

Economic Development: Why Abatements and Tax Increment Financing Create Jobs at the Local Level

Summary

Economic development is necessary for job creation and revitalization in Michigan and developed communities drive the state's economy. Industrial, commercial, and residential economic development comes through public and private investment, and economic development tools often seal the deal. Businesses expect communities to provide local services such as roads, public safety (police, fire, EMS), parks, sewer and water, etc. Municipal leaders must balance the need for taxes to support these services versus giving up tax dollars to lure jobs and economic development. Investment starts at the local level and the benefits spread to all, so municipalities should control when and how incentives are granted.

Abatements

PA 198's, Renaissance Zone, Commercial Rehab, etc.

Infrastructure and services in communities attract and retain people and jobs to Michigan. Already-developed communities often need tax abatements to bring in jobs. This is best controlled at the municipal level, where economic development and revitalization efforts are most efficient.

Tax abatements can provide economic stimulus, while also having great revenue implications for services. This is true for all taxing jurisdictions. If a proposed project (commercial or residential) is to be successful, all taxing jurisdictions must suffer short-term pain for long-term gain. While all taxing jurisdictions lose some tax dollars in the short-term when abatement is granted, this ignores the tremendous gain that each taxing jurisdiction makes in revenues, jobs and investments in the long-term.

Economic development and revitalization make up for the losses to all the taxing jurisdictions, and there is significant long-term gain when the abatements expire. There are new jobs, and more taxes captured for the state, county, library district, fire authority, municipality, etc. These benefits outweigh the direct tax losses. And, this does not include new spending in the region (new customers, foot traffic, business investment, etc.) which leads to new sales tax revenues.

Abatements are about jobs. Abating a business tax is done to attract or retain businesses and jobs in Michigan. Projects given abatements need every dime they can get, and allowing taxing jurisdiction to veto or be removed from these abatements is counterintuitive to streamlined government. Municipal officials approve abatements because they know the result will be an increase in economic development and a boon to the local economy. This is true for all taxing jurisdictions, and is regionalism at its best.

Abatements are arranged and negotiated at the municipal level and doing this otherwise would greatly reduce the effectiveness of these abatements. Municipalities (especially cities) have more millage-generated dollars to work with. A city can abate up to 20 mills in a renaissance zone, while the county has about 6 mills. Combining these, in addition to state tax abatements, is the most effective way to attract projects. Removing others from this combined pot of dollars will lessen job creation needed to attract jobs and projects to Michigan. That is why, historically, municipalities grant abatements when appropriate (in consultation with other taxing jurisdictions) and everyone wins in the long run!

Tax Increment Financing

Downtown Development, Corridor Improvement, Brownfield, Neighborhood Improvement, etc.

Tax increment financing (TIF) is another tool locals use to boost economic development, but this does not have immediate loss to any taxing jurisdiction. TIF is based on the premise that new jobs and tax revenues would not have happened unless the authorities using TIF were created. If a corridor improvement authority (CIA) is not created to clean up the major corridor of the city, then there is no benefit to any taxing jurisdiction because there is no new development and no new revenue.

While municipalities set up authorities that use TIF, other taxing jurisdictions have generally been granted opt-outs from tax capture. The problem with opt-outs (or opt-ins or vetoes or exemptions) is that districts with TIF only work when dollars are pooled together for investment. If the city wants to create a downtown development authority (DDA) and all the county opts-out, there is no pooling of dollars for economic development. A community can always allocate their own funds to DDA activities, but this is not enough money. Dollars are needed from all taxing jurisdictions to ensure there will be enough to attract the economic development. And remember, this is new money that would not be there otherwise. Without combining resources, the community does not prosper further, jobs are not created and no taxing unit sees increased revenues.

One good example of this are DDAs. Before 1994, DDAs were able to capture property taxes from all other taxing jurisdictions. What happened after 1994? School taxes were removed and opt-outs were created in the law for other taxing jurisdictions. Now, other taxing jurisdictions keep their money out of these TIF districts, but still reap

the rewards. There have been few new DDAs and few DDA expansions because other taxing jurisdictions would be able to opt-out and there would be too small of a pool of dollars. Compare this to brownfields, where the locals can capture state dollars. Unlike DDAs, brownfield authorities have greatly increased in number and this is the most successful economic development tool that a community can use!

DDAs, CIAs and other authorities using TIF are beneficial on a multi-jurisdictional level and can be important tools for attracting people and jobs to communities. TIF is not just a way to add flower-boxes to downtowns as some have claimed; they can create tremendous economic development including façade improvement, retail incubators, business loans, investing in historic buildings, revamping infrastructure and other tools that fill storefronts with jobs and traffic. They also lead to increased traffic, higher property values and increased property and sales taxes benefitting all taxing jurisdictions. And should this go awry, the municipality can end the Authority or change the board members. Having to ask other taxing jurisdictions for approval and permission for funds would slow progress for improvements to a snail's pace. All benefit from the improvements and all should contribute.

Conclusion

Economic development is necessary and important to bring jobs and residents to Michigan. Abatements, TIF and other economic development tools need to be controlled at the local level to revitalize Michigan and its communities, create jobs and attract workers and residents. Cities, villages and urban townships need the authority to control this economic development to create a healthy, thriving state.