Michigan Economic Development Corporation

Benchmarking and Incentive Analysis

AngelouEconomics
GLOBAL ECONOMIC DEVELOPMENT

April 16, 2012

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Introduction

Within the context of one of the nation's most economically destructive recessions and the persistently weak levels of employment growth occurring nationwide during recent years, the competition for new employers among economic development organizations throughout the United States has risen to an uncommonly fierce level.

In addition to heightened concern for employment growth, however, has been increased demand on the part of taxpayers and public authorities that economic development incentives merit the investment made to support them. There has also been increased interest among economic development organizations that the collection of incentives they offer be both effective and highly competitive. Parallel to this trend has been a movement among businesses to seek incentives that do not simply offer the highest overall value but address near-term concerns related to cash flow and which minimize financial risk to investors.

In order to attract relocating businesses and to support and retain existing businesses, state agencies throughout America have begun to reevaluate the type and amount of financial incentives that they offer. A key issue for many states undergoing a reevaluation of incentive use for economic development has been the degree to which the incentives offered by their own economic development agencies are competitive with those offered by states elsewhere in America.

In its efforts to support the Michigan Economic Development Corporation (MEDC) in conducting an analysis of its own competeveness with regard to incentive offerings (as well as several other key factors of interest to relocating businesses), AngelouEconomics, a leading economic development advisor and site selector, prepared the following benchmarking study which provides comparative analysis along several key measures relative to fourteen benchmark states.

Photo Credit: MEDC

LIMITS IN SCOPE OF ANALYSIS

It is not the intent of the present study to evaluate the effectiveness of economic development incentives from either a fiscal, economic, social, or political standpoint.

Such analyses, though important, are beyond the purview of the present study. Instead, this report seeks to benchmark the Michigan Economic Development Corporation and the State of Michigan against a collection of U.S. states in order to address very specific issues related to the use of economic development incentives by the State of Michigan.

Moreover, it is not the intent of this report to address issues related to MEDC's overall economic development strategy or that of the State of Michigan. Rather, this study is intended to serve as a starting place for a discussion on the sufficiency of resources allocated for use as economic development incentives in light of recent policy changes affecting MEDC and how it compares with a selection of benchmark states.

Just as the use of incentives alone would be an insufficient approach to economic development, this study is not meant to serve as a comprehensive economic development strategy for MEDC. Rather, it is meant only to assist MEDC and its stakeholders in judging the competitiveness of MEDC incentive tools relative to those used by other state-level economic development agencies elsewhere in the U.S.

Moreover, a broader, more comprehensive incentives analysis should, at a minimum, consider the following:

- The way in which a state's existing tax structure affects its various industry sectors
- The cost of operation model for each relevant industry
- State assets as they relate to each industry's cluster and growth

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EXECUTIVE SUMMARY


Photo Credit: MEDC

TRENDS IN THE USE OF INCENTIVES

Though they are used by every state to achieve economic objectives, incentives are often controversial. Because incentives are almost always part of a broader set of economic considerations, such as skilled workforce, real estate, transportation infrastructure, and tax climate, it can be difficult to gauge the effectiveness of incentive programs. In recent years, state incentive programs have been influenced by the fact that many states are operating under budget shortfalls. In such a climate, incentives of nearly all kinds have been subjected to increased scrutiny.

The most prevalent incentives used today can be divided into two categories:

1) Up-front cash incentives: typically cash grants for investment, jobs, labor training, sales tax rebates, short term infrastructure grants, etc. These incentives are most desirable and have the greatest impact on companies' short-term bottom lines. These incentives garner heightened interest from many corporate clients, especially in these challenging economic times, when cost containment and initial start-up costs are of primary concern.
2) Longer term (delayed factor) incentives: real and business (personal) property tax abatements, long-term infrastructure funds, long-term labor training funds, investment or job tax credits offered through special economic zones, etc.

The most important incentive, however, and the one that affects investment decisions the most, is long-term economic stability and a favorable business tax climate, regardless of a company's short-term or longer-term orientation to incentives.

The State of Michigan has made important strides toward improving the business tax climate, which will stand as an important competitive advantage in the years ahead. The analysis conducted as part of this study demonstrates that MEDC has been very successful in using incentives to attract new jobs to Michigan. However, in order to remain competitive and produce a larger impact on the state economy, MEDC and the State of Michigan will need to continue its efforts to improve the efficacy of their economic development initiatives.

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Photo Credit: MEDC

TRENDS IN THE USE OF INCENTIVES (continued)

The most attractive economic development incentive deals will often offer a variety of funding sources, such as tax abatements, exemptions, cash up front, etc. Furthermore, economic development incentive offerings often include a variety of different incentives that are tailored directly to the needs of the relocating or expanding business.

SITUATIONAL ANALYSIS AND PROJECT SCOPE

In order to support the Michigan Economic Development Corporation (MEDC) in conducting an analysis of its own competiveness with regard to incentive offerings, as well as several other factors of interest to relocating businesses, AngelouEconomics prepared a detailed benchmarking study, which provides comparative analysis along several key measures relative to fourteen benchmark states.

State agencies throughout America, in their efforts to attract relocating businesses and to support and retain existing businesses, have begun to reevaluate the type and amount of financial incentives offered to businesses. A key issue for many states undergoing a reevaluation of incentive use for economic development purposes has been the degree to which the incentives offered by their own economic development agencies are competitive with those offered by states elsewhere in America.

Though this study is certainly relevant to broader considerations of Michigan's economic development strategy, it was designed to address a limited set of issues of current interest to MEDC. It is not, therefore, the intent of this study to evaluate the effectiveness of economic development incentives from either a fiscal, economic, social, or political standpoint.

Such an analysis, though important, is beyond the purview of the present study. Instead, this report seeks to benchmark the Michigan Economic Development Corporation and the State of Michigan against a collection of states throughout America in order to address very specific concerns currently under consideration by MEDC relating to its competitiveness and to the use of economic development incentives by the State of Michigan.

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Photo Credit: MEDC

METHODOLOGY

AngelouEconomics drew from a broad set of public and private sources in support of its analysis, including state economic development budgets and incentive policies, and received direct input from representatives of benchmark states' economic development agencies. As one component of this analysis, the project team completed a thorough inventory and categorization of the incentive tools used by benchmark states.

The authors sought to determine the impact that incentives, entrepreneurship, business climate, and demographics have on economic development and specifically on job creation. States were categorized into three buckets (highest, medium, and lowest) based on data related to various measures. For each variable and bucket the impact on job creation was evaluated based on historical data.

A more detailed explanation of the methodology used in this study has been provided in the appendix of the full report.

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Photo Credit: MEDC

OVERVIEW OF FINDINGS

The years following the recent recession have been among the most difficult in recent memory for states seeking to support employment growth and economic expansion. For the State of Michigan, many of its challenges emerged well before the recession began. As such, MEDC is operating under conditions of significant difficulty and facing formidable economic headwinds as it seeks to support job creation and business attraction. Nevertheless, the State of Michigan and MEDC hold a responsibility to meet these challenges and to pursue economic development strategies that will increase the state's competitiveness with other markets.

As a high-stakes tug-of-war plays out throughout the United States between the need for economic growth on the one hand and heightened concerns over fiscal discipline on the other, many states have experienced fundamental changes in their approach to economic development and in the resources allocated to support it. For some this has led to larger budgetary commitments and more aggressive economic development activities. For others it has led to tighter budgets and more modest initiatives. For all, it has led to a reassessment of their use of economic development incentives.

Through the course of this study, an examination took place with a focus on the degree to which the State of Michigan and MEDC are competitive with other benchmark states and peer organizations. A particular emphasis was placed on the role of economic development incentives, current trends affecting their use and the manner in which recent policy changes within the State of Michigan may impact the ability for MEDC to compete for new investment, relocating businesses and increased employment.

There are many variables which affect the level of business attraction and retention. One cannot assume that there is a high degree of correlation between incentives alone and job creation because states have different characteristics that influence their appeal as a place to do business, such as:

- Industry clusters, workforce skill sets and economic structures
- Educational attainment & assets, business climate, incentives and priorities

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Photo Credit: MEDC

OVERVIEW OF FINDINGS

There is no simple way to determine the effectiveness of incentives, yet there exists a perception that one cannot be competitive without them. Each day projects are announced throughout the U.S. with incentives given by both local and state authorities, giving rise to the opinion that incentives are a necessary tool for cultivating economic development competitiveness and success.

The authors of this study sought to examine the role that incentives, entrepreneurship, business climate, and demographics play with regard to economic development and specifically with regard to job creation.

The analysis has concluded the following:

- Prior to the most recent tax reform, MEDC's incentives were competitive with those of the benchmark states.
- MEDC's incentives after the tax code reform remain competitive, provided that certain measures (primarily of a strategic nature) are enacted in the near future.
- Overall, higher volumes of incentives are not strongly correlated to higher statewide job growth (many other factors affect job creation).
- Entrepreneurship, business climate, and the retention of young professionals are each positively associated with higher levels of job growth among the benchmarked states.

EXECUTIVE SUMMARY


Photo Credit: MEDC

OVERVIEW OF FINDINGS (continued)

- Incentives are a deal closer. Incentives cannot serve as a substitute for an economic environment that is supportive of growth, nor for the specific assets required for a particular business to be competitive in its industry. Incentives can, however, allow a particular state to position itself more competitively relative to other similar markets in the attraction of relocating businesses.

- Budgetary decisions relating to incentive policies should, to a reasonable degree, be a product of broader MEDC strategy, rather than having economic development strategy be determined by the amount of funds available to be expended by year end.

- A wide range of events that have recently taken place in Michigan will have a significant effect on the competitiveness of Michigan and MEDC with regard to business attraction, the ability to support economic growth, and the ability to attract interest from site selectors. These changes include corporate tax reductions, strategic shifts away from the use of tax credits, a reduced budget dedicated to the use of tax credits within MEDC, and a shift toward the use of closing funds. The net effect of these and other recent changes are generally positive. These changes may be best complemented by:

    - A more selective and strategic approach to the issuance of incentives by MEDC
    - An increased focus on infrastructure as a form of incentive by state and local government
    - A provision for and dedicated approach to unique and very high value projects
    - A stronger emphasis on economic gardening and entrepreneurship

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Photo Credit: MEDC

OVERVIEW OF FINDINGS (continued)

- Michigan's newly reduced corporate tax requirements places it in a more competitive position with respect to business and employment growth and, importantly, portrays Michigan as having a more business-friendly environment—a key asset in business attraction. The recent reduction in corporate taxes may also offset the decrease in the portion of MEDC's budget relating to tax credits. Importantly, the shift away from the use of tax credits in favor of lower corporate tax requirements enables Michigan to be among those states considered by site selectors at an earlier stage of the site-selection process

- In recent years, states throughout America have taken differing stances on the use of near-term cash incentives versus delayed cash incentives. While many states have become more enthusiastic in their use of closing funds and similar incentive tools, other states have focused on less cash-intensive incentives due to tightening fiscal conditions. Irrespective of the policy trends found within a given state, it is very common for a mix of incentives to be utilized in support of one specific project.

- Many changes have recently occurred in Michigan relating to economic development, including shifts in strategy, budget, and taxes. It will be important to monitor the results of these changes as they take full effect over the next two to three years before making judgments as to the success of MEDC and the sufficiency of its current budget.

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Incentives are most potent when used as a deal closer, rather than as a marketing tool. Moreover, even the best incentive packages are rarely capable of overcoming an otherwise unfavorable business environment.

Though tax-incentive programs have become increasingly popular, many states have displayed a preference for deal-closing funds, which remain an attractive incentive for businesses. The Texas Enterprise Fund (TEF) has been a very effective example of this type of incentive program. TEF funds are appropriated for a variety of economic development projects, including infrastructure development, community development, job training programs, and business incentives. In the interest of being competitive, states should avoid using only one form of incentive, allocating too much of their closing funds to one project, and relying too heavily on incentives alone for recruitment, expansion, and retention.

THE COMPETITIVENESS OF MICHIGAN ECONOMIC DEVELOPMENT

As explored in greater depth within the full study, there are numerous factors that contribute to the attractiveness of a particular state to relocating businesses and site selectors. Likewise, a broad set of conditions combine to determine the competitiveness of state economic development agencies and the degree of impact that their efforts may have on the economy. As explained within the full report, these reach well beyond the size of the budgets for these agencies.

As is indicated in the table at right, MEDC was found to be near the middle of its benchmarks with regard to economic development budget per capita. The graph at right, however, illustrates that MEDC has outperformed its benchmarks by a significant margin in turning incentive dollars into jobs (attracting 39% more jobs through the use of incentives than its nearest benchmark). However, despite the gains made by MEDC in its efforts to attract new jobs, these gains can easily be undermined by weaknesses in the broader economy. Several factors in addition to the size of a state agency's budget and the amount of incentives distributed must also be considered, as many factors affect the state's ability to support overall employment growth.

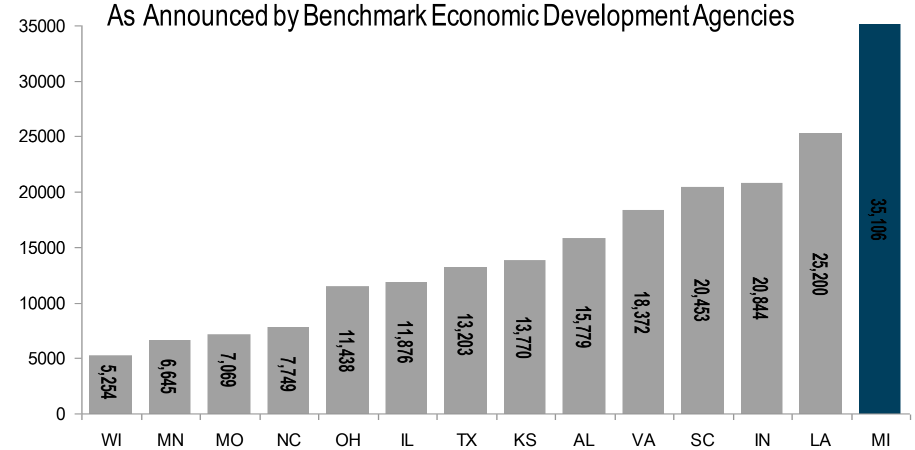
Total State Budgets Per Capita 2011

	State	$
Top 5 Largest Budgets	Virginia	148
	Kansas	58
	Louisiana	54
	Minnesota	39
	Ohio	35
	Wisconsin	28
	Michigan	24
	South Carolina	24
	Missouri	19
	North Carolina	16
Top 5 Smallest Budgets	Illinois	14
	Alabama	14
	Indiana	12
	Georgia	10
	Texas	5

Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Total Jobs Created from Incentives, 2010

As Announced by Benchmark Economic Development Agencies



•Texas numbers are from 2009, Michigan and Louisiana numbers were anticipated for 2010
•Michigan numbers pulled from MEDC Annual Activities Report

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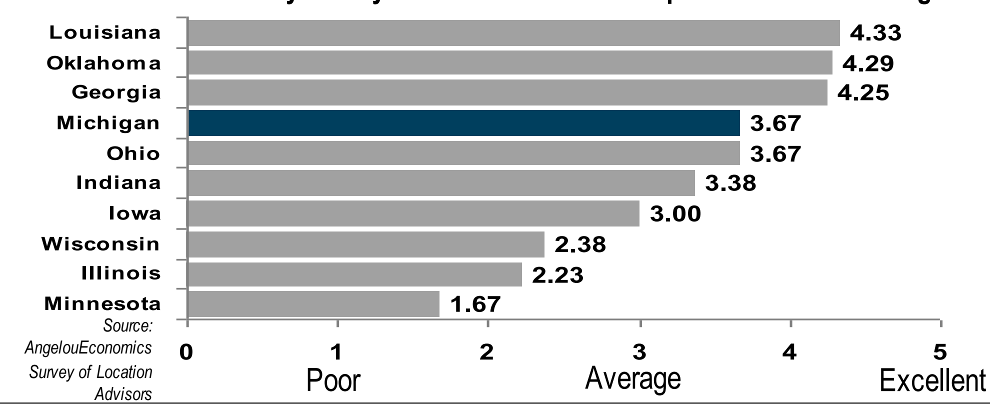
While it was found that a given state's incentive budget has a generally low correlation to overall employment growth in that state's economy, there exists a strong positive correlation between the favorability of the state's businesses climate (with regard to tax requirements) and employment growth.

As is indicated in the table at right, Michigan ranks in the top five (among the benchmarks studied) for favorable business tax climate (and 17th among all 50 U.S. states). This position is expected to improve in the future in light of recent changes to corporate tax policy in Michigan.

The graphs below and to the right illustrate that Michigan is rated somewhat favorably by site selectors for the availability of economic development incentives, but is regarded as being mostly average in its marketing activities, a matter that will need to be addressed if it wishes for site selectors to be fully aware of some of the changes that have recently taken place.

The graphs presented on the following page provide an overview of the relationship between select factors (including economic development budget per capita, tax climate, and retention of young professionals, which is explored further on page 15) and employment growth within the states studied. The graphs on page 14 present the competitiveness of MEDC's budget relative to its peer organizations in other states and its changes in recent years.

Location Advisory Survey: State Economic Development Incentive Ratings



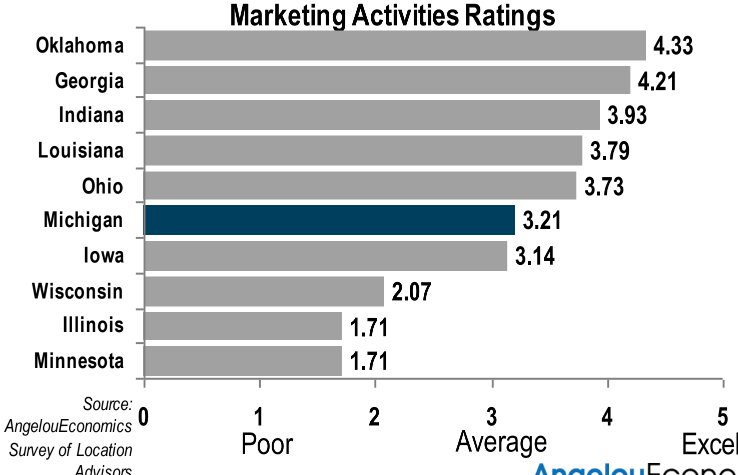
Source: AngelouEconomics Survey of Location Advisors

Business Tax Climate By FY 2011 Rank

	State	Score	Rank
	United States	5.00	n/a
Top 5 Best Business Tax Climates	Indiana	5.79	10
	Virginia	5.67	12
	Texas	5.63	13
	Missouri	5.48	16
	Michigan	**5.40**	**17**
	Illinois	5.05	23
	South Carolina	5.04	24
	Georgia	5.02	25
	Alabama	4.99	28
	Kansas	4.76	35
Top 5 Worst Business Tax Climates	Louisiana	4.71	36
	Wisconsin	4.55	40
	North Carolina	4.47	41
	Minnesota	4.40	43
	Ohio	4.16	46

Source: Tax Foundation, AngelouEconomics

Location Advisory Survey: State Economic Development Marketing Activities Ratings



Source: AngelouEconomics Survey of Location Advisors

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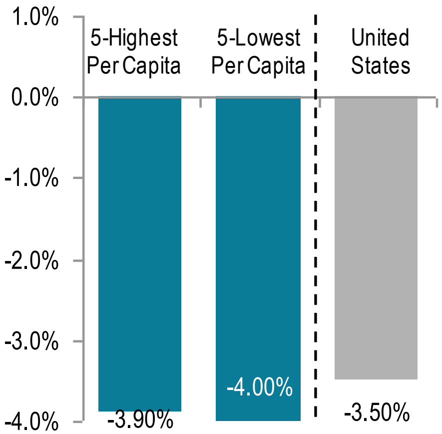
Growth Among Benchmarks Relative to Per Capita Economic Development Budgets

POST-RECESSION EMPLOYMENT CAGR

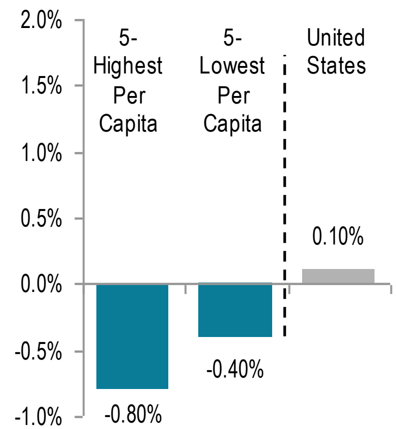
2007-2011 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION ESTABLISHMENT CAGR

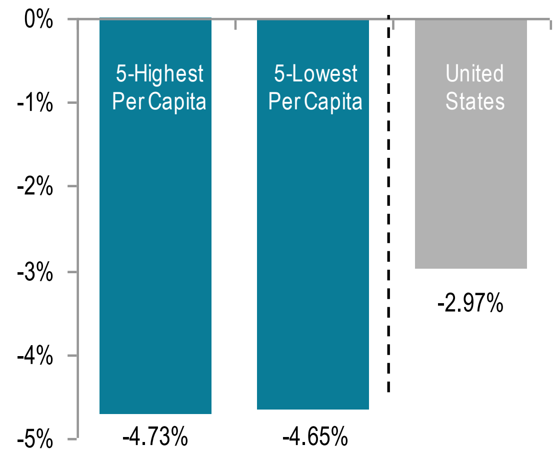
2007-2010 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

Employment Growth Among Benchmarks Relative to Per Capita Incentive Expenditures

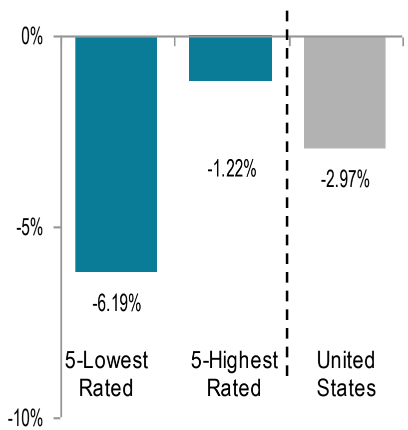
TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

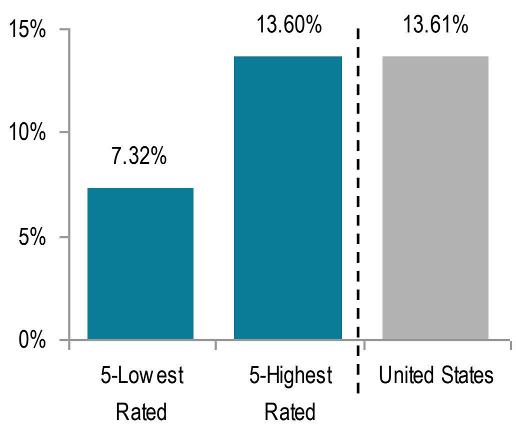
Growth Among Benchmarks With Highest- and Lowest-Rated Business Tax Climates

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

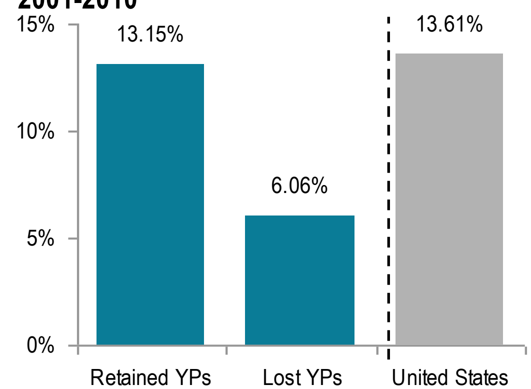
TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

Retention of Young Professionals and Employment Growth

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

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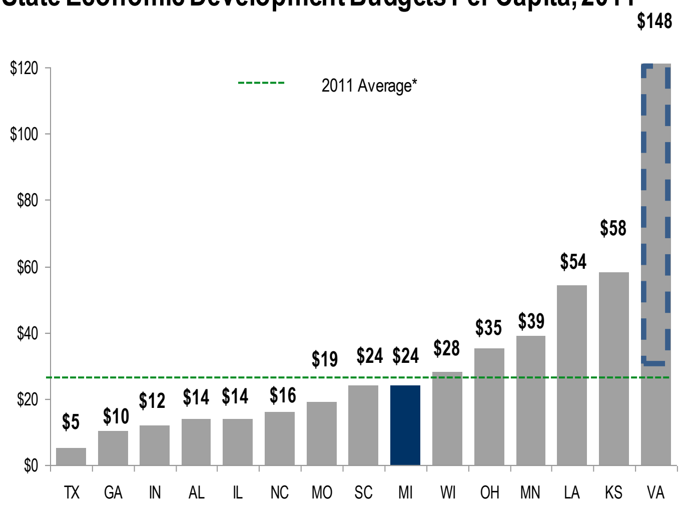
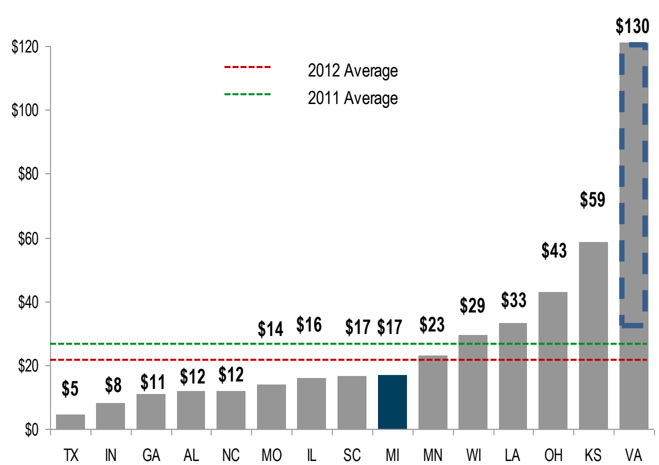
State Economic Development Budgets Per Capita, 2011



Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

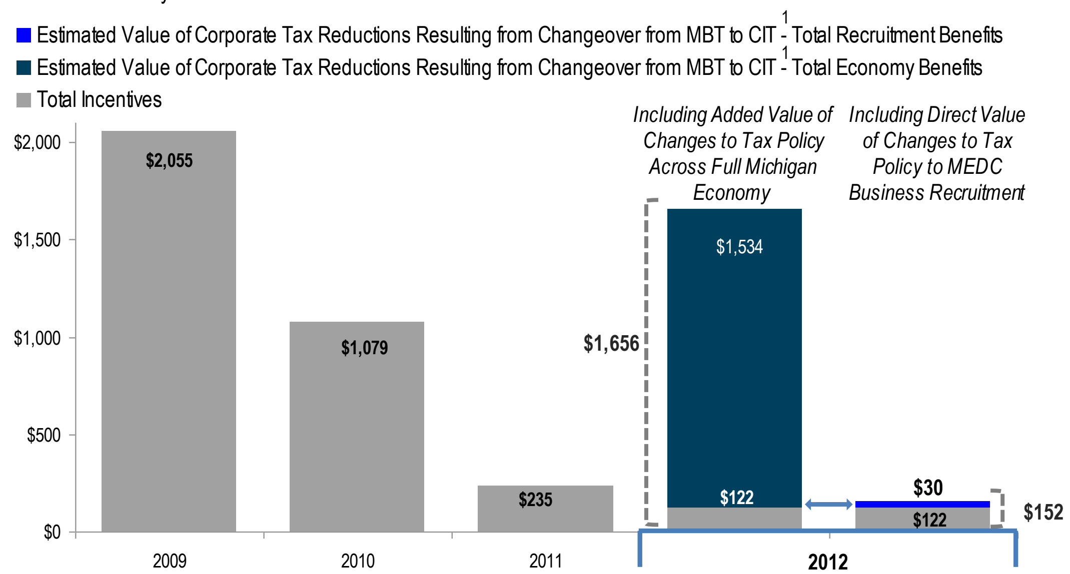
State Economic Development Budgets Per Capita, 2012



Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Total Incentives ($M), Michigan

As Announced by MEDC

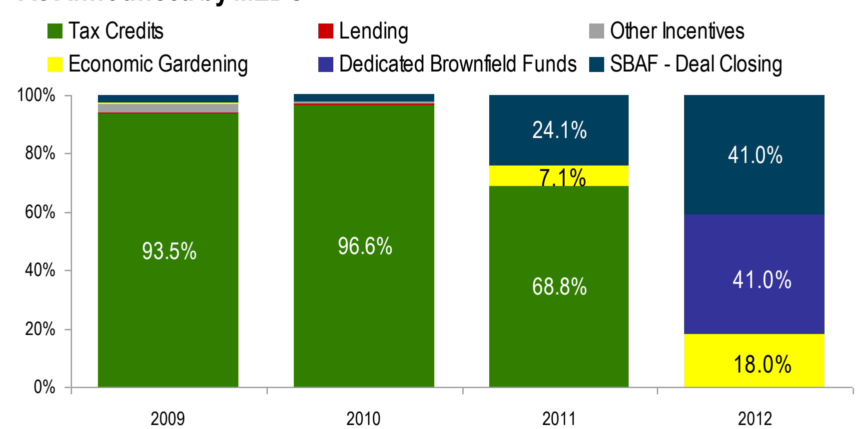


¹ Estimated by the Michigan Department of Treasury, based on 2009 figures

Source: MEDC, Michigan Department of Treasury

MEDC INCENTIVE DISTRIBUTION , 2009-2012

As Announced by MEDC



Tax Credits: MEGA, Brownfield, MBT

Lending: SBCAP

Other Incentives: SmartZones, 21st Century Fund, ED Job Training

Economic Gardening: MSDF, MBGF

Source: MEDC Annual Reports & MEDC Staff

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Top States By Incentive Programs, 2010	
Deal Closing Fund	Texas (Enterprise Fund) North Carolina (One North Carolina Fund)
Entrepreneurship	Vermont (Vermont Employment Growth Incentive) Utah (Utah Fund of Funds)
New/Emerging Market Tax Credits	Tennessee (Sales and Use Tax for Qualified Facilities) Minnesota (Minnesota Investment Fund)
Industrial Revenue Bonds	Missouri (Business Use Incentives for Large Scale Dev) New Mexico (Industrial Revenue Bonds)
Enterprise Zones	Rhode Island (Enterprise Zone Tax Credits) Wisconsin (Economic Development Tax Credit Program)
Workforce Development/Job Incentives	Wisconsin (Customized Labor Training Fund) Nebraska (Customized Job Training)
Investment/Rebate	Louisiana (Quality Jobs Program) West Virginia (Economic Opportunity Credit)
Research & Development	Texas (Emerging Technology Fund) Massachusetts (New Investigator Grant)
State-Matching Funds for Entrepreneurs	Maryland (Maryland Venture Fund) Virginia (Commonwealth Commercialization Fund)

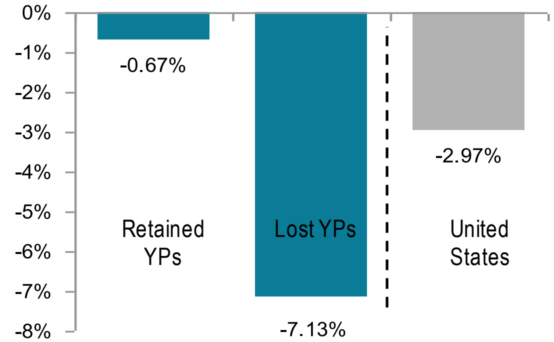
Source: www.goodjobsfirst.org/moneyforsomething

Loss of Young Professionals	
State	*Decline in Propotion of Population Age 25-44*
Louisiana	-8.67%
Texas	-8.83%
Kansas	-9.43%
Alabama	-9.47%
Illinois	-10.10%
Indiana	-10.12%
Missouri	-10.23%
United States	***-10.32%***
South Carolina	-10.38%
Ohio	-11.19%
Georgia	-11.50%
Wisconsin	-11.82%
North Carolina	-11.86%
Virginia	-12.14%
Minnesota	-12.47%
Michigan	-13.22%

Source: Decision Data Resources, U.S. Census, AngelouEconomics

Employment Growth Among Benchmarks Relative to Loss of Population Age 25-44

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

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Photo Credit: MEDC

SELECT FINDINGS OF COMPARATIVE ANALYSIS

- The benchmarking analysis conducted in this study found that the majority of the benchmark states use a combination of incentive programs for business attraction, expansion, and retention, and that it is unusual for a particular project to rely on one particular type of incentive alone.
- It was also found that having the largest economic development budget may not ensure the best return on investment.
- Benchmarked states that issued the highest levels of financial incentives per capita experienced very little difference in employment growth, business establishment growth, and wage growth than those that issued the least amount of incentives per capita.
- In most of the key measures of economic vitality analyzed, Michigan was at or near the bottom of the benchmarks studied.
- Among the benchmarks, Michigan was one of only two states to experience negative growth (-7%) in the number of business establishments over the course of the past decade.
- Michigan led all benchmarks by creating 36,106 jobs through the use of state-level economic development incentives.
- States that retained more young professionals outperformed those in which that population declined at greater rates than the national average. The State of Michigan experienced the largest decline in the young professionals age group out of all the benchmarks studied.
- In order for the State of Michigan to achieve an unemployment rate that is equal to the current national unemployment rate of 8.6%, it will need to add 94,244 jobs (at current labor force levels).
- Current trends among benchmarks demonstrate an increased preference for the use of closing funds and clawback provisions.

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Photo Credit: MEDC

STRATEGIC GOALS

The project team has compiled a set of recommendations designed to support MEDC's goals. The team has considered the analysis presented in this report as well as the numerous factors shaping the Michigan economy in the near future, including a significantly altered tax policy, continued loss of young professionals, and a highly competitive environment for economic development. The following recommendations aim to support MEDC's efforts to improve its level of competitiveness with peer organizations in other states and to strengthen the Michigan economy.

1: Be increasingly strategic in the use of the limited incentives in order to maximize their impact on the state economy and to produce greater results with fewer resources.

2: Prioritize application of incentives to the attraction, expansion, and start-up of businesses within Michigan's target industries, particularly catalytic projects.

3. Develop clearly defined policies that identify other criteria to be considered in prioritizing projects with the greatest ability to grow within the State's strengths, including: salary and wage levels, investment levels in building and equipment, rural projects, and projects benefitting depressed areas and other areas targeted for revitalization.

4: Streamline incentive-approval processes. Coordinate disparate incentive programs in order to streamline review processes and reduce administrative costs.

5: Work with state officials and the State Legislature to structure and implement a process by which unique and very high-value projects may receive customized incentive packages delivered directly by the Michigan Legislature in a competitive timeframe.

6: Increase focus on the use of federal economic development programs and resources, as well as the use of industrial revenue bonds in support of economic development efforts.

Continued…

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7. Support worthy economic gardening and entrepreneurship projects.

8: Develop a strategy to retain and attract young professionals.

9: Pursue aggressive marketing strategies that highlight success stories and eliminate misperceptions. Focus on recent efforts to make Michigan a more business-friendly environment and emphasize Michigan's current "ready-to-work" attitude.

10: Ensure that expanding Michigan employers are treated equally with employers relocating from other states or nations.

11: A retooled workforce is crucial to Michigan's success, therefore job training specific to certain projects needs to be considered as part of incentive offerings packages particularly if on-the-job training is of direct benefit to the expanding or relocating companies.

12: Track key metrics associated with the use of economic development incentives to closely monitor progress and effectiveness. Return on Investment (ROI) should include strong consideration of public benefit and the progress made toward specific economic development objectives. ROI should be calculated for all projects under consideration for incentives. Annually calculate the economic and tax ROI for all assisted projects.

13: Incorporate "performance-based" clawbacks into incentive agreements in order to help ensure that commitments are met. Demand accountability from assisted employers, including the attainment of certain employment and investment thresholds.

Continued…

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Photo Credit: MEDC

14: Support greater transparency in the use of incentives, including their cost, impact, and contribution to specific strategic economic development objectives.

15: Together with state and local partners, focus on opportunities to utilize strategic investment in infrastructure as a form of incentive for appropriate projects, particularly on brownfield sites.

16: Increase focus on economic gardening. Support and encourage entrepreneurship across a broad set of industries.

17: Develop new and creative models for public-private partnership (similar to the Pure Michigan Business Connect initiative) as a means of achieving economic development goals. Engage private-sector stakeholders that are capable of supporting and enhancing economic development in Michigan.

18: Monitor the results of recent changes, as related to competitiveness with other states in business attraction, in order to determine the effectiveness of current strategy and make appropriate adjustments in two years' time.


Photo Credit: MEDC

SWOT Analysis

STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS

This section of the report highlights the strengths, weaknesses, opportunities, and threats for the state of Michigan, as collected through client discussions and the use of quantitative databases. This analysis of issues is not intended to be all-inclusive. Rather, the focus is on those areas that will have the most direct impact on specific components of future economic development efforts in the state of Michigan.

We define the four aspects of "SWOT" in these terms:

•**Strengths**: Issues or characteristics that can be built upon to advance current and future economic growth opportunities in the state of Michigan.

•**Weaknesses**: Issues or characteristics that, if not addressed effectively, could limit current or future growth opportunities.

•**Opportunities**: Assets, events, or trends that offer the state of Michigan the potential for economic growth and attraction of new industry.

•**Threats**: Obstacles, events, or trends that, if not addressed effectively, could threaten the state's economic potential and its ability to attract, expand, and startup new employers.

SWOT Analysis

<table>
<tr><th></th><th>Strengths</th><th>Weaknesses</th><th>Opportunities</th><th>Threats</th></tr>
<tr><td>State of Michigan Economic Development Incentives</td>
<td>• Major national research universities that attract millions of dollars in R&D spending
• Availability of skilled blue-collar labor
• Existing industry base
• Availability of buildings
• Dependable energy-delivery system
• Access to lake coastline
• Highway accessibility
• Existing supply chains
• Strategic Business Attraction Fund
• Fairly well educated labor force
• Still stands as a significant population center for the U.S.
• Competitive corporate tax rate environment</td>
<td>• Lack of jobs to attract and retain young adults
• Aging workforce, particularly in skilled positions and key industries
• Aging infrastructure
• Lack of training and jobs for Renewable Energy sector
• Lack of early-stage seed capital
• Incentive program gaps
• Limited resources dedicated to economic development
• Negative economic image due to decline and closures
• High unemployment rate
• Slow employment growth
• Annual wage growth slower than benchmark states</td>
<td>• Align education and training with employer needs
• Establish workforce recruitment opportunities through local universities
• Provide more access to small business resources
• Establish an angel/seed capital fund for industry-specific startups
• Pursue opportunities in the advanced manufacturing industry, including wind energy component
• Utilize federal funding to expand current re-shoring efforts
• Create partnerships between community colleges and local high schools to increase pipeline of skilled workers</td>
<td>• Potential overdependence on manufacturing
• Aging population
• Continued loss of young population
• Real and/or perceived barriers to development
• Threat of budgetary constraints and/or excessive spending
• Limited revenues to fund infrastructure improvements
• Limited access to capital could deter startup companies and existing company expansions
• Labor costs
• Deal-closing fund perceived as governor’s slush fund
• Lower-than-average ACT scores
• Foreign competition</td></tr>
</table>

State Economic Development Benchmarking

Photo Credit: MEDC

OVERVIEW

Benchmarking the economic performance of the State of Michigan provides a snapshot of the state's economic development incentive programs and operations as compared to other states, more specifically, states viewed as competitors in business attraction and expansion. By analyzing the results of the benchmarking process, the State of Michigan can see where it stands in relation to the competitor states and thus formulate a more comprehensive, competitive game plan for attracting new businesses while also supporting the expansion and retention of existing businesses. Subsequently, the State of Michigan and MEDC can assess the needs of their state, prioritize what projects make sense for Michigan, and determine how much funding should be allocated to each respective project. In the end, benchmarking will enable Michigan to position itself more competitively on both a national and global scale.

The benchmarking analysis conducted in this study found that the majority of the benchmark states use a combination of incentive programs for business attraction, expansion, and retention, and that it is unusual for a particular project to rely on one particular type of incentive alone. It was also found that having a largest economic development budget may not ensure incentive alone. It was also found that having the largest economic development budget may not ensure the best return on investment, and that the recent trend of front-loading deals with cash may be hampered in some states in the near future due to budgetary restraints, leaving businesses and site selectors fewer locations from which to choose when seeking assistance of that type.

Photo Credit: MEDC

Benchmark States

Alabama	Georgia	Illinois
Indiana	Kansas	Louisiana
Minnesota	Missouri	North Carolina
Ohio	South Carolina	Texas
Virginia	Wisconsin	

BENCHMARKS

State-level economic development programs are available in all 50 U.S. states. However, the type of incentive programs offered vary in use, methodology, funding structure, etc. To that end, the MEDC provided a comprehensive list of 14 states to be used as benchmarks to compare against the state of Michigan. This study also benchmarks the state of Michigan against the United States as a whole to differentiate between what may be attributable to state-level trends versus those that are the result of a broader national trend.

Economies At A Glance

Michigan and benchmarks	Michigan	Alabama	Georgia	Illinois	Indiana	Kansas	Louisiana	Minnesota	Missouri	North Carolina	Ohio	South Carolina	Texas	Virginia	Wisconsin	U.S.
Population 2010	9,883,640	4,779,736	9,687,653	12,830,632	6,483,602	2,853,602	4,533,372	5,303,925	5,988,927	9,535,483	11,536,504	4,625,364	25,145,561	8,001,024	5,686,986	308,745,538
Population Growth 1990-2010	6.82%	17.41	54.01	13.52%	16.55%	14.64%	7.82%	21.23%	17.77%	43.91%	6.51%	32.78%	48.67%	19.34%	16.14%	24.1%
Unemployment Rate 2010	11.1%	9.1%	10.4%	9.2%	9.5%	6.8%	7.7%	6.9%	9.6%	9.8%	9.5%	10.9%	8.3%	6.6%	7.5%	9.5%(P)
Labor Force Growth	10.53%	19.67%	51.44%	16.5%	19.66%	21.85%	10.22%	28.86%	22.98%	39.%	13.16%	30.5%	49.66%	27.75%	24.33%	22.3%
Median Household Income 2010	$50,101	$42,278	50,695	$56,298	$49,272	$49,913	$42,430	$58,000	$46,498	$46,819	$48,131	$44,861	$49,651	$60,034	$52,396	$53,684
% Bachelor' s Degree	25.4%	22.1%	27.6%	30.3%	22.9%	29.7%	20.4%	32.0%	25.2%	26.3%	24.3%	23.9%	25.5%	34.1%	26.1%	28.0%
% in 25-44 Age Group	25.2%	26.1%	28.2%	27.1%	26.1%	25.7%	26.4%	26.1%	25.8%	26.9%	27.4%	26.1%	28.1%	27.5%	25.6%	27.1%

** Not Seasonally Adjusted*
(P) Preliminary

Source: U.S. Census Bureau, Bureau of Labor Statistics, Decision Data Resources


Photo Credit: MEDC

STATE ECONOMIC DEVELOPMENT ORGANIZATIONS

This study has sought to benchmark MEDC against peer state-level economic development organizations located in 14 states throughout the U.S. These organizations include both public agencies as well as public-private partnerships. In support of this research, the project team obtained data directly from the organizations against which MEDC has chosen to benchmark itself. These organizations have been listed in the chart at right.

Organization	Type
Michigan Economic Development Corporation	P/P
Alabama Development Office	P/P
Georgia Department of Economic Development	Public
Illinois Department of Commerce and Economic Opportunity	Public
Indiana Economic Development Corporation	P/P
Kansas Economic Development Alliance	P/P
Louisiana Economic Development	Public
Minnesota Department of Employment & Economic Development	Public
Missouri Department of Economic Development	Public
North Carolina Department of Commerce	Public
Ohio Department of Development	Public
South Carolina Department of Commerce	Public
Texas Economic Development & Tourism Division of Governor's Office	Public
Virginia Economic Development Partnership	P/P
Wisconsin Economic Development Corporation	P/P

Note: P/P represents public/private partnership

Photo Credit: MEDC

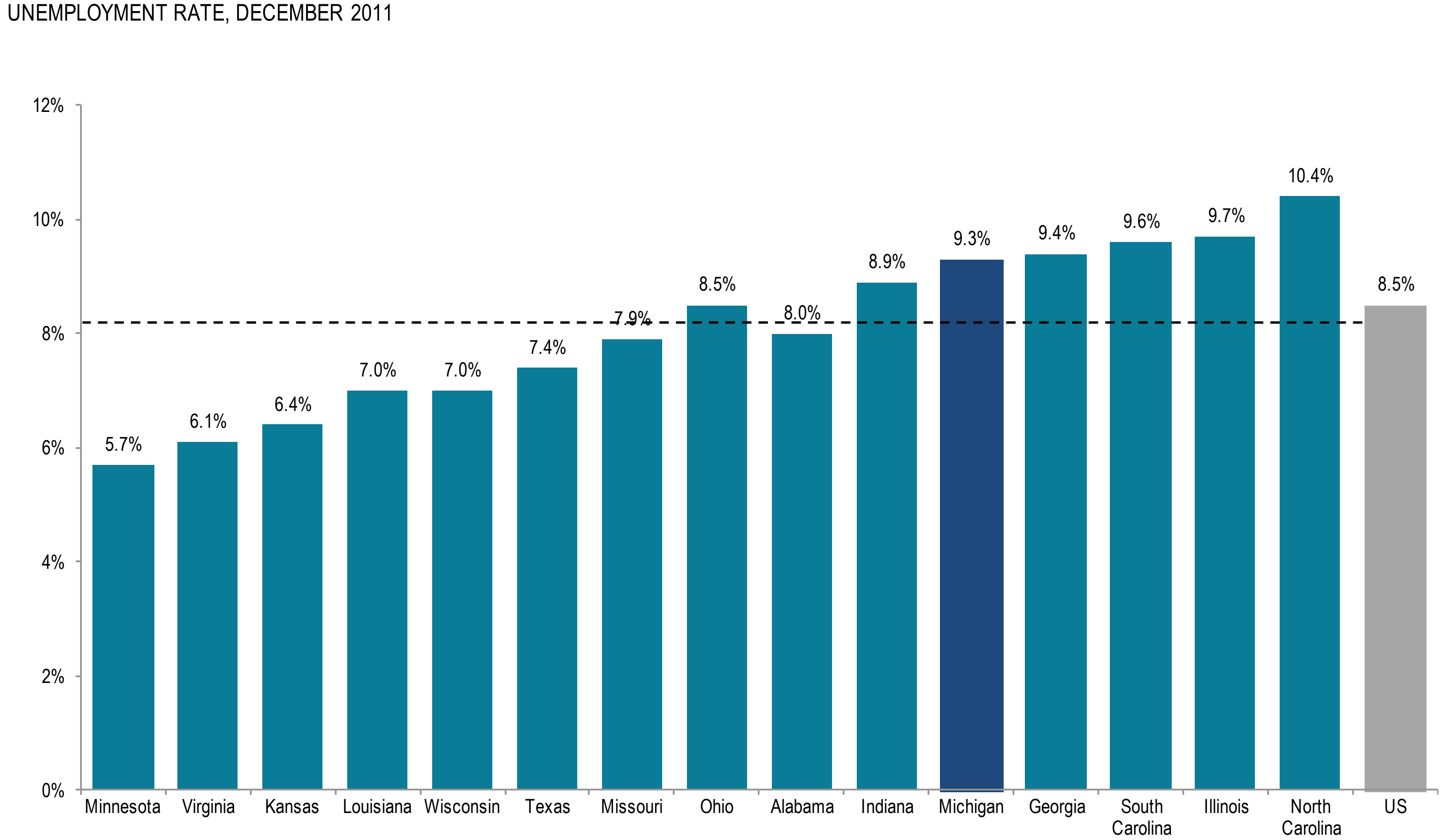
BENCHMARKED ECONOMIC PERFORMANCE

In order to provide the context within which state-level economic development occurs, the project team completed an analysis of several key economic measures for each benchmark state. These included, among others, unemployment, GDP, employment growth, business establishment growth, labor costs, and the retention of young professionals.

In recognition of the extraordinary economic circumstances brought about by the Great Recession, much of the economic analysis presented throughout this report isolates trends occurring prior to the beginning of the recession from those that occurred following it. This allows growth in the years prior to the recession to be compared with growth in the years that followed.

The State of Michigan has faced challenges to its economy throughout the course of the past decade. Many of those challenges persist today. In most of the key measures of economic vitality analyzed, Michigan was at or toward the bottom of the benchmarks studied. These adverse economic conditions are likely to overshadow many of the gains that may be being made as a direct result of economic development activity. Structural issues (past and present) and pernicious long-term trends have created headwinds to economic growth in the State of Michigan with which many of the benchmark states do not have to contend. Much like healthy seeds planted in infertile soil, until stability and growth take root in the broader economy, it may be difficult for economic development initiatives in Michigan to produce the full impact that they may otherwise generate. Moreover, continued economic decline in the broader economy is likely to make it difficult for Michigan residents, policymakers, businesses, and other stakeholders to accept the value that may be created as a result of individual economic development programs, particularly incentives.

CURRENT UNEMPLOYMENT RATE (DEC 2011)



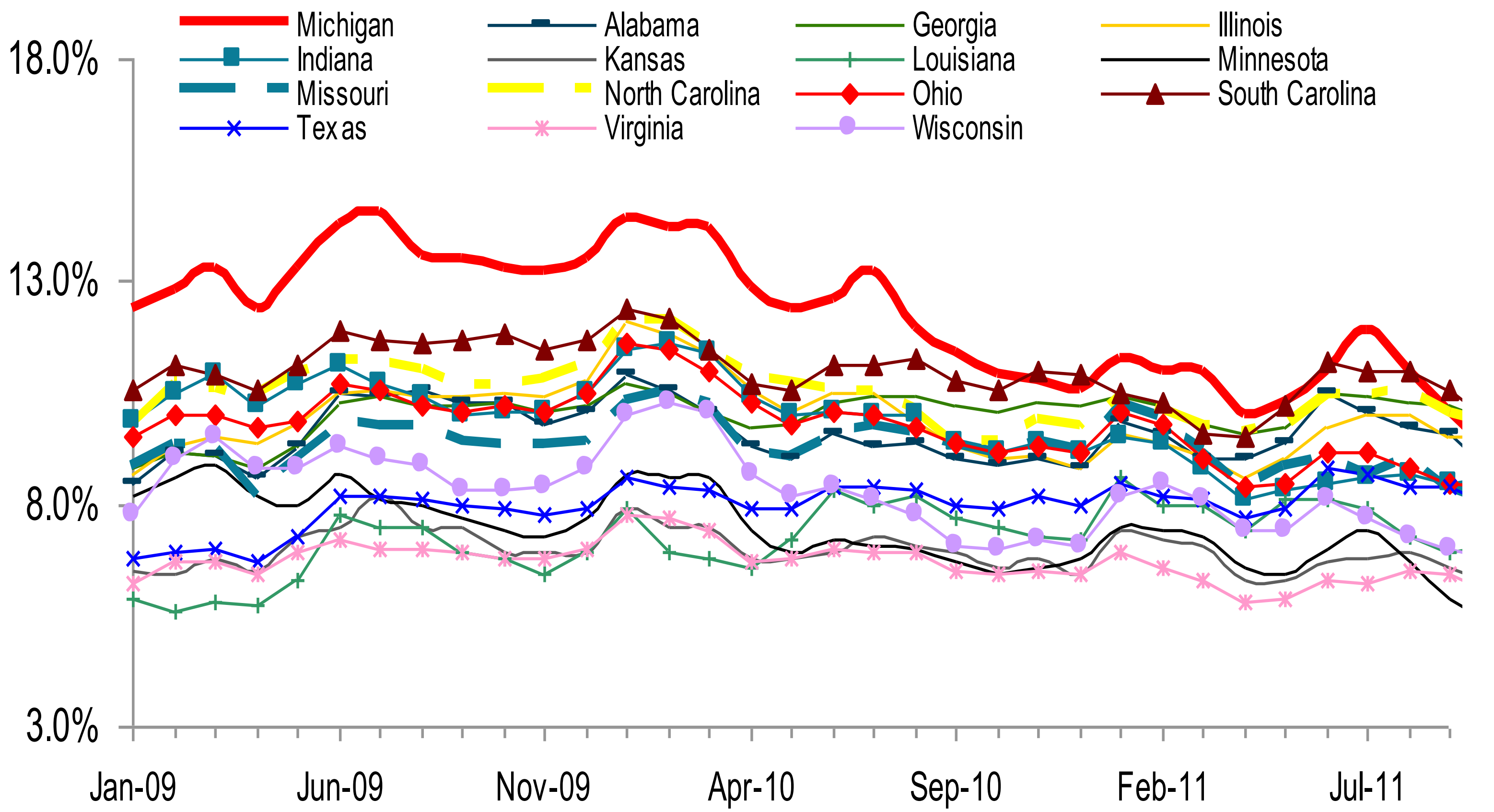
Source: Bureau of Labor Statistics
Seasonally Adjusted

The State of Michigan currently has among the highest unemployment rates, yet is now below several benchmark states.

- At 9.3%, Michigan's unemployment rate is well above the national rate. However, Georgia, South Carolina, Illinois, and North Carolina each currently have higher unemployment rates.
- Of the benchmarks studied, the two states with the lowest unemployment rates, Minnesota (5.7%) and Virginia (6.1%), were each among the three states with the lowest value of state economic development incentives issued on a per-capita basis and the three states with the highest level of state incentives issued per capita (respectively).
- States at both ends of the unemployment scale include those in the Midwest as well as those in the South; states with the bes t and worst corporate tax climates; states that are losing young professionals at a higher rate than the national average and those that are not; and states that are right-to-work states and those that are not.

RECENT UNEMPLOYMENT RATE (JAN 2009-AUG 2011)

MONTHLY UNEMPLOYMENT RATE, JAN 2009-OCTOBER 2011

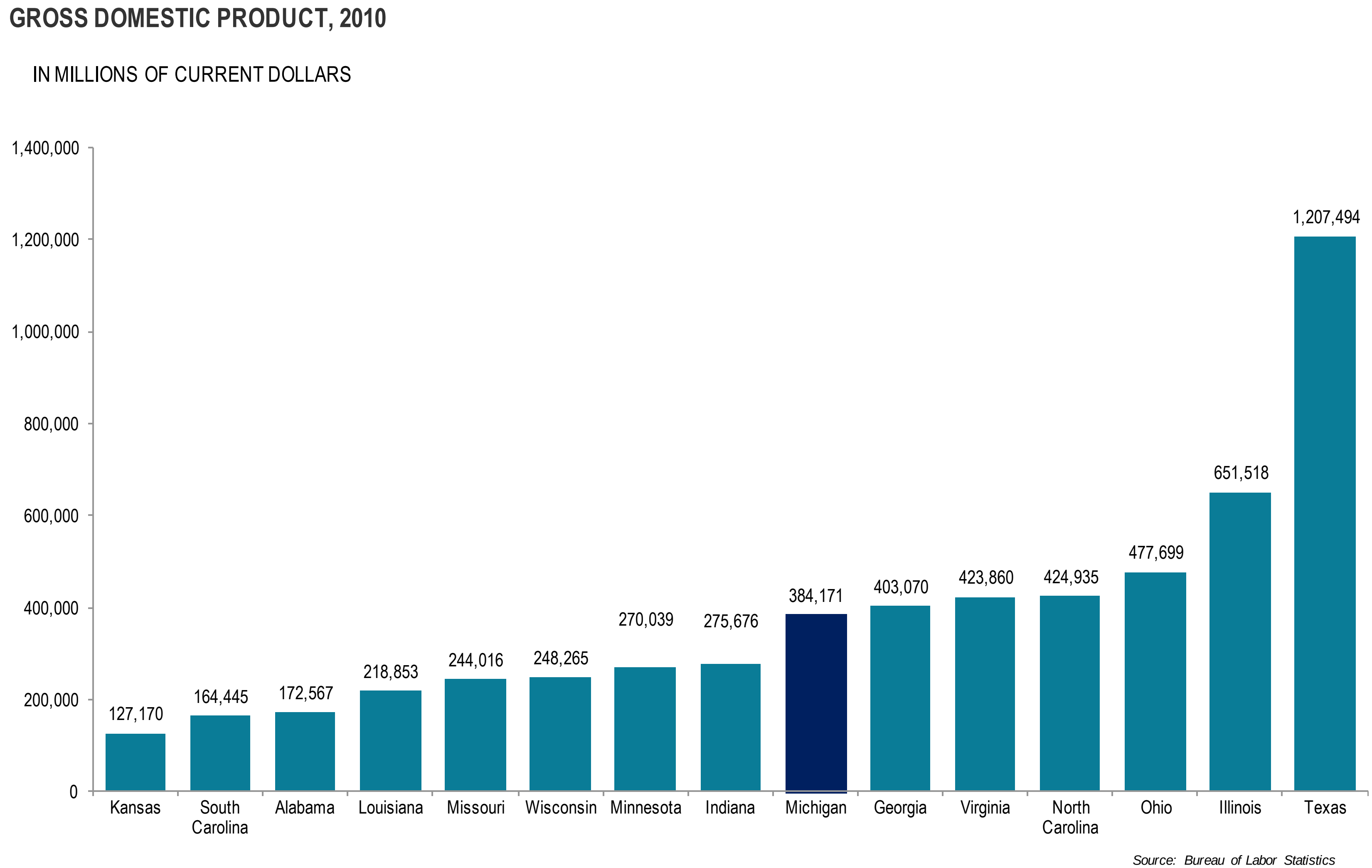


Source: BLS Local Area Unemployment Statistics

While the unemployment rate for the State of Michigan has been consistently higher than that of the benchmarks over the past two years, its downward trend has now led it below that of several other states.

- After peaking at 14.6% in July 2009, the unemployment rate in the State of Michigan has experienced a downward trend that has exceeded that of its benchmarks. Michigan's unemployment rate has now dropped below several states.
- Movement for the unemployment rate for the State of Michigan has performed most similarly to that of Minnesota (though Minnesota has had among the lowest unemployment rates of the benchmarks studied).
- If recent trends persist, the unemployment rate in Michigan may reach the national average before that of several benchmarks. However, the unemployment rate can often be misleading, as a decline may be the result of discouraged workers no longer seeking employment or individuals leaving the workforce rather than actual gains in employment. In light of Michigan's persistent declines in total employment growth, this may be an issue that merits consideration when judging the success of economic development efforts relative to the state's unemployment rate.

Gross Domestic Product

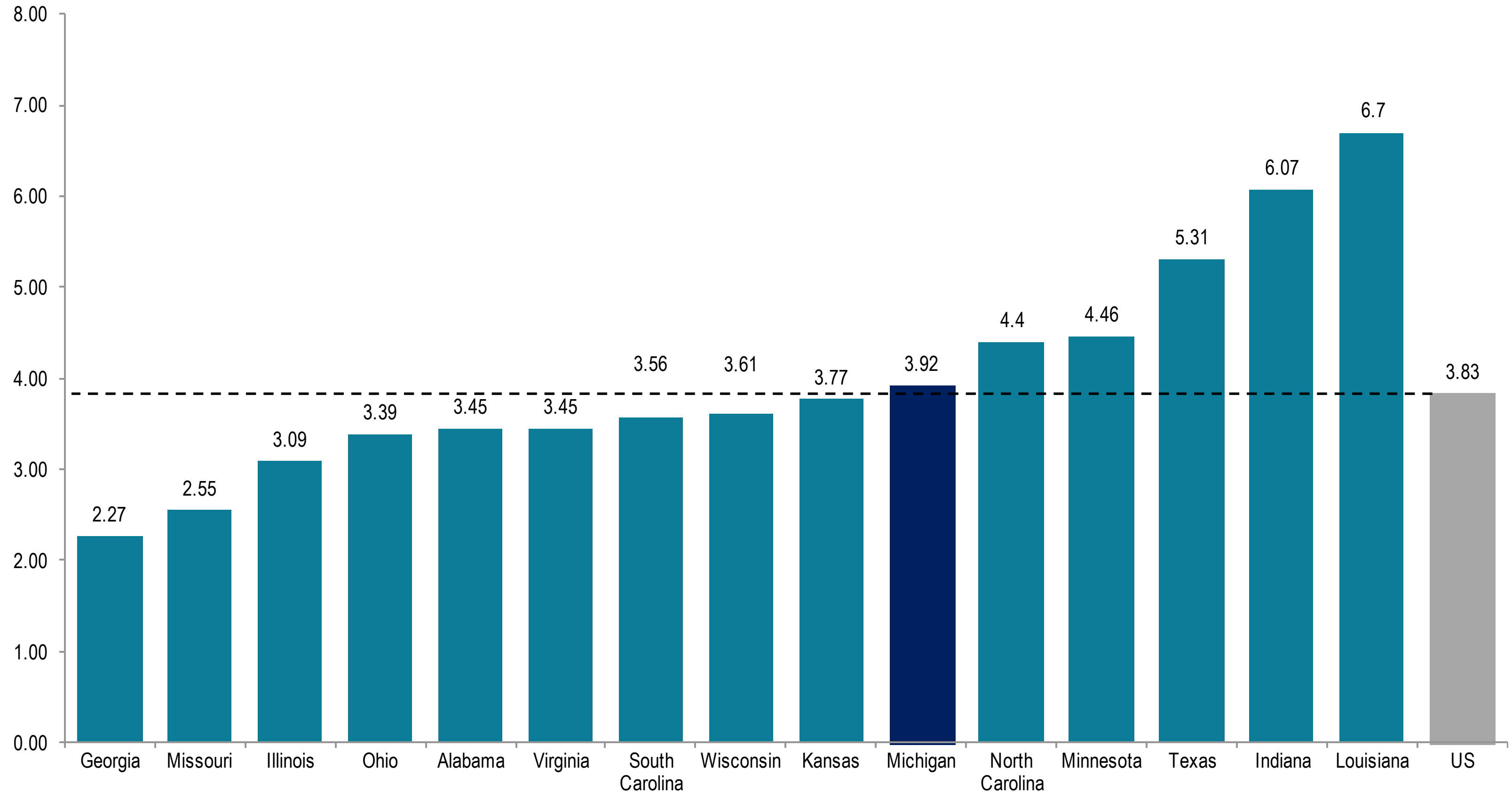


With a value of over $384 billion, Michigan's economy contributed over 2.64% of U.S. GDP in 2010.

- At $384 billion, GDP for the State of Michigan is among the upper half of the benchmark states and is approximately 14% larger than the GDP of South Carolina and Alabama combined.
- States with larger 2010 GDPs included Georgia ($403 billion), Virginia ($423 billion), North Carolina ($424 billion), Ohio ($477 billion) Illinois ($651 billion), and Texas ($1,207 billion).

Gross Domestic Product

% GDP GROWTH, 2009-2010



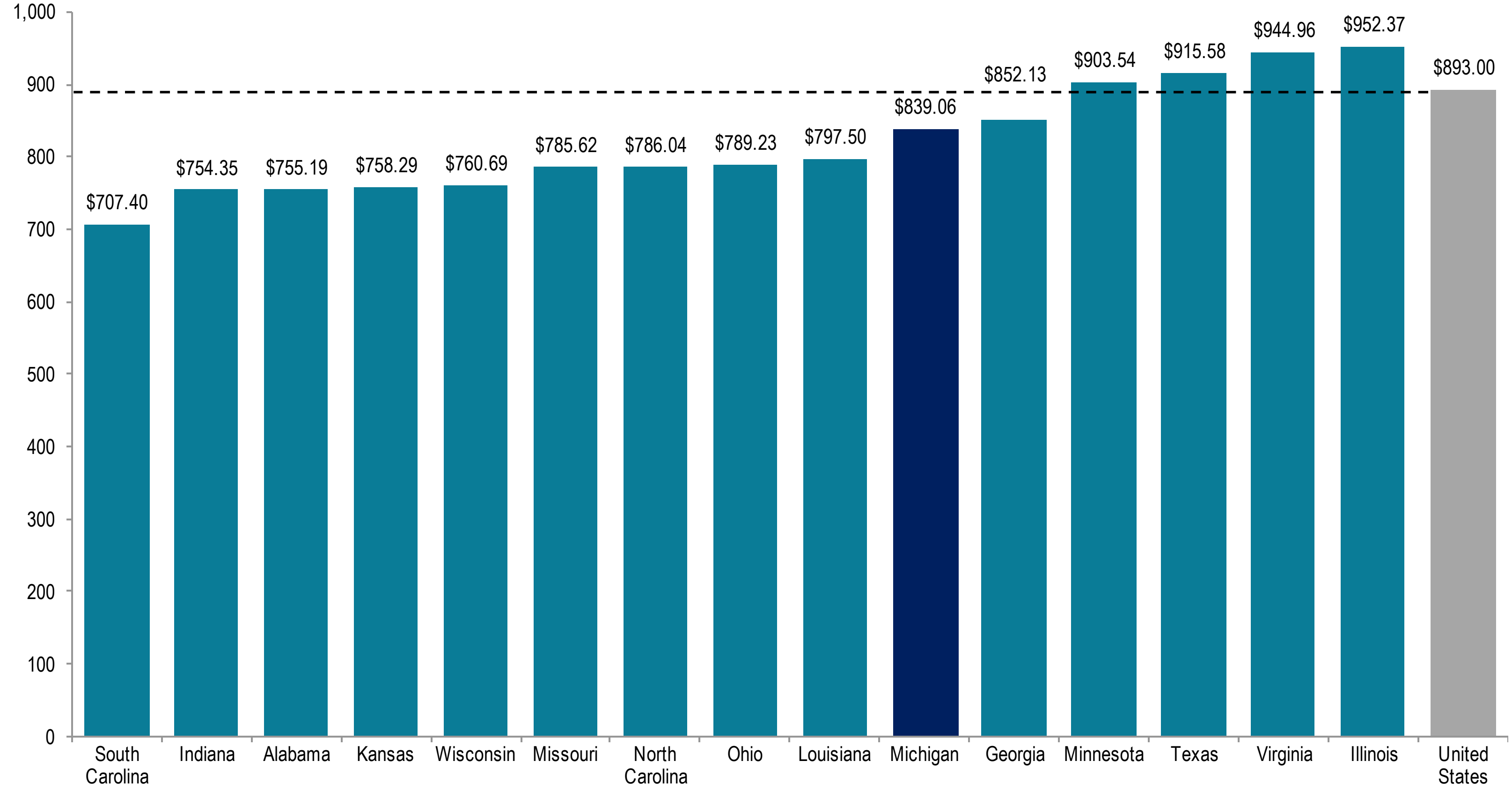
Source: Bureau of Labor Statistics

2010 Annual GDP growth in Michigan was slightly higher than that of the United States.

- Michigan is among the six benchmark states that exhibited faster annual GDP growth in 2010 than the U.S. as a whole.
- The benchmarks with the strongest rate of growth in GDP for 2010 included Louisiana, Indiana, and Texas, while Georgia, Missouri, and Illinois topped the list of states that fell furthest behind the U.S. economic growth rate.
- From the standpoint of GDP growth, Michigan has been roughly in-line with the post-recession recovery experienced by the nation as a whole. However, employment growth has failed to keep pace during that time.

Average Wages

AVERAGE WEEKLY WAGES, 2010



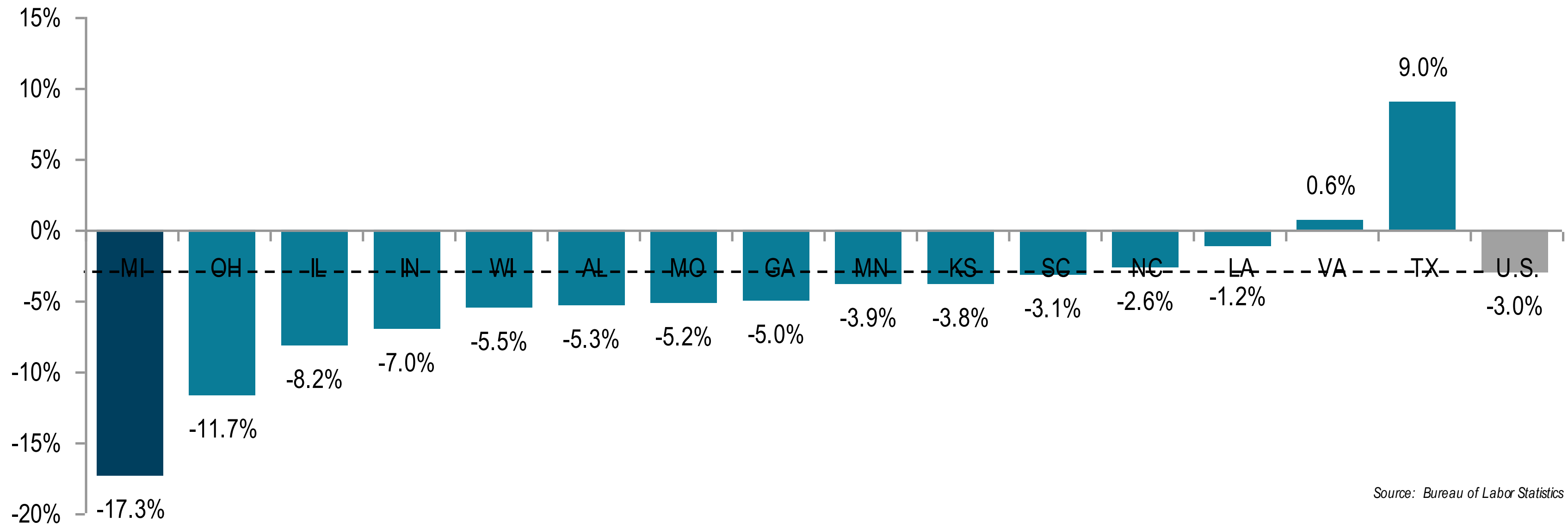
Source: Bureau of Labor Statistics

Average weekly wages are near, though below, the national average.

- At $839.06, average weekly wages are more affordable for businesses in the State of Michigan than in Illinois, Virginia, Texas, Minnesota, and Georgia, and are slightly below average compared with the U.S. as a whole.
- Affordable wages are often a key consideration for businesses seeking to relocate, and the State of Michigan is not at a disadvantage in this regard. In fact, wages in the State of Michigan are more affordable than in several key benchmarks.
- Although affordable wages are important to relocating businesses, wages that are too low often signal weakness in an economy and/or low productivity among a state's labor force. This will often deter certain businesses from choosing to locate in such areas and, just as important, can lead mobile professionals to seek opportunities in other states. Michigan offers a competitive balance between these two extremes.

Employment Growth

TOTAL % EMPLOYMENT GROWTH, 2001-2011



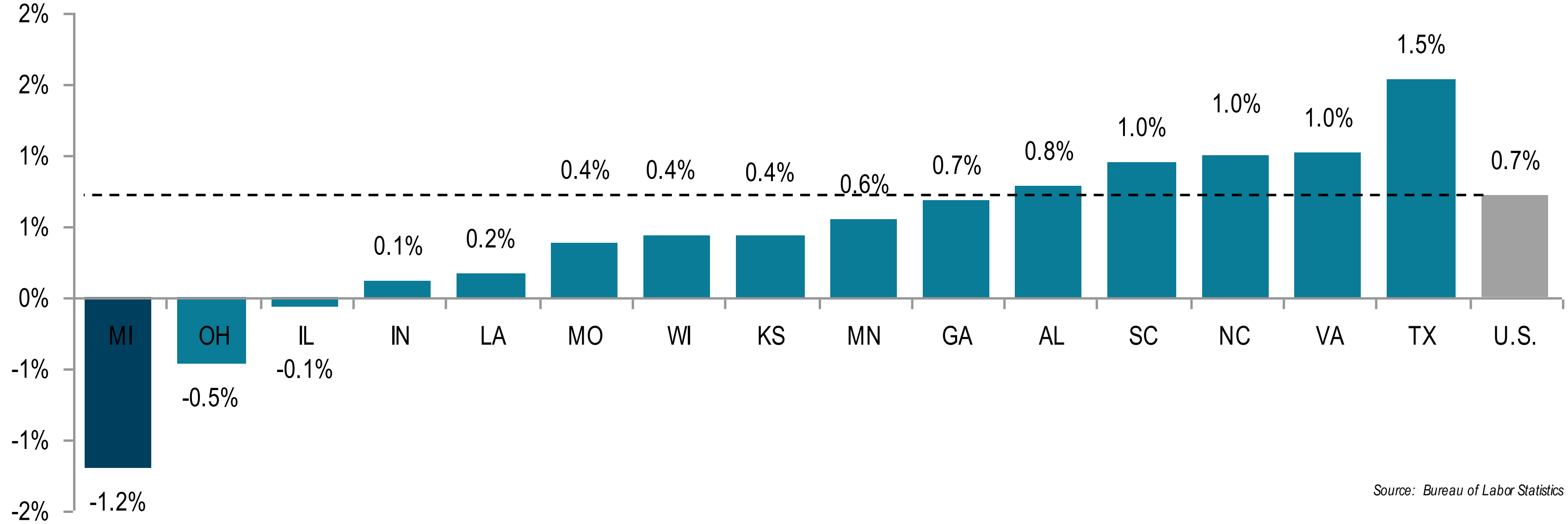
Source: Bureau of Labor Statistics

Despite GDP Growth of 14% between 2001-2010 (in current dollars), the State of Michigan shed jobs at an alarming rate.

- In Michigan, total employment fell at a faster rate (-17.3% on a straight-line growth basis) between 2001 and 2011 than in the U.S. as a whole (-3.0%) and more than any of the benchmark states.
- Only Texas and Virginia saw positive overall employment growth over the past decade.
- The graphs on the following page present the Compound Annual Growth Rates (CAGR) for each of the benchmark states during the period leading up to as well as after the beginning of the Great Recession. Again, Michigan's growth lags that of the other states studied. Michigan exhibited a CAGR of -1.2% in the years preceding the recession, indicating that economic weakness was present prior to the slowdown in the national economy.

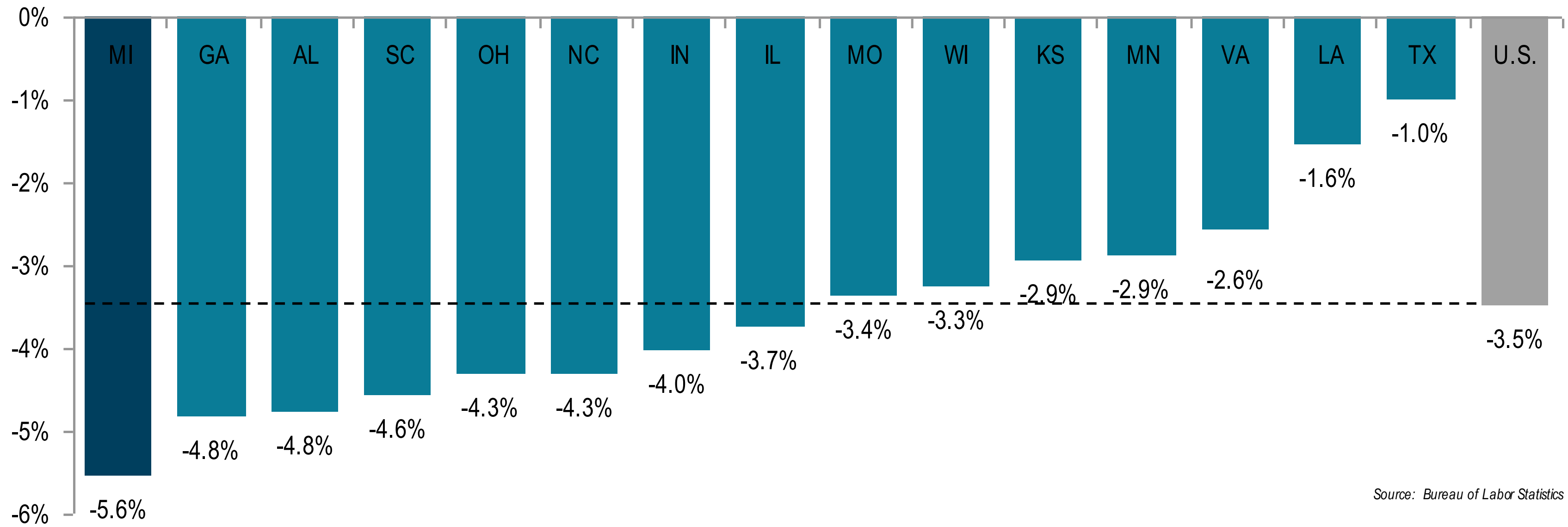
Employment Growth Pre- and Post-Recession

EMPLOYMENT CAGR PRE-RECESSION (2001-2007)



Source: Bureau of Labor Statistics

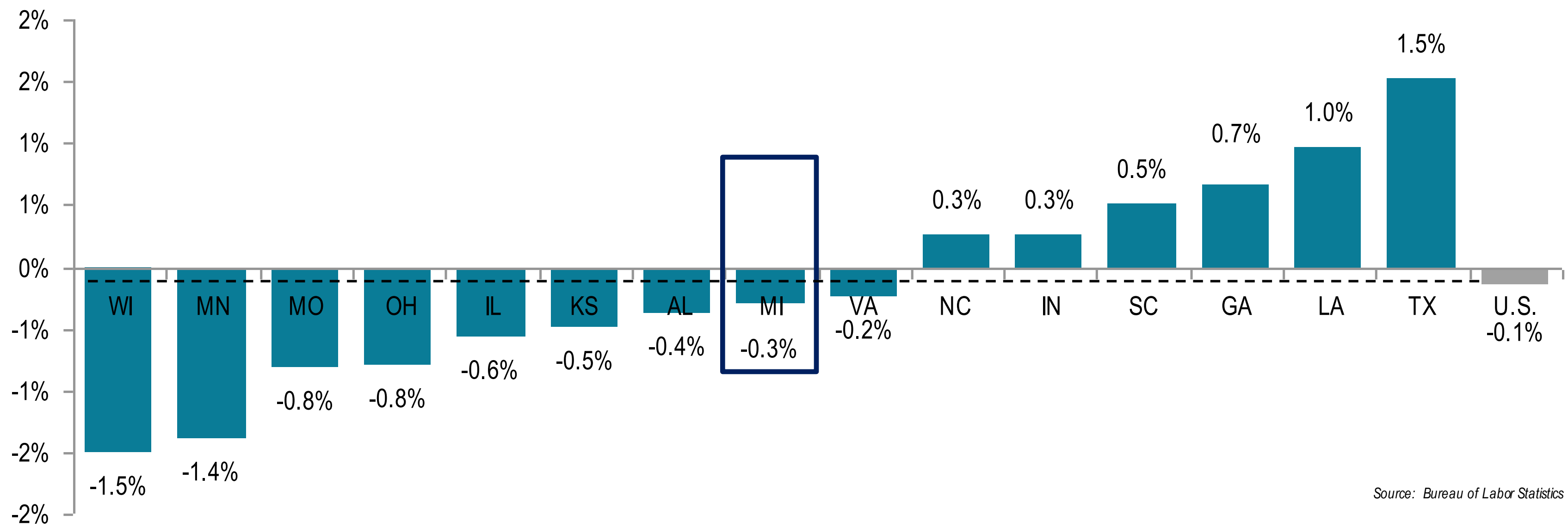
EMPLOYMENT CAGR POST-RECESSION (2007-2011)



Source: Bureau of Labor Statistics

Recent Employment Growth

RECENT EMPLOYMENT GROWTH, 2010-2011

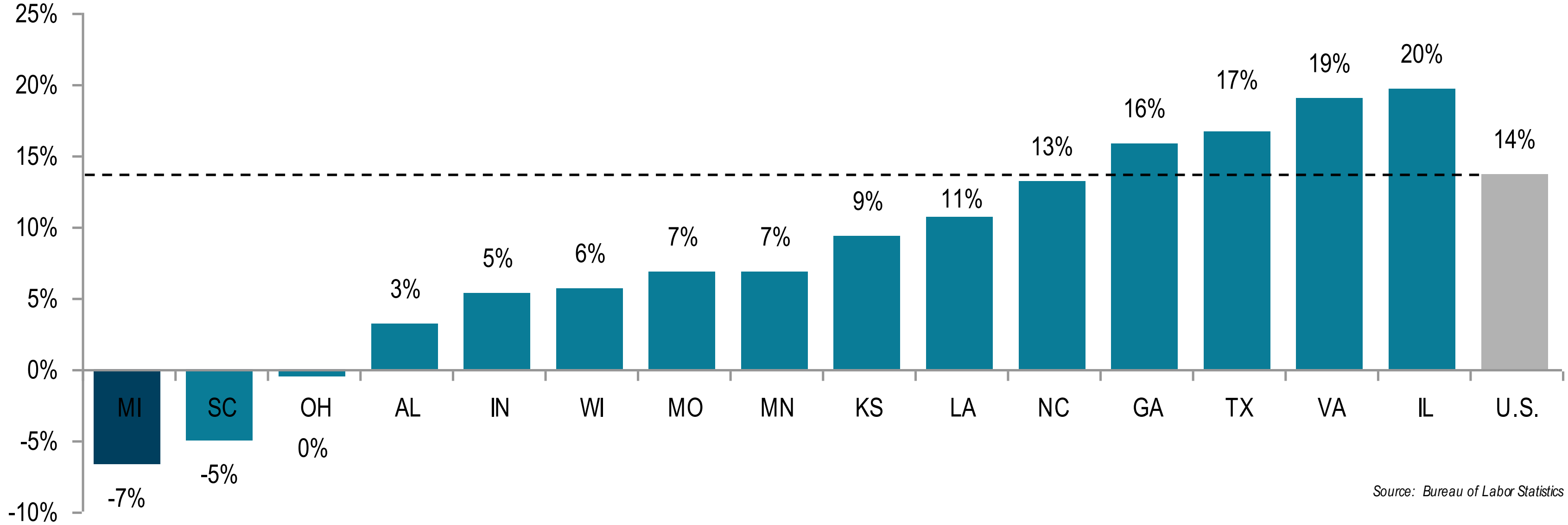


Though still negative, more recent employment growth within the State of Michigan is stronger than that of several benchmarks.

- At -0.3% growth in total employment between 2010 and 2011, the State of Michigan is experiencing a less severe loss of employment than in the years leading up to and following the beginning of the recession.
- Though still slightly below the growth rate for the United States as a whole, Michigan is now faring better than several of its benchmarks, including Wisconsin, Minnesota, Missouri, Ohio, Illinois, Kansas, and Alabama.
- Texas, Louisiana, Georgia, Indiana, and North Carolina have each experienced recent employment growth rates in excess of the nation as a whole.

Business Establishment Growth

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2011



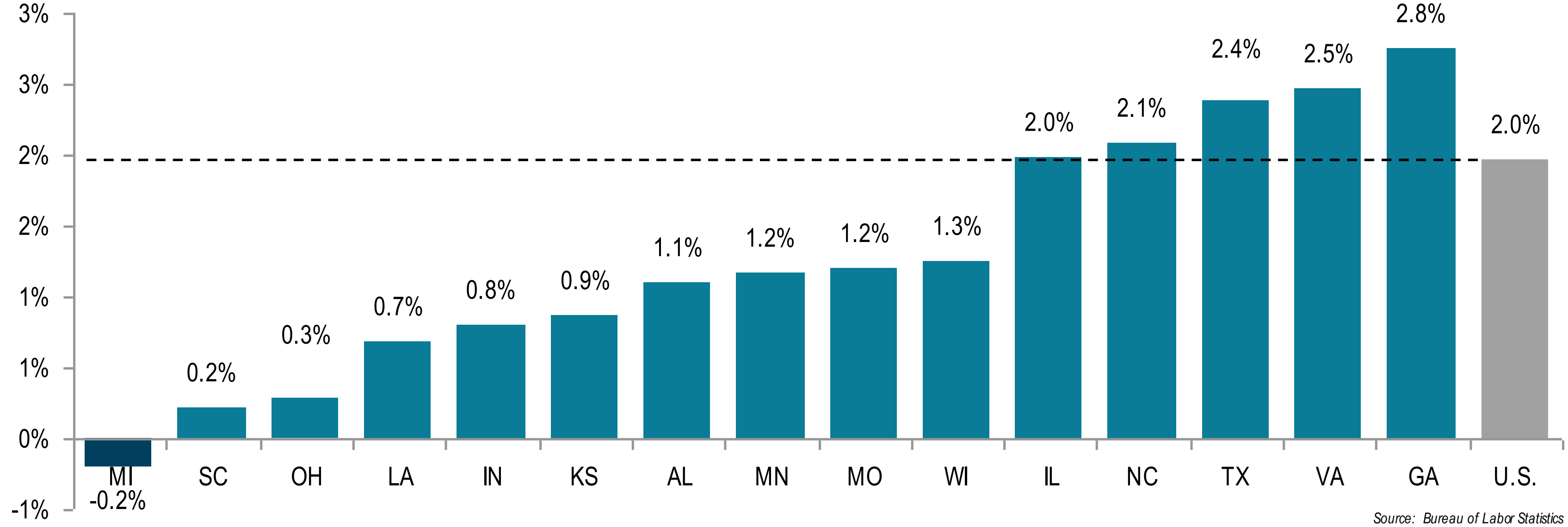
Source: Bureau of Labor Statistics

The State of Michigan has had the lowest rate of growth in the number of business establishments between 2001 and 2011.

- Among the benchmarks studied, Michigan was one of only two states to experience negative growth (-7%) in the number of business establishments over the course of the past decade (South Carolina was the second).
- The loss of business establishments has a direct impact on employment growth. Therefore, it is unsurprising that Michigan has seen negative employment growth during a decade of net losses in establishment growth.
- Illinois, Virginia, Texas, and Georgia each had business establishment growth rates that exceeded that of the U.S. as a whole.
- Though Michigan's establishment growth was negative prior to the beginning of the recession, it sank deeper into negative territory during the years that followed.

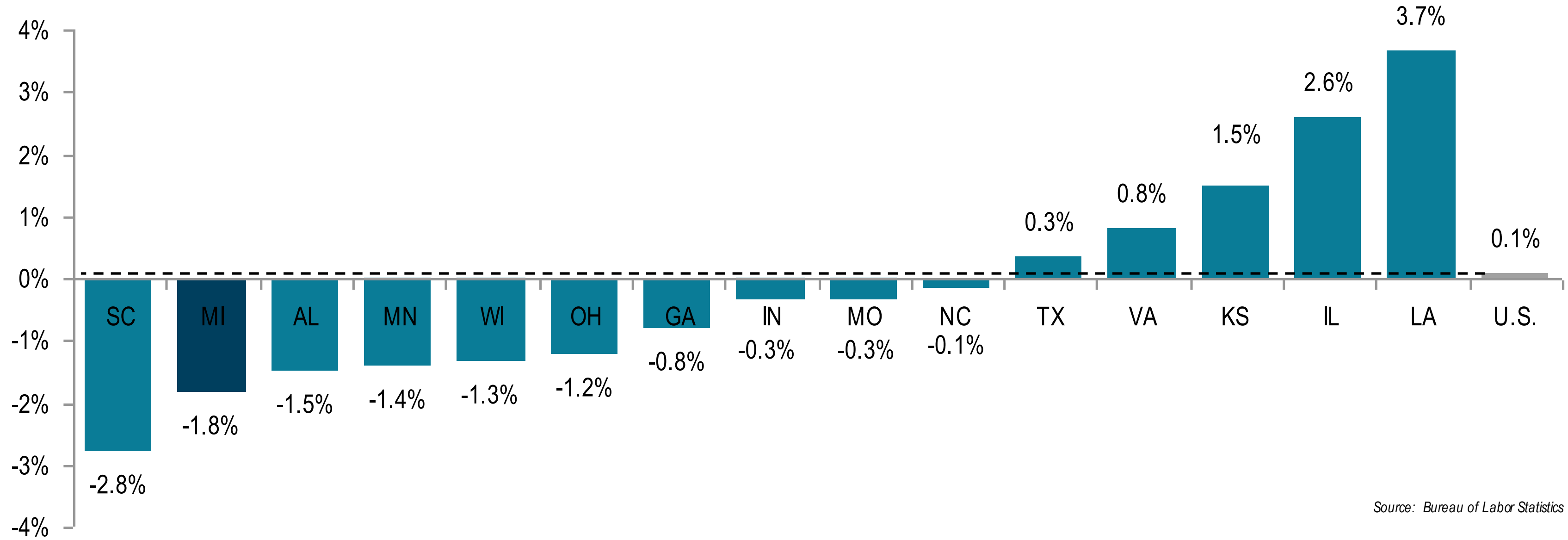
Business Growth Pre- and Post-Recession

BUSINESS ESTABLISHMENT CAGR PRE-RECESSION (2001-2007)



Source: Bureau of Labor Statistics

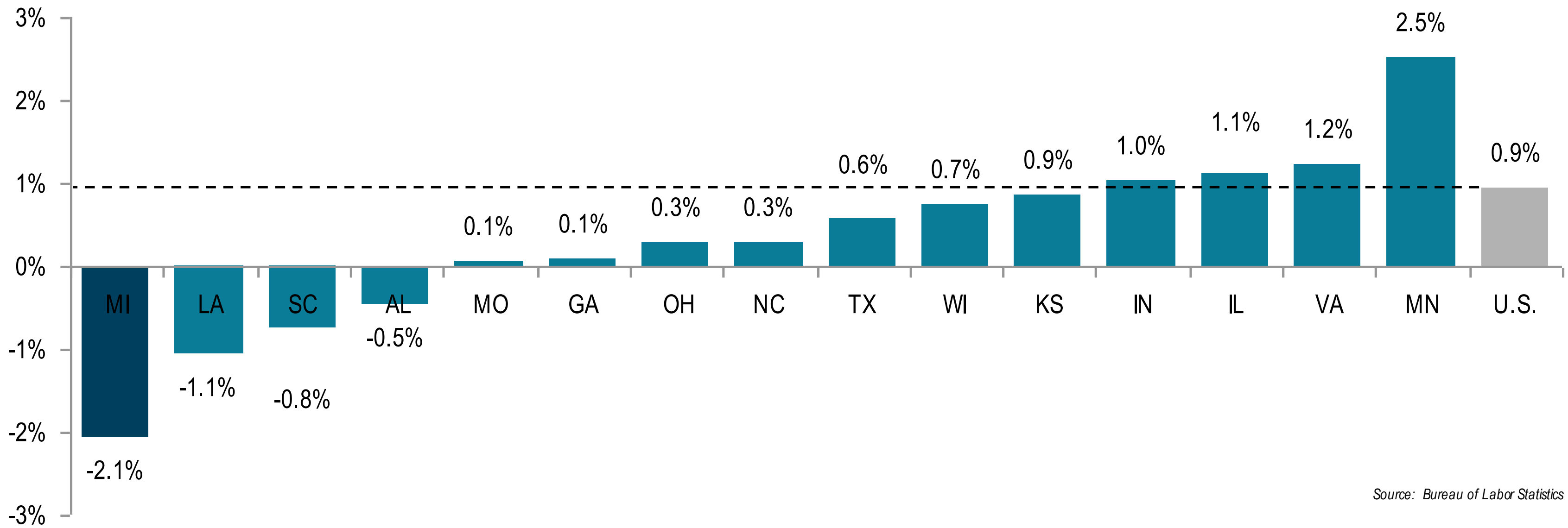
BUSINESS ESTABLISHMENT CAGR POST-RECESSION (2007-2011)



Source: Bureau of Labor Statistics

Recent Business Establishment Growth

RECENT BUSINESS ESTABLISHMENT GROWTH, 2010-2011



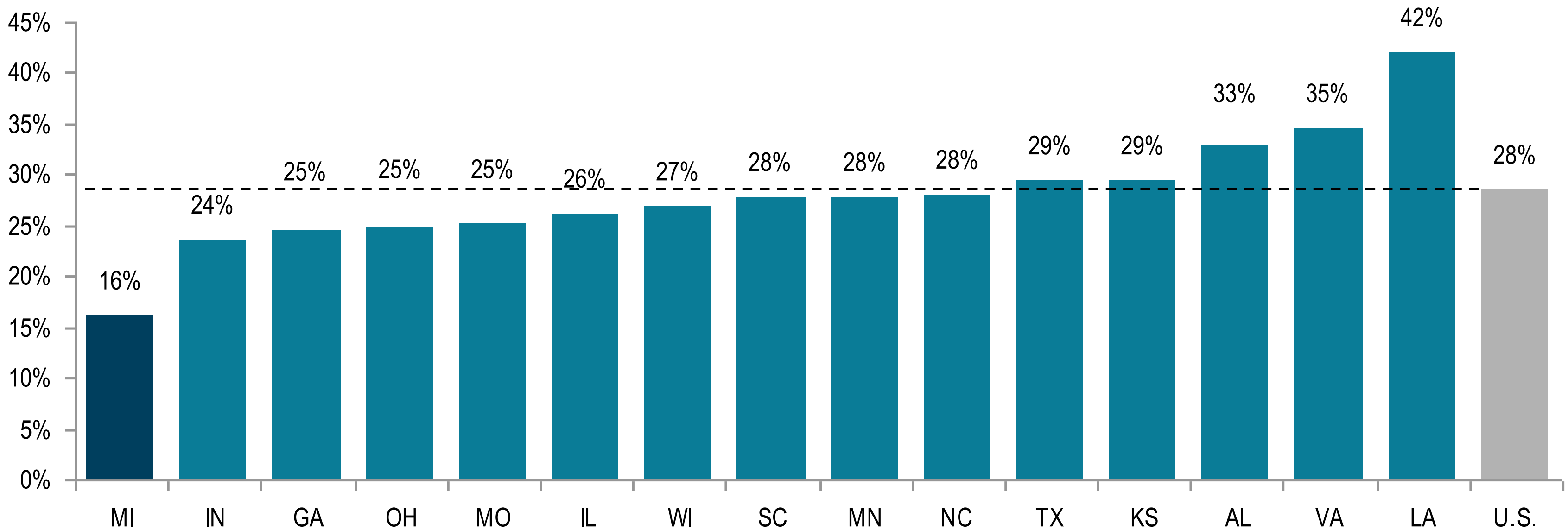
Source: Bureau of Labor Statistics

The loss of business establishments in Michigan is accelerating.

- Preliminary data for 2011 indicate that the State of Michigan has lost 2.1% of its business establishments between 2010 and 2011. This represents an acceleration of losses when compared to a -1.8% CAGR for the years since the beginning of the recession.
- The continued loss of businesses will create significant headwinds for the State of Michigan in its efforts to support future employment growth.
- Among the benchmarks, Minnesota has experienced a significant turnaround in recent establishment growth, posting a 2.5% gain (up from -1.4% CAGR for years following the recession) versus 0.9% growth for the United States as a whole between 2010 and 2011.

Average Annual Wage Growth

TOTAL % AVERAGE ANNUAL WAGE GROWTH, 2001-2010



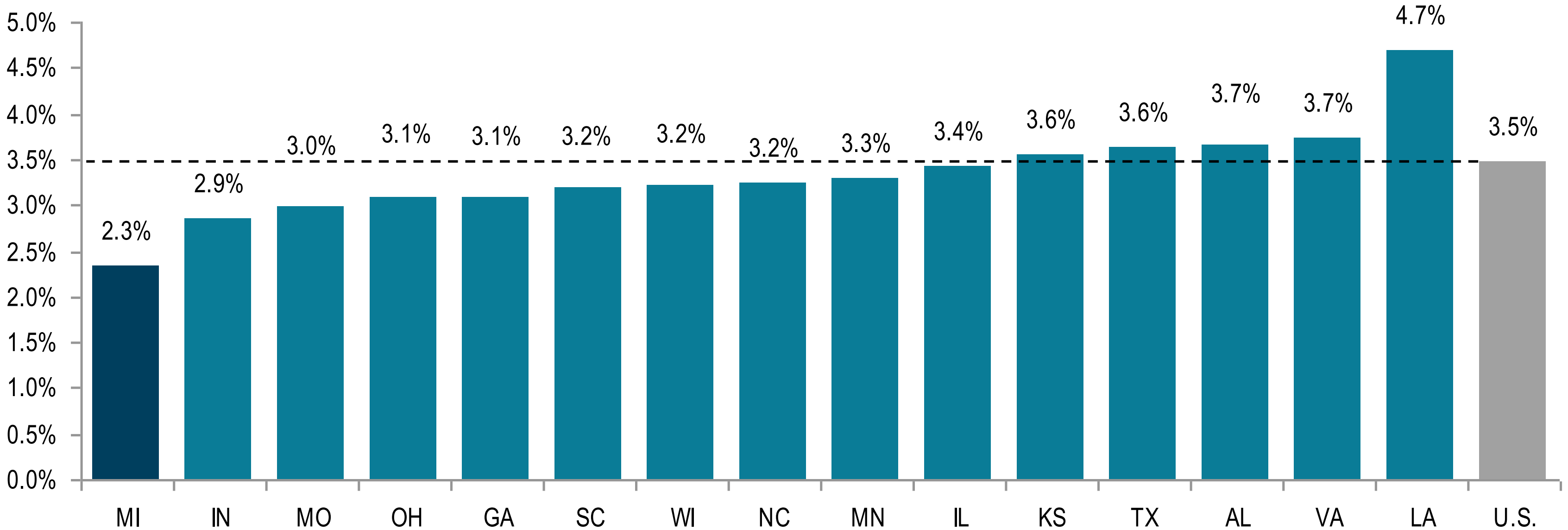
Source: Bureau of Labor Statistics

Growth in wages has been severely stunted in Michigan in comparison to wage growth throughout the United States.

- At 16% total percentage growth in average annual wages (not adjusted for inflation), the State of Michigan was last among the benchmarks studied and significantly below Indiana (24%), its next-closest benchmark on the measure.

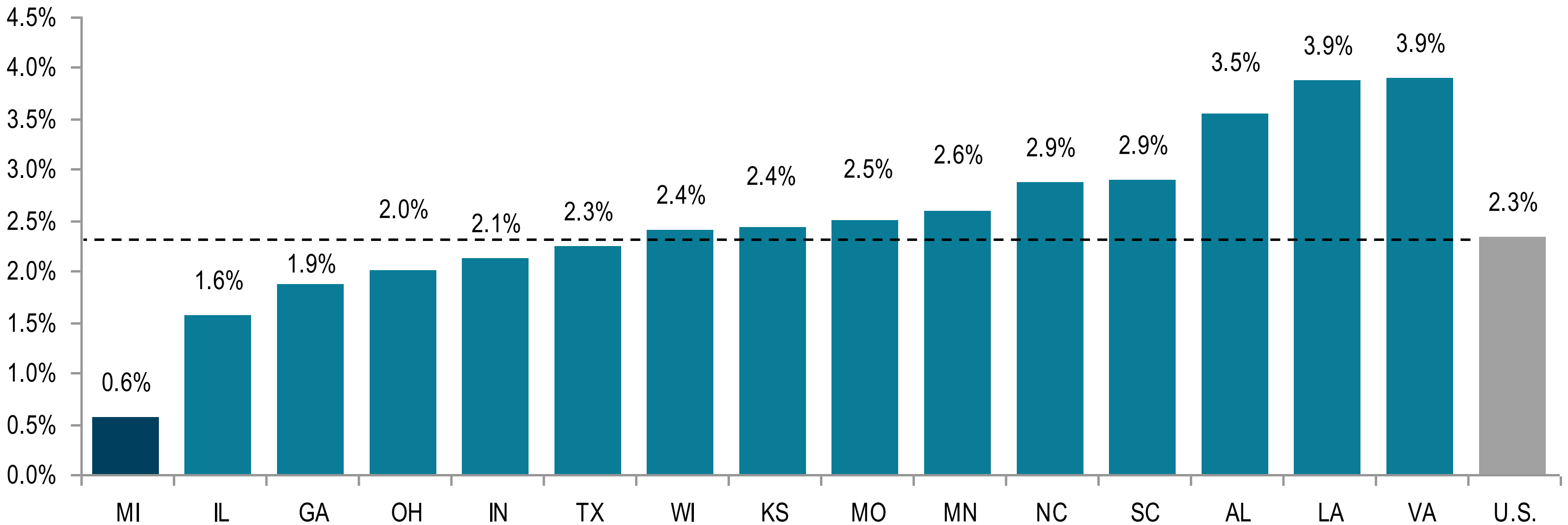
Wage Growth Pre- and Post-Recession

AVERAGE ANNUAL WAGE CAGR PRE-RECESSION (2001-2007)



Source: Bureau of Labor Statistics

AVERAGE ANNUAL WAGE CAGR POST-RECESSION (2007-2010)



Source: Bureau of Labor Statistics

Recent Average Annual Wage Growth

Wage growth in the State of Michigan has rebounded somewhat from its post-recession lows, though it remains below growth rates for the nation as a whole.

- Wages in Michigan grew by 1.9% between 2009 and 2010 (the most recent period for which data is currently available). This is higher than the growth rate experienced by the State of Michigan in the preceding years, though still lower than growth for the nation as a whole.
- North Carolina and Minnesota experienced the highest recent wage growth among the benchmarks studied.

Young Professionals

% CHANGE IN PROPORTION OF POPULATION AGE 25-44, 2000-2011

The State of Michigan has seen the proportion of its residents age 25-44 decline at a faster pace than the United States as a whole.

- With the aging of the Baby Boomer generation and a range of other demographic factors, the proportion of the population age 25-44 in the United States has fallen by more than 10% in the past decade. Economic developers and others concerned with business and employment trends often look to this age group as a representation of young professionals within the populace.
- The State of Michigan has experienced a higher reduction in the proportion of its population age 25-44 than has the U.S. as a whole—a larger decrease, even, than any of the benchmarks studied.
- Although several factors may influence this trend, two main factors are generally responsible for an above-average decline in young professionals. These include the aging of a large block of a particular geography's population and/or out-migration of young professionals. Often, both of these forces are at play simultaneously.
- A significant loss of Young Professionals can be a significant concern to economic development and business recruitment efforts as it can have a significant impact on a business' ability to obtain qualified labor for many positions and as it can have many other impacts on an economy as a larger proportion of the population enters retirement age.

In order to review the concentration of various industry groups within the benchmark states, the following table has been provided indicating the Location Quotients (measures of industry concentration within a particular geography relative to the United States as a whole) for 36 industry groups defined by AngelouEconomics using the NAICS system. Particularly strong location quotients have been highlighted indicating industries that are highly concentrated within the corresponding state.

Location Quotients	US	AL	GA	Il	LA	KS	IN	MI
Aerospace & Defense	1.00	1.65	1.03	0.86	0.59	1.63	1.09	0.34
Agriculture	1.00	0.98	0.82	1.03	1.21	2.13	0.96	0.85
Apparel & Textiles Manufacturing	1.00	2.18	2.71	0.52	0.47	0.62	0.37	0.76
Biotechnology	1.00	0.42	0.55	1.43	1.51	0.77	0.21	0.66
Business Support Services	1.00	0.79	1.00	0.69	0.65	0.66	0.86	0.76
Chemicals & Plastics Manufacturing	1.00	0.96	0.93	1.63	1.62	1.33	1.20	1.46
Civic Enterprises	1.00	1.26	1.02	1.09	1.21	1.18	1.10	0.97
Communication Equipment Manufacturing	1.00	0.52	1.42	1.46	0.49	0.28	0.14	0.33
Communication Services	1.00	0.59	1.19	0.67	0.79	1.30	0.63	0.63
Computer Equipment Manufacturing	1.00	0.98	1.04	0.41	0.92	0.25	0.10	0.20
Construction Manufacturers & Suppliers	1.00	1.12	0.98	0.80	0.95	0.98	1.05	0.88
Consumer Goods Manufacturing	1.00	1.28	0.99	1.13	1.61	0.89	0.58	1.29
Eat/Drink	1.00	1.01	1.09	1.05	1.24	1.07	1.10	1.18
Electronics Manufacturing	1.00	0.61	0.58	1.28	1.12	0.77	0.28	0.79
Elementary & Secondary Schools	1.00	1.04	1.07	1.18	1.07	1.34	1.14	1.10
Financial Services	1.00	0.77	0.88	1.06	0.82	0.81	0.77	0.79
Food Processing	1.00	1.03	1.69	1.38	0.99	0.95	0.87	0.81
General Services	1.00	1.01	1.16	1.00	0.96	0.97	1.15	1.03
Government	1.00	0.97	0.96	0.87	0.99	1.08	1.22	0.78
Health Sciences	1.00	1.02	0.87	1.04	1.06	1.15	1.16	1.04
Higher Education & Research	1.00	0.93	0.67	0.92	1.24	1.05	1.13	0.94
Hotels & Restaurants	1.00	0.76	0.88	0.94	0.87	0.79	1.26	0.94
Industrial Machinery	1.00	1.04	0.56	1.61	2.16	0.95	0.49	2.95
Industrial Supplies	1.00	1.67	0.83	1.65	1.70	0.76	0.98	1.61
Logistics & Distribution	1.00	1.10	1.26	1.18	1.14	1.36	1.27	0.97
Mass Media	1.00	0.69	0.98	1.18	0.96	0.90	0.57	0.83
Material Supplies	1.00	1.92	1.21	0.84	1.58	0.79	0.78	1.14
Natural Resources	1.00	0.80	0.37	0.48	0.54	1.48	4.10	0.45
Professional Services	1.00	0.85	0.99	1.00	0.67	0.87	0.91	0.92
Retail	1.00	1.16	1.09	1.00	1.07	1.01	1.01	1.06
Semiconductors	1.00	0.48	0.21	0.84	0.63	0.43	0.08	0.39
Software & Computer-Related Services	1.00	0.74	1.16	1.02	0.57	0.69	0.35	0.85
Transportation Equipment Manufacturing	1.00	1.57	0.69	1.05	3.59	0.61	1.35	7.09
Transportation Services	1.00	0.45	1.92	1.27	0.54	0.63	0.67	0.47
Utilities	1.00	2.33	0.88	0.59	1.28	1.25	1.31	0.83
Wholesale	1.00	0.95	1.03	1.19	0.93	1.04	0.88	1.01

Source: AngelouEconomics, Decision Data Resources

Industry Clusters

Location Quotients	US	MN	MO	NC	OH	SC	TX	VI	WI
Aerospace & Defense	1.00	0.20	0.70	0.45	0.54	0.63	0.77	2.27	0.24
Agriculture	1.00	1.61	1.16	0.96	0.85	0.75	1.00	0.54	1.83
Apparel & Textiles Manufacturing	1.00	0.50	0.76	3.23	0.49	3.44	0.62	1.01	0.50
Biotechnology	1.00	1.89	1.24	0.98	0.85	0.84	0.79	0.45	0.66
Business Support Services	1.00	0.85	0.71	0.77	0.71	0.73	0.89	0.84	0.66
Chemicals & Plastics Manufacturing	1.00	0.91	1.06	1.32	1.89	1.46	1.30	0.64	1.37
Civic Enterprises	1.00	1.00	1.15	1.11	1.09	1.13	0.92	1.08	0.99
Communication Equipment Manufacturing	1.00	1.01	0.52	0.80	0.43	0.27	1.30	1.86	0.25
Communication Services	1.00	0.95	1.52	0.69	0.54	1.03	1.27	1.44	1.14
Computer Equipment Manufacturing	1.00	2.40	0.22	1.92	0.47	0.30	1.33	0.82	0.55
Construction Manufacturers & Suppliers	1.00	0.90	1.00	1.05	0.87	1.07	1.10	1.04	0.91
Consumer Goods Manufacturing	1.00	1.22	0.85	1.72	1.48	0.84	0.82	0.80	1.79
Eat/Drink	1.00	0.96	1.11	1.71	1.18	1.24	1.07	0.94	1.11
Electronics Manufacturing	1.00	1.65	1.11	0.84	1.10	0.88	1.13	0.77	1.58
Elementary & Secondary Schools	1.00	1.08	1.07	0.95	1.04	1.16	1.19	1.02	1.01
Financial Services	1.00	0.98	0.89	0.82	0.93	0.87	0.95	0.83	0.86
Food Processing	1.00	1.63	1.46	1.22	0.88	0.74	0.96	0.97	1.71
General Services	1.00	0.96	1.04	1.04	1.03	1.05	1.13	0.96	0.89
Government	1.00	1.16	0.98	0.93	1.07	1.03	0.79	1.29	0.99
Health Sciences	1.00	1.03	1.19	1.11	1.13	1.10	0.89	0.86	1.18
Higher Education & Research	1.00	0.82	1.15	1.09	1.02	0.72	0.91	1.10	0.88
Hotels & Restaurants	1.00	1.06	1.01	0.84	0.71	1.19	0.85	0.93	1.08
Industrial Machinery	1.00	1.83	0.97	0.73	2.77	1.00	0.78	0.36	2.91
Industrial Supplies	1.00	1.03	0.83	0.93	1.90	1.57	1.01	0.70	2.40
Logistics & Distribution	1.00	0.90	1.10	0.92	1.06	1.06	1.20	0.98	1.05
Mass Media	1.00	1.55	0.90	0.79	0.99	0.75	0.78	0.88	1.25
Material Supplies	1.00	1.24	1.08	1.60	1.27	1.23	0.86	1.13	1.65
Natural Resources	1.00	0.67	0.36	0.27	0.53	0.25	4.14	0.60	0.23
Professional Services	1.00	0.81	0.80	0.83	0.87	0.79	1.04	1.30	0.63
Retail	1.00	0.98	1.03	1.05	1.04	1.15	1.08	1.01	1.00
Semiconductors	1.00	1.37	0.57	0.74	0.26	0.90	1.40	0.62	0.79
Software & Computer-Related Services	1.00	1.00	1.24	0.67	0.76	0.43	1.02	2.40	0.72
Transportation Equipment Manufacturing	1.00	0.73	1.36	1.05	1.91	1.58	0.54	0.54	2.08
Transportation Services	1.00	1.26	0.73	0.54	0.80	0.35	0.95	0.64	1.05
Utilities	1.00	0.80	1.12	1.20	1.14	1.20	1.41	1.31	0.75
Wholesale	1.00	1.08	1.02	0.86	0.99	0.86	1.07	0.74	0.96

Source: AngelouEconomics, DecisionData Resources

The mixture of industries within an economy can have a highly determinative effect on the conditions of growth experienced within that particular economy. Therefore, states with a strong presence of expanding industries are more likely to experience growth in employment than states that are heavy in industries that are enduring periods of turbulence. As such, it is important for MEDC to consider the degree to which Michigan's current industry mix may be impacting the overall success (or perceptions thereof) of Michigan's economic development programs.

Photo Credit: MEDC

OVERVIEW OF BENCHMARK INCENTIVE PROGRAMS

In recent years, state-incentive programs have been influenced by the fact that many states have been operating under budget shortfalls. In such a climate, deal-closing funds, which offer cash to companies agreeing to expand or relocate in a given state, have been subjected to increased scrutiny. Many states are instead retooling their tax incentive programs, since such programs offer large financial incentives at little to no immediate cost to the state. This, however, runs in contrast to continued trends among relocating businesses and site selectors to seek locations that are able to minimize the initial financial risk associated with relocation or expansion by offsetting the cash burden of a project's first few years (which is often accomplished through the use of closing funds).

State budget limitations have also generated a heightened demand for increased accountability in the use of incentive funds, and it has become more common for states to include clawback provisions as part of their incentive programs (particularly when upfront cash, infrastructure, or labor training is provided). For example, the State of Virginia—which utilizes a deal-closing fund known as the Governor's Opportunity Fund (GOF)—requires that companies pay back their GOF incentives if job creation requirements are not met.

A snapshot of an Incentive Program Inventory database that was developed in support of this study has been provided on the following page. The full database details the type, objectives, and requirements of the major incentive programs found in MEDC's benchmark states and have been provided to MEDC as a separate document.

Snapshot of Benchmark Incentive Database

Program Provider	Alabama Department of Economic and Community Affairs	Alabama Department of Economic and Community Affairs	Alabama Department of Economic and Community Affairs
Program Name	Alabama Agriculture Energy Efficiency Program	Biomass Energy Program	Economic Development Fund (CDBG)
Year of Program Started	2003		
Program Status	Active	Active	Active
Program Category	Direct Business Financing	Direct Business Financing	Indirect Business Financing
Program Type	Grant	Grant	Grant
Program Type Other			
Geographic Focus	No targeting within the state	No targeting within the state	Rural community
Business Need		Capital access or formation	
Program Description	In 2003 the Alabama Department of Economic and Community Affairs (ADECA) recognized the need to assist the agriculture industry in Alabama in coping with rising energy costs. The ADECA Energy Division initiated the Alabama Agriculture Energy Program by establishing an Agriculture Energy Steering Committee, composed of representatives from major agricultural interests in the state. This group came together and worked with Energy Division staff to develop a program that is making a positive impact on agriculture in Alabama.	The Biomass Energy Program has promoted wood waste as an alternative biomass energy source for two decades. The Biomass Energy Interest Subsidy Program is available to assist wood-industry and non-wood industry businesses alike with installing biomass energy systems.	This fund is available to all eligible communities for projects supporting the creation or retention of jobs. Generally, applicants for ED loans, ED Float Loans, Section 108 Loans, and ED grants should have a commitment from the business to create or retain 15 or more jobs. The business should fall within the SIC codes 20-39 or provide a significant economic benefit. Projects must not include intrastate relocation. The program is available on a continuous funding cycle.
Program Objective	The Agriculture Energy Program assists the agriculture industry in reducing energy costs and increasing production by providing education and financial assistance for the implementation of energy efficiency technologies and renewable energy solutions for agriculture.		This fund is available to all eligible communities for projects supporting the creation or retention of jobs.
Program Specifics	Initially, a Request for Proposals (RFP) was issued every other year to solicit proposals for energy efficiency technology and technique demonstration and renewable energy projects that have the potential to significantly improve the energy efficiency of agricultural operations in the state. Eligible applicants included state and local government entities, non-profit corporations, and public colleges and universities. Individual grant awards were capped at $50,000 each.		TYPES OF PROGRAM FUNDS COMPETITIVE FUND ADECA annually awards CDBG money for the Large City, Small City, and County categories. Applicants are scored based on several competitive factors including community need, cost efficiency, appropriateness, and impact. Applications deadlines are announced during the annual workshop in the first quarter of the year. SPECIAL FUND This fund is available to all eligible communities for addressing public health and safety issues. This fund is available on a continuous funding cycle. COMMUNITY ENHANCEMENT FUND This fund is available to all eligible communities to use for projects that address quality of life issues. This fund is available on a continuous basis. PLANNING FUND This fund is available for all eligible communities to conduct planning activities to promote orderly growth, regional development, and revitalization efforts. This fund is available on a continuous funding cycle. ECONOMIC DEVELOPMENT FUND This fund is available to all eligible communities for projects supporting the creation or retention of jobs. Generally, applicants for ED loans, ED Float Loans,


Photo Credit: MEDC

BENCHMARK ECONOMIC DEVELOPMENT PERFORMANCE

The most attractive economic development incentive deals will often offer a variety of funding sources such as tax abatements, exemptions, cash up-front, etc. And the most attractive economic development incentive offerings will include a variety of different incentives that are tailored directly to the needs of the relocating or expanding business.

Incentives are most potent when used as a deal closer, rather than as a marketing tool. Moreover, even the best incentive packages are rarely capable of overcoming an otherwise unfavorable business environment. As such, the states that have displayed the most success in their economic development efforts have pursued both aims in tandem: developing highly competitive incentive offerings within an already business-friendly location. Indiana, for example, has increased many of their tax incentives during the past decade, including sales tax exemptions and property tax relief programs. In 2011, Indiana passed a bill that will lower the state's corporate income tax rate from 8.5% to 6.5% over the next four years. This legislation was said to be a major factor in Amazon.com's decision to build a 900,000 sq.ft. order-fulfillment center, which began operations in Indianapolis in Summer 2011.

Though tax-incentive programs have become increasingly popular, many states do still utilize deal closing funds, which remain an attractive incentive for businesses. Texas' Enterprise Fund has been a very effective example of this type of incentive program. Here, funds are appropriated for a variety of economic development projects, including infrastructure development, community development, job training programs and business incentives, as well as to attract technology and biotechnology businesses and support university research. In the interest of being competitive, a state should avoid using only one form of incentive, allocating too much of their closing fund to one project, and relying too heavily on incentives alone for Recruitment, expansion, and retention.

Economic Development Budgets

Total State Budgets 2010		
	State	$ (M)
Top 5 Largest Budgets	Ohio	860
	Texas	598
	Louisiana	521
	Michigan	355
	Illinois	309
	Wisconsin	231
	Virginia	180
	Minnesota	180
	North Carolina	179
	Missouri	147
Top 5 Smallest Budgets	Alabama	114
	South Carolina	101
	Georgia	100
	Kansas	85
	Indiana	72

Sources: Council for Community and Economic Research (C2ER)

Total State Budgets Per Capita 2010		
	State	$
Top 5 Largest Budgets	Louisiana	115
	Ohio	75
	Wisconsin	41
	Michigan	36
	Minnesota	34
	Kansas	30
	Missouri	25
	Illinois	24
	Alabama	24
	Texas	24
Top 5 Smallest Budgets	Virginia	23
	South Carolina	22
	North Carolina	19
	Indiana	11
	Georgia	10

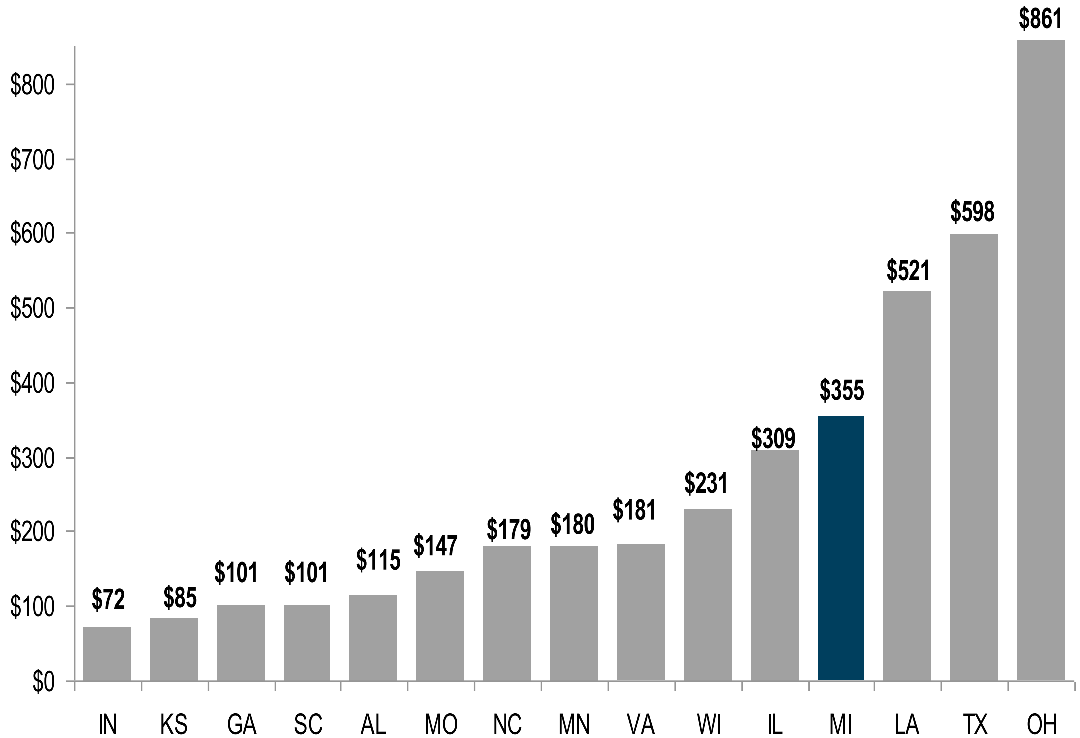
Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Having a large economic development budget can be a useful tool for the attraction of new jobs and new businesses to a state through the efforts of its respective state economic development authority. However, a large budget alone will not impact the overall employment situation of a state and cannot solely be relied upon for economic growth.

- As illustrated in the graphs on the following pages, state benchmarks that have the largest budgets did not necessarily produce the highest number of jobs. This serves as indication that a large economic development budget cannot be relied upon as the sole means of creating jobs. States must instead look at their respective budgets as only one tool in the economic development tool bag.
- On a per capita basis, the states that carry the largest economic development budgets were not generally the states that experienced the strongest growth in employment, business establishments, and average annual wages.

Economic Development Budgets

State Economic Development Budgets, 2010 ($M)

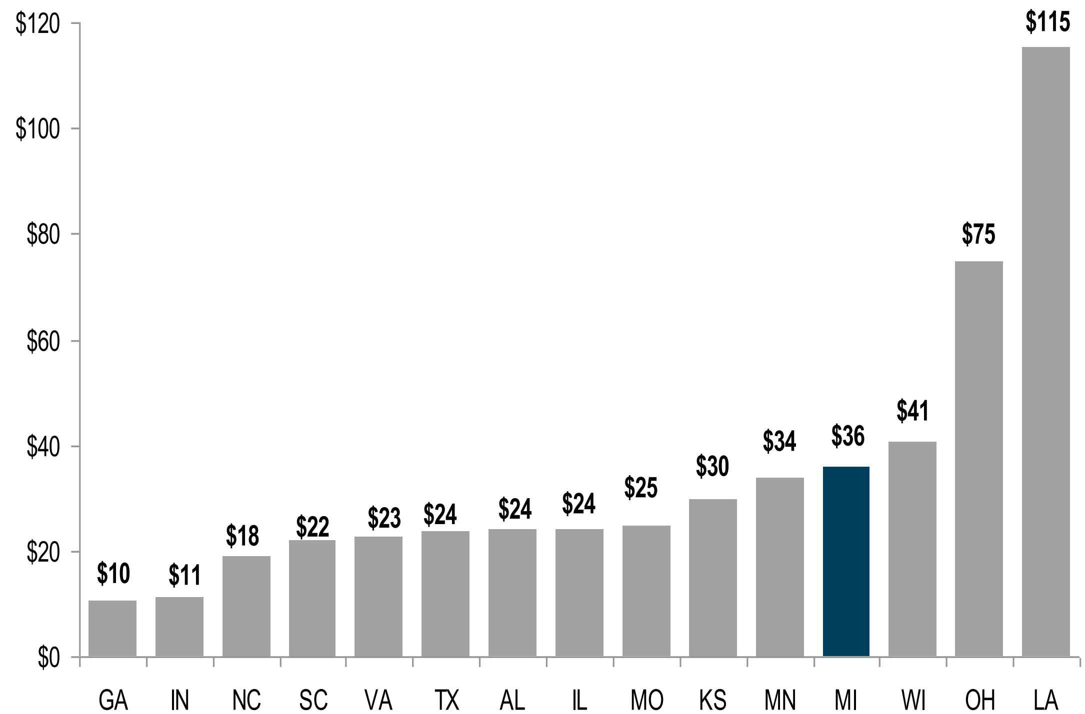


Sources: Council for Community and Economic Research (C2ER)

In 2010, Michigan had a robust economic development budget in comparison with the budgets of the benchmark states.

- With a $355-million annual economic development budget, the State of Michigan rated fourth among the benchmarks studied.

State Economic Development Budgets Per Capita, 2010



Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Michigan's economic development budget was among the highest on a per-capita basis in comparison with the benchmarks' budgets.

- With an economic development budget of $36 per capita, the State of Michigan was fourth among the benchmarks studied and $5 per capita below Wisconsin's budget, the next-highest benchmark on the measure.

Economic Development Budgets

Total State Budgets 2011		
	State	$ (M)
Top 5 Largest Budgets	Virginia	1186
	Ohio	406
	Louisiana	245
	Michigan	237
	Minnesota	207
	Illinois	181
	Kansas	165
	Wisconsin	162
	North Carolina	150
	Texas	130
Top 5 Smallest Budgets	Missouri	115
	South Carolina	109
	Georgia	94
	Indiana	76
	Alabama	66

Sources: Council for Community and Economic Research (C2ER)

Total State Budgets Per Capita 2011		
	State	$
Top 5 Largest Budgets	Virginia	148
	Kansas	58
	Louisiana	54
	Minnesota	39
	Ohio	35
	Wisconsin	28
	Michigan	24
	South Carolina	24
	Missouri	19
	North Carolina	16
Top 5 Smallest Budgets	Illinois	14
	Alabama	14
	Indiana	12
	Georgia	10
	Texas	5

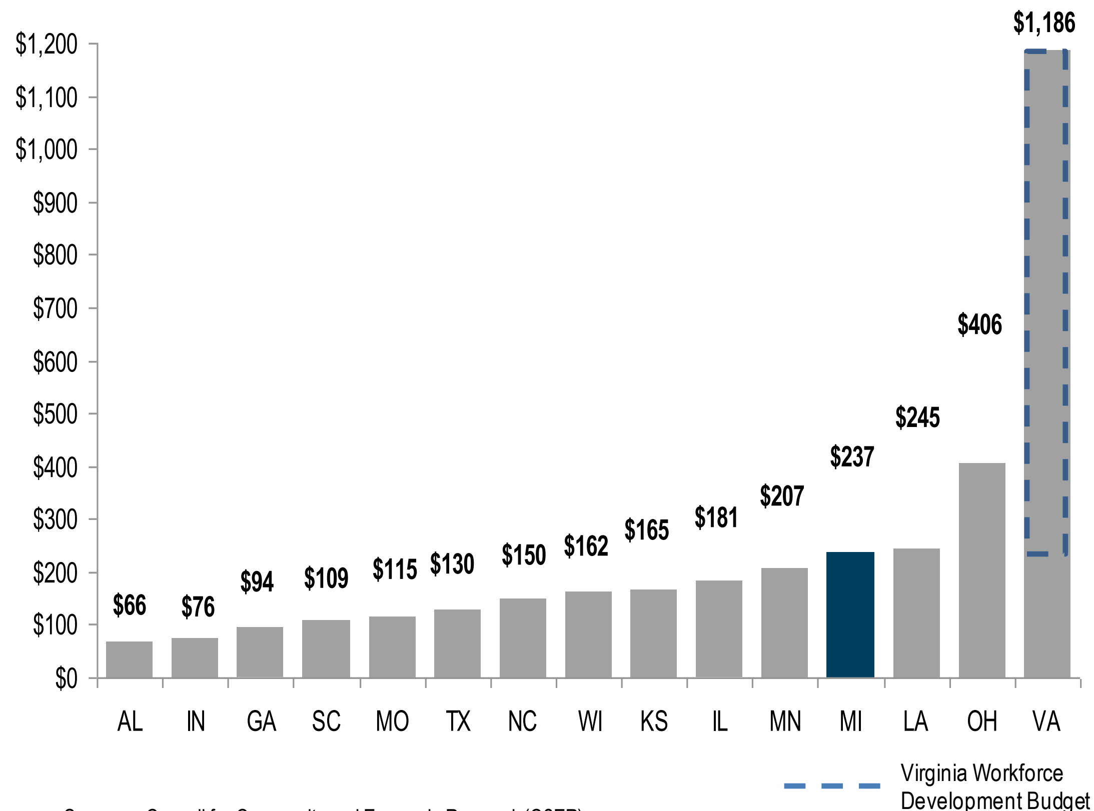
Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Michigan's economic development budget was drastically reduced from the 2010 budget total by $118 million, but the current budget still ranks fourth among the benchmark states.

- Michigan's economic development budget is among the highest of Midwestern states, with the lone exception of Ohio.
- On a per-capita basis, Michigan's budget falls three places, from the fourth to the seventh spot.
- Michigan also sees a reduction in its budget per capita in direct proportion to the reduction in the state's overall economic development budget from the previous year.

Economic Development Budgets

State Economic Development Budgets, 2011 ($M)



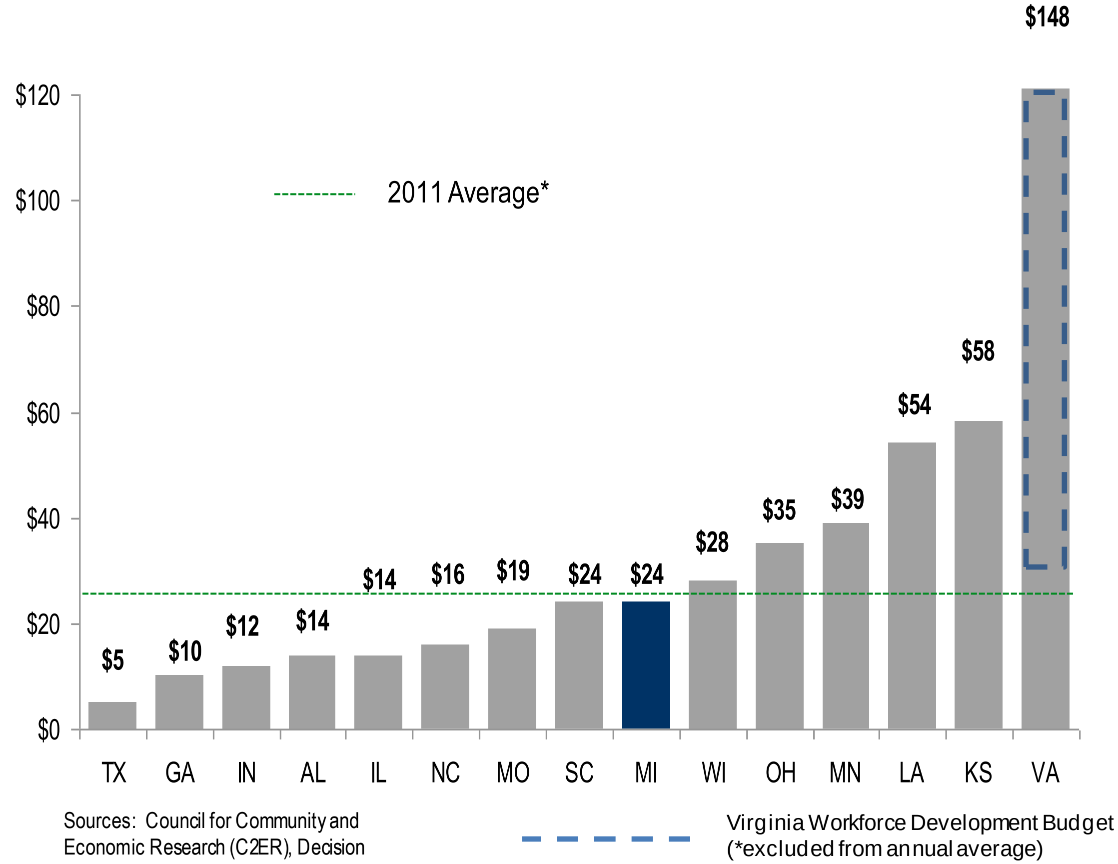
Sources: Council for Community and Economic Research (C2ER)

In 2011, Michigan's economic development budget was comparable to the budgets of the benchmark states.

- With a $237-million annual economic development budget, the State of Michigan was fourth among the benchmarks studied.
- Virginia's annual economic development budget increased from $180 million in 2010 to nearly $1.2 billion in 2011. This substantial budget increase resulted from the allocation of $960 million toward workforce development in 2011, as opposed to a miniscule amount allocated in 2010. When not including Virginia's allocation toward workforce development, the state's economic development budget is equal to approximately $240 million, which would place it between Michigan and Louisiana in the chart above.

Economic Development Budgets

State Economic Development Budgets Per Capita, 2011



Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

In 2011, the State of Michigan is in the median range of per-capita state budgets.

- With an economic development budget of $24 per capita, the State of Michigan was seventh among the benchmarks studied and $4 per capita below Wisconsin's budget, the next-highest benchmark on the measure.
- When not including Virginia's allocation toward workforce development, the state's economic development budget is equal to approximately $30 on a per-capita basis, which would place it between Wisconsin and Ohio in the chart above.

Economic Development Budgets

Total State Budgets 2012		
	State	$ (M)
Top 5 Largest Budgets	Virginia	1038
	Ohio	494
	Illinois	209
	Michigan	171
	Kansas	167
	Wisconsin	166
	Louisiana	150
	Minnesota	121
	North Carolina	117
	Texas	113
Top 5 Smallest Budgets	Georgia	106
	Missouri	86
	South Carolina	77
	Alabama	58
	Indiana	54

Sources: Council for Community and Economic Research (C2ER)

Total State Budgets Per Capita 2012		
	State	$
Top 5 Largest Budgets	Virginia	130
	Kansas	59
	Ohio	43
	Louisiana	33
	Wisconsin	29
	Minnesota	23
	Michigan	17
	South Carolina	17
	Illinois	16
	Missouri	14
Top 5 Smallest Budgets	North Carolina	12
	Alabama	12
	Georgia	11
	Indiana	8
	Texas	4.5

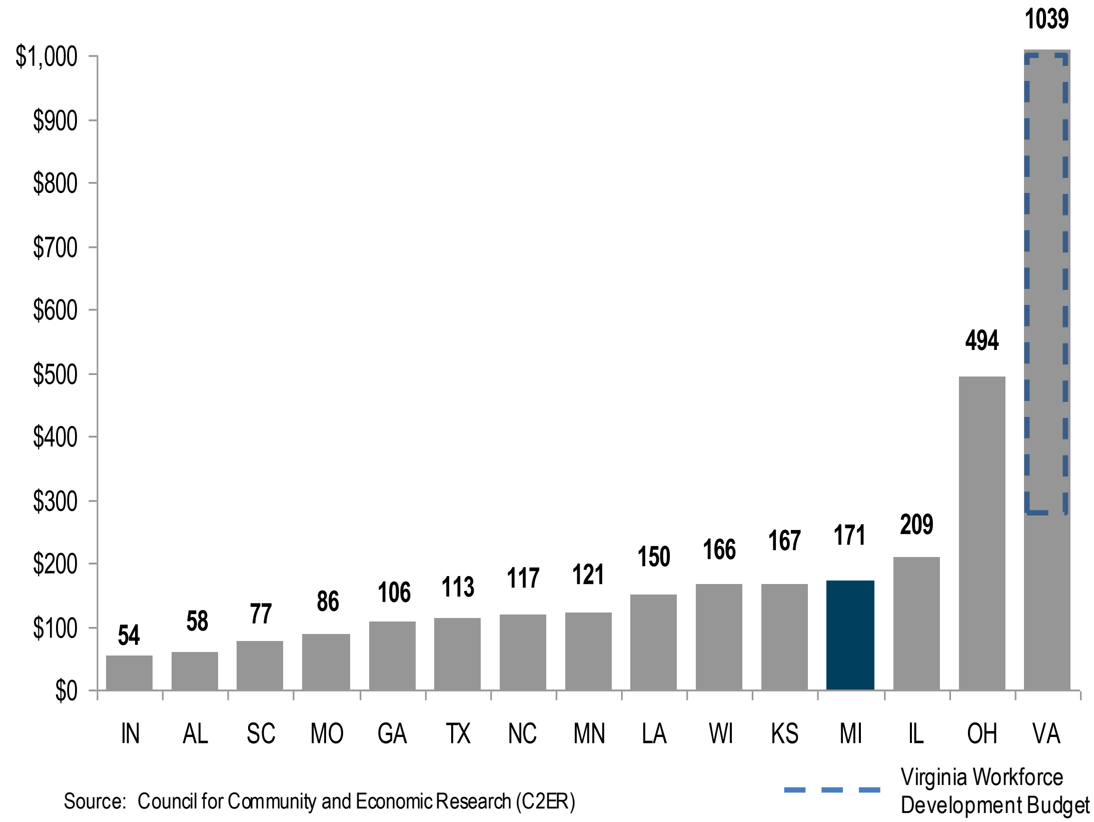
Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

Michigan's economic development budget once again experienced a drastic reduction from the 2011 budget total by $66 million,but still maintaining its fourth place position among the benchmark states from the prior two years.

- As an overall trend, most states witnessed a reduction in their economic development budget from the previous year.
- On a per-capita basis, Michigan maintains the seventh spot among the benchmarks from the previous year.

Economic Development Budgets

State Economic Development Budgets, 2012 ($M)



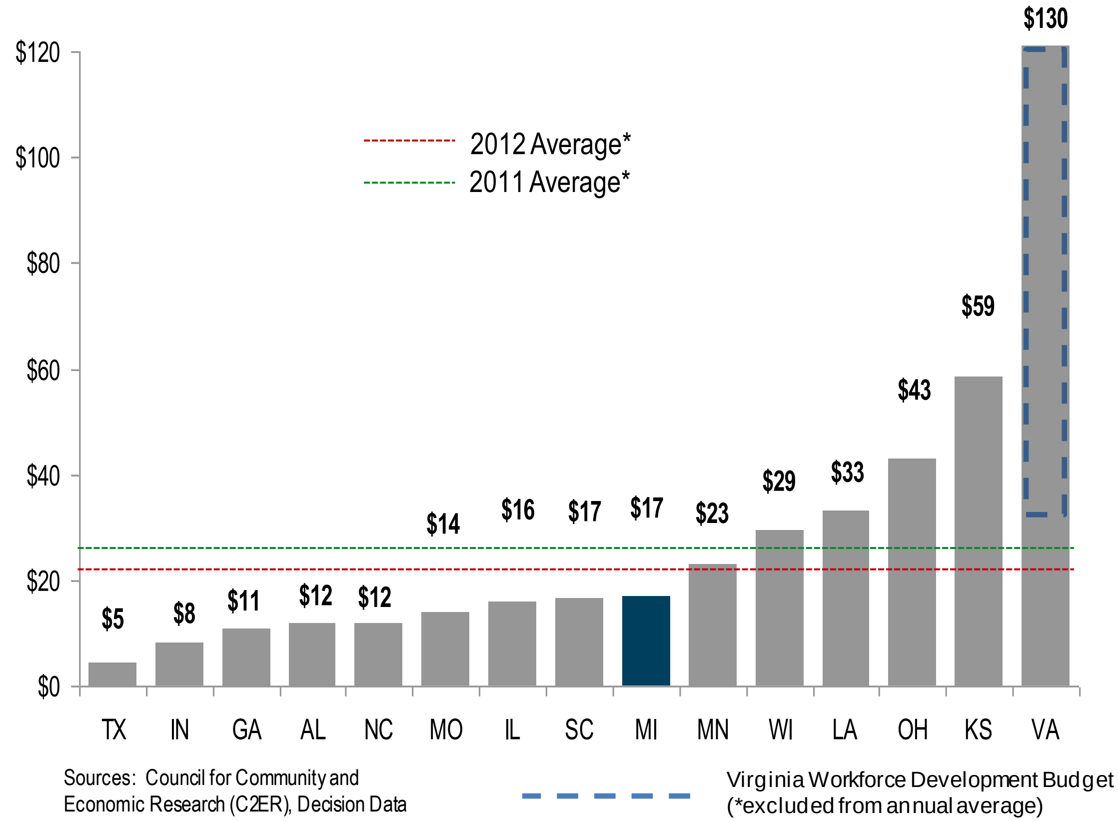
Source: Council for Community and Economic Research (C2ER)

For 2012, the Michigan economic development budget is among the highest in comparison to the budgets of the benchmark states.

- With a $171-million annual economic development budget, the State of Michigan maintains the fourth largest budget among the benchmarks studied.
- Virginia maintained its billion-dollar economic development budget from the previous year, when it appropriated $777 million toward workforce development for 2012, encompassing the largest portion of the total budget. When not including Virginia's allocation toward workforce development, the state's economic development budget is equal to approximately $262 million, which would place it between Illinois and Ohio in the chart above.

Economic Development Budgets

State Economic Development Budgets Per Capita, 2012



Sources: Council for Community and Economic Research (C2ER), Decision Data Resources

In 2012, the state of Michigan continues to be in the median range of per-capita state budgets.

- With an economic development budget of $17 per capita, the State of Michigan was seventh among the benchmarks studied and $5 per capita below Minnesota's budget, the next-highest benchmark on the measure.
- When not including Virginia's allocation toward workforce development, the state's economic development budget is equal to approximately $33 on a per-capita basis, which would make it equal to Louisiana in the chart above.

Incentive Programs

State	Strategic Business Attraction Fund	Job or Investment Tax Credits/ Rebates	R&D Tax Credit	Loans	Early Stage Capital	Sales/Property Tax Abatements/ Exemptions	Special Tax District	Job Training Program
Michigan	▲	♦	♦	▲	♦	♦	♦	♦
Alabama		★		★	★	★	★	★
Georgia		★	★	★	★	★	★	★
Illinois		★		★	★	★	★	★
Indiana		★	★	★	★	★	★	★
Kansas			★	★	★	★	★	★
Louisiana	★	★	★	★	★	★	★	★
Minnesota			★	★	★	★	★	★
Missouri		★		★	★	★	★	★
North Carolina	★	★	★	★	★	★		★
Ohio	★	★	★	★	★	★	★	★
South Carolina		★	★	★		★		★
Texas	★	★		★	★	★	★	★
Virginia	★	★		★	★	★	★	★
Wisconsin		★	★	★	★	★	★	★

For 2012: ▲ *Strategically strengthening the use of this fund*

♦ *Phasing out the use of these incentives*

Note: Strategy for 2012 also relies on a lowered corporate tax requirement to offset reductions in available incentives

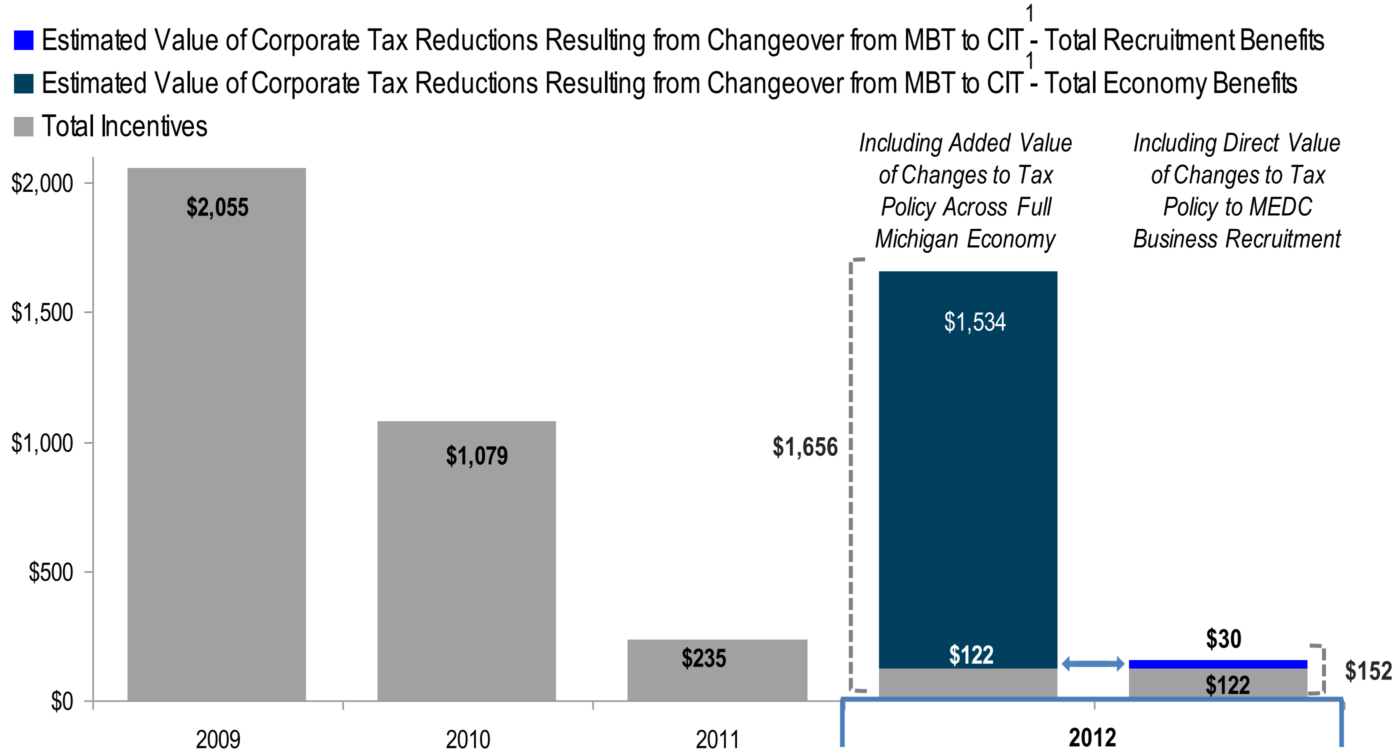
Source: Council for Community and Economic Research (C2ER)

The chart from above references a 2011 inventory of the primary, state-level economic development incentive programs for Michigan and the benchmark states.

- Each state offers a job training program, loans, and some form of sales and/or property tax abatements/exemptions.
- The Strategic Business Attraction Fund proved to be the incentive with the largest disparity among the benchmarks. Only 6 of the 15 states allocated money toward this fund for their 2011 economic development budgets.

Total Incentives ($M), Michigan

As Announced by MEDC



[1] Estimated by the Michigan Department of Treasury, based on 2009 figures

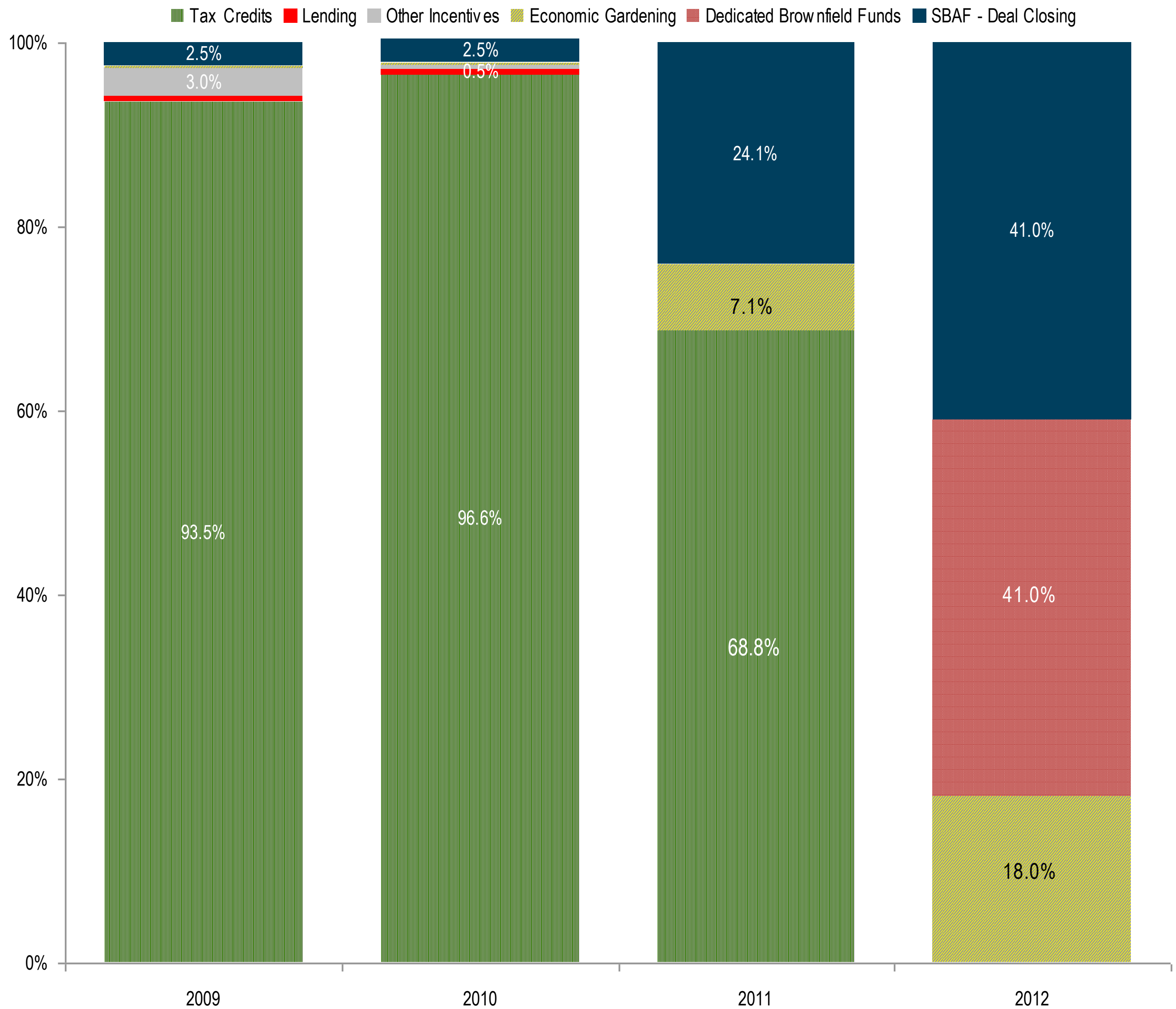
Source: MEDC, Michigan Department of Treasury

The total incentives offered by the MEDC have changed in the amount of funding as well as the funding structure from 2009 to 2012.

- The amount of total incentives has drastically decreased from nearly $2.1 billion in 2009 to approximately $122 million for 2012. However, the 2012 estimated value of the corporate tax reductions for Total Economy Benefits ($1.5 billion) plus total incentives ($122 million) brings the shortfall to $521 million as opposed to $1.9 billion in comparison to 2009. The combined value of budgeted incentives and tax reductions exceeds the total value of budgeted incentives for both 2010 and 2011.
- The 2012 estimated value of the corporate tax reductions for Total Recruitment Benefits ($30.1 million) is a break-down of the quantified value of recruiting the manufacturing and professional service sectors only.

MEDC INCENTIVE DISTRIBUTION , 2009-2012

As Announced by MEDC



Tax Credits: MEGA, Brownfield, MBT

Lending: SBCAP

Other Incentives: SmartZones, 21st Century Fund, ED Job Training

Economic Gardening: MSDF, MBGF

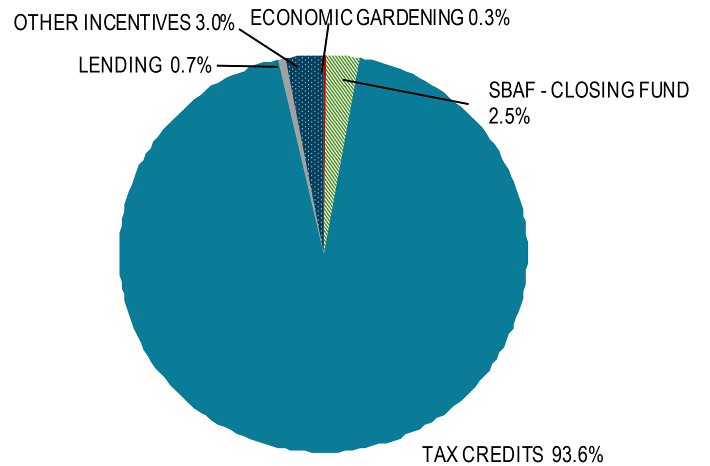
Source: MEDC Annual Reports & MEDC Staff

MEDC's distribution of incentives has systematically changed in its funding structure from 2009 to 2012.

- The use of tax credits has been reduced from 94% of the total incentives used in 2009 to nearly 69% in 2011, which was composed of MBT, MEGA tax credits, and Brownfield tax credits. However, beginning in 2012, the use of tax credits ceased, and Brownfield derived its funding from the $100-million deal-closing fund, whereby Brownfield may potentially claim up to 50% ($50 million) of this fund.
- Economic gardening funding has increased from 0.3% in 2009 to 18% for 2012, accounting for one of the three incentive tools available for 2012.

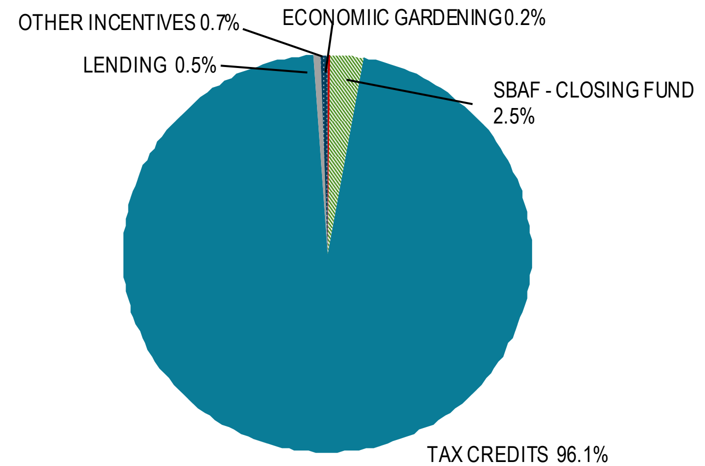
MEDC INCENTIVE DISTRIBUTION, 2009

As Announced by MEDC



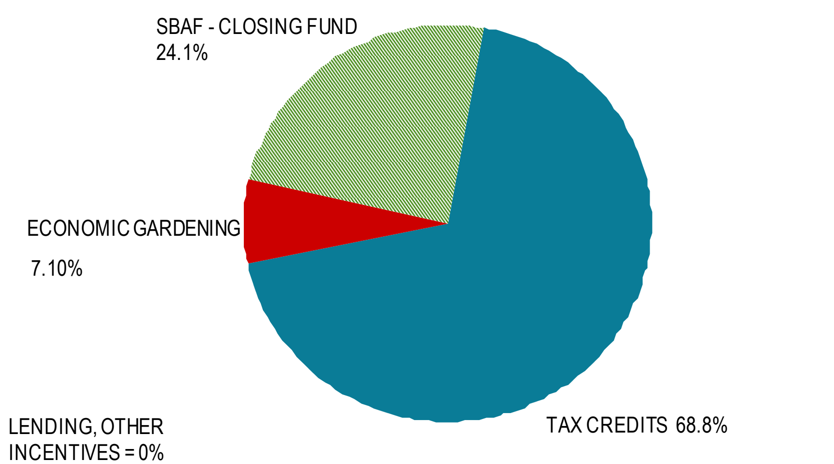
MEDC INCENTIVE DISTRIBUTION, 2010

As Announced by MEDC



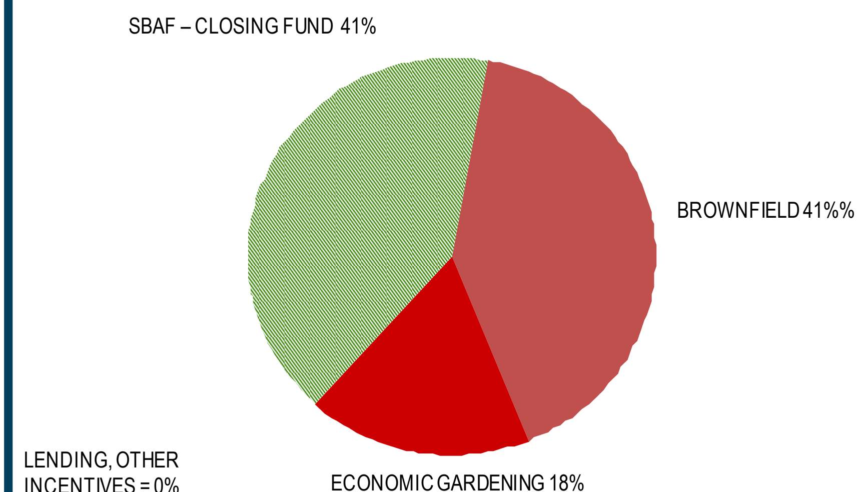
MEDC INCENTIVE DISTRIBUTION, 2011

As Announced by MEDC



MEDC INCENTIVE DISTRIBUTION, 2012

As Announced by MEDC



MEDC's use of cash-based incentive programs increased in usage over delayed-funding incentives from 2009 to 2012.

- The use of cash-based incentives drastically increased from 6.5% in 2009 to 100% in 2012 for the total incentive distribution.
- The use of delayed-funding incentives significantly decreased from 93.5% in 2009 to 0% in 2012 for the total incentive distribution.

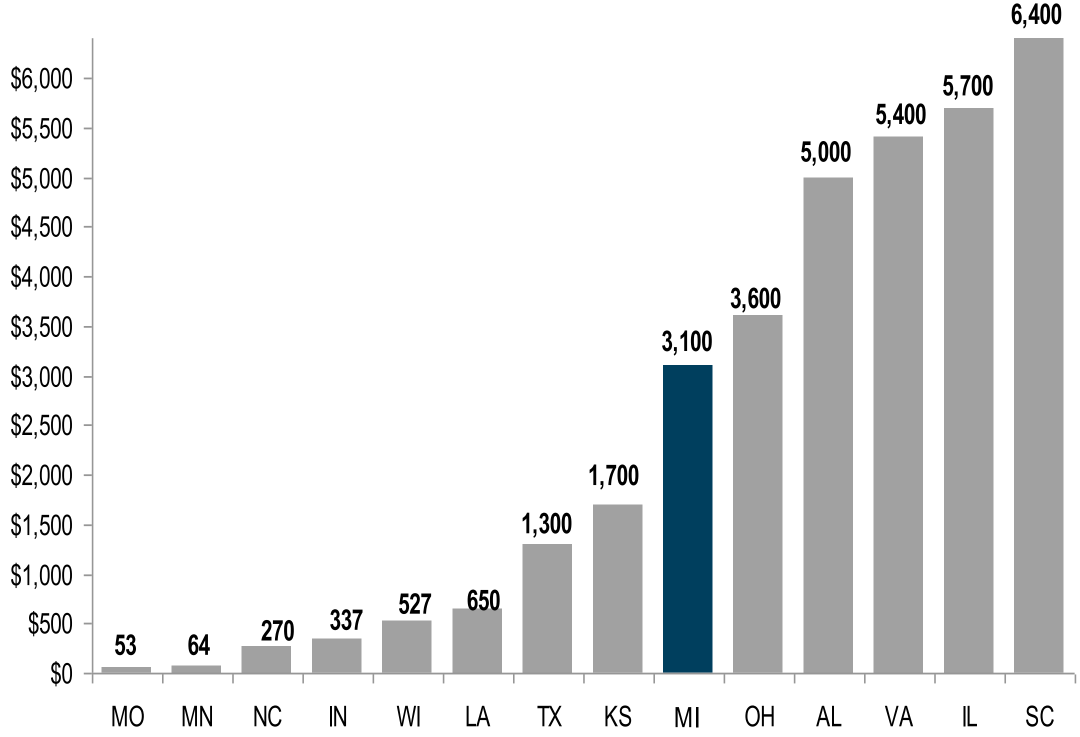
Tax Credits: MEGA, Brownfields, MBT
Lending: SBCAP
Other Incentives: SmartZones, 21st Century Fund, ED Job Training,
Gardening: MSDF, MBGF

Source: MEDC Annual Reports & MEDC Staff

Business Incentives

Total Incentives Per State ($M), 2009-2010

As Announced by Benchmark Economic Development Agencies for 2009 and 2010 (combined below)



*Incentive information is from states' most recent two years of data

Note: Georgia data unavailable

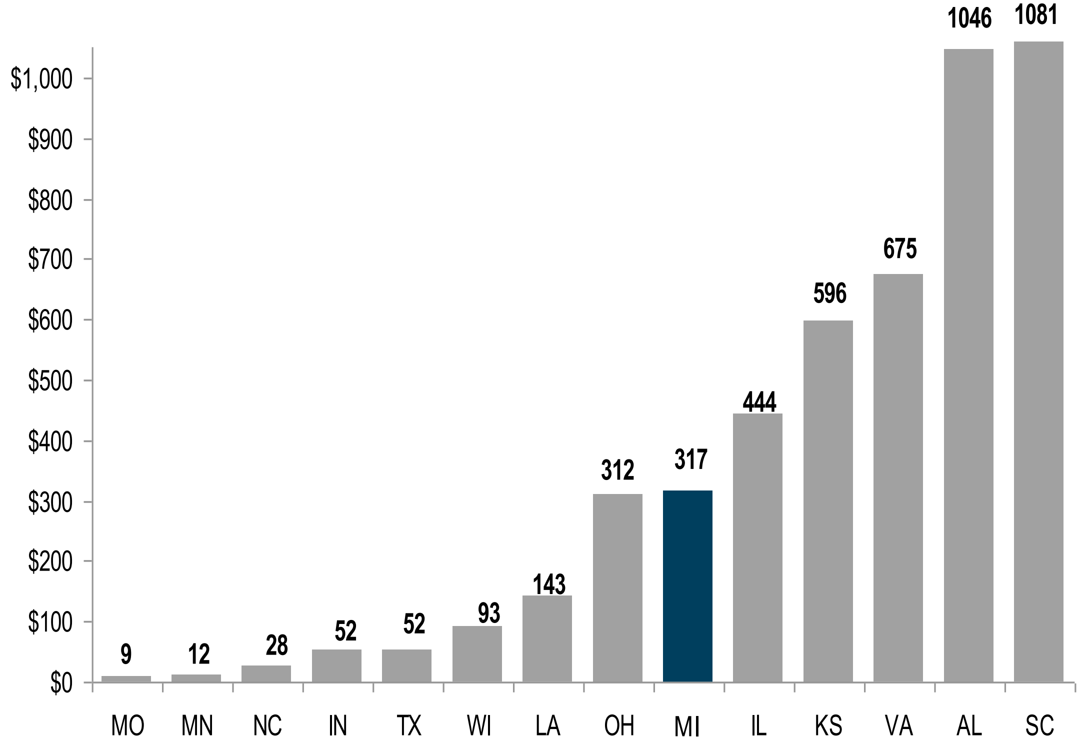
The State of Michigan remains competitive with benchmark states in total dollar amount of state incentives awarded.

- Of the benchmark states that have awarded more state dollars than Michigan, only Virginia has a better business tax climate.
- Michigan created more jobs with state incentives than all other benchmark states during 2010.

Business Incentives

Total Incentives Per Capita, 2009-2010

As Announced by Benchmark Economic Development Agencies for 2009 and 2010 (combined below)



*Incentive information is from states' most recent two years of data

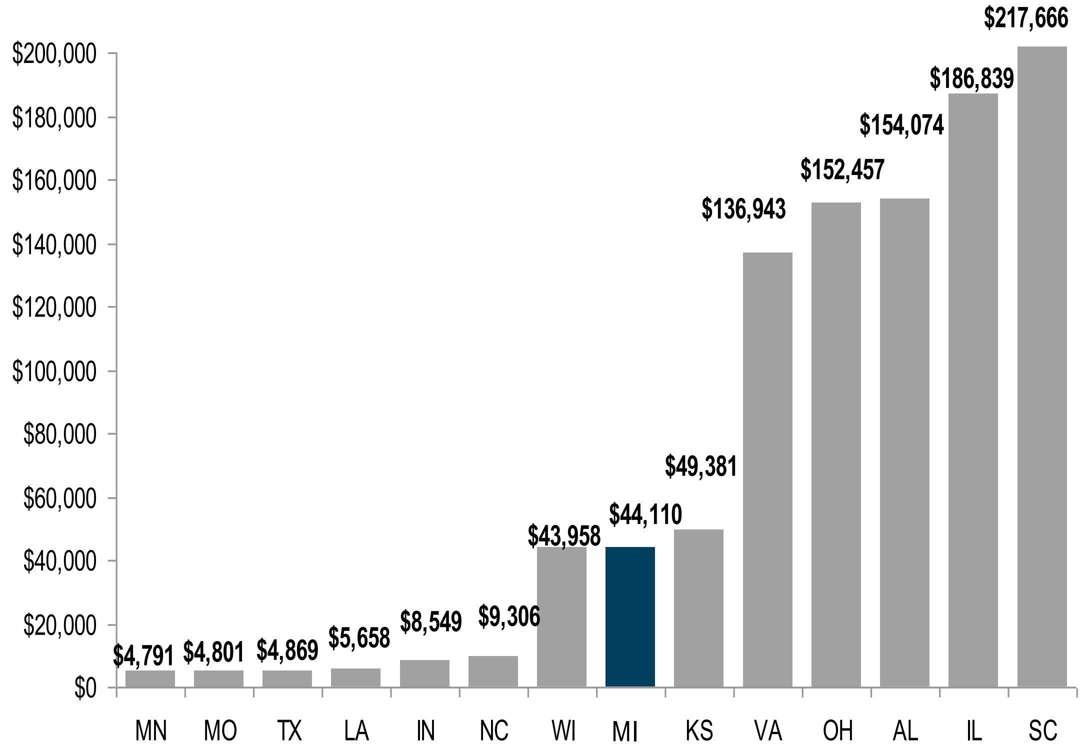
Note: Georgia data unavailable

Among the benchmarks, the State of Michigan is in the median range of per-capita state incentives awarded.

- Average weekly wages in Michigan are also near the mid-range of benchmark states.
- Louisiana and Ohio have very similar wages to Michigan, while Ohio and Illinois have similar unemployment figures.

Incentive Dollars Per Job Created, 2009-2010

As Announced by Benchmark Economic Development Agencies for 2009 and 2010 (combined below)



*Job and incentive information is from states' most recent two years of data

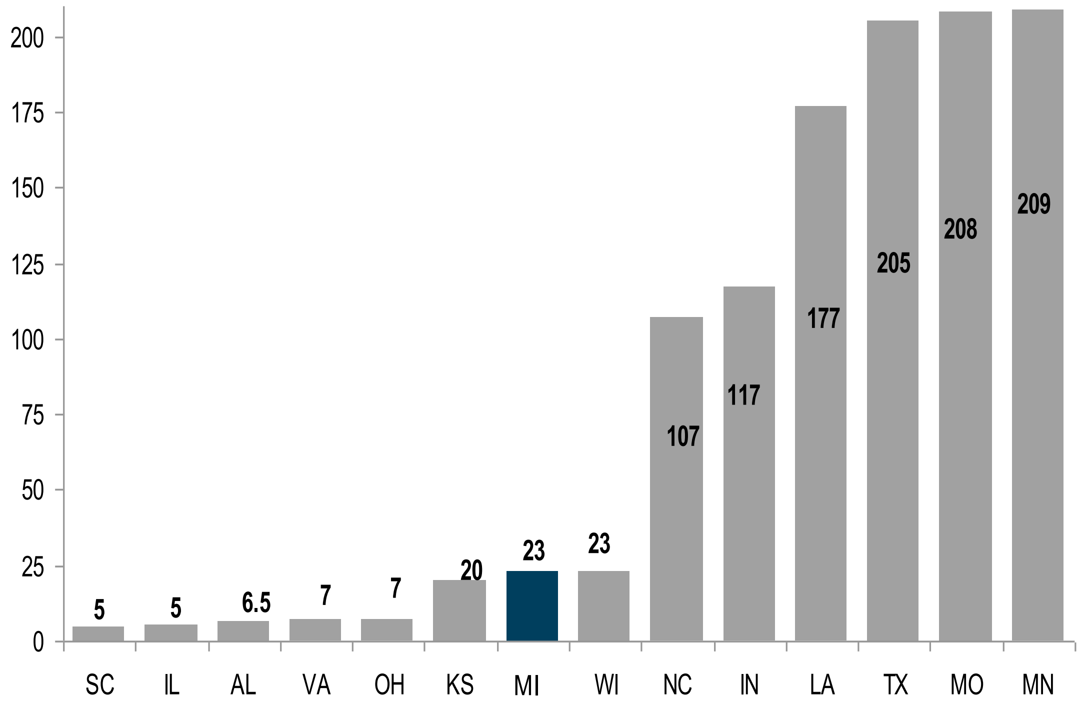
Note: Georgia data unavailable

Average incentive dollars awarded by the State of Michigan per job created is in the median range among the benchmark states.

- Average dollar amount per job created could vary depending on the type of industry or type of job that is created.

Jobs Created by Incentives, Per $Million, 2009-2010

As Announced by Benchmark Economic Development Agencies for 2009 and 2010 (combined below)



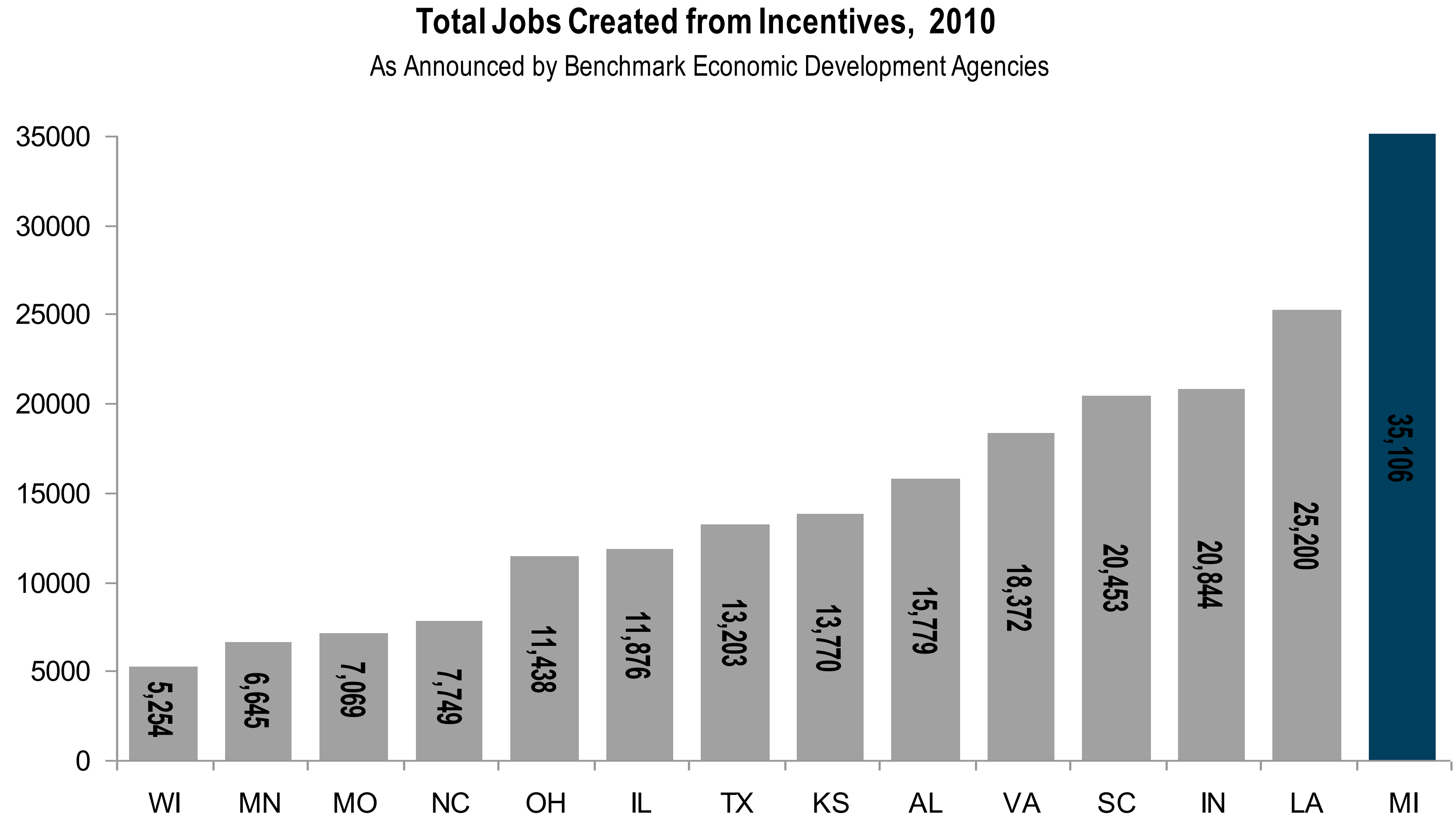
*Job and incentive information is from states' most recent two years of data

Note: Georgia data unavailable

Per million dollars, the state of Michigan tends to be in the median range of benchmark states.

- Incentive awards can often be spent on many costs other than labor. Infrastructure development or equipment purchases could skew the above data.
- Awards could be used as company investments that may or may not continue to create more jobs in the future.

Incentives and New Jobs Created



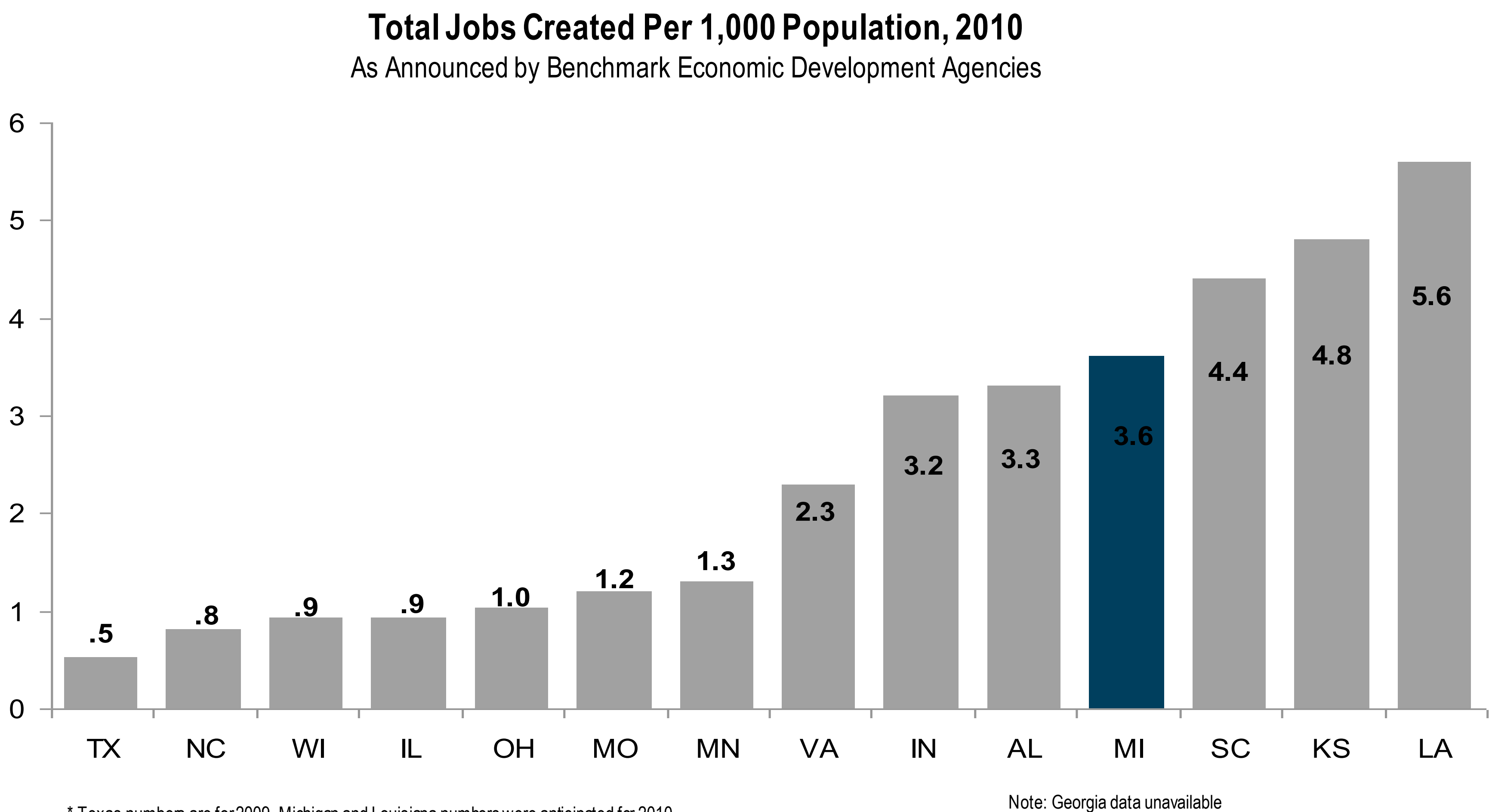
•Texas numbers are from 2009, Michigan and Louisiana numbers were anticipated for 2010
•Michigan numbers pulled from MEDC Annual Activities Report

Note: Georgia data unavailable

In 2010, job creation in the State of Michigan remained strong, distancing itself from the benchmark states.

- Michigan led the pack by creating 36,106 jobs from the use of state-level economic development incentives, 9,906 jobs above Louisiana's performance, which was the next-closest benchmark on the measure.

Incentives and New Jobs Created



* Texas numbers are for 2009. Michigan and Louisiana numbers were anticipated for 2010

In 2010, Michigan's job creation by incentives fared well per 1,000 people in comparison with the benchmarks' results.

- By creating 3.6 jobs per 1,000 people, the State of Michigan was fourth among the benchmarks studied and 0.8 jobs per 1,000 people below South Carolina's results, the next-highest benchmark on the measure.

MEGA TAX CREDITS

YEAR	Approved Projects	Job Creation Credits	Retention Credits
2000	33 (2)	$159.9 million	$170.6 million
2001	29 (0)	$232.0 million	$0
2002	30 (3)	$156.3 million	$171.7 million
2003	23 (1)	$78.9 million	$48.8 million
2004	40 (4)	$145.7 million	$105.9 million
2005	35 (8)	$163.0 million	$97.5 million
2006	36 (7)	$122.3 million	$206.6 million
2007	55 (8)	$142.9 million	$80.7 million
2008	97 (5)	$483.8 million	$170.6 million
2009	103 (19)	$944.1 million	$1,209.1 million
2010	109 (12)	$341.7 million	$2,368.3 million
2011	50 (8)	$70.0 million	$17.8 million

Note: Number in parenthesis is the number of retention credits approved.

Source: MEDC

From 2000 to 2011, MEGA's job-creation credits totaled over $3 billion, and the retention credits totaled over $4.6 billion, creating 640 and 77 approved projects, respectively.

- The use of job-creation credits decreased by 56% from 2000 to 2011, whereas the use of retention credits decreased by nearly 90% from 2000 to 2011.

BROWNFIELD TAX CREDITS

YEAR	Approved Projects	Approved Credits
2000	8	$72.5 million
2001	46	$71.5 million
2002	70	$58.8 million
2003	80	$60.3 million
2004	80	$102.3 million
2005	68	$79.8 million
2006	74	$129.8 million
2007	50	$81.7 million
2008	77	$190.4 million
2009	74	$148.7 million
2010	79	$175.1 million
2011	90	$125.6 million

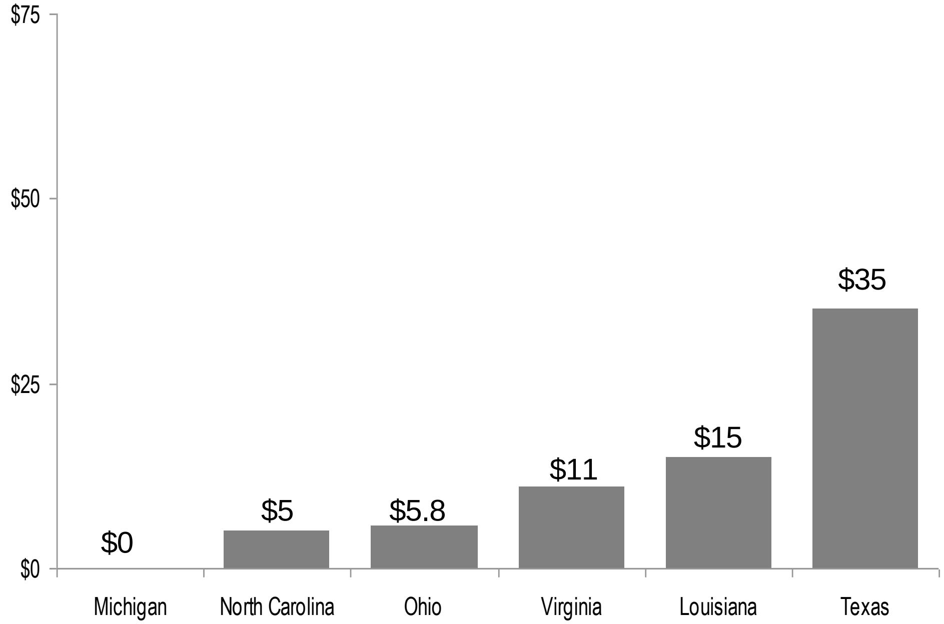
Source: MEDC

From 2000 to 2011, the Brownfield tax credits totaled nearly $1.3 billion, creating 796 approved projects.

- The use of Brownfield tax credits increased by 73% from 2000 to 2011, whereas the use of tax credits will cease to be used in 2012.

Budgets for Strategic Business Attraction Funds: 2011

Annual Budget Amount Per "Strategic Business Attraction Fund" ($M) 2011



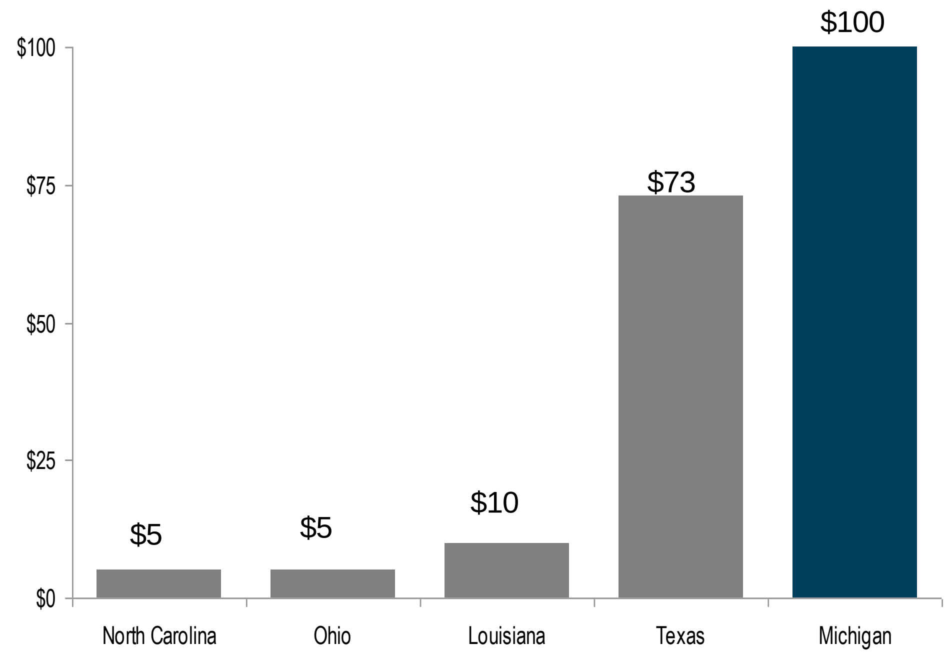
Source: Council for Community and Economic Research (C2ER), 2011 State Economic Development Budgets, Virginia data from goodjobs.com survey, Michigan data from MEDC

For 2011, Michigan did not allocate any funding within its budget for a strategic business attraction fund.

- The benchmarks states that have consistently maintained a strategic business attraction fund include: Louisiana, North Carolina, Ohio, and Texas.

Budgets for Strategic Business Attraction Funds: 2012

Annual Budget Amount Per “Strategic Business Attraction Fund” ($M) 2012

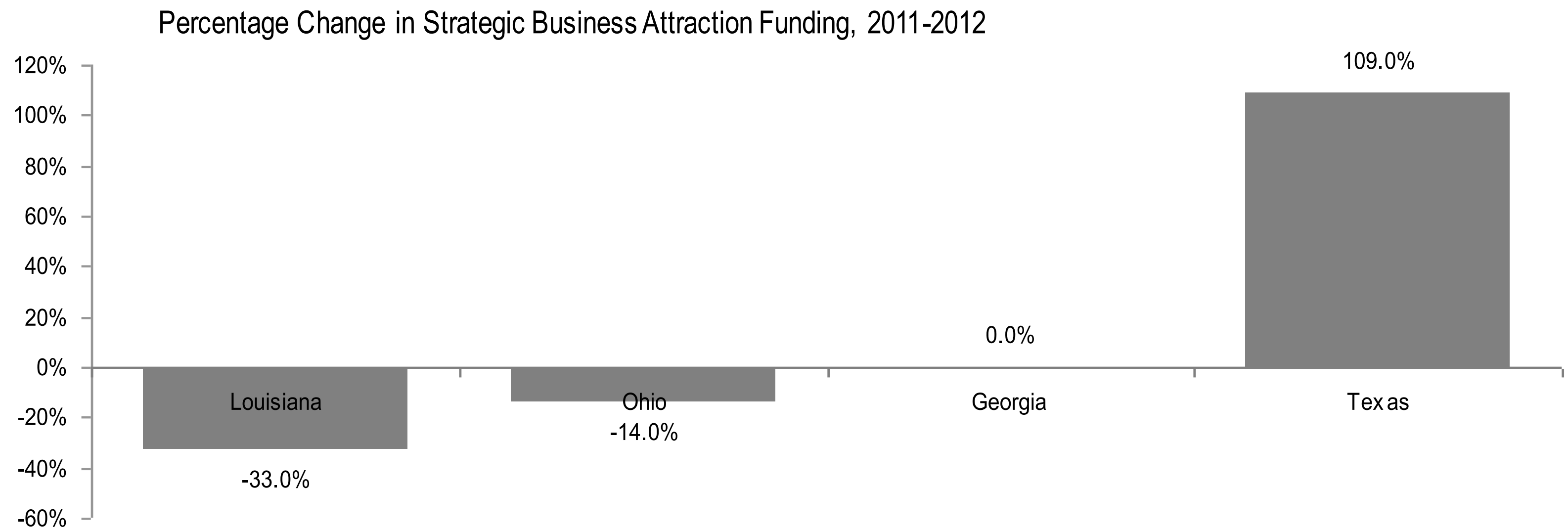


Source: Council for Community and Economic Research (C2ER), 2012 State Economic Development Budgets, Michigan data from MEDC

For 2012, Michigan’s budget for a strategic business attraction fund is the largest of the participating benchmark states.

- The number of benchmark states using a strategic business attraction fund have mostly remained the same from 2009 through 2012, with the exceptions of Ohio opting out in 2010, and Michigan opting out in 2011.

Change in Budgets for Strategic Business Attraction Funds



Source: Council for Community and Economic Research (C2ER), 2011-12 State Economic Development Budgets

From 2011 to 2012, the change in the funding for Strategic Business Attraction experienced a decline for Louisiana and Ohio, neither a decrease nor an increase for Georgia, and an increase for Texas.

- The change in Michigan's funding for strategic business attraction went from $0 to $100 million from 2011 to 2012.

Economic Development Budgets and Overall Economic Growth

Economic Development Budgets Per Capita		
	State	*ED Budget Per Capita*
5-Highest ED Budgets Per Capita	Louisiana	$115.13
	Ohio	$74.60
	Wisconsin	$40.66
	Michigan	**$35.93**
	Minnesota	$33.95
	Kansas	$29.88
	Missouri	$24.55
	Illinois	$24.09
	Alabama	$23.97
	Texas	$23.79
5-Lowest ED Budgets Per Capita	Virginia	$22.56
	South Carolina	$21.89
	North Carolina	$18.82
	Indiana	$11.13
	Georgia	$10.39

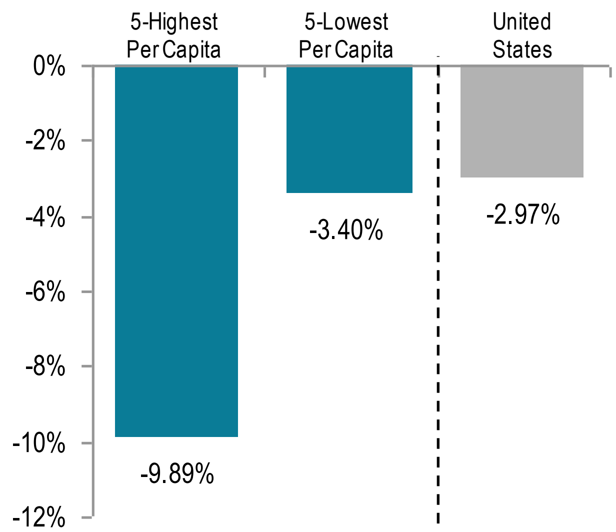
Source: State-level economic development offices per state, Decision Data Resources

Although much is often made of the "arms race" in economic development budgets, our analysis indicates that the size of a state's economic development budget alone provides little insight into the benchmarks' ability to support economic growth.

- As is illustrated in the table at left and in the following pages, the states with the largest economic development budgets (on a per-capita basis) were not generally the states that experienced the strongest growth in employment, business establishments, and average annual wages.
- As is evidenced by the graphs on the following pages, a negative correlation is found between a benchmark state's most recent budget for economic development (on a per-capita basis) and that state's growth in employment, business establishments, and wages over the previous decade.
- Rather than an indication of a state's ability to support growth, a state's per capita economic development budget may instead be more likely to serve as an indication of the degree to which economic development is a priority for that state. It might be expected therefore, that states that have experienced below average rates of growth in employment might be more willing to devote resources toward the improvement of the economy.

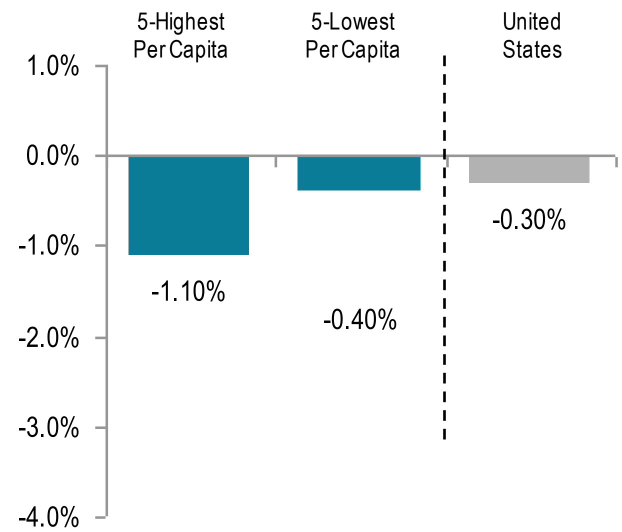
Employment Growth Among Benchmarks Relative to Per Capita Economic Development Budgets

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

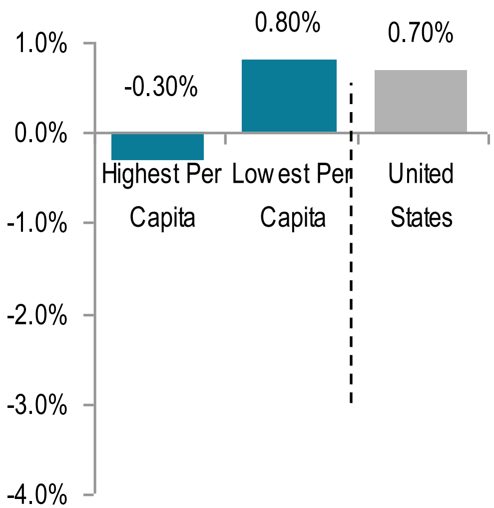
2001-2011 EMPLOYMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION EMPLOYMENT CAGR

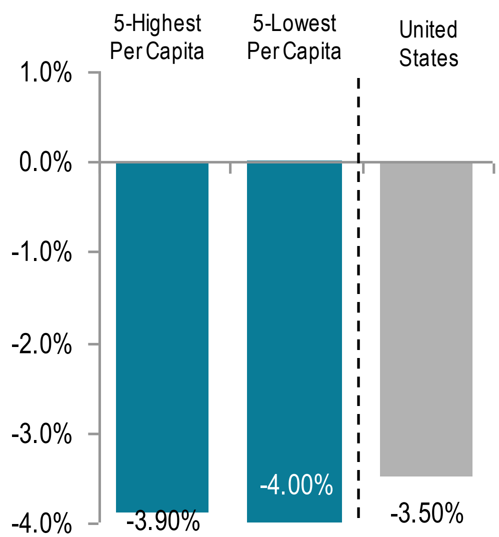
2001-2007 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION EMPLOYMENT CAGR

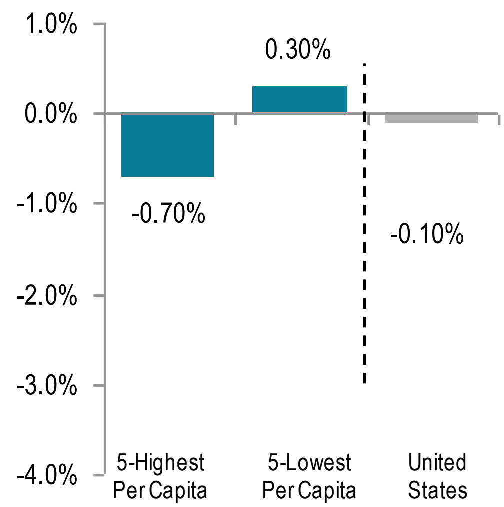
2007-2011 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH EMPLOYMENT, 2010 - 2011

2001-2007 Average Annual Wages CAGR

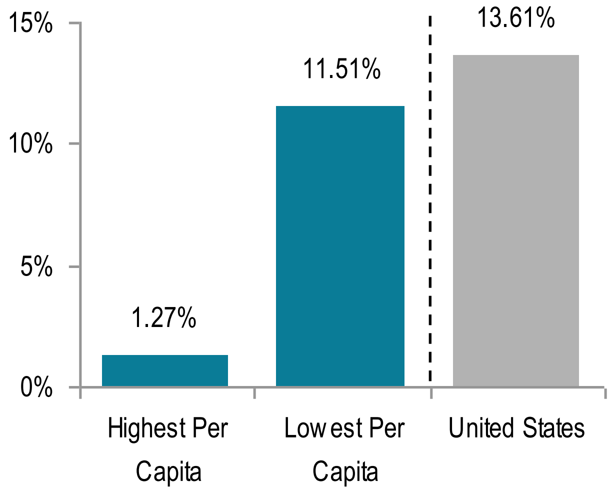


Source: Bureau of Labor Statistics, AngelouEconomics

Economic Development Budgets and Establishment Growth

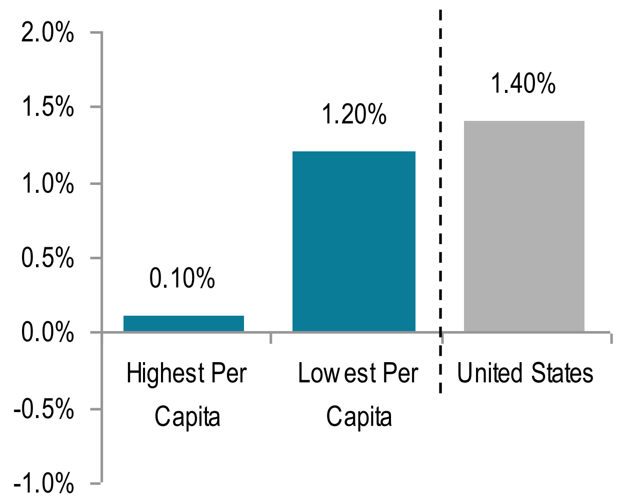
Business Growth Among Benchmarks Relative to Per Capita Economic Development Budgets

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

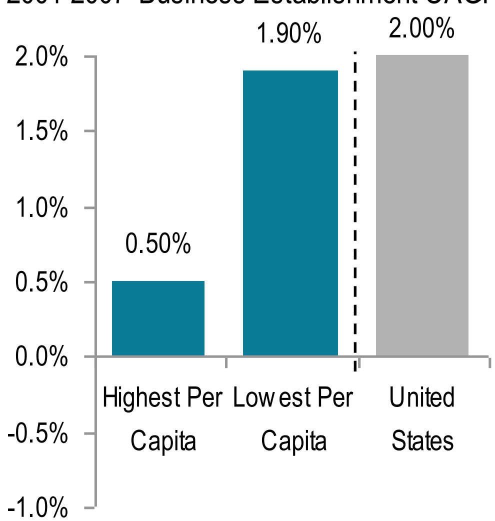
2001-2010 BUSINESS ESTABLISHMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION ESTABLISHMENT CAGR

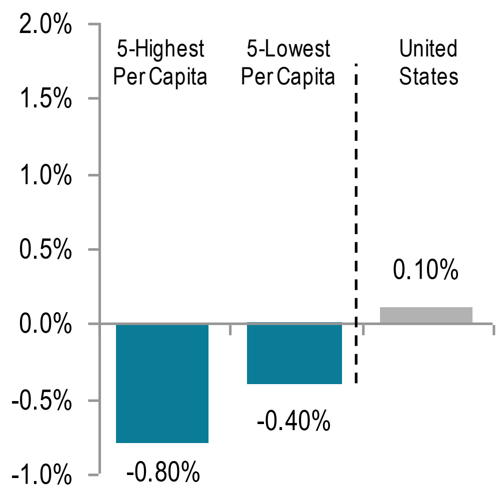
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION ESTABLISHMENT CAGR

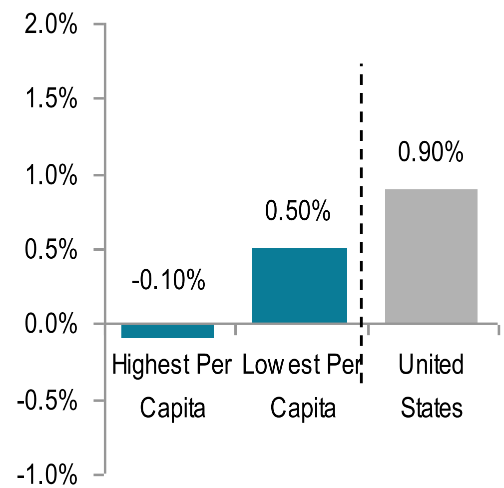
2007-2010 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH BUSINESS ESTABLISHMENTS, 2009-2010

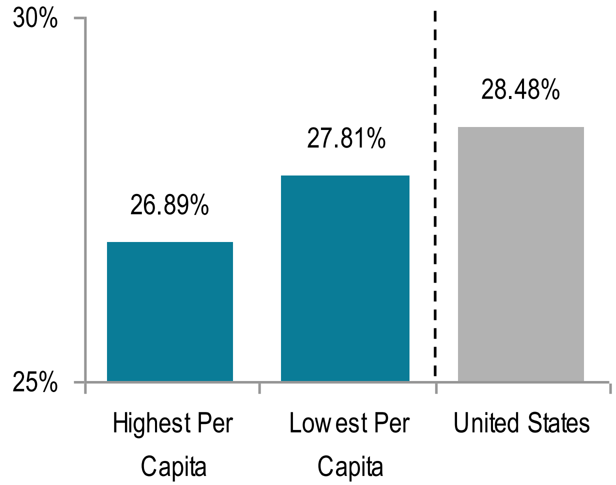
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

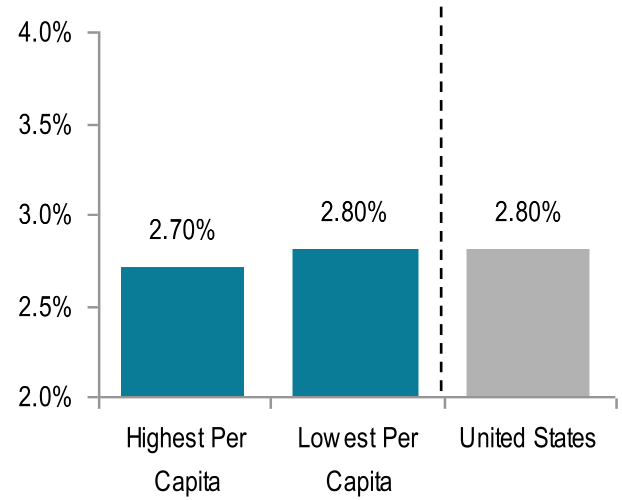
Wage Growth Among Benchmarks Relative to Per Capita Economic Development Budgets

TOTAL % AVERAGE ANNUAL WAGE GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

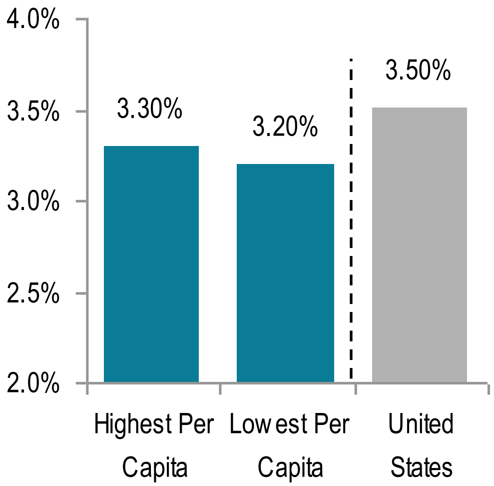
2001-2010 AVERAGE ANNUAL WAGE CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION WAGE CAGR

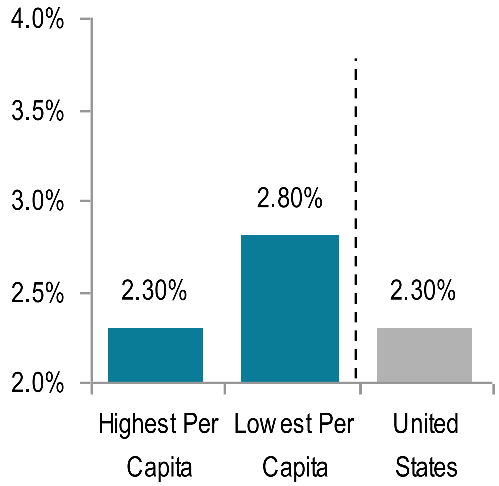
2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION WAGE CAGR

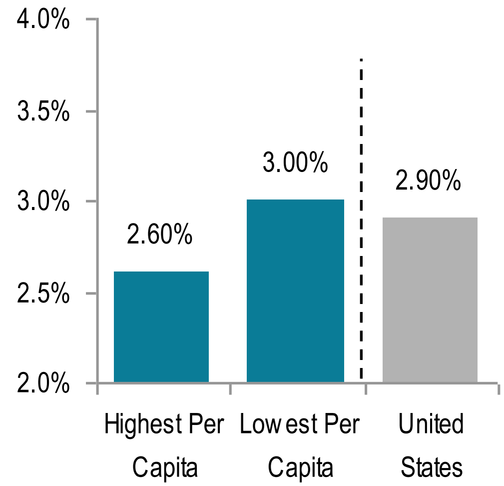
2007-2010 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH AVERAGE ANNUAL WAGES, 2009-2010

2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

Business Incentives and Overall Economic Growth

Total Incentives Per State 2009-2010		
	State	$ (M)
Top 5 Highest Outlay of Incentives	South Carolina	6400
	Illinois	5700
	Virginia	5400
	Alabama	5000
	Ohio	3600
	Michigan	3100
	Kansas	1700
	Texas	1300
	Louisiana	650
	Wisconsin	527
Top 5 Lowest Outlay of Incentives	Indiana	337
	North Carolina	270
	Minnesota	64
	Missouri	53
	Georgia	N/A

Sources: State-level economic development offices per state, Decision Data Resources

Note: Georgia data unavailable

Total Incentives Per Capita 2009-2010		
	State	$
Top 5 Highest Outlay of Incentives	South Carolina	1081
	Alabama	1046
	Virginia	675
	Kansas	596
	Illinois	444
	Michigan	317
	Ohio	312
	Louisiana	143
	Wisconsin	93
	Texas	52
Top 5 Lowest Outlay of Incentives	Indiana	52
	North Carolina	28
	Minnesota	12
	Missouri	9
	Georgia	N/A

Sources: State-level economic development offices per state, Decision Data Resources

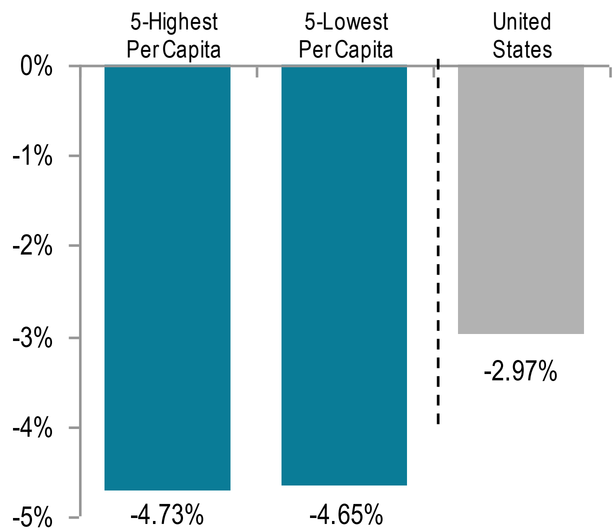
Note: Georgia data unavailable

Although the use of incentives can have a very direct impact on the attraction of new jobs and new businesses to a state through the efforts of its respective state economic development authority, these direct incentives are only one of several forces that impact the overall employment situation for a state and, by themselves, cannot be relied upon as a panacea for economic growth.

- As is illustrated in the graphs on the following pages, state benchmarks that issued the highest levels of financial incentives per capita experienced very little difference in employment growth, business establishment growth, and wage growth compared with those that issued the least amount of incentives per capita.
- This serves as indication that incentives, by themselves, cannot be relied upon as the sole means of reducing unemployment. States must instead also consider various other factors that may impact their ability to support growth.
- The lack of a correlation between incentive outlays per capita and overall employment growth should not, however, undermine the gains in employment achieved directly through their issuance, as is demonstrated on the preceding pages, but should rather serve as indication that employment growth is not determined by sheer volume of economic development incentives alone.

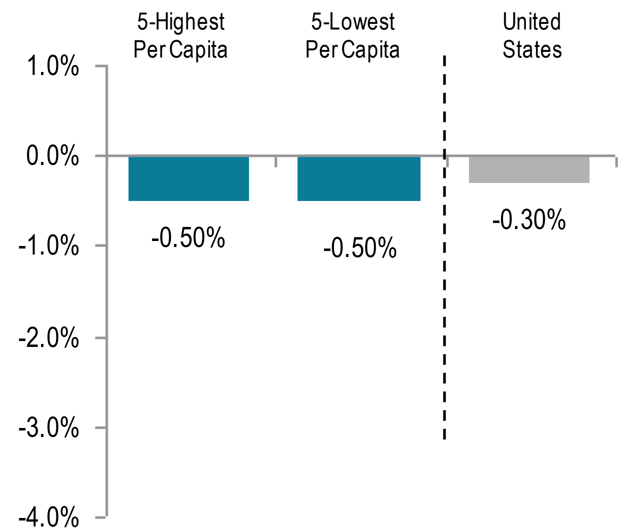
Employment Growth Among Benchmarks Relative to Per Capita Incentive Expenditures

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

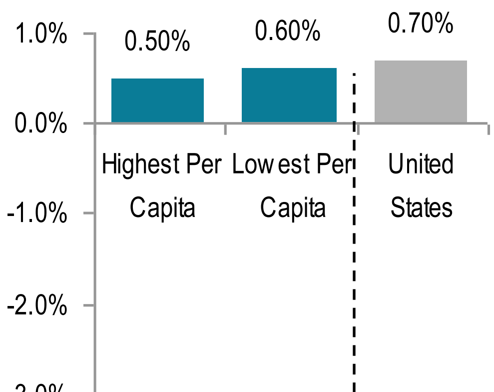
2001-2011 EMPLOYMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION EMPLOYMENT CAGR

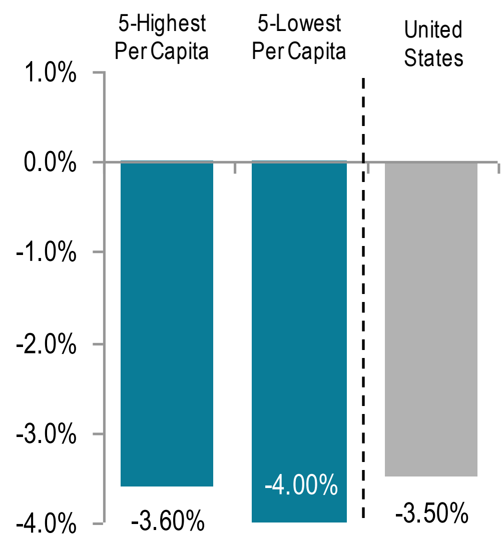
2001-2007 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION EMPLOYMENT CAGR

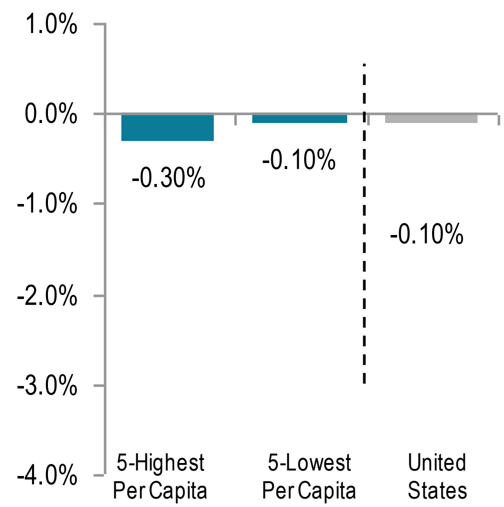
2007-2011 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH EMPLOYMENT, 2010 - 2011

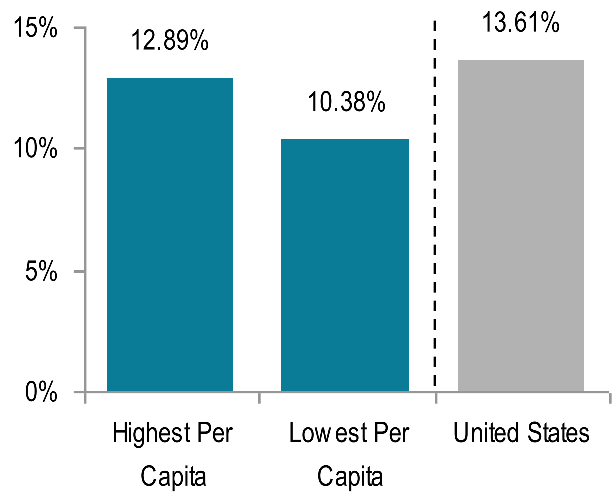
2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

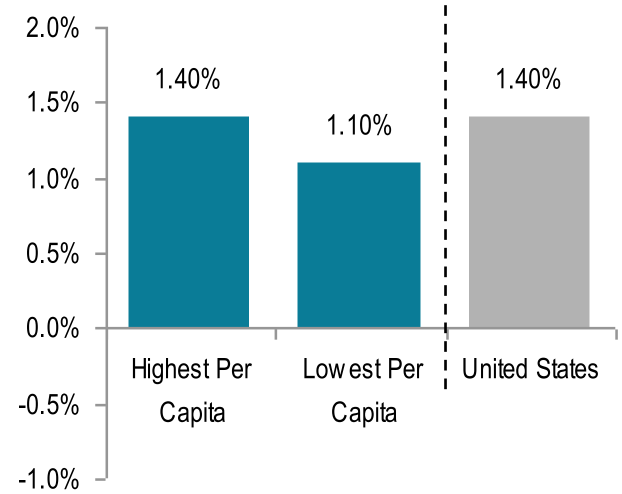
Business Growth Among Benchmarks Relative to Per Capita Incentive Expenditures

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

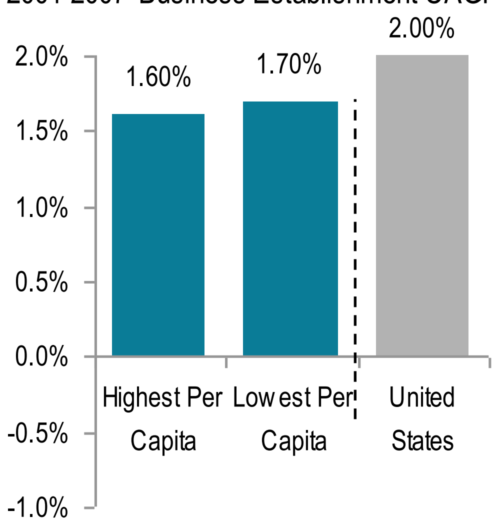
2001-2010 BUSINESS ESTABLISHMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION ESTABLISHMENT CAGR

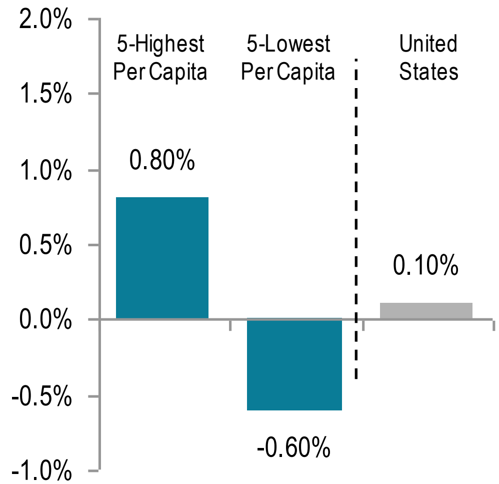
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION ESTABLISHMENT CAGR

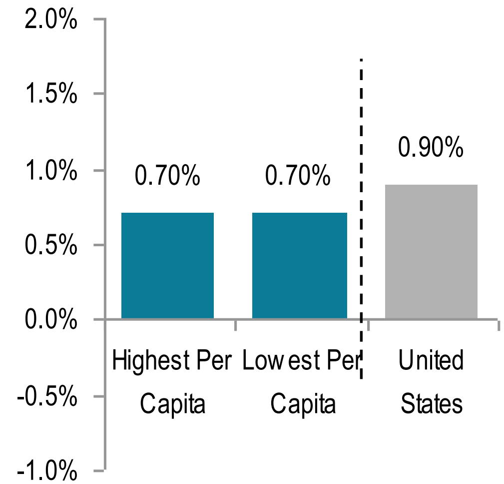
2007-2010 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH BUSINESS ESTABLISHMENTS, 2009-2010

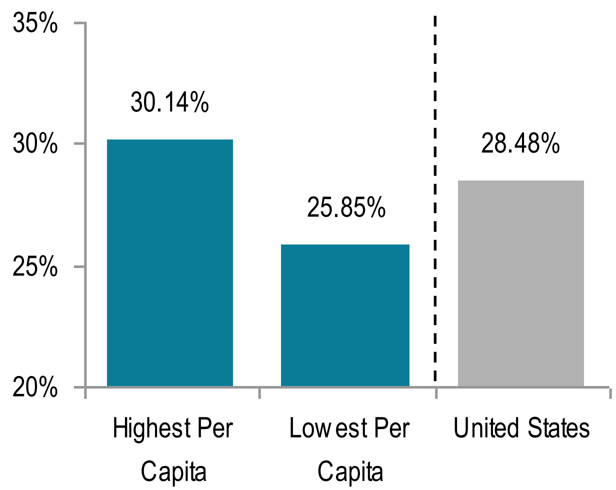
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

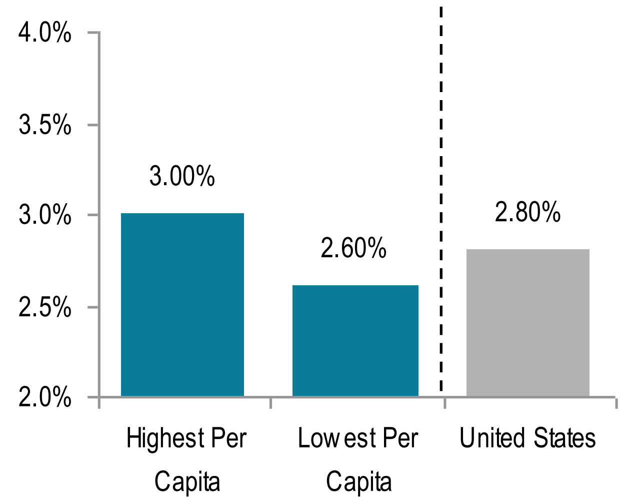
Wage Growth Among Benchmarks Relative to Per Capita Incentive Expenditures

TOTAL % AVERAGE ANNUAL WAGE GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

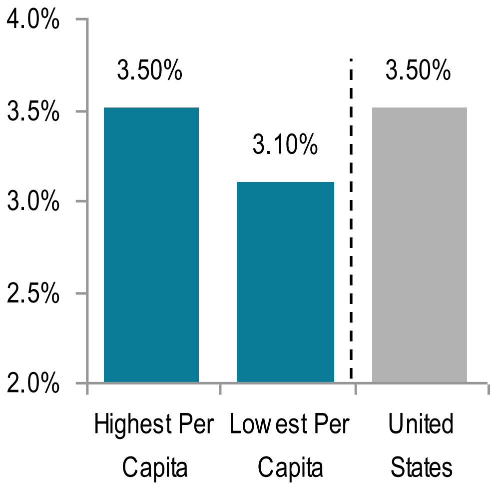
2001-2010 AVERAGE ANNUAL WAGE CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION WAGE CAGR

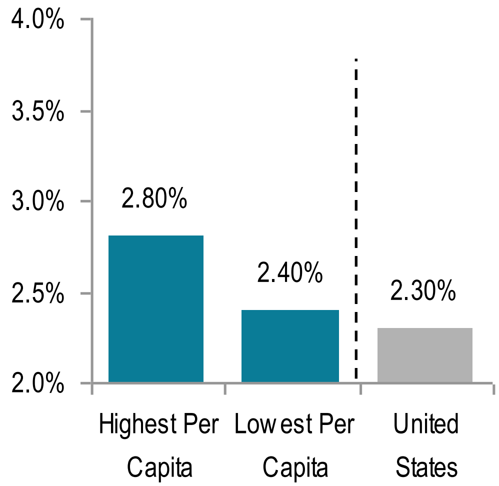
2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION WAGE CAGR

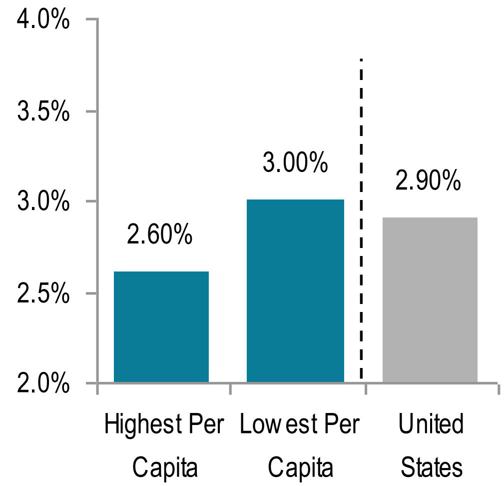
2007-2010 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH AVERAGE ANNUAL WAGES, 2009-2010

2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

	Alabama	Georgia	Illinois	Indiana	Kansas	Louisiana	Michigan
Corporate Tax Rate **2011**	6.50%	6.00%	9.50%	8.50%	4.00%	4% > $0 5% > $25K 6% > $50K 7% > $100K 8% > $200K	4.95%
2010	6.50%	6.00%	7.30%	8.50%	4.00% > $0 7.05% > $50K	4% > $0 5% > $25K 6% > $50K 7% > $100K 8% > $200K	4.95%
2009	6.50%	6.00%	7.30%	8.50%	4.00% > $0 7.05% > $50K	4% > $0 5% > $25K 6% > $50K 7% > $100K 8% > $200K	4.95%

	Minnesota	Missouri	North Carolina	Ohio	South Carolina	Texas	Virginia	Wisconsin
Corporate Tax Rate **2011**	9.80%	6.25%	6.90%	****	5.00%	None	6.00%	7.90%
2010	9.80%	6.25%	6.90%	0.26%	5.00%	None	6.00%	7.90%
2009	9.80%	6.25%	6.90%	0.26%	5.00%	None	6.00%	7.90%

Source: 2011 All States Handbook, Respective State Websites

Above are the corporate income tax rates for the benchmark states since 2009. The State of Michigan has taken aggressive steps to become more competitive in this respect and now sits among a very small number of states that do not impose a corporate income tax (several states, including Texas, maintain similar taxes on corporate earnings that do not qualify as a corporate income tax). The following pages present ratings of the overall corporate tax environment of the states studied.

State Business Tax Climate Index, 2011 – 2012	FY2012 State Business Tax Climate Index		FY 2011 State Business Tax Climate Index		Change from 2011 to 2012	
	Score	Rank	Score	Rank	Score	Rank
US	**5.00**		**5.00**			
Alabama	5.31	20	5.35	20	-0.04	0
Georgia	4.84	34	4.82	34	0.01	0
Illinois	5.05	28	5.52	16	-0.47	-12
Indiana	5.99	11	5.99	11	0.00	0
Kansas	5.13	25	5.14	26	-0.01	1
Louisiana	4.93	32	4.94	31	-0.01	-1
Michigan	5.37	18	5.37	19	-0.01	1
Minnesota	4.20	45	4.18	45	0.02	0
Missouri	5.47	15	5.63	14	-0.16	-1
North Carolina	4.22	44	4.08	46	0.14	2
Ohio	4.56	39	4.54	39	0.03	0
South Carolina	4.82	36	4.77	36	0.05	0
Texas	6.08	9	6.12	9	-0.03	0
Virginia	5.11	26	5.20	23	-0.08	-3
Wisconsin	4.38	43	4.40	41	-0.01	-2

Source: Tax Foundation

According to the Tax Foundation, the State of Michigan has had a generally favorable corporate tax environment and is rated higher than several of its benchmarks.

- For 2012, Michigan has maintained the same rating from the previous year. (5.37) with an overall corporate tax climate rating higher than the United States as a whole (5.0).
- Michigan moved up one spot from the previous year from 19th to 18th place overall in terms of a favorable tax environment.

State Business Tax Climate Index, 2006 - 2011														
	FY 2011 State Business Tax Climate Index		FY 2010 State Business Tax Climate Index		Change from 2010 to 2011		FY 2009 State Business Tax Climate Index		FY 2008 State Business Tax Climate Index		FY 2007 State Business Tax Climate Index		FY 2006 State Business Tax Climate Index	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
US	5.00		5.00				5.00		5.00		5.00		5.00	
Alabama	4.99	28	5.19	19	-0.20	-9	5.30	20	5.08	23	5.16	22	5.60	16
Georgia	5.02	25	5.01	29	0.01	4	5.16	27	4.95	28	5.18	21	5.52	20
Illinois	5.05	23	5.01	30	0.04	7	5.26	23	5.04	24	4.92	31	5.22	26
Indiana	5.79	10	5.67	12	0.11	2	5.88	14	5.65	13	5.72	12	5.86	12
Kansas	4.76	35	4.93	32	-0.17	-3	5.07	31	4.87	31	4.77	35	4.99	33
Louisiana	4.71	36	4.74	35	-0.03	-1	4.98	33	4.75	34	4.79	33	5.05	32
Michigan	5.40	17	5.35	17	0.05	0	5.30	21	5.32	17	5.14	23	5.20	28
Minnesota	4.40	43	4.44	43	-0.04	0	4.61	41	4.40	42	4.39	43	4.71	39
Missouri	5.48	16	5.37	16	0.11	0	5.57	16	5.35	16	5.37	15	5.68	14
North Carolina	4.47	41	4.66	39	-0.19	-2	4.74	39	4.52	41	4.52	42	4.70	40
Ohio	4.16	46	4.04	47	0.12	1	4.12	48	3.95	48	3.95	47	3.82	47
South Carolina	5.04	24	5.03	26	0.00	2	5.21	25	5.01	26	4.98	27	5.21	27
Texas	5.63	13	5.70	11	-0.07	-2	6.02	9	5.79	11	5.99	10	6.41	7
Virginia	5.67	12	5.53	15	0.14	3	5.70	15	5.51	15	5.51	14	5.58	17
Wisconsin	4.55	40	4.54	42	0.01	2	4.76	38	4.56	39	4.57	40	4.77	37

Source: Tax Foundation

According to the Tax Foundation, the corporate tax environment in the State of Michigan was rated higher than several of its benchmarks since 2006.

- With a rating of 5.40 for 2011, the rating of the corporate tax climate in Michigan is higher than for the United States as a whole (5.0) and has improved from a rating of 5.35 for 2010.
- While the rating of the corporate tax climate in Michigan has improved recently, benchmarks including Texas, Alabama, North C arolina and Minnesota have received lower ratings from the previous year.

Average Business Tax Climate Score 2006-2011		
	State	Score
	United States	*5.00*
Top 5 Best Business Tax Climates	Texas	5.92
	Indiana	5.76
	Virginia	5.58
	Missouri	5.47
	Michigan	**5.29**
	Alabama	5.22
	Georgia	5.14
	Illinois	5.08
	South Carolina	5.08
	Kansas	4.90
Top 5 Worst Business Tax Climates	Louisiana	4.84
	Wisconsin	4.63
	North Carolina	4.60
	Minnesota	4.49
	Ohio	4.01

Source: Tax Foundation, AngelouEconomics

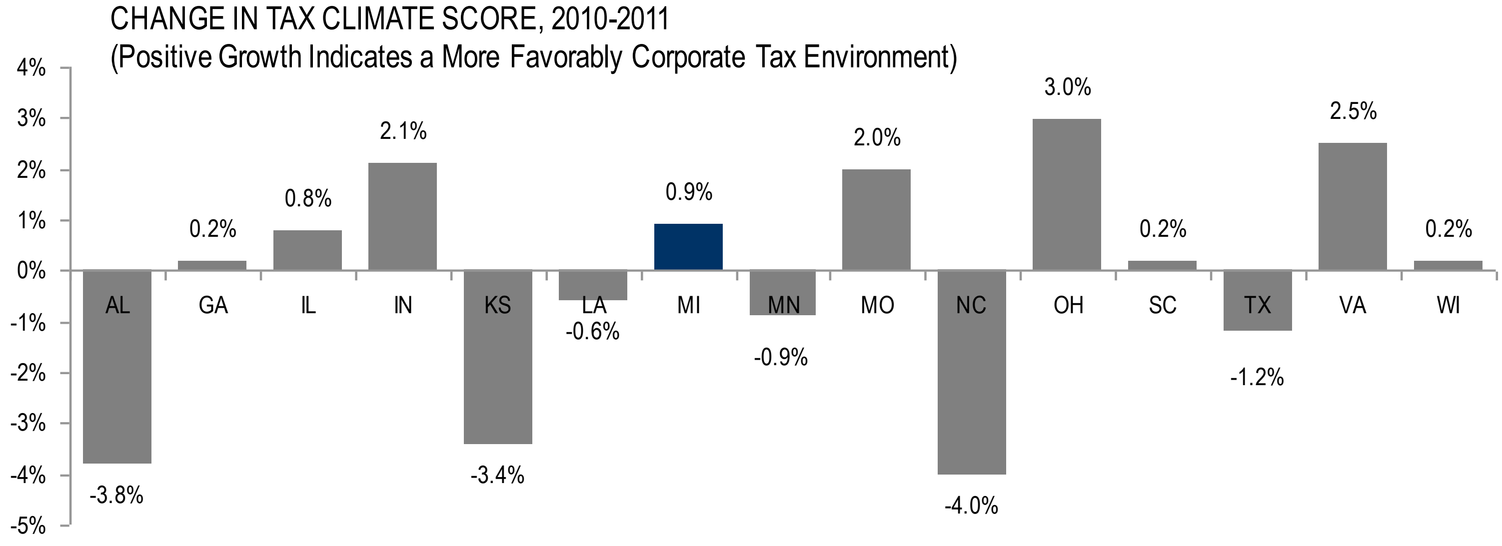
Business Tax Climate By FY 2011 Rank			
	State	Score	Rank
	United States	5.00	n/a
Top 5 Best Business Tax Climates	Indiana	5.79	10
	Virginia	5.67	12
	Texas	5.63	13
	Missouri	5.48	16
	Michigan	**5.40**	**17**
	Illinois	5.05	23
	South Carolina	5.04	24
	Georgia	5.02	25
	Alabama	4.99	28
	Kansas	4.76	35
Top 5 Worst Business Tax Climates	Louisiana	4.71	36
	Wisconsin	4.55	40
	North Carolina	4.47	41
	Minnesota	4.40	43
	Ohio	4.16	46

Source: Tax Foundation, AngelouEconomics

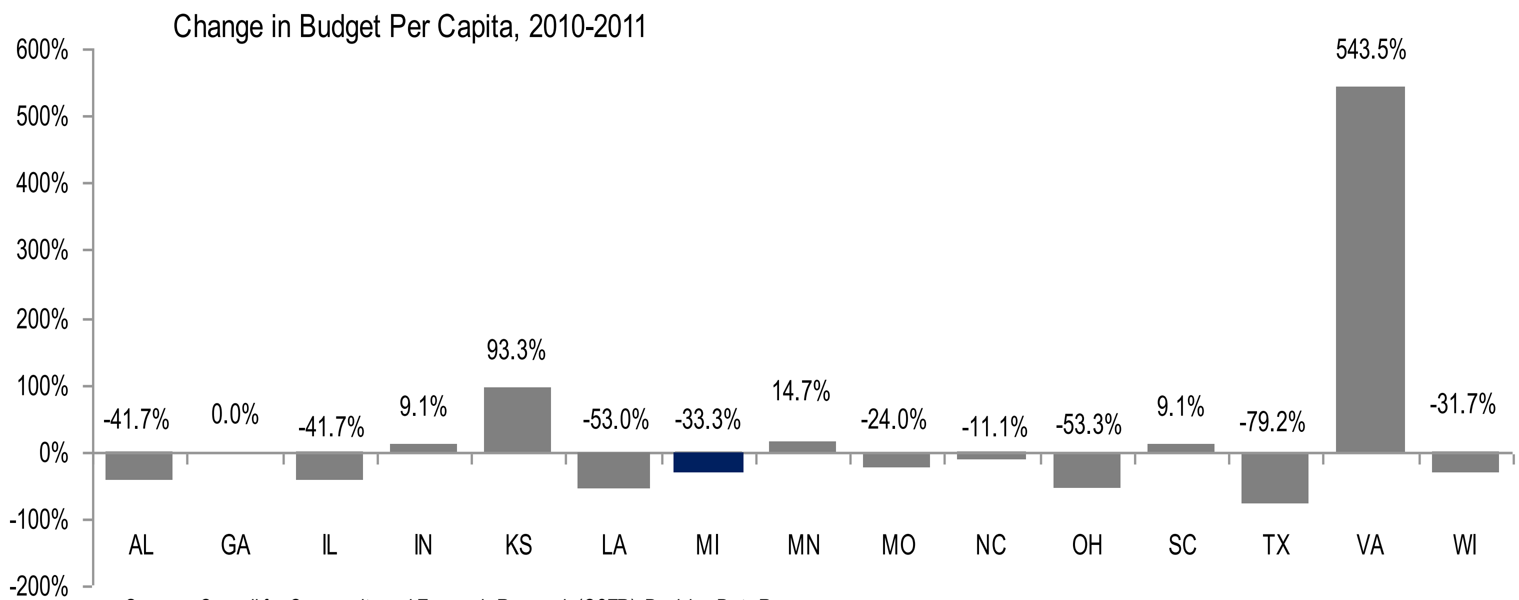
Benchmarks rated as having the most favorable corporate tax environment outperformed on the basis of employment growth, business establishment growth and wage growth.

- As an illustration of the impact that many factors outside of the issuance of incentives have on a state's economy, this report presents the correlation of growth in employment, establishments and wages with the rating of the benchmarks' corporate tax environment as well as their retention of Young Professionals.
- With an average rating of 5.29 (versus 5.00 for the United States as a whole), the State of Michigan is among the top five benchmarks in Average Business Tax Climate Score between 2006-2011 as determined by the Tax Foundation.
- As illustrated in the following pages, overall growth in employment, establishments and wages has significantly outperformed in the benchmarks that offer the highest-rated corporate business tax climates.

Tax Climate and Budget Change



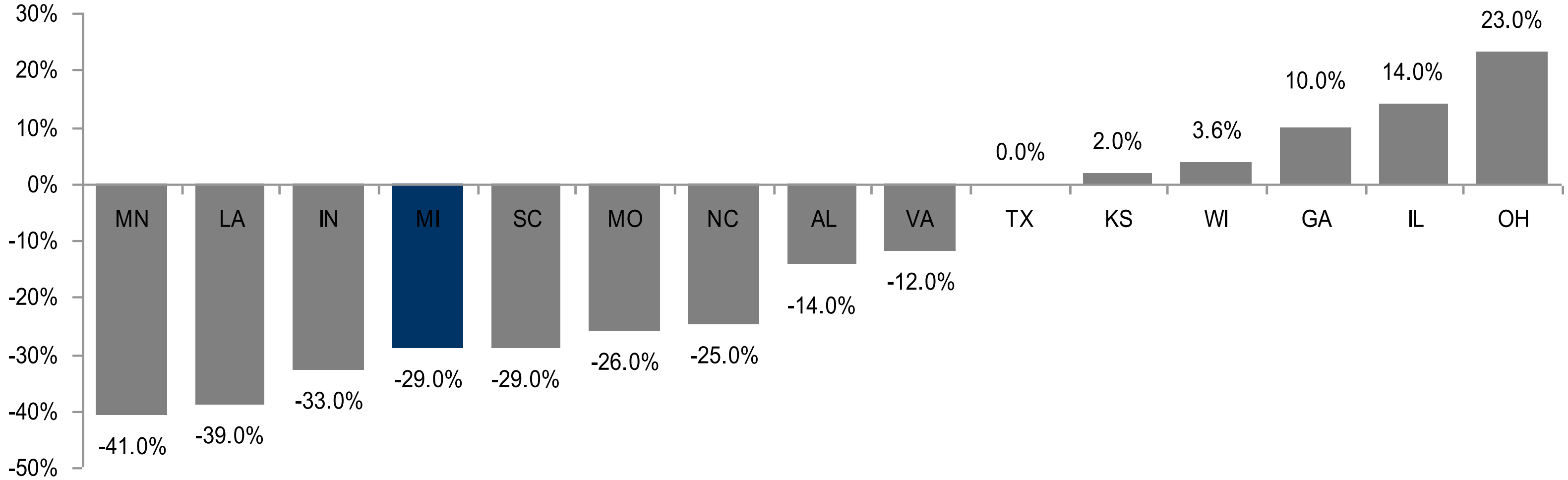
Source: The Tax Foundation



Source: Council for Community and Economic Research (C2ER), Decision Data Resources

Tax Climate and Budget Change

Change in Budget Per Capita, 2011-2012



Source: Council for Community and Economic Research (C2ER), Decision Data Resources

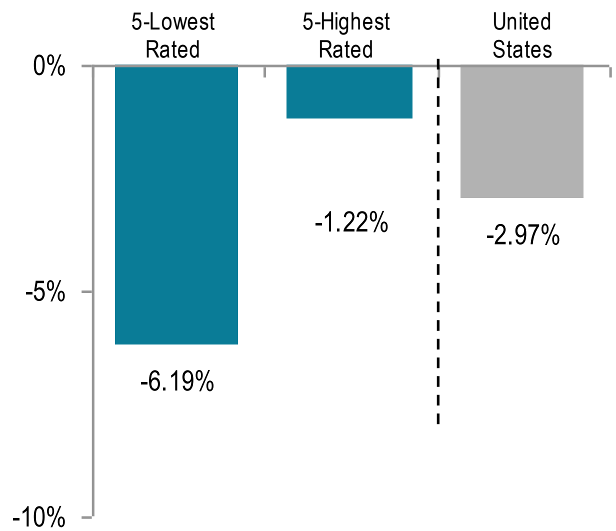
From 2011 to 2012, the change in budgets per capita experienced a continued trend of decline for a majority of the benchmark states, including Michigan.

- With nine states experiencing a decline in per-capita budgets, as well as one that experienced no change and only four states that experienced growth in their economic development budgets, the most common experience among the benchmark state economic development organizations was a reduced budget between 2011 and 2012.
- The change in budget per capita for the State of Michigan, though among the lowest third, is near the median range of benchmark states.

Business Taxes Employment Growth

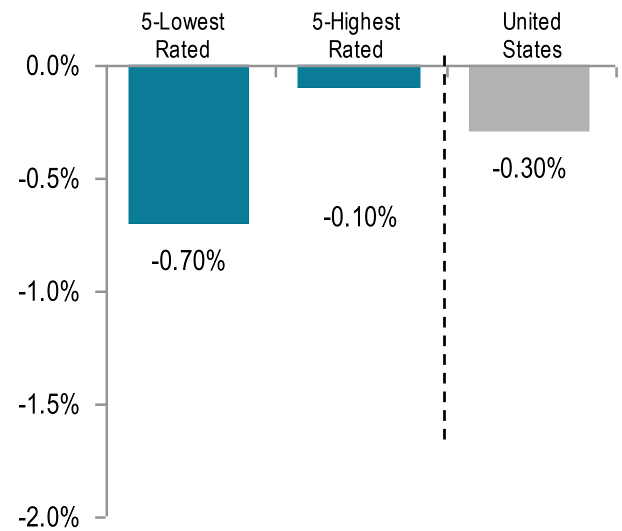
Employment Growth Among Benchmarks With Highest- and Lowest-Rated Business Tax Climates

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

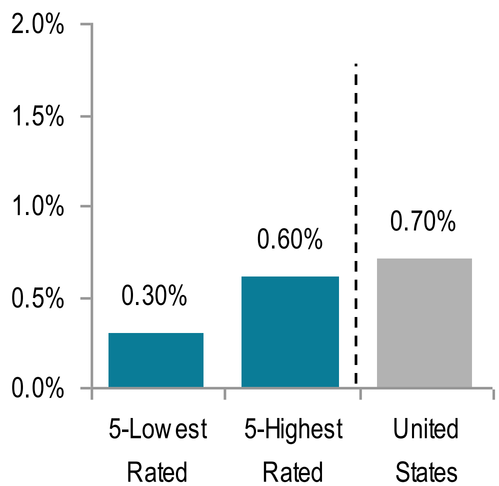
2001-2011 EMPLOYMENT CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

PRE-RECESSION EMPLOYMENT CAGR

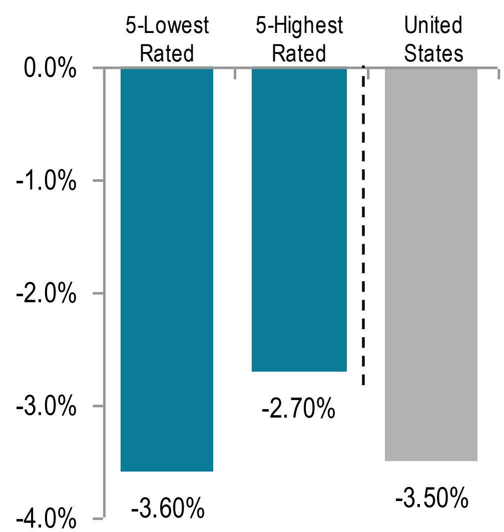
2001-2007 Employment CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

POST-RECESSION EMPLOYMENT CAGR

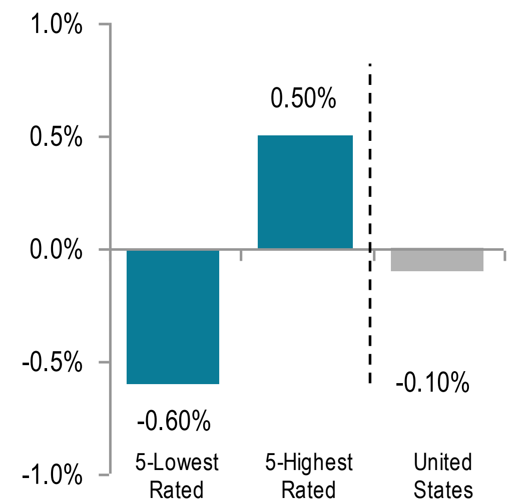
2007-2011 Employment CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

% GROWTH EMPLOYMENT, 2010 - 2011

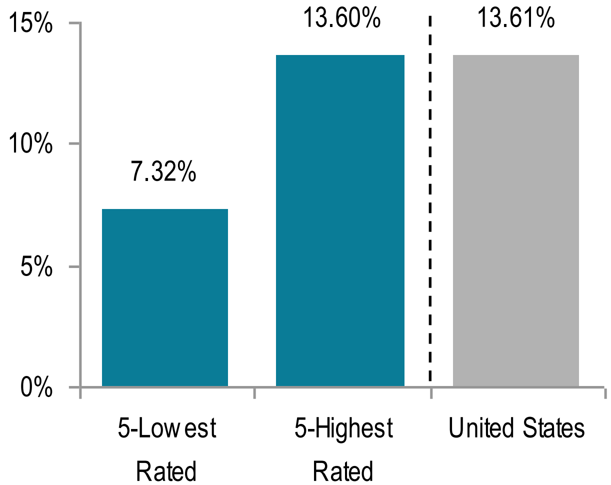
2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

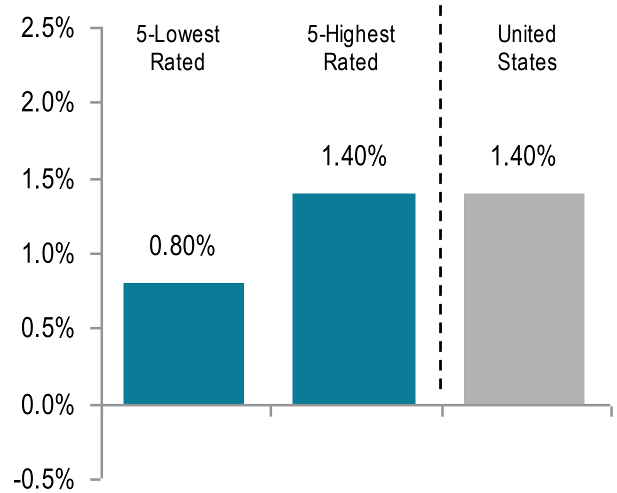
Business Growth Among Benchmarks With Highest- and Lowest-Rated Business Tax Climates

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

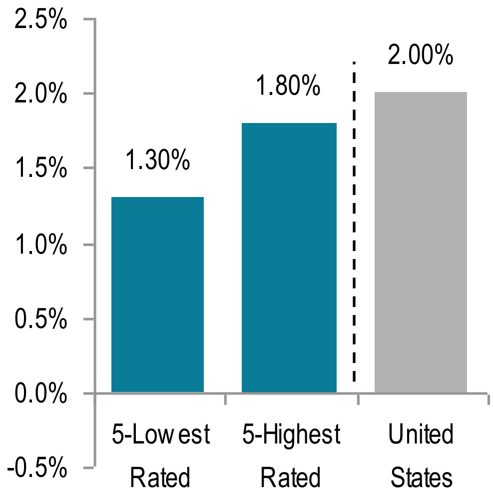
2001-2010 BUSINESS ESTABLISHMENT CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

PRE-RECESSION ESTABLISHMENT CAGR

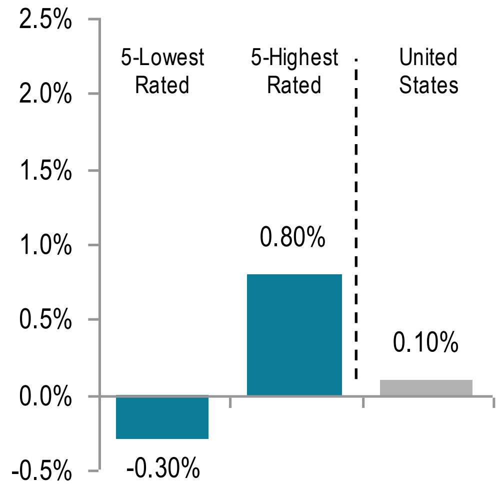
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

POST-RECESSION WAGE CAGR

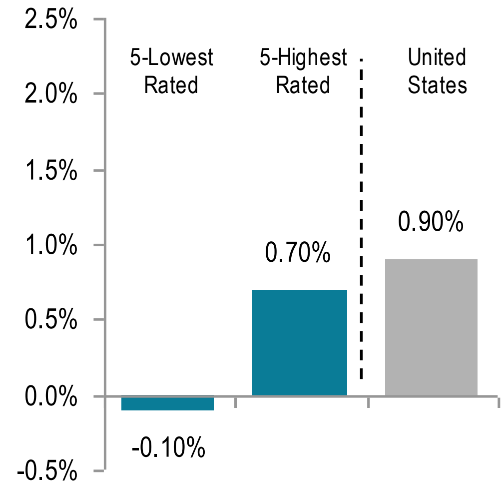
2007-2010 Business Establishment CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

% GROWTH BUSINESS ESTABLISHMENTS, 2009-2010

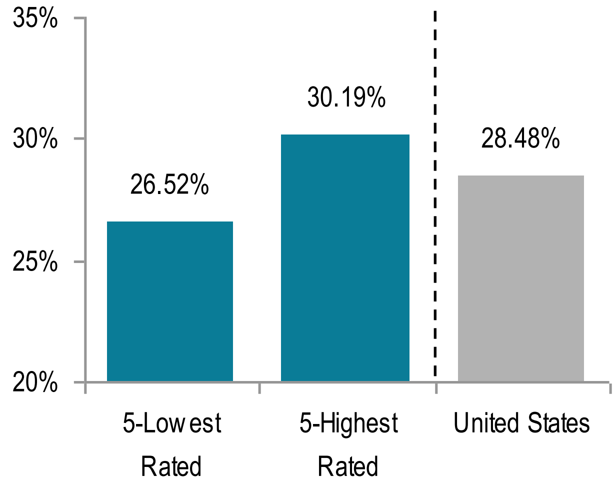
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, Tax Foundation, AngelouEconomics

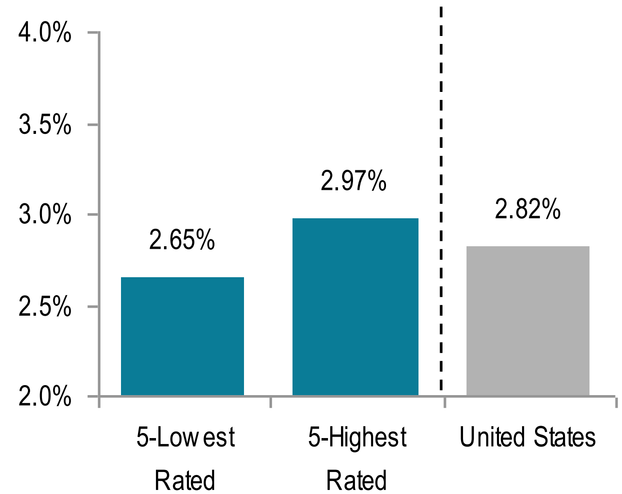
Wage Growth Among Benchmarks With Highest- and Lowest-Rated Business Tax Climates

TOTAL % AVERAGE ANNUAL WAGE GROWTH, 2001-2010



Source: *Bureau of Labor Statistics, Tax Foundation, AngelouEconomics*

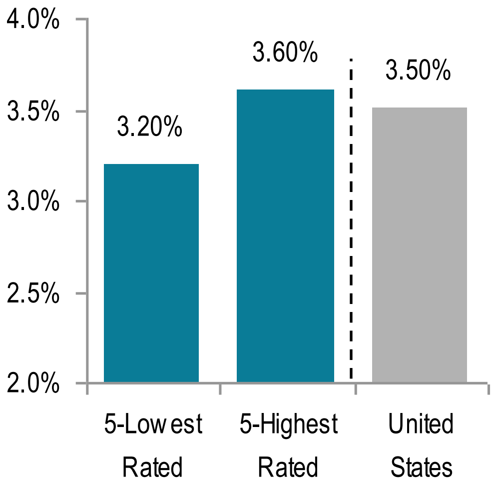
2001-2010 AVERAGE ANNUAL WAGE CAGR



Source: *Bureau of Labor Statistics, Tax Foundation, AngelouEconomics*

PRE-RECESSION WAGE CAGR

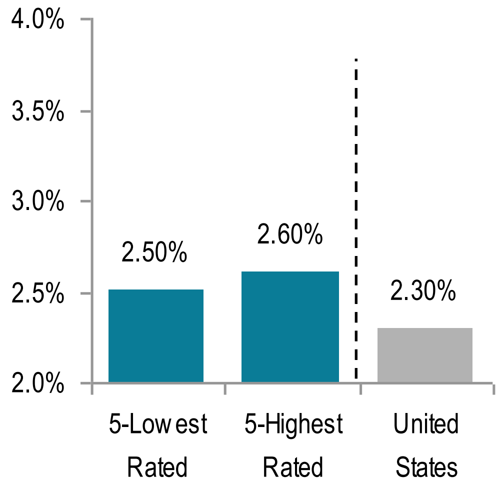
2001-2007 Average Annual Wages CAGR



Source: *Bureau of Labor Statistics, Tax Foundation, AngelouEconomics*

POST-RECESSION WAGE CAGR

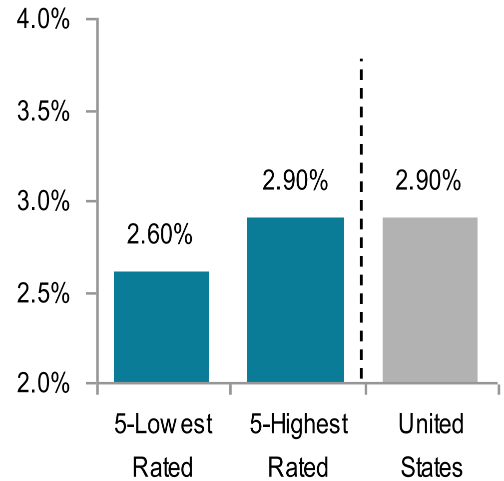
2007-2010 Average Annual Wages CAGR



Source: *Bureau of Labor Statistics, Tax Foundation, AngelouEconomics*

% GROWTH AVERAGE ANNUAL WAGES, 2009-2010

2001-2007 Average Annual Wages CAGR



Source: *Bureau of Labor Statistics, Tax Foundation, AngelouEconomics*

Loss of Young Professionals

Loss of Young Professionals	
State	*Decline in Proportion of Population Age 25-44*
Louisiana	-8.67%
Texas	-8.83%
Kansas	-9.43%
Alabama	-9.47%
Illinois	-10.10%
Indiana	-10.12%
Missouri	-10.23%
United States	***-10.32%***
South Carolina	-10.38%
Ohio	-11.19%
Georgia	-11.50%
Wisconsin	-11.82%
North Carolina	-11.86%
Virginia	-12.14%
Minnesota	-12.47%
Michigan	-13.22%

Source: Decision Data Resources, U.S. Census, AngelouEconomics

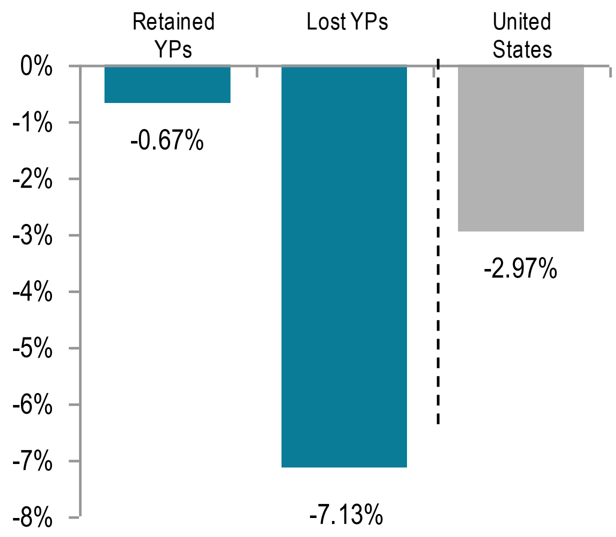
Benchmark states that experienced a smaller decline in the proportion of their population age 25-44 experienced stronger gains in employment, business establishments, and wages than those that witnessed a larger decline in this age group.

- As is illustrated in the graphs on the following pages, states that retained more young professionals outperformed those that saw declines above that of the national level. This outcome is visible across nearly every segment analyzed, including employment growth, business growth, and wage growth.
- The correlation between these factors held prior to and following the recession.
- As retirees are not included in the labor force and therefore not measured in employment statistics, an increase in the number of retirees would not account for the outcomes illustrated.
- The State of Michigan experienced the largest decline in the young professionals age group among all of the benchmarks studied. This presents a particularly significant concern as the state seeks to support employment growth.

Loss of Young Professionals and Employment Growth

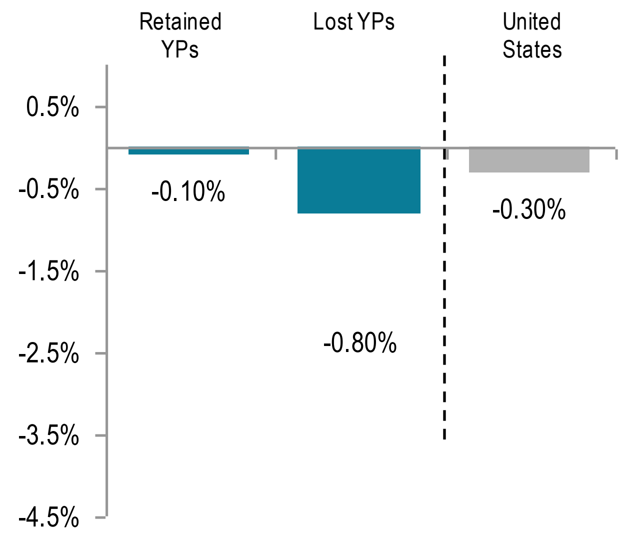
Employment Growth Among Benchmarks Relative to Loss of Population Age 25-44

TOTAL % EMPLOYMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

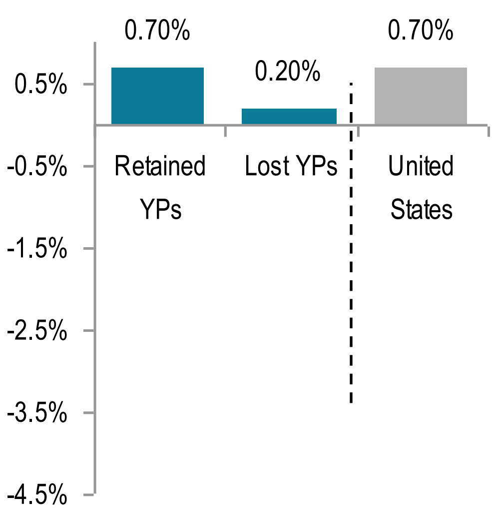
2001-2011 EMPLOYMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION EMPLOYMENT CAGR

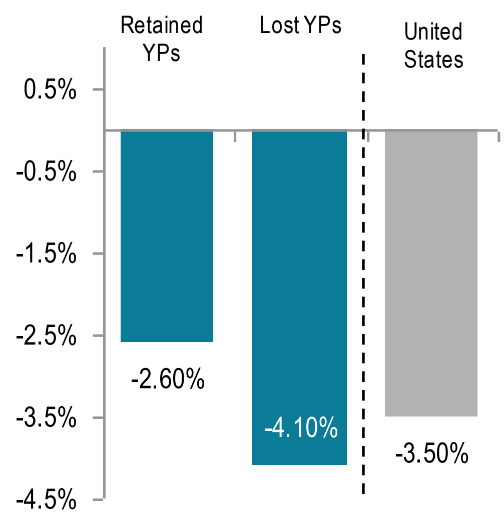
2001-2007 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION EMPLOYMENT CAGR

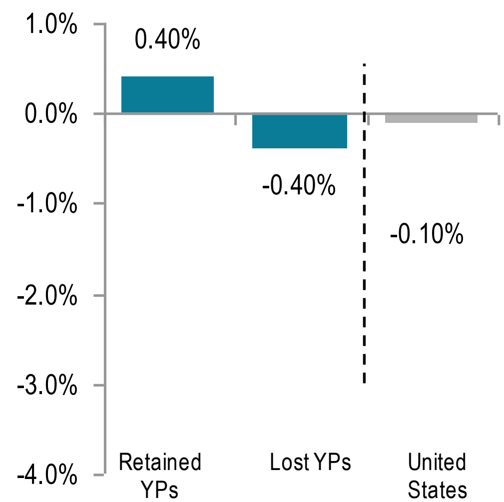
2007-2011 Employment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH EMPLOYMENT, 2010 - 2011

2001-2007 Average Annual Wages CAGR

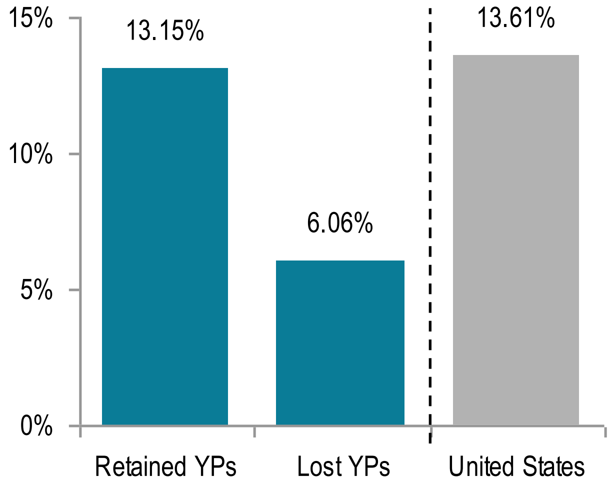


Source: Bureau of Labor Statistics, AngelouEconomics

Loss of Young Professionals and Establishment Growth

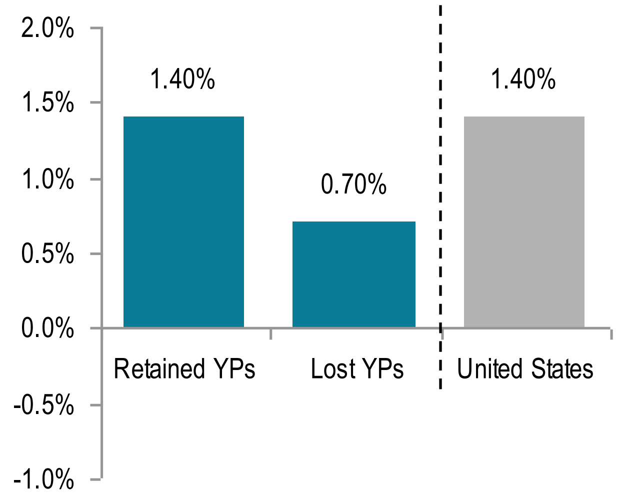
Business Growth Among Benchmarks Relative to Loss of Population Age 25-44

TOTAL % BUSINESS ESTABLISHMENT GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

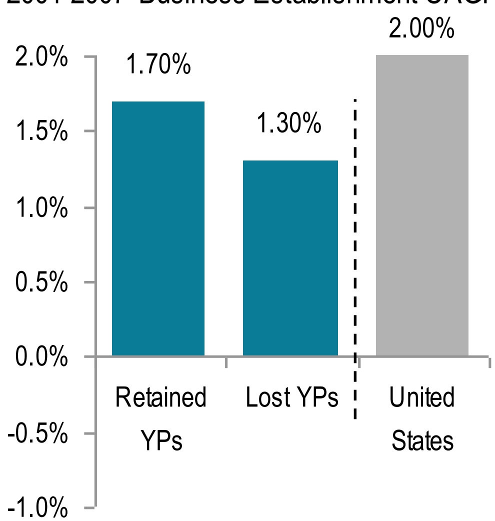
2001-2010 BUSINESS ESTABLISHMENT CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION ESTABLISHMENT CAGR

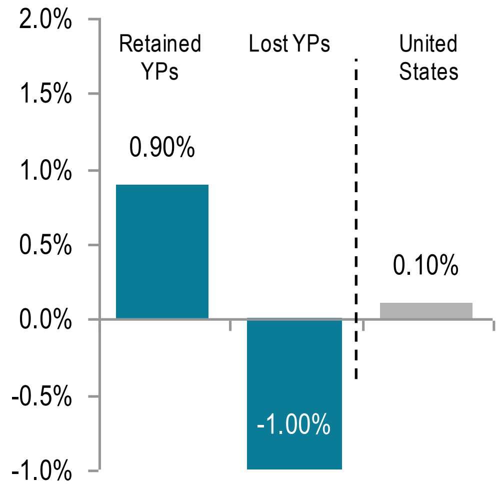
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION ESTABLISHMENT CAGR

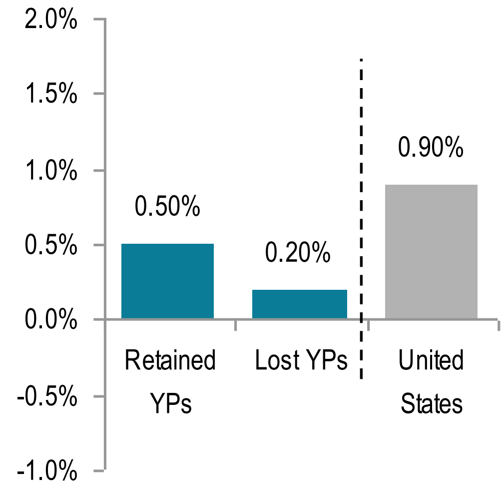
2007-2010 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH BUSINESS ESTABLISHMENTS, 2009-2010

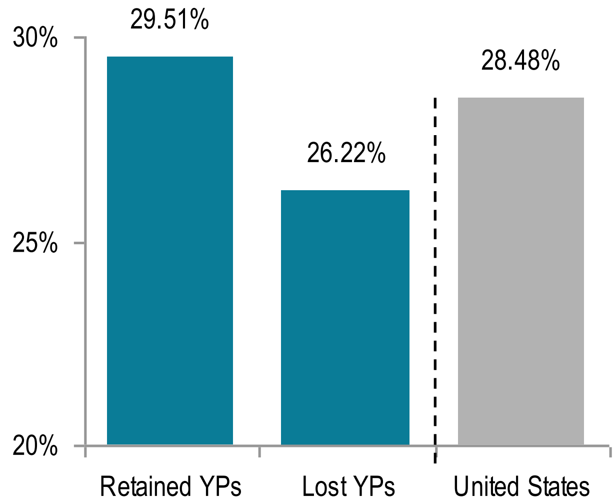
2001-2007 Business Establishment CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

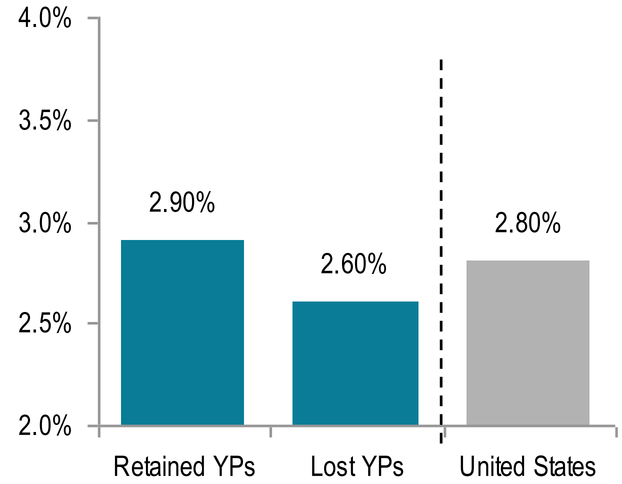
Wage Growth Among Benchmarks Relative to Loss of Population Age 25-44

TOTAL % AVERAGE ANNUAL WAGE GROWTH, 2001-2010



Source: Bureau of Labor Statistics, AngelouEconomics

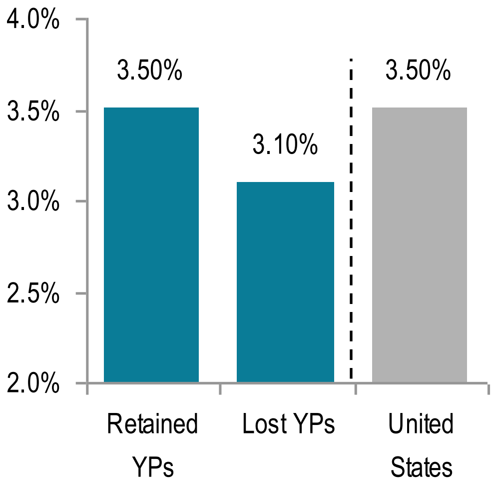
2001-2010 AVERAGE ANNUAL WAGE CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

PRE-RECESSION WAGE CAGR

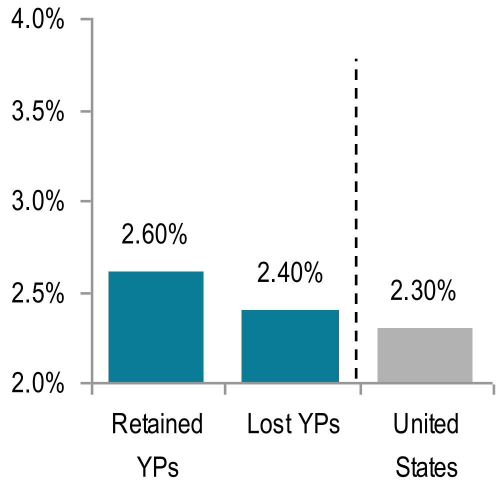
2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

POST-RECESSION WAGE CAGR

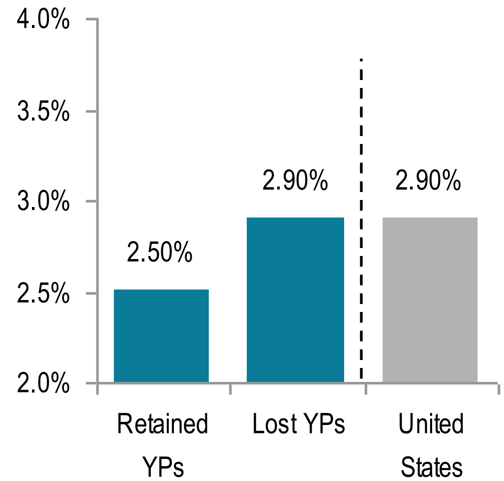
2007-2010 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

% GROWTH AVERAGE ANNUAL WAGES, 2009-2010

2001-2007 Average Annual Wages CAGR



Source: Bureau of Labor Statistics, AngelouEconomics

Photo Credit: MEDC

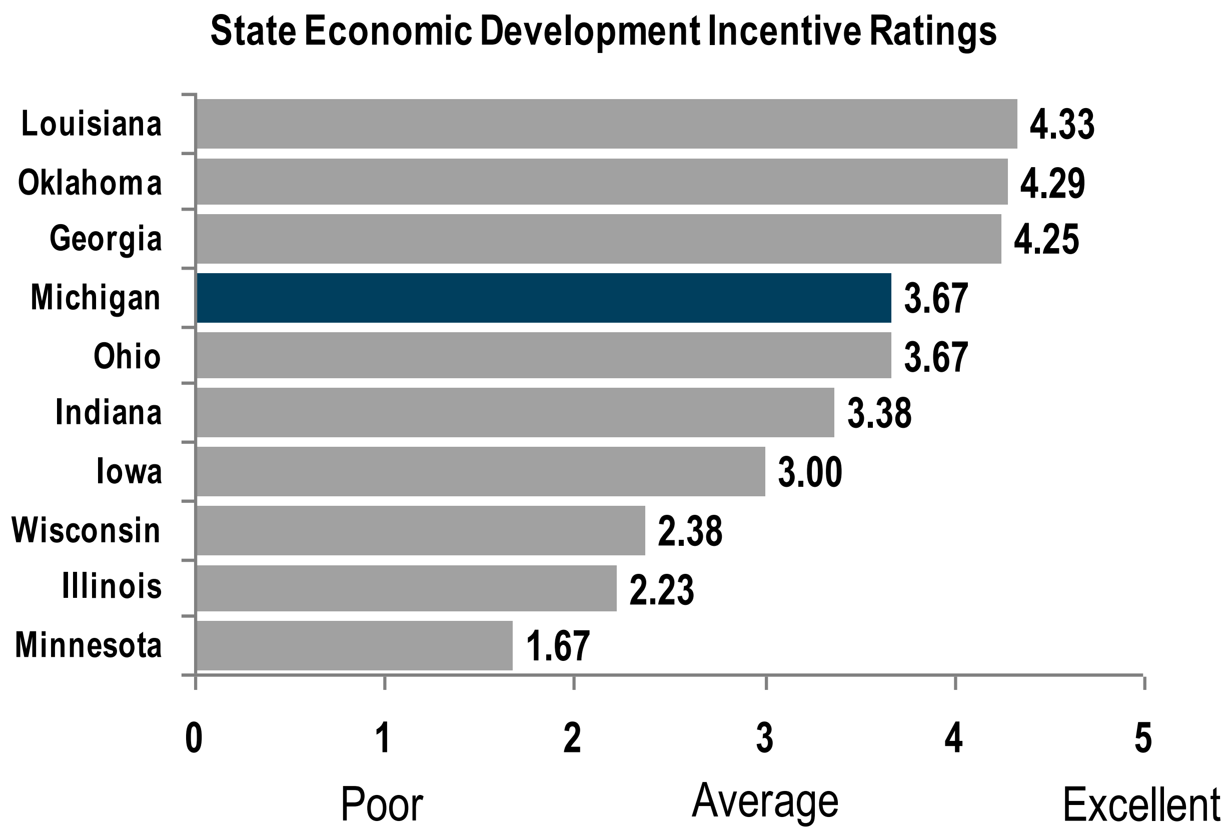
SURVEY OF LOCATION ADVISORS

AngelouEconomics conducted a survey of location consulting companies located throughout the United States. The purpose of the survey was to gain insight from leading professionals with a strong understanding of the strengths and weaknesses of state economic development organizations across the country. A total of 15 location-consulting companies responded to the survey, a 28.8% response rate. The following pages examine the results of key questions included in the survey.

This report highlights the perceptions held by top site selectors of the State of Michigan as collected through the Location Advisory Survey. These findings are of direct value to MEDC in setting a course for future activities and in prioritizing efforts aimed at drawing increased interest from relocating businesses and site selection consultants.

As is illustrated in the graphs that follow, site selectors perceive the State of Michigan as having an above-average collection of incentive offerings and rated Michigan's marketing efforts as being average. Despite its generally average overall ratings from surveyed site selectors, site selectors considered Michigan less frequently than any of the ten states in the survey when determining possible locations for relocating businesses. This indicates that, though Michigan's economic development resources are considered to be fair, a multitude of outside factors prevent site selectors from considering locations in Michigan. Many of these factors may be matters of perception, which would require a concerted marketing effort to eliminate pernicious stigmas and highlight the state's competitive features.

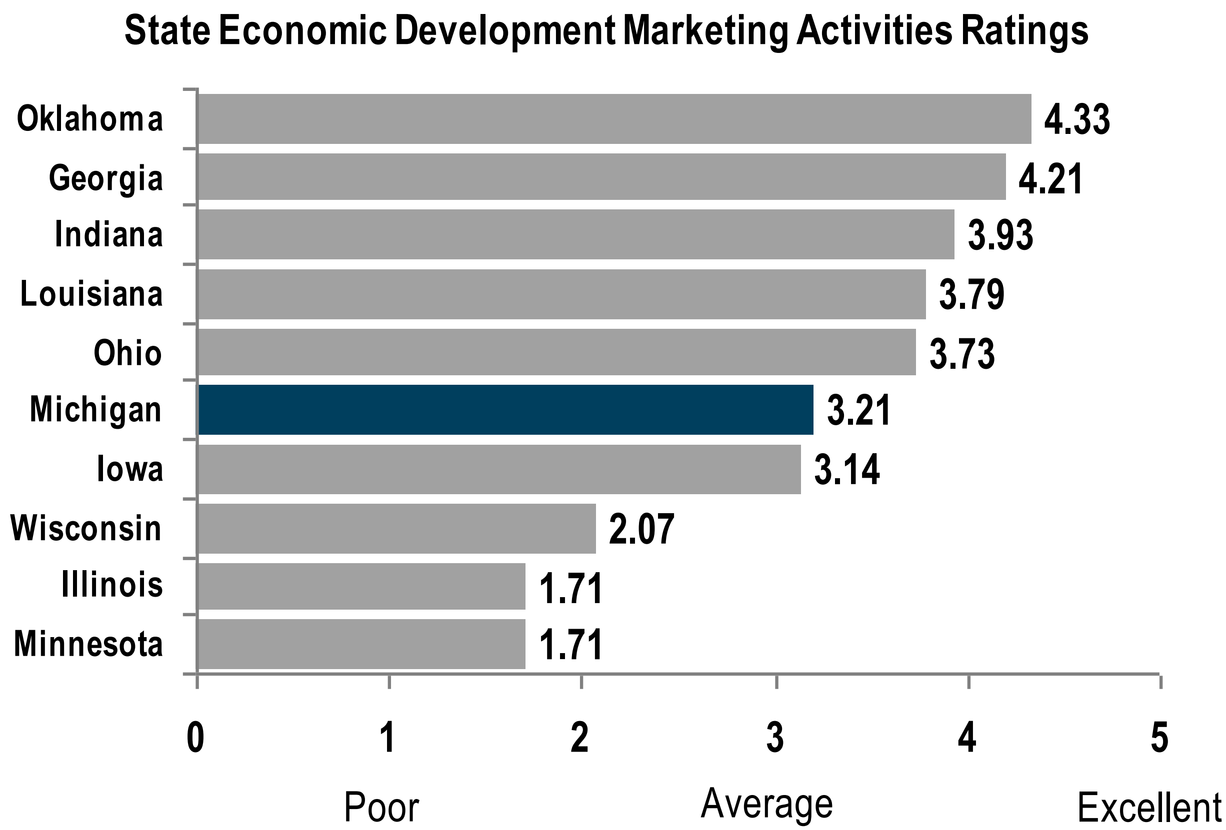
Survey of Location Advisors



Source: AngelouEconomics Survey of Location Advisors

- Michigan's economic development incentives were rated 4th out of 10 competitor states
- Southern states consistently rated higher. Among Midwest competitor states, Michigan rated in the top half.

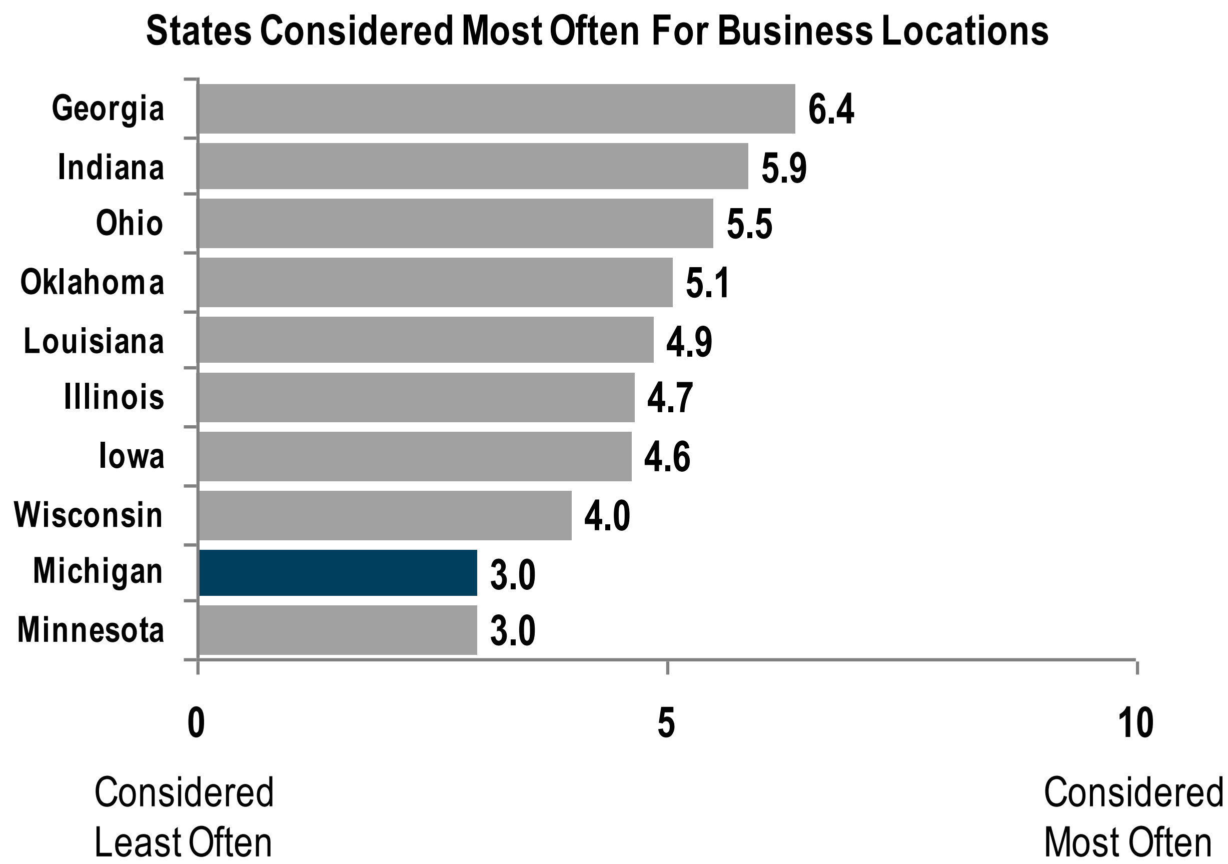
Survey of Location Advisors



Source: AngelouEconomics Survey of Location Advisors

- Michigan's economic development marketing activities were rated 6th out of 10 among competitor states.
- Midwestern states are generally clustered on the bottom half of this rating scale.

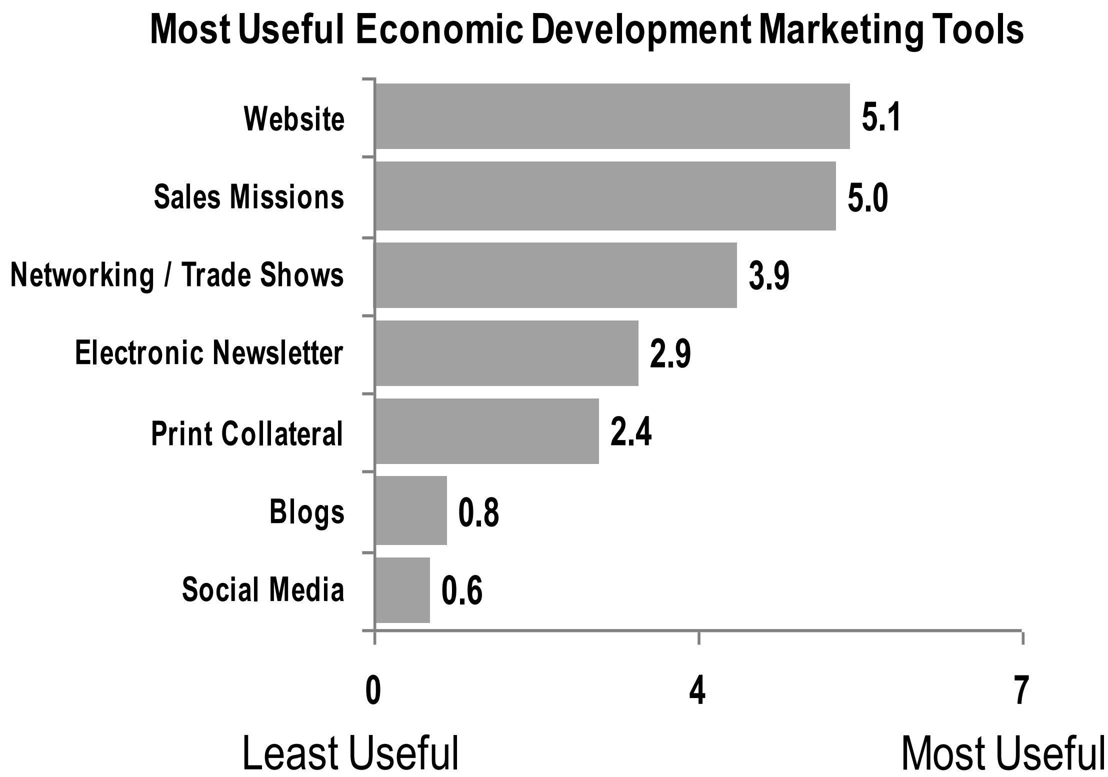
Survey of Location Advisors



Source: AngelouEconomics Survey of Location Advisors

- Fifteen leading location-consulting companies ranked Michigan 9th out of 10 competitor states considered most often by relocating businesses.
- Other states frequently considered by the respondents include North Carolina, South Carolina, Alabama, Tennessee, Texas, Arizona, Mississippi, Kentucky, and Pennsylvania.

Survey of Location Advisors



Source: AngelouEconomics Survey of Location Advisors

- Location-consulting companies identified economic development organization websites as the most useful economic development marketing tool.
- Despite the rise in social media tools, such as Facebook and LinkedIn, location-consulting companies identified these tools as the least useful for economic development marketing.

Ranking	Top Site Selection Factors for Industrial Facilities, 2010	Importance Rating Percent (%)
1	Highway Accessibility	97.3
2	Labor Cost	91.0
3	Tax Exemptions	90.9
4	Occupancy and Construction Costs	89.8
5	State and Local Tax Incentives	89.3
6	Corporate Tax Rate	86.3
7	Availability of Skilled Labor	85.9
8	Inbound/Outbound Shipping Costs	84.0
9	Energy Availability and Costs	82.1
10	Availability of Buildings	81.0

The above chart reflects the survey results from “Area Development’s” 2010 Corporate Survey about the selection factors used by industry leaders when locating a new site for their industrial facility. Area Development is a magazine covering corporate site selection and relocation.

- The availability of incentives is a priority for site selectors, though not the most important priority.
- Highway accessibility was rated as the highest selection factor by site selectors in the 2010 survey.
- The presence of labor unions was rated as the 9th highest selection factor in the 2008 survey, but fails to make the top-10 list in the 2010 survey.


Photo Credit: MEDC

CASE STUDIES AND BEST PRACTICES

Case studies provide the analysis of a limited number of events or conditions and their immediate relationships. One major advantage of the case studies are their applicability to real-life situations. To that end, this study incorporates a case study from each of the benchmark states and involves an economic-development deal and state-level economic development incentive programs. The case studies provided on the following pages provide an array of incentives packages used in working with companies that may be of interest to the State of Michigan.

To further strengthen the analysis, Best Practices are derived from the case studies. The goal of using Best Practices is to introduce proven practices that others have successfully used to improve their economic-development efforts. The Best Practices provided detail the way in which a given state structured its incentive package and then translates how Michigan's incentives tools could be used to do the same.

CASE STUDY

Alabama

(2004) Hyundai USA (Montgomery, AL) – A $118.5 million incentive package won this $1.4 billion auto facility located just south of Montgomery, Alabama. This plant represents the largest economic development project in Alabama to date; employing 2,000 workers at full capacity with workers making an average salary of $40,000 per year. Competing with a very nearly identical offer from the state of Kentucky, Alabama was able to secure the Hyundai plant by moving faster during the negotiation process and by avoiding negative PR associated with land acquisition issues in Kentucky. Labor, utilities, transportation, and even average temperature were cited as major considerations for this project.

Georgia

(2006) Kia Motors Corporation (West Point, GA) – Kia Motors introduced its first North American plant with a $1.2 billion capital investment in a West Point, Georgia facility that will be capable of producing 300,000 vehicles per year. The incentive package from state and local government included: a $130 million tax abatement on property over 15 years, $65.6 million in job tax credits if Kia creates 2,500 jobs (this amount moves up to $75.9 million if Kia adds 2,893 jobs), $35.7 million in land and another $24.8 million in site preparation, local organizations and utility companies will add another $21 million in infrastructure development (sewers, electricity, water, and gas), a $20.2 million training facility, $5.5 million to maintain the training facility for 5 years, $5.7 million in training curriculum, a $40.5 million grant to cover training and other not specifically defined assets, an estimated $13.9 million in sales tax exemptions for capital expenditures, a $6.05 million rail spur, and an estimated $30 million expansion to the interstate highway (highway expansion will largely be paid for using federal funding).

Illinois

(2011) Motorola Mobility (Libertyville, IL) – Motorola accepted a $100 million incentive package ($10 million per year over 10 years) from the state of Illinois to keep the company headquarters and 3,000 high-tech, high paying jobs located in Libertyville. The deal works out to roughly $34,750 per job retained, far greater than the typical $15,000 to $20,000 in tax credits the state generally awards for retained jobs. In addition, the company will receive $1.25 million in job training funds, and a $3 million large-business development grant. The agreement allows for Motorola to use tax credits against the withheld portion of employee income. Motorola planned to invest more than $500 million in research and development over the next three years as part of the agreement.

Indiana

(2011) Exegistics (North Vernon, IN) – 315 new jobs will be created by the end of 2014 as Exegistics plans to expand to North Vernon. Exegistics will invest roughly $9 million to build a distribution facility on ten acres in Jennings County. The existing structure on the property will be demolished after being vacant for 15 years. The Indiana Economic Development Corporation created a plan to offer Exegistics up to $1,800,000 in conditional tax credits and up to $100,000 in training grants based on job creation. These tax credits cannot be claimed until performance metrics are met. The IEDC will also provide Jennings County with up to $125,000 in infrastructure assistance from the state's Industrial Development Grant Fund. The city of North Vernon will provide additional incentives at the request of the Jennings County Economic Development Commission.

CASE STUDY

Kansas

(2011) Mars Chocolate North America (Topeka, KS) – A total of 200 new jobs will be created during phase 1 of Mars Chocolate's new chocolate facility in Kansas. The Kansas Departments of Transportation and Commerce together will provide $6 million for infrastructure developmen t on the proposed $250 million manufacturing plant. The Kansas Department of Transportation will contribute $4.1 million to be spent improving road and rail connectivity to the facility, while the Kansas Department of Commerce will spend roughly $1.85 million developing renewable energy sources for the facility. As part of the deal Mars has agreed to create 974 direct and indirect jobs over a 10 year period with a combined payroll of at least $584.4 million, and to generate taxable sales and purchases greater than $269.7 million and revenues to the city and county of $31.2 million.

Louisiana

(2011) Nucor (St. James Parish, LA) – Nucor received a customized incentive package including $160 million in performance-based financial assistance and customized workforce training. The Nucor project will encompass five different facilities: the first phase will be a direct reduced iron (DRI) facility (150 jobs and $750 million capital investment), a second DRI facility (100 jobs and $400 million capital investment), a pellet plant (200 j obs and $500 million capital investment), a blast furnace and coke ovens (300 jobs and $1 billion capital investment), and a steel mill (500 jobs and $750 million capital investment). A study by Louisiana State University showed that the Nucor deal will bring 1,250 new jobs with an average salary of $75,000 pl us benefits, and a total of $3.4 billion in capital investments.

Minnesota

(2003) Suzlon Rotor Corp (Pipestone, MN) – The city of Pipestone bought and gave 42 acres of land and gave to Suzlon to develop wind energy. The city spent $1.1 million improving the infrastructure in the industrial park where the land was located. Pipestone also gave Suzlon a package of property and other tax breaks. As an indicator of how these benefits added up for the company, in 2008 (for tax year 2007), Suzlon Rotor paid $114,270 in pr operty tax, a discount of $279,348 from its $393,618 property tax bill. Suzlon was also able to use tax credits for job creation through the Minnesota JOBZ incentive.

Missouri

(2010) Kraft Foods (Springfield, MO) – Kraft Foods agreed to invest roughly $9 million on two new manufacturing lines in Springfield and add 50 new jobs to its 950 employee facility. The Missouri Department of Economic Development will provide $390,000 to Kraft for the investment and the new jobs through the Enhanced Enterprise Zone program over a five year period. Wages for the 50 new jobs will be above the county average and wil l include benefits. The underground facility, which is used to store goods at 36°F, uses far less energy to cool than equivalent above ground sites and is an optimal location for expansion because it is located next to major highways and infrastructure.

North Carolina

(2011) Chiquita Brands International (Charlotte, NC) – North Carolina approved an incentives deal that will establish the new global headquarters of Chiquita Brands International in Charlotte, NC. The deal, which includes more than $20 million in state incentives and more than $2 million from local government, will bring at least 375 high-paying jobs to North Carolina by 2014 (salaries would average about $107,000). The move to Charlotte, NC will reduce operating costs by more than $4 million per year by improving access to international flights to major Latin American and European cities. Cincinnati's regional airport has lost international flights as airlines have shifted routes away from Midwestern hubs.

CASE STUDY

Ohio

(2011) Chrysler Group, LLC (Toledo, OH) – Chrysler Group negotiated the reduction of its property value from $169 million to $104 million. The original proposal from Chrysler Group was a reduction from $169 million down to $66 million. As part of the negotiation, Chrysler Group agreed to expand its facility by adding another 1,100 employees. Chrysler will receive tax incentives from Ohio that will allow for a $365 million investment that will lead to the creation of new jobs and the retention of 900 other jobs. Chrysler plans to fill the new Toledo jobs with entry-level workers who will earn $19.28 per hour by 2013.

South Carolina

(2009) Boeing (North Charleston, SC) – South Carolina attracted Boeing to build a state of the art facility to build the new Dreamliner model aircraft. This project included an upfront investment of approximately $872 million and a total investment of over $1.25 billion. An incentive package of just over $470 million attracted Boeing to South Carolina. Boeing will be adding 3800 new jobs in South Carolina as a result of the new facility. In addition to the 3800 new permanent jobs being created, Boeing estimates there will be another 11,478 jobs supported by the indirect effects of the ongoing operations at the new Boeing Dreamliner facility. The total capital investment per new job was $269,816.

Texas

(2011) eBay (Austin, TX) – The Texas Enterprise Fund (TEF) will contribute $2.8 million to eBay Inc. for the expansion of its Austin facility. The expansion will add 1,050 high-paying jobs ($100,000+) and bring an estimated $5.1 million in capital investment. The Texas Enterprise Fund investment will help to expand various eBay Inc. business units, such as PayPal. The city will offer a grant up to $250 per job created. A city based analysis determined that the total expected tax revenue from the new expansion would total $12.4 over 10 years. The city will spend $9.3 million in taxes on services and incentive payments during the 10 years, while the net benefit to the city will be $3.1 million in tax revenues.

Virginia

(2009) Rolls-Royce (Prince George County, VA) – Rolls Royce announced a $500-million, 500-employee jet engine plant will be built on a 1,025-acre site. The plant qualifies for benefits from the state's Enterprise Zone Program and its Community Development Block Grant Program. Roll's 16-year incentive agreement with the state is also providing state training assistance, plus county tax breaks on business licenses, machinery and tools. Gov. Timothy Kaine is providing another $6 million in Governor's Opportunity Fund grants, which will fund infrastructure including roads, sewers, utilities and water. All told, the state and local assistance could be worth about $56.8 million through the year 2023. Most of the state's aid will be tied to Rolls' performance. Salaries at the new plant will average $48,000.

Wisconsin

(2011) Cree Inc. (Sturtevant, WI) – Cree Inc. acquired Ruud Lighting and will expand Ruud's LED light manufacturing and assembling facility by 208,000 square feet. This acquisition will expand Cree Inc.'s position in the LED light market. The $24.5 million investment will create 469 new jobs over the next four years. Cree's will receive an incentive package from Wisconsin Economic Development Corporation (WEDC); Racine County; Racine County Economic Development Corporation (RCEDC); and the Village of Sturtevant, totaling more than $8 million.

BEST PRACTICES

The following "best practices" are derived from the aforementioned case studies that were successful in utilizing economic development incentive programs. All of which are principles that potentially could be incorporated into Michigan's economic development strategy.

(2010) Kraft Foods (Springfield, MO) – Kraft Foods agreed to invest approximately $9 million on two new manufacturing lines in Springfield and add 50 new jobs. The Missouri Department of Economic Development has provided $390,000 to Kraft for the investment and the new jobs through the Enhanced Enterprise Zone program. Michigan could structure a similar deal through one of three ways. The first option would be to offer cash up front via the Michigan Business Development Fund. The second option would utilize the state and/or municipal versions of an enterprise zone, while the third option would offer a mixture of the two. The third option could potentially save the state money up front by spreading the cost over a longer period of time. All of which could free up additional funds for future deals

(2011) Chrysler Group, LLC (Toledo, OH) – Chrysler Group negotiated the reduction of its property value from $169 million to $104 million. As part of the negotiation, Chrysler Group agreed to expand its facility by adding another 1,100 employees. Delayed-funding techniques often require more creativity than the cash incentive counterpart, however, companies often vie for such incentives. Michigan is in a position to offer property that has already been devalued. Offering such an incentive to potential companies tied in with performance measures similar to the one from above allows for the state and the potential business to construct a deal that is palatable to both sides.

(2011) eBay (Austin, TX) – The Texas Enterprise Fund (TEF) will contribute $2.8 million to eBay Inc. for the expansion of its Austin facility. The Texas Enterprise Fund investment will help to expand various eBay Inc. business units, such as PayPal. The City will offer a grant up to $250 per job created and will spend $9.3 million in taxes on services and incentive payments during the 10 years. This provides as an example of a state and local level partnership, structured in such a manner that allows the Texas Enterprise Fund to be used in a highly strategic manner and as a means of providing momentum toward project finalization. The Texas Enterprise Fund is equivalent to Michigan's closing fund which could be used in s comparable manner while municipalities could provide for local tax incentives in a concerted effort to help existing businesses expand.

(2009) Rolls-Royce (Prince George County, VA) – Rolls Royce announced a $500-million, 500-employee jet engine plant that will be built on a 1,025-acre site. The plant qualifies for benefits from the state's Enterprise Zone Program and its Community Development Block Grant Program. Gov. Timothy Kaine is providing another $6 million in Governor's Opportunity Fund grants for infrastructure improvements. Michigan may take a similar approach by coordinating state and/or local Enterprise Zones, the Brownfield program, and the Governor's closing fund such that they are applied in conjunction on the same project. Each program provides a certain funding portion to bring about a more comprehensive incentive package.

BEST PRACTICES

The first two "best practices" identify Special Project Processes administered by a state legislative body for business recruitment. The final two "best practices" are state-level programs designed to support entrepreneurship and the retention/attraction of Young Professionals.

(2010) Nissan (State of Tennessee) - A Nissan plant was originally built in Smyrna, TN in the early 1980s. Geography was a key factor in Nissan's decision to locate, as well as the state's competitive tax environment. Recently though, in order to retain Nissan within Tennessee, the legislature has offered significant rebates to customers that choose to specifically buy the Nissan LEAF SL. In September 2010, the state of Tennessee announced that it had budgeted $2.5 million for this special project, which will complement a federal tax credit already in place for electric vehicle purchase. This will result in rebates of $2,500 to the first 1,000 Tennesseans meeting purchase requirements of the Nissan LEAF SL.

(2005) Dell (State of North Carolina) - To lure Dell to the region, North Carolina promised a total of $279 million in state and local incentives. In competition with other states, the state legislature of North Carolina offered a $242 million package of tax breaks and other incentives, while Forsyth County and Winston-Salem offered an additional $37 million in incentives. To that end, Dell opened a plant in Forsyth County, North Carolina. This setting also serves as a "best practice" for clawback measures in incentive deals. In 2009, Dell announced it was going to close its plant, causing 905 workers to lose their jobs. The company agreed to repay more than $26 million in local grants and $1.5 million in state grants, acknowledging it did not live up to its end of the deal by not keeping a specified number of jobs.

Third Frontier Technology Validation and Start-up Fund (TVSF) / Third Frontier Internship Program (OTFIP) (State of Ohio) – The **TVSF** and **OTFIP** represent a symbiotic relationship between two state-level programs. The purpose of **TVSF** is to create greater economic growth in Ohio based on start-up companies that commercialize technologies developed by Ohio institutions of higher education. The **OTFIP,** on the other hand, contributes to the expansion of a technologically proficient workforce, and to retain highly knowledgeable and talented students in Ohio through employment at Ohio for-profit companies upon graduation.

Palmetto Seed Capital Credit / Apprenticeship Credit (State of South Carolina) – Under the Palmetto Seed Capital Credit, a taxpayer is allowed a credit for qualified investments in the Palmetto Seed Capital Corporation of the Palmetto Seed Capital Fund Limited Partnership against corporate income, individual income, bank taxes, or insurance premium taxes. The overall purpose is to increase access to venture-capital funding for entrepreneurs. The Apprenticeship Credit allows an employer a $1,000 tax credit for each apprentice employed pursuant to an apprentice agreement registered with the Office of Apprenticeship of the Employment and Training Administration of the United States Department of Labor.

Top States By Incentive Programs, 2010	
Deal Closing Fund	Texas (Texas Enterprise Fund) North Carolina (One North Carolina Fund)
Entrepreneurship	Vermont (Vermont Employment Growth Incentive) Utah (Utah Fund of Funds)
New/Emerging Market Tax Credits	Tennessee (Sales and Use Tax for Qualified Facilities) Minnesota (Minnesota Investment Fund)
Industrial Revenue Bonds	Missouri (Business Use Incentives for Large Scale Dev) New Mexico (Industrial Revenue Bonds)
Enterprise Zones	Rhode Island (Enterprise Zone Tax Credits) Wisconsin (Economic Development Tax Credit Program)
Workforce Development/Job Incentives	Wisconsin (Customized Labor Training Fund) Nebraska (Customized Job Training)
Investment/Rebate	Louisiana (Quality Jobs Program) West Virginia (Economic Opportunity Credit)
Research & Development	Texas (Emerging Technology Fund) Massachusetts (New Investigator Grant)
State-Matching Funds for Entrepreneurs	Maryland (Maryland Venture Fund) Virginia (Commonwealth Commercialization Fund)

Source: www.goodjobsfirst.org/moneyforsomething

The above chart reflects the results from the “Good Jobs First” 2010 State Incentive Survey, which provide Best Practices for specific, state-level economic development incentive programs. Good Jobs First is a national policy resource center in economic development.

- Texas had the highest incentive rating in two different categories: deal-closing fund and research and development funding.
- Wisconsin was rated at the top of two different incentive programs: enterprise zones and workforce development.


Photo Credit: MEDC

SELECT BENCHMARK DEMOGRAPHICS

The health and vitality of a state's economy is determined by a wide set of factors that reach well beyond the amount and effectiveness of its economic development initiatives. In order to obtain a satisfactory understanding of the trends affecting the economies of Michigan and its benchmarks, the project team considered several key demographic measures including, the population's age, educational attainment and income. In many respects these, provide the basic ingredients for a strong workforce and for consumption within the domestic economy. But more importantly, they provide an indication of stability and the capacity for future growth.

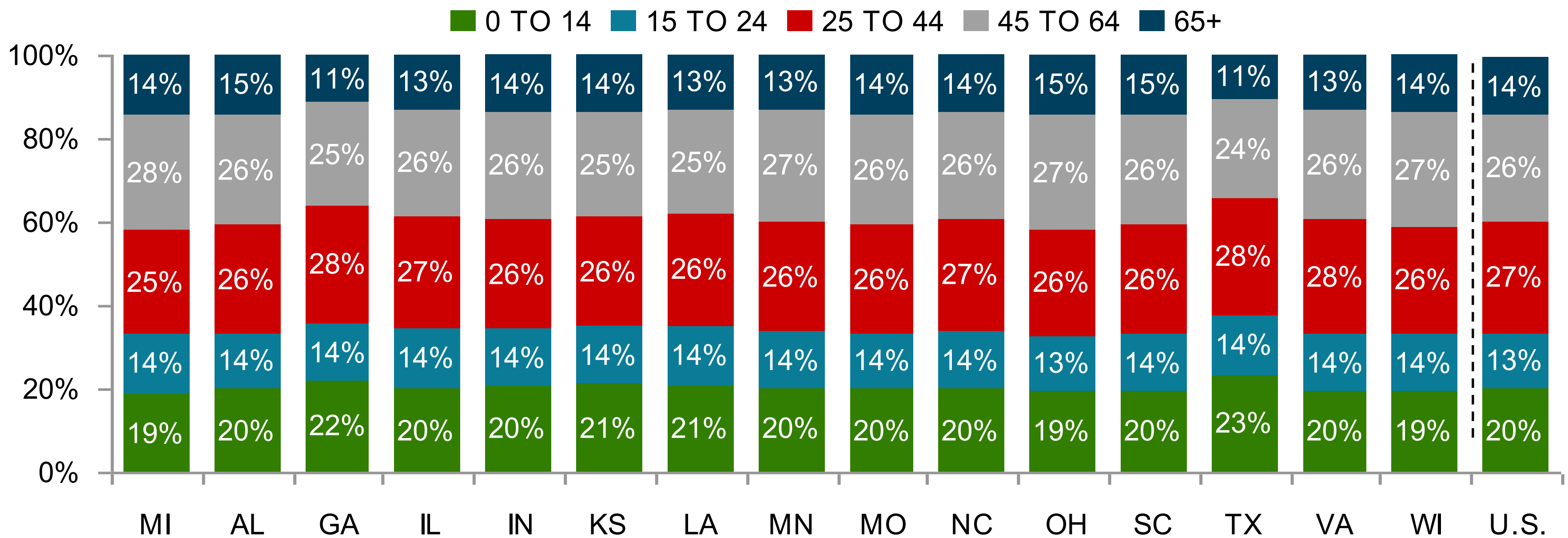
As with practically all geographies, the State of Michigan is presented with a mixture of demographic strengths and challenges that will, in part, guide many aspects of its economy. Michigan currently has a fairly well-educated population and average high school graduation rates, however students have achieved lower ACT scores than students in benchmark states. The State of Michigan has a Median Household Income that is generally in line with the national level, however its growth has lagged substantially behind the U.S. and other benchmarks. With a 2010 population of just under 10 million, the State of Michigan continues to be a significant population center for the United States, however, it has experienced minimal population growth over the past two decades, with severe losses in residents age 25-44 (often referred to as the Young Professionals cohort).

Michigan Demographic Snapshot	
2010 Population	9,929,418
Population Growth 1990-2010	6.8%
2010 Median Age	38.8
2010 Median Household Income	$50,101
Median Household Income Growth 2000-2010	43.9%
Percentage of 2010 Population Ages 25-44	25.2%
2010 High School Graduation Rate	76%

Note: All sources cited in the following section

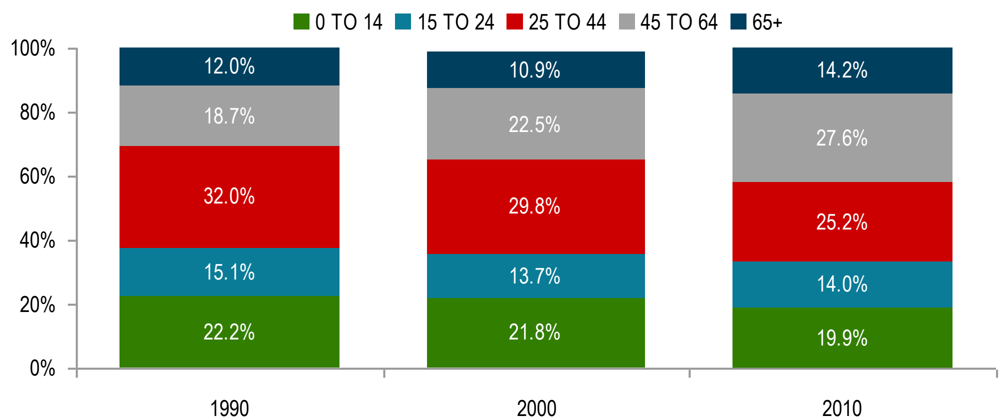
Age

AGE DISTRIBUTION 2010



Source: U.S. Census Bureau, Decision Data Resources

AGE DISTRIBUTION BY DECADE, MICHIGAN



Source: U.S. Census Bureau, Decision Data Resources

MEDIAN AGE 2010

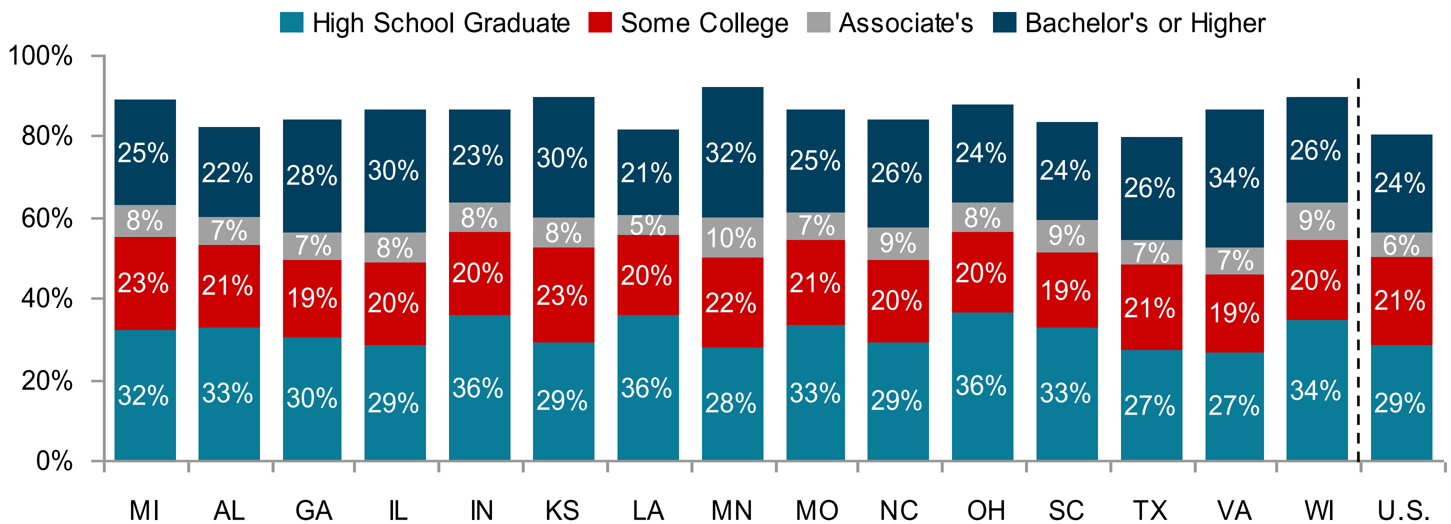
Texas	33.5
Louisiana	35.6
Kansas	35.9
Illinois	36.5
Indiana	37.0
North Carolina	37.2
Virginia	37.3
Minnesota	37.4
Missouri	37.7
South Carolina	37.8
Wisconsin	38.4
Ohio	38.7
Michigan	**38.8**
U.S.	37.1

Source: Decision Data Resources

The State of Michigan is gaining an increasingly elderly population.

- At 28%, the State of Michigan has the highest percentage of residents age 45-64 and, at 25%, the smallest percentage of residents age 25-44 (often referred to as the Young Professional segment of the population).
- Since 1990, Michigan's population has become increasingly elderly, with a significant jump in the proportion of its population age 45-64.

EDUCATIONAL ATTAINMENT 2010



Note: Remainder of population necessary to equal 100% consists of individuals who are not high school graduates; these figures have not been displayed in order to allow for clearer viewing of alternate categories.

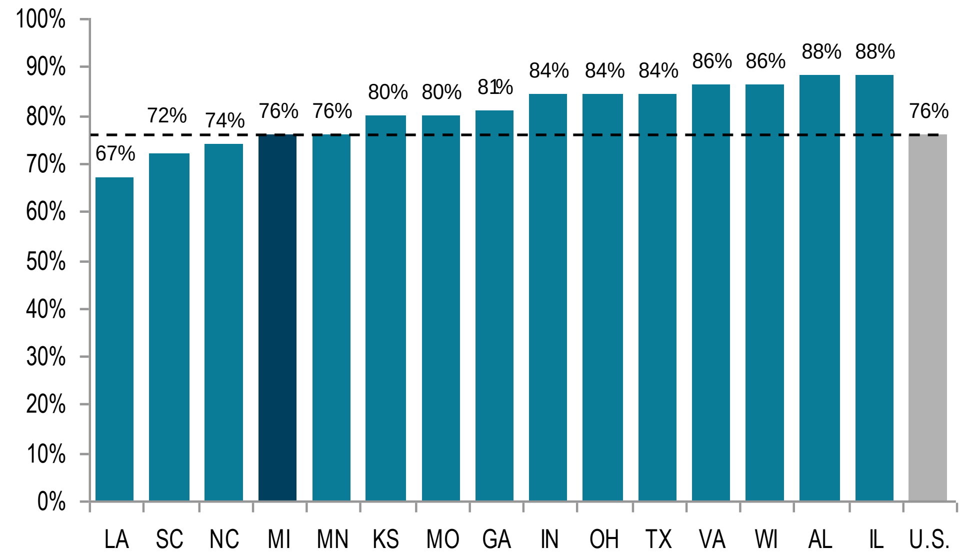
Source: U.S. Census Bureau, Decision Data Resources

Michigan's population is slightly above average in educational attainment.

- With a quarter of its population holding a bachelors degree or higher, the State of Michigan offers a fairly well educated labor force.
- Michigan (along with Kansas) has the highest percentage of residents with some college education but no degree.

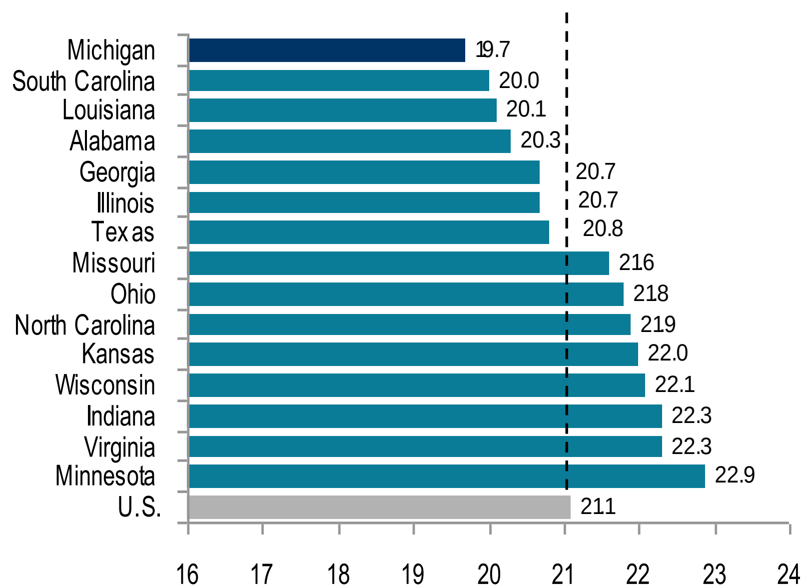
Education

HIGH SCHOOL GRADUATION RATES



HIGH SCHOOL ACT SCORES

2010 ACT SCORES BY SCHOOL DISTRICT



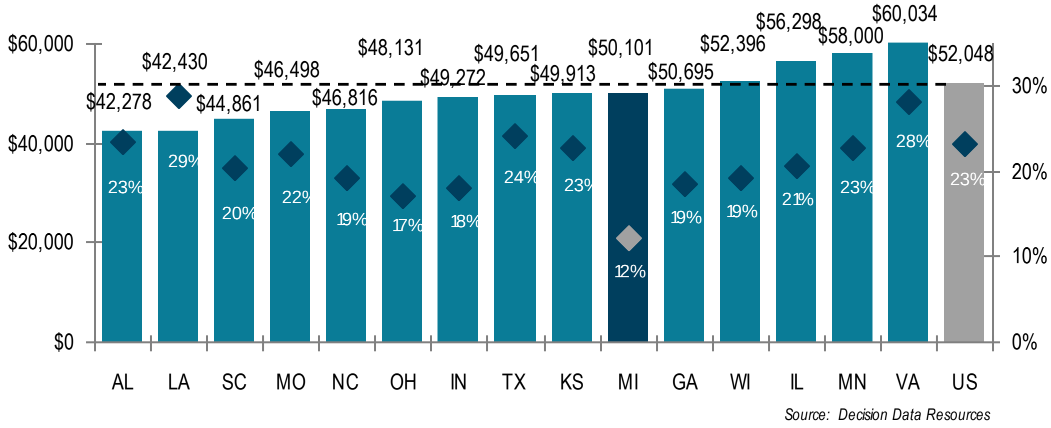
High school graduation rates in Michigan are in line with those of the U.S. as a whole; however, ACT scores are lowest among the benchmarks studied.

- At a high school graduation rate of 76%, the State of Michigan is in line with the national standard, though below several of the benchmark states reviewed for this study.
- At 19.7 (versus 21.1 for the U.S. as a whole), average ACT scores for the State of Michigan are lowest among the benchmarks.
- Strong educational performance serves as an indication of strength for the future workforce and also stands as an important decision factor for relocating businesses and professionals (especially those with school-age children). Weakness, or perceived weakness, in K-12 educational opportunities presents a challenge to Michigan's economic development and business attraction efforts.

Income

MEDIAN HOUSEHOLD INCOME

MEDIAN HOUSEHOLD INCOME (% GROWTH SINCE 2000), 2010

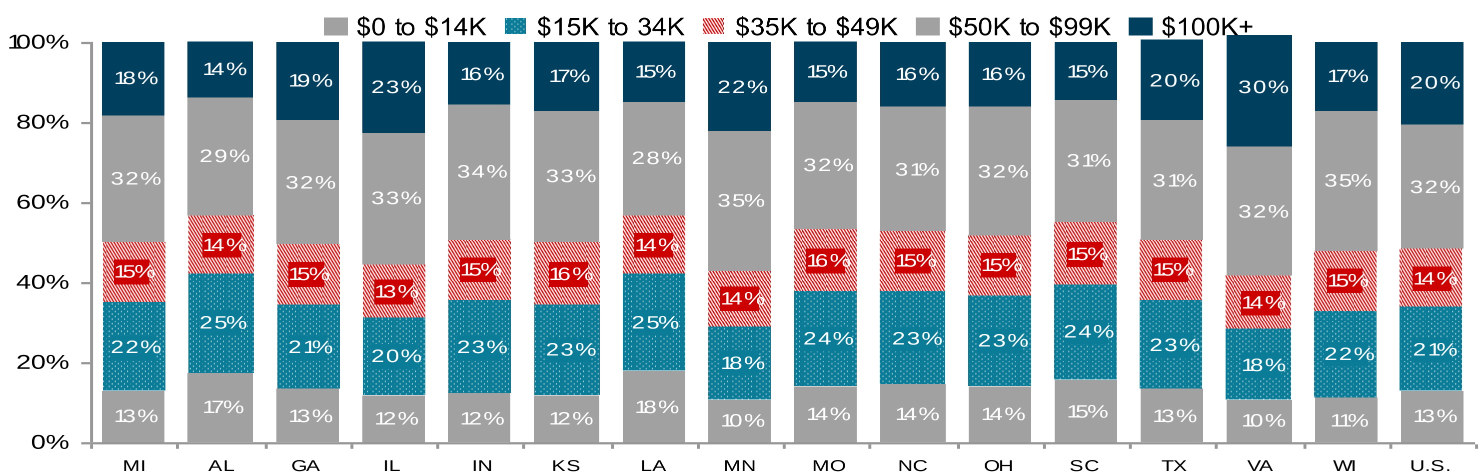


Source: Decision Data Resources

Though currently stronger than many benchmarks, median household income in Michigan is growing at a slow pace.

- At just over $50,100, Median Household Income is moderately below that of the U.S. as a whole, though above nine of the fourteen benchmarks studied.
- Between 2000-2010, Median Household Income grew only 12% (on a straight-line basis) – the lowest pace of growth among all of the benchmarks and significantly lower than the U.S. pace of 23%.
- The overall distribution of wealth within Michigan is generally in line with the national standard.
- Minnesota, Virginia and Illinois hold a comparatively large proportion of high-income earners among the benchmarks studied.

INCOME DISTRIBUTION 2010



	MI	AL	GA	IL	IN	KS	LA	MN	MO	NC	OH	SC	TX	VA	WI	U.S.
$100K+	18%	14%	19%	23%	16%	17%	15%	22%	15%	16%	16%	15%	20%	30%	17%	20%
$50K to $99K	32%	29%	32%	33%	34%	33%	28%	35%	32%	31%	32%	31%	31%	32%	35%	32%
$35K to $49K	15%	14%	15%	13%	15%	16%	14%	14%	16%	15%	15%	15%	15%	14%	15%	14%
$15K to 34K	22%	25%	21%	20%	23%	23%	25%	18%	24%	23%	23%	24%	23%	18%	22%	21%
$0 to $14K	13%	17%	13%	12%	12%	12%	18%	10%	14%	14%	14%	15%	13%	10%	11%	13%

Source: Decision Data Resources

STATE ECONOMIC DEVELOPMENT BENCHMARKING: SUMMARY OF KEY FINDINGS AND CONCLUSIONS

- Michigan has experienced significantly weaker economic growth as measured from multiple angles than did its benchmark states.
- A multitude of factors contribute to the character and overall performance of a given economy. These include such matters as business tax climate, infrastructure, workforce skill level, demographics, and industry mix. While incentive programs or other economic development initiatives may directly generate notable gains for the economy, these gains are easily outweighed by broader forces in the economy.
- Generally speaking, having the highest economic development budget provides little indication of the eventual success that may be expected by an economic development agency.
- The availability of incentives is an important priority for site selectors, though not the top priority. Nevertheless, incentives (and similar tools for business attraction) are well within the mix of issues evaluated by site selectors when choosing where to relocate a business.
- Michigan's benchmark states are equipped with a wide range of cash up-front and delayed cash incentives that they apply in an effort to support business attraction and expansion, with a current trend toward the use of closing funds and clawback provisions.
- In recent years, MEDC has been competitive with regard to its peer organizations in other states.
- Although recent policy changes have led to a reduction of MEDC's budget (primarily as a result of reduced corporate income tax credits), it is expected that MEDC will remain competitive with economic development organizations in the benchmark states, particularly as many of the reductions experienced are likely to be offset by a reduction in corporate tax requirements.

Incentivizing Economic Development in Michigan

Photo Credit: MEDC; Cobo Center, Detroit

OVERVIEW

As demonstrated in the benchmarking portion of this report, the Michigan Economic Development Corporation (MEDC) has been highly competitive with its peer organizations in other states. In order to remain competitive and in order for the State of Michigan to achieve the success it currently needs in order to support the growth of its economy, both the State and MEDC will need to adapt to a changing environment for economic development – one that is simultaneously characterized by higher levels of competition and few resources with which to compete.

The following sections present items of specific strategic importance to MEDC as it utilizes the information generated through the benchmarking analysis completed as part of this study. These sections address concerns relating to the use of economic development incentives, budgeting in order to remain competitive, the strategic impact of recent changes in corporate taxation within Michigan. Also presented are several recommendations offered in order to assist MEDC leading Michigan to become more competitive with other states in the attraction of relocating and expanding businesses.

Photo Credit: MEDC; Cobo Center, Detroit

PURPOSE OF ECONOMIC DEVELOPMENT INCENTIVES AND THEIR USE IN MICHIGAN

As explored previously within this report, the increased competition that has occurred in recent years among American communities of all sizes in order to attract or support relocating and expanding businesses has lead to greater willingness on the part of many states be more aggressive in the use of incentives. Other states, on the other hand, have restructured or cut back significantly on the use of economic development incentives as a result of tightening state and local budgets.

The negotiation of incentives is an opportunity for states to assist the prospective business or developer in mitigating the financial risk that is associated with a new project and to highlight the state's interest in a target industry and willingness to provide support for its development. Moreover, in an environment of high competition between states for new projects (and increasingly between states and foreign nations), businesses (and, increasingly, their shareholders, lenders and other investors) have, in many ways, come to expect them. An inability or an unwillingness to provide incentives may be interpreted as a lack of interest in the project from the community. This may, in turn, lead to the development of a reputation for being unfriendly to business.

On the other hand, as demonstrated previously within this report, it is infrequent that the state that provides the highest overall volume of incentives is the one that achieves the strongest employment gains (conversely neither is the state that provides the least amount of incentives). Rather, the State of Michigan should be highly strategic in its use of incentives and market success stories that result from incentive agreements as well as recent improvements to the state's business climate.

Photo Credit: MEDC; Cobo Center, Detroit

Negotiation of Incentives

As a site selection consultant that has located over $1 Billion of private investment, it is the experience of Angelou Economics that incentives can and do matter. However, incentives are only one part of a broader site selection decision and the most competitive incentive packages are not always those that are of the highest value, but more often are those that address specific challenges and concerns of the relocating or expanding business. Moreover, the approach taken by the incentivizing government throughout the course of the selection and relocation process can have a determining influence on a project's eventual success.

Incentives are a deal closer. When a state reaches the point of incentive negotiation for a particular project, it is because a number of separate criteria specific to the needs of the project (e.g. workforce, proximity to suppliers, market access, etc.) have, to one degree or another, already been met. Incentives are generally ineffective at bringing a prospect to the negotiation table, rather, they are a means of addressing opportunity gaps, minimizing initial project risk and building momentum and enthusiasm in the final rounds of site selection. It is important, therefore, to recognize that simply having a prospect select Michigan as a finalist or even as the preferred site is no guarantee that the prospect will, in the end, move forward with the project. It is at this stage in which the use of incentives can be highly effective in securing a prospective project, but also, if poorly utilized, can turn it away.

When negotiating incentives, states must take care to avoid taking any stance that may alienate future prospects or that may cause the prospect to abandon the project in that location altogether, unless, that is, it has been determined that the type or amount of incentives is inconsistent with the state's long-term strategy, legal mandates, or efforts to

Photo Credit: MEDC; Cobo Center, Detroit

support growth in the state economy.

Incentive negotiation occurs toward the end of a site's official selection, never after it. Therefore, states seeking to attract relocating or expanding businesses should understand that this may be their final opportunity to set themselves apart from the alternatives (which may include no project at all).

In order to ensure the best possible reception for an incentive package, states should be swift in their development, with clear and decisive support from relevant jurisdictions, and they should prepare a clear path forward for the execution and administration of incentives. Just as importantly, however, states must maintain a certain degree of flexibility in order to have the ability to address any unforeseen challenges, while being clear (both internally and with the prospect) about the boundaries that it will be unable or unwilling to cross.

Particularly well prepared states will be armed with a thorough understanding of the abilities and limits of competitor states' incentive programs as well as which programs are generally preferred by competitor states and any recent trends that may affect their ability to support a prospect's needs. This can be very helpful to state economic development organizations, such as MEDC, in recognizing opportunities to structure more effective and less wasteful incentive packages, while permitting the state to remain highly competitive with alternate locations. Such an understanding of other state's incentive capabilities may also allow MEDC to quickly recognize instances in which the State of Michigan may be unable to compete with another state on a particular issue and to either adjust the capabilities of Michigan's incentive programs in order to compete more effectively or to focus instead on other prospects, thereby avoiding wasted time and resources.

International Considerations

The current competitive environment for new employers is not simply one shared between states, but between nations and continents as well. The combination of a globalizing economy, the rise of emerging markets and the global impact of the recent recession has expanded the sphere of competition such that a state such as Michigan is not simply competing with other states for a relocating or expanding business, but oftentimes with foreign nations. This reality is particularly acute in Michigan where manufacturing plays such a key role in the state economy. International competition is often most severe when competing for businesses within highly attractive emerging industries (e.g. clean technology, biotech, etc.).

Alabama created the Made in Alabama Job Incentives Act (2011), which offers tax credits to foreign companies. These credits are designed to offset the cost of tariffs on imports that foreign companies may be subjected to when relocating to the US. The program was the first of its kind to be implemented by a U.S. state. Other internationally-oriented state incentive programs have followed.

To that end, an increasingly international competitive environment requires states to adapt and prepare itself to compete on a global stage. This requires a strong relationship with federal agencies and representatives and a thorough understanding of their aims and capabilities. It also requires economic development agencies, such as MEDC, to consider factors that are not always typical of projects oriented to domestic markets. For instance, states should be familiar with and, where possible, be ready to incorporate into their assistance packages items of particular interest to international firms (e.g. EB-1 visa assistance, cross-border research support, inventory and shipping considerations, etc.). MEDC has already been successful in developing several international programs and should consider opportunities to strengthen them, market them, and to incorporate them into incentive offerings where appropriate.

RECENT CHANGES IN APPROACH TO ECONOMIC DEVELOPMENT IN MICHIGAN

Although much of the analysis presented in the section of this report titled "*State Economic Development Benchmarking*" relates to the economic conditions, economic development budgets and growth performance of Michigan and its benchmark states in recent years, it is important to recognize many of the more recent changes in state policy that may directly or indirectly affect the economic development efforts of MEDC.

Numerous factors (including various economic, fiscal and political considerations) have led many states to conduct a significant reevaluation of their use of and budgeting for economic development incentives. Many have subsequently altered their previous strategies in order to become more aggressive in their business attraction efforts and in their use of incentive funds. Others, meanwhile, have curtailed or refocused their prior strategies in order to reduce the fiscal commitments required to support them or as an aim of ensuring greater efficiency in the application of resources already allocated for economic development. Still others have sought ways of remaining competitive and, indeed, becoming more aggressive in their economic development efforts while finding ways to reduce the total amount of state resources required to support these efforts.

It is in this last category that MEDC currently finds itself, as the State of Michigan must find ways of becoming even more competitive with other states as an attractive destination for expanding or relocating businesses in order to address the pernicious economic challenges that have racked the state for many years. Yet, it must *also* live up to citizens' expectations that state resources be used prudently and effectively.

Within the context of this new reality, it appears that MEDC has already begun, to a certain degree, to redirect its strategy in order to do more with less and that, equipped with a capable economic development tool box, it is likely to find itself in a different, though no less important, role with regard to the state's economic development activities in the years to come.

Photo Credit: MEDC; Cobo Center, Detroit

Reduced State Corporate Tax Requirements – A Broad Form of Incentive

In the past, corporate income taxes in the state of Michigan served as both a requisite for making possible the economic development tax credits that were based upon it but *also* as a disincentive for businesses and site selectors considering Michigan as a possible destination for investment or relocation. With these two forces at odds with one another, MEDC, though perhaps armed with a larger set of incentives tools, found its efforts undermined by a less competitive tax environment.

Recent reductions in corporate tax requirements, including the replacement of the Michigan Business Tax (MBT) with a flat rate of 6% for C-Corporations and an elimination of business taxes for LLCs and S-corps, have the reverse effect with regard to MEDC. On the one hand, the ability to budget for and deliver tax credits (and similar tax-based economic development incentives) has been significantly reduced. On the other hand, the more favorable business tax environment creates in Michigan a more attractive environment in which to do business – a factor that is considered very early by site selectors and relocating businesses in their location decisions.

In many respects, the recent reduction in corporate taxes within the state of Michigan nullifies the need for the use of tax credits for economic development in many instances. The result of these tax cuts will, according to the Governor's Office, be equal to $1.8 billion in savings for Michigan businesses. In effect, the outcome which is produced by this reduction in corporate taxes is an across-the-board incentive to those that currently do business in Michigan and to those considering doing so in the future.

As the new, more favorable corporate tax environment becomes more widely known, MEDC may expect to find the state of Michigan under consideration by site selectors and relocating businesses at an earlier stage of the site selection process and, therefore, be subject to consideration by a larger number of prospects. Moreover, with the broadly based benefits of Michigan's corporate tax reductions, MEDC will now be in a stronger position to be increasingly strategic in their use of incentives rather than taking the "shotgun" approach that is typical of previous incentive programs based on tax credits.

Photo Credit: MEDC; Cobo Center, Detroit

Fewer Resources Requires a More Strategic Approach to Economic Development

Whereas, in the past, MEDC may have relied heavily upon the use of tax credits for incentivizing economic development, recent budgetary constraints have weakened its ability to devote the organization's resources as freely as in the past, while recent reductions in corporate tax rates have, in many ways, negated the necessity of certain incentives (specifically corporate income tax credits). Had either of these two changes occurred separate from the other, it is likely that MEDC's ability to compete with other state economic development organizations for business attraction would have been significantly hampered. However, the two changes occurring together will allow MEDC to remain roughly in the same position of competitiveness, required that certain steps be taken.

Armed with fewer resources with which to incentivize relocating businesses, it will be imperative for MEDC to be increasingly strategic in the use of the resources it does have in order to remain competitive with its peer organizations in other states and in order to become even more aggressive in its economic development efforts (a need that is readily apparent in light of the analysis presented earlier within this report). Although, as evidenced within the *Benchmark Economic Development Performance* section of this report, MEDC has been highly competitive in securing a strong return in the number of jobs created as a direct result of economic development incentives invested, faced with a recently reduced annual budget, MEDC will be required to become even more effective at doing more with few resources.

This challenge requires a highly strategic approach to the use of incentives in order to ensure that they produce the desired effect of job creation, and that economic development initiatives found within MEDC and elsewhere in the state of Michigan are supportive of one another and do not undermine each other. It also will require MEDC to better leverage federal resources and economic development programs and to expand recent efforts to engage the private sector in supporting economic development efforts through programs that offer mutual benefit to the State and to private industry.

Photo Credit: MEDC; Cobo Center, Detroit

Changing Perceptions of Michigan

In the wake of recent changes to a broad range of policies in the State of Michigan, particularly those relating to the taxation of businesses, it will be critical for MEDC to challenge existing perceptions of Michigan by strongly voicing the newly created benefits to doing business in the state. This will require MEDC to place a stronger focus on marketing in the months and years ahead. Of key interest to MEDC in its efforts to market the state as an attractive destination for new investment and relocating businesses, are the site selectors with whom it should be communicating the recent changes that have occurred.

Other marketing efforts should be aimed at businesses and industry groups that operate within Michigan's target industries. Similarly, MEDC should be conscious of the losses it has experienced in the number of young professionals living within the state and should adapt its marketing strategy to address this critical concern. Finally, MEDC should strive to enhance its marketing efforts that are directed inward within the state, with a message that focuses on opportunities for entrepreneurship and the programs, institutions and resources that are available to Michigan start-ups.

Photo Credit: MEDC; Cobo Center, Detroit

IMPACT OF REDUCTION IN CORPORATE TAX RATES ON ECONOMIC DEVELOPMENT

The recent reduction of corporate income taxes within the state of Michigan is, from an economic development and site selection standpoint, generally viewed as a positive development. Although a low-tax environment alone is generally insufficient to support economic growth (strong markets, skilled labor, competitive infrastructure and numerous considerations of an institutional nature, among other things, are also required), a lower corporate tax burden reduces the financial risk of locating in a particular location and, over time, frees cash that may be applied to new investments and the hiring of new employees.

As presented within the benchmarking portion of this study, states that are rated as having an overall favorable corporate tax climate tend to demonstrate stronger employment growth, business establishment growth and wage growth in comparison to higher-tax states. The combination of growth in these three categories (employment, establishments and wages) leads to a significant injection of wealth and economic activity within a given state, which in turn generates tax revenue by other means (income tax, sales tax, property tax, etc.).

Moreover, many site selectors eliminate states that carry unfavorable tax requirements from consideration in early stages of a location decision unless other more important factors outweigh this consideration (e.g. access to market, proximity to a specific asset, etc.). This leads many states to be removed from discussion well before any consideration of incentives ever takes place.

Michigan's newly reduced corporate tax requirements present a strong point of competitive advantage for the state relative to other states with which it is competing for new business. A challenge, however, will be for MEDC and the State of Michigan to successfully market this advantage to businesses and site selectors who may have deeply engrained misperceptions regarding the degree to which Michigan is friendly to businesses from the standpoint of taxation.

Photo Credit: MEDC; Cobo Center, Detroit

NEAR-TERM VERSUS LONG-TERM ECONOMIC DEVELOPMENT INCENTIVES

The Time-Value of Money and Its Influence on Business Location Decisions

A common mistake made by policy makers and economic developers is to misjudge or underestimate the value of time . Due to the time-value of money, the degree to which gains may be made or costs incurred in the future versus those that occur in the near term is a critical factor involved in any major business decision (particularly one involving relocation or expansion) and one that plays a highly important role in site selection.

With this in mind, businesses and site selectors will generally prefer locations that allow for a defrayment of costs over a longer period of time, while receiving cost savings and other financial benefits within as near a timeframe as possible. This preference holds implications both for the approach taken in financing certain elements of a project and also for the type of incentives that may be preferred. In some cases, economic development incentives that are distributed to a relocating or expanding business over many years (even if a higher dollar amount than other alternatives) may be less valuable to that business than a lesser amount of incentives received in a shorter period of time.

One particularly strong factor involved in this preference is risk, as businesses will tend to distribute financial risk over a longer period of time. As it happens, so too will governments, and this has led many states to favor larger incentive packages that are delivered at a more distant date (e.g. tax credits, tax abatements, etc.) over incentive packages delivered in the near-term (e.g. infrastructure improvements, closing funds, land, etc.). Although this approach may allow for the near-term reduction in economic development budgets, it can, as described above, come into conflict with the preferences of businesses and site selectors.

Photo Credit: MEDC; Cobo Center, Detroit

The Structure and Use of Long-term and Near-term Incentives in Economic Development

Economic development incentives generally fall into three broad categories. The first includes incentives that are of a financial nature (generally cash or cash equivalent (i.e. cash savings)) that are provided to a business, developer, institution, etc. upon or near the initial execution of the project. These are often termed “cash up-front” incentives. Despite the term, these incentives may often take the form of non-cash incentives, including new infrastructure, that are carried out at the beginning of a project and which carry a quantifiable cash value (the value of such incentives, particularly infrastructure, generally removes the burden of payment from the prospect and thereby carries with it a cash equivalency from the standpoint of the prospect).

The second category includes those incentives that are of a financial nature, but for which delivery is delayed until a later time, typically on a prescheduled basis. These often take the form of property tax abatements, tax credits, sales tax rebates, bond financing, etc. and may, for reference purposes, be termed “delayed cash incentives.” The third category includes incentives of a more abstract of less easily quantifiable nature but which carry innate value for the prospect (e.g. fast-track permitting, research support, marketing, etc.). These are often referred to as “non-cash incentives.”

In recent decades, delayed cash incentives have generally been favored for a variety of reasons. Most significantly, delayed cash incentives tend to allow governments to offer larger total incentive values than cash up-front, as delivery of the incentive is extended forward for many years and, importantly, as they are generally structured on the basis of taxes that have not yet been collected from the business (e.g. property taxes, corporate income taxes, etc.). The nature of these incentives being based on value that would not have occurred but for the execution of the project also tends to allow governments to generate wider support for their use, particularly when additional value is produced by the project (e.g. a remaining percentage of required tax obligations, employee income and subsequent local spending, etc.).

Photo Credit: MEDC; Cobo Center, Detroit

Delayed cash incentives also carry the added benefit of allowing for the relatively straight-forward application of specific requirements, such as job creation targets, that a business must meet in order to qualify for subsequent rounds of incentive allocation. This generally allows the incentivizing jurisdiction to be exposed to less risk. Delayed cash incentives, however, can take time to structure, particularly when involving unusual projects and/or multiple jurisdictions. Moreover, overreliance on delayed cash incentives can in some cases make it difficult to budget for unforeseen events and opportunities. Likewise, even though the overall long-term value provided to the business may be greater than through cash-up front, the strategic value to the business (particularly from the standpoint of initial financial risk) may be less than could be achieved by other means.

In recent years, many businesses and site selectors have shown a preference for cash up-front incentives. This has been a particularly strong trend following the recent recession, as businesses, many with fewer or less robust financing options, have been faced with great difficulty in overcoming the upfront costs of a relocation or expansion (in turn leading businesses to delay their projects or to seek assistance in mitigating initial expenses). Moreover, many incentives, such as corporate income tax credits, carry higher risk due to the inherent uncertainty that accompanies projections of future earnings.

In response to this trend, many states have shown an increased willingness to utilize cash up-front incentives, with many choosing to develop or strengthen economic development "closing funds." Cash up-front incentive programs, particularly closing funds, allow states to be highly strategic by swiftly developing incentive packages aimed at directly meeting the specific short-term needs of the prospect. In many cases, this may reduce the overall value of incentives offered to the prospect, but may more effectively address the most significant project needs. Cash up-front incentive programs also allow for a great deal of flexibility on the part of the issuer in structuring a package that is tailored to the prospect (oftentimes eliminating the need for other incentives that are of a broader nature).

Photo Credit: MEDC; Cobo Center, Detroit

It is important, however, to consider the risk that is associated with cash up-front incentives, as, unlike delayed-cash incentives which are delivered to the recipient on a set schedule from tax value produced in advance of their delivery, cash-up front incentives are issued through funds already set aside by the issuer for that purpose. This requires states that pursue this strategy to budget for and set aside funds that may be applied for these purposes – a requirement that many states have found too difficult to support in light of budgetary shortfalls. In an effort to mitigate the risk associated with cash up-front incentives, it has become increasingly common for states to require clawback provisions that set clear requirements that must be met prior to the receipt of cash incentives and which must be met in order to avoid an obligation to repay previously issued incentives. These provisions often include employment targets and average wage requirements.

Recent policy and budgetary changes affecting the availability and use of incentives by MEDC demonstrate a shift in strategy away from long-term incentives in favor of short-term incentives. Corporate income tax credits are highly long-term in nature, as the benefits of such incentives are not received by the incentivized business until income is first earned. Although MEDC has lost many of its resources tied to the use of tax credits, the long-term benefit to businesses by such tax credits will be offset, and in many cases overshadowed, by benefits resulting from Michigan's recent reduction in corporate income tax rates. A strategic shift on the part of MEDC toward the use of incentives that are oriented more toward the near-term may require fewer resources to support it on an annual basis than had been the case under previous conditions.

As demonstrated in the case studies provided within this report, it is highly common for successful incentive packages to include a mixture of cash up-front incentives, delayed cash incentives and non-cash incentives. As many other states have had to scale back their use of closing funds at a time in which more and more businesses are seeking them, the ability for the State of Michigan to provide such incentives places it in a more competitive position with regard to the attraction of relocating and expanding businesses.

Photo Credit: MEDC; Cobo Center, Detroit

DETERMINING AN OPTIMAL LEVEL OF MEDC INVESTMENT

Within the context of a highly competitive economic development environment and in light of increasing budgetary constraints at all levels of government, MEDC should seek to structure its level of incentive investments in a manner that allows it to take full advantage of emerging opportunities rather than in a manner that aims to expend a particular amount of resources by year end. MEDC should be equipped to handle a wide range of incentive requirements, with a focus on meeting near-term challenges and those of high strategic consequence. Moreover, an optimal budget for economic development incentives provided through MEDC would be one structured in such a manner as to allow the rollover of remaining funds from year to year and the ability to execute agreements quickly and in coordination with other state agencies.

In support of its efforts to determine an appropriate level of annual investment in support of incentive programs, MEDC should consider the analysis provided in the benchmarking portion of this report in order to ensure that it is remaining competitive with other state organizations from the standpoint of incentive offerings as well as for the results generated by its incentives. Most importantly, budgetary considerations for MEDC should be driven by criteria relating to strategic aims and objectives rather than by a commitment to expend a set level of resources by fiscal year end. In order to achieve this, MEDC must have a clear strategic roadmap of its anticipated programmatic objectives for the year (as well as for future years) in order to determine the resources that will be necessary to support those objectives. Doing so will support efforts for greater transparency relating to the State of Michigan's budgetary process for economic development while reducing the perception that the value of incentives is a product of the final dollar amount that ends up in the hands of businesses and it will further allow MEDC to tie its budgetary requests directly to strategic objectives that are rooted in programmatic decisions. Not to be overlooked in this process, however, is the need to build flexibility into an incentive budget in order to reserve the capability to strike upon unforeseen opportunities.

Photo Credit: MEDC; Cobo Center, Detroit

LEGISLATIVELY-SUPPORTED INCENTIVE PACKAGES FOR UNIQUE AND VERY HIGH-VALUE PROJECTS

Not all opportunities can be sufficiently planned for. In fact, on occasion, certain projects arise that are of such a high value (either economically or strategically) or that bear such unusually high relocation and/or infrastructure costs, that states have structured custom incentive packages through the state legislature in order to support the project and bring it to fruition.

Though rare, certain opportunities are presented to states that require flexibility and a capable response mechanism. Although it may not be practical for a state to attempt to plan for every possible contingency, it should seek to establish the parameters for which such opportunities may qualify for direct support through the state legislature and the means by which such support may be quickly and efficiently carried out.

To that end, MEDC, in partnership with other state leaders, should seek to facilitate the creation of a framework and process that may be applied in the event that a unique or very high-value project has a site in Michigan under consideration, such that the project may be directed to the proper channels (while guarding sensitive information about the proposed project) in order to develop a customized incentive packaged through the Michigan Legislature.

Photo Credit: MEDC; Cobo Center, Detroit

GOALS AND OBJECTIVES

As demonstrated in the analysis presented previously within this report, it is difficult for even the best economic development organizations to produce a meaningful reduction of a state's unemployment rate in the face of highly unfavorable economic conditions. Nevertheless, state economic development organizations such as MEDC can often serve as the tip of the spear in attracting economic development opportunities of a highly strategic value (many of which carry significant employment gains) which may in turn help to turn the economic tide toward sustained growth and a reduced unemployment rate. This requires, however, great amounts of cooperation between state agencies and among individual communities, and it requires state economic development agencies to be equipped with the tools necessary to support strategic economic development endeavors.

In order for the State of Michigan to maintain an unemployment rate that is equal to the current unemployment rate of 8.6% for the nation as a whole, it would need to add 94,244 jobs (at current labor force levels). In order to reach 6.0% (considered a more stable level of unemployment that may be set as a near-term goal), Michigan would need to gain 215,785 additional jobs. MEDC's impressive employment gains in recent years (including 35,106 estimated for 2010) is certainly helpful in achieving this objective, particularly when considering the full impact of those jobs on the broader economy as produced through the multiplier effect. However, it is important to recognize that MEDC is only one component (though a critical one) of the broader economic development efforts that will be required for Michigan to reduce its unemployment rate to a healthy level. Gains achieved through MEDC programs that are subsequently offset by continued losses due to other factors present within the state economy will not have the desired (or publicly expected) result. As such, it is of critical importance that MEDC coordinate its efforts (particularly in regard to the use of incentives) with other state organizations and with regional and municipal authorities in order to serve as an instrument of high strategic value to broader state efforts.

Photo Credit: MEDC; Cobo Center, Detroit

In order to remain at a highly competitive position relative to its benchmarks, MEDC should aim to create 5.0* jobs per 1,000 population (equal to 49,419 at 2010 levels) through the use of incentives within a given year while maintaining the total cost of incentives at present levels. In order to achieve this, MEDC will be required to be highly strategic in the use of incentives and will require high levels of cooperation and coordination with state and municipal economic development organizations.

**This metric references the "Total Jobs Created Per 1,000 Population, 2010" chart presented within the Benchmark Economic Development Performance section of this report and sits among the most highly competitive states with regard to return on incentive dollars invested.*

Photo Credit: MEDC; Cobo Center, Detroit

INCENTIVIZING ECONOMIC DEVELOPMENT IN MICHIGAN: SUMMARY OF KEY FINDINGS AND CONCLUSIONS

- Incentives are a deal closer. Incentives cannot serve as a substitute for an economic environment that is supportive of growth nor for the specific assets required for a particular business to be competitive in its industry. Incentives can, however, lead a particular state to position itself more competitively relative to other similar markets in the attraction of relocating businesses.

- Recent years have seen states throughout America take differing stances on the use of cash incentives oriented to the near-term versus delayed cash incentives. While many states have become more enthusiastic in their use of closing funds and similar incentive tools, other states have focused on less cash-intensive incentives due to tightening fiscal conditions. Irrespective of the policy trends found within a given state, it is very common for a mix of incentives to be utilized in support of a particular project.

- Michigan's newly reduced corporate tax requirements places it in a more competitive position with respect to business and employment growth and, importantly, sends a signal of being a more business-friendly environment – a key asset in business attraction. The reduction in corporate taxes may also offset the decline in the portion of MEDC's budget relating to tax credits. Importantly, the shift away from the use of tax credits in favor of lower corporate tax requirements enables Michigan to be among those states considered by site selectors at an earlier stage of the site selection process.

- Budgetary decisions relating to incentive policies should, to a reasonable degree, be a product of broader MEDC strategy, rather than having economic development strategy be determined by the amount of funds available to be expended by year end.

- Due to the many changes in strategy, budget and taxes that have recently occurred and which relate to economic development efforts in Michigan, it will be important to monitor the results of these changes as they take full effect over the next two to three years before making a judgment as to the success of MEDC and the sufficiency of its current budget.

Photo Credit: MEDC

1: Be increasingly strategic in the use of the limited incentives in order to maximize their impact on the state economy and to produce greater results with fewer resources.

2: Prioritize application of incentives to the attraction, expansion, and start-up of businesses within Michigan's target industries, particularly catalytic projects.

3. Develop clearly defined policy that identifies other criteria to be considered in prioritizing those projects most worthy of state financial support, including: salary and wage levels, investment levels in building and equipment, rural projects, and projects benefitting depressed areas and other areas targeted for revitalization.

4: Streamline incentive approval processes. Coordinate disparate incentive programs in order to streamline review processes and reduce administrative costs.

5: Work with state officials and the State Legislature to structure and implement a process by which unique and very high-value projects may receive customized incentive packages delivered directly by the Michigan Legislature in a competitive timeframe.

6: Increase focus on the use of federal economic development programs and resources, as well as the use of industrial revenue bonds in the support of economic development efforts.

Recommendations

Photo Credit: MEDC

7. Support worthy economic gardening and entrepreneurship projects.

8: Develop a strategy to retain and attract young professionals.

9: Pursue aggressive marketing strategies that highlight success stories and eliminate misperceptions. Focus on recent efforts to make Michigan a more business-friendly environment and emphasize Michigan's current "ready-to-work" attitude.

10: Ensure that expanding Michigan employers are treated equally with employers relocating from other states or nations.

11: A retooled workforce is crucial to Michigan's success, therefore job training specific to certain projects needs to be considered as part of incentive offerings packages particularly if it's on-the-job training of direct benefit to the expanding or relocating companies.

12: Track key metrics associated with the use of economic development incentives to closely monitor progress and effectiveness. Return on Investment (ROI) should include strong consideration of public benefit and the progress made toward specific economic development objectives. ROI should be calculated for all projects under consideration for incentives. Annually calculate the economic and tax ROI for all assisted projects.

Recommendations

Photo Credit: MEDC

13: Incorporate "performance-based" claw-backs into incentive agreements in order to help ensure that commitments are met. Demand accountability from assisted employers including the attainment of certain employment and investment thresholds.

14: Support greater transparency in the use of incentives, including their cost, impact and contribution to specific strategic economic development objectives.

15: Together with state and local partners, focus on opportunities to utilize strategic investment in infrastructure as a form of incentive for appropriate projects, particularly on brownfield sites.

16: Increase focus on economic gardening. Support and encourage entrepreneurship across a broad set of industries.

17: Develop new and creative models for public-private partnership (similar to the Pure Business Connect initiative) aimed at achieving economic development goals through the engagement of private-sector stakeholders capable of supporting and enhancing economic development in Michigan.

Photo Credit: MEDC

18: **Monitor the results of recent changes, as related to competitiveness with other states in business attraction, in order to determine the effectiveness of current strategy and make appropriate adjustments in two years' time.**

Metrics

Photo Credit: MEDC, Joe S.

AngelouEconomics has identified several data sets that we recommend for continued monitoring by MEDC in support of economic development goals that may be associated with the use of economic development incentives. Performance metrics are listed below:

Attraction and Retention

- Number of new primary jobs associated with incentivized projects
- Number of new primary jobs within targeted clusters associated with incentivized projects
- Total investment associated with incentivized projects
- Average salaries of new primary jobs associated with incentivized projects
- Prospect activity (with particular emphasis on incentive requirements)
- Conversion rates of prospects to new businesses (with evaluation of the adequacy of any proposed incentive offering associated with the project)

Entrepreneurship

- Number of business startups resulting from incentive programs (including, when possible, spinoffs from previously incentivized projects)

Collaboration & Leadership

- Number of MOUs signed by participating organizations in support of economic development incentive programs
- Average time required to develop and process incentive proposals

Photo Credit: MEDC, Joe S.

Marketing

- Advertising equivalency/number of impressions of incentivized project announcements

Sites & Infrastructure

- Amount of new lab space constructed in association with incentivized projects
- Amount of Brownfield sites remediated as a result of incentivized projects as well as resulting price differential in property value
- Value of infrastructure included as part of incentive packages
- Square feet of real estate produced (categorized by type, i.e. industrial, office, mixed-use, flex space, etc.)

Taxes

- Corporate Tax Climate rating and comparison to benchmark states
- Number of new prospects citing recent tax reductions as a major factor in the consideration of Michigan

Photo Credit: MEDC, Photographed by Dwight Burdette

APPROACH AND METHODOLOGY

This report examines the present availability and application of economic development incentives within the State of Michigan in comparison to that of fourteen benchmark states. The primary purpose of this report is to provide an assessment of the current environment within which economic development incentives are being used at the state level in order to provide the Michigan Economic Development Corporation (MEDC) with a more thorough understanding of how it compares to competitor agencies in this regard. Utilizing a mix of data obtained from public sources (including but not limited to the U.S. Census, the Bureau of Labor Statistics and the various state agencies responsible for economic development within the benchmark states) and analyzed by AngelouEconomics, this report aims to categorize and compare the various incentive tools provided by certain state governments (or their primary economic development agencies), to review the recent economic performance of these states in order to provide the necessary context within which these incentives are being used, and to identify possible steps that may be taken by MEDC in order to remain competitive with other states in terms of the availability and application of economic development incentives and in order for MEDC to better support its employment growth objectives.

AngelouEconomics emphasizes that this report is bound by several limitations – the most significant of which being that of scope. It is not the intent of the present study to evaluate the effectiveness of economic development incentives from either a fiscal, economic, social or political standpoint. Such an analysis, though important, is beyond the purview of the present study. Instead, this report seeks to fulfill the objectives outlined above in order to address very specific concerns currently under consideration by MEDC relating to the use of economic development incentives by the State of Michigan. A vast array of academic literature has been produced on the subject of economic development incentives which may be consulted for a deeper understanding of the topic. Additional research may be considered by MEDC and/or other interested parties that address other matters relating to the use of economic development incentives by the State of Michigan.

Photo Credit: MEDC, Photographed by Dwight Burdette

Appendix B

COMMUNITY ANALYSIS AND NARRATIVE CONTENT

As described in Appendix A of this report, "Approach and Methodology," the project team completed an in-depth analysis specific to the present needs and challenges facing the Michigan Economic Development Corporation which reviewed a wide range of topics relevant to the use of state-level incentives in a highly competitive economic environment. The results of this analysis formed the basis for all conclusions presented in this report. The research completed has been directed specifically to meet the economic development needs and objectives of the Michigan Economic Development Corporation in an effort to deliver an impartial perspective that may inform future policy and strategic decisions.

Certain portions of this report draw upon previously completed research conducted by AngelouEconomics for internal use or for separate projects, and were selected for inclusion in this report for their specific relevance to the challenges and opportunities currently affecting the State of Michigan. In certain cases, specifically those relating to research processes, definitions, national and global trends, industry-wide conditions and dynamics, and national economic data, narrative remarks may be included in other documents prepared by AngelouEconomics. Reasonable efforts have been made to ensure that all data and information that was completed by other organizations and government agencies have been properly sourced throughout this report. Further information relating to the methods, research or recommendations featured in this report can be made available upon request by the client.

AngelouEconomics

AngelouEconomics partners with client communities and regions across the United States and abroad to candidly assess current economic development realities and identify opportunities. Our goal is to leverage the unique strengths of each region to provide new, strategic direction for economic development. As a result, AngelouEconomics' clients are able to diversify their economies, expand job opportunities and investment, foster entrepreneurial growth, better prepare their workforce, and attract "new economy" companies.

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