

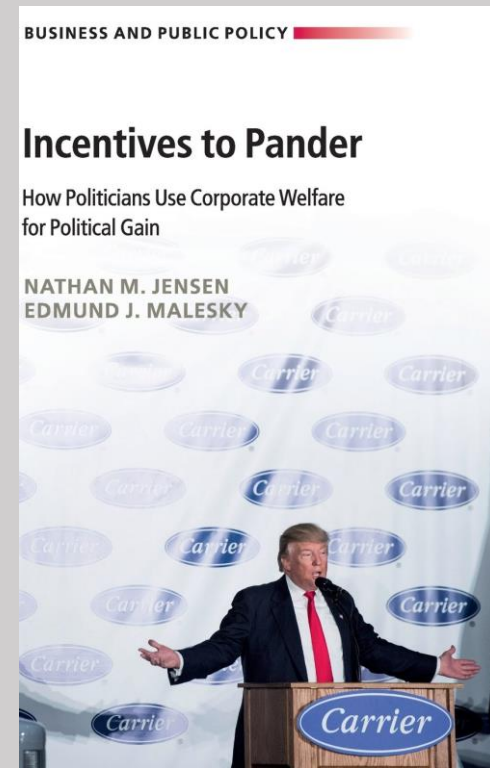
Who Benefits? Subsidies and Community Benefits in Michigan

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Politics of Incentives and Subsidies

- Incentives are popular among politicians
- Incentives allow leaders to claim credit
 - Menino Survey of Mayors, 2018: 84% of mayors say recruiting companies with financial incentives is good policy for their cities
 - “We are thrilled that Amazon has selected New York City for its new headquarters”
 - NYC Mayor Bill de Blasio

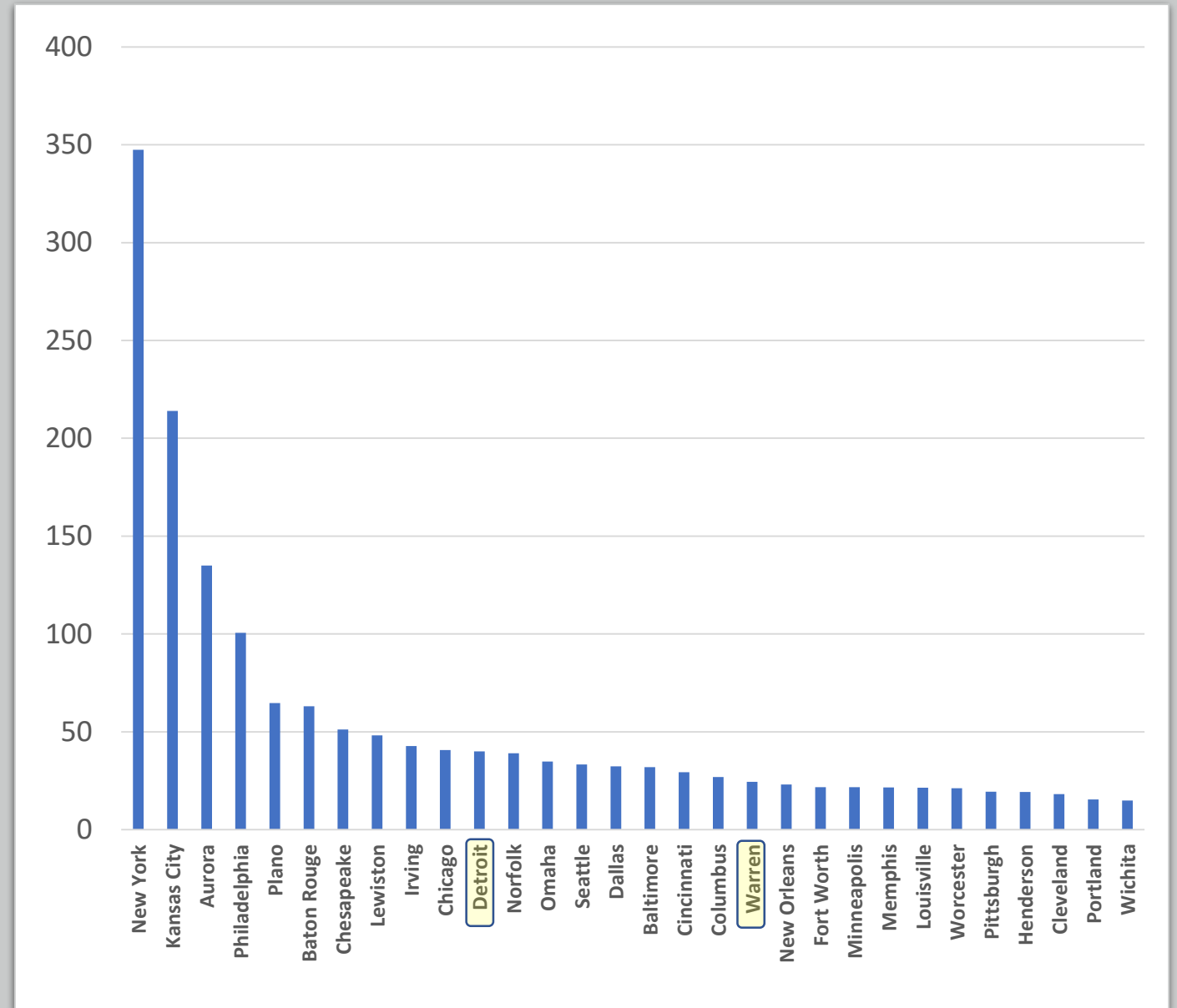
But...is the local politics shifting on this issue?



Local Revenue Losses are Real

- From cities' Comprehensive Annual Financial Reports
- **Why did GASB require reporting revenue losses to subsidies?**
 - Tax abatement programs “can have substantial effect on governments’ ability to generate revenue and their overall fiscal health”
- 68 cities in 2018 reported \$3.8 billion in losses due to non-housing subsidies

Per Capita City Revenue Losses to Tax Subsidies (non-housing) in 2018



Revenue Loss in Michigan Cities

- As reported on Comprehensive Annual Financial Reports- losses due to non-housing tax subsidies

	2018
Detroit	\$27.38 million
Warren	\$3.29 million
Grand Rapids	\$1.61 million
Sterling Heights	\$1.39 million
Ann Arbor	\$309,000

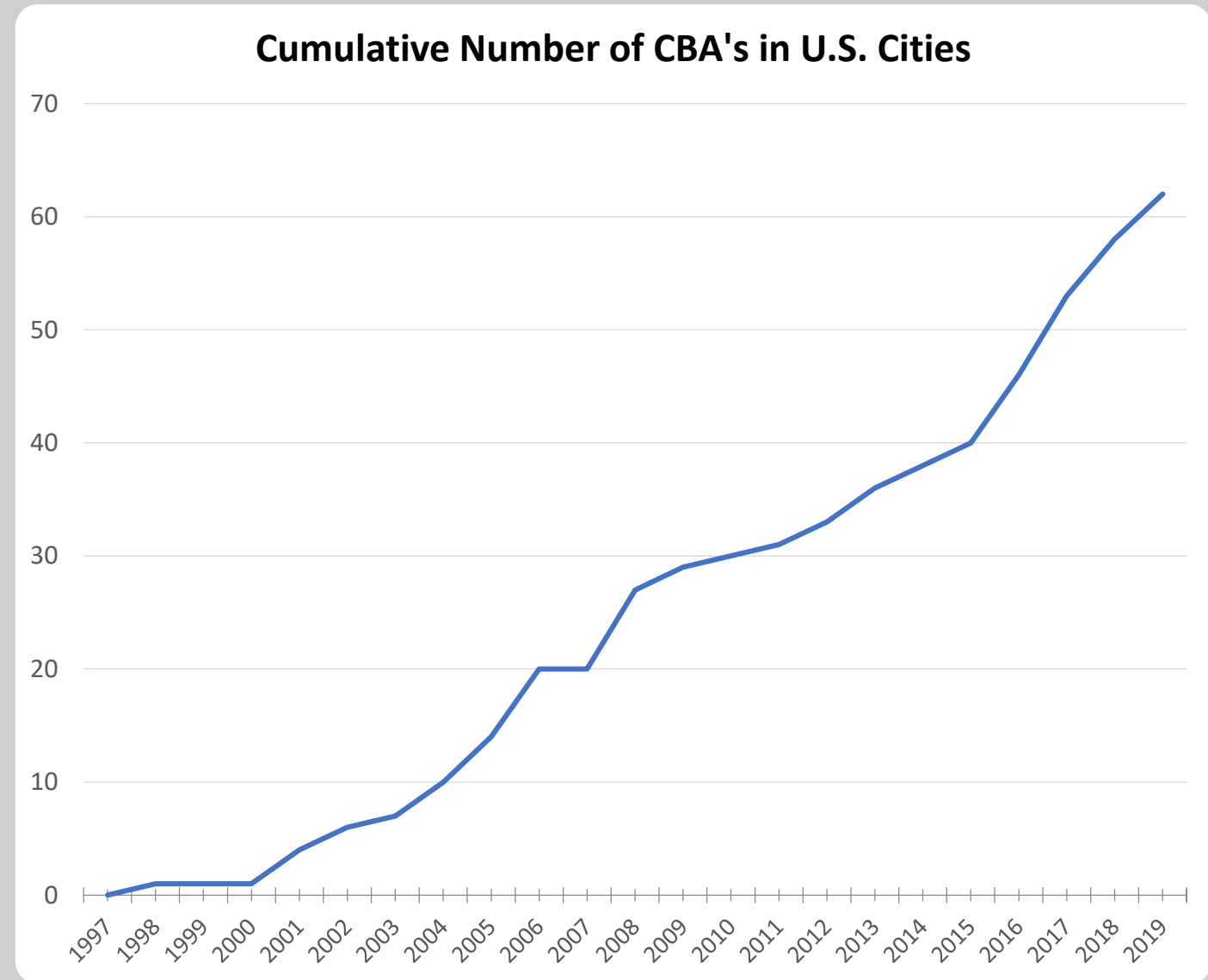
Responding to Subsidies- expand benefits?

- Community Benefits Agreements:
 - Require a developer to agree to mitigate impacts or provide amenities to impacted community
 - Negotiated by developer and other parties (may include city government, community-based organizations, unions, and other nonprofits)
 - Signed contracts, but enforcement is in question



Community Benefits Agreements

- Model developed in LA in late 1990s
- L.A. Live CBA
 - Major subsidized entertainment district
- What comes out of a CBA?
 - Affordable housing, local hiring, living wage, public amenities, payments to city or nonprofits
 - Research on follow through suggests agreements do not always produce outcomes



Turning Points in State and Local Subsidy Politics in Detroit

- **2011**- Governor Snyder proposes budget to cut subsidies
- **2013**- major new subsidized project- Little Caesars Arena- gets greenlight from state & local officials
- **2013**- Detroit municipal bankruptcy
- **2014**- Founding of Equitable Detroit Coalition



Community Benefits Ordinance in Detroit

- 2016- 2 CBO proposals on ballot
 - Proposal A- backed by Equitable Detroit Coalition
 - Proposal B- added by City Council (wins)
 - Projects over \$75 million in value; receiving more than \$1 million in abatements or land
 - Negotiations take place between developer and 9-member neighborhood advisory council



Detroit - first city to adopt a Community Benefits Ordinance

- Executive Order 2016-1: projects over \$3 million in assistance- 51% of workforce “bona-fide Detroit residents”





Detroit CBO: How is it going?

- 11 projects in CBO process

Project Name	Subsidies \$	Examples- Benefits paid	Local hiring share
Michigan Central Station (Ford)	\$311 million	\$2.5 million- affordable housing fund \$25,000- bird habitat	15.4%
Little Caesar's	\$329.1 million	\$1.25 million- park improvements	10.2%
Hudson's	\$618 million	\$1.25 million- schools (career tech)	
Monroe Block/Book Tower			31.9%
Fiat-Chrysler	\$223.5 million	\$4 million- schools (career tech) \$500,000 – Detroit Land Bank Authority	
Lafayette West	\$5 million	\$6,795 – Chrysler Elementary School	
Herman Kiefer	\$47 million	??	

Conclusions

- Cities lose revenues to subsidies
- Community benefits agreements offer more involvement and transparency
- But- transaction costs of development appear to be growing
 - Subsidy negotiations- at both state and local level
 - Added transaction costs due to community benefits
- Subsidies + community benefits → costly and complicated process to negotiate economic development