

# Michigan development program not a pretty site

Taxpayers lose with poorly designed site preparation program

By James M. Hohman | October 2024

Michigan's government gives special favors to many private companies. Lawmakers believe they can improve the state economy through selective grants, tax abatements and other bits of favoritism. They can't. But one program stands out as being clearly set up to fail: the state's site preparation program.

It is poorly designed. It ensures taxpayer costs without benefits. It is comparatively worse than the state's other business subsidy programs.

That's because it costs money without even being tied to jobs.

The Michigan Economic Development Corporation describes its Strategic Site Readiness Program as a way of creating "a statewide inventory of investment-ready sites to attract and promote investment in Michigan." But the program sets taxpayers up to get nothing in return for all the spending.

The state awarded the Marshall Area Development Alliance \$185.3 million to buy land and prepare it for a Ford plant.

When Ford announced that it was scaling back the project, this part of the state's subsidy package was not scaled back.

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If the company doesn't produce what it said it would do, then this money is gone. Taxpayers don't get it back from the company, in part because they never gave it to the company. They

gave it to the local development agency.

The money also comes without clawbacks. If the company completely shuts down the proposed factory, the state has no recourse to get its site development dollars back.

That's baked into the structure of the program. There are upfront costs with little certainty of the promised economic outcomes.

This is a major problem when companies have a poor track record of turning announcements into jobs. Of the state's refundable tax credit program, only 2.3% of recipients created as many jobs as announced.

Its replacement program doesn't even require recipients to do anything they would not otherwise do without state money. Yet even with low expectations, only half of the program's projects meet job announcements. The site selection program ensures that taxpayers spend money on projects that are unlikely to meet expectations and will be unable to recoup that spending.

Other state business subsidy programs are not structured this way. Some state grants are not released until the businesses reach their contractual obligations to create jobs. Another state program gives businesses the income taxes their employees were supposed to give the state. Companies don't collect anything if there are no employees.

Justifications for site selection money are weak. Administrators say that it will "allow Michigan to

compete for, and win, transformational projects that will bring long-term economic opportunity and security to regions and communities across the state." Projects that receive funding are not required to compete for or win projects — let alone to meet a transformational quality. The rest of the rationale is economic development word salad.

Lawmakers should be careful about spending more on site preparation programs. They have large upfront expenses for uncertain jobs and little way to recover funds that get spent without results.

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