

Analysis of Michigan's Local Economic Development Policies to Promote Aging City Revitalization

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INTRODUCTION

Metropolitan development in the United States in the post World War II era has been characterized by ever-increasing suburban sprawl. At the same time central cities of U.S. metropolitan areas, including those in Michigan, have experienced enormous decline. This continuing trend produces problematic physical, environmental, economic, fiscal, social and political consequences for urban life. A sizable body of literature has traced that decline and its consequences and has postulated numerous causes.

Little political concern has focused on the decline of aging inner cities in the last two decades. Central cities have lost their political influence, as the nation's dominant voting block has moved to suburbia and to newer areas in the west. For several decades, during the period of central-city decline, politicians, practitioners and scholars all assumed that those suburbanites who had fled the central city had little interest in its revitalization. Their attitudes, and resultant public policy, were somewhat schizophrenic. Many suburbanites continued to work in the central business district and to identify with the city. They enjoyed cultural and sport activities and occasional downtown shopping, but they did not want to be a part of its governance. Growing numbers of suburban voters pushed for laws to increase suburbanites' ability to govern themselves and to block central-city annexation. In many cases they blocked regional intergovernmental cooperative efforts as well. As jobs and metropolitan cultural activities also moved to the suburbs, political concern for the central city diminished further.

Urban and metropolitan issues did reach the political consciousness of middle-class Americans during the 1990s. The 1990's saw a crescendo in the previously gradual shifts in development pattern, which may have changed many political attitudes. The shifts included: 1) the diversification of suburban populations (particularly, large increases in suburban African Americans); 2) the emptying out of central-city neighborhoods; 3) the spread of inner-city problems to many suburban jurisdictions; and 4) the third post World War II suburban boom in which large numbers of inner-suburb residents moved farther out.

Some suburban areas have begun experiencing many of the same ills previously limited to central cities. In fact, all of the central-city problems are now spreading rapidly to the inner ring of aging suburbs. In addition, all suburbanites witness sprawling new development eating up prime farmland and recreational open space. Moreover, far-flung infrastructure such as highways and water lines are expensive for everyone. At a national level, people are becoming aware that energy dependence that has resulted from excessive dependence on auto transportation is a national defense issue. Perhaps most importantly for its political consequences, this latest wave of post-war suburbanization seems to have made it clear that sprawling urban development and accompanying urban problems have no boundaries. Perhaps people are beginning to feel that moving further and further out to avoid traffic jams, taxes and crime is an exercise in futility.

Some pundits feel that even if the statewide population is not developing a love affair with the central city, they are increasingly frustrated with sprawl. They might become con-

vinced that the revitalization of inner cities would reduce sprawl. Some have suggested that recognition of the need to redevelop the vacant and abandoned areas of the inner city as a strategy for slowing suburbanization and reducing sprawl has been growing. Perhaps the general public is beginning to understand that inner-city rejuvenation might redirect new development away from suburban greenfields, toward inner cities and would therefore reduce sprawling development.

Very recently, some analysts have seen signs that a growing political alliance is developing between those concerned with inner-city problems and those concerned with metropolitan sprawl. Many feel that inner cities have emptied out so much that they contain great potential for in-fill development. Possibly, this political alliance emanates from an increasing national feeling that sprawl problems will not be addressed without concomitant inner-city revitalization. Most recently, the poor status of Michigan's urban areas has gained political salience in other political circles. As the state focuses on developing advanced technology business corridors, state economic developers understand more clearly that central-city decline is inhibiting the state's ability to attract technology-based firms and diversify the state's economy. Mundane metropolitan areas with bland suburbs and third-world-like inner cities cannot attract high-tech economic development. Technology-oriented firms are footloose except for the need to be near a highly educated, motivated and entrepreneurial population. That population is attracted to cosmopolitan communities with a very high quality of life.

Revitalization of inner cities like Detroit is a daunting task. While the goal of inner-city redevelopment is public, the private sector must play a leading role. Yet despite the emptying out of central cities, businesses and investors have been reluctant to return to aging cities. They feel that the reward for investing in aging cities is not worth the perceived higher costs and higher risks. They generally see greenfield development as simpler, less expensive, less risky and more rewarding. Public-private partnerships, broadly defined, are required to involve the private sector to the degree necessary. Governmental incentives and mutually beneficial joint ventures with the public are necessary to level the playing field with suburban development. Essentially, government must take actions to lower the perceived risk of inner-city investment to a level commensurate with the promise of benefit to the private investor. This involves perfecting urban real estate markets, promoting an entrepreneurial culture, stimulating small business development and devising a public sanctioned mechanism where the government shares some of the risks and rewards.

So, a political question arises. What is Michigan's political landscape for focusing on urban redevelopment? Do Michigan residents understand the status of cities? Do residents across the state of Michigan recognize the importance of inner cities and the problems they face? Are Michigan residents concerned about sprawl and about inner-city redevelopment? Do Michiganians see a link between central-city redevelopment and sprawl? Is a political alliance really developing between anti-sprawl interest groups and those concerned with the status of central cities?

Since private sector investment is critical for the improvement of central cities, another political question is whether the state's population supports using public incentives to induce some business and investment capital to move to central cities. Will the state population support public-private partnership programs, even if they cost the state and/or divert state resources from other programs and policies? The purpose of this report is to answer some of these political questions that are critical to state urban policy.

PROBLEM ADDRESSED BY THE PROJECT

If inner-city development is key to improvement of the entire urban region, and if small business development is crucial to inner-city revitalization, innovation and economic diversification, then what is the status of inner-city economic development in Michigan? More specifically, is the state of Michigan's policy—toward promotion of the kind of small business development that would benefit inner-city economic development—adequate? In what areas can state policy improve?

The state already engages in a variety of economic development programs. The Michigan Economic Development Corporation (MEDC) administers several activities to promote statewide economic development. They assist companies with relocation to the state. They provide a data bank on land availability, labor market information, employee training, export assistance, procurement assistance and some business finance. But MEDC activities are primarily focused on larger companies. The small companies that are able to use them are usually older, established companies and/or technology-based firms.

Few state economic development activities are targeted to the kind of smaller companies that could assist inner-city areas. Some people argue that some of the state's economic development activities actually cause sprawl, taking jobs and development away from the older areas and inducing them to move to greenfields.

NEED FOR THE PROJECT

To answer the questions raised above, a study was needed to assess the state of Michigan's approach to the promotion of small business development, particularly small businesses of the kind that can be beneficial to declining, aging cities. Objectives of the study included the following:

1. to look at current state economic development programs to see if they adequately benefit small business development;
2. to determine the effect of these programs on older cities;
3. to investigate the state's ability to target some of the programs to central cities;
4. to document innovative approaches taken by other states both to promote business development and to target aging inner cities; and,
5. to investigate Michigan's approach to business incubation. Business incubation focuses on start-up businesses and includes providing training to potential entrepreneurs, assisting in finding start-up financing, offering low cost space and other services.

An important consideration of this investigation has been cost to the public. It is well understood that, in general, the state does not spend large sums on inner-city revitalization, and, given the current budget situation, will not in the foreseeable future. What the project sought were low cost ways to induce private economic activity including using the state's authority and/or enabling localities to undertake new initiatives that benefit central-city business development while promoting the goals of the local businesses and families.

PROJECT ACTIVITIES

Project activities involved both policy research and the dissemination of research findings to Michigan policymakers and practitioners. Dissemination efforts consisted of producing formal research publications, reports, policy briefs, policy forums and personal one-on-one contact with policymakers. Activities of the project can be divided into three thematic categories. Policy research and dissemination efforts were carried out within each of these themes. The themes are 1) overall metropolitan/regional development, 2) the linkage between inner-city economic development and the abatement of sprawl, and 3) small business development and entrepreneurship and the importance of entrepreneurship to inner-city economic development. Some project activities related to all issues. The first section describes overall activities and those tasks that focused on specific issues. The second section provides analysis of State of the State Survey results commissioned to address issues related to the themes of this project.

OVERALL PROJECT ACTIVITIES

- *State of the State Survey*: One project activity was to participate in the December, 2001 State of the State Survey conducted by the Institute for Public Policy and Social Research (IPPSR). SOSS is a quarterly survey of approximately 1,000 randomly selected state residents to assess their status and political attitudes on critical political issues. Typically, each quarterly SOSS addresses one theme or set of policy issues. The December 2001 SOSS was the twenty-third edition of the study (SOSS-23) and focused on an array of urban issues. Some of the urban issues were 1) the overall status of urban areas, 2) sprawl, 3) inner-city redevelopment, and 4) urban business development. Several questions in SOSS-23 addressed issues central to this project.

Based on results of SOSS-23 and other sources, the project team completed a political assessment of the issues laid out in the project proposal. They are 1) what are citizens' views of the status of Michigan's cities? 2) What are peoples' views of importance of sprawl? 3) Do people think that the redevelopment of aging, declining, central cities would help to reduce the rate of sprawl? 4) Do Michigan's citizens favor diverting some state resources to provide incentives for businesses and families to locate and invest in inner cities? Survey results are discussed on page 12 of this report.

- *IPPSR Public Policy Forum on Urban Issues*: The project participated in the planning and presentation of the IPPSR Public Policy Forum entitled "Michigan's Cities: Future Policy

Directions,” on January 30, 2002. Panelists were State Representative Lauren Hager, State Representative Patricia Lockwood, and State Representative Alexander Lipsey. Dr. Carol S. Weissert, Director Institute for Public Policy and Social Research and Dr. Dozier Thornton, Acting Dean, MSU Urban Affairs Programs also spoke. Several other legislators, leaders from the media, academics and state agency officials also participated in the discussion.

- *Policy Brief on Inner-city Redevelopment:* The results of the project’s research were encapsulated in a white paper distributed to all Michigan legislators and other policymakers. The title was “Public-Private Partnerships for Inner-city Redevelopment.” It was part of a series of produced by IPPSR entitled, “Informing the Debate: Policy Briefs on Urban Issues.” It is available on the IPPSR website at <http://www.ippsr.msu.edu/PPIE/Urban/UrbanPolicyBriefing.htm>.
- *Contact with Legislators and Mayors and Other Leaders:* In addition to forums and briefs, the project had direct contact with political leaders and other policymakers. These included the leader and staff of the urban caucus; Paul DeWeese, former State Representative; John Logie, Mayor of Grand Rapids; Martin Griffen, Mayor of Jackson; David Zin, Senate Fiscal Agency; Jim Stansell, House Fiscal Agency; and John Czarnecki, Michigan Economic Development Corporation. They also included leaders of several important NGOs related to project issues such as Mark Clevey of the Small Business Association, Amy Collet of the Old Town Mainstreet Association and the Historic District Commission and Tony Lentych, President of the Community Economic Development Association of Michigan (CEDAM).
- *Great Lakes Economic Development Conference:* Preliminary project findings were presented, discussed and refined at the annual conference of the Great Lakes Economic Development (GLED) forum, September 19-22, 2001. At that conference, economic development academics and professional practitioners compared notes on what is most effective in promoting the economics of lagging communities.
- *Meet Michigan:* On October 3, 2002, the results of SOSS-23 were presented in the State Capitol Building to a group of Michigan State University staff members traveling to Detroit to study public/private partnership techniques being used in central Detroit and the Life Sciences Corridor. Also there were State Representative Gretchen Whitmer, then State Senator Diane Byrum, former State Representative Jim Agee, Anne Mervenne then of the Governor’s Office and Ginnie Hass, MSU Director of Community Relations, Office of the Vice President for Governmental Relations.

PROJECT ACTIVITIES THAT INVESTIGATE THE LINK BETWEEN INNER-CITY ECONOMIC DEVELOPMENT AND THE ABATEMENT OF SPRAWL

- *Legislative Policy Briefs on Regional Land Use Controls:* During a previous Michigan Applied Public Policy Research grant, we wrote legislative policy briefs on various techniques to control sprawl, including urban growth boundaries, transfer of development rights, and special treatment of developments with region-wide impacts.
- *Survey of All Other States Concerning Inner-city Economic Development Policies and Programs:* The project staff surveyed the economic development offices in every state in the United States to determine what innovative public-private partnership approaches other states use to promote inner-city economic development and physical redevelopment. The results of this survey have been compiled into a report made available to the legislature entitled “Small Business and Entrepreneurship Development: State Policies and Programs Across the U.S.” Copies are available from the author.
- *Louisville, Kentucky Study Tour:* On July 23-4, 2001 the project staff visited the city of Louisville, KY, to investigate innovative inner-city development projects and programs. Among others, we visited Park Duvall, an inner-neighborhood development providing home ownership for mixed-income families. The project received land from the local housing authority and built a beautiful “new urbanism” neighborhood. The neighborhood contains housing units ranging from \$90,000 to \$425,000 in value. Low-income home ownership was facilitated with a shared-appreciation/shared-equity first mortgage and a second mortgage that is forgivable if the participant stays in and cares for the house for 15 years. Upper-income buyers are encouraged to buy and stay in the previously declining district using a similar forgivable second position loan on more expensive property. In other words, high-income residents are encouraged to build, own and stay in the neighborhood with a partial subsidy. Loans are provided at a lower interest because of a linked deposit made by a community foundation. The development is totally carried out by private developers and is financed privately.
- We also visited the Nia Center. The Nia Center is an economic development opportunity campus in Louisville’s inner city. It includes a community development bank, a business incubator, a workforce readiness program, other enterprise development programs and a transportation hub for moving inner-city workers to job sites elsewhere in the metropolitan area.
- *Grand Rapids Study Tour:* In August, 2002 the project staff traveled to Grand Rapids, MI. We met with Mayor Logie, his community development director and the director of two inner-city, faith-based housing corporations. We visited a homeless shelter and a low-income home ownership project. Both projects were privately financed with incentive programs.

- *Pittsburgh Study Tour*: Forty years ago, Pittsburgh was, perhaps, in the worst condition of any major city in the United States. It is now in one of the best positions of any American city. Pittsburgh began its decline when the world's steel center moved first to Gary, Indiana and then off shore. By 1960, Pittsburgh was the central city of the only metropolitan area in America that was losing population. Now the city is a successful high-tech and cultural center. The director of city planning in those early days was Robert Lurcott. He was one of the world's pioneers in the use of public-private partnerships for inner-city redevelopment and was instrumental in turning the city around. He is now a Director of the Pittsburgh Cultural Trust in charge of redevelopment of the entertainment district, consisting of the Western third of downtown. Thanks to some of the pioneering innovative techniques for leveraging private capital, Pittsburgh was redeveloped using primarily private sector investments.

Project staff visited Pittsburgh twice during the project period. While the project staff was there, we meet with Lurcott and toured several redevelopment projects, including award winning Herr's Island (Washington Landing), one of the nation's earliest brownfield redevelopment projects, the North Shore Entertainment District, Station Square and the Pittsburgh University, Carnegie Mellon Technology Center. We analyzed project financing techniques, including use of credit enhancement tools to leverage private investment.

- *Detroit Economic Growth Corporation*: On July 30, 2002, the project staff met with the Detroit Economic Growth Corporation (DEGC), a nonprofit corporation promoting inner-city redevelopment in central Detroit. We spent a day looking at projects that utilized various public-private partnership techniques to stimulate private investment. Projects included rehab of offices and residential lofts in old warehouses. DEGC is very small, and the efforts made by both the city and the state are much smaller than in the other cities visited.

- *Cleveland Study Tour*: On October 3 and 4, 2002, the project staff visited the city of Cleveland to see inner-city redevelopment projects using innovative public-private partnership arrangements. The trip was especially interesting, because the city of Cleveland was in worse shape than Detroit just 20 years ago. Now, nearly every neighborhood is experiencing rapid redevelopment. Most of it is taking place with private funds. Neighborhood groups in Cleveland use linked deposit to keep mortgage rates low and NGO developers sell low income housing tax credits to major corporations to raise equity capital. The Cleveland Renaissance Zone is also more successful than Detroit's.

- *New York City Study Tour*: On October 25, 2002, the project team visited the Community Development Trust (CDT), a private for-profit real estate investment trust (REIT) in New York that engages in community development. It is a hybrid Umbrella Partnership Real Estate Investment Trust (UPREIT) that engages in both debt and equity financing of affordable housing and inner-city redevelopment. On the debt side, CDT buys mortgages in

the secondary mortgage market on privately owned and developed multifamily housing projects that have low-income residents. It packages these mortgages and securitizes them. It then sells mortgage-backed securities in two parts, part A securities and part B securities as a credit enhancement tool. Part A securities are senior securities and carry less risk. CDT often keeps the part B securities.

On the equity side, CDT buys equity in privately owned housing projects. In some cases it acquires equity using 1031 exchanges, giving options on CDT stock for project equity. Equity often takes the form of limited partnership units. Many of these projects are subsidized at the local and state level, but CDT provides no subsidy. CDT earns about ten percent annually for investors while providing affordable housing.

PROJECT ACTIVITIES RELATED TO SMALL BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP IN INNER CITIES

- *Student Research on Small Business:* During the spring semester of 2001, the project assignment of the Public Policy Practicum class of the MSU Master of Public Administration Program (MPA) corresponded with the goals of this applied public policy project. The student team spent one semester investigating innovative small business development efforts of other states. They talked with state leaders and directors of state economic development agencies. Their long distance telephone calls were paid for by the project. They also met with Dr. Thomas S. Lyons, recognized expert on small business incubation, Mark H. Clevey, Vice President of the Entrepreneurial Development Center and Director of the Energy STAR Program, and Steven Sandstedt, Vice President of Capitol BIDCO.

They discovered many innovative, low-cost approaches to the promotion of entrepreneurship and small business development around the country that are not used in Michigan. They generated a model of small business development that is most favorable to inner-city redevelopment and made recommendations to state policymakers. Their report is entitled *The Value of Small Business: Promoting Economic Development through Incubation and Innovation*. Copies are available from the author.

- *Small Business Incubators:* The project team visited several small business incubators to learn small business development techniques. Three industrial incubators visited were as follows: 1) Jackson Enterprise Center, Jackson, MI (March, 2002); 2) Hastings Industrial Incubator, Hastings, MI (March, 2002); 3) Chicago Southland Enterprise Center and Arts Incubator, Chicago Heights, IL (September, 2001).

Advanced technology incubators attempt to promote the creation of high-tech products and businesses from basic research. They contain laboratories for applied research, prototype creation and testing, and scale-up facilities. They assist with market analysis, SBIR grant proposals and test marketing. They also have close links to venture and pre-venture capitalists and are often closely tied to university research centers. The project team visited

the following high-tech incubators: 1) Pittsburgh Technology Center tied to Carnegie-Mellon University and the University of Pittsburgh; 2) Louisville University's Information Technology Resource Center (ITRC); 3) The Microbiology Institute in East Lansing.

The project team also visited several micro-enterprise programs including the Life Sciences Corridor Study. The life sciences corridor concept started during the project period. The project team followed developments in the life sciences corridor and wrote a proposal for follow-up funding on LSC impacts.

- *Complementary Activity - Book on Small Business Finance*: During the project period, Hamlin and Lyons completed a book published by Praeger entitled *Financing Small Business in America*. Research for the book was made available to the project.

SURVEY RESULTS

This section of the paper reports on the results of a recent statewide survey in the state of Michigan focused specifically on urban issues. The Institute for Public Policy and Social Research (IPPSR) at Michigan State University has been surveying a random sample of state residents since 1994 to determine attitudes and trends. The series, called the State of the State Survey (SOSS) is conducted via telephone approximately once per quarter. Each survey uses a sample of about 1,000 respondents and lasts roughly 20 minutes. These interviewees are asked a small set of core questions each quarter. This allows for the tracking of certain attitudes over time. Additionally, each quarterly survey focuses on one theme. A specialized question set related to that theme is also administered. In December of 2001, in SOSS-23, the principal issue was the growth, development and redevelopment of cities. This is perhaps the first time that Michigan residents have been surveyed about a broad set of urban issues. It may be one of the first such surveys in the nation.

At this point in history some critical political questions related to the decline of central cities are as follows: 1) How concerned are people about the current status and long-term decline of central cities? 2) How concerned are people about sprawl? 3) Do Michigan residents see a link between central-city revitalization and abatement of sprawl? 4) Would the general, statewide population now favor state policies that make a special effort to assist the recovery of aging, declining, emptying central cities, even if it means diverting resources from other priorities? 5) Should the state give incentives to private businesses and families to promote the redevelopment of aging cities? This section looks at SOSS results for each of these issues.

STATUS OF CITIES

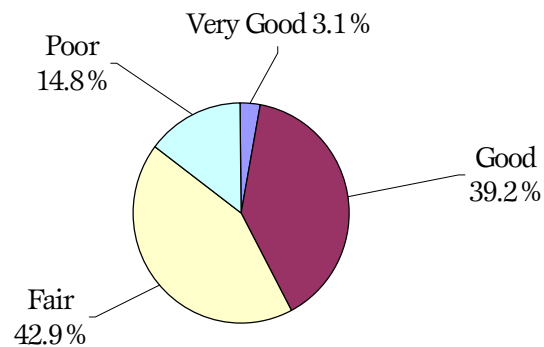
A first question to ask is, "What do Michigan residents feel is the status of Michigan cities in general?" Also of importance, what do Michigan residents feel is the status of the city of Detroit, its largest city? The SOSS sample was divided into two parts, the first sub-sample was asked the question generally about Michigan cities. The second group was asked the same

question specifically about Detroit. Both of these sub-samples included people from all over the state selected through the same random process. These sub-samples were maintained for several follow-up questions as well. Figures 1 and 2 show the results.

Figure 1.

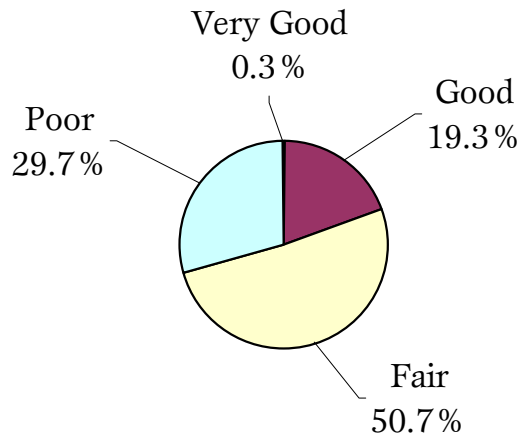
Michigan Citizens' Attitudes About the Status of Michigan's Cities

Overall, how would you assess the situation of Michigan's cities? Would you say they are in very good shape, good shape, fair shape, or poor shape?



When asked about Michigan cities in general, the statewide population was not very positive, but did not signal that they perceived a crisis. What constitutes a city was not defined for the respondent. Residents were not necessarily thinking of the central city of a metropolitan area when they answered this question. Out-state residents might have been thinking about municipalities as small as 5,000 residents near their home when they responded to the status of cities. Residents who live far from Detroit might have been thinking of the entire Detroit metropolitan area as a city rather than the legal municipality.

Figure 2.
Michigan Citizens' Attitudes About the Status of the City of Detroit
Overall, how would you assess the situation of Detroit?
Would you say it is in very good shape, good shape, fair
shape, or poor shape?



The sample used in Figure 2 was also a statewide sample. The results from the two samples were significantly different. Clearly people rated Detroit's status lower than that of Michigan cities in general. When asked about Michigan cities in general, the statewide population was not very positive but significantly more positive than they were about Detroit's status. Residents in this sample who live far from Detroit might also have been thinking of the entire Detroit metropolitan area as a city rather than the legal municipality when asked about Detroit. Their response might have been more negative if they were told to focus strictly on the inner city.

Although people have a variety of views about cities, do people care about them? More specifically, do people feel that having healthy cities is important to the well-being of the state? The next set of questions exhibited in Figures 3 and 4 questioned people's views on that subject. The two sub-samples described above were maintained for these questions. Thus we separate the people asked about Detroit from those asked about Michigan cities in general.

Figure 3.
Michigan Citizens' Attitudes About the Importance of the Well-being of Michigans' Cities to the Well-being of the State of Michigan
How important is the well-being of Michigan's cities to the overall well-being of the state?

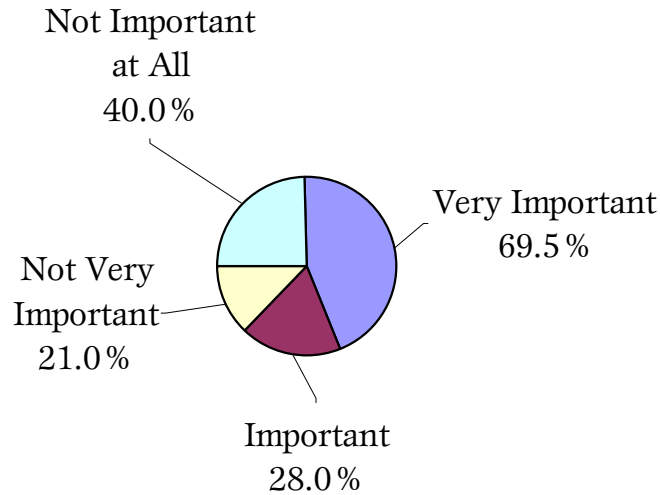
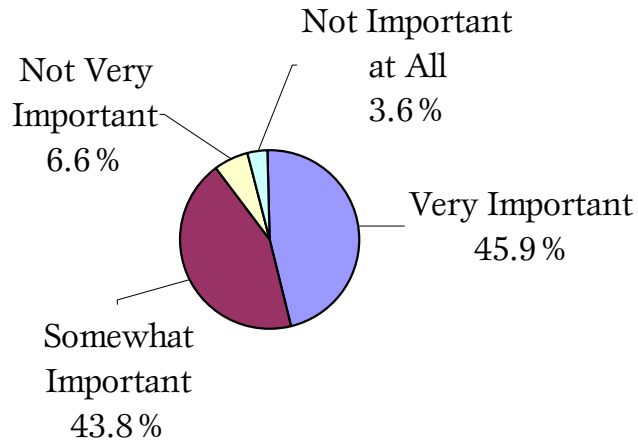


Figure 4.
Michigan Citizens' Attitudes About the Importance of the Well-being of the City of Detroit to the Well-being of the State of Michigan
How important is the well-being of Detroit to the overall well-being of the state?



The responses indicate that people do place importance on the well-being of cities. Ninety-seven percent indicated that cities were very or somewhat important. Yet, they registered more importance on cities in general than they did for the largest city in the state, a city that contains approximately ten percent of the state's population. This response needs further explanation.

SPRAWL

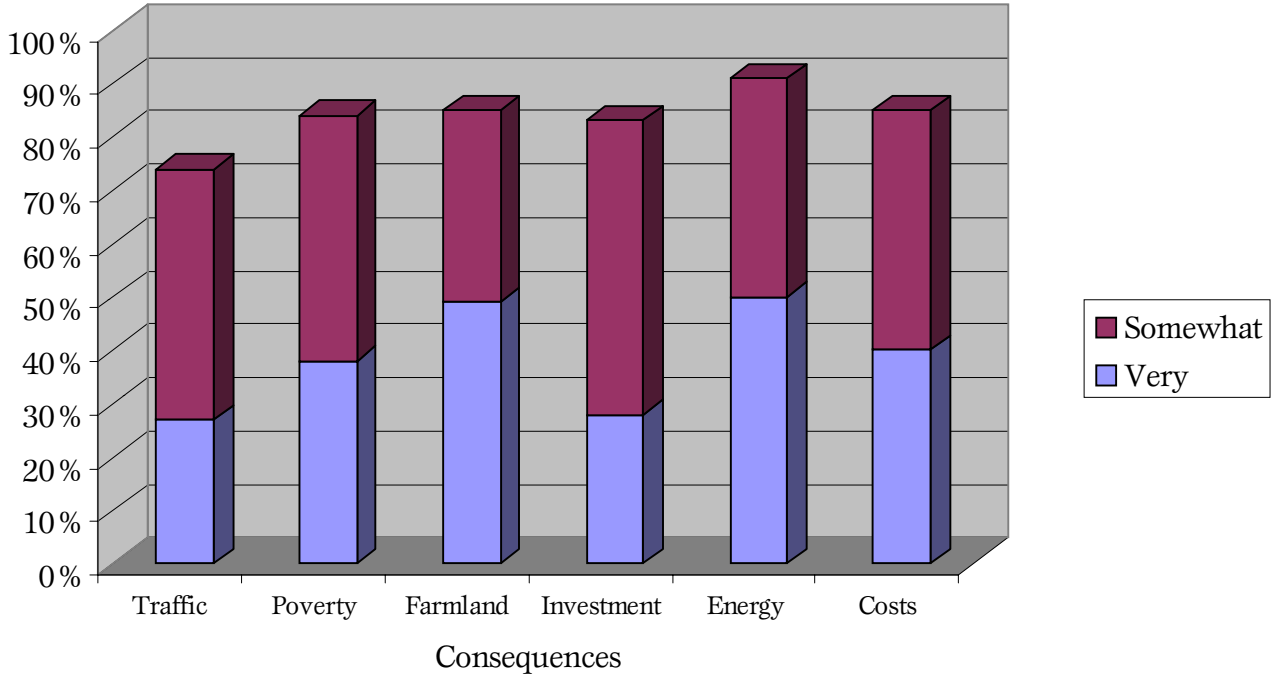
A second issue area to be dealt with in this report is sprawl. The word sprawl has become more commonly used among members of the general public in recent years. The Detroit newspapers have presented several articles and at least one major series on the issues surrounding sprawl, and sprawl has become more commonly debated in the state's legislature. The MSU State of the State Survey did not define sprawl precisely. The preamble to the question described sprawl generally as "the spreading of development such as housing and businesses on undeveloped land around cities." Then, it asked citizens to what extent they felt specific consequences of sprawl were a problem. The questions were as follows (Parentheses imply that portion of the question is not repeated as long as it is clear that the interviewee understands that it is inferred.):

- 1) How concerned are you about traffic congestion or longer commutes as a possible consequence of urban sprawl?
- 2) How concerned are you about the concentration of poverty and growing social inequity in Michigan cities as a possible consequence of urban sprawl?
- 3) (How concerned are you about) the loss of farmland and open space as a possible consequence of urban sprawl?
- 4) (How concerned are you about) less investment in central cities as a result of urban sprawl?
- 5) (How concerned are you about) increased energy consumption and pollution (as a result of urban sprawl?)
- 6) (How concerned are you about) increased costs of building and maintaining roads, sewers, and other public facilities (as a result of urban sprawl)?

The responses to the questions are shown in Figure 5. Traffic congestion turns out to be one of the things the public is least concerned about related to the spreading pattern of metropolitan development. Issues that create the greatest concern are energy consumption and public costs.

Figure 5.

Concern for Consequences of Sprawl

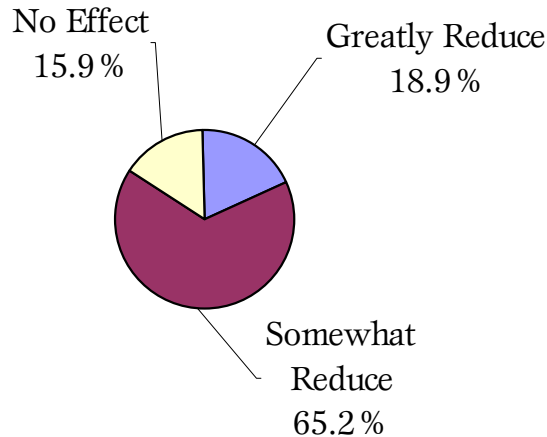


RELATIONSHIP BETWEEN SPRAWL AND INNER-CITY REDEVELOPMENT

The next set of questions investigates the linkage in people’s minds between inner-city redevelopment and sprawl. We asked the question, “Do you think (that re-developing deteriorated or underutilized areas in old inner or central cities) would reduce urban sprawl? Of three choices, 19 percent said that inner-city redevelopment would greatly reduce urban sprawl. Another 65 percent felt it reduces urban sprawl somewhat, and the remaining 16 percent said it would not help. In a different question nearly 60 percent of respondents statewide said that redevelopment of deteriorated or underused areas in old inner/central cities is “very important” for the welfare of the state. The question and results are shown in Figure 6.

Figure 6.
**Michigan Residents' Perception of Whether Inner-city
Redevelopment Would Reduce Sprawl**

**How do you think that re-developing deteriorated or
underused areas in old inner or central cities will affect
urban sprawl?**



INCENTIVES

How does a state like Michigan stabilize inner-city economics, redirect development back to the central city, and improve the lives of inner-city residents? Many approaches have been tried across the nation since the 1960s, with only modest success. While some medium-sized cities in Michigan have stabilized, others have not, and Detroit has continued to experience decline. Furthermore, government is less inclined to spend on social and economic development programs than in the past. In the current state budget climate, we must look for low-cost solutions that utilize private initiative and private capital to the extent possible.

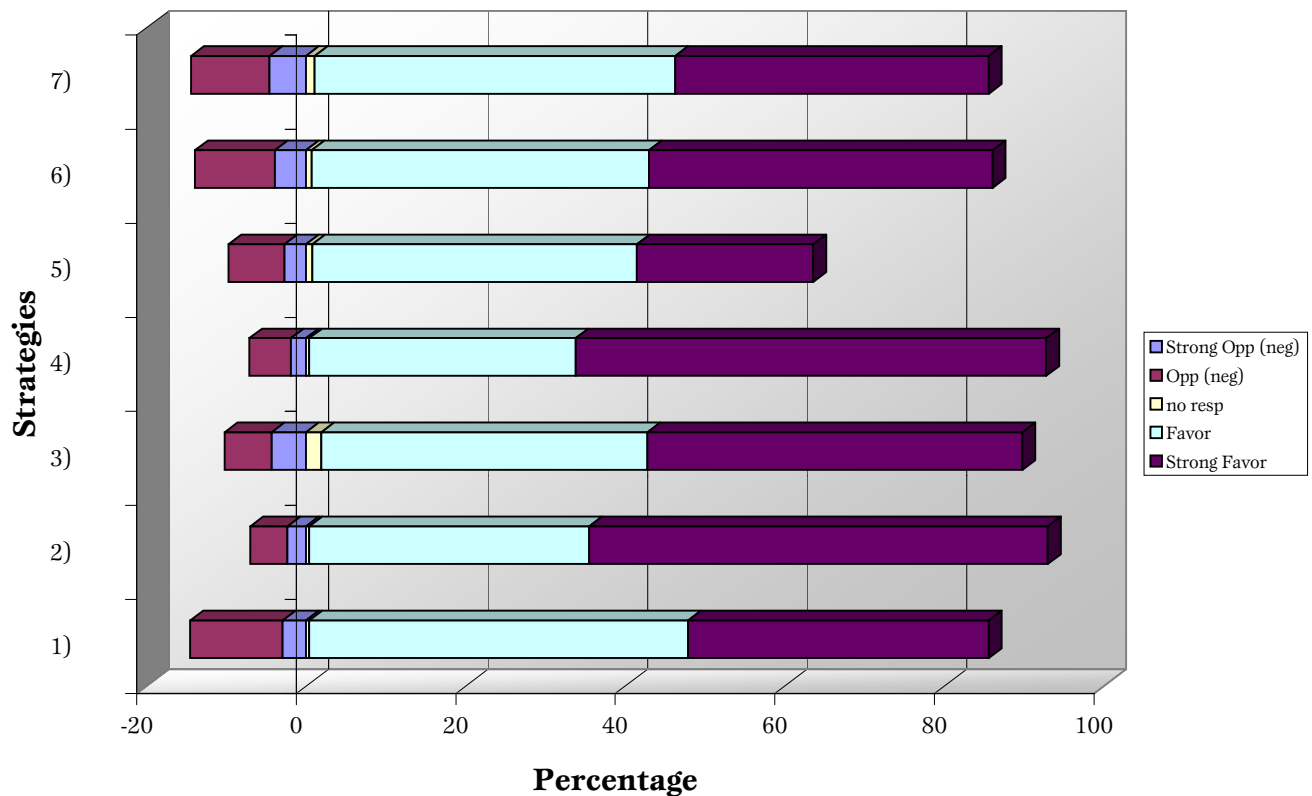
With the understanding that the public sector cannot solve urban problems on its own, that good urban development and redevelopment require a large amount of private investment and cooperation, the survey also asked questions concerning the public's attitude about governmental incentives to promote private urban reinvestment and redevelopment. As a preamble to this set of questions a statement was included to ensure that the respondent understood that we were talking about the diversion of state funds and resources from other potential uses to the use in question. The respondents were offered a list of strategies for redeveloping deteriorating inner cities and given five choices in each case. The choices were: 1) strongly favor, 2) somewhat favor, 3) neither, 4) somewhat oppose, or 5) strongly oppose. We asked a series of questions querying citizens about their support for state governmental assistance to central cities.

In general, respondents from all over the state seemed surprisingly willing to assist central cities. In every case, 85 percent to 93 percent of the respondents strongly favored or somewhat favored the strategy in question.

The strategies presented were to:

1. give tax breaks to businesses that locate or grow in deteriorated or underused areas of central cities (85 percent strongly or somewhat in favor);
2. give tax breaks to families that buy, fix-up or build new houses and live in deteriorated or underused areas of old central cities (93 percent);
3. have the state government provide low-interest government loans to businesses that locate or grow in old central cities (88 percent);
4. provide low-interest government loans to families that buy, fix-up or build new houses and live in deteriorated or underused areas of old central cities (93 percent);
5. use state funds to redevelop the infrastructure and public facilities in old central cities (90 percent);
6. have the state provide free or low cost job training to workers who live in old central cities (85 percent); and,
7. have the state provide free or low cost job training to the workers of businesses located in old central cities (85 percent).

Figure 7. Attitudes Toward Strategies



In addition over 65 percent statewide favored requiring that a percentage of all of the goods and services purchased by the state be from businesses located in old central cities.

Because the positive response to using incentives to promote inner-city redevelopment was so strong, we crosstabulated that response with the characteristics and attitudes of individuals to verify and provide a better understanding of the response. In doing so, the positive response seemed to be very widespread. Favorability toward inner-city redevelopment incentive strategies were tested against a variety of personal characteristics. Incentive favorability was crosstabulated with race, religion, party affiliation, income, age, home location, employee and labor union status, level of schooling and family status. Surprisingly, support for incentives to promote private investment in inner-city redevelopment was consistently high across all groups and no significant variation was visible within sociological categories. No sociological group was negative on this subject. No ethnic group, religions group, income strata, political party or geography group was even moderately opposed to using the redevelopment strategies described in the questions. In fact, few sociological categorizations exhibited significant variation across groups within the respective categories. Surprisingly, no significant differences were found between Caucasians and African-Americans, for example. This means that it is difficult to explain the positive attitude toward the use of incentives as something characteristic of particular types of people. A few minor exceptions will be discussed below.

Among all categories, political party affiliation provided the most clear-cut variation among groups, and those people who declared themselves to be Republican were the most negative of any group. While about 65 percent of Democrats and Independents strongly favored the public-private partnership strategies, about 44 percent of Republicans did. Yet, again, when strongly and somewhat favorable responses are combined, differences based on party affiliation almost disappeared and few expressed strong opposition. Those Muslims and Hispanics who were interviewed were generally less positive than other groups (the survey was conducted more than three months after the terrorist attacks of September 11, 2001) but the numbers interviewed in these cases were too small to produce a statistically meaningful result.

As one might expect, responses to the eight incentive questions were somewhat correlated with the type of community in which the respondent lived, but people from all types of communities supported incentives to rebuild inner cities. People were asked where they lived and given the choice between 1) rural community; 2) small city, town or village; 3) a suburb; or 4) an urban community. When crosstabulated with the strategies described previously, the more urban the resident, the more in favor the respondent was of the strategy. Of people who claimed to be from urban communities, 45 percent were strongly in favor of giving tax breaks to business locating or located in central cities. Yet, 43 percent of suburbanites had the same opinion, as did 39 percent of small town residents. Even 32 percent of people who come from rural areas were strongly in favor of the policy. If the strongly favor and the somewhat favor responses are combined, the differences between the responses by urban status of the respondent almost disappear. About 89 percent of urbanites were in favor of giving tax breaks to businesses locat-

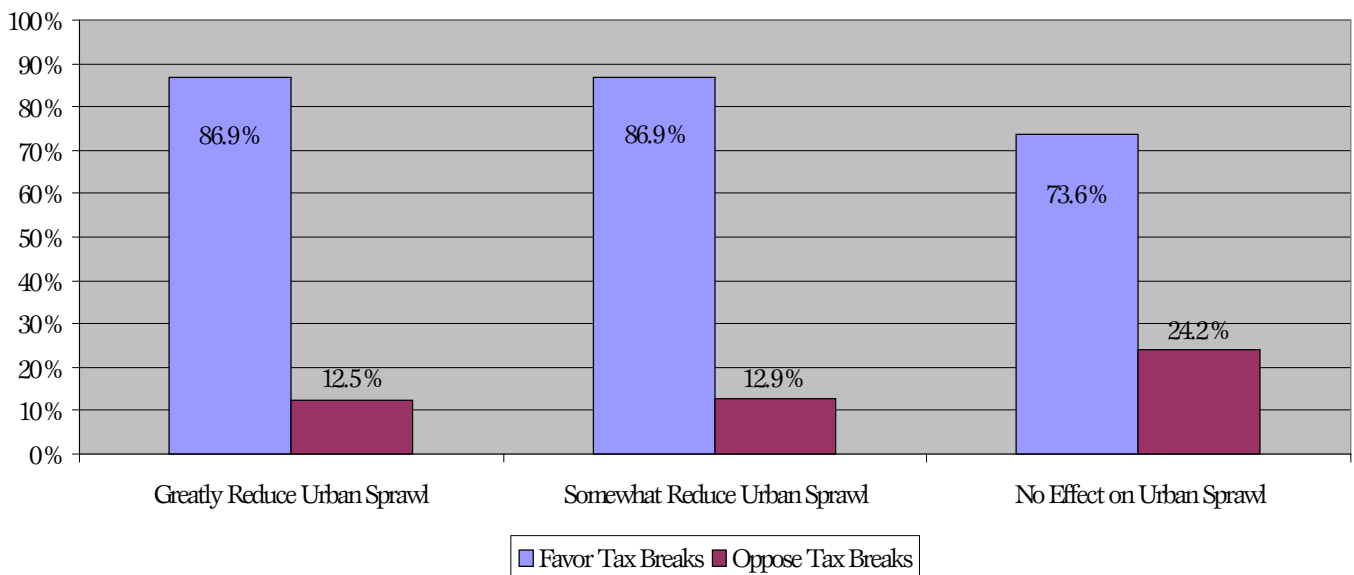
ing in central cities, for example. Also, 89 percent of suburbanites and 83 percent of small town residents and 83 percent of rural households expressed the same view. These patterns are consistent across all tested urban development strategies. Again, all state residents continued to be surprisingly willing to put resources toward the rejuvenation of older central cities in the form of incentives for businesses and families.

Looking at responses by region of the state also exhibits the wide-spread nature of the positive response. Detroit residents clearly favored state incentives to promote inner-city redevelopment the most (64.2 percent). A surprising half of the residents of Michigan’s Upper Peninsula, who all live more than 200 miles from a Michigan metropolitan central city, also expressed that they strongly favor such state policy.

Correlating favorability toward public-private partnership strategies with other attitudes expressed in the survey also provides some insight. As one might expect, people who think that inner-city redevelopment would reduce sprawl are also in favor of using incentives to promote inner-city redevelopment. As is shown in Figure 8, respondents who believed that redeveloping deteriorated, underused areas would reduce sprawl were also more likely to strongly or somewhat favor tax breaks for businesses locating in the inner city. However, even among those respondents who did not believe that redeveloping deteriorated areas would reduce sprawl, some 73.6 percent still favored tax breaks for businesses locating in the inner city. At most, only 24.2 percent of respondents said that they strongly or somewhat opposed these tax breaks.

Figure 8.

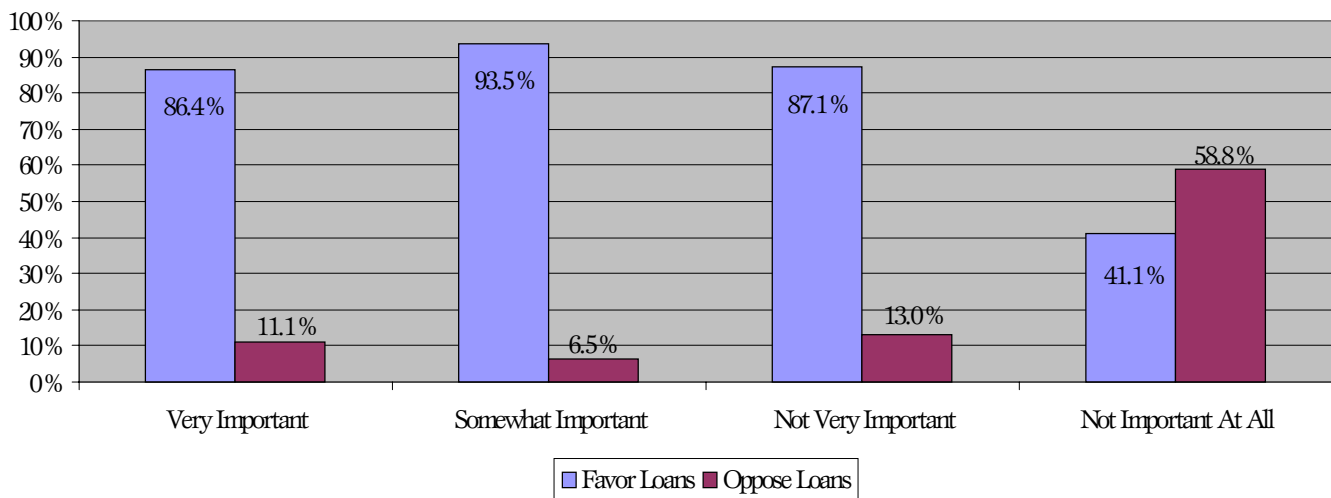
Whether redeveloping deteriorated, underused areas would reduce sprawl, and perceptions on tax breaks for businesses locating in the inner city



Another area that was analyzed was whether the level of importance an individual places on the well-being of Detroit impacts their support of various measures to induce investment in inner cities. As shown in other questions, far fewer people across the state are concerned with the well-being of Detroit than they are the well-being of Michigan's cities in general. And, fewer people see the well-being of Detroit as critical to the state's success. However, those people across the state who place importance on the well-being of Detroit are the most positive about using state incentive programs to induce investment in inner cities. The following figures show this relationship.

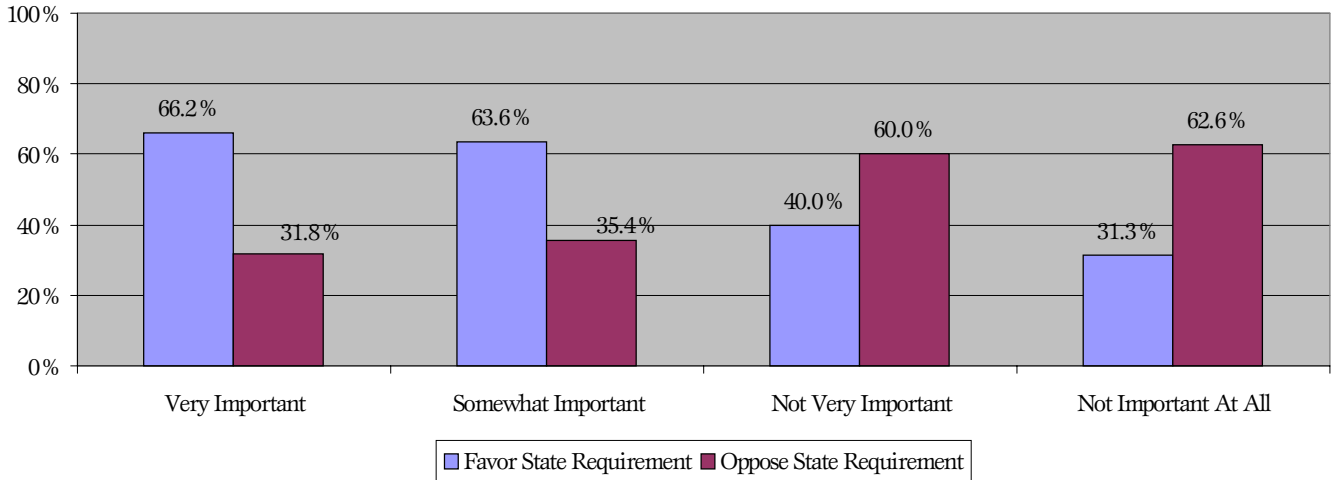
One state incentive program provides low-interest loans for businesses located in the inner city. Figure 9 shows that all respondents but those who thought that the well-being of Detroit was not important at all to the well-being of Michigan, strongly or somewhat favored providing low interest loans. Even some 87.1 percent of respondents who thought that Detroit was not very important to Michigan, still strongly or somewhat favored providing low interest loans.

Figure 9.
Importance of the well-being of Detroit for the well-being of Michigan and
perceptions on providing low interest loans for businesses
located in the inner city



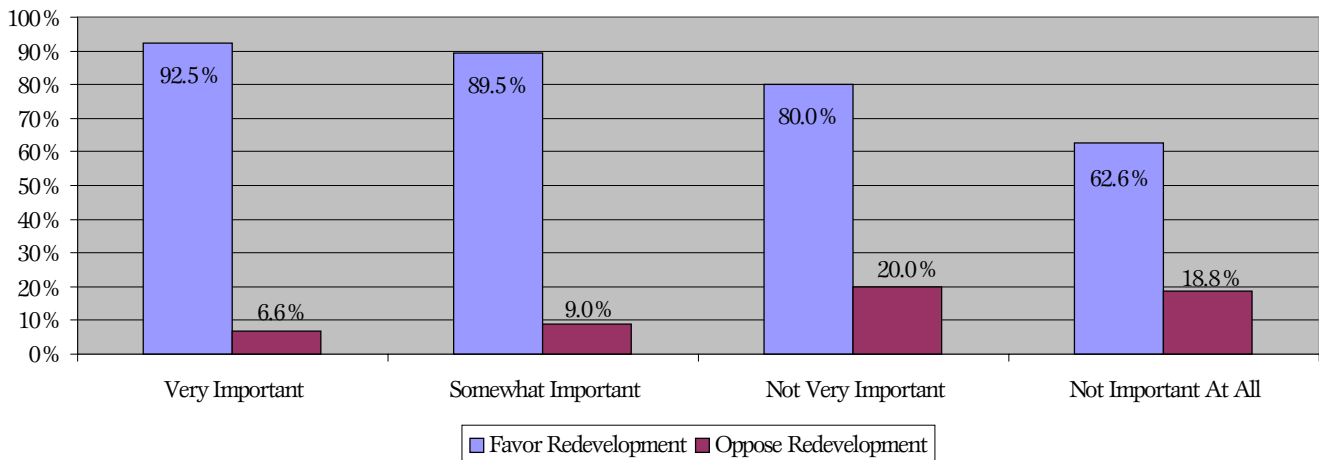
Another state incentive program requires the state of Michigan to purchase a certain percentage of goods and services from businesses located in the inner city. Figure 10 shows that among those who believe that the well-being of Detroit is very or somewhat important to the well-being of Michigan, the majority of respondents, 66.2 percent and 63.6 percent respectively, strongly or somewhat favored Michigan purchasing a certain percentage of Detroit's goods and services. Among those respondents saying that the well-being of Detroit was not very important or not important at all to the well-being of Michigan, the majority of respondents, 60 percent and 62.6 percent respectively, were strongly or somewhat opposed to this program.

Figure 10.
Importance of the well-being of Detroit for the well-being of Michigan and perceptions on requiring the state to purchase a certain percentage of goods and services from businesses located in the inner city



A third state incentive program redevelops the infrastructure and public facilities in the inner city. Respondent perceptions of this program are shown in Figure 11. Even a majority of those respondents who believe that the well-being of Detroit is not important at all to the well-being of Michigan, strongly or somewhat favor redeveloping the inner-city infrastructure and public facilities. Among those who said that the well-being of Detroit was very important, somewhat important, and even not very important to the well-being of Michigan, an overwhelming majority strongly or somewhat favored this state incentive program.

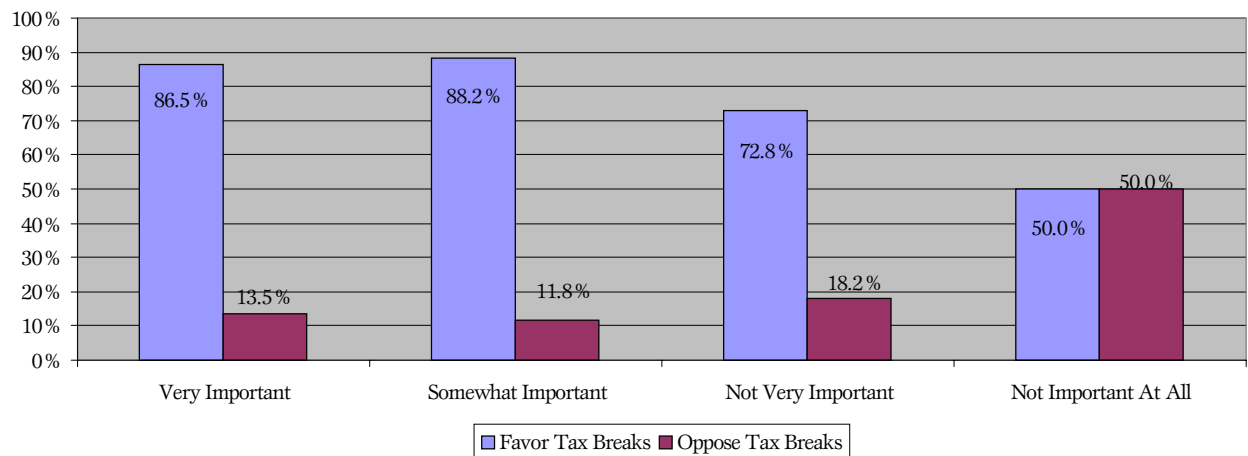
Figure 11.
Importance of the well-being of Detroit for the well-being of Michigan and perceptions on redeveloping the infrastructure and public facilities in the inner city



Finally, respondents were asked about the relationship between the importance of the well-being of Michigan cities, not just Detroit, to the well-being of Michigan. These responses were broken down by those who strongly or somewhat favored and those who strongly or somewhat opposed providing tax breaks for businesses located in the inner city. In Figure 12, we see that respondents who said that the well-being of Michigan cities was very important, somewhat important, and even not very important overwhelmingly strongly or somewhat favored tax breaks. Respondents who believed that the well-being of Michigan cities was not important at all to the well-being of Michigan were evenly split as to whether they favored or opposed providing tax breaks for businesses located in the inner city.

Figure 12.

Importance of the well-being of Michigan cities for the well-being of Michigan and perceptions on providing tax breaks for businesses locating in the inner city



When comparing people’s attitudes about which level of government should be responsible for controlling sprawl to their attitudes about using state incentives to promote inner-city redevelopment, a mismatch seems to occur. In one question residents were asked which level of government should be responsible for sprawl. The choices were 1) federal government, 2) state government, 3) county government, 4) metropolitan regional councils, 5) local government and 6) private individuals and businesses. Supporting the idea of state incentives implies an activist state. Yet, people who believe that metropolitan regional councils are the most important institution in combating sprawl are the group most supportive of state incentives for inner-city redevelopment. For example, some 95 percent of this group strongly or somewhat strongly support tax breaks for businesses.

Three different family status characteristics are used by SOSS. They are: 1) marital status, 2) number of children and 3) number of children in the house under age five. Looking at each of these variables, and using the state-wide sample, respondents who are or were married and/or have children are generally more favorable toward inner-city redevelopment strategies that provide incentives for families to move to inner cities.

PROJECT CONCLUSIONS

Information from all of the statistical research, survey interviews, study tours, and discussions with experts, practitioners and political leaders has been pulled together to draw conclusions to inform state policy. These project conclusions are found throughout this study report, the policy briefs, and the book chapters produced by the project. Conclusions can be briefly summarized as follows:

- 1) Decline of the state's metropolitan central cities is very costly to the state in a variety of ways. One costly aspect of inner-city decline is the way it inhibits the state's ability to diversify its economy and to attract businesses with leading edge technologies.
- 2) Redevelopment of inner cities is most efficient from the inside out. New firms attracted to the state from the outside will seldom locate in inner cities, and when they do, they seldom employ inner-city residents.
- 3) Small business development and the development of an entrepreneurial culture are important to the inside-out approach to the redevelopment of inner cities and to the diversification of the state's economy.
- 4) Redevelopment of inner cities requires a public-private partnership approach that uses minimal public resources, public powers and public expertise to leverage large amounts of private investment and private involvement in inner-city redevelopment.
- 5) Some evidence suggests that Michigan residents from all parts of the state and all social groups are concerned about the decline of the state's inner cities. This is true partly because they are concerned about sprawl. They see aging inner-city redevelopment as a way of mitigating sprawl.
- 6) A high percentage of state residents are either very in favor or somewhat in favor of using state resources to provide incentives to businesses and families who locate in inner cities. They are in favor of such policies even if adoption of them takes resources away from other state programs.

7) A great array of incentive methods are used by other states to promote an entrepreneurial culture and business development. Some of these incentives can be provided at almost no cost to the state using them and have applicability in Michigan.

8) One of the most cost-effective economic development programs to be found in the United States is one that was invented in Michigan but later abandoned for political reasons. It is the Capital Access Program. This program should be reinstated.

An overriding conclusion is that continuing objective research would help policymakers know which policies are working and which are not. Little objective research exists nationally on the effectiveness of local business development and economic development programs.

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