



Michigan's Property Tax Competitiveness &
Other Economic Development Considerations

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At the request of [Cornerstone Alliance](#), McGuire Sponsel has prepared this brief on Michigan's property tax competitiveness for economic development as well as other factors influencing economic development.

Economic development policy focuses in large part on the growth and attraction of economic 'base' industries which serve as the economic engine for a region by exporting goods/services and importing new wealth. Companies fitting this definition typically require significant real estate and often significant business equipment. Businesses representing the base economy are often less sensitive to sales taxes (unless they are in an active period of expansion) and income taxes (depending on myriad factors such as global structuring and apportionment rules), making property taxes a major focus for operational and financial performance.

As such, when companies evaluate expansion and new facility options, property tax is a weighty consideration. Property taxes present a fixed operating cost that directly impacts the financial reports by which companies of all shapes and sizes are measured.

The property tax burden for the base economy in Michigan is quite high, both nationally and when compared to geographically competitive states. See Appendix.

Governments must have revenue to operate, and local/regional property values are relatively inelastic in the short-term. As such, drastically reducing nominal property tax rates is infeasible in most situations. However, reducing the effective property tax rates for and/or leveraging portions of new property taxes revenues from specific projects to drive economic development is achievable.

Reducing and/or leveraging property taxes for targeted projects/activities should produce positive outcomes well beyond the amount of taxes affected. This is because, if deployed correctly, this type of approach will create significant ripple effects throughout the state and regional economies in both base and non-base industries.

Items Recommended for Consideration

1. Reduce/Leverage Property Taxes to Accelerate Growth and Create Economic Ripple Effects

Reducing property taxes is self-explanatory; utilizing a legal mechanism to decrease the amount of property taxes due over a period of time. Common mechanisms around the US include tax abatement, payment (or fee) in lieu of taxes, and bond-lease agreements.

Leveraging property taxes utilizes new (future) property taxes to fund specific objectives related to a project or area. Taking a view across the US, states allow this approach to be used for a wide variety of economic and community development issues, such as: infrastructure, workforce development, quality of life, business attraction, business retention, talent attraction, and reducing private sector costs/risks/etc. to spur desired outcomes. Tax Increment Financing (TIF) is a common mechanism. These mechanisms can be used to create cash to fund objectives in the near-term (typically through a bond) or they can be used to create long-term annual cash flow to support sustained investments over an extended period.

Michigan's ability to reduce and leverage property taxes is viewed as relatively limited.

Tax Abatement

Uncertainty – For specific projects, property tax abatement can be straightforward. However, in practice project eligibility is overly restrictive and there is substantive ambiguity across the state about eligibility of certain projects and if/how abatement can be implemented. The very narrow eligibility requirements (such as industry) inhibit the ability of communities across the state to generate both traditional and nontraditional economic development outcomes.

Restrictive Format – Statutorily prescribed abatement percentages prevent communities from customizing abatement terms to meet the needs of specific projects. (Indiana and Ohio are examples of states that empower local officials with broad flexibility in tax abatement structuring.)

Value Limitations – Statute restricts how much savings can be generated through abatement. Further, abatement of the state education portion of property tax is typically infeasible given the cumbersome and time-consuming process. In a comparatively high property tax environment, these limitations are material.

Unnecessary Approvals – The requirement of state-level approvals for local-only abatement is inefficient and introduces unnecessary questions about project approvals.

Tax Increment Financing

Restricted Use – TIF use is largely restricted across the state to brownfields. This prevents many communities from applying local discretion in how to use property taxes to pursue and achieve economic and community development goals. Currently, the tool is too narrow, with inequitable access statewide (core and non-core locations).

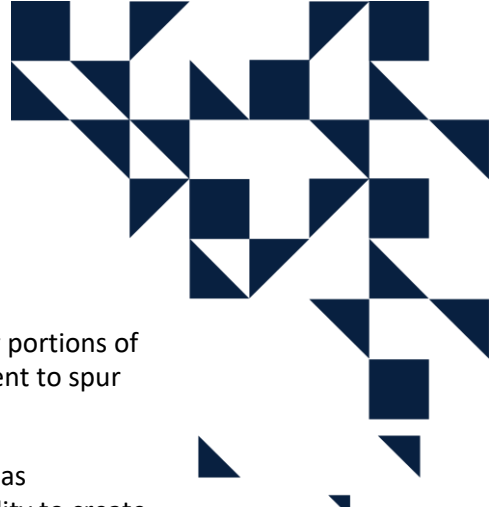
Limited Uses – Limitations on eligible uses of TIF funds restrict some communities' abilities to pursue certain projects. The inability to utilize TIF for the following is disadvantageous:

- speculative development
- partner with the private sector to address financing and/or risk gaps
- accumulate cash

Cumbersome Processes – While some non-core communities have found creative ways to utilize TIF, these unconventional maneuvers create more obstacles and take additional time in order to complete a project. This limits opportunities for Michigan communities to pursue growth.

Given Michigan's relatively high property tax environment (see Appendix), becoming more proactive in the ability to mitigate and/or leverage property taxes could yield accelerated economic development outcomes.

Expanding the ability to use property tax abatement and tax increment financing will create more opportunities for business attraction and expansion as well as other community growth objectives such as housing, quality of life, infrastructure, and talent attraction. It is important to remember that utilizing these tools to accomplish a project is only the first measure of success. Deploying



these tools well will create significant and meaningful ripple effects in other portions of the community and economy. Indeed, it is the goal of economic development to spur the creation of both direct and indirect outcomes.

Increasing flexibility in the tools by expanding eligibility requirements (such as industry/use/location) is worthy of consideration. This will broaden the ability to create significant impacts to new the portions of the state and regional economies. Providing more flexibility and more local discretion creates the greatest potential for communities and regions to expand economic development in both traditional and nontraditional ways.

2. Driving Speculative Development in Michigan

Many thriving regions across the US have achieved and continue to experience robust development of new industrial real estate. Nationally, 74%¹ of industrial space currently under construction is speculative. (These development and construction activities are themselves economic engines.) In the speculative form, this development provides critical speed-to-market to meet the needs of business retention/expansion as well as business attraction. Without existing real estate options, it is nearly impossible to be competitive in the current environment.

As demonstrated in the table below (using Detroit as Michigan’s readily available comparison point), Michigan lags in this area. Again, understanding that 74% of industrial construction in the US is speculative, Michigan has a great opportunity to drive economic growth through focused efforts to significantly increase speculative real estate development. Given the tepid status in Michigan, state and local officials will need to act to stimulate new movement in this area. Broadening and increasing the flexibility of tools such as TIF is a great way to achieve this through public-private partnerships.

Market ¹	Existing SF	2021		Deliveries as pct of Existing	Construction as pct of Existing
		Delivered SF	SF Under Construction as of Q4 2021		
Chicago, IL	1,191,176,940	18,542,789	26,806,876	1.56%	2.25%
Columbus, OH	287,914,257	8,915,825	14,579,782	3.10%	5.06%
Detroit, MI	491,884,975	3,171,204	8,169,796	0.64%	1.66%
Indianapolis, IN	302,283,377	13,405,807	27,854,125	4.43%	9.21%
Louisville, KY	176,993,384	4,530,379	9,153,091	2.56%	5.17%
Milwaukee, WI	209,967,149	5,611,438	1,468,690	2.67%	0.70%
Philadelphia, PA	173,651,017	7,369,966	14,306,872	4.24%	8.24%

Extrapolated from: ¹[Cushman & Wakefield's Q4 2021 U.S. Industrial Marketbeat](#)

The need to boost development activities exists statewide. This can be seen in extremely low industrial vacancy rates in regions such as West Michigan (2.9%²) and Greater Lansing (0.5%³). The lack of speculative development, which directly contributes to low vacancy rates, constrains Michigan’s economic development potential by forcing existing and prospective business to look elsewhere for the space required to grow.

While Michigan does have a program to support speculative development (through Public Act 198), the data do not show the desired dynamism in this area. Adjusting both existing law and policy/implementation should be considered in order to induce more speculative development.

²[Colliers Q4 2021 Market Trends – Industrial \(West Michigan\)](#)

³[Martin Commercial Properties 2021 H2 Industrial Market Insights \(Greater Lansing Area\)](#)

3. Michigan's Job Creation Incentive

Job creation incentives are critical to success in the competitive economic development landscape in the US. The private sector has a strong bias toward predictability; site selection and investment/growth strategies are no exception.

Improving the predictability of this tool in Michigan's toolbox is worthy of consideration. Discretion in how to use the tool should remain; however, ambiguity that is too broad concerning eligibility and value can lead to confusion and frustration. Providing more certainty and clarity would be viewed positively. Further, enhancing the flexibility of the tool should be considered. Communities, regions, projects, and goals are never the same. Broad, flexible use will enable state and local officials to collaborate to achieve an even more diverse set of economic development goals.

4. Other Considerations for Michigan's Economic Development Strategy

Sales tax is one other area for consideration. Many states have tools associated with this type of tax as it relates to business growth, often specifically related to sales tax on construction materials/labor. In addition to being an attractive tool for business expansion and attraction, this could also be powerful in driving more *speculative development* as discussed above. Some states have specific programs which provide exemption or rebate of sales taxes for a project, while others utilize exempt entities (such as port authorities) to effect sales tax exemption for the private sector party. Whether construction is speculative, build-to-suit, or owner-occupied, sales tax has a material impact on budgets and project feasibility. This is certainly true in the current environment of rising costs. Arming economic development officials with the ability to strategically address costs barriers in this area would be effective in driving growth.

Additionally, some states allow Sales Tax Increment Financing (STIF). Just like a property tax TIF, new (future) sales taxes can be captured and used to fund specific objectives related to a project or area. Mechanisms can be used to create cash to fund objectives in the near-term (typically through a bond) or they can be used to create long-term annual cash flow to support sustained investments over an extended period. Sales TIF and property TIF should be available for use together or as stand-alone tools, depending on the specifics of the opportunity and desired outcomes.

Conclusion

Ultimately, **broad, flexible, powerful tools** set the stage for state and local leaders to collaborate and achieve economic development success. Surrounding these tools with **smart, predictable, efficient policy and implementation** is key. The definitions of economic development success are different from place to place and project to project. Those definitions will continue to evolve. It is imperative that the system enables economic development leaders to "meet the moment" and seize opportunities to advance the state. **Empowering local officials** to broadly utilize these tools to proactively pursue progress will accelerate the achievement of results that are aligned with the unique needs and goals of each community.

About McGuire Sponsel

McGuire Sponsel is a national site selection and specialty tax advisory firm that assists growing companies with location and investment strategies. With offices across the US, McGuire Sponsel is a leader in Location & Incentives Advisory Services, Fixed Asset Services, R&D Tax Credit Services, and Global Business Services.

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APPENDIX
Property Tax Environment

The rankings data below reflect the property tax burdens for each scenario prior to the application of any discretionary tools, such as tax abatement.

	COMMERCIAL/OFFICE		INDUSTRIAL (MANUFACTURING)		Ability to Mitigate	Ability to Leverage	Commentary
	Burden ⁴ Effective Rate Rank (Largest City)	Burden ⁵ Effective Rate Rank (Rural Municipality)	Burden ⁶ Effective Rate Rank (Largest City)	Burden ⁷ Effective Rate Rank (Rural Municipality)			
Michigan	1 <i>highest in US</i> (Detroit)	5 (Manistique)	8 (Detroit)	12 (Manistique)	Low	Medium	Existing mechanisms are relatively limited. Narrow eligibility parameters prevent tools from being used broadly. Processes are cumbersome and unpredictable.
Illinois	2 (Chicago)	21 (Galena)	9 (Chicago)	30 (Galena)	High	Medium	Variety of available tools are flexible and impactful. Most communities actively promote and proactively use these mechanisms to attract investment.
Indiana	9 (Indianapolis)	3 (North Vernon)	2 (Indianapolis)	4 (North Vernon)	High	High	Statute provides powerful tools with broad local discretion for use. Multiple mechanisms are used widely to promote corporate and speculative development.
Kentucky	41 (Louisville)	32 (Morehead)	46 (Louisville)	46 (Morehead)	Medium	Low	While the mechanisms exist in law, current processes and policies make utilization extremely cumbersome. Thus, the tools are not often used, promoted, or pursued.
Ohio	24 (Columbus)	26 (Bryan)	34 (Columbus)	33 (Bryan)	High	High	Multiple mechanisms are promoted and used broadly. Efficiency of the processes and duration of the tools make them very effective. Flexibility and local discretion are high.
Pennsylvania	22 (Philadelphia)	25 (Ridgway)	35 (Philadelphia)	43 (Ridgway)	Medium	Low	While tools exist, their use is very inconsistent across the state. Limitations on TIF create barriers to broader use.
Wisconsin	15 (Milwaukee)	12 (Rice Lake)	30 (Milwaukee)	22 (Rice Lake)	Low	Low	Mechanisms exist but are used scarcely.

Scenario: ⁴Real Estate Value \$25 million plus \$5 million personal property

⁵Real Estate Value \$1 million plus \$200,000 personal property

⁶Real Estate Value \$25 million plus \$18.75 million worth of machinery and equipment, \$15 million worth of inventories, and \$3.75 million worth of fixtures

⁷Real Estate Value \$1 million plus \$750,000 of machinery and equipment, \$600,000 of inventories, and \$150,000 of fixtures

Acknowledgement

Effective Tax Rate Rankings from: [50-State Property Tax Comparison Study](#), June 2021, Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence