

## NEW LAW. New Opportunities.

### Changes to Michigan Economic Development Incentives

Many factors go into the decision of whether to invest in a project or sit on the sidelines. From economic conditions to government incentives, one must carefully assess the circumstances in order to make a wise investment. The question is, is now the time to act?

#### Have you heard that the state of Michigan eliminated its economic development incentive programs?

That's not quite accurate. The state has eliminated state level tax credits that incentivized job creation and redevelopment of brownfield property. However, the state and local governments still have an arsenal of tools in their economic development tool boxes that will likely provide more flexibility for eligible projects.

#### What is the state of Michigan doing to encourage economic growth and development?

Michigan's legislature has authorized a \$100 million discretionary fund. The fund will focus on incentivizing companies locating or expanding in Michigan and organizations implementing community revitalization projects.

The funds became available October 1, 2011. However, legislation authorizing the new economic development program is still working its way through the Legislature. The Michigan Economic Development Corporation (MEDC) is developing guidelines for the program under the assumption that authorizing legislation will be passed.

#### How will the program operate?

Rather than providing tax credits, the new program will offer up-front grants, loans and other assistance to qualified businesses. Selection criteria for the grants are likely to be familiar – level of capital investment in the state, economic impact of the project to the community, and jobs, jobs, jobs.

Based on the pending legislation, the program will place priority on providing assistance to companies in order to close a deal and provide financing to second-stage companies that need to obtain bank financing or need to leverage such financing.

The program will also focus on community revitalization projects. Rather than providing incentives specifically for brownfields or historic buildings, a project engaging in community revitalization, whether it redevelops a brownfield or creates a sustainable development in an underserved community, will qualify for the community

revitalization program. Community revitalization projects can receive the lesser of up to \$10 million or 25% of the project's eligible investment. Eligible investment includes costs of demolition, construction, renovation, and site improvements, including the addition of personal property.

#### What are the program limitations?

New investment and new jobs will likely be required. The MEDC plans to recommend that retention of existing jobs no longer be incentivized.

The proposed legislation currently provides that a company could not receive more than 10% of the total money available for incentives in a given fiscal year. Thus, for the 2011-2012 fiscal year, the maximum amount one project could receive is \$10 million. This limitation may affect the potential for competitive large scale projects.

#### What tools do local communities have to incentivize a project?

The biggest tool local governments have is the ability to fully or partially abate real and/or personal property taxes for a period of years.

**BOTTOM LINE:** Like Mark Twain's death, the death of Michigan's economic development incentives is greatly exaggerated. While tax credits have been eliminated, the state is replacing the tax credit program with what it views as a more robust, more transparent, and more business-friendly program of providing up-front grants and loans. For more information, please contact our firm.

#### Economic Development Incentives

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