

REQUIRE EVALUATION OF ECONOMIC DEVELOPMENT INCENTIVES

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House Bill 6052 as introduced
Sponsor: Rep. Thomas A. Albert
Committee: Financial Liability Reform
Complete to 5-23-18

Analysis available at
<http://www.legislature.mi.gov>

BRIEF SUMMARY:

House Bill 6052 would create a new act, the Economic Development Incentive Evaluation Act, to require the Department of Technology, Management, and Budget (DTMB) to contract with a private entity, nonprofit entity, or academic institution for the evaluation of economic development incentives.

DETAILED SUMMARY:

The proposed new act would require DTMB to contract with 1 or more *contractors* for the periodic evaluation of *economic development incentives*.

Contractor would mean the private entity, nonprofit entity, or academic institution selected by DTMB to evaluate certain economic development incentives.

Economic development incentive would mean the abatements, tax credits, exemptions, grants, loans, or loan guarantees related to economic development activities as determined by the Michigan Strategic Fund (MSF) provided under the following acts:

- The Michigan Business Tax Act
- The Income Tax Act
- Public Act 198 of 1974 (plant rehabilitation and industrial development)
- The Commercial Redevelopment Act
- Public Act 189 of 1953 (taxation of lessees or users of tax-exempt property, and exemption for a “qualified start-up business”)
- The Technology Park Development Act
- Part 511 of the Natural Resources and Environmental Protection Act (specific tax for commercial forests)
- The Neighborhood Enterprise Zone Act
- The City Utility Users Tax Act
- The City Income Tax Act
- The General Property Tax Act
- The Michigan Economic Growth Authority Act
- The Michigan Renaissance Zone Act
- The Obsolete Property Rehabilitation Act
- The Brownfield Redevelopment Financing Act

- The Michigan Strategic Fund Act
- Any new economic development programs as determined by MSF

Request for Proposals and Schedule for Evaluations

The act would require DTMB, along with the Department of Treasury (“Treasury”) and MSF, to develop a scope of services for a request for proposals for professional services necessary to complete the economic development incentive evaluations. DTMB would consider the ability for the evaluations to be done in an objective manner.

The contractor would complete the evaluation within 270 days of entering into the contract. DTMB would provide the evaluation, and any additional information, to the House and Senate appropriations committees within 30 days of completion.

DTMB would enter into contracts for evaluations according to the following schedule:

- For economic development incentives funded with state appropriations of \$15.0 million or less annually, at least once every 6 years.
- For all other incentives, at least once every 4 years, excluding programs that have entered legacy status (programs in which in the MSF or other governing body has not approved any new abatement, credit, or exemption or distributed funds within the immediately preceding fiscal year).
- Upon conclusion of an economic development incentive, a 1-time final analysis.

DTMB, along with Treasury and MSF, would, not later than February 28, 2019, develop a multiyear schedule that lists all economic development incentives and the year when an evaluation will be published for each incentive. DTMB would consider incentive sunset dates and program inactivity when creating the schedule, and could group incentives for review by objective or policy rationale of each incentive. DTMB would update the schedule annually and include any new economic development programs as determined by MSF. DTMB would also list the economic development incentives that are *exclusive economic development incentives* (see below).

Content of Evaluations

Evaluations of incentives would include, to the extent practicable, all of the following:

- A description of the history of the incentive and its goals.
- A literature review of the effectiveness of the type of incentive, including an inventory of similar incentives in other states.
- An estimate of the economic and fiscal impact of the incentive. This estimate would take into account all of the following considerations:
 - The extent to which the incentive influences business behavior.
 - The results of the incentive for the state economy, including both positive direct and indirect impacts and any negative effects on other businesses.
 - A comparison to the results of other incentives or strategies with similar goals.
 - An evaluation of the loss of potential gains from other alternatives or programs enacted by the legislature or existing incentives that have been extended.

- An assessment of whether adequate protections are in place to ensure that the fiscal impact of the incentive does not increase substantially beyond the state's means or expectations in future years.
- An assessment of whether the incentive is being administered effectively, including a review of auditor general reports.
- An assessment of whether the incentive is achieving its goals.
- Recommendations for how the state can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured, or repealed.
- Recommendations for any changes to state policy, rules, or statutes that would allow the incentive to be more easily or conclusively evaluated in the future, including recommended changes to collection, reporting, and sharing of data and revisions or clarifications to the goal of the incentive.
- Any other information the contractor considers necessary to assess the effectiveness of the incentive and whether it is achieving its goals.

Content of Exclusive Economic Development Incentive Evaluations

Exclusive economic development incentive would mean an economic development incentive that is intended to encourage a single specific entity, project, or associated projects to locate, expand, invest, or remain in Michigan or hire or retain employees in Michigan as determined by MSF.

The evaluation for exclusive economic development incentives would include all of the following, based on a program-wide basis:

- Aggregate information and a description of trends related to the state's exclusive incentives, which may include analysis of their structure, standards, and economic and fiscal impact.
- Recommendations for how exclusive incentives should be structured or in what circumstances they should be offered to ensure that they successfully change business behavior; to maximize positive direct and indirect impacts on the state economy and minimize negative effects on other businesses; to avoid adverse impacts on the fiscal stability of local governments; and to ensure that they represent a cost-effective approach compared to other incentive programs or strategies.
- Recommendations for what protections exclusive incentives should include to ensure that their costs do not substantially exceed the state's expectations.
- Recommendations for the types of performance standards that should be included in exclusive incentives, how these standards should be structured, and how they should be monitored.

Information Sharing, FOIA Exemption, Website

At the request of DTMB, state agencies would provide to the contractor, to the extent permitted by law, any records, information, data or analysis necessary for the contractor to effectively evaluate the incentives. The contractor could not disclose or release any data received from state agencies, except as provided by law. A record or portion of any record, material, or other data related to financial, commercial, or proprietary information of any

entity that received an incentive provided by another department, agency, municipality, or political subdivision to DTMB or the contractor in connection with an evaluation would not be subject to the Freedom of Information Act. DTMB and the contractor could only use the financial or commercial information for carrying out the purposes of the act and could not disclose or release any data received from a department, agency, municipality, or political subdivision.

Evaluations would be published on DTMB's website, along with the name of each contractor who is awarded a contract and a schedule of economic development incentives and their evaluations.

FISCAL IMPACT:

House Bill 6052 would increase costs for the Department of Technology, Management, and Budget (DTMB) by an unknown amount as a result of the bill's requirement that DTMB enter into one or more contracts for the periodic review of economic development incentives. However, the scope and cost of future contracts cannot be determined.

Additionally, the bill would increase administrative costs for state agencies required to comply with records and data requests from DTMB. Departmental costs would depend on the scope of the requests and method of dissemination (e.g., copying and printing or electronic).

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.