

## Tax Abatements: Past Practice and Current Policy Implications



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## Overview



- Tax Abatements—Definition and Debate
- Past Practice in Michigan
- Policy Implications
- Best Practices

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## Public Act 198 of 1974



- Economic Development Tool
  - Not urban revitalization
  - No targeting
- Job Retention
  - Encourage capital investment
  - Reduction in property taxes

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### Evaluations of Tax Abatements

- Less growth than desired
- Negative secondary impacts
- Do not influence firm location decisions
- Positive effects are short lived
- Minimal “spill over” effects
- Insufficient to offset negative attributes

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### Criticisms of Tax Abatements

- Only effective at margin
- “Zero sum” game
- Corporate welfare
- Primarily used by fiscally healthy cities
- Not cost effective

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### PA 198 Tax Abatement Data Base

- Data from the Michigan Economic Development Corporation
- All abatements awarded from 1980-2001
- Number of abatements, projected real and personal property investment, and projected retained and created jobs

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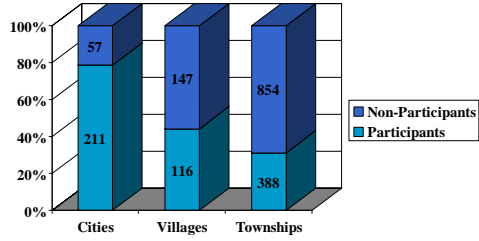
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## Users of PA 198




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## Abatement Equity Propositions

- Abatement activity will be higher in distressed communities
- Relative tax loss will be lower in distressed communities
- Tax abatements will promote economic growth

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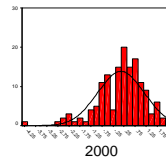
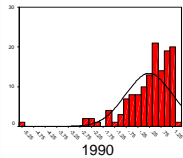
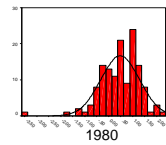
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## Health Index Frequent Users

	Standard Deviation	Mean
1980	0.81	.48
1990	1.01	.23
2000	1.06	.11




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## Intra-Metropolitan Equity

- Detroit
  - Wayne, Oakland, Macomb Counties
- Grand Rapids
  - Kent County
- Central city, Suburbs, Exurbs
- Most abatement activity 1980-2001

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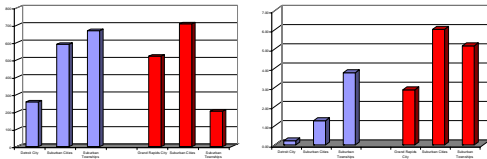
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## Certificates

Total                      Per capita




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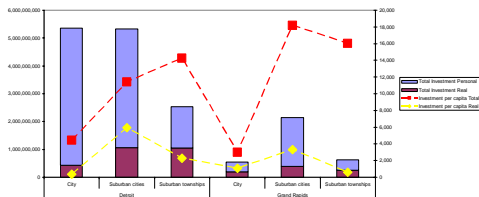
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## Investment




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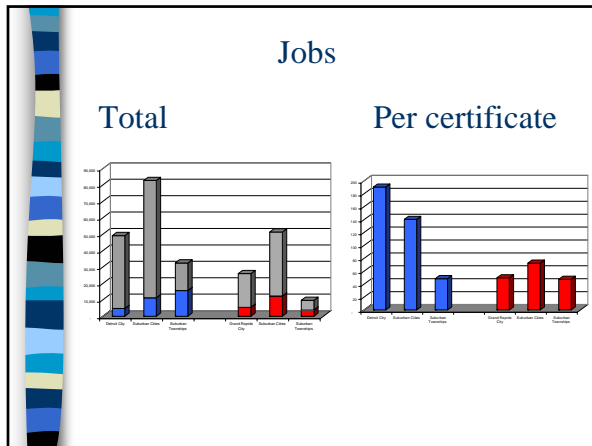
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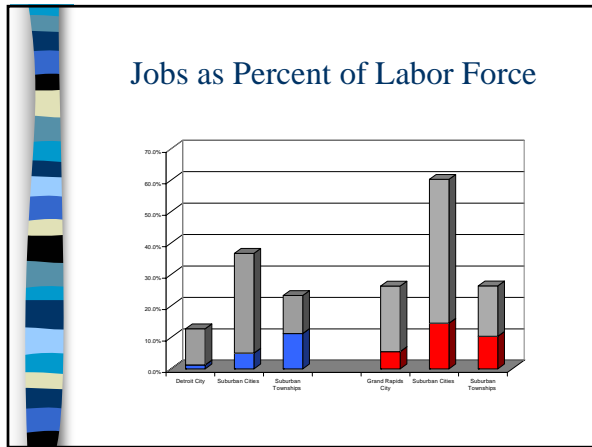
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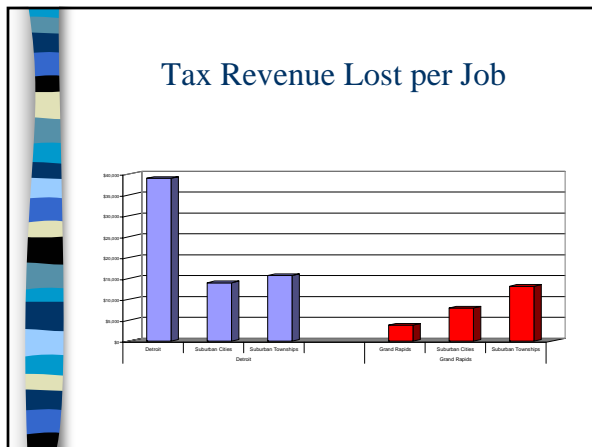
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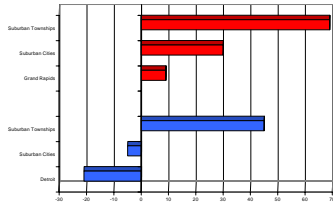
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## Change in Health Index




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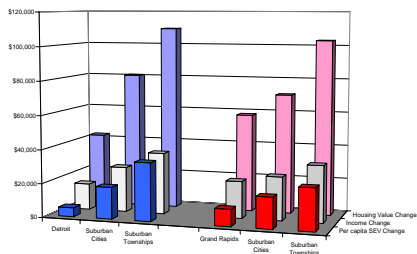
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## Change in SEV per capita, Income and Housing Values




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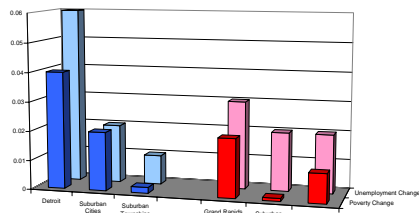
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## Change in Poverty and Unemployment Rates




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### Abatements and Central Cities

- Abatements attract little new business to distressed cities
- Investment in central cities is high, but job creation is low
- Distressed central cities are highly dependent on abatements for jobs

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### Abatements and Suburbs

- Abatements in exurbs are associated with real property and new jobs
- Abatements by exurban communities contribute to sprawl
- Per capita abatements are higher in exurbs

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### Abatements and Tax Loss

- Tax losses on abated investment highest in central cities
- Exurbs have a higher tax loss than older suburbs
- The “cost” per job in Grand Rapids is significantly less than in Detroit

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### Abatements and Economic Growth

- Frequent use associated with declining economic health
- Occasional use associated with stable economic health
- Some distressed communities improved but remain highly distressed

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### Policy Recommendations: State

- Limit to distressed communities
- Limit number of abatements
- Limit dollar value of investment that can be abated
- Favor abatements for new jobs and real property investment
- Increase education efforts
- Require cost-benefit assessments

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### Policy Recommendations: Local

- Revise local policy process
- Limit number of abatements
- Limit dollar value of investment that can be abated
- Favor abatements for new jobs and real property investment
- Require cost-benefit assessments
- Monitor investment made/jobs created
- Increase public education efforts

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### What Do You Think?

- How open will local elected officials be to these recommendations?
- What more can be done to communicate the issues and encourage policy change?
- What next steps would you recommend?

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