

A MACKINAC CENTER REPORT

THE MICHIGAN ECONOMIC DEVELOPMENT CORPORATION



A REVIEW AND ANALYSIS

BY MICHAEL LAFAIVE AND JAMES HOHMAN



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The Michigan Economic Development Corporation: A Review and Analysis

By Michael LaFaive and James Hohman

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Introduction

The severe national recession has turned economic growth and development into pressing concerns. Economic growth typically means increased real output of goods and services, and development usually refers to improved standards of living and quality of life. To many people, the most important aspect of both is the creation of jobs.

In the state of Michigan, the quasi-public, quasi-private Michigan Economic Development Corp. has been variously charged with “developing strategies and providing services to create and retain good jobs and a high quality of life”¹ and “transform[ing] the economy of our state ... [b]y executing the Governor’s economic development strategy. ...”² The first of these quotes was from the mission statement of the MEDC during the Engler administration, and the latter was from the mission statement of the same department during the Granholm administration. Setting ambitious goals for the MEDC has been a bipartisan effort.

The MEDC is unlike most state agencies. It is a separate corporation receiving tax monies along with some independent private revenue, and it is headed by an executive board of political appointees. This unusual status, along with the corporation’s lofty goals, renders it interesting.

In the following pages, we describe the organization of the MEDC, enumerate its many programs and review the performance of several of them — particularly the Michigan Economic Growth Authority, the MEDC’s flagship program — in an attempt to assess the corporation’s performance and gauge the likelihood of its achieving its economic development goals. This aim is particularly important given that the MEDC has become less transparent about its operations and activities in recent years, a development we discuss at some length.

The Rationale for Government Economic Development

Every state in the union operates economic development programs. Local units of government from Rhode Island to southern California also run a myriad of very specific programs designed to “create” jobs. One question is, Why?

Jobs were created in the United States long before the advent in the 1930s of the modern “Economic War Between the States,” which now pits various state economic development programs against each other.* The publicly stated rationale for the involvement of government economic development programs in the marketplace is, in its broadest sense, threefold.

1. The view that government can “create” new jobs where they may otherwise not exist.

* It is necessary here to emphasize “modern.” There were some early American “economic development” initiatives. In 1791, the state of New Jersey granted a state tax exemption and the power to condemn property to a corporation established by founding father Alexander Hamilton. The administration of George Washington also attempted to own and run its own fur factory, part of which did business in Michigan.

1 Michigan Economic Development Corp., “Account Manager Services,” undated brochure.

2 Michigan Economic Development Corp., “Transformation: A Strategic Plan for Michigan’s Economy 2007-2010,” <http://ref.themedc.org/cm/attach/1EA139A5-77D6-47E1-ADBB-A4ABA5F7D73A/Strategic%20Plan.pdf> (accessed July 30, 2009).

In this view, the state can intervene in the marketplace to create more jobs in a locality or state with targeted financial assistance, from cash subsidies, low-interest loans, tax abatements and tax credits to gifts of land and technical advice. This notion transcends virtually every economic development policy: that with such market involvement, a state has more net new jobs than it would otherwise have.

2. The view that government can prevent the “theft” of existing jobs.

State and local political jurisdictions have created economic development programs and incentives to prevent other political jurisdictions from luring their job providers across borders. In this sense, the programs are weapons in the “economic war.”

In Michigan, the state’s premier tax credit program, the Michigan Economic Growth Authority, asks corporate leaders about the reasons they might locate their firm somewhere other than Michigan. One of the common responses is that other states are allegedly offering them financial incentives to make the move. The fear of losing a major manufacturing or other concern often drives policymakers and economic development officials to provide increasingly generous awards for companies that promise not to leave.

In fact, in their chapter titled “Economic Development Policy in Michigan,” authors Timothy J. Bartik, Peter Eisinger and George Erickcek allude to the administration of Michigan Gov. John Engler and the “hiatus” in economic development work by the state in the early 1990s. They write that:

“[T]he political reality of modern American states is that governors are expected by opinion leaders and the public to take specific actions to attract and retain business. This expectation led to criticism of the Engler administration when General Motors in 1992 announced the closing of the Willow Run Plant in Ypsilanti after a publicized contest with a Texas GM plant to see which would be downsized. ...”³

In other words, the administration felt bludgeoned by the bad press and the political pressure associated with losing a high-profile jobs provider to Texas. Gov. Engler responded by dropping his previous opposition to targeted economic development programs and aggressively putting his own stamp on them. This ultimately led to the creation of such programs as the Michigan Economic Development Corp., the Michigan Economic Growth Authority and “renaissance zones.”

3. The view that government programs can redress “market failure.”

When major businesses struggle or a state’s economy is seen as deficient in some way — slow job growth, an undiversified industrial base — the marketplace is often perceived as having failed. Development programs are meant to correct

³ Timothy Bartik, Peter Eisinger, and George Erickcek, “Economic Development Policy in Michigan,” in *Michigan at the Millennium*, ed. Charles L. Ballard, et al. (East Lansing: Michigan State University Press, 2003).

these apparent failures. In this light, it would not be necessary to subsidize venture capital firms, offer tax relief to a Benton Harbor business or provide government-financed job training to an Oakland County auto supplier if the marketplace were providing greater abundance and opportunity.

What Is the Michigan Economic Development Corp.?

The Michigan Economic Development Corp. is a quasi-public department of state government. It was created by the Engler administration when it issued Executive Order 1999-1 to divide the MEDC's predecessor agency, the Michigan Jobs Commission, into two parts.⁴ One component of the order simply said, "The Michigan Department of Career Development is hereby created," and another described how the new Michigan Economic Development Corp. was to come into existence with the help of the "Michigan Strategic Fund."⁵

A short digression is necessary to explain the Michigan Strategic Fund and the "interlocal agreement" that led to the MEDC's formation. Prior to the actual creation of each new department, the executive order transferred programs from the Michigan Jobs Commission to the Michigan Strategic Fund. These programs included the Michigan Economic Growth Authority, Michigan Travel Bureau/Travel Michigan, Office of Film and Television Services, and administration of the Michigan Renaissance Zone Act, among others.⁶

The Michigan Strategic Fund is an economic development initiative created by Public Act 270 of 1984.⁷ In Executive Order 1999-1, the Michigan Strategic Fund was authorized to enter into what is called an "interlocal" agreement with at least one local economic development organization and create a new "public body corporate"⁸ to "be called the Michigan Economic Development Corporation."⁹ The corporation is governed by a 20-person executive committee.¹⁰ The original interlocal agreement was made effective April 5, 1999.

The MSF remains the legal vehicle through which state appropriations are made to support the work of the MEDC. Nevertheless, the MEDC is technically still an independent unit of the state.¹¹

The idea behind dividing the former Michigan Jobs Commission was to separate the state's job "creation" programs — or economic development functions — from the type of human resource and job placement work done by the state and even mandated by the federal Workforce Investment Act.* The Michigan Department of Career Development was created at the same time to house and administer these human resources responsibilities. By differentiating economic development from workforce development, the MEDC was meant to have a greater focus on creating jobs. Consider some of the quotes reported by MIRS News following the birth of the MEDC in 1999:

* The Workforce Investment Act is itself a fascinating subject for research and writing. For more on the subject, see the Mackinac Center article "Staffing Services Industry Under Fire" at <http://www.mackinac.org/4665>.

4 John Engler, "Executive Order No. 1999-1," (Michigan Legislature, 1999), [http://www.legislature.mi.gov/\(S\(upauf4qa023wk05Sogyhzhba\)\)/documents/publications/executiveorders/1999-ERO-01.htm](http://www.legislature.mi.gov/(S(upauf4qa023wk05Sogyhzhba))/documents/publications/executiveorders/1999-ERO-01.htm) (accessed July 29, 2009).

5 Ibid.

6 Ibid.

7 "Michigan Strategic Fund Act," (Michigan Legislature, 1984), [http://www.legislature.mi.gov/\(S\(rqebc5iqm11v1wa0xwwn4w55\)\)/documents/mcl/pdf/mcl-act-270-of-1984.pdf](http://www.legislature.mi.gov/(S(rqebc5iqm11v1wa0xwwn4w55))/documents/mcl/pdf/mcl-act-270-of-1984.pdf) (accessed July 21, 2009).

8 Engler, "Executive Order No. 1999-1."

9 Ibid.

10 "Financial Audit of the Michigan Economic Development Corporation," (Lansing, Mich.: Office of the Auditor General, 2009).

11 Ibid., 11.

- “This new structure will enable us to have an even quicker, more flexible economic development focus,” said newly elected MEDC Board Vice President Beth Chappell. “Ultimately, that means more jobs.” Moreover, “The Michigan Economic Development Corporation will help position Michigan around the globe as a hot business location.”¹²
- “This state’s economy has grown to the point where the Michigan Jobs Commission model didn’t fit anymore,” said newly appointed MEDC President and CEO Doug Rothwell. “The Michigan Economic Development Corporation will allow us to spend more time helping grow the exciting new industries of the new economy, while still providing the same services the Jobs Commission had in place.”¹³

Much was promised and expected of the MEDC, and just months after it was created by the Engler administration, the department issued its 10-year vision for the future of Michigan. The document, titled “Strategic Directions for Michigan’s Future: The Next Decade,” described goals for the decade we just lived through. It read in part:

“Given what we know about Michigan’s economy, the changes it has weathered, and the challenges that confront it, the MEDC has adopted the following vision statement for Michigan’s economic future in the coming decade:

“The State of Michigan will serve as a model of economic excellence for the rest of the country. Businesses and skilled workers will choose to locate and live in Michigan because of its business climate, quality of life, educational system, technological support, and entrepreneurial spirit.

“They will be attracted by the State’s self-contained communities or ‘technopolises.’ Driven by technology, these ‘smart’ communities will promote and practice the ethic of working, living, and playing in the same place.

“Michigan’s economic base will continue to strengthen and diversify, with technology as its centerpiece. The State’s economy will be increasingly connected to international markets. Well-paying jobs will be plentiful, and skilled and trained workers will be available to fill them.”¹⁴

12 “Michigan Economic Development Corp Begins Operations,” *Michigan Information & Research Service*, April 5, 1999.

13 Ibid.

14 “Strategic Directions for Michigan’s Future,” (Michigan Economic Development Corp., 1999), 15.

Financing the MEDC

This vision inevitably came with a price. Since fiscal 2001, the earliest year for which information is readily available, the Michigan Legislature has appropriated more than \$394 million¹⁵ in general fund monies to the MEDC. The general fund portion of the budget is that area over which legislators have the most appropriations discretion. This figure thus excludes other types of appropriation.

For instance, since fiscal year 2001, more than \$823,000¹⁶ has been budgeted for MEDC operations through “IDG,” or “interdepartmental grants.” This category simply records financial transfers from other state departments, such as money from the Michigan Department of Environmental Quality to pay for a clean air ombudsman.

The federal government has passed down \$516 million¹⁷ in financial support during the same time period. Federal monies fully fund the Community Development Block Grant program, which is meant to help low- and middle-income communities with a wide variety of community improvement projects. In Michigan, the CDBG program is frequently employed to supplement economic development deals by the state in association with the Michigan Economic Growth Authority (discussed in detail later).

The MEDC may have also been the recipient of more than \$6.8 million in local and private resources since 2001.¹⁸ Private revenues may be generated from fees collected for a conference held by the MEDC, for instance.

The corporation has also received appropriations of another \$734 million in state “restricted” funds.¹⁹ These represent monies appropriated by the Legislature for a specific program, such as the 21st Century Jobs Fund, which involves a wide-ranging assortment of economic development initiatives.

Notice in Graphic 1 and Graphic 2 that fiscal year 2006 shows a major spike in the amount of money appropriated for use by the MEDC. The vast majority of this increase in revenues is a direct function of the state selling off a portion of its expected future revenue from major tobacco companies at a significant discount.

The revenues from tobacco companies were the result of a “Master Settlement Agreement.” This 1998 agreement, struck between U.S. states and major tobacco companies, promised more than \$206 billion in new revenues over 25 years to states participating in the agreement.²⁰ The agreement was made to prevent ongoing lawsuits by state governments against the tobacco industry for health care costs allegedly associated with tobacco use.

Michigan has received more than \$200 million annually from the agreement since 2000,²¹ but the state chose to sell a portion of its future tobacco settlement revenue stream at a discount in exchange for acquiring a large amount of the

15 “Michigan Strategic Fund Funding History,” (Senate Fiscal Agency, 2009), http://www.senate.michigan.gov/sfa/Departments/FundHistory/FHmsf_web.pdf (accessed August 10, 2009).

16 Ibid.

17 Ibid.

18 Ibid.

19 Ibid.

20 Rajeev K. Goel and Michael A. Nelson, “The Master Settlement Agreement and Cigarette Tax Policy,” *Journal of Policy Modeling*, no. 29 (2007): 432.

21 “Actual Tobacco Settlement Payments Received by the States,” (Campaign for Tobacco-Free Kids, 2009), 1, <http://www.tobaccofreekids.org/research/factsheets/pdf/0218.pdf> (accessed August 26, 2009).

money earlier.* Total state restricted funds appropriated in fiscal year 2006 alone eclipsed \$400 million²² as a result of the discounted revenue sale.²³

According to the Michigan Senate Fiscal Agency, gross appropriations to the MEDC have totaled more than \$1.6 billion since its inception.²⁴ Graphic 1 summarizes the figures discussed so far.

Graphic 1: Appropriations to the MEDC/Michigan Strategic Fund Since Fiscal 2001

Fiscal Year	FTEs	IDG	Federal	Local/Private	State Restricted	General Fund	Gross
FY 2000-01	235	\$100,000	\$52,673,200	\$656,700	\$50,050,000	\$65,274,900	168,754,800
FY 2001-02	234	100,000	63,334,400	850,000	45,050,000	60,156,200	169,490,600
FY 2002-03	231.5	100,900	62,953,300	853,100	32,550,000	52,626,100	149,083,400
FY 2003-04	200	100,900	52,953,300	853,100	10,050,000	38,380,100	102,337,400
FY 2004-05	199	104,100	53,014,300	853,100	10,050,000	53,716,600	117,738,100
FY 2005-06	190	78,600	56,021,800	700,000	401,005,000	33,990,900	491,796,300
FY 2006-07	152	78,600	55,584,900	700,000	5,000	29,457,700	85,826,200
FY 2007-08	152	80,000	55,430,700	712,800	130,775,200	32,993,800	219,972,500
FY 2008-09	153	80,300	64,738,800	715,600	54,755,200	27,741,100	148,031,000
TOTAL		\$823,400	\$516,704,700	\$6,894,400	\$734,290,400	\$394,337,400	\$1,653,030,300

Source: Michigan Senate Fiscal Agency. ("FTEs" represent "full-time equivalent employees.")

The totals in Graphic 1 do not include "corporate" donations that escape the traditional appropriations process. The revenues generated by the state's Indian gaming compacts flow directly to the MSF²⁵ and are then passed on to the MEDC.²⁶ Such contributions have totaled \$119 million since calendar year 2000.²⁷

As this document is being prepared for publication, the state House and Senate have each passed their own versions of an MEDC budget for fiscal 2010. The state House appropriated a total of \$147 million²⁸ for operation of the MEDC, and the state Senate more than \$119 million.²⁹ Whatever the final appropriations figure, it seems likely that total monies appropriated to the MEDC since fiscal 2001 will reach at least \$1.75 billion.

* This arrangement is arguably a form of deficit financing that violates the Michigan Constitution's balanced budget requirement. See Jack McHugh, "Eight Is a Start: Where Gov. Granholm's Budget Recommendations and the Mackinac Center's Agree," (Mackinac Center for Public Policy, 2009), 2, <http://www.mackinac.org/archives/2009/s2009-03.pdf>.

22 "Michigan Strategic Fund Funding History."

23 "Comparing Michigan's Securitization Take Difficult," *Michigan Information & Research Service*, June 15, 2006.

24 "Michigan Strategic Fund Funding History."

25 Elizabeth Pratt and Maria Tyszkiewicz, "Tribal Gaming Issues in Michigan," (Senate Fiscal Agency, 2009), 2, <http://www.senate.michigan.gov/sfa/Publications/Issues/TribalGaming/TribalGamingRevised.pdf> (accessed August 3, 2009).

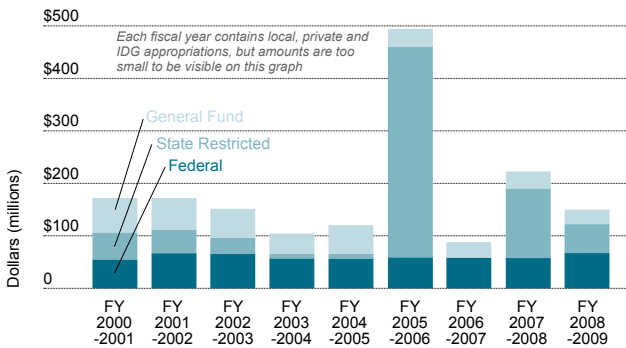
26 "Financial Audit of the Michigan Economic Development Corporation," 22.

27 "Tribal Casino Slot Revenue Payments & Slot Information—8% of Slot Revenue Payments to the Michigan Strategic Fund," (Michigan Gaming Control Board, 2009).

28 "House Substitute for Senate Bill 245," (Michigan Legislature, 2009), 34, <http://legislature.mi.gov/documents/2009-2010/billengrossed/Senate/pdf/2009-SEBH-0245.pdf> (accessed August 30, 2009).

29 "Senate Substitute for Senate Bill 245," (Michigan Legislature, 2009), 33, <http://legislature.mi.gov/documents/2009-2010/billengrossed/Senate/pdf/2009-SEBS-0245.pdf> (accessed August 30, 2009).

Graphic 2: Appropriations to the MEDC/Strategic Fund Since Fiscal 2001 (Stacked Bar Chart)



Source: Michigan Senate Fiscal Agency

Functions of the MEDC

The reader may be a bit overwhelmed by all of the data in the previous section. Unfortunately, the budget and account reporting is a naturally complex subject. Understanding any one line item can be a time-consuming project. This is particularly the case with the MEDC, which has become less transparent over time (see “The Trend Toward — and Away From — Transparency” later in this study).

Consider just how a member of the public or the Legislature might begin examining the inner workings of the MEDC. The screen shot in Graphic 3 shows the fiscal 2009 line-item appropriation for the Michigan Strategic Fund, which supplies the money for various MEDC projects.³⁰ This budget provides only nine line items to show where more than \$146 million will be spent over this fiscal year.

The detail is hardly illuminating, and it underscores the problems that legislators, members of the media and the public can have in trying to better understand the MEDC. Additional information on each line item can be found in the “boilerplate” language of each bill, but it is hardly enough to make spending transparent.

* For instance, tribal gaming revenue is a significant source of income for the MEDC, but it accrues directly to the Michigan Strategic Fund and is not appropriated by the Michigan Legislature.

30 “Public Act 261 of 2008,” (Michigan Legislature, 2008), 15, <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0261.pdf> (accessed August 30, 2009).

Graphic 3: Fiscal Year 2009 Michigan Strategic Fund (MEDC) Budget

(13) MICHIGAN STRATEGIC FUND	
Full-time equated classified positions.....	153.0
Administration—22.0 FTE positions	\$ 2,555,100
Job creation services—125.0 FTE positions	17,069,000
Jobs for Michigan investment program - 21st century jobs fund.....	65,000,000
Michigan promotion program	5,717,500
Economic development job training grants	7,320,500
Community development block grants	53,000,000
Michigan film office—6.0 FTE positions	731,600
Business incubator program	1,250,000
GROSS APPROPRIATION.....	\$ 152,643,700
Appropriated from:	
Interdepartmental grant revenues:	
IDG-MDEQ, air quality fees.....	80,300
Federal revenues:	
HUD-CPD, community development block grants	\$ 55,438,800
Special revenue funds:	
Private - special project advances	715,600
Industry support fees	5,200
Jobs for Michigan investment fund - returns to fund	1,250,000
21st century jobs trust fund	65,000,000
Michigan film promotion fund	550,000
State general fund/general purpose	\$ 29,603,800

Source: Public Act 261 of 2008.

In the paragraphs to follow, we attempt to shed light on each line item.

Administration

In fiscal 2009, the Michigan Legislature appropriated more than \$2 million to fund the “Administration” line item, which includes 22 full-time equivalent (or “FTE”) positions. Appropriations for this item finance, according to the Michigan House Fiscal Agency, “executive office support staff, financial services, office services, human resources, external relations, strategic initiatives, and [the] Michigan Economic Development Corporation (MEDC) policy office.”³¹ Some administrative personnel, however, are compensated via the MEDC’s corporate funds.³²

Job Creation Services

In fiscal 2009, the Legislature appropriated more than \$17 million to support the work of 125 FTE employees.* This core group of economic development staff is paid to support programs through which the state offers potentially billions more in state resources to select industries, corporations and individuals.

* In 2005, the state Legislature was looking to trim areas of the state budget and zeroed in on the MEDC, which prompted the following response from James Epolito, then CEO of the MEDC: “A year from now, our success in transforming Michigan’s economy and generating jobs for Michigan workers will make any legislator think twice about reducing that ‘job creation services’ line item in the state budget.” (“Proposal Gives MSHDA 40 MEDC Employees,” Michigan Information & Research Service, Oct. 20, 2005).

31 Viola Bay Wild and Amber Fox, “Line Item and Boilerplate Summary: General Government,” (Senate Fiscal Agency, 2008), <http://house.michigan.gov/hfa/PDFs/line09gg.pdf> (accessed August 30, 2009).

32 “MEDC Organizational Chart,” (Michigan Economic Development Corp., 2009).

Despite its prosaic name, this is arguably one of the most high-profile program areas of the Michigan Economic Development Corp., in part due to its administering the Michigan Economic Growth Authority, one of the state's largest and best-known development "tools." (MEGA is described at length later in this study.) According to the Michigan House Fiscal Agency, "job creation services" include:

- "Business Development: international business development, business retention/attraction activities, project management and market research.
- "Business Services: Infrastructure programs and Community Development Block Grant) [sic]; small business outreach; job training; site location; account management; brownfield development; tech zone administration; finance programs (Michigan Economic Growth Authority); Michigan Core Community administration.
- "Emerging Business Services: Life Sciences Corridor Initiative; business development to targeted industries (homeland security, advanced manufacturing, life sciences); business roundtables.
- "e-MEDC: coordinate IT and e-business efforts, customer assistance and advocacy units, export services, and ombudsman office.
- "Public Affairs: communications/marketing/events; Michigan Protocol Office."³³

Jobs for Michigan Investment Program: 21st Century Jobs Fund

This program is technically administered by the Michigan Strategic Fund, rather than the MEDC.³⁴ It is a major economic development program, however, so we will briefly describe it here.

The 21st Century Jobs Fund was created in 2005 with an original appropriation of \$400 million.³⁵ The program has received initial appropriations of \$62 million for fiscal 2009.³⁶ This line item is financed by the sale (or "securitization") of tobacco revenues that accrue to Michigan from the Master Settlement Agreement between the major tobacco companies and the various U.S. states.

After monies are appropriated each year, the Strategic Fund may allocate them into three different 21st Century Jobs Fund programs: the loan enhancement program, the investment programs, and the Competitive Edge Technology Grants and Loans program.³⁷ Various earmarks guide the disbursement of 21st Century Jobs Fund money, including a mandate to fund CETGAL.³⁸

Technically, the loan enhancement program has five parts: a loan guarantee program; a small-business capital access program; two programs for loans to firms and private equity funds involved in film and digital media; and a program to loan money directly to businesses for "significant job creation or retention within this state."³⁹

33 Wild and Fox, "Line Item and Boilerplate Summary: General Government."

34 "Financial Audit Including the Provisions of the Single Audit Act of the Michigan Strategic Fund," (Michigan Office of the Auditor General, 2008), 46.

35 "Public Act 225 of 2005," (Michigan Legislature, 2005), 14, <http://www.legislature.mi.gov/documents/2005-2006/publicact/pdf/2005-PA-0225.pdf> (accessed July 21, 2009).

36 Wild and Fox, "Line Item and Boilerplate Summary: General Government."

37 "Michigan Strategic Fund Act," Sec. 125.2088b(3).

38 Elizabeth Pratt and Maria Tyszkiewicz, "21st Century Jobs Trust Fund Programs," (Michigan Senate Fiscal Agency, 2008).

39 "Michigan Strategic Fund Act," Sec. 2088d.

According to the MEDC, only two parts of the loan enhancement program had started as of Sept. 30, 2008: the direct loan program, which had not yet issued any loans; and the small-business capital access program, which had received no appropriation besides the initial one from the 21st Century Jobs Fund.⁴⁰

The Strategic Fund may also use the appropriation for its investment programs, but the state in general does not invest directly.* Instead, it hires an outside manager, Credit Suisse,⁴¹ to analyze and partner with professional firms that specialize in providing venture capital, private equity and mezzanine loans. This investment program received an appropriation from the initial 21st Century Jobs Fund monies, but has not received continuing funds from the annual line item.

Under the Competitive Edge Technology Grants and Loans program, the state may also subsidize four targeted industries — life sciences, homeland security, advanced automotive and alternative energy. CETGAL is the successor program to the “Technology TriCorridor Initiative.” According to the Michigan Strategic Fund’s Sept. 30, 2008, financial statements, there are more than \$60 million worth of loans outstanding from CETGAL and its predecessors. While CETGAL loans (as opposed to grants) may be repaid over time, the MSF’s financial report also clarifies, “These are high-risk loans issued for the purpose of diversifying Michigan’s economy.”⁴² The state made a \$3.2 million provision for loan losses last year.⁴³

In 2008, the Legislature gave the Strategic Fund the ability to finance the Centers of Energy Excellence program,⁴⁴ which is similar to CETGAL but focuses exclusively on energy industries. Also, CoEE allows the state to make direct grants to for-profit firms,⁴⁵ which the state was prevented from doing under CETGAL (except when the business was seeking a match for federal funds).⁴⁶

Numerous legislative earmarks have channeled 21st Century Jobs Fund monies to specific activities. In the 21st Century Jobs Fund’s initial appropriations, approximately \$26 million was set aside for the Michigan Forest Finance Authority, although \$20 million of this was subsequently vetoed.⁴⁷ In the appropriations bills for the current fiscal year, there was a \$1.4 million earmark for small-business grants and loans and a vetoed \$3 million earmark for a West Michigan regional economic development agency.⁴⁸ This year’s proposed budget includes new funding for a defense industry liaison office.⁴⁹

Funding for the 21st Century Jobs Fund may be diverted to the state’s general fund. Indeed, \$50 million of the original \$400 million 21st Century Jobs Fund appropriation was placed in the general fund to help balance the budget.⁵⁰

* Under this program, the state has, however, invested directly in Microposite, which “develops and manufactures advanced composite materials,” according to the company’s MEGA “Briefing Memo.”

40 “21st Century Jobs Fund Program: Year-End Report to the Legislature for Fiscal Year 2008,” (Michigan Economic Development Corp., 2008).

41 “Governor and MEDC Announce 21st Century Jobs Trust Fund Investment Manager,” (Michigan Economic Development Corp., 2006), <http://ref.michigan.org/medc/news/major/archive/combo.asp?ContentId=42E44AC3-C9DD-4C92-8C5F-79346526E118&QueueId=2&ContentTypeId=7> (accessed August 30, 2009).

42 Author’s calculations based on “Financial Audit Including the Provisions of the Single Audit Act of the Michigan Strategic Fund.”

43 Therese Regner, Freedom of Information Act e-mail correspondence with James Hohman, August 25, 2009.

44 “Public Act 175 of 2008,” (Michigan Legislature, 2008), <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0175.pdf> (accessed August 30, 2009).

45 Ibid.

46 “Michigan Strategic Fund Act,” Sec. 2088k(3).

47 Pratt and Tyszkiewicz, “21st Century Jobs Trust Fund Programs,” 1.

48 “Public Act 261 of 2008.” Sec. 1024 and 1027.

49 “Detailed Decision Document: Governor, Senate, House, and Conference — Michigan Strategic Fund,” (Michigan Senate Fiscal Agency, 2009).

50 Pratt and Tyszkiewicz, “21st Century Jobs Trust Fund Programs.”

Michigan Promotion Program

This \$5.7 million line item funds tourism and business advertising in this and neighboring states. The advertisements typically involve television and radio spots that highlight Michigan's virtues as a travel destination and hot spot for business growth. The line item also supports the creation and printing of publications to encourage tourism in the state. The advertising is overseen by the "Travel Michigan" department within the MEDC.

The state's tourism advertising campaign — known today as "Pure Michigan" — received a \$27.5 million boost in fiscal 2009 due to a legislative appropriation to the Michigan Strategic Fund from the 21st Century Jobs Fund⁵¹ — the fund originally designed for investing in the high technology job arenas of the future.* According to published reports, a total of \$30 million was allocated to fund the Pure Michigan campaign that features voiceover work from actor and Michigan native Tim Allen.⁵²

Two different proposals are wending their way through the state Legislature designed to create a permanent funding stream for greater tourism advertising in the state. The proposals include a tax on rental cars and one that would "capture" growth in sales taxes on tourism-related industries.⁵³

The other area in which the Michigan Promotion Program line item is designed to help is business promotion. The reader is probably familiar with the nationwide advertisements featuring Michigan actor Jeff Daniels. This is called the "Upper Hand" campaign. The Michigan Senate Fiscal Agency estimates that since fiscal 2006, the state has spent \$40.5 million on these advertisements, with an additional \$3.75 million slated for fiscal year 2010. The majority of these funds were appropriated as part of the 21st Century Jobs Fund program.⁵⁴

Economic Development Job Training Grants

According to annual appropriations bills, "The purpose of this program is to develop a specific skill, for Michigan residents identified for a particular Michigan business that assists that company to compete in the global economy and to create or retain high-paying jobs for Michigan residents."⁵⁵ The program has existed since 1992⁵⁶ and is administered by the MEDC. The state works with educational organizations — mostly community colleges — to train the workers of select firms.

Companies can receive direct grants, too. To be eligible, a company has to create or retain 100 jobs at a single Michigan site within two years of the grant,[†]⁵⁷ meaning that small businesses would not be eligible. This grant is occasionally used in conjunction with MEGA tax credits, which also tend to involve larger

* Technically, the additional monies were redirected from the general-fund portion of the state budget after refinancing the state debt associated with the securitization of the MSA payments. The general-fund dollars were then moved to the 21st Century Jobs Fund where the MSF Board could distribute the resources to the MEDC for travel and business programs.

† Thresholds go down to 50 employees if the grant is expected to be \$20,000 or less.

51 Elizabeth Pratt and Maria Tyszkiewicz, "Michigan Travel Promotion and Business Marketing Programs," in *State Notes* (Lansing, Mich: Michigan Senate Fiscal Agency, 2008).

52 Mark Hornbeck, "Tourism Officials Optimistic About Travel Campaign," *The Detroit News*, July 28, 2009.

53 "House Bill 5017 of 2009," (Michigan Legislature, 2009), <http://www.legislature.mi.gov/documents/2009-2010/billintroduced/House/pdf/2009-HIB-5017.pdf> (accessed August 4, 2009). and "Senate Bill 619," (Michigan Legislature, 2009), <http://www.legislature.mi.gov/documents/2009-2010/billintroduced/Senate/pdf/2009-sIB-0619.pdf> (accessed August 30, 2009).

54 Pratt and Tyszkiewicz, "Michigan Travel Promotion and Business Marketing Programs."

55 "Public Act 261 of 2008," Sec. 1002(1).

56 "Performance Audit of Selected Training Related Programs: Michigan Economic Development Corporation," (Michigan Office of the Auditor General, 2003), 7.

57 "Public Act 261 of 2008," Sec. 1002(4).

projects. While specific reporting on this is unavailable, counts from documents received from the MEDC indicate that more than \$57 million in EDJT grants have been pledged in MEGA deals.⁵⁸

Last year, only one company, IBM, received direct support. The company was awarded a \$500,000 grant to train 100 new employees.⁵⁹

Companies must bear 30 to 50 percent of the costs of training existing workers, although new employees can be fully supported by the grant.⁶⁰ Workers cannot be charged for tuition.⁶¹

There are limited funds available every year, and recipients are prioritized based on MEDC criteria, but the organization has statutory authority to make decisions based on the need for training and the number and wages of the expected new jobs.⁶² Additional restrictions in the appropriations bills prevent the grants from being used to train “permanent striker replacement workers” and prohibit worker training programs from charging excessive administrative costs.⁶³

Last year, the MEDC made 43 EDJT grants, which pledged more than \$5.6 million to train 7,303 employees.⁶⁴ All but 13 grants went directly to community colleges.

The program has been significantly scaled back since 2000. Initial appropriations in fiscal 2009 were \$7.3 million, down from \$31 million in fiscal 2000.⁶⁵ All of this money comes from Michigan’s general fund, which is largely composed of income, business and sales taxes.

Community Development Block Grants

Technically, Community Development Block Grants are administered by the Michigan Strategic Fund, rather than the MEDC.*⁶⁶ They frequently accompany Michigan Economic Growth Authority agreements overseen by the MEDC.

This \$53 million appropriation is a “pass through” from the federal government and is not specifically combined with other state resources. The CDBG program was created in 1974 when the federal government attempted to consolidate a disparate group of programs designed to help local units of government. The program contains a state-administered component for areas that do not receive CDBG support directly from U.S. Department of Housing and Urban Development. According to the MEDC, state CDBG funds administered by the MSF are allocated to communities where 51 percent of the population is of low and moderate income. Within these communities, two types of activities are eligible for the grants: projects “that address critical infrastructure needs” and projects involving “a for-profit private business location or expansion project that will result in the creation of permanent jobs.”⁶⁷ In addition, HUD stipulates, “The State must ensure that at least 70 percent of its CDBG grant funds are used for activities that benefit low- and moderate-income persons. ...”⁶⁸

* Some state CDBG money is administered by the Michigan State Housing Development Authority; this money, however, does not appear in the MSF budget.

58 Total derived from “MEGA Transparency Project” documents available at <http://www.mackinac.org/depts/fpi/mega.aspx>.

59 “Economic Development Job Training Grants,” in *Michigan Economic Development Corporation Annual Report to the Legislature* (Michigan Economic Development Corp., 2008).

60 “Public Act 261 of 2008,” Sec. 1002(10).

61 *Ibid.*, Sec. 1002(9).

62 *Ibid.*, Sec. 1002(7).

63 *Ibid.*, Sec. 1002(2) and (3).

64 “Economic Development Job Training Grants.”

65 “Public Act 120 of 1999,” (Michigan Legislature, 1999), 4, <http://legislature.mi.gov/documents/1999-2000/publicact/pdf/1999-PA-0120.pdf> (accessed August 27, 2009) and “Public Act 261 of 2008,” 15.

66 “Financial Audit Including the Provisions of the Single Audit Act of the Michigan Strategic Fund,” 46.

67 “Michigan Community Development Block Grant (CDBG) Program,” (Michigan Economic Development Corp., 2009), <http://ref.themedc.org/cm/attach/9D3A3558-10AC-4911-AA72-D11184D5509A/CDBG.pdf> (accessed August 26, 2009).

68 “State Administered CDBG,” U.S. Department of Housing and Urban Development, <http://www.hud.gov/offices/cpd/communitydevelopment/programs/stateadmin/>.

Michigan Film Office

The Michigan Film Office, which employs the equivalent of six full-time workers, received an official appropriation of \$731,600 in fiscal 2009. The relatively small size of the appropriation, however, masks the MFO's newfound influence. In 2008, the state began the Michigan Film Incentive, a program that provides refundable credits against the Michigan business tax for qualifying film companies that do business in Michigan. The "refundability" of the credits means state government sends a check for the difference between a company's Michigan business tax liability and its refund whenever the refund exceeds the liability.

According to a Michigan Film Office report to legislators in March 2009, the program awarded \$48 million in tax credits in 2008.⁶⁹ The Michigan Film Office and the Film Incentive program are discussed at greater length later in this study.

Business Incubator Program

This program received \$1.25 million in appropriations in fiscal 2009. It is a relatively new line item, and there is very little language in the appropriations bill to describe its purpose. Generally speaking, however, business incubator programs provide resources and services to companies that are in the earliest stages of development in an attempt to increase the probability that they become viable entities. According to the MEDC Web site, in language based on the appropriations bill: "[T]he MEDC will be responsible for distributing the funds on a competitive basis to business incubator programs in Berrien, Genesee, Macomb, Washtenaw and Wayne counties. Aside from geographic location, the awarding criteria includes that the incubators be operational as of October 1, 2008 and that they submit comprehensive business plans that demonstrate sustainable operating capacity."⁷⁰

Key Programs of the MEDC

As the summary descriptions above suggest, the MEDC is a sprawling and complex entity that administers or coordinates economic development monies from federal, state and local units of government. For instance, Graphic 4 lists products and services that the MEDC provides, according to its Web site.

⁶⁹ "Michigan Film Office 2008 Annual Report," (Michigan Film Office, 2008), http://www.filmmacomb.org/documents/MFO_2008_Annual_Report_269261_7.pdf (accessed July 14, 2009).

⁷⁰ "Business Incubator Request for Proposals," (Michigan Economic Development Corp., 2009), <http://www.themedc.org/Notices/Detail.aspx?ContentId=83141fd4-1703-48db-8c5e-2b807b02449c> (accessed August 24, 2009).

Graphic 4: MEDC Products and Services

Advanced Battery Credits	Michigan Collateral Support Program
Agricultural Processing Renaissance Zones	Michigan Loan Participation Program
Anchor District Credit	Michigan Manufacturing Technology Center (MMTC)
Anchor Jobs Credit	Michigan NextEnergy Authority
Border County Incentives	Michigan Talent Bank
Brownfield Redevelopment Authority	Michigan Technical Education Centers (M-TEC)
Brownfield Tax Incentives	Michigan Timely Application & Permit Service (MiTAPS)
Business Improvement District / Principal Shopping District / Business Improvement Zone (BID / PSD / BIZ)	Neighborhood Enterprise Zone
Business Tax Cell Manufacturing Application	Neighborhood Improvement Authority
Capital Access Program	Obsolete Property Rehabilitation Act (OPRA)
CATeam (Community Assistance Team) Specialist Map	Personal Property Tax Relief in Distressed Communities (P.A. 328)
Centers of Energy Excellence (COEE) Program	Private Activity Bond Program (former IDR)
Certified Business Parks	Procurement Technical Assistance Centers (PTAC)
Chief Compliance Officer, Office of the	PTAC Map
Commercial Rehabilitation Act (P.A. 210)	Recovery Act - Alternative Energy Communities Information
Community Development Block Grant (CDBG) Program	Recovery Act - Alternative Energy Companies Information
Conditional Land Use Transfer (P.A. 425)	Recovery Act - Automotive and Vehicle Opportunities
Consultation Education Training Service, (CET) MIOSHA	Recovery Act - Business Information
Corridor Improvement Authority (P.A. 280)	Recovery Act - Information for Communities
Defense Contract Coordination Center (DC3)	Recovery Act - Information on Recovery Zones
Defense Contracting MBT Tax Credit	Recovery Act - Michigan Alternative Energy Benefits
Downtown Development Authority	Recovery Act - Trade Adjustment Assistance
Emerging Technologies Fund	Redevelopment Liquor License (P.A. 501)
Employee Training Under Michigan's Economic Development Job Training (EDJT) Program	Renewable Energy Renaissance Zones
Environmental Assistance Program	SBA Certified Development Company (504) Loans
Equity Capital	SBA Programs
Forest Products Processing Renaissance Zones	SmartZone Network Interactive Map
Geographic Renaissance Zones	SmartZones Program Overview
High-Tech MEGA Program	Tax Increment Financing Authority (TIFA)
Historic Neighborhood TIFA	Taxable Bond Financing
Industrial Property Tax Abatement (P.A. 198)	Technology Collaboration Credit
Local Development Financing Act (LDFA)	Tool & Die Recovery Zones
MEGA Retention Tax Credits	Unemployment Insurance Services
MEGA Standard and Rural Job Creation Tax Credit Program	Urban Land Assembly Program
Michigan Business Ombudsman	Virtual Incubator - AME
Michigan Business Tax (MBT)	Water Resource Improvement TIFA
Michigan Business Tax Booklet (7-page guide)	Worker's Compensation Cost Control Service w/ Letter of Authorization

Source: MEDC Web site.

Even the basic task of linking these programs to the various departments of the MEDC is difficult. While the basic budget line items in Graphic 3 are easy enough to grasp, they barely skim the surface. Other state documents, including the legislative appropriations, are frequently vague in their descriptions of the programs or the parts of the MEDC that are involved in administering them.⁷¹

⁷¹ “Performance Audit of the 21st Century Jobs Trust Fund Programs,” (Michigan Office of the Auditor General, 2007), 16.

Rather than canvassing each program and office of the MEDC, then, we intend in the following pages to highlight several high-profile MEDC programs that are representative of the agency's attempt to stimulate economic development by directly targeting specific recipient businesses with tax credits, direct subsidies or both.

We'll begin with the Michigan Economic Growth Authority for two reasons. First, MEGA is the state's biggest, most influential and highest-profile economic development program. Its success or failure matters to the state.

Second, MEGA is designed to provide its primary benefit — credits against the Michigan business tax — only when companies actually retain or create new jobs.* For reasons described later, this approach is more likely to succeed than traditional development programs, which provide immediate subsidies to companies in the expectation that the companies will retain or create jobs. Hence, an assessment of MEGA's performance is a better indicator of the upside potential of MEDC programs that target benefits to particular businesses in an effort to stimulate job growth.

* As noted later, however, some of the other incentives MEGA arranges in conjunction with its tax credits are provided regardless of job creation.

The Michigan Economic Growth Authority

The Michigan Economic Growth Authority is the “flagship” program in Michigan's economic development complex. It was created in 1995⁷² and is today administered by the Michigan Economic Development Corp. It had been administered by the MEDC's predecessor agency, the Michigan Jobs Commission. In the following pages, we describe MEGA and provide a new analysis of the program.

MEGA was meant to facilitate job creation and retention in Michigan by offering business tax credits to select firms willing to expand in or relocate to the Great Lakes State. MEGA also typically arranges for businesses offered MEGA tax credits to receive other tax breaks and subsidies. The original authorizing statute for MEGA, Public Act 24 of 1995, mandated that local units provide an incentive as part of the overall deal (this mandate was removed from the statute in 2008). Many municipalities offered local property tax abatements, but other local incentives included such things as discounted parking and subsidized golf.

The authority consists of an eight-member board. Jobs qualifying for a MEGA credit must pay at least 150 percent of the federal minimum wage.⁷³ The requirements for claiming a MEGA credit depend on a business's current and planned locations. Originally, the minimum job creation criteria were as follows:

- A business expanding within the state needed to create 75 qualified new jobs at its proposed facility;

72 “Michigan Economic Growth Authority Act,” (Michigan Legislature, 1995), [http://www.legislature.mi.gov/\(S\(zfs54hjkruhrn55b5th3q55\)\)/documents/mcl/pdf/mcl-Act-24-of-1995.pdf](http://www.legislature.mi.gov/(S(zfs54hjkruhrn55b5th3q55))/documents/mcl/pdf/mcl-Act-24-of-1995.pdf) (accessed August 6, 2009).

73 “Public Act 24 of 1995,” (Michigan Legislature, 1995).

- A business locating in Michigan from outside the state needed to create 150 qualified new jobs at its proposed facility; and
- A business locating its proposed facility within a state neighborhood enterprise zone or a “federal empowerment zone, rural enterprise community or enterprise community” needed to create 25 qualified new jobs.⁷⁴

These minimum job requirements have since been lowered, and some new tax credit types have been added:

- A business expanding within the state must create 50 qualified new jobs at its proposed facility;
- A businesses locating in Michigan from outside the state must create 50 qualified new jobs at its proposed facility;
- A business locating its proposed facility within a state neighborhood enterprise zone or a federal empowerment zone, rural enterprise community or enterprise community still must create 25 qualified new jobs, but the same requirement now applies to businesses locating their proposed facility in state “renaissance zones”;
- A business seeking a “high-technology” MEGA tax credit must create five qualified new jobs at its proposed facility and within five years create 25;
- A business seeking a “rural” MEGA tax credit must create five qualified new jobs at its proposed facility and within five years create 25;
- A business seeking a “job retention” MEGA tax credit must:
 - maintain 100 to 500 jobs depending on extremely specific requirements laid out in the MEGA statute;
 - maintain its current job count if it has recently shed jobs at a rate that qualifies it as a “distressed business” under the law;
 - be located in this state and maintain 675 jobs, create 400 new jobs and agree to commit to \$45 million in capital investment by Dec. 31, 2007; or
 - be “located in this state on the date of the application, [make] new capital investment of \$250,000,000.00 or more in this state, and [make] that capital investment at a facility located north of the 45th parallel.”⁷⁵

* The 45th parallel runs through Alpena, Montmorency, Otsego, Antrim and Leelanau counties.

⁷⁴ Ibid.

⁷⁵ “Michigan Economic Growth Authority Act.”

Once the MEGA board approves a credit, representatives of the parties to the transaction effectively cement the deal when each signs a “MEGA Tax Credit Agreement” prepared by the MEDC and listing the expectations and responsibilities of the company and the state.

The early years of the program were stricter than they are today — at least technically. Although the law officially set a relatively high bar, the agreements themselves were subject to amendment which could provide companies with greater latitude. For instance, in 1998, MEGA gave Alsons Corp. a deal that mandated the company reach its 75 qualified new jobs threshold by July 2000. The company fell just short of its goal and cited as its reason a tight labor market, meaning that the marketplace for employees was so competitive that Alsons could not find workers to fill their jobs. The MEGA board amended its agreement with Alsons to extend by one month the time frame in which the company had to add new employees.⁷⁶

Similarly, AGC America Inc. received approval of a MEGA grant in July 2000 and formalized the agreement in September. In early 2004, MEGA voted to amend the agreement — which mandated average weekly wages of \$1,899 — to allow AGC to pay average wages of just \$1,442.⁷⁷ The lower wage scale was allowed on grounds that the firm was replacing its Japanese labor force in Michigan with American workers “with the same skill set,” something the board viewed as “a positive development.”⁷⁸ Apparently the foreign-born employees of the company had demanded and received above-local market wages in exchange for working outside their home country. The MEDC staff stated they would have approved this deal even if the original proposal carried a wage of just \$1,442 per week.⁷⁹

The leadership of the MEGA recipient companies also needs to certify that the expansion or location in Michigan would not have otherwise occurred without the MEGA deal. Each executive signs an agreement saying that without these incentives, their company would not have expanded in Michigan.⁸⁰

Not all of the burdens of this program rest with the company. MEGA’s authorizing statute once mandated that the local unit of government participate in some way in each MEGA deal by offering incentives of its own. This component was struck from the MEGA statute in 2008.⁸¹

The authorizing statute has been amended 20 times to make the program much more expansive. Changes have also made it far easier for recipients to qualify for the program and claim the targeted tax relief.

76 “Adopted Meeting Minutes, February 13, 2001,” (Michigan Economic Growth Authority, 2001).

77 “Adopted Meeting Minutes, January 20, 2004,” (Michigan Economic Growth Authority, 2004).

78 Ibid.

79 Ibid.

80 See, for instance, “MEGA Tax Credit Agreement: Standard Credit, Kelly Services, Inc.,” (Mackinac Center for Public Policy (from Michigan Economic Development Corp.), 2008), 3, http://www.mackinac.org/archives/fpi/mega/Kelly_Services-8-19-08-CA.pdf (accessed August 27, 2009).

81 “Public Act 110 of 2008,” (Michigan Legislature, 2008), <http://legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0110.pdf> (accessed August 6, 2009).

Assume for a moment some Michigan-based corporation — Kmart Corp., for instance — wanted to expand its operations and began looking for the ideal location to do just that. The leadership of this company could approach MEGA and request tax credits against future business activity and employment (under the original MEGA law with the old Single Business Tax).

As part of the process for obtaining MEGA deals, Kmart officials would need to inform state officials of what competing location might be the recipient of that corporation's expansion. Kmart officials also would need to explain exactly why the alternative location made better business sense in order to illustrate why MEGA was necessary to reduce some perceived cost differential between the competing locations. A 2006 MEGA deal, for instance, read, "When comparing the Michigan and Tijuana locations, the company estimates that wage rates in Tijuana are significantly lower."⁸²

The MEDC and its predecessor agency maintain a small contingent of bureaucrats to ensure such estimates seem reasonable and, at some point in the process, they would order an economic impact analysis of the proposed MEGA deal. This economic impact analysis will take the business's projection of the investments it will make and the jobs it will create — known as "direct jobs" — and project what kind of additional "spin-off" employment, taxes and income might be expected as a result.[†]

Officially, a vote of the MEGA board is required to approve the deals, but history suggests these approvals are largely formalities. By the time a MEGA application reaches the board, it is likely to be accepted. The board's official meeting minutes reveal that a few simple questions are raised with each deal, and that applicants are rarely refused once they have reached this stage in the process.

Recall that the MEGA tax credit is not the only part of the deal. The MEDC may also arrange for a MEGA recipient to benefit in many other ways. For instance, the state can arrange for the company to receive a property tax abatement against the education portion of its state property taxes; job-training subsidies to improve the skills of the workers; Community Development Block Grants to improve the business's location if it is a low-income area;[‡] or even transportation-related work from the Michigan Department of Transportation.

From April 1995 through December 2008, MEGA offered more than \$3.3 billion[§] in business tax breaks in some 455 deals, extending as long as 20 years into the future. As part of the overall MEGA packages, another \$58 million was offered in job training subsidies; an additional \$221 million was granted in abatements against the 6 mill state education property tax; and another \$1.6 billion was provided through other state and local incentives, including state transportation infrastructure improvements and local property tax abatements.[§]

* This dry understatement shows that even public policy provides moments of unexpected humor.

† See, for instance, the "Economic Effects" memo produced by economists under contract with the MEDC at http://www.mackinac.org/archives/fpi/mega/Meridian_Automotive_Systems-9-14-04-EE.pdf.

‡ One MEGA deal involving CDBG revenues appeared to violate the spirit of CDBG proscriptions. On Jan. 21, 1999, Michael LaFaive conducted a telephone interview with Jim Donaldson of the Michigan Jobs Commission. Donaldson explained that the first MEGA deal enjoyed by the Dow Chemical Co. included a CDBG "swap." As a relatively wealthy community, the city of Midland, in which Dow is located, could not qualify for CDBG monies. To overcome this problem, the state arranged for Midland County to receive the CDBG grant; in exchange, the county agreed to do drainage work for Dow Chemical.

§ Mackinac Center for Public Policy incentive totals differ from those detailed in the MEDC's "All MEGA Projects" spreadsheet. When a MEGA project fails, the MEDC typically zeroes out the row containing that particular company. The Mackinac Center retains the data in its master spreadsheet of MEGA deals. Also note that the numbers provided here do not include many recent state and local incentives, since in many cases, the dollar amounts for these are no longer reported by the MEDC.

82 Mark Morante and Toni Brownfield, "Briefing Memo — Eaton Aeroquip Inc," (Michigan Economic Growth Authority, 2007).

83 "All MEGA Projects" spreadsheets provided by the Michigan Economic Development Corp. and its predecessor agency, the Michigan Jobs Commission, to the Mackinac Center for Public Policy since 1999.

In other words, a conservative estimate of the total value of incentives offered to corporations and other private entities involved in the MEGA program tops \$5.2 billion through 2008. The estimate is conservative because complete local incentive data has become all but impossible to ascertain from MEDC publications.

MEGA's Basic Performance Data

MEGA frequently publicizes the approval of new tax credit deals with press releases that suggest that the new jobs are imminent, proclaiming, for instance, "1,160 New Jobs for Michigan! 12,000 MEGA Jobs are Helping Michigan Drive America's Renaissance"⁸⁴ or "Southeast Michigan Job Bonanza: 2,891 New Jobs Coming to Michigan: Delphi Automotive Systems Builds in Troy."⁸⁵ These releases certainly give the impression that the authority has been successful.

Previous Findings

Yet the jobs announced in these releases are conjectural; at the time a MEGA deal is approved, no one knows whether the jobs will actually be created. This is why MEGA tax credits, though offered, are withheld until the jobs and investment actually occur.

A 2005 study published by the Mackinac Center for Public Policy reviewed publicly available MEGA data. The authors found that of the 127 MEGA agreements that should have produced fully employed facilities through 2004, only about 56, or 44 percent, were actually able to generate enough jobs and investment to claim MEGA business tax credits. Just 10 of the 127 MEGA agreements — 8 percent — had actually met their employment promises within the expected time frame.*⁸⁶ Ultimately, of the 35,821 jobs that had been expected from these 127 deals, only 13,541 jobs actually existed, or about 38 percent of what had been projected. These jobs represented just 0.3 percent of the roughly 4,672,000 jobs in Michigan at the time.⁸⁷

The numbers above are similar to those generated by Detroit News and Detroit Free Press reviews of MEGA jobs data. In 2003, a Detroit News investigation by Mark Hornbeck found that between 1995 and 2000, MEGA deals had generated approximately 10,787 jobs.⁸⁸ In 2009, Katherine Yung of the Detroit Free Press spent six months collecting and analyzing data on 195 MEGA program deals between 1999 and 2005. The article, titled "Promises to Create New Jobs Fall Short," explained that more than half of the deals examined "were not fully utilized or never used at all ..."⁸⁹ Yung reported that throughout MEGA's 14-year life (a longer span than that considered by the original Mackinac Center estimates), the MEGA program had created just 24,000 jobs. These figures were provided by the MEDC, but it is unclear how they were calculated.

* After the 2005 study was published, several of the 10 companies, including Kmart Corp., made job cuts. Kmart filed for bankruptcy less than 17 months after it was awarded its second MEGA deal. See Michael LaFaive, "MEGA Promises Versus MEGA Realities," Mackinac Center for Public Policy, <http://www.mackinac.org/7006>.

84 John Truscott, "1,160 New Jobs for Michigan! 12,000 MEGA Jobs are Helping Michigan Drive America's Renaissance," (State of Michigan: Executive Office, March 12, 1996).

85 John Truscott, "Southeast Michigan Jobs Bonanza: 2,891 New Jobs Coming to Michigan: Delphi Automotive Systems Builds in Troy," (State of Michigan: Executive Office, June 13, 2000).

86 LaFaive and Hicks, "MEGA: A Retrospective Assessment," 22.

87 Ibid., 22-23.

88 Mark Hornbeck, "Tax Breaks Shortchange State: \$1.4 Billion Business Program Gets Minimal Payback in Jobs," *The Detroit News*, September 2, 2003.

89 Katherine Yung, "Promises to Create New Jobs Fall Short," *Detroit Free Press*, May 17, 2009.

Two caveats should be added about MEGA's direct job creation figures. First, the Michigan Office of the Auditor General has never performed an audit of these figures. Thus, it is not known whether the MEDC is ensuring their accuracy. If the MEDC is relying primarily on employers to report these job totals, it is essentially accepting at face value the claims of people who face a significant financial incentive to overestimate. In that case, our 2005 calculation that MEGA projects created more than 13,000 direct jobs from 1995 through 2004 would be too high. The same would be true of the figures produced by The Detroit News and the Detroit Free Press, which also relied on MEGA reports.

Second, MEGA deals are based explicitly on the assumption that without the tax credits, a company would not locate its new jobs and investment in Michigan. Still, there is no way to know for sure. Companies might have, in fact, ended up in Michigan regardless of whether they received MEGA tax credits, since business location decisions are sometimes more nuanced than a few sentences on a MEGA agreement form might suggest.* If a company would have located in Michigan regardless, then MEGA's tax credits have not created new jobs — or at least have not created as many new jobs as the facility's direct job count might suggest.

A New Review of the Data

For this study, we performed a review of MEGA's track record using recent data. In this case, we decided to focus specifically on job creation, including any jobs that might have appeared later than expected when the MEGA deal was first approved. Hence, we loosened the requirements for counting "successful" MEGA deals to include any companies that received credits, regardless of whether they met their original timeline. We also excluded retention credits, since these do not involve new job creation.† The resulting figures will allow us to directly compare MEGA's original job announcements and expectations with the actual jobs ultimately created at MEGA's recipient companies.

MEGA data shows that the authority has approved more than 500 tax credit deals since its inception in 1995. Of the MEGA packages meant to produce new jobs, 219 should have yielded sufficient jobs and investment to claim tax credits by 2009, since these deals were all concluded by the end of 2004, providing the companies a full five years since that time to claim the credits. It can be safely assumed that companies that have not claimed credits at this point will never do so.

These 219 deals were projected to produce 61,043 jobs. But of the 219 deals, only 122, or about 56 percent, led to companies receiving credits.‡ Ultimately, the 219 deals led to the creation of just 17,971 jobs. Thus, the actual job count was just 29 percent of the expected total — less than one-third. In effect, the initial job projections in MEGA news releases were more than triple the ultimate job creation, and to get a correct actual job count, one would have to reduce MEGA's initial job projections by about 71 percent. In practice, an announcement that

* For a detailed discussion of several companies' location decisions, see the discussions of Walden Book Company Inc., Compuware Corp. and Owens Corning in Michael D. LaFaive and Michael Hicks, "MEGA: A Retrospective Assessment," (Mackinac Center for Public Policy, 2005), 44-46, <http://www.mackinac.org/7054>.

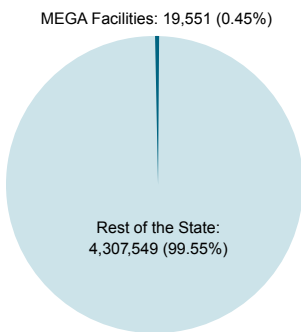
† In general, the primary focus of MEGA over the years has been job creation, not retention.

‡ Recall that as explained above, this 56 percent is not comparable to the 44 percent figure calculated in the earlier analysis, since this new analysis does not require companies to meet the originally anticipated deadlines.

1,000 direct jobs are expected at a MEGA facility actually means that 294 jobs will be generated on average.

Adopting a different perspective, we also looked at the number of new jobs for which companies were able to claim MEGA tax credits in a single year. In 2006, the latest year for which we have reliable data,* MEGA companies claimed tax credits for a total of 19,551 jobs that were new to their facilities since the signing of their MEGA agreements.† These 19,551 jobs represented about 0.45 percent of the approximately 4.3 million jobs existing in the state that year (see Graphic 5).⁹⁰

Graphic 5: “New Jobs” at MEGA Facilities as a Percentage of Michigan Jobs, 2006



Source: Authors' calculations based on data from the U.S. Bureau of Labor Statistics and the MEDC's "MEGA Credits vs. Conversions" spreadsheets. ("New Jobs" were not all created in 2006; see sidenote †).

There is also a large amount of job creation and destruction in the state. Companies open, grow, struggle and close, a process that continually adds and subtracts jobs. Hence, a state might create 800,000 jobs in a given year, but realize a net increase of just 200,000 new jobs because another 600,000 jobs were lost.

Facilities that are offered MEGA credits also create and lose jobs. Hence, job creation at these facilities — as opposed to the net increase in jobs at the facilities‡ — can be compared to job creation across the entire state's economy. MEGA records show that facilities offered MEGA credits created 29,588 jobs from 1996 to 2006, compared to nearly 12 million jobs created in the state during that time. Hence, MEGA facilities were responsible for about 0.25 percent of Michigan's job creation from 1996 to 2006 (see Graphic 6).⁹¹

‡ For instance, after Bosal Industries was offered a MEGA tax credit in 1997, it created 131 jobs in 1999. By 2004, however, Bosal's MEGA facility had lost these jobs, and the company no longer received credits. Thus, in this job creation calculation, Bosal would be credited with creating 131 jobs, even though it eventually destroyed 131 jobs as well. In contrast, since Bosal did not have any jobs it could claim credits for in 2006, it did not contribute any jobs to the MEGA facilities figure in Graphic 5.

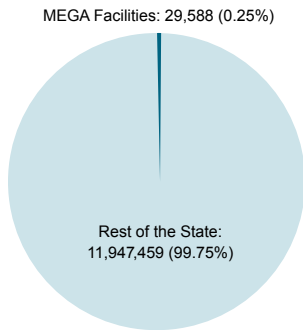
* MEGA has provided data for subsequent years, but it is likely to be incomplete, since companies may not yet have claimed credits for jobs they created during those years.

† Note, then, that the 19,551 "new jobs" were not all created in 2006; many of them were created in previous years. The jobs still served as a basis for receiving MEGA business tax credits, however, because the jobs were created subsequent to the commencements of the companies' various MEGA agreements, and the jobs still existed. As observed earlier, companies can receive MEGA tax credits for many years after creating jobs, as long as the jobs persist above some minimum threshold.

90 Author's calculations based on "State and Area Employment, Hours, and Earnings: Michigan (Statewide, Total Nonfarm, Nonseasonally Adjusted)," Bureau of Labor Statistics, <http://data.bls.gov/PDQ/outside.jsp?survey=sm> (accessed August 30, 2009) and "Mega Credits vs. Conversions — All Companies for All Years," (Michigan Economic Development Corporation, 2009).

91 Author's calculations based on "Business Employment Dynamics: Michigan," Bureau of Labor Statistics, <http://www.bls.gov/bed/> and "MEGA Credits vs. Conversions - All Companies for All Years," (Michigan Economic Development Corp., 2009).

Graphic 6: Job Creation at MEGA Facilities as a Percentage of Michigan's Job Creation, 1996-2006



Source: Authors' calculations based on U.S. Bureau of Labor Statistics Business Employment Dynamics and the MEDC's "MEGA Credits vs. Conversions" spreadsheets.

MEGA's employment and job-creation figures in Graphic 5 and Graphic 6 do not include the "indirect" and "spin-off" jobs the authority calculates for each MEGA deal. We omitted these figures because they are speculative and based on MEGA's initial job projections, which are largely incorrect. If these jobs were included, however, they would not alter the fact that MEGA's percentage contribution to state employment and job creation is very small — certainly less than 1 percent.

Case Studies

The comparison of actual and projected job counts in the previous section suggests MEGA has had difficulties in correctly estimating the number of jobs a company might create. In fact, a number of the MEGA board's decisions have even cast doubt on the board's broader judgment of the marketplace.

Consider the recent fortunes of Meridian Automotive Systems Inc. Meridian was offered a MEGA deal in September 2004 on the expectation the company would create 250 new jobs at its Fowlerville location in Livingston County.⁹² The MEGA business tax credits were worth more than \$2.2 million if they were claimed,⁹³ and the state arranged a Community Development Block Grant of \$760,000 and job training subsidies of \$125,000, or \$500 per worker hired.⁹⁴ The city of Fowlerville agreed to match this grant with a 12-year local property tax abatement worth an estimated \$7.4 million.⁹⁵

MEGA's figures, however, show that Meridian failed to collect on any MEGA tax credits, indicating the company failed to provide even the minimum number of jobs required, let alone the 250 originally projected.⁹⁶ Published reports from August 2009 indicate that the company has filed for Chapter 7 bankruptcy liquidation — about two years after it had emerged from its post-MEGA-deal Chapter 11 bankruptcy reorganization.⁹⁷ Meridian was able to sell its MEGA-related Fowlerville site to Ventra Greenwich Holdings,⁹⁸ which, interestingly, received a July 2009 MEGA deal for the location.

92 Jim Donaldson, "Briefing Memo — Meridian Automotive Systems, Inc.," (Michigan Economic Growth Authority, 2004).

93 "All MEGA Projects Spreadsheet," (Michigan Economic Development Corp., 2009).

94 Donaldson, "Briefing Memo — Meridian Automotive Systems, Inc."

95 Ibid.

96 "MEGA Credits vs. Conversions - All Companies for All Years."

97 Ryan Beene, "Auto Supplier Meridian to Liquidate Remaining Assets," *Crain's Detroit Business*, August 10, 2009.

98 Monica Scott, "Republicans Want Proof MEGA Tax Breaks Bring Real Jobs, Such as Hundreds Announced Recently in West Michigan," *The Grand Rapids Press*, July 23, 2009.

Similar examples appear throughout MEGA's history. Webvan.com, an online grocer, was offered \$23.4 million in MEGA tax credits in December 1999. In exchange for this potential tax relief, the company pledged to build a distribution warehouse in Michigan and directly create 900 new jobs by 2004.

The company's stock never saw a weekly close higher than it was on Dec. 21, 1999, around the time MEGA approved the deal. Documents filed with the U.S. Securities and Exchange Commission show that Webvan officials sold off nearly 2 million shares of their own stock in the company in January 2000. By Dec. 15, 2000, one year after approval of the MEGA deal, the stock was trading at 47 cents per share — a 97 percent decline in value from its high of nearly \$20.⁹⁹ The company declared bankruptcy in 2001.¹⁰⁰

Another case involved Texaco Energy Conversion Devices Inc. In 2000, the Engler administration issued a press release reading, "MEGA Milestone: 100th Tax Credit Offered to Energy Conversion Devices, Inc."¹⁰¹ According to the release, Texaco Energy Conversion Devices was supposed to create 82 direct jobs, and the company was offered MEGA's high-tech tax credits,¹⁰² meaning it could receive credits for much lower job counts than standard MEGA recipients.¹⁰³ Along with the MEGA credits, the state also arranged for a state education tax abatement, job training subsidies and a local property tax abatement.¹⁰⁴ Ultimately, ECD collected on only 22 new jobs in 2002 and 23 in 2003.¹⁰⁵ The company has not collected on any MEGA tax credits for job creation since.¹⁰⁶

Other MEGA recipients that have subsequently undergone bankruptcy include Kmart Corp,¹⁰⁷ Tower Automotive¹⁰⁸ and Delphi Automotive Systems,¹⁰⁹ the subject of the Engler administration news release cited earlier. One of the most frequent recipients of MEGA contracts is General Motors.¹¹⁰

Private-sector market analysts have made investment errors similar to these. But these examples do not suggest that the nonmarket or "nonprofit" status of gubernatorial appointees and government staff provides them with special advantages in identifying good companies in which to invest public monies.

Assessing MEGA's Economic Impact

The discussion above indicates that only a small percentage of MEGA deals turn out as originally projected — less than 10 percent, according to our recent calculations — and that MEGA's new-job projections typically turn out to be more than three times what they should be. In addition, it suggests that some of the companies MEGA officials picked were ill-positioned not just for growth, but for remaining in business.

From Performance to Effectiveness

While these performance failures call into question the MEGA board's ability to make projections about the job potential at specific companies, it does not in

99 Michael LaFaive, "Failed E-Business Deal Underscores Futility of State Economic Planning," (Mackinac Center for Public Policy, 2001).

100 "Webvan Shuts Down," *CNNMoney.com*, July 9, 2001.

101 John Truscott, "MEGA Milestone: 100th Tax Credit Offered to Energy Conversion Devices, Inc.," (Office of the Governor, 2000).

102 *Ibid.*

103 "Michigan Economic Growth Authority Act."

104 Jim Donaldson, "Briefing Memo — Energy Conversion Devices, Inc.," (Michigan Economic Growth Authority, 2000).

105 "MEGA Credits vs. Conversions - All Companies for All Years."

106 *Ibid.*

107 Danny Hakim and Leslie Kaufman, "Kmart Files Bankruptcy, Largest Ever for a Retailer," *The New York Times*, January 23, 2002.

108 "Tower Automotive Files for Chapter 11 Reorganization," (Tower Automotive, 2005), http://www.towerautomotive.com/pdf/pr_20050202.pdf (accessed August 30, 2009).

109 Danny Hakim and Jeremy W. Peters, "Auto Supplier Delphi Files for Bankruptcy, and G.M. Will Share Some of the Fallout," *The New York Times*, October 9, 2005.

110 "All MEGA Projects Spreadsheet."

itself show that MEGA is failing to stimulate the economy. As mentioned above, when MEGA officials approve a MEGA tax credit package, they hope not only to create jobs at the plant that receives a MEGA deal (called “direct” jobs), but also to generate “spin-off” or “indirect” jobs. These jobs might be created at other Michigan businesses — such as a major supplier — that sell items to the plant, or at local businesses — perhaps nearby restaurants and retail stores — that sell items to the plant’s workers. In addition, such “spin-off” jobs might be created at Michigan distributors or retailers that buy and resell the plant’s products.

MEGA officials therefore hope to target industries and locations that will yield particularly high spin-off benefits. For instance, they may try to encourage the growth of high-tech industries in the belief that such facilities will generate higher-paying jobs with greater spin-off spending than, for instance, retail shoe stores will. In particular, MEGA officials would note that the credits are not awarded unless the jobs or investment actually appear, reducing the possibility that any poor choice they might make in awarding tax credits will ultimately damage the economy or state tax revenues. As Greg Main, CEO of the MEDC, recently told a columnist at *AnnArbor.com*, “The reality is the amount of the credit is always tied to the number of jobs that are created and the value of the income taxes that will be generated by those employees. ... If there is no job created, then there is no benefit paid out because there is no tax revenue.”^{*, 111}

Hence, to determine whether MEGA has had a significant positive impact, it’s necessary to perform a more complex analysis of Michigan’s economy. Such an analysis would attempt to isolate MEGA’s potential impact and separate it from other factors that may be driving the state’s economy, such as general trends in the national economy.

In 2005, such an analysis was performed by Michael LaFaive (one of the authors of this study) and Michael D. Hicks, then a research professor at the Center for Business and Economic Research at Marshall University and now director of the Bureau of Business Research at Ball State University. The analysis, which was recently accepted for publication in the academic journal *Economic Development Quarterly*, involved a peer-reviewed statistical study of the MEGA tax credits awarded in each Michigan county and extensive county-level data in Michigan from 1990, five years before MEGA’s inception, to 2002, the most recent data available at the time. By including pre-MEGA data, the analysis helped ensure that MEGA’s impact post-1995 could be better discerned from existing county-level economic trends. The resulting model allowed an examination of state and county per-capita personal income, employment and unemployment rates.

The results, published in the 2005 Mackinac Center study mentioned earlier, showed that MEGA did not improve the per-capita personal income, employment or unemployment rate of the state or of any Michigan county. It also found that Michigan counties that hosted companies receiving MEGA deals fared no

* As we note below, the same cannot be said of the other business incentives that MEGA arranges when it sets up a tax credit agreement. Other state and local subsidies that are part of a MEGA deal are often awarded to the company right away, prior to a company’s job creation or investment.

111 Nathan Bomey, “Expiring Tax Credits Threaten Ann Arbor’s Economic Development Strategy, Officials Say,” *AnnArbor.com*, August 16, 2009.

better economically than counties that did not. Further, the study indicated that MEGA did not affect aggregate income or employment in manufacturing and warehousing, and that while MEGA credits did temporarily increase construction employment, the jobs disappeared within two years and were generated at the cost of \$123,000 each in MEGA credits.¹¹²

A Shift-Share Analysis of the MEGA Program

We commissioned a new statistical analysis of the MEGA program for this study, this time using a different measuring technique. A new approach seemed appropriate given that the results of the previous analysis were so conclusive.

MEGA is meant to create jobs, particularly in manufacturing, so Hicks (mentioned above) employed statistical regression and a longstanding technique known as “shift-share” analysis to evaluate the relationship between a county’s manufacturing employment and the dollar value of the MEGA tax credits awarded there.

“Shift-share” analysis is useful because it begins by recognizing that local employment figures may be influenced by trends in the surrounding region. For example, a decline in Oakland County manufacturing jobs may be partly attributable to declines in total statewide employment and partly attributable to statewide trends away from manufacturing jobs and into other business sectors. Hence, only some of the decline in Oakland County manufacturing employment may be due to factors peculiar to that county. In such a case, shift-share analysis would use a basic mathematical formula to calculate what percentage of the decline in Oakland County’s manufacturing jobs is reasonably attributable to each of three possible causes: changes in total statewide employment, changes in the statewide mix of manufacturing jobs and changes in manufacturing employment peculiar to the county.*

In our new analysis, this last factor — changes in manufacturing employment peculiar to the county — was computed by Hicks for all Michigan counties from 2001 to 2007. He then regressed these county-specific manufacturing job changes against the dollar value of the MEGA manufacturing tax credits that businesses in each county had been awarded from 1995 through 2000. In other words, through shift-share analysis, he isolated and removed state employment trends that might mask the effects of a MEGA tax credit in each county, and he then determined whether there was a statistical relationship between the MEGA manufacturing credits awarded and the county’s manufacturing job counts over a six-year period afterward. Ultimately, if MEGA manufacturing credits help stimulate an area’s manufacturing job growth (as opposed to growth at just one company), this result should show up in the manufacturing job growth peculiar to the county.

* More generally, shift-share analysis assigns a change in local employment in a business sector, such as manufacturing, to three possible causes: trends in total regional employment, trends in that business sector’s portion of regional employment and trends specific to that local business sector. (Technically, this final factor is the rate of change in the local business sector’s employment relative to the rate of change in the regional business sector’s employment.) The local area might be a city, county or state; its “region” might be a county, state or nation. The shift-share equation appears in “Appendix C: Technical Appendix for Shift-Share Analysis.”

¹¹² LaFaive and Hicks, “MEGA: A Retrospective Assessment,” 4.

From 1995 through 2000, there were 107 MEGA deals, and the life of the credits ranged from five years to 20 years into the future. For the purpose of this analysis, only deals that resulted in tax credit awards prior to 2001 were included. If a deal was approved by MEGA in 2000, but operations did not begin until 2003, the deal was excluded from the study. To include such deals would have been to demand that MEGA credits have an impact even before a company received them; excluding those deals meant that only the cases where the credits were successfully awarded were being mined for evidence of impact in the years that followed.

In fact, a statistical relationship between MEGA manufacturing tax credits and county manufacturing employment did emerge, but unfortunately, the relationship was negative. Hicks found that from 2001 to 2007, every \$1 million in MEGA manufacturing tax credits awarded in a county was associated with the loss of 95 county manufacturing jobs. This result was strongly statistically significant. A subsequent statistical “t-test” also indicated a very high probability that the relationship between MEGA credits and manufacturing employment was in fact negative — not positive or zero. A complete discussion of the statistical results appears in “Appendix C: Technical Appendix for Shift-Share Analysis.”

Hicks’ findings are especially troubling given that his methodology was designed to avoid accidental negative relationships. By tracking individual MEGA-related projects at the county level, Hicks effectively precluded a chicken-and-egg problem that can occur with MEGA-style development incentives, which sometimes intentionally target payments to distressed areas. Crude statistical analysis might have produced the spurious conclusion that MEGA was ineffective simply because it made payments to firms in areas where job losses were already mounting. Hicks’ shift-share-based analysis, however, would not.*

Exploring the Economic Findings on MEGA

The shift-share findings on MEGA’s lack of positive economic impact — and its possible negative impact — reinforce the results of the earlier analysis by Hicks and LaFaive.† Given that MEGA credits are awarded only when a company actually provides new jobs and investment — a “pay-for-performance program”¹¹³ — the question becomes, Why might MEGA fail to provide economic growth?

Among the most likely explanations — and the most common in academic literature — is that these “payments” simply represent regional transfers of wealth, via the tax credit, to particular counties. Thus, instead of removing obstacles to growth across the region, the MEGA program may be targeting firms already willing to locate to those areas. Hence, however good the intentions accompanying the MEGA program, the presence of MEGA credits in a county may simply be signaling that the county has unique local economic problems —

* Note that Hicks and LaFaive’s 2005 study also corrected for this concern.

† In fact, as discussed later in the study, the Hicks-LaFaive analyses are consistent with the broader academic literature on the effectiveness of government economic development programs.

¹¹³ Bomey, “Expiring Tax Credits Threaten Ann Arbor’s Economic Development Strategy, Officials Say.”

problems that, unfortunately, the MEGA credits have no positive effect on, at least in terms of local employment.

In that sense, MEGA would simply be associated with manufacturing job losses. While doing nothing to stop those losses, it would be doing nothing to contribute to them, either.

Alternatively, it is also possible that the presence of MEGA credits has some negative effects on employment. It should be remembered that while a company actually receives MEGA's business tax credits only when the company's jobs or investment actually occur, the company may receive other MEGA-related state and local business incentives right away. If the company is not creating significant direct and spin-off economic benefits, however, these incentives are not economically useful. Indeed, unless state and local governments actually reduce their spending by the amount of the incentives granted, other businesses and individuals may ultimately face higher taxes in order to cover the difference, reducing the money those individuals and businesses have to create jobs and investment of their own. The resulting wealth transfer could, in fact, lead to a net decline in economic growth.

Another possible negative factor is the cost of the wealth transfer itself — in other words, the cost of the development program. Redistributing tax revenues costs money. The MEDC's personnel, advertising, outreach and other program costs could cancel many or all of the net benefits of a particularly well-targeted MEGA investment.

Moreover, doing a good job of targeting economic development investments is genuinely difficult — no doubt one reason MEGA officials have not achieved greater success in choosing recipients of their tax credit deals. Even Wall Street experts have a checkered record when it comes to outperforming market averages in choosing investments, and they have considerable financial incentives to get the answer right.

It is also possible that a large program like MEGA could encourage “rent-seeking” — i.e., using government to obtain higher-than-normal revenues or “rents” than one might otherwise obtain through open competition. Rent-seeking can take the form of protectionist tariffs, direct subsidies or tax credits targeted to just one industry (or business).

In this case, companies may be actively seeking MEGA credits, as opposed to being recruited by MEGA. Such behavior can ultimately contribute to slower economic growth, as companies focus resources on rent-seeking, rather than economic production. Harold Brumm, an economist with the U.S. Government Accountability Office, has found a negative correlation between the level of rent-seeking in a state and its economic growth.

The Possibility of Political Behavior

In such instances, the policy error lies at least as much with the state as with the business seeking the favors. Indeed, political officeholders face an incentive to create rent-seeking opportunities, since they can point to the benefits they've helped provide a business when they seek votes and when they solicit businesses for financial and other political support.

This risk has implications for a program like MEGA (and, indeed, the other programs of the MEDC). The view that government can perform essential economic development by awarding various business incentives is based on an assumption that the public officials administering the program are responding to economic information and not being swayed by political incentives.

There is evidence, however, that political incentives have in fact affected MEGA's performance.

For instance, the failed MEGA deals discussed earlier under "Case Studies" involved publicity when the MEGA deals were approved — well in advance of the possible delivery of the jobs and investment expected. In the case of Delphi Automotive Systems, the Engler administration accompanied the announcement of the MEGA package with a news release proclaiming "Southeast Michigan Job Bonanza: 2,891 New Jobs Coming to Michigan: Delphi Automotive Systems Builds in Troy."¹¹⁴ In the case of Texaco Energy Conversion Devices, the administration news release read, "MEGA Milestone: 100th Tax Credit Offered to Energy Conversion Devices, Inc."¹¹⁵ In the case of Plastech Frenchtown, the Granholm administration issued a news release proclaiming 900 new jobs were expected, and the governor was quoted as saying, "Michigan's leadership in attracting new businesses and expanding our existing manufacturing sector continues today with Plastech's commitment to the future of our state." She added, "My administration wants to make Michigan a magnet for economic growth — Plastech's expansion is evidence that we're making it happen."¹¹⁶

If the MEGA program were strictly focused on the creation of jobs, it would publicize the jobs and investment only when they actually occurred and the tax credits were actually awarded. Merely offering them would be viewed as meaningless. And yet the public is almost unfailingly alerted whenever a new MEGA package is approved and told infrequently, at best, what the actual results are.

The Trend Toward — and Away From — Transparency

Given this disconnect, it is particularly troubling that MEGA's program has become increasingly vague, incomplete and difficult to obtain. Not drawing

114 John Truscott, "Southeast Michigan Jobs Bonanza: 2,891 New Jobs Coming to Michigan: Delphi Automotive Systems Builds in Troy," (State of Michigan: Executive Office, 2000).

115 Truscott, "MEGA Milestone: 100th Tax Credit Offered to Energy Conversion Devices, Inc."

116 Liz Boyd, "New Plastech Facilities Bringing 900 Jobs to Monroe Area," (Michigan Economic Development Corp., 2003), <http://www.themedc.org/News-Media/Press-Releases/Archives/Detail.aspx?ContentId=a5d10131-4311-43cd-98c6-3f153a15c7f2> (accessed August 14, 2009).

attention to the program's actual results may be questionable, but there is no reason to make the results hard to ascertain.

The need for greater transparency in government programs has been widely recognized. President Barack Obama as a U.S. senator co-authored a law to place more federal spending data online. The Michigan Education Association, the state's largest school employee union, has called for better reports on the results of Michigan's economic development programs.* The Mackinac Center for Public Policy, publisher of this study, has initiated a "Show Michigan the Money" project that has encouraged scores of the state's municipalities, elected officials and local school districts to place their check registers online.

The trend toward transparent government appears to have been reversed, however, in the case of the Michigan Economic Growth Authority. In MEGA's early years, the program produced reasonably detailed data on the businesses it selected, the jobs created, the incentives provided and so on. In the past few years, this data has become increasingly vague and difficult to obtain.

A similar loss of transparency appears to be occurring with the MEDC. Despite its quasi-private status, the MEDC is subject to government reporting requirements and the Freedom of Information Act. Still, it has become less forthcoming with information about the agency itself and about the high-profile Michigan Film Incentive subsidy, another economic development program under its supervision.

The Data Necessary to Measure MEGA's Performance

Determining how many of those jobs have actually been created and the size of the credits granted is central to determining the program's success or failure. Specifically, a number of measurements make sense in tracking the program's effectiveness:

- The number of jobs created or retained for a MEGA project in a particular year and over the life of the agreement;
- Total Michigan business-tax credits awarded by MEGA per project — not just per business[†] — each year;
- The value of any local property tax abatement or other incentive provided by local government, since this too may be considered part of the cost of a MEGA project;
- The value of any other state incentives provided to the business, such as state education-tax abatements and Community Development Block Grant infrastructure improvements; and
- The business's purported cost disadvantage in locating in Michigan rather than a competing location in the absence of MEGA tax credits.

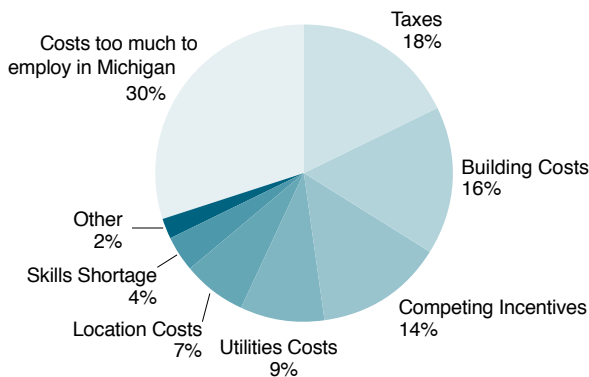
* In a May 28, 2009, Detroit Free Press Op-Ed co-authored by economist Patrick Anderson and MEA Executive Director Lu Battaglieri, the authors write of state incentive programs, "[T]axpayers deserve transparency to know that their money is being spent wisely — and right now, no one has the data to say whether or not our tax incentive programs are a smart investment for Michigan's future." (Patrick Anderson and Lu Battaglieri, "Why Are Michigan's Tax Incentives Leaving State So Poor," Detroit Free Press, May 28, 2009, http://www.andersoneconomicgroup.com/Portals/0/upload/FreePress_EditorialMEA052809.pdf.)

† A particular company, such as General Motors or Kmart, may receive a number of MEGA agreements to create or retain jobs at different facilities. To determine the efficacy of a particular agreement, it is necessary to know the jobs created and tax credits awarded for each project — not just to know the total jobs created and tax credits awarded for a given company.

This final point is important. A business may conclude that it faces a higher cost — perhaps because of higher taxes or higher wages, for instance — if it locates in Michigan rather than somewhere else. State law requires that the Michigan Economic Growth Authority consider this potential cost disadvantage before reaching a MEGA agreement with the business. This process serves as a safeguard, however weak, against frivolous MEGA agreements, and the resulting information is valuable in determining what factors are making it unattractive for businesses to locate in Michigan.

For example, a review of statements of cost disadvantages in MEGA “briefing memoranda” permitted the authors in 2006 to determine how frequently businesses cited higher taxation, higher labor costs, higher worker compensation costs and so on in claiming the need for offsetting tax credits before locating in Michigan (see Graphic 7).¹¹⁷ Such information can help state lawmakers determine which tax, regulatory and policy reforms might help Michigan’s business climate.

Graphic 7: Breakdown of MEGA Grant Requests: Top Reasons Why Companies Said They Might Locate or Expand Elsewhere



Source: Michigan Economic Growth Authority, Authors' Calculations

In the past, the data described in the five bullet points above has been available to anyone willing to request and sift through a stack of documents produced by the MEDC. Specifically, the documents were the “Briefing Memoranda” for each MEGA deal; the “All MEGA Projects” Spreadsheet; the “MEGA Credits” Spreadsheet; MEGA’s Annual Reports to the Legislature;^{*} MEGA Tax Credit Agreements (the binding but amendable agreement between MEGA and a representative of the business receiving the state tax credits); and the Economic Effects Report, which includes technical economic modeling output that provides some sense of the expected spin-off economic impact of a particular agreement.[†] The information in these documents was frequently useful, though it is also true that the figures themselves are mostly unaudited.

* Part of the law authorizing MEGA (MCL § 207.810) mandates that the authority provide an annual report on its activities to the state Legislature. In past years, these annual reports were rich in detail and nuance. They contained a written executive summary, tables summarizing the details of each new MEGA agreement, and a project description for each deal (see Graphic 8 for an example). Also included in the report was a set of very important data about the local incentive contributions associated with each MEGA deal. Together with the briefing memoranda mentioned above, this report allowed a tally of the overall state and local contributions to a MEGA deal, not just the value of state-level incentives.

† The MEDC generates the data in the report either by using REMI economic modeling software — a well-known proprietary program — or by hiring outside economists to use the software to calculate the anticipated economic impact of the jobs that each MEGA deal is expected to create or retain. It is worth noting that if forecasters’ assumptions about a recipient firm’s performance are off, so too are claims that depend on this, particularly “spin-off” (or “indirect”) jobs.

¹¹⁷ Michael D. LaFaive and James Hohman, “MEGA Grant Requests: What Companies Say,” (Mackinac Center for Public Policy, 2006).

Graphic 8: Sample Project Description From 1998 MEGA Annual Report

Project Description

Kmart Corporation
3100 West Big Beaver Road
Troy, Michigan 48084
Location of Project: City of Troy, Oakland County

HISTORY OF COMPANY:

Kmart is a Michigan-based discount retailer that grew out of the old Kresge chain and has diversified into broader markets than the traditional "five and dime" - including automotive, fashion and other areas. The company went through difficult times in the past and has recently refocused on its core business by selling other portions of its business, such as Borders Group, OfficeMax, the Sports Authority, and Builders Square. The company has repositioned itself in the marketplace and now operates more than 2,100 retail outlets in the United States, Puerto Rico, the U. S. Virgin Islands and Guam. Kmart is once again a strong presence in retail merchandising.

PROJECT DESCRIPTION:

Kmart wanted to relocate and expand its data processing department. The department is currently in the basement of the Kmart headquarters in Troy and cannot expand within that facility. The project will affect 300 existing jobs in Michigan and will expand the workforce by 425. The company also considered a location in Kentucky. Investment for this project will be approximately \$102.4 million. Of this amount, \$13.9 million is for the building, \$86.5 million for equipment and the rest for land and relocation costs. The company expects to reinvest about \$80 million in computer equipment every three years. The 425 jobs created will pay an average weekly wage of \$855 with a benefit package of 29 percent of wages.

CURRENT STATUS:

On May 12, 1998, the Michigan Economic Growth Authority approved a MEGA employment credit of 100 percent for a period of 20 years for up to 425 net new jobs. On June 22, 1998, Kmart signed a MEGA credit agreement.

Summary Data
Kmart Corporation

Total Jobs Created	717
Direct	425
Indirect	292
Average Weekly Wage	\$855
Capital Investment	\$102,410,000
Net Positive State Revenue Impact	\$35,823,000
Revenue Forgone	\$14,366,000
Revenue Gain	\$50,189,000
Personal Income Generated Over Life of MEGA Agreement	\$627,353,000
Local Participation	\$450,000
Type of Assistance	(improvements to land)

Source: Michigan Economic Growth Authority 1998 annual report.

MEGA Summary Spreadsheets

The "All MEGA Projects" and "MEGA Credits" spreadsheets have generally been a trove of information on MEGA projects. After 2001, however, the MEDC truncated its "All MEGA Projects" spreadsheet to exclude three useful columns of information.

These columns provided the value (if any) of three additional state financial incentives sometimes offered as part of a MEGA deal (excluding the actual MEGA business-tax credits): the state’s “job training commitment”; the state’s “Community Development Block Grant” commitment; and the “State Ed Tax Amount,” a state-level property tax abatement. Graphic 9 is the first sheet of a 2001 “All MEGA Projects” spreadsheet used between 1995 and 2001. Graphic 10 is the first sheet of a 2009 “All MEGA Projects” spreadsheet. Note that several columns of data in the first spreadsheet are missing in the second.

Graphic 9: 2001 “All MEGA Projects” Spreadsheet (Page One)

All MEGA Projects (Not Including Brownfield Projects)															
Company Name	Date of MEGA Approval	Project Location		Total Jobs	Direct Jobs Created	Indirect Jobs	Capital Investment	Personal Income Generated	MEGA Credit Years	Estimated Credit Amount	Net Positive State Impact	Job Training Commitment	CDBG/RF Commitment	State Ed Tax Mills' DCV	State Ed Tax Amount
Solvay	04/20/95	Adrian	Lenawee	504	250	254	\$62,496,000	\$250,250,000	12	\$4,065,400	\$14,415,000	\$972,000	\$1,000,000	6	\$660,114
Haworth Inc.	04/20/95	Big Rapids	Mecosta	1,101	342	759	\$43,332,000	\$803,996,000	20	\$6,387,400	\$55,771,000	\$1,280,000	\$1,000,000	6	\$686,640
Walden Books	04/20/95	Ann Arbor	Washtenaw	975	550	425	\$16,832,000	\$654,122,000	15	\$7,723,000	\$42,311,000	\$1,700,000	\$0	0	\$0
A. O. Smith	07/20/95	Plymouth Twp	Wayne	670	247	623	\$65,355,000	\$370,857,000	10	\$3,974,000	\$25,678,000	\$494,000	\$0	6	\$1,635,763
Gelman Science*	08/17/95	Scio Township	Washtenaw	0	0	0	\$0	\$0	0	\$0	\$0	\$0	\$0	0	\$0
Cardell Corp	10/02/95	Auburn Hills	Oakland	1,069	505	564	\$46,669,000	\$630,557,000	15	\$9,970,000	\$40,475,000	\$0	\$0	0	\$0
Shloh of Mich	10/02/95	Romulus	Wayne	377	153	224	\$30,016,400	\$384,531,000	20	\$5,841,000	\$25,121,000	\$382,500	\$0	6	\$439,929
Meridian, Inc.	10/02/95	Spring Lake	Ottawa	1,471	500	971	\$24,006,000	\$1,046,343,000	20	\$15,073,000	\$68,634,000	\$950,000	\$398,530	6	\$688,493
Aspen Bay*	10/24/95	Menominee	Menominee	0	0	0	\$0	\$0	0	\$0	\$0	\$0	\$0	0	\$0
Standard Automotive	11/14/95	Muskegon	Muskegon	88	25	63	\$5,145,000	\$67,397,000	20	\$899,000	\$4,793,000	\$40,000	\$0	6	\$143,008
Hess Industries*	12/12/95	Niles	Berrien	0	0	0	\$0	\$0	0	\$0	\$0	\$0	\$0	0	\$0
Pilot Industries	12/12/95	Clare	Clare	899	418	481	\$14,622,300	\$540,542,000	20	\$9,446,000	\$33,797,000	\$836,000	\$750,000	6	\$172,662
Asama Gilten	02/20/96	Coldwater	Branch	595	300	295	\$29,000,000	\$231,417,000	10	\$1,853,000	\$16,860,000	\$750,000	\$750,000	6	\$525,200
IMCO Recycling	03/01/96	Coldwater	Branch	221	110	111	\$11,200,000	\$121,692,000	12	\$2,952,000	\$6,783,000	\$330,000	\$750,000	6	\$237,911
Case Systems	03/12/96	Midland	Midland	268	110	158	\$2,100,000	\$145,498,000	13	\$769,000	\$10,671,000	\$0	\$0	0	\$0
Shape Corp	03/12/96	Grand Haven	Ottawa	1,738	400	1,338	\$21,000,000	\$1,201,406,000	20	\$11,442,000	\$94,671,000	\$1,383,000	\$0	6	\$517,545
National TechTeam	03/12/96	Southfield	Oakland	884	650	234	\$6,510,000	\$291,096,000	9	\$3,371,000	\$19,917,000	\$0	\$0	0	\$0
Hi - Lex Controls	06/11/96	Litchfield	Hillsdale	561	197	364	\$9,600,000	\$193,970,000	10	\$1,186,000	\$14,332,000	\$247,500	\$300,000	6	\$216,000
Dow Chemical	06/11/96	Midland	Midland	261	110	151	\$12,000,000	\$302,149,000	20	\$9,561,000	\$14,611,000	\$232,000	\$750,000	6	\$551,511
Petri Inc.	06/11/96	Port Huron	St. Clair	1,252	396	856	\$10,700,000	\$397,168,000	10	\$6,334,000	\$25,439,000	\$750,000	\$0	6	\$229,224
Lucks Industries	06/11/96	Kentwood	Kent	545	200	345	\$37,800,000	\$377,328,000	20	\$5,533,000	\$24,653,000	\$340,000	\$0	6	\$752,000
Worthington Industries	08/13/96	Frenchtown Twp	Monroe	333	110	223	\$85,000,000	\$227,961,000	12	\$8,625,000	\$9,680,000	\$0	\$2,300,000	3	\$874,000
Compuware	09/24/96	Farmington Hills	Oakland	680	331	349	\$8,600,000	\$429,608,000	15	\$5,978,000	\$28,383,000	\$450,000	\$0	0	\$0
Walbro Automotive	09/24/96	Detroit	Wayne	742	353	389	\$50,000,000	\$572,488,000	20	\$13,638,000	\$32,153,000	\$353,000	\$0	6	\$1,265,140
CMI	10/06/96	Summerfield Tw	Monroe	544	205	339	\$50,400,000	\$301,379,000	15	\$7,782,000	\$16,328,000	\$205,000	\$0	6	\$665,732
Planzja Hard Tech	11/12/96	Mason	Ingham	814	225	589	\$54,000,000	\$589,236,000	20	\$6,768,000	\$40,371,000	\$569,500	\$1,000,000	6	\$1,346,741

Source: Michigan Economic Growth Authority, 2001.

Graphic 10: 2009 “All MEGA Projects” Spreadsheet (Page One)

All MEGA Projects		(Not Including Brownfield Projects)										
Company Name	Date of MEGA Approval	Project Location		Total Jobs	Direct Jobs Created	Indirect Jobs	Private Investment	Personal Income Generated	MEGA Credits Years	Estimated Credit Amount	Net Positive State Impact	
		City	County									
Haworth Inc.	20-Apr-95	Big Rapids	Mecosta	1,101	342	759	\$43,332,000	\$803,986,000	20	\$6,387,000	\$55,771,000	
Solvay	20-Apr-95	Adrian	Lenawee	504	250	254	\$62,496,000	\$250,250,000	12	\$4,665,000	\$14,415,000	
Walden Books	20-Apr-95	Ann Arbor	Washtenaw	975	550	425	\$16,832,000	\$654,122,000	15	\$7,723,000	\$42,311,000	
A. C. Smith	26-Jul-95	Plymouth Twp	Wayne	870	247	623	\$65,355,000	\$370,667,000	10	\$3,974,000	\$25,678,000	
Gelman Science*	17-Aug-95	Scio Township	Washtenaw	0	0	0	\$0	\$0	0	\$0	\$0	
Cardell Corp	2-Oct-95	Auburn Hills	Oakland	1,069	505	564	\$46,669,000	\$630,557,000	15	\$9,970,000	\$40,475,000	
Meridian, Inc.	2-Oct-95	Spring Lake	Ottawa	1,471	500	971	\$24,006,000	\$1,046,343,000	20	\$15,073,000	\$68,634,000	
Shiloh of Mich	2-Oct-95	Romulus	Wayne	377	153	224	\$30,016,400	\$384,531,000	20	\$5,641,000	\$25,121,000	
Aspen Bay*	24-Oct-95	Menominee	Menominee	0	0	0	\$0	\$0	0	\$0	\$0	
Standard Automotive	14-Nov-95	Muskegon	Muskegon	88	25	63	\$5,145,000	\$67,397,000	20	\$599,000	\$4,793,000	
Hess Industries*	12-Dec-95	Niles	Berrien	0	0	0	\$0	\$0	0	\$0	\$0	
Pilot Industries	12-Dec-95	Clare	Clare	899	418	481	\$14,622,300	\$540,542,000	20	\$9,446,000	\$33,797,000	
Asama Giken	20-Feb-96	Coldwater	Branch	595	300	295	\$26,000,000	\$231,417,000	10	\$1,653,000	\$16,860,000	
IMCO Recycling	1-Mar-96	Coldwater	Branch	221	110	111	\$11,200,000	\$121,692,000	12	\$2,952,000	\$6,783,000	
Case Systems	12-Mar-96	Midland	Midland	268	110	158	\$2,100,000	\$145,498,000	13	\$769,000	\$10,871,000	
National TechTeam	12-Mar-96	Southfield	Oakland	884	650	234	\$6,510,000	\$291,096,000	9	\$3,371,000	\$19,917,000	
Shape Corp	12-Mar-96	Grand Haven	Ottawa	1,738	400	1,338	\$21,000,000	\$1,201,406,000	20	\$11,442,000	\$84,671,000	
Dow Chemical	11-Jun-96	Midland	Midland	261	110	151	\$12,000,000	\$302,149,000	20	\$6,561,000	\$14,611,000	
Hi - Lex Controls	11-Jun-96	Litchfield	Hillsdale	561	197	364	\$9,600,000	\$193,970,000	10	\$1,186,000	\$14,332,000	
Lacks Industries	11-Jun-96	Kentwood	Kent	545	200	345	\$37,800,000	\$377,326,000	20	\$5,533,000	\$24,653,000	
Petri Inc.	11-Jun-96	Port Huron	St. Clair	1,252	396	856	\$10,700,000	\$397,158,000	10	\$6,334,000	\$25,439,000	
Worthington Industries/Spartan Steel	13-Aug-96	Frenchtown Twp	Monroe	333	110	223	\$85,000,000	\$227,561,000	12	\$8,525,000	\$9,680,000	
Compware	24-Sep-96	Farmington Hills	Oakland	680	331	349	\$6,600,000	\$429,509,000	15	\$5,978,000	\$28,383,000	
Walbro Automotive/ Vitec	24-Sep-96	Detroit	Wayne	742	353	389	\$50,000,000	\$572,486,000	20	\$13,636,000	\$32,163,000	
CMI*	8-Oct-96	Summerfield Twp	Monroe	0	0	0	\$0	\$0	0	\$0	\$0	
Planija Hard Tech	12-Nov-96	Mason	Ingham	814	225	589	\$54,000,000	\$589,236,000	20	\$6,768,000	\$40,371,000	
Kwang Jin Sang Gong*	17-Dec-96	Battle Creek	Calhoun	0	0	0	\$0	\$0	0	\$0	\$0	
N-K Manufacturing	14-Feb-97	Allendale Towns	Ottawa	1,047	540	507	\$10,500,000	\$564,468,000	20	\$6,020,000	\$38,532,000	
Weyburn Acquisition Company	14-Feb-97	Grand Haven Twp	Ottawa	382	163	219	\$21,000,000	\$257,235,000	20	\$5,426,000	\$15,153,000	
RSDC of Michigan	19-Mar-97	Delhi Township	Ingham	720	222	498	\$80,000,000	\$394,507,000	15	\$4,809,000	\$46,752,000	
Black & Veatch	8-Apr-97	Ann Arbor	Washtenaw	681	218	463	\$11,200,000	\$615,086,000	18	\$3,050,000	\$46,157,000	
Howmet*	8-Apr-97	Whitehall	Muskegon	0	0	0	\$0	\$0	0	\$0	\$0	
Autocam Corporation	10-Jun-97	Marshall	Calhoun	749	200	549	\$25,000,000	\$481,373,000	20	\$8,787,000	\$29,723,000	
Bosai Industries	10-Jun-97	Warren	Macomb	253	110	143	\$6,800,000	\$162,442,000	18	\$1,672,000	\$11,323,000	
National TechTeam*	10-Jun-97	Sault Ste. Marie	Chippewa	0	0	0	\$0	\$0	0	\$0	\$0	
Gerber Products Co.*	9-Sep-97	Fremont	Newaygo	0	0	0	\$0	\$0	0	\$0	\$0	
Neway Anchorlok Int'l	9-Sep-97	Muskegon	Muskegon	547	163	384	\$7,900,000	\$364,899,000	20	\$4,420,000	\$27,172,000	
BUDDCO	18-Nov-97	Highland	Wayne	847	563	284	\$19,000,000	\$523,820,000	17	\$9,698,000	\$32,208,000	
GE/Bayer	17-Dec-97	Wixom	Oakland	192	83	109	\$25,800,000	\$217,357,000	20	\$5,814,000	\$11,575,000	
Aisons Corporation	19-Feb-98	Hillsdale	Hillsdale	184	105	79	\$13,300,000	\$48,899,000	6	\$2,071,000	\$1,840,000	
Robert Bosch Corp.	19-Feb-98	Farmington Hills	Oakland	826	475	351	\$37,000,000	\$954,315,000	16	\$20,824,000	\$55,521,000	
Smiths Industries	19-Feb-98	Cascade Twp	Kent	233	105	128	\$7,450,000	\$150,510,000	10	\$4,225,000	\$7,815,000	
Spicer Heavy Axle/ Dana Corp.	4-Mar-98	Texas Township	Kalamazoo	340	203	137	\$15,000,000	\$441,944,000	20	\$8,970,000	\$26,386,000	
Wollin Products, Inc.	4-Mar-98	Charlotte	Eaton	252	150	102	\$13,825,000	\$174,011,000	20	\$2,468,000	\$11,423,000	
Kmart Corporation	12-May-98	Troy	Oakland	717	425	292	\$102,410,000	\$627,353,000	20	\$14,366,000	\$36,823,000	
Pollard (U.S.) Ltd.*	28-May-98	Ypsilanti Townsh	Washtenaw	0	0	0	\$0	\$0	0	\$0	\$0	
AAR Corporation	19-Jun-98	Cadillac	Wexford	447	300	147	\$12,300,000	\$377,480,000	20	\$6,043,000	\$24,156,000	
Alliant Foodservice	14-Jul-98	Lyon Township	Oakland	292	149	143	\$26,200,000	\$236,775,000	15	\$4,980,000	\$13,962,000	
The Coca-Cola Co.	14-Jul-98	Paw Paw Twp	Van Buren	272	150	122	\$31,468,000	\$209,228,000	20	\$3,601,000	\$13,137,000	
P & A Industries, Inc.	11-Aug-98	Monroe Twp	Monroe	186	130	56	\$8,151,000	\$136,615,000	15	\$2,098,000	\$8,831,000	
L & W, Inc.	17-Sep-98	Blissfield	Lenawee	662	340	322	\$50,050,000	\$356,620,000	13	\$3,113,000	\$25,337,000	
Centaur, Inc*	14-Oct-98	Bedford Twp	Monroe	0	0	0	\$0	\$0	0	\$0	\$0	
Engineered Machined Products, Inc.	14-Oct-98	Escanaba	Delta	304	175	129	\$5,250,000	\$204,162,000	17	\$2,053,000	\$14,280,000	
Howmet International, Inc	28-Oct-98	Whitehall	Muskegon	1,566	580	986	\$52,820,000	\$1,211,097,000	20	\$18,706,000	\$78,182,000	
Trumack Assembly, LLC	28-Oct-98	Detroit	Wayne	477	345	132	\$26,400,000	\$360,856,000	20	\$8,071,000	\$20,797,000	
Scott Technologies	17-Nov-98	South Haven	Van Buren	165	92	73	\$1,000,000	\$68,450,000	10	\$391,000	\$5,085,000	

Source: Michigan Economic Growth Authority, 2009.

At the time, this loss of information was not critical, because other complete sources for the data existed. This is no longer the case now that some briefing memoranda fail to report information consistently and the MEGA annual reports to the Legislature include far less data (see “MEGA’s Annual Reports” below).

Recent changes to the spreadsheets are even more worrisome. Current MEGA reports involve older projects in which business-tax credits were granted against Michigan’s previous business tax, the single business tax. Under the SBT, there were two ways businesses could earn business-tax credits in a MEGA deal: through jobs added or retained (an employment credit), or through new capital investment (a business-activity credit). The “MEGA Credits” spreadsheet formerly detailed the precise value for each year of a company’s employment credit and business-activity credit, but for the past year, this information has been deemed “confidential” by the MEDC, and only a total business-tax credit is provided.*

* The author last received a report including this information in April 2008.

This, too, occurred without warning after some 13 years of releasing the data to the public on request. This data was always vital to analysis of the MEGA program, because it allows an analyst to determine the precise tax revenue forgone as a result of the MEGA credit on a per-project basis.

For example, when Kmart filed for bankruptcy and ultimately moved its headquarters out of Michigan, it was possible to determine precisely what tax relief the firm enjoyed for creating jobs that were ultimately eliminated. Based on data from the discontinued “MEGA Credits” spreadsheet, it is clear that the company received five sets of MEGA credits worth more than \$6 million in total over three years, and that after 2003, the company was no longer qualified for the credits.¹¹⁸ The author has recently been unable to obtain such data from the MEDC, and this informational detail will no longer be available, according to MEDC documents obtained through the Michigan Freedom of Information Act. MEDC employees apparently consider these details confidential because of restrictions in the state Revenue Act.¹¹⁹

Moreover, after April 2008, compilation of the “MEGA Credits” sheets was abandoned by the MEDC in favor of a new computer database that omits some previously provided information (such as actual tax relief per company). In addition, the new reports are roughly 400 pages, while the old spreadsheet never exceeded 12 pages and was far more useful.*

It is difficult to see why the data previously provided on these spreadsheets was omitted when a new computer software program was adopted. There seems little justification for installing a new system that provides less data and fewer details.

MEGA’s Annual Reports to the Michigan Legislature

As mentioned earlier, this annual report to the Legislature used to be one of two sources of data concerning local government incentive contributions. This information made it possible to tally the overall government assistance to a MEGA project, not just the value of state-level incentives.

The report no longer provides this information, however, and the briefing memoranda (the other traditional source for such data) have become so vague recently that it is nearly impossible to consistently and confidently measure the total costs of a MEGA deal.

The richly detailed 1998 edition of the annual report can be seen in its entirety at www.mackinac.org/10795. The summary spreadsheet from that 1998 report is reproduced in Graphic 11 to show the detail once provided by the MEDC in its MEGA annual reports. In contrast, the heart of the 2008 annual report is a limited two-page spreadsheet without narrative. Page One of the 2008 report is reproduced in Graphic 12.

* The last iterations of the earlier spreadsheets, complete with now-unavailable tax relief information per company per year, can be viewed at <http://www.mackinac.org/depts/fpi/mega.aspx>. See “Appendix B: A New Mackinac Center Database on MEGA.”

118 Trace Graham, then-FOIA coordinator for the Michigan Economic Development Corp., Freedom of Information Act correspondence with James Hohman, April 3, 2008.

119 Karla Campbell, e-mail correspondence with Trace Graham and Mark Morante, February 13, 2009.

The full reports are markedly different. The 1998 edition contains a narrative of the company's history and the MEGA deal; an executive summary of the report; the project location, including the city and county; the location of the company's headquarters; the expected total jobs (both direct and indirect) to be created over the life of the deal; the average weekly wage, including the benefit package value as percent of total; the capital investment expected; the estimated net positive state government revenue impact over the life of the MEGA project, showing both the estimated state revenue forgone and the estimated state revenue gained; the projected state personal income generated over the life of each MEGA deal; and the explicit value of the local government's contribution to the MEGA deal through various local government business incentives.

The nine-column 2008 annual report contains only the company name; the company location; the project city; the project county; the company's capital investment; the total years approved (of MEGA credits); the maximum credit authorized; the jobs to be created; and the jobs to be retained.

Note in particular that the "Jobs to be Created" column in the 2008 report does not explain if the figures refer only to workers directly employed by the company, or if the figures also include alleged "spin-off" jobs forecasted by the REMI model and detailed in the MEDC "economic effects" reports. (In contrast, the 2007 report was explicit, labeling the jobs column as "Jobs Impact/Direct Jobs.") The authors have patiently attempted to clarify the meaning of this "Jobs to be Created" column and acquire an explanation for missing data. Unfortunately, there has been no constructive response to this simple query.*

* For example, Michael LaFaive telephoned an MEDC spokesperson on June 1, 2009, and asked if it would be acceptable to submit questions directly to her. He expressed his concern that some of his questions simply could not be answered using the Freedom of Information Act, but could be answered directly and quickly by a spokesperson. (Admittedly, he also harbored concerns that the MEDC might claim the 10 business-day extension allowed under FOIA law and then either send documents too vague to assist him or respond — as frequently occurs — that "no such documents exist.") The spokesperson encouraged him to submit his questions in writing, and he did.

By June 12, he had not received a response from the MEDC. He followed up on his request with a voicemail and e-mail to the spokesperson. He received a response by e-mail later the same day, after normal business hours. The e-mail read:

"We've had several similarly worded questions and requests come in multiple ports of entry recently from you/your staff and it's caused some confusion as to who's responding, whether they're currently in the FOIA queue or if they've already been handled. We don't [sic] want to waste your time nor duplicate efforts on our end, so we'll be sorting through these early next week, cross checking for duplicate inquiries, reconciling with pending FOIA requests, etc. and then will get back to you."

LaFaive responded the following Tuesday: "I received your Friday e-mail. Naturally, I am a bit disappointed, since my questions were submitted to you on June 1. When might I expect a response this week based on your meeting? Today? Tomorrow?"

As of Aug. 28, more than 10 weeks later, the spokesperson had not responded. A larger sample of the correspondence described above appears in "Appendix A: A Sample of Correspondence With the MEDC."

Graphic 11: 1998 MEGA Annual Report Summary Spreadsheet

Michigan Economic Development Authority Project Summary Data																		
Date of Approval	TOTALS	Smiths Industries 02/19/98	Alison Corp. 02/19/98	Robert Bosch 02/19/98	Whitin Products 03/04/98	Dana Corp 03/04/98	Kmart Corp 05/12/98	Pollard (S.S.) Ltd. 05/28/98	AAR Corp 06/19/98	Alliant 07/14/98	The Coca-Cola Company 07/14/98	P & A Industries 08/11/98	L & W Inc. 10/14/98	Centaur Inc. 10/29/98	Engineered Machine Products 10/29/98	Trumark Assembly 10/29/98	Howmet International 11/17/98	Scott Technologies 11/17/98
Total Jobs Created	7312	233	184	826	252	340	717	204	447	282	272	188	682	185	304	477	1569	165
Direct	3966	105	105	476	150	203	425	124	300	149	150	130	340	118	175	345	980	92
Indirect	3346	128	79	351	102	137	292	80	147	143	122	58	322	67	129	132	589	73
Average Weekly Wage (Direct Jobs)	1968	\$1,390	\$385	\$1,283	\$388	\$1,000	\$955	\$461	\$479	\$750	\$579	\$689	\$410	\$828	\$457	\$480	\$475	\$445
Capital Investment	\$413,985,000	\$7,490,000	\$13,300,000	\$37,000,000	\$13,825,000	\$15,000,000	\$102,410,000	\$9,060,000	\$12,300,000	\$26,200,000	\$31,468,000	\$8,151,000	\$5,250,000	\$3,311,000	\$5,250,000	\$26,400,000	\$52,820,000	\$1,000,000
Net Positive State Revenue Impact	\$581,303,900	\$7,816,000	\$1,840,000	\$56,521,000	\$11,423,000	\$26,386,000	\$38,823,000	\$4,839,000	\$24,156,000	\$13,962,000	\$13,127,000	\$8,831,000	\$26,337,000	\$4,086,000	\$14,260,000	\$20,797,000	\$78,182,000	\$5,065,000
Revenue Foregone	\$104,777,000	\$4,225,000	\$2,071,000	\$20,824,000	\$2,498,000	\$8,970,000	\$14,366,000	\$2,271,000	\$6,043,000	\$4,980,000	\$3,601,000	\$2,088,000	\$3,113,000	\$496,000	\$2,963,000	\$8,071,000	\$18,706,000	\$391,000
Revenue Gain	\$450,290,000	\$12,041,000	\$3,911,000	\$76,345,000	\$13,921,000	\$35,356,000	\$50,189,000	\$6,910,000	\$30,199,000	\$18,942,000	\$16,738,000	\$10,928,000	\$28,450,000	\$4,581,000	\$16,333,000	\$23,888,000	\$99,888,000	\$1,478,000
Personal Income Generated Over Life of MEGA Agreement	\$5,702,881,000	\$150,610,000	\$48,889,000	\$954,315,000	\$174,011,000	\$441,944,000	\$627,355,000	\$89,372,000	\$377,480,000	\$238,775,000	\$209,228,000	\$136,815,000	\$385,620,000	\$67,304,000	\$204,162,000	\$390,899,000	\$1,211,097,000	\$68,450,000
Local Participation	\$20,815,340	\$145,310	\$1,830,000	\$1,536,785	\$1,890,000	\$1,900,000	\$460,000	\$1,213,458	\$1,728,608	\$3,800,000	\$2,034,425	\$451,778	\$5,498,318	\$30,568	\$708,000	\$1,813,719	\$4,854,203	\$64,500
Type of assistance		tax abatement	tax abatement	tax abatement	tax abatement, discounted land	tax abatement	tax abatement, improvements to land	tax abatement	tax abatement	tax abatement	tax abatement	tax abatement	tax abatement, CDBG match	tax abatement, CDBG match	tax abatement	tax abatement	tax abatement	tax abatement

Source: Michigan Economic Development Corp.

Graphic 12: Fiscal 2008 MEGA Annual Report (Page One)



Company Name	Company Location	Project City	Project County	Company Capital Investment	Total Yrs Approved	Maximum Credit Authorized	Jobs to be Created	Jobs to be Retained
Kobenschmidt Fiberglass AG	Southfield, MI	Auburn Hills	Oakland	\$11,000,000	8	\$3,428,000	153	0
Credit Acceptance Corporation	Southfield, MI	Southfield	Oakland	\$3,800,000	7	\$4,615,000	506	0
Vantare Plastics	Standish, MI	Standish	Arenac	\$2,700,000	7	\$388,000	75	0
NEAPCO LLC	Van Buren Twp, MI	Van Buren Twp.	Wayne	\$29,400,000	7	\$4,505,000	285	0
Accident Fund Insurance Company of America	Lansing, MI	Lansing	Ingham	\$182,000,000	12	\$11,390,000	500	0
SYSCO Food Services of Detroit, L.L.C.	Canton, MI	Canton Twp	Wayne	\$18,000,000	9	\$2,239,000	130	0
Azure Dynamics Corporation of America	Oak Park, MI	Oak Park	Oakland	\$2,300,000	7	\$1,773,000	125	0
Aemnova Engineering US, Inc.	Ann Arbor, MI	Pittsfield Twp	Washtenaw	\$10,000,000	15	\$19,627,000	690	0
International Automotive Components (Combo)	Dearborn, MI	Multi Site	St. Clair/Macomb	\$5,900,000	10	\$27,289,000	200	2,409
Inergy Automotive Systems	Adrian, MI	Adrian	Lenawee	\$8,200,000	7	\$1,318,000	189	0
Camshaft Machine Company, LLC	Jackson, MI	Coldwater	Branch	\$1,562,000	7	\$1,462,000	190	0
Chrysler LLC (Combo)	Ann Arbor, MI	Detroit	Wayne	\$8,922,000	7	\$8,037,000	400	2,480
Dearborn Group Technology	Detroit, MI	Farmington Hills	Oakland	\$1,170,000	5	\$494,000	61	0
Accur Cytometers, Inc.	Farmington Hills, MI	Solo Twp	Washtenaw	\$2,000,000	10	\$1,490,000	88	0
Unified Brands, Inc.	Waldman, MI	Broomfield Twp	Isabella	\$8,750,000	7	\$1,329,000	168	0
MS Precision Components, LLC	Fowlerville, MI	Fowlerville	Livingston	\$21,800,000	7	\$893,000	108	0
ProQuest, LLC	Ann Arbor, MI	Ann Arbor	Washtenaw	\$21,392,000	10	\$10,132,000	303	0
Paragon Metals, Inc.	Quincy, MI	Quincy	Branch	\$7,000,000	7	\$1,022,000	130	0
NextGen Emission Controls USA, Inc.	Brunnaby, B.C.	Wixom	Oakland	\$800,000	10	\$908,000	47	0
General Dynamics Land Systems	Sterling Heights, MI	Sterling Heights	Macomb	\$10,504,000	12	\$18,781,000	500	0
MyBuys	Redwood City, CA	Ann Arbor	Washtenaw	\$5,481,380	10	\$3,828,000	250	0
Bear's Head Provisions Company, Inc.	Holland, MI	Holland Twp	Ottawa	\$24,000,000	7	\$1,886,000	208	0
North American Bancard	Troy, MI	Troy	Oakland	\$28,043,000	12	\$21,673,000	1,600	0
Behr-Hella Thermoccontrol, Inc.	Troy, MI	Wixom	Oakland	\$7,800,000	7	\$826,000	70	0
Ricardo, Incorporated	Van Buren Twp, MI	Van Buren Twp.	Wayne	\$2,084,000	10	\$891,000	32	0
Arbor Networks, Incorporated	Ann Arbor, MI	Ann Arbor	Washtenaw	\$14,000,000	10	\$1,539,000	56	0
VonWeise	Eaton Rapids, MI	Eaton Rapids	Eaton	\$7,300,000	7	\$1,145,000	159	0
Sakt's, Inc.	Ann Arbor, MI	Ann Arbor	Washtenaw	\$476,000	10	\$2,800,000	106	0
Kaiser Aluminum Corporation	Foothill Ranch, CA	Cometock Twp	Kalamazoo	\$84,983,000	10	\$3,737,000	300	0
Brose North America	Warren, MI	Warren	Macomb	\$23,000,000	7	\$8,620,000	517	0
Azentek	Grand Blanc, MI	Grand Blanc	Genesee	\$3,000,000	10	\$1,841,000	78	0
Venchem Inc.	Adrian, MI	Adrian	Lenawee	\$21,000,000	7	\$1,326,000	198	0
Ray Connect (Combo)	Rochester Hills, MI	Rochester Hills	Oakland	\$2,690,000	7	\$2,536,000	46	148
Production Engineering, Inc. (Combo)	Jackson, MI	Jackson	Jackson	\$4,187,000	10	\$4,187,000	122	112
Marimba Auto LLC	Belleville, MI	Canton Twp	Wayne	\$16,000,000	7	\$851,000	72	0
EcolMotors International	Troy, MI	Troy	Oakland	\$6,253,000	10	\$6,253,000	158	0
Mahle Engine Components	St. Johns, MI	St. Johns	Clinton	\$18,200,000	10	\$2,695,000	150	0
Orchid Unique Orthopedic Solutions	Bridgeport, MI	Bridgeport Twp.	Saginaw	\$6,549,000	7	\$879,703	60	0
priceLine.com	Nowalk, CT	Wyoming	Kent	\$4,599,000	7	\$7,981,000	424	0
ArvinMeritor Automotive, Inc.	Warwickshire, U.K.	Detroit	Wayne	\$1,236,000	7	\$1,237,867	118	0

Source: Michigan Economic Development Corp.

Making matters worse, the columns “of the annual report of the activities of the Michigan Economic Growth Authority to the Michigan Legislature” required by law have actually changed from fiscal 2007 to fiscal 2008, although they were published only six months apart.* For instance, the fiscal 2007 report provides the column “Revenue Forgone: (MEGA Costs),” while the fiscal 2008 edition does not have that column. Conversely, the fiscal 2008 report contains several columns that are not found in the 2007 report. For example, the 2008 report contains a column for “Maximum Credit Authorized,” a term whose meaning is unclear. The 2008 report also includes a column for “Jobs to be Retained,” a term whose meaning seems reasonably clear, but whose purpose is unclear, since this figure did not appear in the 2007 report.

Nor was the 2007 report a model of clarity. A reader cannot tell explicitly, for instance, whether the “Revenue Forgone” column in that report is referring to the amount of tax revenue forgone in fiscal 2007 alone, or to a total amount of tax revenue forgone over the life of the MEGA credits, which could be many years into the future. A close inspection suggests it is probably the latter, but if so, legislators should realize that MEGA is providing the same piece of information as “Estimated Credit Amount” in the “All MEGA Projects” spreadsheet, as “Revenue Forgone/(MEGA Cost)” in the fiscal 2007 annual report, and as “Maximum Credit Authorized” in the fiscal 2008 annual report. In other words, like other elements of the report, this column is inconsistent, unclear and unaccompanied by any explanation. In short, the key component of the annual report to the Michigan Legislature raises more questions than it answers.

The remainder of the annual report lists little more than the company name and top officers at the firms in question, something that wasn’t included in the older reports. This new information is trivial in comparison to the information that has been lost.

A Summary of the Loss of Available MEGA Data

As noted in the preceding sections, nearly every major document furnishing important information about the MEGA program has become less detailed and less useful. Graphic 13 helps indicate what information is no longer available.

The first column of the graphic lists the information in essentially the same categories that appear in “Measuring MEGA’s Efficacy” above. In Graphic 13, the columns “Previous source document” and “Current source document” refer, respectively, to where the information was originally located and to where the information is now located — if it is available at all.

* There is nothing to indicate in the MEGA annual reports for fiscal 2007 and fiscal 2008 why the 2007 report was issued in April 2008, more than six months after the close of fiscal 2007, while the report for fiscal 2008 was published just one day after the close of fiscal 2008. This disparity meant that the two reports were issued just six months apart.

Note that in several instances, the “current source” column indicates a particular piece of information is available only a certain percentage of the time (the percentage is calculated for MEGA briefing memoranda produced from July 2008 to December 2008). The percentages range from 8 percent, for local property tax abatements, to 73 percent, for other state business incentives other than MEGA’s Michigan business-tax credits. All of these figures used to be 100 percent.

Graphic 13: Sources of MEGA Data, Past and Present

Information	Previous source document	Current source document
Total MEGA tax credits awarded by year by project	“MEGA Credits” spreadsheet	Unavailable
Total MEGA Michigan business-tax credits awarded per project	“MEGA Credits” spreadsheet	Supporting tables for “MEGA Credits vs. Conversions — All Companies for all Years” (However, there is no way to tie projects to credits accurately without additional guidance.)
Number of jobs created at MEGA project in particular year and over life of agreement	“MEGA Credits” spreadsheet	“Eligibility Determination — Jobs Created” PDF spreadsheet, although the meaning of the terms in the spreadsheet is obscure
Value of local property tax abatement	MEGA annual report, briefing memorandum for each credit	Briefing memorandum for each credit, but recent information available in just 8 percent of the memoranda
Value of other local government business incentives	MEGA annual report, briefing memorandum for each credit	Briefing memorandum for each credit, but recent information available in just 47 percent of the memoranda
Value of other state incentives (excluding the MEGA Michigan business-tax credits)	“All MEGA Projects” spreadsheet, MEGA annual report, briefing memorandum for each credit	Briefing memorandum for each credit, but recent information available in just 73 percent of the memoranda
Total cost difference between locating in Michigan and competing location	Range available in briefing memorandum for each credit	Briefing memorandum for each credit, but recent information available in just 11 percent of the memoranda

Source: Mackinac Center for Public Policy

As the graphic makes readily apparent, much of the basic, necessary information about MEGA is now unavailable or no longer readily accessible.

A History of Murkiness at the MEDC

Concerns over the omissions and reductions of information at MEGA are heightened by the MEDC’s past track record in providing accurate and timely information.

Bipartisan and Nonpartisan Concerns

Criticism of the MEDC itself has been bipartisan. During the administration of Gov. John Engler, Democratic Party members expressed pointed concerns about the inability of the Legislature to provide proper oversight of the MEDC.

According to a February 1999 *Gongwer News Service* article concerning the Michigan Jobs Commission, the predecessor to the MEDC, then-state Sen. Alma Smith, D-Salem Township, complained about the transparency problem, saying, “I don’t think the Legislature should have to FOIA a department or agency to find out how money is spent.”¹²⁰ Smith — now a state representative — has remained a consistent critic of the MEDC. In 2009, when asked by the Michigan Information & Research Service what she would do if she were elected governor, she replied: “One of the early things I would do is reorganize the MEDC (Michigan Economic Development Corporation). I have a problem with the unlevel playing field we create from business to business in Michigan, where we create some winners and some losers.”¹²¹

There have been other Democratic critics as well. In 2000, state Rep. Joseph Rivet, D-Bay City, echoed Rep. Smith’s sentiments and argued that the MEDC should lose its state funding, telling the *Lansing State Journal*, “Every time we try to hold these guys at MEDC accountable to the taxpayers, they claim to be a private agency outside the realm of public scrutiny.”¹²² Rivet was particularly angered by a *Lansing State Journal* report that the MEDC had bought each of its employees three monogrammed shirts from an out-of-state vendor. The purchase was apparently made to “boost morale”¹²³ and market the MEDC.

After Gov. Jennifer Granholm was sworn into office, members of the GOP sought greater transparency from the MEDC, most notably state Rep. Jack Brandenburg of Harrison Township. A frequent critic of the MEDC, Rep. Brandenburg called for its outright elimination in 2007. He argued that the MEDC was ineffective, contrasting the state’s poor economic performance with the corporation’s supposed success. He also complained that the MEDC was top-heavy with management, calculating that it had one vice president for every 10 employees at the time.¹²⁴

To make the MEDC more transparent, Brandenburg successfully inserted two mandates into state law in 2006: a requirement that the MEDC cooperate with the Michigan Office of the Auditor General on audits of jobs the corporation had claimed to have created or influenced, and a requirement that the MEDC report annually to the Legislature how many of its staff made more than \$80,000 per year.*

Republican state Sen. Nancy Cassis of Novi has likewise sponsored several pieces of legislation that would require additional information from MEGA. Senate Bill 71 would make MEGA more transparent and appears to address some of the concerns expressed earlier. For example, a summary of the legislation outlined by the nonpartisan Senate Fiscal Agency indicates that Senate Bill 71 would:

- “Require MEGA to include additional information in its annual report to the Legislature.

* In a subsequent budget year, Gov. Granholm recommended that both provisions be eliminated. The first provision was later weakened, but ultimately restored, while the second was eventually removed altogether. (Elizabeth Pratt and Maria Tyszkiewicz, “FY 2007-08 Michigan Strategic Fund Budget S.B. 239: Governor’s Recommendation,” (Michigan Senate Fiscal Agency, 2007).)

120 “Report: Tracking Jobs Commission Spending to Become More Difficult,” *Gongwer News Service*, February 19, 1999.

121 “An Interview With Alma Wheeler Smith,” *Michigan Information & Research Service*, July 2, 2009.

122 Paul Egan, “Democrats: MEDC Should Lose State Funds,” *Lansing State Journal*, February 12, 2000, 1A.

123 *Ibid.*, 5A.

124 “Brandenburg: Big Cuts Possible for MEDC,” *Gongwer News Service*, April 20, 2005.

- “Beginning Oct.1, 2009, require MEGA to report to the chairpersons of the Senate Appropriations and Finance Committees and the House Appropriations and Tax Policy Committees, and the directors of the Senate and House Fiscal Agencies.
- “Require the [Michigan Office of the] Auditor General to review MEGA’s annual report to the Legislature and include comments with the report before MEGA could submit it.”¹²⁵

According to the SFA, Senate Bill 71 would also require the following in addition to the data that already must be included in the MEGA annual reports:

- “The amount of capital investment required and the number of jobs required to be created or retained for each authorized business to be eligible for the tax credits under the Act.
- “For each written agreement with each authorized business, the actual number of jobs created or retained, the total capital investment at that facility, and the total value of the tax credits received for that year and all previous years under the written agreement.
- “The total capital investment for the credit under new written agreements entered into under Section 8(5).”¹²⁶

The legislation passed the state Senate Feb. 12, 2009, and it was subsequently reported out of the state House New Economy and Quality of Life Committee on July 28.¹²⁷

The state Office of the Auditor General, a nonpartisan government agency, has also expressed concerns about the job creation figures reported by the MEDC and its alter ego, the Michigan Strategic Fund. In 1993, the Michigan Strategic Fund was found by the OAG to have “overstated by 39 percent, the number of jobs created by the selected companies that received financial assistance from ... two programs [the MSF administered] in its 1991 annual report to the Legislature.”¹²⁸

Then, in August 2003, the OAG examined a job-training program administered by the MEDC. Although the program had been alleged to have created 635 jobs, the OAG found that total employment had actually decreased by 222. The OAG criticized the MEDC for not independently verifying jobs claims submitted to the MEDC by companies that had received job-training subsidies. These errors were discovered after a review of one small MEDC program.¹²⁹

Dubious Claims and Reluctant Disclosure

The MEDC has not just filed inaccurate reports; it has also made questionable claims. For instance, in a November 2004 Op-Ed in *Business Direct Weekly*, then-MEDC Chief Executive Officer Donald Jakeway asserted that the MEGA program had created more than 28,800 jobs.

125 Suzanne Lowe, “MEGA: Annual Report — S.B. 71 (S-1) Summary as Passed by the Senate,” (Michigan Senate Fiscal Agency, 2009), 1.

126 Ibid.

127 “Senate Bill 71 — Legislative Web Page,” (Michigan Legislature, 2009), <http://legislature.mi.gov/%28S%28d12a2h450guc2ubewuljq55%29%29/mileg.aspx?page=getObject&objectName=2009-SB-0071> (accessed August 30, 2009).

128 “Performance Audit of the Michigan Strategic Fund Oct. 1, 1988 Through Oct. 31, 1992,” (Michigan Office of the Auditor General, 1993), ii.

129 “Performance Audit of Selected Training Related Programs: Michigan Economic Development Corporation,” 12-13.

The number was implausible given the MEDC's other published data, but obtaining an explanation for the discrepancy launched this study's authors on a months-long odyssey of requests for information.¹³⁰ Ultimately, a legislative subcommittee of the Michigan House felt moved to ask Jakeway to respond.

He eventually complied, and LaFaive was able to determine that the MEDC had produced Jakeway's 28,800 job figure by using an estimated REMI job multiplier out of context. For a detailed explanation of the basic problems with the jobs figure and of LaFaive's extended endeavors to procure information from the MEDC, see Pages 23-25 and Appendix B of the Mackinac Center Policy Study "MEGA: A Retrospective Assessment."¹³¹

This exchange is disquieting. It began with MEGA's unsubstantiated assertion, continued with MEGA's extreme reluctance to disclose data and ended with the discovery of MEGA's crude misapplication of an economic multiplier. The authority's behavior does not suggest an organization intent on sober analysis and assessment. The fact that the numbers were overstated and that the corporation resisted attempts to discover this reinforces the impression created by MEGA's premature jobs announcements: The MEDC's operations appear to be significantly influenced by public relations and political concerns. Genuine economic development seems, at best, a secondary matter.

The Importance of Transparency

The five months it took to obtain the truth about Jakeway's claims made it difficult for policymakers and taxpayers to assess MEGA's real impact. Jakeway's flawed figures received public attention, while a discussion of the problems with those figures received little or none.

Indeed, this delay raises a key concern. If an agency finds that it can release optimistic but dubious claims that cannot be investigated without weeks of FOIA requests and phone calls, the agency will reap false public relations victories that may never be publicly exposed as hollow. In effect, there would be no penalty — and indeed, there would be an incentive — for the agency to make exaggerated claims and then drag its feet in answering information requests from policymakers, reporters and residents attempting to determine the truth.

As noted earlier, persistent delays have become a problem at MEGA. Some sense of the difficulty can be gleaned from the author's correspondence with the MEDC concerning the meaning of the phrase "Jobs to be Created" in MEGA's new spreadsheets. Parts of that correspondence are reproduced in "Appendix A: A Sample of Correspondence With the MEDC."

Concerns over transparency in the MEDC and the MEGA program involve basic tenets of good government meant to enable citizens to examine a program's cost-effectiveness and assess the performance of public servants. Yet there is more at

130 LaFaive and Hicks, "MEGA: A Retrospective Assessment," 98-102.

131 *Ibid.*, 23-25.

stake: Transparency also helps expose political calculations that may sidetrack an agency and interfere with its mission.

Perhaps one of the most troubling examples of such a dynamic occurred in 2002, when Michigan's economy was weak; state government revenues were falling far short of expectations; and the rest of the nation was beginning an economic recovery. Against this backdrop, the MEDC's priorities seemed skewed. The corporation explicitly stated in a published brochure that its first goal that year was its own survival — specifically, to “ensure the continuity of the MEDC.”¹³² This goal effectively elevated the retention of MEDC jobs above the retention of taxpayers' jobs.*

The possibility that the MEDC might pursue political goals, rather than economic gains, is one reason why good public policy requires that the MEDC become more transparent. Conversely, the MEDC's lack of transparency further heightens concerns that the corporation is increasingly political in its aims.

This political tendency is not necessarily partisan — though as noted above, the political party opposing the governor is often the one protesting questionable numbers and a lack of transparency at the MEDC. More to the point, the political element in the MEDC's actions seems to be ensuring that the corporation continues and that the people running it are perceived as effective.

While this desire is understandable, it should not be, and cannot be, the point of an economic development program. If it were, taxpayers would be serving the MEDC — not the other way around. Instead, the point of the program should be actual economic success. This goal requires a fundamental commitment within the organization to a regular, probing review of its own performance and to a transparency that provides the public the same opportunity — even if this transparency exposes failure.

Why MEGA Matters

As we noted when we began our discussion of MEGA, the authority is the MEDC's — and the state's — flagship jobs program. MEGA has offered more than \$3.3 billion in Michigan business tax credits since its inception, and it has arranged for select Michigan companies to receive many millions of dollars in state education tax credits, job-training subsidies, community development block grants, local property tax abatements and other local subsidies.

Moreover, MEGA's design makes it more likely to succeed than many government economic development programs. The authority's primary business incentive, Michigan business-tax credits, is not awarded until a company actually shows that it has created or retained the jobs it promised.

* This grim outlook stood in stark contrast to the MEDC's optimistic beginnings and its mission of keeping “good jobs in Michigan and attracting more of them.” See, for instance, MEDC Board Vice President Beth Chappell's comments to the Michigan Information & Research Service's MIRS Capitol Capsule, recounted in this study under “What Is the Michigan Economic Development Corporation?”

132 Rick Haglund, “Will Agency Survive under New Governor?” *The Grand Rapids Press*, November 7, 2001.

Traditional business subsidies, in contrast, provide a promising company with benefits in the expectation of job creation (or other economic benefits). These subsidies shift wealth away from other individuals and companies, reducing their own ability to generate wealth, jobs and investment. If they are better positioned to create economic growth, this transfer may actually harm the state's economy — a real risk, since the individuals and companies subsidizing the other business are paying taxes and are generally not receiving subsidies, an indication they may be more economically viable than businesses that claim to need subsidies.

Yet despite MEGA's design advantage over many subsidy programs, there is scant evidence that MEGA has worked. The authority's basic performance record is poor, and two major statistical reviews show either no jobs impact or negative jobs impact.

Nor has the MEDC's corporate culture inspired confidence. Despite MEGA's purported focus on "pay for performance," it regularly announces jobs before they are created and says little about the subsequent results. It has also decreased the transparency and availability of its data, preventing the public and policymakers from determining actual job counts and evaluating the authority's effectiveness. Ultimately, the MEDC's behavior in administering the MEGA program suggests a political bent — an organization more interested in appearing effective than in achieving real effectiveness.

This political element, like MEGA's ineffectiveness, does not bode well for other MEDC programs.

Other MEDC Programs

Issues similar to those seen in MEGA have appeared in other MEDC programs. Here we discuss two programs: one defunct; the other as high profile as MEGA itself.

Broadband Development Authority

In May 2001, the state unveiled a program called LinkMichigan, which sought to accelerate high-speed Internet access. The plan was to address two perceived problems: a purported lack of access to high-speed Internet connections, and congestion on standard phone lines, which were being used for dial-up Internet services.

The LinkMichigan proposal was initiated by the Engler administration, and the MEDC played a key role. The MEDC had commissioned an economic consultancy group to investigate the subject, and the numbers the corporation generated helped sell the project to the Legislature and the public. Expanding access to broadband was projected to produce up to 500,000 new Michigan jobs and \$440 billion in gross state product by 2010.¹³³

133 "E3 Ventures for Michigan Economic Development Corporation: LinkMichigan," (Gartner Consulting, 2001), 11-12, <http://ref.themedc.org/cm/attach/9ABEB18E-D404-4A4A-A6A2-40E73280F6D9/Link-Michigan%20Presentation%20112001R%20Gartner.pdf> (accessed August 20, 2009).

At first, Gov. Engler wanted to institute a new 7 cent tax on each linear foot of high-speed lines. The \$100 million¹³⁴ in projected new revenues was to be used to pay local governments to give up their “right-of-way” permitting authority and to administer a new state department to subsidize broadband deployment, especially to areas that lacked high-speed access.

In March 2002, the Michigan Legislature created the Broadband Development Authority to facilitate the low-cost financing of broadband deployment. The Legislature rejected, however, Gov. Engler’s proposal for a new tax.

Engler administration officials countered with a proposal to have the Michigan State Housing Development Authority — an organization designed to help provide housing to people with low incomes — purchase a \$50 million bond from the new Broadband Development Authority. The authority would then use \$30 million from the sale to cover its administrative costs and the remaining \$20 million to help finance more debt to generate revenue for deployment of broadband infrastructure.¹³⁵

By September 2001, the MEDC had contracted with the “Merit Network,” a nonprofit planning organization that helped communities plan the “last mile” — that is, the frequently expensive part of a broadband network that brings broadband lines into people’s homes. MEDC CEO Doug Rothwell commented, “The formation of this partnership shows that the LinkMichigan plan continues to develop from a vision to reality.”¹³⁶

But the program almost immediately began losing the money it had loaned to facilitate broadband deployment. Within three years of the program’s start, then-Senate Majority Leader Ken Sikkema, who had originally voted for the legislation, had deemed the Broadband Development Authority “one of the biggest flops in state government.” Another supporter, then-House Speaker Craig DeRoche, commented, “Out of the gate, this was a wrong-headed scheme.” Ironically, by 2006, private enterprise had made broadband Internet services available in 99 percent of Michigan ZIP codes.¹³⁷

The Broadband Development Authority was ultimately absorbed by MSHDA and dissolved in July 2007. MSHDA forgave the \$14.5 million in loans it made to the authority.¹³⁸

Like other economic development programs, the Broadband Development Authority attempted to target subsidies to a certain business sector — in this case, telecommunications — in an effort to stimulate broader employment and economic growth. Yet like MEGA and its deals with businesses that would later go bankrupt, the Broadband Development Authority failed to anticipate competing market forces that might render the government’s investment unattractive to consumers. And also like MEGA, the Broadband Development Authority was

134 “A Deeper Look — Broadband Build out Part I,” *Michigan Information & Research Service*, January 11, 2002.

135 Diane Katz, “Broadband Agency Taps Housing Money,” (Mackinac Center for Public Policy, 2002), <http://www.mackinac.org/4196> (accessed August 21, 2009).

136 Jennifer Kopp, “Link-Michigan Plan Moves Forward,” (Michigan Economic Development Corp., 2001), <http://ref.michigan.org/medc/news/major/archive/combo.asp?ContentId=9277410F-A56E-49DD-BE8A-880D1518D0B6&QueueId=2&ContentTypeId=7> (accessed August 21, 2009).

137 Lawrence W. Reed, “The Price of Abandoning Principle,” (Mackinac Center for Public Policy, 2006), <http://www.mackinac.org/7816> (accessed August 21, 2009).

138 “Financial Audit of the Michigan Broadband Development Authority,” (Michigan Office of the Auditor General, 2007), 13.

accompanied by early projections of large numbers of new jobs well before they could have materialized.

Michigan Film Office

The Michigan Film Office was formed in 1979 to “assist and attract incoming production companies in the entertainment industry, including film, TV and music.”¹³⁹ Historically, Michigan has seen some degree of movie production, though nowhere near the magnitude of long-time production meccas California and New York.

The Michigan Film Office reports that 127 films (or portions of films) were produced in the state between 1946 and 2007 — about two films per year.¹⁴⁰ Michigan’s first film industry tax incentives were enacted in a legislative lame duck session of 2006. The incentives granted a graduated tax rebate of up to 20 percent of a film or commercial production company’s spending if the company spent between \$200,000 and \$10 million in Michigan. The smaller the film company’s in-state spending, the smaller the rebate the company received from the state.¹⁴¹ Under that state financial incentive, three movies were filmed in Michigan in 2007.

Claiming a need to increase the tax incentives in order to better compete with other states and create jobs, legislators passed a package of 15 bills in 2008.¹⁴² The most significant portion of the legislation amended the Michigan business tax law to allow film production companies to earn tax credits of up to 42 percent of the companies’ spending in Michigan. The credits were refundable, meaning that the state issues the company a check for the difference if the company’s Michigan-related spending exceeds its tax liability. These payouts currently have no limit.¹⁴³ There are further tax credits for infrastructure spending¹⁴⁴ and workforce training.¹⁴⁵ The bills also transferred the MFO to the Michigan Strategic Fund from the Department of History, Arts and Libraries.¹⁴⁶

The legislation passed with only one state legislator voting against it, and it was signed into law by Gov. Granholm on April 7, 2008. In a press release, she announced, “We’re going to grow this industry and in the process, grow our economy and create jobs.”¹⁴⁷

The signing quickly drew media and public attention, as did the number of scripts and film incentive application submissions reported by the Michigan Film Office. The Muskegon Chronicle reported, “In 2008, the Michigan Film Office received 221 scripts for consideration, leading to 136 applications and 71 approvals for the incentive program in the nine months after the legislation passed.”¹⁴⁸

Because the Film Incentive’s tax credits are refundable, the program’s cost is substantial. In May 2008, a Michigan Senate Fiscal Agency memorandum cited

139 Randy J. Stine, “Movie Magic in Michigan,” *The Greater Lansing Business Monthly*, July 2009.

140 Michigan Film Office, State of Michigan, <http://www.michiganfilloffice.org/Default.aspx> (accessed August 30, 2009).

141 “Public Act 657 of 2006,” (Michigan Legislature, 2007), <http://www.legislature.mi.gov/documents/2005-2006/publicact/pdf/2006-PA-0657.pdf> (accessed August 27, 2009).

142 “Michigan Incentive: Public Acts of 2008,” (Michigan Film Office, 2009), <http://www.michigan.gov/filmoffice/0,1607,7-248-46457-186660-,00.html> (accessed August 30, 2009).

143 “Public Act 77 of 2008,” (Michigan Legislature, 2008), <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0077.pdf> (accessed August 30, 2009).

144 “Public Act 86 of 2008,” (Michigan Legislature, 2008), <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0086.pdf> (accessed August 30, 2009).

145 “Public Act 74 of 2008,” (Michigan Legislature, 2008), <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0074.pdf> (accessed August 30, 2009).

146 “Public Act 75 of 2008,” (Michigan Legislature, 2008), <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0075.pdf> (accessed August 27, 2009).

147 Liz Boyd, “Governor Granholm Signs Film Incentive Package, Sets State for Growing Industry in Michigan,” (Office of the Governor, 2008), <http://www.michigan.gov/gov/0,1607,7-168-189192-,00.html> (accessed July 13, 2009).

148 Eric Gaertner, “Film Incentives Expected to Grow Jobs in Region, State,” *The Muskegon Chronicle*, March 11, 2009.

the state's Consensus Revenue Estimating Conference in warning that, "[T]he film tax credits will cost the State far more in business tax credits than it is expected to gain in income and sales tax revenue."¹⁴⁹ The memo also stated, "According to the projections, if a film production company spent \$10.0 million in Michigan, the State will gain less than \$700,000 in income and sales tax revenue but will pay out about \$4.0 million to the production company in the form of MBT credits."¹⁵⁰

The SFA also predicted that based on the number of applications approved for the Film Incentive, the state would grant an estimated \$148.8 million in tax credits to movie companies in 2008, compared to \$98.8 million in expected tax revenue.¹⁵¹ Such estimates were critical not only for state budgeting purposes, but for evaluating the effects of the program. Aside from the immediate economic benefits of the film spending, this would include the potential cost of wealth transfers from Michigan taxpayers to film companies, since the money for the refunds comes out of the state's general fund. These wealth transfers were potentially significant. Given the basis on which the MBT is calculated, a film production company's business tax liabilities could be quite small, especially if the film company is not based in Michigan.

But determining the amount of money that would be spent was initially difficult. At varying times throughout 2008, officials with the Michigan Film Office suggested tax refund estimates ranging from \$20 million to \$100 million. In an online video in January 2009, Mackinac Center Communications Specialist Kathy Hoekstra chronicled her difficulty in obtaining spending and tax credit amounts for each movie from the Film Office, and she noted that the state Senate Fiscal Agency had also had problems getting estimates from the MFO.¹⁵² At a Nov. 7, 2008, meeting of the Michigan Film Office Advisory Council,* Michigan Film Office Director Janet Lockwood told Hoekstra that one-third of the movie companies requested that this information stay "confidential." When pressed if there was data available for the other two-thirds, the director replied: "Absolutely. Why don't you call me?" Only one subsequent discussion Hoekstra had with the Film Office offered hope that such a list may have been made available, when the director suggested one of the MFO staff members could compile the information.

Further attempts at contact went unanswered and were eventually referred to an MEDC spokesperson. There, the cycle began anew, with assertions that the information Hoekstra requested was confidential because the incentive applications were essentially tax documents.

* The Michigan Film Office Advisory Council is appointed by the governor to assist and advise the film office in how to best carry out the office's duties.

149 Patrick Affholter, "Lights, Camera, Action: Will Michigan Become the Hollywood of the Midwest?" (Michigan Senate Fiscal Agency, 2008), <http://www.senate.michigan.gov/sfa/Publications/Notes/2008Notes/NotesMayJun08pa.pdf>.

150 Ibid.

151 David Zin and Suzanne Lowe, "MBT Film Credit Cap: Analysis as Reported from Committee," (Senate Fiscal Agency, 2008), 3, <http://legislature.mi.gov/documents/2007-2008/billanalysis/Senate/pdf/2007-SFA-1535-A.pdf> (accessed August 27, 2009).

152 Kathy Hoekstra, "The Scene and the Unseen: Act I," (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/articlemedia.aspx?ID=10114#2711> (accessed August 11, 2009).

A Violation of State Law's Reporting Requirements

A similarly vague claim of “confidentiality” ultimately appeared in a report that the MFO was legally required to provide to members of the state Legislature. This annual report had to provide a number of pieces of information, including, according to the law, the “amount of money spent by each eligible production company” and a “breakdown of all production spending by all companies classified as goods, services, or salaries and wages” during the previous calendar year.¹⁵³

On March 2, 2009, the Film Office submitted the report, which listed 35 films that had completed filming in 2008. The document — less than three pages of content — stated that “Film Industry refundable tax credits for 2008” were \$47,992,000 and that “Total Michigan expenditures made by the 35 completed projects” were \$125,000,000.¹⁵⁴ Both figures were useful, if delayed, information, but the report failed to provide a detailed breakdown of each film company's spending.

Hoekstra highlighted this violation of the state law's reporting requirements in an online video,¹⁵⁵ and she and Mackinac Center Senior Legal Analyst Patrick J. Wright issued a press release stating, “Michigan Film Office Report Violates Michigan Law. ...”¹⁵⁶ Ultimately, separate requests were made by the Film Office and state Senate Finance Committee Chair Nancy Cassis for an opinion from the Office of the Michigan Attorney General on the issue of the information's “confidentiality.”

The Attorney General's Office subsequently issued a statement that the information in question had “not been granted confidentiality under MCL 208.1455 and thus, can be released to the public.”¹⁵⁷ Pressed by two state lawmakers, and just two days before a scheduled Senate Finance Committee hearing at which the Film Office director was to testify, the Film Office released a spreadsheet with movie spending breakdowns by production company, total Michigan expenditures, goods, services, salaries and wages, and Michigan hires.

Film Office Director Janet Lockwood's comments on the report's missing data were unusual. In an e-mail sent in early April 2009, she explained, “When I wrote the annual report, I made a very clear note to all readers about why more detail wasn't included — the confidentiality that is allowed by law — and asked that anyone who wanted to know more simply call or email me. Unfortunately, when the document was sent, I was on vacation and a decision was made to delete that small section.”¹⁵⁸

If the numbers were confidential, it is unclear how a phone call or e-mail might change the information she could have provided. Nor is it clear why the MFO did not take more care to get a definitive legal opinion before withholding legally required information from members of the Legislature.

153 “Public Act 77 of 2008.”

154 “Michigan Film Office 2008 Annual Report.”

155 Hoekstra, “The Scene and the Unseen: Act III,” (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/articlemedia.aspx?ID=10388#2812> (accessed August 11, 2009).

156 Kathy Hoekstra and Patrick J. Wright, “News Release: Film Office Report Violates Michigan Law and the Spirit of Sunshine Week,” (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/10391> (accessed August 11, 2009).

157 Mike Cox, “Michigan Film Credit Information correspondence with Nancy Cassis,” (Office of the Attorney General, 2009).

158 Janet Lockwood, Michigan film commissioner, e-mail correspondence with state Rep. Tom McMillin, April 7, 2009.

The MFO's Questionable Numbers

The MFO's report to members of the Legislature was accompanied by an additional study that had been commissioned by the MEDC. This report, written by economists at Michigan State University's Center for Economic Analysis, was published on Feb. 6, 2009, and titled "The Economic Impact of Michigan's Motion Picture Production Industry and the Michigan Motion Picture Production Credit."¹⁵⁹

The MSU report has two strengths. To the authors' credit, they took care to exclude from their calculations film spending that probably had no impact on Michigan's economy because it likely occurred outside the state. This decision was noteworthy, not simply because it was the right thing to do, but also because the Michigan Film Office did not appear to have shown similar care in its own report on the MFI program. Hence, the MSU study's authors concluded that \$65.4 million was spent in Michigan by the 32 films for which they had data,¹⁶⁰ while the Film Office stated that total Michigan expenditures were \$125 million for the 35 films for which it had data (the Film Office, writing later, had information for several additional films).¹⁶¹

The MSU figure appears to have been the better estimate. An MEDC spokesman subsequently told Hoekstra that the difference between MSU's and the MFO's figures was due to the MSU researchers' using earlier, unaudited figures.¹⁶² This explanation does not seem plausible. Those early figures would have had to be extremely inaccurate to produce an estimate that was off by nearly 50 percent. Nor is it likely that the three extra films the Film Office included could account for such a startling difference. The MSU authors' care in this regard helped raise important questions at the time about the Film Office numbers — questions that would have been difficult to ask otherwise, given the lack of public access to the data.

The second strength of the MSU report lay in a similar area. The Film Office report states that the films' spending produced 2,800 Michigan jobs.¹⁶³ The MSU report mentioned direct gains of 2,763 jobs, but added that these involved short-term employment of just 23 days on average, producing a "full-time equivalent" of just 254 jobs.¹⁶⁴ Again, the MSU report disclosed important information that appears to have been omitted in the Film Office report.

The MSU Study Fails to Include Costs

Unfortunately, the MSU report was otherwise a flawed product. The authors took pains to explain the workings of the model they employed — known as REMI* Policy Insight — and the impact that film industry expenditures had on Michigan's economy through the "multiplier effect." This multiplier effect involves subsequent rounds of spending. For example, a film company may contract with a hotelier, caterer and set designer. Those individuals then spend the money hiring new employees or buying more ingredients to make their products and so on.

* REMI is an acronym for Regional Economic Models Inc.

159 Steven R. Miller and Abdul Abdulkadri, "The Economic Impact of Michigan's Motion Picture Production Industry and the Michigan Motion Picture Production Credit," (Michigan State University Center for Economic Analysis, 2009), http://www.michigan.gov/documents/filmoffice/MSU_Economic_Impact_Study_269263_7.pdf (accessed May 22, 2009).

160 Ibid., 5.

161 "Michigan Film Office 2008 Annual Report: Film Industry Refundable Tax Credit Operation and Effectiveness," (Michigan Film Office, 2009), 4, http://www.michigan.gov/documents/filmoffice/MFO_2008_Annual_Report_269261_7.pdf (accessed June 10, 2009).

162 Kathy Hoekstra, "The Scene and the Unseen: Act III," (Mackinac Center for Public Policy, 2009).

163 "Michigan Film Office 2008 Annual Report: Film Industry Refundable Tax Credit Operation and Effectiveness," 4.

164 Miller and Abdulkadri, "The Economic Impact of Michigan's Motion Picture Production Industry and the Michigan Motion Picture Production Credit," 7.

The authors reported that due to such multiplier effects, more jobs were created than just the 254 full-time equivalents that were the direct result of the filmmakers' hiring. Rather, the authors concluded, "[F]ilm productions generated 1,102 year-round equivalent jobs in 2008,"¹⁶⁵ and, "Based on generally accepted economic theory, multiplier impacts will increase over time."¹⁶⁶ They reported that with the multiplier effect, annual state economic output would increase by \$335.6 million by 2012.¹⁶⁷

News agencies around the state reported these figures. Nevertheless, the numbers were grossly overstated because the paper's authors excluded the costs associated with the program.

The costs of the Michigan Film Incentive are significant. In 2008, the program is said to have produced \$48 million in refundable tax credits;¹⁶⁸ estimates for future years indicate that costs could exceed \$200 million.¹⁶⁹ Due to the extraordinarily generous film credits being "refundable," a substantial portion of these costs represents actual cash outlays — State of Michigan checks written to producers — rather than the "forgone revenues" of most targeted tax breaks.

Moreover, these subsidy outlays represent revenue taken from Michigan employers and families. If that money had been left in their hands, it would also have generated a multiplier effect. In other words, if the proponents of film subsidies attribute a multiplier effect on the benefit side, they must also acknowledge the same effect on the cost side.

If taxpayer costs had been entered into the model, the output would have been different — perhaps dramatically so — showing far fewer jobs created, for instance, or even a net job loss.

Thus, when an MSU press release stated that the film incentive law was a "big hit," the claim was based on a model that had been programmed with only the benefits of film expenditures, not the costs.¹⁷⁰ Ignoring these costs in the model is roughly equivalent to a certified public accountant omitting a balance sheet's liabilities and then touting the success of the company.

For a fuller discussion of the MSU study, see the Mackinac Center Policy Brief "Special Effects: Flawed Report on Film Incentive Provides Distorted Lens."¹⁷¹ Note, however, that concerns over the economic effectiveness of this incentive were recently expressed by yet another organization, the Anderson Economic Group, a Lansing-based consultancy. In a May 2009 study commissioned by the Michigan Education Association, AEG analyzed the effectiveness of eight Michigan tax incentive programs, including the Film Incentive program. Researchers gave the Film Incentive program a "low" rating citing "[v]ery large expenditures; no comparative advantage in this [the film] industry."¹⁷² The AEG study went on to cite transparency issues within the approval and reporting process by the Film Office, commenting, "Moreover, self-reported data and self-interested approval process limit ability to evaluate effectiveness."¹⁷³

165 Ibid., Executive Summary.

166 Ibid.

167 Ibid., 8.

168 "Michigan Film Office 2008 Annual Report: Film Industry Refundable Tax Credit Operation and Effectiveness," 4.

169 David Zin, economist for the Michigan Senate Fiscal Agency, e-mail correspondence with Michael LaFaive, April 29, 2009.

170 "MSU Study Finds Film Industry Big Hit in Michigan," (Michigan State University, 2009), <http://news.msu.edu/story/6082/#> (accessed August 11, 2009).

171 Michael D. LaFaive, "Special Effects: Flawed Report on Film Incentive Provides Distorted Lens," (Mackinac Center for Public Policy, 2009), <https://www.mackinac.org/archives/2009/S2009-04.pdf>.

172 Patrick Anderson, Alex Rosaen, and Hilary Doe, "Michigan's Business Tax Incentives," (Anderson Economic Group, LLC, 2009), http://www.meag.org/investing/MEA_TaxAbatements_Public.pdf.

173 Ibid.

Literature Review and Analysis

The MEDC’s performance and behavior is disappointing, and as we’ve noted above,* there are reasons to believe that the problem is not an artifact of poor corporate management, but rather a flaw inherent in targeted economic development programs like the MEDC’s. This view is strengthened by the research literature on government economic development programs.†

A meta-review of economic development literature in 2004 by Alan Peters and Peter Fisher of the University of Iowa is probably the most comprehensive survey yet published. Their paper, “The Failures of Economic Development Incentives,” appeared in the *Journal of the American Planning Association* and evaluated a wide body of other scholarly articles on economic development programs. These programs included targeted tax incentives, enterprise zones, tax-increment financing, industrial revenue bonds and “non-tax discretionary incentives.”

As with many previous literature reviews, the findings were somewhat ambiguous, but on balance Fisher and Peters surmise that these programs are either ineffective, or the costs exceed the alleged benefits. They write:

The upshot of all of this is that on this most basic question of all — whether incentives induce significant new investment or jobs — we simply do not know the answer. Since these programs probably cost state and local governments about \$40-50 billion a year, one would expect some clear and undisputed evidence of their success. This is not the case. In fact, there are very good reasons — theoretical, empirical, and practical — to believe that economic development incentives have little or no impact on firm location and investment decisions.¹⁷⁴

And

The most fundamental problem is that many public officials appear to believe that they can influence the course of their state and local economies through incentives and subsidies to a degree far beyond anything supported by even the most optimistic evidence. We need to begin by lowering [policymakers’] expectations about their ability to micromanage economic growth and making the case for a more sensible view of the role of government — providing the foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems — and then letting the economy take care of itself.¹⁷⁵

In October 2007, Gary Sands of Wayne State University and Laura Reese of Michigan State University released a paper for the Michigan Land Use Institute examining the performance of “Public Act 198” tax abatements, which are frequently part of the MEGA deals described earlier. Sands and Reese found that abatement data “fail to show a clear, consistent relationship between abatement

* See “Exploring the Economic Findings on MEGA,” for example.

† An exhaustive literature review is beyond the scope of this paper; there are mountains of studies on this topic, covering everything from the efficacy of tax credit programs to job training subsidies. Nevertheless, the studies discussed here are indicative of the reservations among economists about the economic value of economic development programs, as the meta-review by Peters and Fisher suggests.

174 Alan Peters and Peter Fisher, “The Failures of Economic Development Incentives,” *Journal of the American Planning Association* 70, no. 1 (2004): 32.

175 *Ibid.*: 35-36.

activity and change in economic health” from 1980 through 2001.¹⁷⁶ In the first nine years of the MEGA program, more than \$900 million in local property tax abatements — primarily Public Act 198 abatements — were offered as part of MEGA deals.¹⁷⁷

There have been similar findings overseas. In 2008, Dafna Schwartz of Ben Gurion University of the Negev, Joseph Pelzman of George Washington University, and Michael Keren of Hebrew University of Jerusalem published in *Economic Development Quarterly* a study titled “The Ineffectiveness of Location Incentive Programs: Evidence from Puerto Rico and Israel.” The authors concluded that the programs led to short-run gains in employment, but did not improve the fundamental economic situation in the areas targeted.¹⁷⁸ The Puerto Rico program they studied was repealed in the late 1990s because it was “arguably inefficient and probably ineffective for sustaining Puerto Rican economic growth.”¹⁷⁹

Job-training programs, too, have come under scrutiny. A July 6, 2009, *New York Times* article titled “Job Retraining May Fall Short of High Hopes” examined Gov. Granholm’s No Worker Left Behind program and cited a December 2008 study that was released by the U.S. Department of Labor and produced under contract with IMPAQ International, a research consultant.¹⁸⁰ The study, “Workforce Investment Act Non-Experimental Net Impact Evaluation,” reviewed Workforce Investment Act job-training programs for laid-off workers. The authors concluded that some of their research findings:

“... imply that program participants’ earnings do not reach the level of earnings of comparable nonparticipants until more than two years after participation. Perhaps more important, the growth in earnings, relative to nonparticipants, slows at that point. As a result, these estimates imply that the gains from participation are, at best, very modest, even three to four years after entry. Overall, it appears possible that ultimate gains from participation are small or nonexistent. ...

“Where employment is taken as the outcome of interest, estimates of program impact are more supportive of the program. ...

“Overall, given the results of these specification tests, it is necessary to treat all these results with caution. Whereas the results clearly imply that lower earnings associated with program participation disappear within two years, it is less clear that there are net benefits associated with participation. Although positive program impacts — especially on employment — are consistent with these findings, substantial uncertainty remains.”¹⁸¹

This sort of caution about the merits of a well-intended program is just as appropriate for job-training programs as it is for economic development programs. In both cases, administrators of the program may be inclined to

176 Gary Sands and Laura A. Reese, “Current Practices and Policy Recommendations Concerning Public Act 198 Industrial Facilities Tax Abatements,” (Land Policy Institute, 2007), http://www.mml.org/advocacy/resources/lpi_pa198_policy-brief.pdf (accessed July 25, 2009).

177 LaFaive and Hicks, “MEGA: A Retrospective Assessment,” 20.

178 Dafna Schwartz, Joseph Pelzman, and Michael Keren, “The Ineffectiveness of Location Incentive Programs: Evidence from Puerto Rico and Israel,” *Economic Development Quarterly* 22, no. 2 (2008): 167.

179 *Ibid.*: 177.

180 Michael Luo, “Job Retraining May Fall Short of High Hopes,” *The New York Times*, July 6, 2009.

181 Carolyn K. Heinrich, Peter R. Mueser, and Kenneth R. Troske, “Workforce Investment Act Non-Experimental Net Impact Evaluation,” (IMPAQ International, 2008).

exaggerate successes and downplay failures in an attempt to be perceived as effective at improving employment. In a paper titled “Why State and Local Economic Development Programs Cause So Little Economic Development,” University of Michigan economist Margaret Dewar argued that too many analyses of government economic development programs fail to consider the programs’ political nature:

“Economic development programs are not designed and implemented in ways that can achieve their goals, principally because of important political forces. Administrators must run a program to garner support of legislators, a governor, and opinion leaders for program survival. State and locally elected officials need economic development programs to deliver quick, visible projects in their efforts to solve their districts’ economic problems, manage business climate politics, and achieve other aims. Achieving implicit goals means that programs only occasionally undertake activities likely to achieve explicit aims.”¹⁸²

She dubbed perspectives that include this political dimension the “political economy” view of economic development, while labeling as “technocratic”¹⁸³ analyses that assess economic development programs’ ability to make better use of information, research and technology to improve the economy.¹⁸⁴

Dewar concludes:

“The problem of making economic development programs work well is more intractable than the technocratic view suggests. The technocratic perspective argues that better analysis of alternative ways to achieve goals, better design of programs, and more information about how economies work and how economic development occurs can make programs succeed. The political economy perspective argues instead that the most common kinds of economic development programs cannot succeed for more than a short time. The programs are abolished if they observe technocratic criteria. If they serve aims that are not related to economic development, the programs survive longer — at least as long as the public story of their operation is maintained — but they have few economic development effects.”¹⁸⁵

In a 1995 study, then-Michigan State University assistant professor of political science Michael Mintrom and graduate student Lucinda Ramsey posited that politicians use incentive programs as a way to signal that the state is friendly to commerce and trade when more fundamental government policies may not be. The authors described this as a form of public “policy cheap talk,”¹⁸⁶ arguing:

[S]tate politicians use business incentives primarily to signal their commitment to supporting business in their states and, thus, to

182 Margaret E. Dewar, “Why State and Local Economic Development Programs Cause So Little Economic Development,” *Economic Development Quarterly* 12, no. 1 (1998): 68.

183 Ibid.

184 Ibid.

185 Ibid.: 83.

186 Michael Mintrom and Lucinda Ramsey, “State Policy Signaling and Firm-Level Employment Decisions,” in *Annual Meeting of the American Political Science Association* (Chicago: Michigan State University, 1995), 1.

signal to the electorate that they are committed to job creation. Such policy signals would be sincere if they were reinforced by credible commitments to establishing or maintaining other policy settings that support a healthy business climate in the state. But securing systemic changes that would improve the business climate is typically extremely difficult, because of the range of political considerations involved, and the uncertainty this raises for securing desired outcomes. Meanwhile, policy signals such as direct financial incentives for business can be readily introduced.*¹⁸⁷

To prove the hypothesis that politicians use targeted incentive packages to announce, however inadequately, that they are friendly to business, Mintrom and Ramsey constructed a two-part empirical exercise to “explore the effects of direct financial incentives on state employment rates” and to “assess the effects of both internal state politics and the influence of policy diffusion among neighboring states.”¹⁸⁸ Mintrom and Ramsey offered a number of caveats about their research, but conclude from the output of their modeling that the adoption of targeted incentive programs is in fact driven by political considerations more than sound policy, writing, “We question the implicit assumption made in much previous work that these policies are used in the sincere belief that they will improve the business climate, and, in turn, stimulate employment.”¹⁸⁹

They continue:

Are [politicians] really trying to attract new business development or are they engaging in maneuvers designed to please current state business interests and voters? The need for such questioning becomes even more acute when we find that, while these policies are often introduced to the chorus line of “jobs, jobs, jobs,” there is little evidence to show that these direct financial incentives actually have any impact on state employment levels.¹⁹⁰

In this light, it is probably no surprise that the MEDC fails to take seriously the problem of data collection, performance assessment and continuous quality improvement. Such an approach could actually conflict with the larger political ends of pursuing high-profile programs that allow policymakers to demonstrate publicly to voters and local businesses that they are laboring to create jobs and improve the economy.

Similarly, it is also probably no surprise that the agency’s structure is itself nearly impenetrable. Recall again Graphic 4, the lengthy list of products and services the MEDC claims to offer. Even a seasoned policy analyst may not be familiar with a high percentage of those programs, what they do or where they are housed in state government. Determining their effectiveness could prove prohibitively difficult.

* This observation suggests an interesting view of recent events. In October 2007, the Michigan Legislature passed a \$1.4 billion tax hike, including a \$600 million business tax surcharge on the new Michigan business tax. These taxes were generally unpopular in the Michigan business community. In March 2008, less than six months later, the Legislature adopted the Michigan Film Incentive.

187 Ibid., 3.

188 Ibid., 3-4.

189 Ibid., 25.

190 Ibid., 26.

Yet the MEDC's Byzantine structure and lack of transparency may not bother many legislators if the MEDC continues to send positive public signals about policymakers' efforts to improve the economy. Indeed, clear organizational lines, transparency and accountability may hold little political appeal if they serve to undermine those positive signals.

The Economic State of Our State

These conclusions have significant ramifications. If political concerns are not accidental elements of economic development programs, but are rather intrinsic to them, the primary question is no longer how to reform them, but whether to continue them at all. This question is particularly pressing given the state of Michigan's economy.

Production, Wealth and Employment

Michigan was ranked 16th among the 50 states in per-capita state GDP in 1999,¹⁹¹ the year the MEDC was formed. The state has since tumbled to 41st.¹⁹² In fact, from 1999 through 2008, Michigan was the only state in the union with a negative state GDP growth rate. Michigan has effectively experienced a "lost decade" of economic growth, and during that time, Michigan shed a staggering 728,100 jobs — though admittedly, many of these ended in recent months, during the general national economic decline.¹⁹³ Regardless, Michigan's per-capita personal income ranking has tumbled from 16th to 34th since 1999 and is now 11.2 percent below the national average, the lowest point it has reached since the start of the Great Depression, when record-keeping began.

Moreover, since 1995, when MEGA was born and the state began making significant new "investments" in economic development programs, Michigan has finished 50th among the 50 states in percentage employment growth. Michigan is the only U.S. state to have experienced a net loss of jobs over that period.¹⁹⁴

And consider the period of America's last economic expansion, roughly from 2002 through 2007. During that time, Michigan's real GDP declined by 1.7 percent, while the average U.S. state's real GDP expanded by 14.4 percent.¹⁹⁵ This statistic is disturbing because the Great Lakes State has traditionally done better during periods of national expansion than its sister states and worse during recessions. In this case, however, Michigan did poorly during the national expansion. Now that the nation is in a sharp recession, Michigan's fortunes are likely to sink even lower.

Currently, Michigan's unemployment rate is 15 percent, 5.6 percentage points above the national average.¹⁹⁶ The state has held the worse unemployment rate in the nation for 41 months.

191 Author's calculations based on "Bureau of Economic Analysis Regional Economic Accounts: Gross Domestic Product by State," Bureau of Economic Analysis, <http://www.bea.gov/regional/gsp/> (accessed August 30, 2009).

192 Author's calculations based on Ibid.

193 Author's calculations based on "State and Area Employment, Hours, and Earnings: Michigan (Statewide, Total Nonfarm, Seasonally Adjusted)," Bureau of Labor Statistics, <http://data.bls.gov/PDQ/outside.jsp?survey=sm> (accessed August 30, 2009).

194 Author's calculations based on "State and Area Employment, Hours, and Earnings: Michigan (Statewide, Total Nonfarm, Nonseasonally Adjusted)," Bureau of Labor Statistics, <http://data.bls.gov/PDQ/outside.jsp?survey=sm> (accessed July 10, 2009).

195 Author's calculations based on "Bureau of Economic Analysis Regional Economic Accounts: Gross Domestic Product by State."

196 "Regional and State Employment and Unemployment: July 2009," Bureau of Labor Statistics, August 7, 2009 and "The Employment Situation — July 2009," Bureau of Labor Statistics, August 7, 2009.

Migration

Yet these statistics, as discouraging as they are, may pale in comparison to another statistic used by economists: migration. Perhaps no single metric better sums up a region's quality of life — from economic to social opportunities — like migration.

Michigan residents are leaving the state. United Van Lines, the largest mover of household goods in the United States, is a private, widely used source of migration data. Since 1977, UVL has tracked its customers' points of origin and destination, and they have published inbound and outbound percentages for the 48 contiguous states.

Hicks and LaFaive have performed a statistical analysis of UVL's data and found it to be very highly correlated with actual Census data, making UVL figures something of a leading indicator of migration trends. United Van Lines reported that throughout 2008, 67.1 percent of all its Michigan-related traffic was outbound. This outbound rate was the highest in the nation and 8.2 percentage points higher than the second-highest state.¹⁹⁷

Things may be getting worse. UVL's mid-year data for 2009 show that through June 30, a staggering 70 percent of all Michigan-related UVL moves were outbound. The next closest state in terms of outbound traffic is North Dakota, at 59.5 percent.¹⁹⁸

The outbound migration from our state has profound consequences. Each person who leaves represents a potential consumer, investor, employee, employer or taxpayer.* The loss of human capital is the most devastating loss of all, because only human beings can make all the other types of capital grow.

CEO Magazine 2008 Survey

Unfortunately, the depth of Michigan's problems is now apparent to the very people whom the MEDC's programs are supposed to impress. CEO Magazine annually surveys the chief executive officers in its database about U.S. states. The magazine described the survey in this way:

"Chief Executive's fifth annual survey asked 543 CEOs to evaluate their states on a broad range of issues, including proximity to resources, regulation, tax policies, education, quality of living and infrastructure. Providing additional insight to the evaluations, CEOs were also asked to grade each state based on the following criteria: 1) Taxation & Regulation, 2) Workforce Quality, and 3) Living Environment."¹⁹⁹

* In December 2008, Census Bureau data indicated that after accounting for births, deaths and all migration, Michigan had lost population for the third year in a row. It was one of only two states to see a net population decline (46,000) from July 2007 to July 2008.

197 Michael D. LaFaive and Michael Hicks, "MichiGONE: New Migration Data Dark and Portentous," (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/10274> (accessed August 11, 2009).

198 Jennifer Bonham, "Western States Maintain Growth While the Great Lakes Region Continues Outbound Moving Trends, According to United Van Lines 2009 Mid-Year Migration Study," (United Van Lines, 2009).

199 "CEOs Select Best, Worst States for Job Growth and Business," *Chief Executive*, March 25, 2009.

The magazine then uses these answers to produce rankings of the best and worst states in which to do business. For the last four years, Michigan has ranked as one of the five worst states.

Graphic 14: CEO Magazine “Best and Worst States to Do Business” Survey 2009: Worst 5 States

Worst 5 States	Rank 2009	Rank 2008	Rank 2007	Rank 2006
California	51st	51st	51st	51st
New York	50th	50th	50th	50th
Michigan	49th	49th	47th	48th
New Jersey	48th	47th	46th	46th
Massachusetts	47th	48th	49th	49th

Source: CEO Magazine, 2009. The District of Columbia is included in the rankings.

In CEO Magazine’s story about the 2008 survey, the writer reported:

“Expressing the prevalent attitude among CEOs, one CEO said, ‘Michigan and California literally need to do a 180 if they are ever to become competitive again. California has huge advantages with its size, quality of work force, particularly in high tech, as well as the quality of life and climate advantages of the state. However, it is an absolute regulatory and tax disaster, as is Michigan.’”²⁰⁰

We have obtained unpublished comments from the survey.* They may be as troubling as the official statistics. Among them were:

- “Michigan is doomed.”
- “Michigan is a regulatory and tax disaster due to the unions and high taxes.”
- “The state (Michigan) makes things worse. They are clueless.”
- “The leaders in Michigan have no political courage.”

* Donald Blair, Mackinac Center Adjunct Scholar, telephone conversation with Jim Floody, CEO Magazine, July 13, 2009.

Conclusion and Recommendations

The state’s poor image among CEOs and its brutal economic decline have occurred despite the efforts of the MEDC’s economic development staff and growing list of programs. Clearly, the MEDC has failed in its mission to “create and retain good jobs and a high quality of life” for Michiganders, a conclusion reinforced by our findings on the performance of MEGA, the Michigan Broadband Development Authority and Michigan Film Incentive program.

The earlier “Literature Review and Analysis” and our own research findings indicate that the MEDC’s problems are unlikely to go away. Moreover, the rationale for government economic development programs appears flawed. Consider again

²⁰⁰ Ibid.

the three reasons supporters of government economic development commonly give for programs like the MEDC's.

1. The view that government can “create” new jobs where they may otherwise not exist.

The empirical evidence on state economic development programs indicates that they fail to create net new jobs regardless of where they are tried; the problem does not exist only in Michigan. On balance, government does not appear able to create net new jobs over time with targeted tax and subsidy programs.

There are probably several reasons for the failure of economic development programs. First, the money that state government gives to some businesses must be taxed from other businesses and residents. This process cannot enrich both sets of people. Second, there is a middleman in this transaction — a government agency — and it adds to the cost of the program, reducing the net benefits the agency might provide by taking money out of the hands of existing Michigan job providers. In other words, one of the opportunity costs of an economic development program is not letting business owners keep more of what they earn.

As we also noted earlier, it is difficult to choose winners and losers in the marketplace; professional investors frequently have difficulty outperforming average market returns. As we have indicated in our review of the MEDC's performance in several areas, there is no sign that MEDC officials have special insights that allow them to invest public resources in ways that will provide unusual market returns. This increases the chance that tax money taken from other businesses and individuals will be spent less productively than it would have been otherwise.

Moreover, there may be a cost to the state's economy in encouraging “rent-seeking” behavior, as opposed to the generation of new wealth. Finally, it appears likely that state officials will ultimately use these tools for political ends, not economic ones. This lowers the probability that development incentives will create jobs, however well-intentioned the programs may be.

2. The view that government can prevent the “theft” of existing jobs.

If government officials are not especially good at picking winners from losers in the marketplace, it does not follow that the “theft” of a company will help the “thieving” state. Texas, for instance, may “steal” Michigan jobs away with economic development incentives and actually produce a net loss for Texas' economy, since the incentives are frequently very costly. This is especially true if the company had already planned to move to Texas regardless of what incentives it received, but pitted the states against each other to induce them to bid up the size of their fiscal rewards.

On balance, government probably cannot prevent the “theft” of existing jobs in most cases. Businesses may choose the locale best suited to them independent of any economic development incentives, since those incentives are finite and sometimes uncertain, like a MEGA tax credit.

The concern that dropping state incentives would result in “unilateral disarmament” is overblown. Perhaps the best answer to that concern came in a 2003 Detroit News article about MEGA titled “Tax Breaks Shortchange State.” In it, University of Iowa economic development scholar Peter Fisher responded to the notion by arguing, “Of course you can unilaterally disarm when you’re talking about an incentive — like the MEGA tax credit — that isn’t very effective anyway.”²⁰¹

3. The view that government programs can redress “market failure.”

No matter how well-intentioned state policymakers are, they rarely have unique knowledge at their disposal to help identify and solve alleged market failure. The Broadband Development Authority, discussed earlier, is a good example. State officials believed they could use the state’s taxing power to address perceived problems with high-speed Internet access. Unfortunately, they erred badly, and the state was ultimately forced to abandon the program after spending more than \$14 million. Ironically, Internet access proved to be a problem that the market addressed more quickly than the Broadband Development Authority could ever have hoped to.

Michigan has a long history of similarly failed public projects. In the 1840s, Michigan Gov. Stevens T. Masons convinced the Legislature to invest heavily in canals and railroads, only to sell or close them following heavy losses.²⁰² More recently, in the 1980s, the state invested in Flint’s “AutoWorld” amusement park, which subsequently shut down in less than two years.²⁰³ The MEDC likewise invested \$1 million in a Kalamazoo grocery store in 2002, only to see the store close within six years of its opening.²⁰⁴

No matter what policymakers conclude about market failure, they should recall the possibility that government will fail worse, and that the cost of this failure will now be borne by every state taxpayer, including many who create jobs.

Eliminate the Michigan Economic Development Corp.

Ending the MEDC and its programs would conceivably save tens of millions of dollars annually to help balance the budget, stave off tax hikes or even reduce tax burdens. For example, the state Senate has approved \$26.3 million in general-fund dollars for the MEDC in fiscal 2010 alone.²⁰⁵ Other resources, such as the expected \$30 million from Indian gaming revenues,²⁰⁶ or the \$75 million suggested by the governor for the 21st Century Jobs Fund,²⁰⁷ could be redirected to the general fund.

201 Hornbeck, “Tax Breaks Shortchange State: \$1.4 Billion Business Program Gets Minimal Payback in Jobs.”

202 Burton W. Folsom, *Empire Builders: How Michigan Entrepreneurs Helped Make America Great*, (Rhodes and Easton, Traverse City: 1998), 45-47.

203 Montemurri, Patricia and Sylvain, Rick, “AutoWorld Closing Indefinitely,” *Detroit Free Press*, January 12, 1985, 1A.

204 “North Park Street Plaza — Northside Association for Community Development,” *Journal of Housing and Community Development* 63, no. 4 (2006) and Kathy Jessup, “Kalamazoo City Commission Earmarks Money for Northside Grocery Store,” *The Kalamazoo Gazette*, June 16, 2009.

205 “Senate Substitute for Senate Bill 245.”

206 Pratt and Tyszkiewicz, “Tribal Gaming Issues in Michigan.”

207 “Detailed Decision Document: Governor, Senate, House, and Conference — Michigan Strategic Fund.”

Eliminating the MEDC would also end dozens of development programs that have probably transferred wealth from more productive to less productive uses. The resulting economic gain would be further boosted by a reduction in the amount of economically counterproductive rent-seeking activities by Michigan businesses and public officials.

Perhaps the greatest advantage, though perhaps the hardest to quantify, would be an opportunity for policymakers to refocus on the fundamentals. Recall the words of Peters and Fisher, cited earlier:

“We need to begin by lowering [policymakers’] expectations about their ability to micromanage economic growth and making the case for a more sensible view of the role of government — providing the foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems — and then letting the economy take care of itself.”²⁰⁸

And remember the discussion by Mintrom and Ramsey:

“[S]tate politicians use business incentives primarily to signal their commitment to supporting business in their states and, thus, to signal to the electorate that they are committed to job creation. Such policy signals would be sincere if they were reinforced by credible commitments to establishing or maintaining other policy settings that support a healthy business climate in the state. But securing systemic changes that would improve the business climate is typically extremely difficult, because of the range of political considerations involved, and the uncertainty this raises for securing desired outcomes. Meanwhile, policy signals such as direct financial incentives for business can be readily introduced.”²⁰⁹

Taking steps to “support a healthy business climate” and “providing the foundations for growth” will indeed be politically challenging. There will no doubt be disagreement over exactly which policies should be pursued to achieve these goals.* Regardless, it will significantly advance the process of reform if policymakers can agree that targeted economic development programs are *not* the way to improve the state’s economy.

The result will be more uniform taxes for all businesses, with no firm able to gain a cost advantage over its competitors simply by appearing more attractive to economic development officials who grant subsidies and tax credits. Such a “fair field and no favors” approach would mean that the most economically productive businesses would be the most likely to survive and expand. It would also provide a more just business climate.

* Research in this paper and elsewhere suggests that at least part of achieving a better economic climate must include regulatory and tax reform. For example, in 2008 and 2009, the Mackinac Center for Public Policy published two short documents detailing a Michigan-specific study of migration authored by Mackinac Center scholars Michael LaFaive and Michael Hicks. Their statistical model found that for every 10 percent increase in the state and local per-capita tax burden, an additional 4,700 citizens leave the state each year thereafter. The report also concluded that people were more attracted to states with more flexible labor climates (and better weather). See Michael LaFaive and Michael Hicks, “Point of Departure,” Mackinac Center for Public Policy, <http://www.mackinac.org/article.aspx?ID=10097> (accessed August 27, 2009).

208 Peters and Fisher, “The Failures of Economic Development Incentives,” 35-36.

209 Mintrom and Ramsey, “State Policy Signaling and Firm-Level Employment Decisions,” 3.

Lesser Reforms

Short of eliminating the entire MEDC, several steps should be considered.

Eliminate the Michigan Economic Growth Authority

Several reviews of the program have shown that MEGA's performance record in choosing companies for MEGA deals is unimpressive. In addition, Mackinac Center researchers demonstrated in a 2005 study that MEGA fails to improve per-capita personal income, employment or the unemployment rate in the state and its counties. A study commissioned for this paper links MEGA tax credits with reductions in manufacturing employment.

This program too often distracts from the serious business of providing a better business climate and elevates some businesses above others. It recruits local governments to do the same and encourages them to provide subsidies that are awarded immediately, often independent of the subsequent performance of the recipient companies.

Eliminate the Michigan Film Incentive

The Michigan Film Incentive suffers from the shortcomings of MEGA and other MEDC programs, but the size of its refundable tax credits risks massive wealth transfers from Michigan businesses to film production companies, many of which are based outside the state. The Michigan Treasury may write checks equal to \$150 million in 2010.²¹⁰ This is a significant sum in any year, let alone one in which the state is facing a massive deficit, and there is good chance that these transfers are, on balance, economically counterproductive.

Program Reductions and Improved Transparency

Regardless of whether the Legislature eliminates MEGA or the Michigan Film Incentive, it should take steps to rein in — rather than expand — each of the programs. Specifically, the Legislature should consider:

- Requiring the MEDC to publish its general ledger on the Web each year so that legislators and the public alike can get a more detailed understanding about where state and other MEDC monies flow.
- Mandating a full performance audit of each MEDC program. The audit should include a tally of total revenues by source and a detailed list of expenses dedicated to each program, as well as the number of full-time equivalent employees dedicated to each program. In addition, the Office of the Auditor General should provide a tally of “direct jobs promised” versus “direct jobs delivered” by year, using independent sources wherever possible, for each program reviewed.

210 Matthew Miller and Kathryn Prater, “Film Incentive Fans Urge Lawmakers to Keep Credits,” *Lansing State Journal*, <http://www.lansingstatejournal.com/article/20090819/NEWS01/908190321> (accessed August 30, 2009).

This audit should be conducted by an independent entity, such as the state Office of the Auditor General, and the results should be posted on the OAG Web site.

- Requiring that MEGA use only direct jobs “created” as a measure of a program’s success or failure. The MEDC and other state agencies should be prohibited from using hypothetical assertions of spin-off jobs associated with various government “investments” in companies or industries. These hypothetical counts encourage counterproductive political gamesmanship.
- Mandating that MEGA publish complete and consistent data like that described in this study under “A Summary of the Loss of Available MEGA Data.” A specific set of recommendations can also be found in the Mackinac Center Policy Brief “MEGA, the MEDC and the Loss of Sunshine.”
- Preventing the use of the Michigan Film Incentive’s refundable tax credit until another, more accurate analysis of the program’s impact has been done — and ensure that all of the costs associated with the program are included. Specifically, the modeler should treat any money needed to finance the refundable credits as revenues from Michigan business tax surcharge, which was raised just months before the MFI was expanded to its current form.
- Completely eliminating the “refundable” part of the film incentive tax credit. Tax credits against actual business tax liability is a better tack than disbursing cash subsidies from the state Treasury.
- Mandating that any company wishing to participate in the Film Incentive program agree to have the amount of tax credit and tax refund received published by the Michigan Film Office in its required annual report to the Legislature.
- Short of eliminating the 21st Century Jobs Fund’s Competitive Edge Technology Grants and Loans, requiring greater transparency in the operations of the program. Currently, the annual reports to the Legislature lack the actual draws on the grants and loans made to the companies; details on the repayment histories for loans; and a statement of which loans have been converted into equity, as well the market value of that equity. Independent verification of jobs numbers is also warranted.

These lesser reforms could conceivably shed light on the performance of some MEDC programs and stimulate helpful debate on their effectiveness. But policymakers should reflect that it is unlikely many Michigan individuals and businesses would look at the MEDC’s track record and choose to finance the corporation’s operations with their own money if they were given the choice. Indeed, faced with arguments that the state’s economy makes the MEDC more

important than ever, they might well agree with Adam Smith, the father of modern economics, who wrote in 1776:

“But though it can very seldom be reasonable to tax the industry of the great body of the people in order to support that of some particular class of manufacturers, yet in the wantonness of great prosperity, when the public enjoys a greater revenue than it knows well what to do with, to give such bounties to favourite manufactures may, perhaps, be as natural as to incur any other idle expense. In public as well as in private expenses, great wealth may, perhaps, frequently be admitted as an apology for great folly. But there must surely be something more than ordinary absurdity in continuing such profusion in times of general difficulty and distress.”²¹¹

211 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (Library of Economics and Liberty, 1776), IV.5.37.

Appendix A: A Sample of Correspondence With the MEDC

The e-mails below show correspondence between the author and an MEDC public relations officer concerning several questions the author had about recent MEGA reports. One of these questions involved the meaning of “Jobs to be Created” data (see the discussion under “MEGA’s Annual Reports to the Michigan Legislature” in the main text above — particularly the first footnote). Although the final e-mail is dated June 16, no MEDC official has responded as of Aug. 28.

From: LaFaive, Michael D.
Sent: Monday, June 01, 2009 4:29 PM
To: ‘beckmanb1@michigan.org’
Subject: Questions
Importance: High

Trace Graham:

Are MEDC (including “Corporate”) expenditures fed into the state’s MAIN computer system? In 1999 the then spokesman James Tobin said they would be excluded from the system.

Does the MEDC need to run its contracts through the State Administrative Board for approval? That was not the case in 2000 and I have seen nothing to suggest a change mandating that they be run through the State Administrative Board.

All MEGA Projects Spreadsheet and MEGA Credits spreadsheet had been abandoned in April 2008 according to past correspondence with Trace Graham.

The fiscal 2008 annual report, published in October is almost identical to the All MEGA Projects Spreadsheet. Who is responsible for creating this spreadsheet and why would it be so hard to update this monthly for those request it? Can that be done for us? Only three columns are really missing when you compare it with the All MEGA Projects Spreadsheet.

On the annual report to the legislature regarding the MEGA program (see attached) there is a “jobs to be created” column, which is good. But it doesn’t say whether those are direct, indirect, or both. Can you clarify what that represents please?

I have been informed that the per-company detail for the value of abatements received by company and by year are now considered confidential and that this order came from Treasury. Can you please tell me who gave this order and why, after 13 years such data must be held in confidence?

Why do the columns in the April 2008 and October 2008 annual reports to the legislature actually change? For instance, the last column in the April spreadsheet reads “Revenue Foregone: MEGA Costs” and the October edition does not have that column.

Moreover, is this EXPECTED revenue foregone or actual? I find it hard to believe that 100 percent of the deals that took place during the period. OR...

Does this report represent ONLY those MEGA deals that resulted in claimed credits? You will notice that the October 2008 doesn’t have a column for foregone revenue.

Does the MEDC/MEGA maintain a document or documents that tracks the precise incentives offered up by local units of government? I used to pull them from annual reports and Briefing Memos but the numbers aren’t in the annual reports anymore and the briefing memos have become increasingly vague—perhaps that’s on purpose.

Thank you for your time and attention in these matters.

Michael LaFaive

From: LaFaive, Michael D.
Sent: Thursday, June 11, 2009 3:30 PM
To: 'beckmanb1@michigan.org'
Subject: Questions
Importance: High

Bridgett,

Regarding the MEGA program: Does your new database system down there give you the ability to extract the **value** of local incentives offered by some local unit/agency as part of the overall MEGA deal in a report that I could request through FOIA? Typically, these incentives come in the form of property tax abatements, but not always. I've seen local incentives that included landscaping and golf members too. If it does not, is it tracked in a way that would allow me to obtain the data in some other format? For that matter, the same question applies to subjects such as the state's CDBG/RF commitment, any state education property tax relief and job training commitment.

You may recall that I had long been waiting for whatever new software was going to allegedly replace the "All MEGA Projects" and "MEGA Credits" spreadsheets used by MEDC/MEGA. In response to my requests I was sent a 300+ page report that contained a lot of data found in the "MEGA Credits" spreadsheet (but not all), and an even smaller percentage of what could be found in the "All MEGA Projects" spreadsheet.

I suspect you'll have to talk to your computer guys — Eric Hanna? — before you can get back to me.

I thought it might be easier to contact you or Eric directly for answer, rather than issue a FOIA. I'll call too, just to see if you need any clarification.

Michael LaFaive

From: LaFaive, Michael D.
Sent: Friday, June 12, 2009 12:15 PM
To: 'beckmanb1@michigan.org'
Subject: Return 1:30

Hi, Bridgett,

My voicemail to you said I'd be back at 1:00.

Actually, it has been extended to 1:30.

If you could call me after 1:30 I would appreciate it.

Thanks.

Michael LaFaive

From: Bridget Beckman [mailto:beckmanb1@michigan.org]
Sent: Friday, June 12, 2009 5:36 PM
To: LaFaive, Michael D.
Subject: RE: Return 1:30

Hi Mike,

We've had several similarly worded questions and requests come in multiple ports of entry recently from you/your staff and it's caused some confusion as to who's responding, whether they're currently in the FOIA queue or if they've already been handled. We don't want to waste

your time nor duplicate efforts on our end, so we'll be sorting through these early next week, cross-checking for duplicate inquiries, reconciling with pending FOIA requests, etc. and then we'll get back with you.

Thanks.

Bridget

From: LaFaive, Michael D.

Sent: Tuesday, June 16, 2009 11:50 AM

To: 'beckmanb1@michigan.org'

Subject: Email

Bridget,

I received your Friday e-mail. Naturally, I am a bit disappointed, since my questions were submitted to you on June 1.

When might I expect a response this week based on your meeting? Today? Tomorrow?

The good news is that after months of being told that "All MEGA Projects" spreadsheet no longer exists, we learned yesterday that it is still maintained. That's good news for all of us.

Michael LaFaive

Appendix B: A New Mackinac Center Database on MEGA

In light of the growing secrecy surrounding the Michigan Economic Growth Authority, the Mackinac Center has posted on its Web site a public database on MEGA-related deals. The database, posted at <http://www.mackinac.org/depts/fpi/mega.aspx>, represents a convenient repository of original information on deals made and jobs promised by MEGA and MEGA recipients. Much of the information, secured from dozens of Freedom of Information Act requests, is not readily available to the public or to state policymakers.

The data go back to April 1995, and the database will be updated by Center staff on a regular basis. The database consists of the primary informational paperwork for each MEGA deal, including:

- Briefing memoranda (an MEDC summary of each deal);
- “Economic effects” reports (summaries of economic impact analyses made primarily by University of Michigan economists under contract with the state); and
- MEGA tax-credit agreements (the binding but amendable agreement between MEGA and each corporate or business recipient’s representative).

Visteon as an Example

Here’s an example of one way the database can be useful: Consider the announcements that Lear, Visteon and Metaldyne corporations have filed for bankruptcy. Reporters, legislators, bloggers and taxpayers can learn from the database that all three firms had been declared MEGA “winners” by the Authority’s board and the MEDC. (General Motors itself has probably achieved MEGA’s all-time “winner” status, having been offered a record 10 deals.)

From the database, users could also discover that failure to achieve job goals was not a new thing for these firms, and that MEGA officials erroneously predicted that the 2001 Visteon deal would result in 75 net new jobs by 2005 and 475 new jobs by 2008.²¹² University of Michigan economists, under contract with the state to forecast the “spin-off” jobs associated with the deal, predicted that the economic activity surrounding this deal would result in 808 new jobs through 2016.²¹³

See Graphic 15 for output from MEGA’s “economic effects” report for Visteon. These figures provide a baseline for determining Visteon’s success or failure after it received its MEGA deal.

212 Kathy Blake, “Briefing Memo — Visteon Corporation,” (Michigan Economic Growth Authority, 2001).

213 George A. Fulton, Peter Nicolas, and Donald R. Grimes, “The Economic Effects on Michigan of the Visteon Corporation Location Decision,” (University of Michigan, 2001).

Graphic 15: Sample “Economic Effects” Report (Visteon Corp.)

**Economic and Fiscal Effects on Michigan of the Visteon Corporation Facility Location
Net Benefits with the Incentive Package**

Economic/Fiscal Indicator	2002	2003	2004	2005	2006	2007	2008	2010	2015	2016	Total 2002-2016
Total Employment	438	2,991	508	197	379	612	846	823	804	808	—
Manufacturing	12	70	75	175	275	375	475	475	475	475	—
Nonmanufacturing	426	2,921	433	22	104	237	371	348	329	333	—
Retail Trade	47	313	59	22	60	100	141	140	140	141	—
Services	68	455	57	0	44	99	152	139	127	129	—
Other	311	2,153	317	0	0	38	78	69	62	63	—
In current dollars (thousands):											
Personal income	19,000	135,700	46,400	32,400	46,600	65,300	87,100	95,500	114,100	118,600	1,270,400
Gross state revenue	1,520	10,856	3,712	2,592	3,728	5,224	6,968	7,640	9,128	9,488	101,632
MEGA cost	0	0	275	664	1,080	1,525	2,003	2,156	2,601	2,699	24,559
State revenue net of MEGA cost*	1,520	10,856	3,437	1,928	2,648	3,699	4,965	5,484	6,527	6,789	77,073
Adjusted for inflation (thousands of 2001 dollars):											
Personal income	14,704	100,380	26,374	18,137	30,884	45,334	60,486	63,827	69,377	70,773	828,368
Gross state revenue	1,176	8,030	2,110	1,451	2,471	3,627	4,839	5,106	5,550	5,662	66,269
MEGA cost	0	0	156	372	716	1,059	1,391	1,441	1,581	1,610	15,765
State revenue net of MEGA cost*	1,176	8,030	1,954	1,079	1,755	2,568	3,448	3,665	3,969	4,052	50,504

*These estimates do not include any state government revenue losses due to the Investment Tax Credit.

Source: Michigan Economic Development Corp.

In particular, look at the predictions of year-by-year job creation. We now know that in reality, each of these lines in the original report should have said “0.” (Arguably, the numbers should even be negative, because the state spent millions for road improvements specifically benefitting the firm — money that could have been spent creating actual jobs elsewhere.)

Under the terms of MEGA agreements with firms, tax credits are delivered as rewards for actually creating promised jobs. Visteon never collected a single one of those state tax credit rewards, because it never created any of the promised jobs. As shown in the MEDC summary “MEGA Credits” spreadsheet²¹⁴ and “MEGA Credits vs. Conversions — All Companies for all Years”²¹⁵ report, the record is clear, though the former spreadsheet is easier to read. We have posted a copy on the Center Web site as an example.

Despite the fact that Visteon claimed no credits, this MEGA deal wasn’t free to taxpayers. As mentioned, part of the agreement included the MEDC using its authority to arrange up to \$5 million in road improvement work at the new Visteon facility.²¹⁶

Moreover, the MEGA statute originally mandated that local units of government make incentive contributions too. As part of the Visteon deal, Van Buren Township offered property tax relief worth up to \$31.2 million over 12 years,²¹⁷ and Visteon was able to start claiming that relief immediately for a jobs deal that failed to materialize.* To date, Visteon has enjoyed more than \$9.6 million²¹⁸ in local abatements resulting from the failed MEGA deal.

* This was not the only MEGA agreement with which Visteon was associated. In 2004, MEGA offered a deal to Atlantic Automotive Components LLC, a company that was 70 percent owned by Visteon, according to MEDC documents. This firm too has been unable to collect on the employment tax credit it was offered.

214 Graham.

215 “MEGA Credits vs. Conversions - All Companies for All Years.”

216 Blake, “Briefing Memo — Visteon Corporation.”

217 Ibid.

218 Susan Ireland, township assessor, Van Buren Township, e-mail correspondence with Michael LaFaive, June 1, 2009.

Of course, MEGA's poor performance in these cases has been influenced by the general decline in the automobile industry. Still, the job of MEGA and the MEDC is to assess the marketplace and determine which businesses to help in order to promote state economic growth. It hardly reflects well on the program that MEGA officials and state-hired economists, who sometimes provide MEGA forecasts stretching out 20 years, cannot envision MEGA firms filing for bankruptcy less than 17 months after winning a MEGA deal, as occurred with Kmart.

The preceding example suggests why a database like the one created by the Mackinac Center is desirable — and why government transparency on the MEGA program should remain a priority for policymakers.

Appendix C: Technical Appendix for Shift-Share Analysis

A shift-share analysis of a region's employment growth (or decline) breaks down the change in employment that is attributable to three different sources of growth. The three sources of growth (or decline) in employment are:

- change in employment due to the growth of the overall economy of the state or nation (the growth of Michigan employment was used in our analysis);
- change in employment due to the growth of the overall industry in the state relative to the growth of the overall economy of the state (also referred to as “industrial mix”); and
- change in employment due to characteristics of the region or county (also referred to as “competitive share”).*

* For a concrete example, suppose manufacturing employment in County X rose from 1,000 jobs to 1,050 jobs over one year — an increase of 5 percent. Is this rate of growth in manufacturing “good”? It depends on how fast the larger economy was growing and how fast the larger manufacturing sector was growing. A 5 percent increase in jobs might not be very good if manufacturing in the state increased by 8 percent over that year. This is where a shift-share analysis can help shed some light. Assume that annual state employment growth was 2 percent and that annual state manufacturing employment growth was 3 percent. A shift-share analysis of County X's change in manufacturing employment would say that of the 50 new local manufacturing jobs:

- Overall growth in state employment was responsible for 20 of the jobs (2 percent divided by 5 percent — 40 percent — of the 50 jobs);
- Relative growth in state manufacturing employment was responsible for 10 of the jobs (3 percent minus 2 percent — 1 percent — divided by 5 percent, yielding 20 percent of the 50 jobs); and
- Characteristics specific to County X's manufacturing environment were responsible for the remaining 20 jobs, which are 40 percent of the 50-job total.

In this case, the 50-job increase in County X's manufacturing sector was pretty good, since 20 of the jobs, or 40 percent, are due to purely local trends that were independent of statewide employment and manufacturing growth.

Mathematically, this relationship is expressed by the identity:

$$e_i^{t+n} - e_i^t = e_i^t \left[\frac{E^{t+n}}{E^t} - 1 \right] + e_i^t \left[\frac{E_i^{t+n}}{E_i^t} - \frac{E^{t+n}}{E^t} \right] + e_i^t \left[\frac{e_i^{t+n}}{e_i^t} - \frac{E_i^{t+n}}{E_i^t} \right]$$

where

e_i^t = employment in industry i at time t in the area itself

(with e_i^{t+n} = this same employment after time n has elapsed);

E_i^t = employment in industry i at time t in the larger region

(with E_i^{t+n} = this same employment after time n has elapsed); and

E^t = total employment at time t in the larger region

(with E^{t+n} = this same employment after time n has elapsed).

The second term on the right side of the equation is often referred to as the “industrial mix,” while the final term on the right side of the equation is often referred to as the local area’s “competitive share.” This language is adopted in Graphic 16.

The impact of MEGA credits cannot be directly measured from this shift-share analysis. However, MEGA credits are meant to have a positive influence on an area’s economy independent of overall trends in state employment or in the shift of the industrial mix in manufacturing. Consequently, MEGA credits in recent years should be strongly positively correlated with a local area’s manufacturing employment growth. That can be tested statistically.

From 1995 through 2000, there were 107 MEGA deals, and the life of the credits ranged from five years to 20 years into the future. For the purpose of this analysis, only deals that resulted in the start of operations prior to 2001 were included. Hence, if a deal was approved by MEGA in 2000, but operations did not begin until 2003, that case was excluded from the study.

The shift-share analysis was performed for each of Michigan’s counties from 2001 through 2007 using the state of Michigan as the region of comparison. The results of that analysis are presented below for manufacturing employment by county. The “Michigan’s growth” column represents the change in employment or “jobs” from 2001 to 2007 attributable to Michigan’s overall economy. The “industrial mix” column represents the change in jobs attributable to the growth (or decline, in this case) of statewide manufacturing. Finally, the “competitive share” column represents the change in the county’s manufacturing jobs due to characteristics of that particular county.

Graphic 16: Shift-Share Analysis of Manufacturing Employment Changes From 2001 to 2007 With the State of Michigan as the Region of Comparison

County	Michigan's Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits
Alphabetical	Jobs			In Dollars, 1995-2000
Alcona, MI	-4	-64	43	0
Alger, MI	-10	-146	94	0
Allegan, MI	-209	-2,974	636	2,359,387
Alpena, MI	-26	-365	81	0
Antrim, MI	-19	-268	206	0
Arenac, MI	-11	-161	143	0
Baraga, MI	-11	-154	444	0
Barry, MI	-43	-613	259	0
Bay, MI	-66	-937	-107	0
Benzie, MI	-9	-134	159	0
Berrien, MI	-234	-3,324	1,209	0
Branch, MI	-45	-645	-4	3,286,147
Calhoun, MI	-210	-2,993	1,502	2,086,354
Cass, MI	-42	-602	309	0
Charlevoix, MI	-39	-554	385	0
Cheboygan, MI	-7	-93	-106	0
Chippewa, MI	-10	-139	37	0
Clare, MI	-16	-229	184	940,712
Clinton, MI	-43	-614	522	0
Crawford, MI	-8	-119	-47	0
Delta, MI	-40	-573	110	1,498,250
Dickinson, MI	-39	-548	426	0
Eaton, MI	-53	-751	839	1,223,917
Emmet, MI	-18	-261	-174	0
Genesee, MI	-267	-3,793	-2,984	0
Gladwin, MI	-10	-144	-8	0
Gogebic, MI	-12	-167	203	0
Grand Traverse, MI	-82	-1,171	496	0
Gratiot, MI	-32	-450	-86	0
Hillsdale, MI	-60	-849	-503	1,186,306
Houghton, MI	-12	-169	27	0
Huron, MI	-44	-627	-49	0
Ingham, MI	-240	-3,415	236	40,544,848
Ionia, MI	-57	-805	756	0
Iosco, MI	-13	-188	-22	0
Iron, MI	-7	-104	366	0
Isabella, MI	-34	-489	387	0

County	Michigan's Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits
Jackson, MI	-147	-2,087	862	0
Kalamazoo, MI	-305	-4,334	763	4,179,764
Kalkaska, MI	-7	-99	-45	0
Kent, MI	-1,007	-14,318	4,018	3,224,689
Keweenaw, MI	N/R	N/R	N/R	0
Lake, MI	-2	-26	46	0
Lapeer, MI	-76	-1,078	602	0
Leelanau, MI	-5	-64	34	0
Lenawee, MI	-106	-1,508	-59	8,854,573
Livingston, MI	-123	-1,747	649	0
Luce, MI	-1	-9	-24	0
Mackinac, MI	-3	-38	N/R	0
Macomb, MI	-1,169	-16,625	1,763	587,276
Manistee, MI	-14	-204	-131	0
Marquette, MI	-14	-203	257	0
Mason, MI	-33	-471	122	0
Mecosta, MI	-27	-390	391	2,250,984
Menominee, MI	-33	-473	-111	0
Midland, MI	-102	-1,451	5,690	576,918
Missaukee, MI	-10	-148	266	0
Monroe, MI	-112	-1,595	-257	2,867,580
Montcalm, MI	-38	-536	-1,039	0
Montmorency, MI	-5	-74	45	0
Muskegon, MI	-204	-2,897	1,703	2,018,128
Newaygo, MI	-28	-405	30	0
Oakland, MI	-1,134	-16,125	-4,432	31,544,324
Oceana, MI	-31	-440	1,421	0
Ogemaw, MI	-7	-101	-123	0
Ontonagon, MI	-6	-80	76	0
Osceola, MI	-30	-425	-268	0
Oscoda, MI	-8	-107	225	0
Otsego, MI	-16	-234	-125	0
Ottawa, MI	-562	-7,996	2,855	14,305,337
Presque Isle, MI	-4	-54	65	0
Roscommon, MI	N/R	N/R	N/R	0
Saginaw, MI	-194	-2,754	-1,306	0
Sanilac, MI	-40	-571	30	518,954
Schoolcraft, MI	-4	-53	56	1,799,729
Shiawassee, MI	-37	-533	85	0
St. Clair, MI	-136	-1,935	855	0

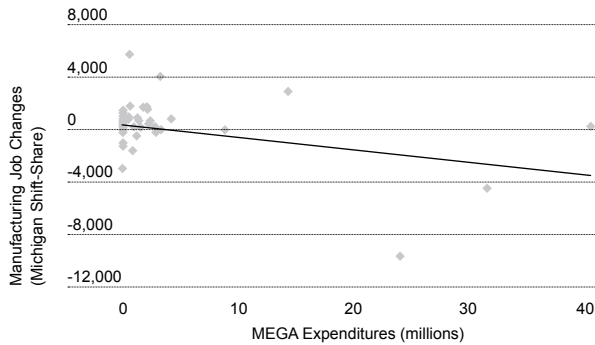
County	Michigan's Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits
St. Joseph, MI	-144	-2,049	1,662	0
Tuscola, MI	-31	-448	82	0
Van Buren, MI	-58	-826	209	2,750,865
Washtenaw, MI	-282	-4,011	-1,629	842,835
Wayne, MI	-1,504	-21,389	-9,621	24,006,180
Wexford, MI	-58	-826	595	1,377,886
Totals	-8,005	N/R	22,620	101,880,235

Source: U.S. Bureau of Labor Statistics, Michigan Economic Growth Authority, and calculations by Michael Hicks. The MEGA tax credit data was filtered to separate manufacturing facilities from nonmanufacturing facilities. The MEDC included Standard Industrial Classification codes for most credits, and only the manufacturing SIC codes were included. There were seven instances where SIC codes were absent. In these cases, the credits were sorted by scanning the credit's Briefing Memo for a description of the facility. Only facilities primarily engaged in the creation of goods were included, meaning that some companies with SIC manufacturing codes were excluded.

This shift-share analysis is useful in further testing the effect MEGA grants have actually had on manufacturing employment in Michigan counties. The first test performed by Hicks determined whether a MEGA grant provided to a business in each of the 83 Michigan counties prior to 2001 was associated with subsequent employment change attributable to county-specific competitive-share job growth in manufacturing. In this statistical test, Hicks found that the MEGA grant was correlated with a reduction in manufacturing employment. Every \$1 million in MEGA credits awarded was associated with a reduction of 95 manufacturing jobs. The decline in manufacturing employment related to MEGA tax credits was strongly statistically significant. A t-test also indicated it was extremely probable that the relationship between MEGA credits and changes in the county's manufacturing employment is negative.

A scatter plot of this relationship is telling. In Graphic 17, county-level changes in manufacturing employment attributable to county-specific conditions appear on the vertical axis, while the total MEGA credits from 1995 through 2000 appear on the horizontal axis. There is no clear linkage between the two, and the fact that the statistical relationship is negative strongly discounts the argument that the MEGA program is improving employment in manufacturing.

Graphic 17: Michigan Counties' 1995-2000 MEGA Manufacturing Tax Credits and 2001-2007 County "Competitive Share" of Manufacturing Job Changes Against the State as a Region



Source: Calculations by Michael Hicks.

Statistical tests point to a strong negative relationship between MEGA and manufacturing employment changes attributable to county specific competitiveness. While this model does not assert causation — i.e., the model does not imply that MEGA grants are destroying manufacturing employment in the counties the authority targets — it is clear that MEGA’s efforts to promote manufacturing employment have not been successful. This relationship is surprisingly strong in statistical terms and suggests MEGA has no positive effects on manufacturing job growth in Michigan (see Graphic 18).

Graphic 18: Results of Statistical Tests

Sample: 1 83				
Included observations: 80				
	Coefficient	Std. Error	t-Statistic	Prob.
C	336.8505	174.3589	1.931937	0.057
MEGAPRE2001	-9.49E-05	2.60E-05	-3.642955	0.0005
R-squared	0.145403	Mean dependent var		153.2
Adjusted R-squared	0.134447	S.D. dependent var		1604.67
S.E. of regression	1492.906	Akaike info criterion		17.47952
Sum squared resid	1.74E+08	Schwarz criterion		17.53907
Log likelihood	-697.1808	Hannan-Quinn criter.		17.5034
F-statistic	13.27112	Durbin-Watson stat		1.900822
Prob(F-statistic)	0.000483			

Source: Calculations by Michael Hicks.

To check that the county competitive shares were representative of changes unique to the counties themselves, rather than an accidental product of the choice of the state of Michigan as the region of comparison, we recalculated the shift-share analysis using the United States as the region.

The results of that analysis appear in Graphic 19.

Graphic 19: Shift-Share Analysis of Manufacturing Employment Changes From 2001 to 2007 With the Nation as the Region of Comparison

Area Name	US Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits Claimed
Alphabetical	Jobs			In Dollars, 1995-2000
Alcona, MI	24	-67	17	0
Alger, MI	55	-153	35	0
Allegan, MI	1,133	-3,117	-563	2,359,387
Alpena, MI	139	-382	-66	0
Antrim, MI	102	-281	98	0
Arenac, MI	61	-169	78	0
Baraga, MI	59	-162	382	0
Barry, MI	234	-643	12	0
Bay, MI	357	-982	-484	0
Benzie, MI	51	-140	105	0
Berrien, MI	1,266	-3,484	-131	0
Branch, MI	246	-676	-264	3,286,147
Calhoun, MI	1,140	-3,137	295	2,086,354
Cass, MI	229	-631	66	0
Charlevoix, MI	211	-581	161	0
Cheboygan, MI	35	-97	-144	0
Chippewa, MI	53	-146	-19	0
Clare, MI	87	-240	92	940,712
Clinton, MI	234	-643	274	0
Crawford, MI	45	-125	-95	0
Delta, MI	218	-600	-121	1,498,250
Dickinson, MI	209	-575	205	0
Eaton, MI	286	-787	537	1,223,917
Emmet, MI	99	-273	-279	0
Genesee, MI	1,445	-3,975	-4,513	0
Gladwin, MI	55	-151	-66	0
Gogebic, MI	64	-175	136	0
Grand Traverse, MI	446	-1,227	24	0
Gratiot, MI	171	-471	-267	0
Hillsdale, MI	323	-890	-846	1,186,306
Houghton, MI	64	-177	-41	0
Huron, MI	239	-657	-302	0
Ingham, MI	1,301	-3,579	-1,140	40,544,848
Ionia, MI	307	-844	431	0
Iosco, MI	71	-197	-98	0
Iron, MI	40	-109	324	0
Isabella, MI	186	-512	190	0

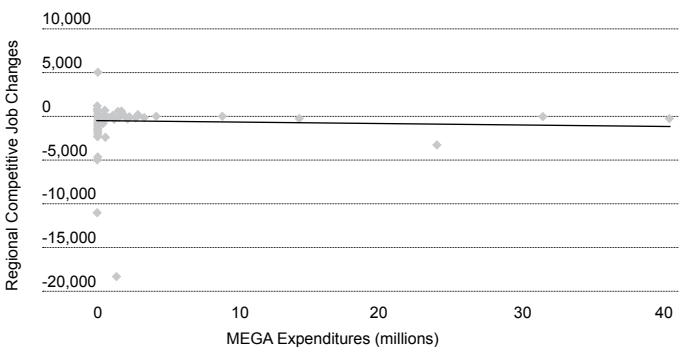
Area Name	US Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits Claimed
Jackson, MI	795	-2,187	21	0
Kalamazoo, MI	1,651	-4,542	-984	4,179,764
Kalkaska, MI	38	-104	-85	0
Kent, MI	5,454	-15,006	-1,754	3,224,689
Keweenaw, MI	N/R	N/R	N/R	0
Lake, MI	10	-27	36	0
Lapeer, MI	411	-1,130	167	0
Leelanau, MI	25	-67	9	0
Lenawee, MI	575	-1,581	-667	8,854,573
Livingston, MI	666	-1,831	-56	0
Luce, MI	3	-9	-27	0
Mackinac, MI	14	-39	N/R	0
Macomb, MI	6,332	-17,423	-4,939	587,276
Manistee, MI	78	-214	-214	0
Marquette, MI	77	-213	175	0
Mason, MI	180	-494	-68	0
Mecosta, MI	149	-409	234	2,250,984
Menominee, MI	180	-495	-302	0
Midland, MI	553	-1,521	5,105	576,918
Missaukee, MI	56	-155	206	0
Monroe, MI	608	-1,672	-900	2,867,580
Montcalm, MI	204	-562	-1,255	0
Montmorency, MI	28	-77	15	0
Muskegon, MI	1,103	-3,036	535	2,018,128
Newaygo, MI	154	-424	-133	0
Oakland, MI	6,142	-16,900	-10,933	31,544,324
Oceana, MI	168	-461	1,243	0
Ogemaw, MI	38	-105	-164	0
Ontonagon, MI	31	-84	44	0
Osceola, MI	162	-445	-439	0
Oscoda, MI	41	-112	182	0
Otsego, MI	89	-246	-220	0
Ottawa, MI	3,046	-8,380	-368	14,305,337
Presque Isle, MI	21	-57	43	0
Roscommon, MI	N/R	N/R	N/R	0
Saginaw, MI	1,049	-2,886	-2,416	0
St. Clair, MI	737	-2,028	75	518,954
St. Joseph, MI	781	-2,148	835	1,799,729
Sanilac, MI	218	-599	-200	0
Schoolcraft, MI	20	-56	35	0

Area Name	US Growth	Industrial Mix	Competitive Share	Total MEGA Manufacturing Tax Credits Claimed
Shiawassee, MI	203	-559	-130	0
Tuscola, MI	171	-470	-98	0
Van Buren, MI	315	-865	-124	2,750,865
Washtenaw, MI	1,528	-4,204	-3,246	842,835
Wayne, MI	8,147	-22,416	-18,244	24,006,180
Wexford, MI	315	-866	261	1,377,886
US total	53,877	-148,247	0	101,880,235

Source: U.S. Bureau of Labor Statistics, Michigan Economic Growth Authority, and calculations by Michael Hicks.

Graphic 20 shows a scatter plot of the relationship between the county’s “competitive share” from 2001 through 2007 with the nation as the region and the claimed MEGA manufacturing credits in the years 1995 through 2000. Note that the negative relationship is roughly the same, indicating that the earlier analysis of the county competitive share was not an artificial result of using the state of Michigan as the region for comparison.

Graphic 20: Michigan Counties’ 1995-2000 MEGA Manufacturing Tax Credits and 2001-2007 County “Competitive Share” of Manufacturing Job Changes Against the Nation as a Region



Source: Calculations by Michael Hicks.

About the Authors

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Executive Summary

The Michigan Economic Development Corp., a quasi-public agency that administers state economic development programs, has been in the spotlight lately due to the state's bad economy and a number of legislative proposals under consideration.

In this report, we describe the organization of the MEDC, enumerate its many programs and review the performance of several of them — such as the Michigan film incentive, the state's now-defunct Broadband Development Authority and the Michigan Economic Growth Authority. MEGA is the MEDC's flagship tax credit vehicle for “creating” jobs. We also describe the ongoing tax money used to support the MEDC.

MEGA is a 14-year-old authority that offers state business-tax credits to select companies that plan to invest in business facilities in Michigan and create or retain jobs here. In order to claim the tax credits, companies must provide a minimum number of jobs as detailed by state law. The MEDC also frequently arranges for MEGA recipients to receive additional incentives, such as state education tax abatements, job training subsidies or local property tax abatements. Some of these incentives may be awarded immediately, regardless of whether the business has created jobs at the facility.

In this study, the authors explore MEGA data to see whether actual job creation meets the MEDC's estimates. The authors inspected credits awarded from 1995 to the end of 2004 and found that while MEGA deals were expected to produce 61,043 jobs, only 17,971 were ultimately created. Hence, the actual job count was just 29 percent of the expected total — less than one-third. In practice, an announcement that 1,000 direct jobs are expected at a MEGA facility translates into 294 actual jobs on average.

To analyze MEGA's impact in greater detail, the Mackinac Center commissioned an analysis of the program from Michael Hicks, a Ph.D. economist at Ball State University. This “shift-share” analysis was designed to evaluate the relationship between a county's manufacturing employment and the dollar value of the MEGA tax credits actually awarded to companies in that county.

Hicks calculated changes in manufacturing employment peculiar to Michigan counties from 2001 to 2007. He then performed a regression analysis of these county-specific manufacturing job changes against the dollar value of the MEGA manufacturing tax credits to businesses in each county from 1995 through 2000.

Hicks was able to find a statistical relationship between MEGA manufacturing tax credits and county manufacturing employment, but the relationship was negative. Hicks reports that from 2001 to 2007, every \$1 million in MEGA manufacturing tax credits awarded in a county was associated with the loss of 95 county manufacturing jobs. While the statistical model cannot imply causation, it does

strongly indicate that MEGA credits are not working to improve manufacturing employment.

MEGA invites scrutiny because of its size, influence and design. The program has offered more than \$3.3 billion in Michigan business tax credits since its inception.

This study also addresses existing programs such as the Michigan film incentive, which is part of the Michigan Film Office administered by the MEDC. The Michigan Film Office was formed in 1979 to “assist and attract incoming production companies in the entertainment industry, including film, TV and music.”

Claiming a need to better compete with other states and create jobs, legislators passed a package of 15 bills in 2008 to provide more generous film tax incentives. The most significant portion of the legislation amended the Michigan business tax law to allow film production companies to earn tax credits of up to 42 percent of the companies’ spending in Michigan. The credits are refundable, meaning that the state issues the company a check for the difference if the company’s Michigan-related spending exceeds its tax liability.

The Michigan Film Office has since stirred controversy through its lack of transparency and through its publication of a distorted impact analysis of the film incentive. While the analysis forthrightly estimated that in 2008 the film incentive created just 1,102 full-time equivalent jobs — an insignificant number in a state the size of Michigan — the report then excluded costs of up to \$48 million in calculating the program’s benefits. Including these costs would likely have reduced the already small number of jobs ascribed to the incentive. Indeed, it may have even led to a jobs figure that was negative. In other words, the program may actually destroy jobs.

This study also describes the Michigan Broadband Development Authority, a major MEDC economic development failure that led even the program’s early supporters to express their regret. Proponents initially promised 500,000 new jobs between 1999 and 2009 if taxpayers and consumers of Internet services would permit a tax increase to help the government fund greater deployment of high-speed Internet access. In 2001, the Michigan Legislature created the authority, but ultimately rejected the Engler administration’s attempt to hike telecommunications taxes, instead turning to floating bonds to pay for their vision.

The program almost immediately began losing the money it had loaned to facilitate broadband deployment. The MBDA was ultimately absorbed by the Michigan State Housing Development Authority and dissolved in July 2007. MSHDA forgave the \$14.5 million in loans it made to the authority.

The failure of economic development programs are not limited to Michigan, nor are criticisms. This study provides a short literature review of vital publications on the subject, including a meta-review of economic development programs and

an analysis of the politics of economic development programs by both University of Michigan and Michigan State University professors. The report from MSU professor Michael Mintrom and graduate student Lucinda Ramsey reads in part: “Are [politicians] really trying to attract new business development or are they engaging in maneuvers designed to please current state business interests and voters? The need for such questioning becomes even more acute when we find that, while these policies are often introduced to the chorus line of ‘jobs, jobs, jobs,’ there is little evidence to show that these direct financial incentives actually have any impact on state employment levels.”

In a paper titled, “Why State and Local Economic Development Programs Cause So Little Economic Development,” University of Michigan economist Margaret Dewar argues that too many analyses of government economic development programs fail to consider the programs’ political nature: “Economic development programs are not designed and implemented in ways that can achieve their goals.” She then goes on to discuss why this is so: “Administrators must run a program to garner support of legislators, a governor, and opinion leaders for program survival.”

Ineffectiveness and the presence of politics in government economic programs may not be startling. But the likelihood that they are intrinsic to such programs is a different matter, especially given the state of Michigan’s economy. Consider just how badly the state has fared during the decade in which the MEDC has existed.

- Michigan was ranked 16th among the 50 states in per-capita state GDP in 1999, the year the MEDC was formed. The state has since tumbled to 41st.
- From 1999 through 2008, Michigan was the only state in the union with a negative state GDP growth rate.
- Michigan’s per-capita personal income ranking has tumbled from 16th to 34th since 1999 and is now 11.2 percent below the national average, the lowest point it has reached since the start of the Great Depression, when such record-keeping began.

In light of all this there are still those who labor under the mistaken belief that Michigan’s economy and its employment prospects might actually be worse if it were not for the work of very highly paid MEDC workers dolling out a tax incentive here and a job training subsidy there.

This study makes a number of recommendations regarding this expensive and counterproductive program. Some of them are listed below:

- Eliminate the Michigan Economic Development Corp. This department has, by all indications, failed to create new and retain existing jobs for Michigan workers. Killing it and the programs it administers outright would conceivably and directly save tens of millions of dollars that could be used to balance the budget without raising taxes.
- Short of outright elimination of the MEDC, state lawmakers should eliminate the Michigan Economic Growth Authority and Michigan film incentive programs.
- Mandate a full performance audit of each MEDC program. In addition, the Office of the Auditor General should provide a tally of “direct jobs promised” vs. “direct jobs delivered” by year, using independent sources wherever possible, for each program reviewed.
- Require that MEGA use only direct jobs “created” as a measure of a program’s success or failure. The MEDC and other state agencies should be prohibited from using hypothetical assertions of spin-off jobs.
- Completely eliminate the “refundable” part of the film incentive tax credit. Tax credits against actual business tax liability are a better tack than disbursing cash from the state Treasury.
- The latter, lesser reforms could conceivably shed light on the performance of some MEDC programs and stimulate helpful debate on their effectiveness. But policymakers should reflect that it is unlikely many Michigan individuals and businesses would look at the MEDC’s track record and choose to finance the corporation’s operations with their own money if given the choice.

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