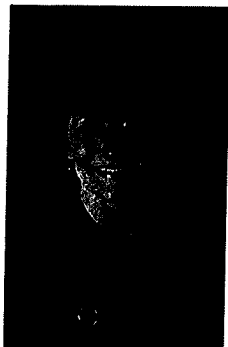


## THE COSTS AND UNINTENDED CONSEQUENCES OF RENAISSANCE ZONES IN MICHIGAN

by Gretchen Couraud, MLA Executive Director



### The Truth/Real Story Behind Renaissance Zone Reimbursements

If library directors, trustees, and staff are going to advocate effectively for restoration of renaissance zone reimbursements, they need to understand the history of renaissance zone expansions, the law as written, and the facts about their effectiveness. The library

community will need to educate legislators who believe Renaissance Zone tax credits automatically result in true private sector job creation, which the data calls into question. We will also need to articulate the unintended consequences of these tax credits and the impact on library patrons and communities.

#### The Real Story

The Renaissance Zone Act was adopted in 1996, PA 376. Its original purpose was to "assist local units of government in encouraging economic development, job creation and retention, and economic growth in the state." Renaissance zones were intended to "provide *temporary relief* from certain taxes within the renaissance zone." The initial law called for only nine zones to be created. These zones were intended to be developed in areas where no development existed whatsoever.

Until 2009-10, the law also made clear that the state would reimburse "intermediate school districts, local school districts, community college districts, public libraries, and the school aid fund" (Section 125.2692) for all revenue lost to these taxing entities.

However, as often happens with economic development tools, the law was amended over time, the scope was expanded, and the legislature lost oversight of the effectiveness of these tools or the consequences and impact on local communities.

*"The original 9 allowable zones have expanded to well over 100 eligible zones."*

From 1996 until 2010, the law was amended at least seven times. Amendments have

expanded the statute to include zones for pharmaceuticals, agriculture, tool and die, alternative energy zones, renew-

able energy zones, forest products, and border crossing facilities. The original nine allowable zones have expanded to well over 100 eligible zones.

#### At What Cost?

The effectiveness of these economic development tools was called into question in 2010 in a study by the Anderson Economic Group. This study looked closely at several economic development tools, including the Renaissance Zone Act. It noted that the only formal requirement for renaissance zone tax exemption is that the business or individual locate within a renaissance zone. They are exempt from all taxes, but don't need to prove job creation.

*"They are exempt from all taxes, but don't need to prove job creation."*

In fact, the data is extremely spotty. The MEDC reports that these tax exemptions resulted in over \$2 billion in private investment from 1996 to 2005. Their self-reported data claims that 8,500 jobs were created.

But the AEG study concludes that the "estimates of benefits are based almost entirely on self-reported data, which cannot be considered sufficiently reliable for any meaningful assessment of the economic and employment impacts of Michigan's renaissance zones." Furthermore, the Executive Budget Appendix on Tax Credits, Deductions and Exemptions fiscal year 2008 estimated that renaissance zones cost the state more than \$121 million in 2007 and would account for \$142 million in abated income, property, and business taxes in 2008.

#### Unintended Consequences

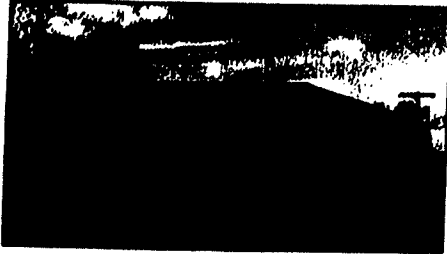
Up until 2009, the state reimbursed approximately \$16 million to local units of government for these renaissance zones. In 2009-10, those reimbursements were reduced 12% and in the 2010-11 budget cycle, those reimbursements were eliminated entirely.

The elimination of these renaissance zone reimbursements will cause significant cuts and consequences in the library commu-

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## RENAISSANCE ZONES (CON'T. FROM PAGE 5)



*Albion District Library*

nity. Cuts will range from 1% of total operating budgets up to 31%. The Hart Public Library, with a budget of \$232,954, will lose 31% of its budget and be forced to drastically cut service to citizens at a time when library usage is skyrocketing as citizens depend upon their libraries for job hunting services, Internet access to apply for unemployment, disability, and more. The Albion District Library will lose 14% of its total operating budget and face possible closure of its GED program.

Yet the state legislature doesn't factor

in these costs and consequences. In fact, during lame duck, the legislature and the Governor claimed victory as they once again expanded the scope of the renaissance zone statute by adding up to an additional new 12 zones for "growth" around airports while eliminating local reimbursements entirely.

*The state legislature should follow the law and reimburse libraries, community colleges, K-12s, and ISDs for lost revenue as required by state statute.*