HISTORY AND IMPACT OF THE MEGA PROGRAM

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Michigan Economic Growth Authority (MEGA) Background

- Established in 1995 in response to interstate competition (PA 24 of 1995)

  --History of the time and the SBT, Work Comp and other business cost issues

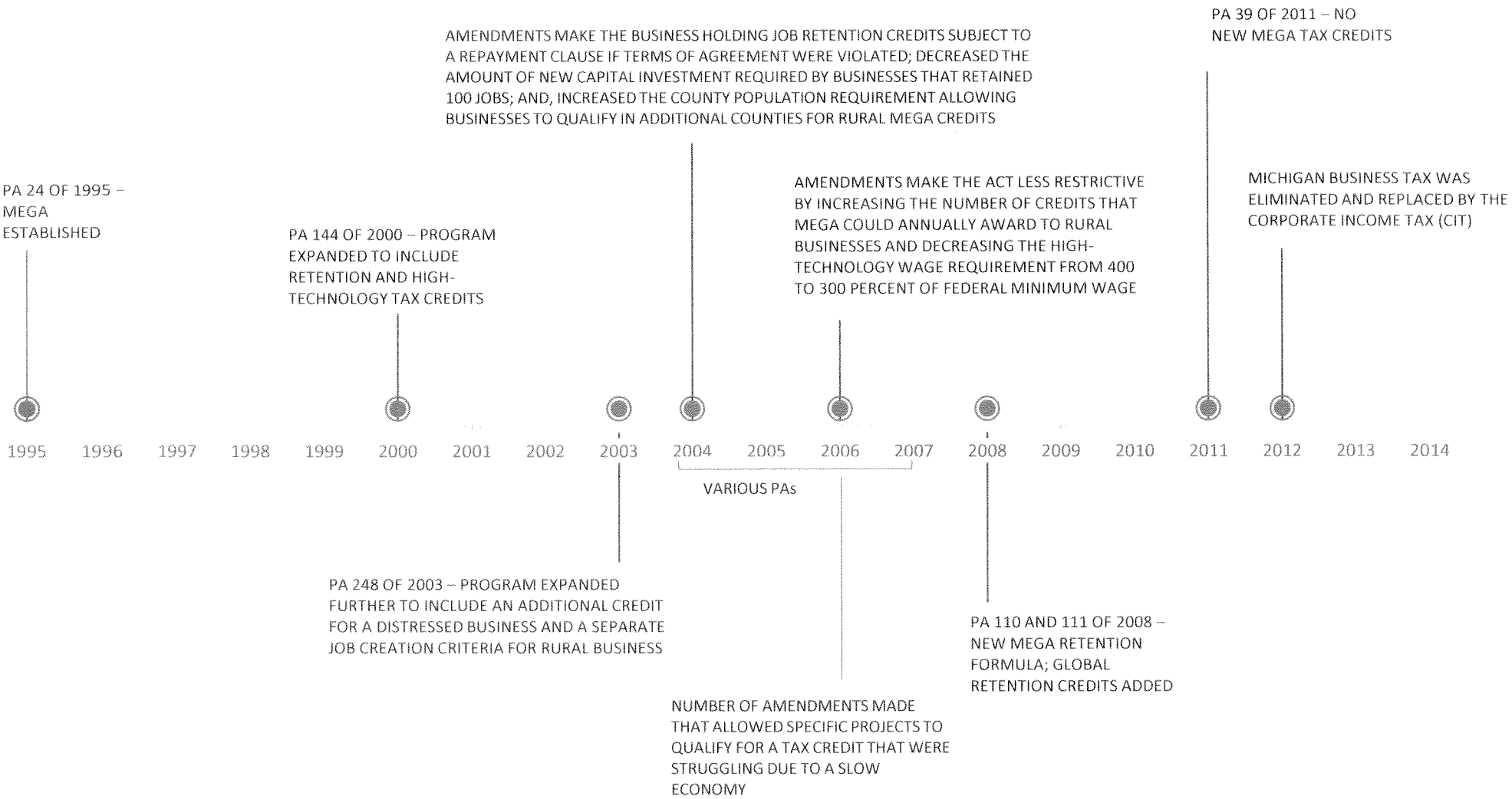
- Tax credits for companies to create jobs and invest capital in Michigan then became a job retention program

- Program has spanned three administrations under three business tax codes

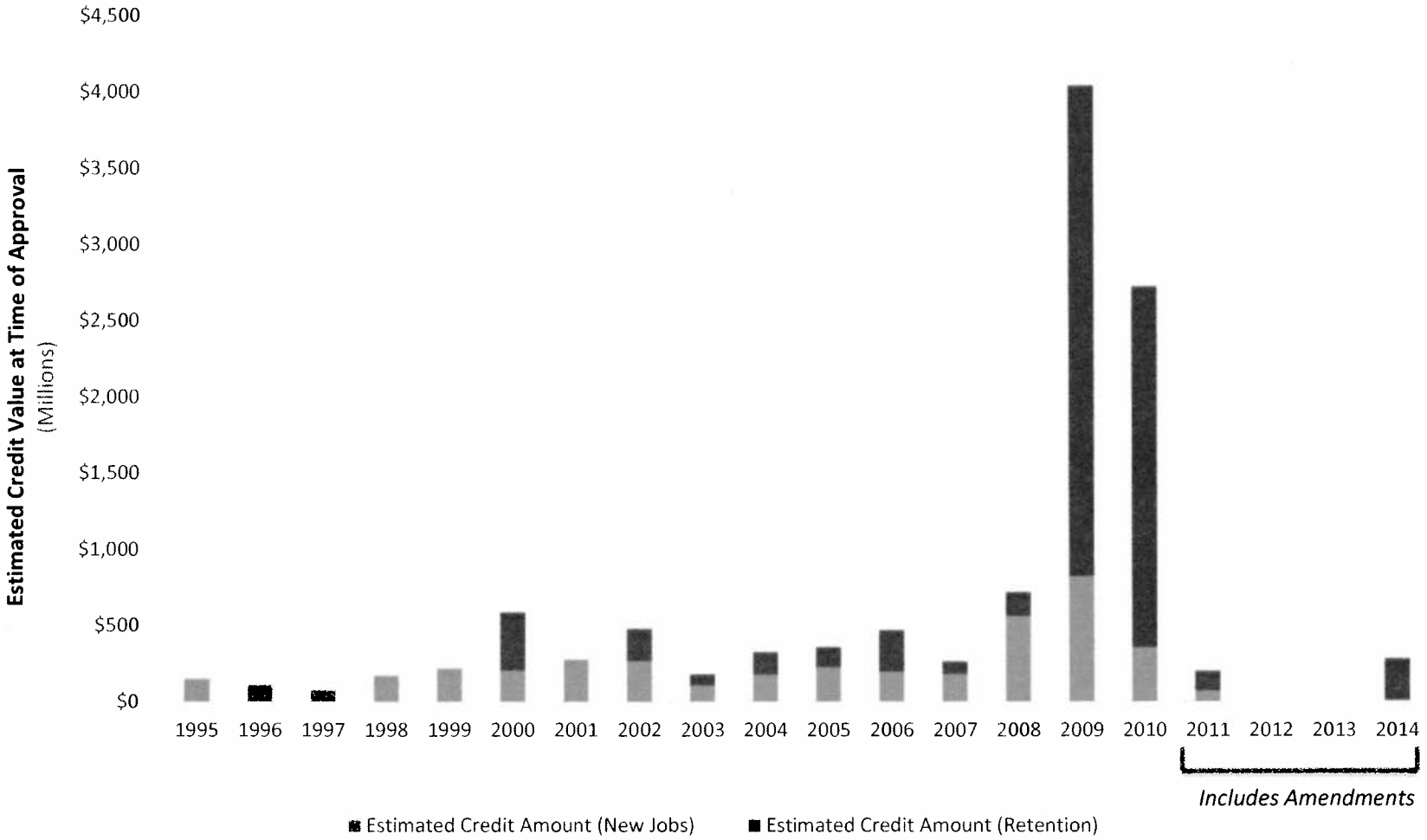
  --The program in changing economic times and the Great Recession

- No new agreements after 2011 (PA 39 of 2011) and the change to MBDP

MEGA History



Value of MEGA Approvals[1] by Calendar Year



1. Original estimates at time of MEGA board approval.

MEGA Retention Formulas Pre-April 2008

- Major formulas:

MCL 207.808(5)a

$$50\% * (Jobs * Wages) * \text{Personal Income Tax Rate} = \text{Tax Credits for One Year}$$

Up to 50% of the payroll of authorized business attributable to employees who perform retained jobs if a company invests at least $250 million and retains 500 jobs

MCL 207.808(5)b

$$(Jobs * Wages) * \text{Personal Income Tax Rate} = \text{Tax Credits for One Year}$$

If a company invests more than $500 million and retains at least 500 jobs, 100% of the payroll of authorized business attributable to employees who perform retained jobs are eligible

- There were more than ten specialized formulas.

MEGA Retention Formula Post-April 2008

$$(\text{Jobs} * \text{Wages and Health Care Benefits}) * \frac{New\ Capital\ Investment}{(Retained\ Jobs * \$100{,}000)} * \text{Tax Rate} = \text{Tax Credits for One Year}$$

In order to qualify, a company must have at least $50,000 in investment per job and at least 50 jobs.

New capital investment to retained jobs ratio cannot exceed 100%.

The tax rate is the personal income tax rate of the year the credit is claimed.

Example of Difference in Formulas

Scenario:
3,000 jobs
$60,000 in wages
$15,000 in health care benefits
$250,000,000 in capital investment

MCL 207.808(5)a Formula

Example:

Step 1 $50\% * (3{,}000 * \$60{,}000) * 4.25\%$

Step 2 $\$90{,}000{,}000 * 4.25\% = \boxed{\$3{,}825{,}000}$

Post-April 2008 Formula

Example:

Step 1 $(3{,}000 * \$75{,}000) * \frac{\$250{,}000{,}000}{(3{,}000 * \$100{,}000)} * 4.25\%$

Step 2 $\$225{,}000{,}000 * .83 * 4.25\% = \boxed{\$7{,}968{,}750}$

Post-2008 incentive is 2X larger in this scenario

Unpredictability of Liability

- Unpredictability exists each year due to:
  - Actual amount of the tax credit varies based upon jobs, W-2 wages, health care benefits and investment levels
  - No legal requirement for companies to submit tax credits in the year it was certificated
  - Economic growth in wages and investment
  - Estimations are made on company provided data at start of program

Example: Impact of Wage and Investment Growth

Potential Original Yearly Estimate

$$(3{,}000 * \mathbf{\$75{,}000}) * \frac{\$250{,}000{,}000}{(3{,}000 * \$100{,}000)} * 4.25\% = \textit{\$7,968,750}$$

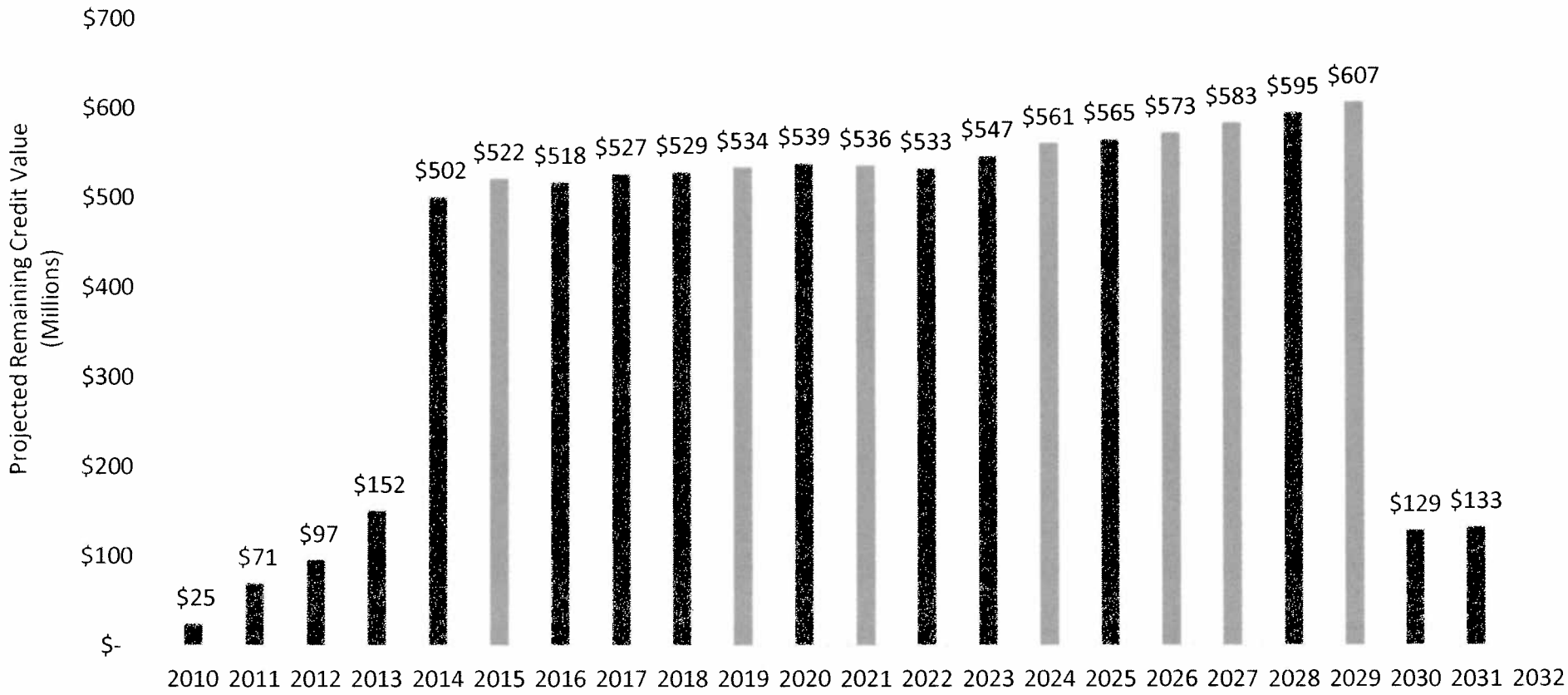
Potential Revised Yearly Estimate

$$(3{,}000 * \mathbf{\$81{,}000}) * \frac{\$300{,}000{,}000}{(3{,}000 * \$100{,}000)} * 4.25\% = \textit{\$10,327,500}$$

30% difference

Revised Liabilities Estimate

The revised estimate for the total MEGA liability is $9.38B and 95% of the liability is due to Retention MEGAs.



Going Forward

1. No amendments that increase liability

2. Ask that credits be taken in the year certified

3. Ask credit holders to annually project a 3-year credit redemption with an annual "not to exceed" statement

4. Credit liability estimation process made part of the consensus revenue estimating conference

5. Proceed with credit holder discussions that create mutually agreed upon modifications for revenue transparency, credit stability and continued job growth

Future State Policy for Business Attraction

- National incentive landscape not entirely rational
- MBDP—Michigan competes nationally at nearly all levels
- There have been and will be large transformational projects requiring a large pool of talented workers
- Addressing the inevitable—Proactive policy considerations

Largest National Incentive Deals in 2014

Company	Project Type	Location	Incentive Value[1]	Jobs[2]	Cost Per Job
Tesla Motors	Manufacturing	Reno, NV	$1,330,000,000	6,500	$204,615
SolarCity	Manufacturing	Buffalo, NY	$750,000,000	2,900	$258,621
Northrop Grumman	R&D	Melbourne, FL	$471,000,000	920	$511,957
Northrop Grumman	Manufacturing	Los Angeles, CA	$420,000,000	1,500	$280,000
Lockheed Martin	Manufacturing	Sacramento, CA	$420,000,000	1,100	$381,818
United Technologies	Manufacturing	East Hartford, CT	$400,000,000	3,000	$133,333
Holtec International	Manufacturing	Camden, NJ	$260,000,000	395	$658,228
JPMorgan Chase	Business Services	Jersey City, NJ	$224,000,000	1,900	$117,895
Sayreville Seaport Associates	Construction	Sayreville, NJ	$223,000,000	3,900	$57,179
GD Copper	Manufacturing	Sunny South, AL	$202,000,000	500	$404,000

1. Site Selection Group, Jan 16, 2015.
2. Job figures were obtained from the Reno Gazette-Journal, the Orlando Sentinel, the New Haven Register, WIVB.com, Ventura County Star, the Philadelphia Business Journal, Bloomberg Business, The Guardian, and AL.com.

MEGA vs MBDP

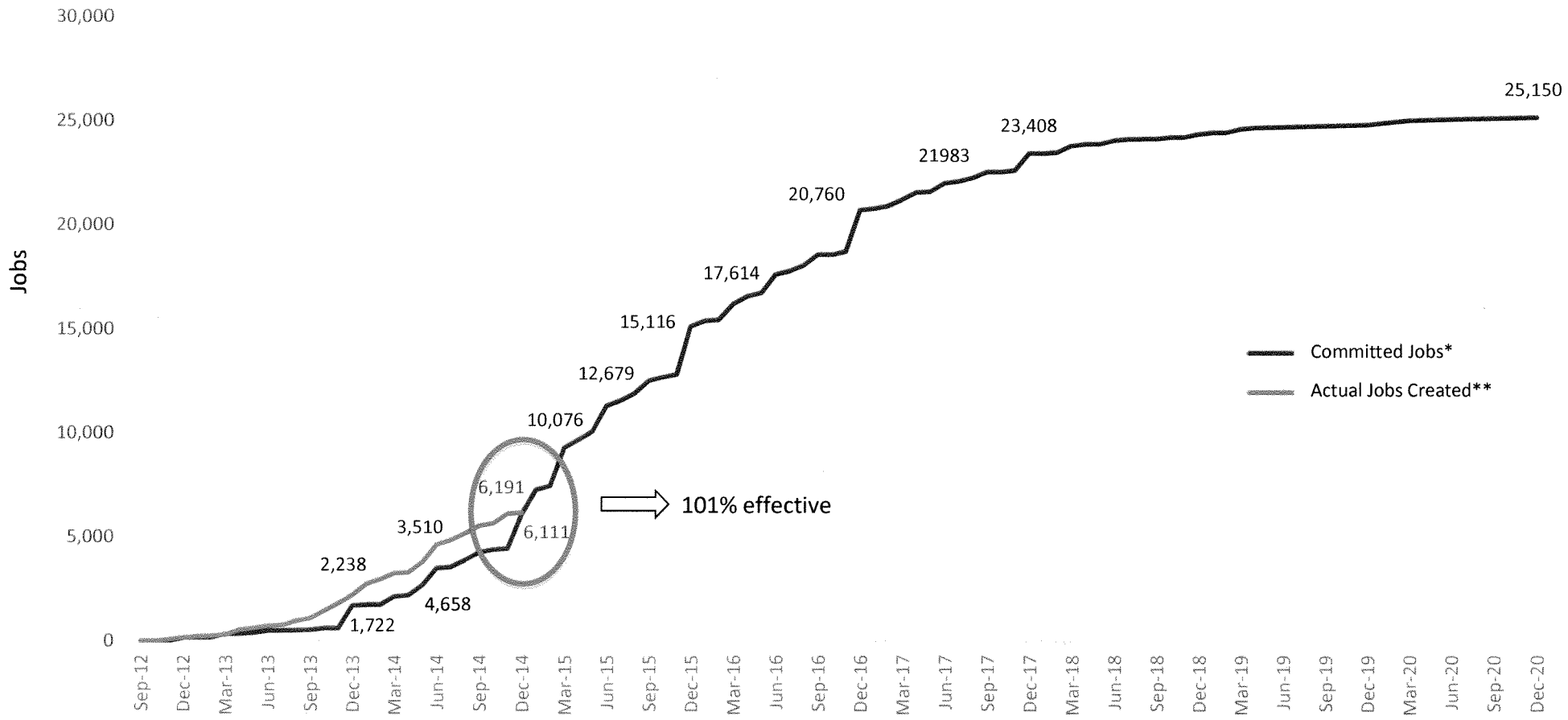
MEGA	MBDP
• Funded via "credit card" to be paid in future years	• Funded via "checkbook"; appropriated and paid for up front
• Impact on General Fund very difficult to forecast	• Impact on General Fund known with certainty
• Averaged $1.8 billion in awards each year[1] from 2008-2010	• Averaged less than $100 million in awards each year from 2012-2014
• Variable effectiveness: in certain years far fewer jobs realized than forecasted	• Strong effectiveness: approximately 100% of jobs committed are realized[2]
• $74,661 per job[3] (retention) • $14,310 per job[3] (job creation)	• $6,818 per job[4] (job creation)

1. Fiscal year
2. See next slide
3. Present value at a 2% discount rate. Data set contains all MEGA liabilities from 2010-2031.
4. Data set contains all approved MBDP deals from FY2011-FY15 (as of January 5, 2015).

MBDP Effectiveness

As of February 5, 2015

To date, companies have created 6,191 verified jobs, compared to 6,111 jobs committed to be created.



*"Committed Jobs" are jobs that companies are contractually committed to create by a certain date.

**"Actual Jobs Created" are new jobs verified via a sampling method. Fifteen percent of a random sample of new hires, usually a minimum of 5 and a maximum of 50 new hires are evaluated against payroll data.