MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION

PURE MICHIGAN®

Overview of the Michigan Economic Development Corporation
March, 2017

Steve Arwood
President and CEO
MEDC

2017 - 2018

STRATEGIC FOCUS

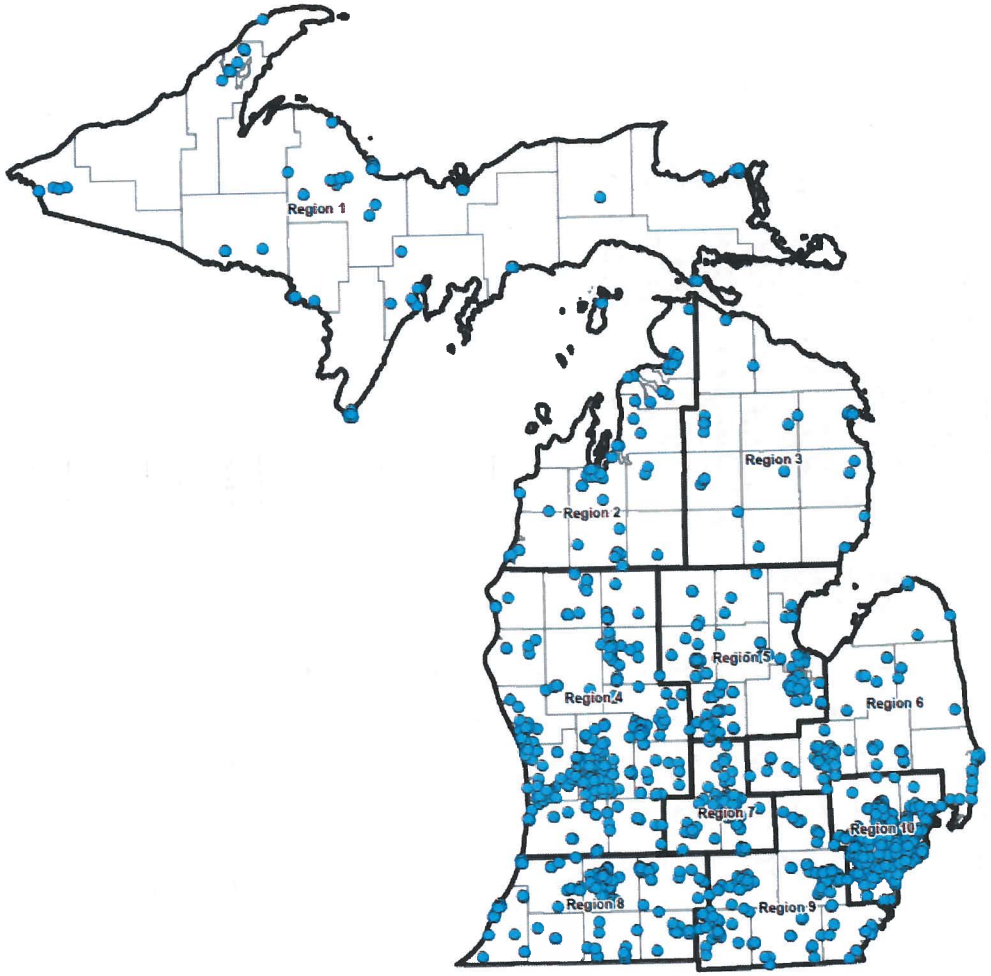
1. Business Investment

2. Community Vitality

PURE MICHIGAN

3. Image

1,653 TOTAL PROJECTS ACROSS MICHIGAN FROM JAN 2013 – MAR 2017



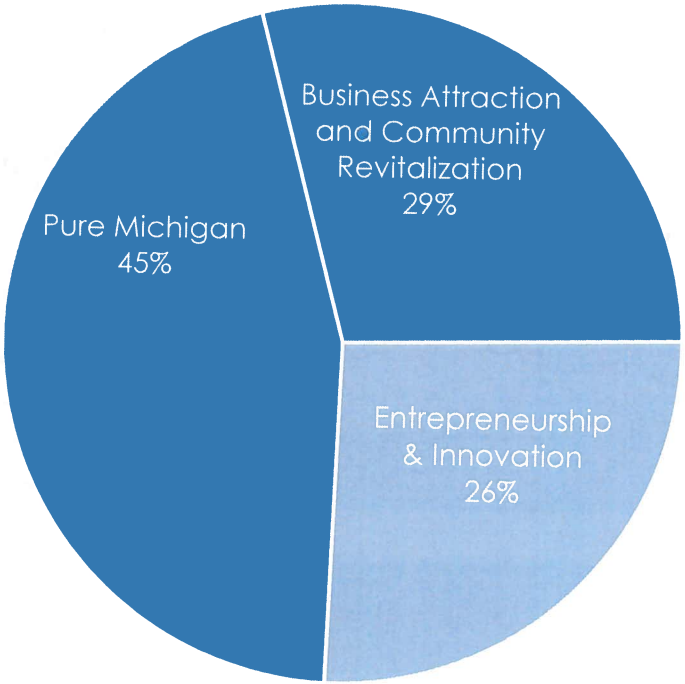
Projects utilized the following programs:

- Business Development Program
- Brownfield Tax Increment Financing
- Community Development Block Grants
- Community Revitalization Program
- State Small Business Credit Initiative
- 21st CJF
- Other Programs[1]

1. Other programs include: Community Ventures, Private Activity Bonds, Tribal Business Development, SBITC, Jobs Training Assistance Program, Brownfield MBT, CCSTEP, Core Communities, Corporate Community Development Funding, RenZone, SET, and MiMatch.

21st CENTURY JOBS FUND[1]

$75 Million established in statute to encourage the growth of emerging Michigan companies, diversify the state's economy by creating and retaining knowledge-based jobs, and grow a community of investors to create a long-term, sustainable capital ecosystem within Michigan. 4% allowed for administrative costs and 5% allowed for marketing.



1. Within the 21st Century Jobs Fund, four percent of the funds is allowed for ad ministration purposes, five percent is allowed for marketing and outreach, and the remaining funds are dedicated to programming.
2. Excludes general fund dollars used to support those programs.

2017 - 2018

STRATEGIC FOCUS

BUSINESS INVESTMENT: CORE FOCUS

1. Retain and grow Michigan businesses
2. Maintain and strengthen our global automotive leadership
3. Grow value-added agriculture and natural resource economy
4. Accelerate manufacturing innovation
5. Strengthen and develop our mobility initiatives
6. Attract and grow aerospace manufacturing
7. Grow Michigan exports
8. Deliver key entrepreneurial and economic gardening services
9. Aggressive national and international business attraction
10. Protect and grow our defense-related industries

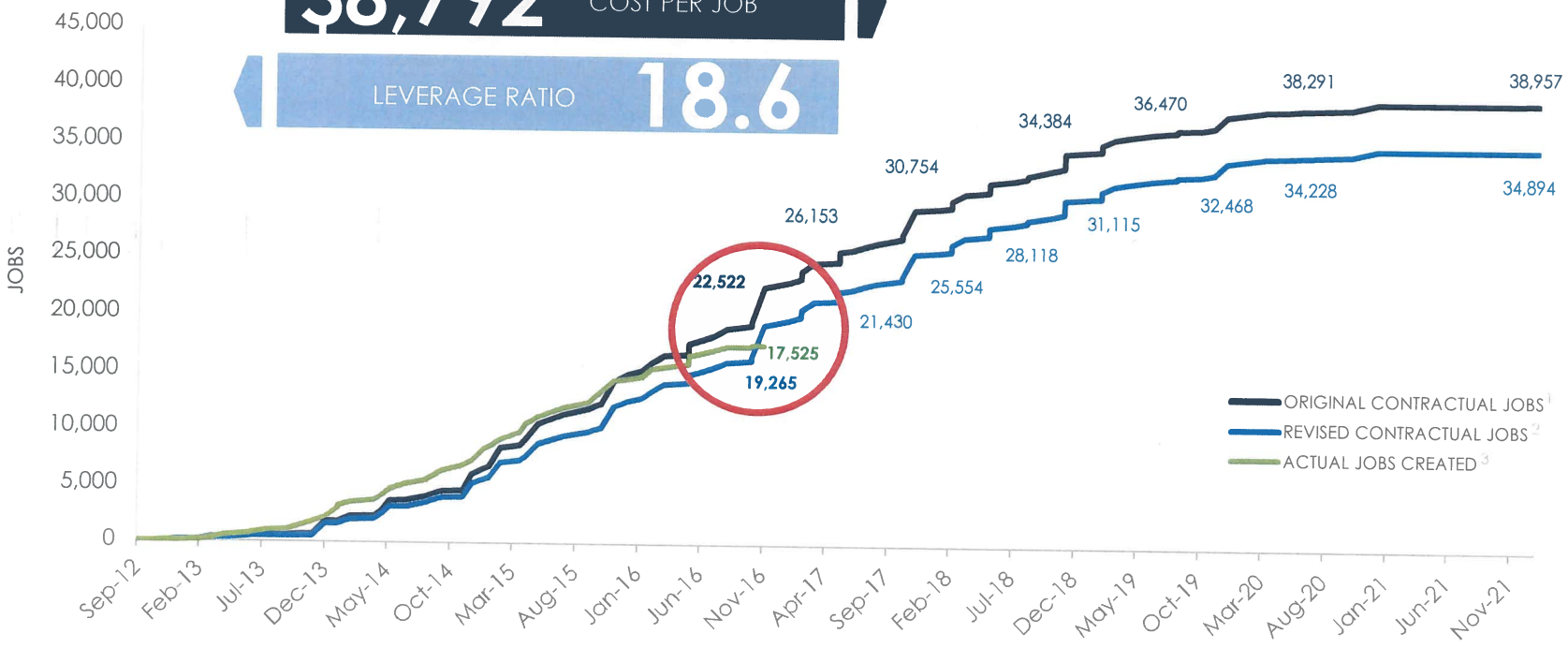
BUSINESS DEVELOPMENT PROGRAM

The Business Development Program expects to create 34,894 jobs by 2021.

TO DATE, COMPANIES HAVE CREATED **17,525** VERIFIED JOBS, COMPARED TO **19,265** JOBS CONTRACTUALLY COMMITTED TO BE CREATED

$8,792 COST PER JOB

LEVERAGE RATIO **18.6**



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

1. "Original Contractual Jobs" are jobs that companies are contractually committed to create by a certain date which includes deals that have been dismissed.
2. "Revised Contractual Jobs" are the milestone jobs contractually committed to be created of active deals as opposed to all deals.
3. "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.

BUSINESS DEVELOPMENT SUCCESSES

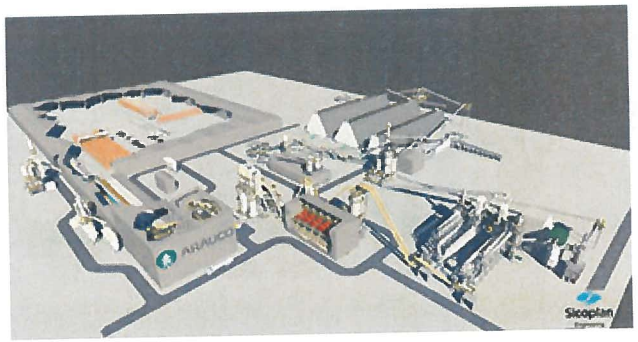
78 percent of the BDP deals are expansion projects and have an average of 127 jobs per project.

Kent Quality Foods

- Food processing facility in Jamestown Charter Twp.
- KQF chose **Michigan** over **Ohio**
- **$38.9M** capital investment
- **140 projected jobs**

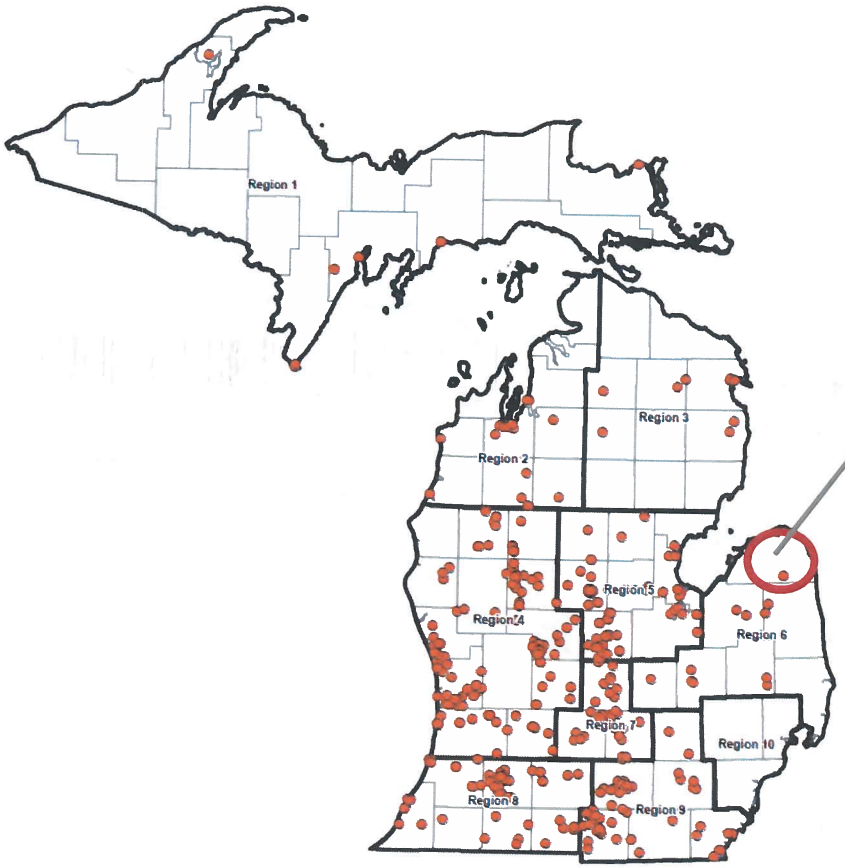
ARAUCO

- New particleboard manufacturing facility in Grayling Twp.
- ARAUCO chose **Michigan** over **South Carolina**
- **$325M** capital investment
- **250 projected jobs**



CAPITAL ACCESS PROGRAM

Using small amounts of public resources to generate private bank-led financing in order to provide small Michigan businesses access to capital.

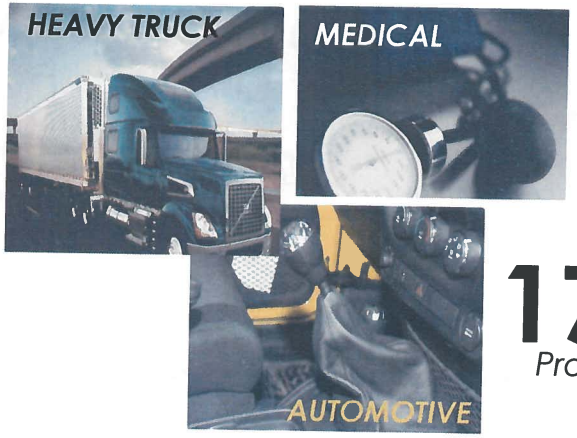


$100K ➡ $700K

MSF support *Bank financing*

MIDWEST RUBBER COMPANY

A single-source rubber and plastics engineering, design and manufacturing firm in Deckerville, MI



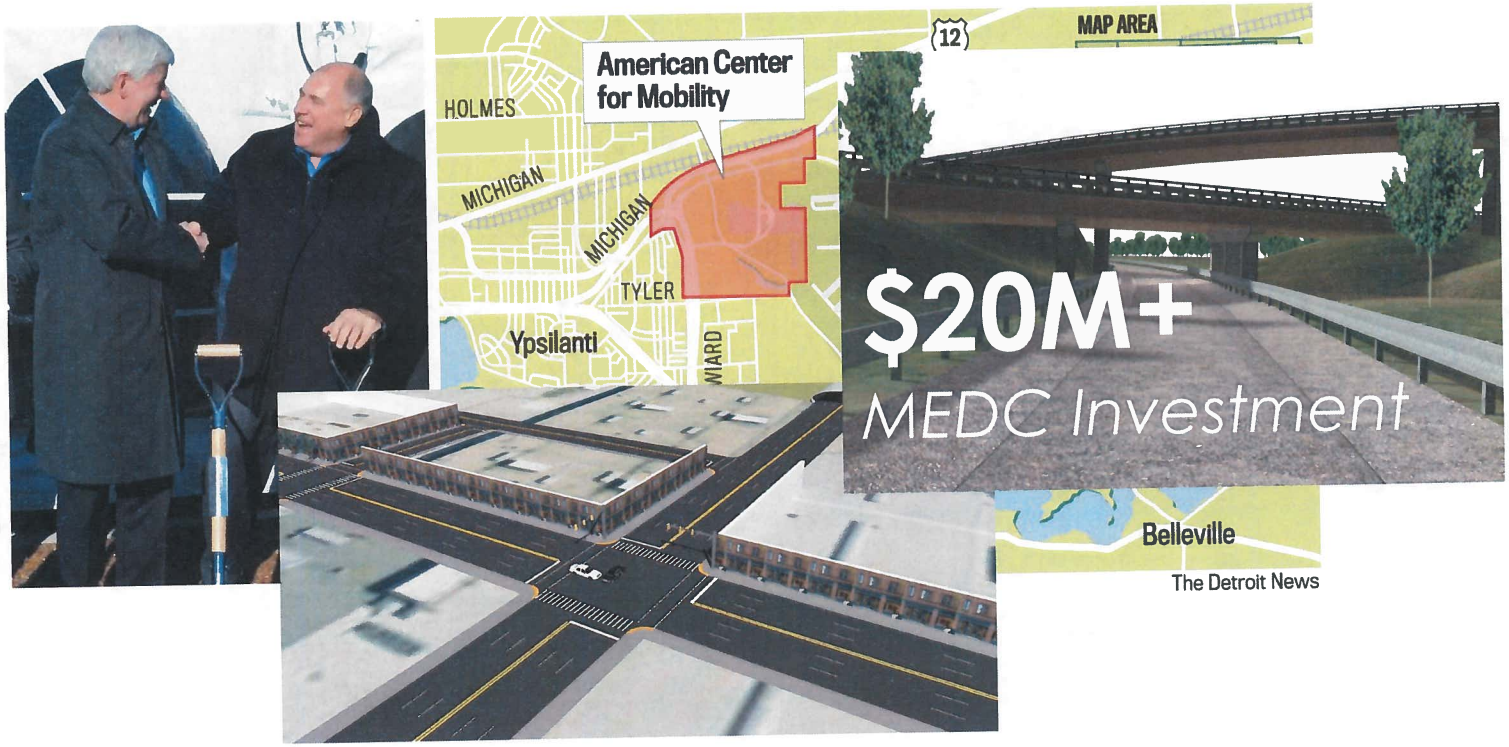
$1.2M

Capital Investment

17

Projected Jobs

MAJOR INVESTMENTS:



American Center for Mobility

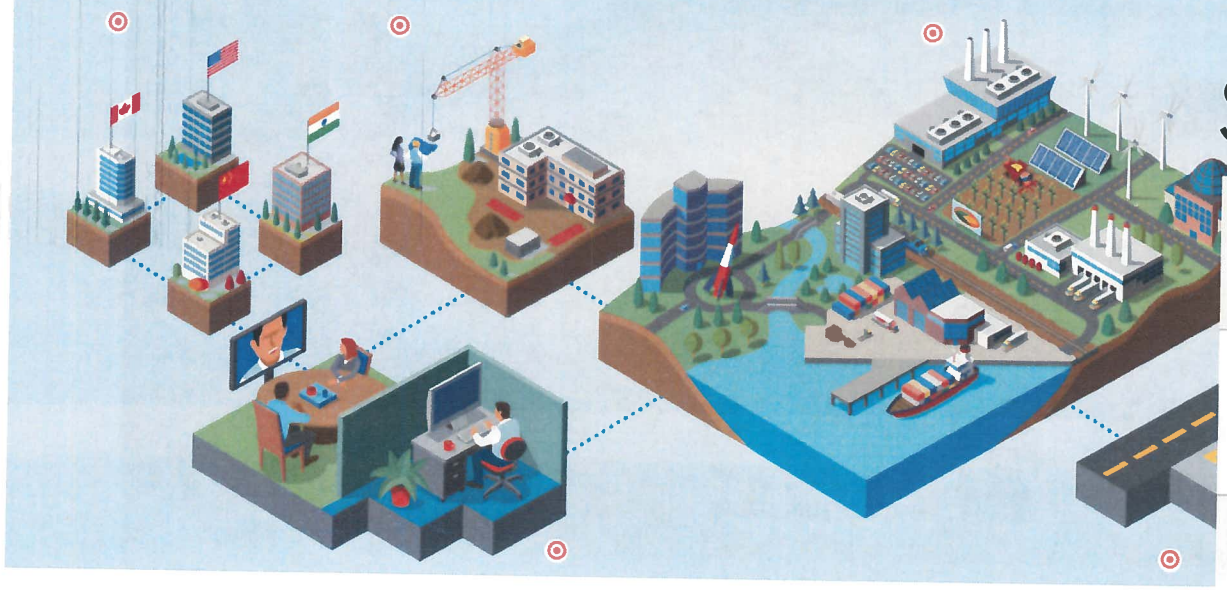
CONNECTED. AUTOMATED. VALIDATED.

PURE MICHIGAN BUSINESS CONNECT

5,617 Michigan companies have participated in the PMBC program as either a buyer and/or supplier since 2013.

Connections that make your business stronger.

Pure Michigan Business Connect (PMBC) is a public/private initiative developed by the Michigan Economic Development Corporation that helps connect local and global purchasers to suppliers of Michigan goods and services.



Since 2010:

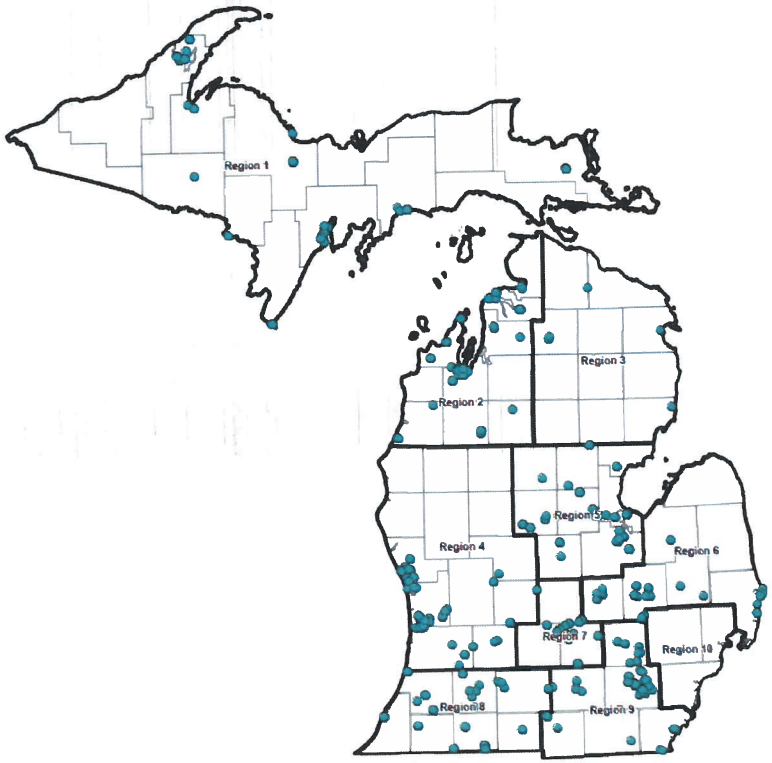
8,500
Buyer-Supplier Meetings Organized

$4,500,000,000
New Contracts Generated

20,375
Jobs Supported

INTERNATIONAL TRADE SERVICES

Providing grants and other services to encourage export sales.



- In FY 2016, the Michigan International Trade Program assisted over **425** companies.
- Exports that came as a direct result of MEDC assistance (facilitated exports) totaled **$523.9M** to **121 countries.**
- Since the program was established in FY 2012, companies have reported facilitated export sales of over **$1.4B** or **6,718 jobs**.

REDI-ROCK

In two years, with the assistance of the International Trade team, Redi-Rock was able to increase their international footprint by 50%.

~ Charlevoix, MI

SUPPORTING OUR PARTNERS

PTAC

Supports MI companies obtain federal government contracts through counseling, bid matching and more

- **$1.1M** in FY16 to support 12 PTAC offices - **42%** of their annual operating budgets

MICHIGAN MANUFACTURING TECHNOLOGY CENTER

Provides small and medium-sized manufacturers strategies to diversify, get lean and grow

- **$5.6M** awarded between 4/1/2014 – 9/30/2016.
- 2016 results: **$120M** facilitated sales, **$49M** cost savings

AMERICA'S SBDC MICHIGAN

Provides counseling, training and research for new ventures, existing small businesses and advanced technology companies.

Since FY11:

- **$21.6M** awarded to administer numerous programs
- **352** new companies created

2017 - 2018

STRATEGIC FOCUS

COMMUNITY VITALITY: CORE FOCUS

1. Community developments that are catalytic
2. Critical infrastructure creating job growth and sustainability
3. Expanding assistance to rural and small communities
4. Technical economic development assistance for communities

COMMUNITY VITALITY SUCCESSES

Since 2013, the Community Vitality programs have leveraged $3,163.2M in private investment.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION PROUDLY PRESENTS

$3.6M

Private Investment

7.4 to 1

Leverage Ratio

GTW DEPOT, LLC

Kalamazoo

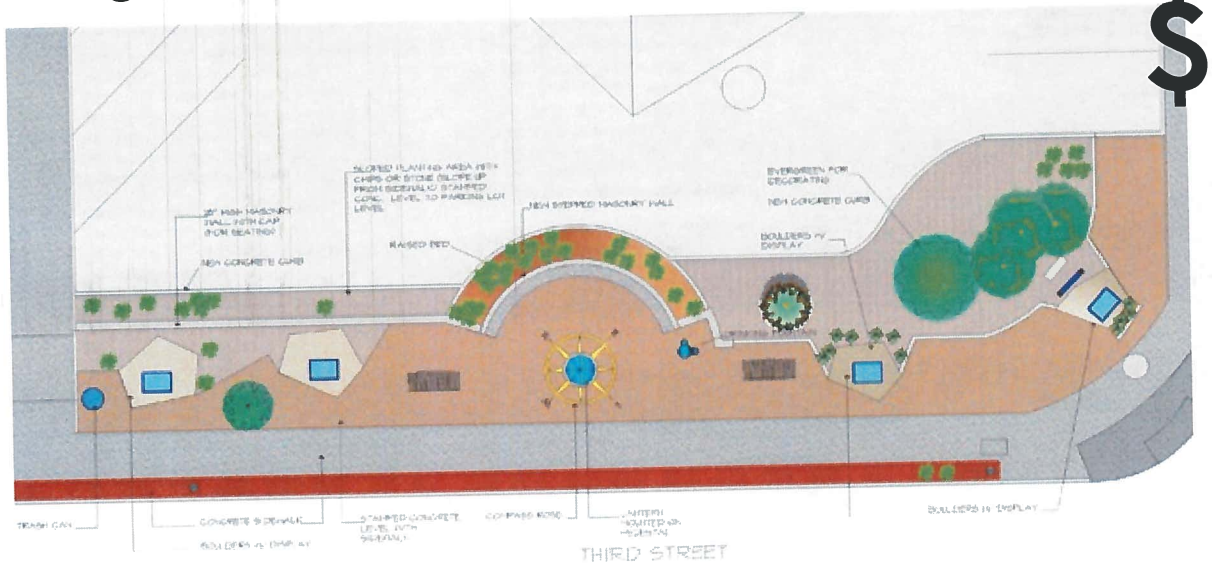
The revitalization of a unique historic property into a mixed-use development containing 13,130 square feet of retail and commercial space.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

PUBLIC SPACES COMMUNITY PLACES

To-date, 107 projects have raised $3.9M in community funds and $3.2M have been awarded in matching grants.

Rogers City; Third and Erie Beautification



$50,000
Matching Grant

- *Guided walkways*
- *Historically preserved pieces*
- *Landscaping*
- *Seating*
- *Welcome Signs*

$51,010
Community raised funds

MEDC MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MSHDA MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

michigan municipal league
We love where you live.

redevelopment ready communities

Certifying communities that integrate transparency, predictability and efficiency into their daily development practices.

1 Upper Peninsula region
- Escanaba (Delta County)
- Gladstone (Delta County)
- Iron Mountain (Dickinson County)
- Ironwood (Gogebic County)
- Ishpeming (Marquette County)
- Sault Ste. Marie (Chippewa County)

2 Northwest region
- Boyne City (Charlevoix County)
- Manistee (Manistee County)
- Petoskey (Emmet County)
- Traverse City (Grand Traverse County)

3 Northeast region
- Alpena (Alpena County)
- Cheboygan (Cheboygan County)
- Grayling (Crawford County)
- Harrisville (Alcona County)

4 West Michigan region
- Allegan (Allegan County)
- Grand Haven (Ottawa County)
- Grand Rapids (Kent County)
- Hudsonville (Ottawa County)
- Middleville (Barry County)
- Muskegon (Muskegon County)
- Newaygo (Newaygo County)

5 East Central Michigan region
- Harrison (Clare County)
- Midland (Midland County)
- Mt. Pleasant (Isabella County)
- Saginaw (Saginaw County)

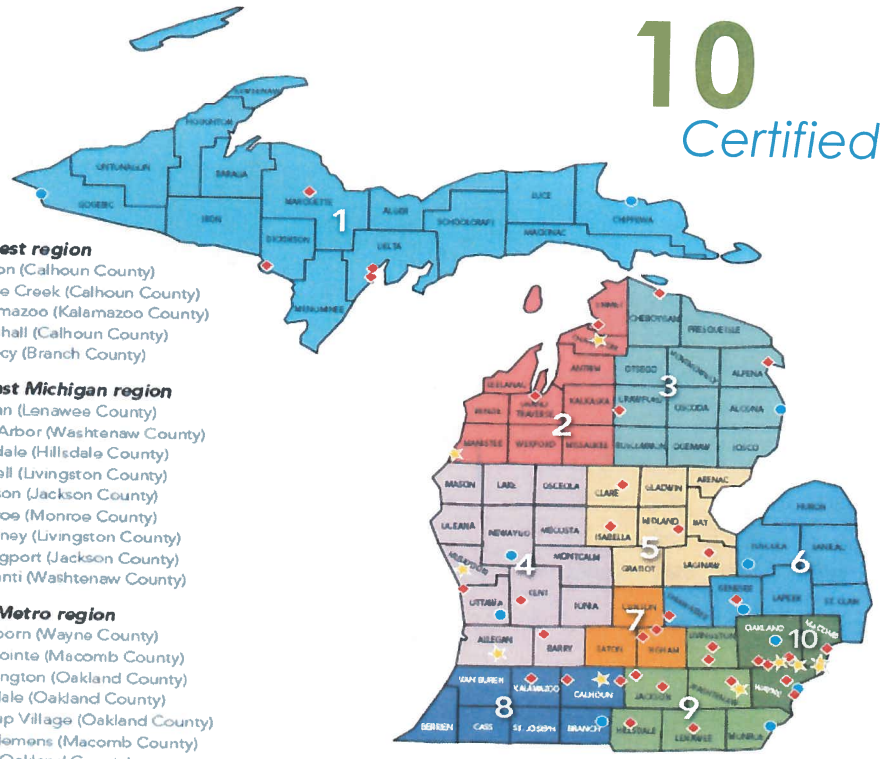
6 East Michigan region
- Flint (Genesee County)
- Grand Blanc (Genesee County)
- Laingsburg (Shiawassee County)
- Vassar (Tuscola County)

7 South Central region
- East Lansing (Ingham County)
- Lansing (Ingham County)

8 Southwest region
- Albion (Calhoun County)
- Battle Creek (Calhoun County)
- Kalamazoo (Kalamazoo County)
- Marshall (Calhoun County)
- Quincy (Branch County)

9 Southeast Michigan region
- Adrian (Lenawee County)
- Ann Arbor (Washtenaw County)
- Hillsdale (Hillsdale County)
- Howell (Livingston County)
- Jackson (Jackson County)
- Monroe (Monroe County)
- Pinckney (Livingston County)
- Springport (Jackson County)
- Ypsilanti (Washtenaw County)

10 Detroit Metro region
- Dearborn (Wayne County)
- Eastpointe (Macomb County)
- Farmington (Oakland County)
- Ferndale (Oakland County)
- Lathrup Village (Oakland County)
- Mt. Clemens (Macomb County)
- Novi (Oakland County)
- Pontiac (Oakland County)
- River Rouge (Wayne County)
- Roseville (Macomb County)
- Southfield (Oakland County)
- Wyandotte (Wayne County)



10
Certified Communities

17
Communities with evaluations in progress

- RRC Certified Community*
- RRC evaluation completed
- RRC evaluation in progress

Revised January 2017 | 3774-170103

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2017 - 2018

STRATEGIC FOCUS

IMAGE

Improve Michigan's image as a business location and travel destination by:

1. Further advance the Pure Michigan brand to attract national and international visitors
2. Extend the Pure Michigan brand across business, community, and partner marketing initiatives
3. Strengthen talent's perception of the automotive and skilled trades occupations through the Brainpower and Skilled Trades attraction campaigns
4. Advance Planet M, promoting Michigan as the "mobility" place to find talent and opportunity

PURE MICHIGAN CAMPAIGN

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

BUSINESS MARKETING SPONSORSHIPS

Improving perceptions of Michigan and promoting the state as a desirable place to do business in order to increase international, national and in-state business development leads.

Governor's Education & Talent Summit

THE BATTERY SHOW NORTH AMERICA 2016

BIO International Convention

The Global Event for Biotechnology

NORTH AMERICAN INTERNATIONAL AUTO SHOW

WORLD MOBILITY LEADERSHIP FORUM

ITS AMERICA

CURRENT & LEGACY TAX PROGRAMS

OBSOLETE PROPERTY REHABILITATION ACT (OPRA)

Providing a tax incentive to encourage the redevelopment of obsolete buildings.

- Program not administered by the MEDC.
- May be given for those eligible projects that take place on an obsolete property and result in a commercial or mixed-use building project located in qualified local units of government (144 in total).
- Essentially the tax incentive freezes the local property taxes for up to 12 years, exempting from local property tax all real property improvements.
- The state treasurer has the ability to exempt one-half of the school millage for up to six years on 25 projects per year.

STATE ESSENTIAL SERVICES ASSESSMENT EXEMPTION (SESA)

- In August 2014, voters approved a reformation proposal of Michigan's Personal Property Tax, creating the State Essential Services Assessment.
- The State Essential Services Assessment (SESA):
  - Required for manufacturers; reimburses local jurisdictions for the loss in revenue from Michigan Use Tax.
  - Provides the MSF the authority to grant exemptions: SESA and Alternative SESA. SESA exemptions are equal to 100% of the SESA for a period of years, while Alternative SESAs are equal to 50%.
  - Minimum criteria for an exemption:
    - Investing $25M or more.
    - Located in a eligible distressed area.

RENAISSANCE ZONES

Established to foster economic development; industrial, commercial, and residential improvements; prevent physical and infrastructure deterioration of defined areas; and provide for the reuse of unproductive or abandoned industrial properties.

Renaissance Zone Designations Include:

- **MSF-Designated Renaissance Zones**
  - *Created specifically for significant projects that could be located anywhere throughout the state.*
  - *As of January 1, 2017, there are 14 active MSF-designated zones.*
- **Agriculture Processing Renaissance Zones**
  - *Created to promote agricultural processing operations in the State of Michigan and to enhance the industry overall.*
  - *As of January 1, 2017, there are 15 active agricultural zones.*
- **Forest Products Renaissance Zones**
  - *Created to promote forest product operations in the state and to enhance the industry.*
  - *As of January 1, 2017 there are two active forest zones.*
- **Renewable Energy Renaissance Zones**
  - *Created to promote renewable energy operations in the state.*
  - *As of January 1, 2017, there are two active renewable zones.*
- **Tool & Die Recovery Zones**
  - *Created to encourage collaboration among tool and die companies to help them retain existing jobs and strengthen the companies to make them more competitive in the global marketplace.*
  - *As of January 1, 2017, there are 217 active Tool & Die Recovery Zones.*

RENAISSANCE ZONES CONT.

Established to foster economic development; industrial, commercial, and residential improvements; prevent physical and infrastructure deterioration of defined areas; and provide for the reuse of unproductive or abandoned industrial properties.

Renaissance Zone Designations Include:

- **Geographic Renaissance Zones**
  - *Created nearly tax-free zones within regions for any business or resident presently in or moving into a zone for a period up to 15 years.*
  - *As of January 1, 2017, there are 44 company-specific active geographic renaissance zones.*
  - *Most will be phasing out, no new geographic zones authorized under statute.*
- **Next Michigan Renaissance Zones**
  - *Project-specific and must be associated with one or more eligible Next Michigan Businesses, which are those companies engaged in multi-modal product shipment, such as logistics-based businesses.*
  - *As of January 1, 2017, there is 1 active Next Michigan renaissance zone.*

Estimates of Outstanding Certificated Credits by Tax Year Earned

(dollars in millions)

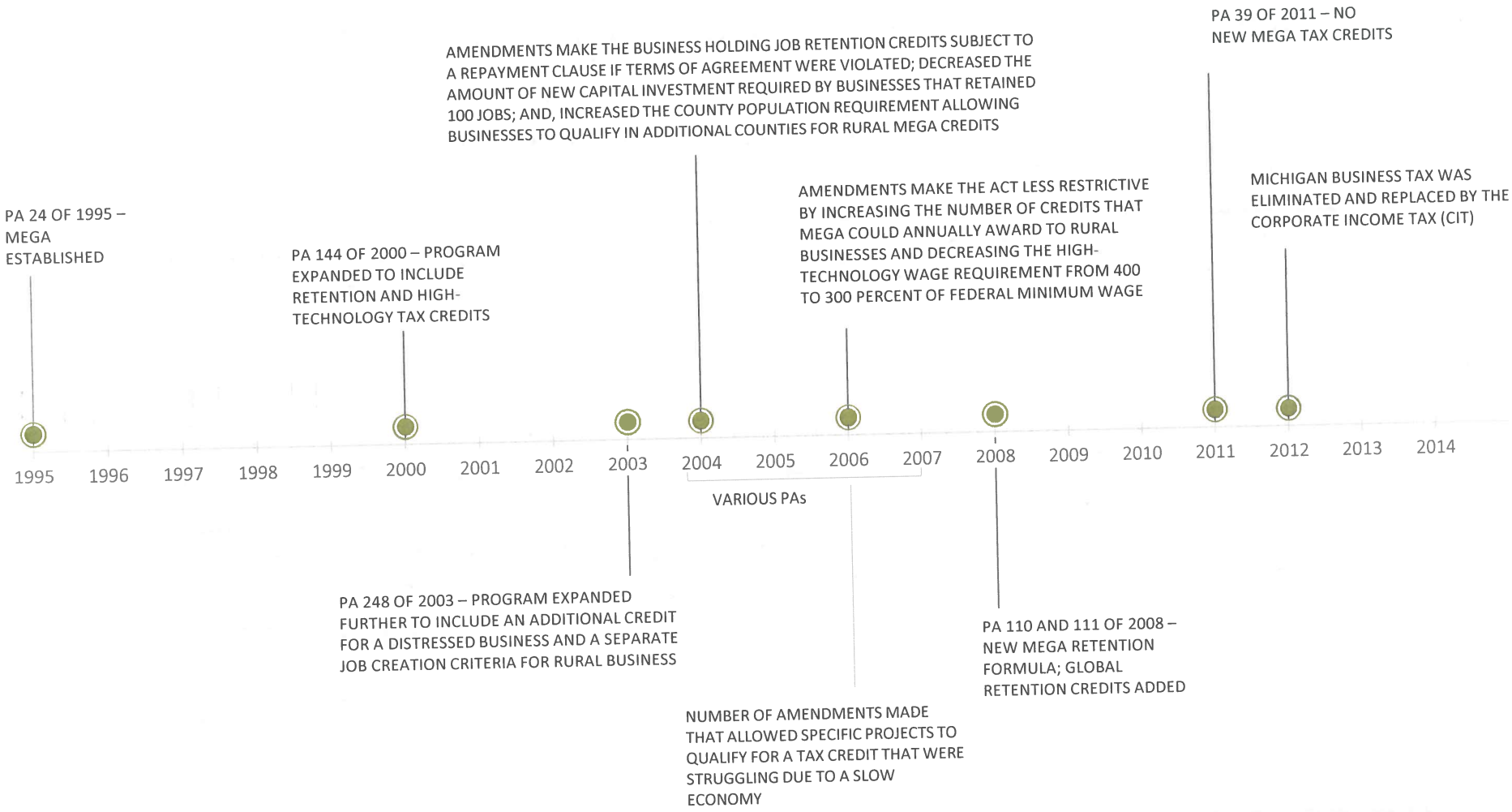
	Certificated Credits										
Tax Year	Anchor	Battery	Brownfield	Farmland Preservation	Film	Historic Preservation	MEGA	Photovoltaic	Polycrystalline	Ren Zones	Total Credits
2016	$0.0	$35.0	$57.1	$1.5	$11.0	$8.8	$546.3	$0.0	$14.6	$8.5	$682.7
2017	$0.0	$0.0	$42.5	$1.5	$0.0	$4.8	$549.1	$0.0	$16.8	$6.5	$621.2
2018	$0.0	$0.0	$40.8	$1.5	$0.0	$6.8	$523.5	$0.0	$19.3	$4.5	$596.3
2019	$0.0	$0.0	$38.4	$1.5	$0.0	$11.3	$542.7	$0.0	$22.2	$3.0	$619.1
2020	$0.0	$0.0	$36.0	$1.5	$0.0	$0.0	$556.0	$0.0	$25.5	$3.0	$622.0
2021	$0.0	$0.0	$35.0	$1.5	$0.0	$0.0	$521.5	$0.0	$29.4	$3.0	$590.4
2022	$0.0	$0.0	$15.9	$1.5	$0.0	$0.0	$518.8	$0.0	$14.7	$3.0	$553.9
2023	$0.0	$0.0	$1.7	$1.5	$0.0	$0.0	$525.5	$0.0	$7.3	$2.9	$538.8
2024	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$541.7	$0.0	$0.0	$2.3	$545.5
2025	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$558.0	$0.0	$0.0	$1.3	$560.8
2026	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$390.8	$0.0	$0.0	$0.6	$392.9
2027	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$403.0	$0.0	$0.0	$0.0	$404.5
2028	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$416.8	$0.0	$0.0	$0.0	$418.3
2029	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$364.6	$0.0	$0.0	$0.0	$366.1
2030	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$0.6	$0.0	$0.0	$0.0	$2.1
2031	$0.0	$0.0	$0.0	$1.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.5
Total	$0.0	$35.0	$267.2	$24.0	$11.0	$31.5	$6,958.9	$0.0	$149.8	$38.6	$7,516.0

Source: Michigan Economic Development Corporation and Michigan Department of Treasury based on best information available on current agreements.

Michigan Economic Growth Authority (MEGA) Background

- Established in 1995 in response to interstate competition (PA 24 of 1995)
  --History of the time - the SBT, Worker's 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



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

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

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

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

Potential Revised Yearly Estimate

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

30% difference

Remaining MEGA-related Liabilities Estimate Per Tax Year

MEGA's Policy Challenges

- **Included Retained Jobs:** Job retention credits were much more expensive than job creation credits: approximately $74k per job to $14k per job.[1]
- **Not transparent:** Tax privacy laws prevented awards from being reported on a company level after credits issued.
- **Tax credit:** Refundable credit in which the company pays its taxes to the state and the state sends a check.
- **Unpredictable Fiscal Impact:** Impact on General Fund very difficult to forecast – not clear when credits will be issued or for how much.
- **No cap in awards:** Averaged $1.8 billion in awards each year from 2008-2010

1. According to an analysis conducted in Feb. 2015.

MSF's Current MEGA Policies

1. No amendments that increase liability
2. Asked that credits be taken in the year certified
3. Asked 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. Obtained credit holder agreements that create mutually agreed upon modifications for revenue transparency, credit stability and continued job growth

Brownfield MBT Credit Program

- Program eliminated on December 31, 2011, no new credits issued since that time.
- As of September 30, 2016, there is approximately **$271** million in outstanding unclaimed credit liability.
- **$64.1 million** in certificates of completion claimed in **FY 2016**.
- There is a potential for Brownfield credits to be amended to extend their approved timeframe from 5 years to 10 years. A timeframe extension to 10 years does not increase the overall liability.
- Statutorily, outside of multi-phase credits, there is not a legal timeframe for a qualified taxpayer to request their credit, therefore, it is possible not all Brownfield credits will be claimed upon final expiration of all credits which occurs in early 2022.