flexibility within the workplace and boosting overall productivity.

Entrepreneurial and small business development is being stifled by a lack of access to capital necessary for business starts and expansions. While it is not contended that Michigan has been redlined by investors, it seems certain that many of the traditional industries within the Michigan mix are being redlined and that impacts the strength of our foundation for some recovery, at least as far as a severely downsized auto industry can take us. Clearly, there is a need for public sector intervention to facilitate the flow of investment capital to Michigan and within Michigan.
Reframing the role of state government in economic development is one of the most important things we can accomplish over the next eighteen months. That includes making job creation and business expansion the very top priority of the next administration. It is important in message and equally important in substance, economic development must be the top priority for state government.

It must be led by the Governor and it must be a cabinet level position. The various programs and pots of money for economic development that are scattered across state departments need to be brought together under one roof and one agency to promote coherence and efficiency.

Economic development deals are accomplished most efficiently and cost effectively in environments where there is predictability, stability, and customer service in all related processes, especially the regulatory and permitting processes.

Given the global environment, in which we operate, the state must restart and implement an international marketing and investment program. Thirty years ago, the states could ignore international, although many of them did not. Today, however, it borders on misfeasance or nonfeasance to not have a strong aggressive program for seeking out international trade and investment.

State policies, according to the participants, attempt to impose a “one size fits all” approach to economic development. We contend that such strategies are unworkable and actually detrimental in that they can rob local initiatives of the support and resources they may need to add diversification to the Michigan economy. The best “targets” are those identified by the local practitioners who work in these communities every day.

Local economic development practitioners believe there is a need for the reorganization of business and employer retention calls within Michigan. This is the most fundamental activity within the profession and it must be coordinated carefully between state and local developers to avoid confusion and to derive maximum positive results.

A study like this would never be complete if it excluded issues and considerations around the uses of incentives as a means to foster investment and job creation. Within that vein, we need to rewrite and restate the rationale for incentives. That rationale, in addition to refuting the shibboleth that lower taxes and reduced regulation, eliminate the need for incentives, should also articulate the argument that tax incentives are not designed to serve as compensation for a poor business and regulatory environment.

Members cited a need for a comprehensive review of the incentives currently offered in Michigan to determine timeliness, applicability, and cost effectiveness. Thoughts and actions need to be dedicated to the growth needs of the entrepreneur and the small business owner as practitioners believe current formulae leave them out of the process.

Finally, more accountability needs to be built into the process. Utilizing self-regulating incentives such as tax credits that are triggered by reaching a threshold of economic activity such as a percentage or number of jobs created. Local practitioners need to be more active helping local units of government draft “claw-back” arrangements that are reasonable and tailored to business conditions.

This November will see many new faces elected to serve in Lansing, more than we have ever seen before. Therefore, we have an unusual and unique opportunity to sweep the aged debris of old
tactics and strategies right off the table and institute a new and highly competitive system of job creation and the attraction of investment.

This perspective has been developed through profound research among the economic development practitioners in Michigan. It is, therefore, unique and potentially valuable. A famous and very successful manager once told the Economic Club of Detroit to “...listen, listen, listen to the people who do the work every day.”

That advice could not achieve a higher value in any context than this one.

Many economic development practitioners in Michigan are well known, nationally, in their profession. Some have stayed and chosen to pursue their careers in Michigan despite tempting offers to work elsewhere. These practitioners have lived through four governors and have seen all kinds of economic development policies tried. This historical view and the knowledge of what it takes to be effective in the practice of job creation and investment attraction should be of great value in helping the new policies of a newly elected state government in November.

MEDA offers this assistance and its partnership in creating a new Michigan where new opportunities can be generated from a new platform that values clarity, predictability, and, most of all, unmatched customer service.
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