Who Benefits?
Subsidies and Community Benefits in Michigan

Sarah Reckhow
Michigan State University
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
Revenue Loss in Michigan Cities

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

<table>
<thead>
<tr>
<th>City</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detroit</td>
<td>$27.38 million</td>
</tr>
<tr>
<td>Warren</td>
<td>$3.29 million</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>$1.61 million</td>
</tr>
<tr>
<td>Sterling Heights</td>
<td>$1.39 million</td>
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<tr>
<td>Ann Arbor</td>
<td>$309,000</td>
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</tbody>
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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**

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