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THEME: Growth and Changes

This is the final print edition of CNV!

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MSU Center for Community and Economic Development is On the Move

Over the past several months, the Michigan State University Center for Community and Economic Development (formerly the Community and Economic Development Program) has made several changes to improve its capacity for creating, disseminating, applying, and preserving knowledge to improve the quality of life in distressed communities and regions.

First, the program was renamed the Center for Community and Economic Development (CCED) and was strategically moved to a new administrative home in the University. As a unit of the Office of University Outreach and Engagement (UOE), the CCED joins a central resource at MSU committed to facilitating scholarly engagement with communities. Under the direction of Hiram E. Fitzgerald, Associate Provost for University Outreach and Engagement, UOE tackles priority issues of concern to society by encouraging, supporting, and collaborating with MSU faculty and community partners. The aim of this work is to enhance the quality of life and economic viability of residents of Michigan and beyond. This administrative realignment within MSU provides the CCED with a unique opportunity to facilitate broad scholarly engagement in community and economic development.

Second, with the support of the Office of the Provost and UOE, the CCED moved to a new off-campus facility, designed to make the activities of the CCED more accessible to the community and to campus. After more than 30 years on Lansing's west side, the CCED has relocated to a new office at 1615 East Michigan Avenue, on Lansing's east side. The CCED's new outreach facility provides state-of-the-art technology-based links to locations near and far, is served by a mass transit system that provides easy access to and from the campus and state capital for students and faculty, and serves as an institutional anchor along the revitalized East Michigan Avenue corridor.

For more information about the CCED, or to find directions to our new location, visit http://ced.msu.edu.

For more information about the Office of University Outreach and Engagement, visit http://outreach.msu.edu.

About the Michigan Policy Analysis Report Series

In March 2007 the Michigan State University Center for Community and Economic Development (CCED), in partnership with the Urban Core Mayors of Michigan and the Michigan Higher Education Land Policy Consortium (MI-HELP), requested proposals from Michigan scholars for policy research on topics of high priority to the core mayors.

In response to this request, 19 projects were proposed by researchers from nine colleges and universities. After review by scholars, policy practitioners, and core city mayors, six projects were selected for funding, with financial support from the W. K. Kellogg Foundation through MI-HELP. Research was conducted between May and September, with results and recommendations presented to the Urban Core Mayors and other policy stakeholders in the fall.

These research findings and policy alternatives will serve as a source of current, credible, and practical information for local and state policymakers as they consider important public policy decisions that affect Michigan cities. The articles in this newsletter are brief summaries of the authors' full reports prepared by CCED/UOE staff.

For the full research reports and more information about the authors, the project partners, and the Urban Policy Research Series, see Urban Policy Research Briefs 2008, Michigan State University, Center for Community and Economic Development, available online at http://www.cedp.msu.edu/policy1.htm.

In This Issue: Growth and Changes

State Policies to Fund School Capital Facilities

David Arsen, Michigan State University
Tom Davis, University of Maryland

Stark disparities in the condition of public school facilities were highlighted in the landmark 1954 Brown v. Board of Education challenge to segregation and the 1971 Serrano v. Priest challenge to school funding inequality. Over the last decade, an extraordinary generation of well-appointed school facilities has been built in suburban areas, while low-income children in central cities are left behind in outdated and often dilapidated structures. There is growing policy interest, nationally and within Michigan, regarding inadequate school facilities as an important education quality issue. Moreover, there is increasing awareness of the important role that high-quality school buildings play in neighborhood and community revitalization.

Michigan's centralized system for funding school operating expenditures has greatly equalized revenue across local districts, but capital funding for school facilities remains exclusively a local responsibility. School infrastructure in Michigan is financed primarily by local property taxes. Dramatic variations in property wealth across communities create large inequalities in local districts' ability to pay for school infrastructure. As a result, school facilities in many of Michigan's poorest school districts are inadequate. Michigan's current system of school facility finance has generated unequal opportunities for students and unequal burdens for taxpayers. These problems, which are especially acute in the state's urban school districts, can be addressed with suitable state policy. Michigan is one of only eight states that do not offer any state aid for school infrastructure.

Inequality in Michigan School Facilities Across Local Districts

In 2004-2005, the total value of the capital stock for public schools in Michigan was approximately $31.2 billion. By way of comparison, that is about 2.3 times the 2004-2005 operating expenditure for Michigan's public schools, $13.6 billion. On average, the capital stock amounts to $19,220 per pupil enrolled. This statewide average, however, masks a great deal of variation across districts. The highest valued per-pupil capital stock is found in Ishpeming, a 950-student district in Michigan's Upper Peninsula, with per-pupil capital assets of $98,971. At the other end of the spectrum, a number of Michigan school districts have capital facilities worth less than $4,000 per pupil.

About 60% of the students in Michigan's central cities and lower-income suburbs are poor. Moreover, the median family income in both of these categories is less than half the level of higher-income suburbs. While some of the high-income suburbs are small residential enclaves, many are large and rapidly growing districts on the periphery of metropolitan areas and these districts have built some of the state's most elaborate school facilities in recent years.

The education of children in Michigan's high-income suburbs is supported with nearly double the capital facilities available to central city students. Equally striking is the fact that Michigan's central cities are taxing themselves at an average rate that is 43% higher than the average rate for the high-income suburbs. If not for this higher tax effort, the quality of central city school facilities would lag even further behind the facilities in middle- and high-income suburban districts than they presently do.

In sum, our data show large differences in the value of school buildings across local school districts in Michigan, and this variation in capital assets is closely associated with the distribution of local property wealth. The disparities in school buildings and facilities across Michigan's communities are much greater than inter-district disparities in current operating revenues ever were. Moreover, this inequality persists, despite the fact that citizens in low-wealth districts are taxing themselves at much higher rates on average than their wealthier neighbors.

Unmet Capital Need

The total unmet capital need for the state of Michigan in 2005 was approximately $7.6 billion. This amounts to about 24% of the total current capital stock. The unmet capital need is approximately $4,700 for every pupil enrolled in Michigan's public schools, or about $7,000 per student enrolled in only those districts with positive unmet need.

Fifteen central cities comprise about a third of all unmet need in the state. Over 20% of all statewide need can be found in just five districts: Battle Creek, Detroit, Flint, Muskegon, and Saginaw. On a per-pupil basis, unmet capital need in Michigan's central cities is over four times the level in high-income suburbs. There is also substantial need among the state's low-income suburbs.

If the state were to finance all unmet capital need statewide without regard to district ability to pay, this would require an investment of $7.6 billion at an annual revenue cost of $621 million.

The revenue to fund any new public investment in school facilities could be obtained from state property, income, or sales taxes, or from a combination of these and other revenue sources. The net cost to state taxpayers of raising additional revenue for school facilities from either a state income or property tax would be less than from a sales tax. The income tax has the additional advantage of being more closely tied to taxpayer ability to pay than the two other main taxes, and that is an especially important consideration given the significant increase in income inequality across Michigan households over the last two decades. By that standard, a graduated income tax would be better still.

For the sake of illustration, we assume that the revenue to fund various facility aid options is derived from a statewide property tax. So for example, a millage rate of 0.1079 would be sufficient to raise the capital stock in the poorest quintile districts up to at least $14,000 per pupil. This would cost the average Michigan homeowner about $6.00 per year. Alternatively, 0.369 mills (or about $21 per year for the average homeowner) would be sufficient to pay for investments that would bring the capital stock in the poorest 40 percent of Michigan school districts up to at least $16,000 per student. If the goal were to finance investment to establish adequate facilities in the poorest 40 percent of districts, this would require 0.9797 mills or an annual property tax payment of about $55 for the typical homeowner.

Conclusions

Michigan offers a striking example of a state in which funding for school operating expenditures is highly centralized and relatively equal across districts, whereas the funding of school buildings remains exclusively a local responsibility. Michigan's reliance on this decentralized system of capital funding enables local communities to express their distinctive preferences for the physical features of the schools their children attend. On the other hand, it also produces a distribution of school capital across districts that measures poorly against standards of equity and adequacy. It is difficult to imagine how serious progress in addressing these problems can be made without the state assuming greater responsibility for the finance of school infrastructure.

In recent years, the State of Michigan's structural budget deficit has made it difficult for policy makers to think creatively about new initiatives that promise high returns on public investment dollars. This deficit did not emerge overnight, nor will it be fully resolved in the short run. As policy makers work to reposition the activities of state government, both through shoring up the revenue system and reassessing expenditure commitments, new initiatives to support investment in school capital facilities in Michigan's most needy communities deserve serious consideration. Our analysis indicates that, at a very moderate cost to state taxpayers, significant progress could be made towards providing adequate facilities for Michigan children who, through no fault of their own, must spend their days in dilapidated and poorly equipped buildings. A state facility aid program targeted to low-wealth communities would improve school outcomes, help stabilize neighborhoods, and provide jobs in construction and allied industries. It is one of the most promising forms of public investment available to state policy makers.

Lifting Families Out of Poverty

Kiran Cunningham and Hannah McKinney, Kalamazoo College

A 2007 report by the Michigan Higher Education Land Policy Consortium, *State of Michigan's Cities: An Index of Urban Prosperity*, claims that Michigan cities, whether they are benchmarked against other cities in the U.S. or in their own counties, are not doing well, and that this situation hurts the entire state's ability to rebound economically. High poverty rates in Michigan's core cities are one of the reasons the state finds it difficult to attract new business and investment.

At the same time, the resources available to local governments to deal with the social and economic ramifications of poverty are dwindling. State shared revenues are declining while the tax bases of Michigan's core cities are eroding.

How, then, can local government officials carry out their responsibility for sustaining and improving the quality of life of their cities' residents? Cities across the country are searching for answers to this question, but the need to find answers is particularly acute in Michigan.

The good news is that municipal leaders around the country are developing innovative ways to address these issues. Cities as diverse as Corpus Christi and Indianapolis have crafted distinctive poverty alleviation programs by maximizing their capacities to lend weight to the work of their nonprofit and governmental partners.

Role of Cities in Addressing Poverty

Addressing poverty is not a conventional role for cities in Michigan or around the country. Typically, counties, the state, or nonprofit service providers take on this mission. Increasingly, however, city officials recognize that they cannot afford to ignore poverty and inequity, but how to address these issues is not clear. Cities are reluctant to take the lead when other entities are charged to do this work. Core cities also lack the financial resources to take on programmatic responsibilities. However, it is possible for city halls to lend weight and authority, and even funding and staffing, to the efforts of community partners.

To explore the degree to which Michigan's 13 core cities were maximizing their capacities to lift families out of poverty, we compared them both to each other and to two non-Michigan cities (Indianapolis, Indiana and Corpus Christi, Texas) on three measures: their level of involvement with the local Plan to End Homelessness (PEH), the priority given to poverty issues on the city Web site, and community partners' perceptions of city hall involvement with these issues. Indianapolis and Corpus Christi were chosen because (a) they are exemplary in the degree to which city staff and programs are connected to the efforts by the Continuums of Care to end homelessness; (b) the political and policy environments are, if anything, more conservative than Michigan's; and (c) they represent very different forms of government—Indianapolis has a strong mayor system, while Corpus Christi has a council/manager.

Analysis of the Plans to End Homelessness

First, we examined city hall involvement in creating and implementing the 10-year Plans to End Homelessness. We chose to focus on the PEHs because the Michigan State Housing Development Authority has mandated that each Michigan county produce one and because the U.S. Department of Housing and Urban Development requires that a consortium, typically a Continuum of Care (CoC), write the plan for each county.

Ann Arbor and Detroit are the only two cities in Michigan that appear to have high levels of city hall involvement with the PEHs. In both cases, the mayor has been directly involved in the plan. In Ann Arbor, the mayor was an author of the plan, and in Detroit, the deputy mayor is the point person for the city's work with homelessness issues. Both cities have also dedicated significant resources to implementing the plan. In Ann Arbor, the city plans to build 80-100 units of affordable housing, and in Detroit, an entire staff position has been created and dedicated to developing and implementing the PEH.

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Two cities, Grand Rapids and Kalamazoo, are designated as having medium involvement. In Grand Rapids, the mayor co-chaired the plan's advisory committee, though no specific role for the city is mentioned in the plan. In contrast, in Kalamazoo, the city is listed as a lead entity in two of the plan's objectives but does not appear to have taken a lead role in the creation of the plan. Also of interest is the fact that Kalamazoo is the only city in which the Local Initiatives Support Corporation had a visible role in creating or implementing the plan.

The rest of the Michigan cities are designated as having low involvement. In none of the "low" cities was the city listed as an author, a member of the advisory committee, or a member of the CoC.

Both Corpus Christi and Indianapolis are rated as high involvement cities. City hall in Corpus Christi is actually the lead agency in the county's CoC and funded the development of the plan by a consulting group. A deputy mayor in Indianapolis was one of the leaders in the planning process there. Moreover, in both cities, city hall is mentioned throughout the plan as an agent of change. In Indianapolis, the plan is viewed as Mayor Peterson's plan. Corpus Christi's plan is being implemented through the department of community development, and many of the initiatives are funded through a dedicated sales tax.

Analysis of City Web Sites

If Web sites convey the priorities and work of an organization, and issues of homelessness are seen as important, this priority should literally be visible on the city's Web site. While this may be an imperfect measure (some city Web sites are very sophisticated, and others are not), we believe that it is useful as a rough comparison.

When compared to Corpus Christi and Indianapolis, no Michigan city appears to have embedded the PEH in the way it does business. Indianapolis has the mayor's press releases on homelessness available on its Web site. Even though community partners are the lead agents in virtually all initiatives and programs addressing homelessness, city hall keeps the issue and the work of partners visible at all times, thereby adding weight to the significance of the issue and the work. Corpus Christi, a council-manager city, not only has the PEH on its Web site, but it also has yearly updates on progress made on the plan's action steps. Homelessness as an issue and as a focus for city and intergovernmental programming is clearly visible on both cities' Web sites.

Analysis of Community Partners' Perceptions of City Involvement

Cities have a continuum of capacities to add weight and legitimacy to the work of community partners in lifting families out of poverty. At the very least, the city council can endorse the work of its community partners. The next level of involvement is to participate in meetings about the issue. These two levels of engagement, endorsement and participation, indicate to the community that the work is important and connected to the priorities of the city. Contributing resources, whether time, staff, or dollars, is another level of involvement. Some of these resource investments come at a low cost to the city and can be leveraged in various ways. Finally, incorporating community partner-endorsed initiatives into the way city hall does business is yet another level of involvement.

Creating new or changing existing programming is a structural and budgetary commitment to the work that may be beyond the ability of some cities. Corpus Christi has created new programs and changed existing programs to combat poverty, in part because Texas law allows a city to pass a dedicated sales tax for such purposes. Creating new partnerships is a way to add a city's presence, and therefore its weight, to the priority of poverty reduction without bringing the work of poverty reduction into the city hall itself. Indianapolis is an excellent example of how this strategy can both add tremendous value to the work and make it a community-wide priority in a way that no single community partner could.

Summary

Only in Ann Arbor and Grand Rapids does a view through each of the three windows of analysis show the same thing. Community partners rated both cities as very involved, and each city scored a "high" and a "medium" in the other two measures of city hall involvement in ending homelessness. Detroit, one of the only two Michigan cities that scored "high" in the PEH analysis and received high marks from community partners, could more fully maximize its capacities to add weight to this issue by putting issues of homelessness up front on its Web site. Several other cities (Battle Creek, Kalamazoo, Lansing, and Muskegon) received high marks from their community partners, yet the other two windows showed a different picture. This suggests that city hall is more involved in these issues than is readily apparent to the public. These cities could make much more effective use of their capacities to lift up the issue of homelessness, demonstrating the commitment that they clearly have to end it. ●

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Local Cooperative Efforts to Manage Regional Growth in Michigan

Nina David, Elsie Harper-Anderson, and Elisabeth Gerber, University of Michigan

In the early 1990s, several state reports identified a lack of integrated planning as the greatest threat to Michigan's environment and economy. These reports revived conversations on regionalism and cooperation, and coupled with the current state of Michigan's economy they have resulted in clarion calls for local governments to share services and work cooperatively to increase fiscal efficiency.

Much of the emphasis on regional planning in Michigan has been on cooperation around services. Consequently, while there are many examples of Michigan localities sharing services to increase efficiency and promote cost savings, little is known about whether and how Michigan communities are working cooperatively on land use planning and zoning issues.

This study evaluates the extent of cooperation and the factors that affect it, as well as the roles played by county planning departments and regional planning agencies (RPAs) in fostering cooperation.

The data was gathered via mail surveys that were sent to a representative sample of 600 local governments, including townships, villages, county planning departments, and RPAs. Interviews were also conducted with elected officials and planners from selected case-study communities that are currently engaged in cooperative planning and zoning efforts.

Based on the surveys and interviews, the following conclusions are drawn about the extent of planning and zoning cooperation in Michigan, the roles played by key actors in fostering cooperation, and the factors that promote and impede cooperation.

Assessment of Cooperation Among Municipalities

As anticipated, a vast majority of jurisdictions cooperated with other municipalities on service delivery. Transit, police, parks, water and sewers, and fire are most commonly addressed through cooperative arrangements.

About half of municipalities indicated some level of cooperation around land use planning and zoning. The cooperation mechanisms ranged from informal talks and meetings among planning commission members to more formal means, such as establishing joint plans and ordinances and forming joint planning commissions.

A Conditional Land Transfer Agreement, or PA 425 agreement, is the most commonly used cooperative mechanism for land use planning purposes, followed by informal cooperation among local decision makers. Some municipalities had joint master plans and a few reported considering, discussing, or establishing joint planning commissions.

Of all the service categories examined, only water/sewer and transit services were significantly correlated with cooperation on land use issues. This is not surprising considering that water/sewer and transit decisions have more direct impacts on land use patterns.

County Role

Counties in Michigan do not have regulatory authority over local plans, ordinances, or planning processes. Counties typically play an advisory role, providing numerous forms of assistance to local governments. Almost all counties comment on local master plans. This, however, is the only consistent function that counties in Michigan perform. County role with regard to planning and zoning seems to be widely dispersed. Some counties plan and zone for local governments, some assist them with master plan preparation, some provide technical assistance, and others provide data for plan preparation.

Counties also perform several functions aimed at facilitating cooperation among municipalities, ranging from technical and financial assistance for local cooperative efforts to providing opportunities for local elected officials and planning staff to interact. Of these functions, technical assistance, willingness to serve as a forum for problem solving, fair representation of interests, and goal-setting were all significantly correlated with the extent of local cooperation.

Some counties are more proactive than others at providing opportunities for local elected officials and planners to interact through workshops, conferences, committees, and working groups. This is important because the number of forums for interaction that counties provide to local decision makers was significantly correlated with the extent of local cooperation around planning and zoning issues. In turn, the number of county-organized forums was significantly correlated with the number of staff in the county planning department. This finding highlights the importance of strengthening the resources of county planning departments.

Regional Role

RPAs (also referred to as State Planning and Development Districts) in Michigan, like the counties, do not have regulatory authority over local planning processes. However, while most counties report having a county-wide land use plan, fewer than half of regional agencies have regional plans in place. The RPAs perform a range of functions for municipalities, from commenting on master plans and assisting with local plan preparation to providing technical assistance and data. In other words, county planning departments and RPAs are performing many duplicative roles. Division of labor between these two agencies would help direct resources more efficiently.

As with the counties, the extent to which an RPA provides financial incentives for cooperation, serves as a forum for problem solving, provides fair representation of interests, and sets regional land use goals and priorities were all significantly correlated with the extent of local cooperation on planning and zoning issues.

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Analysis of County and Regional Roles

First, when municipalities were asked to offer suggestions on incentives that could be provided to better facilitate cooperation, most respondents indicated the need for "carrots" such as financial incentives, awards, and recognition for cooperating municipalities. However, counties and RPAs list providing financial incentives for cooperation as one of their lowest priorities.

Second, several municipalities indicated lack of agreement on core regional issues and problems, inability to reach agreements at the table, lack of communication among participants, and unwillingness of participants to compromise as impediments to cooperation. Prior academic research suggests that these issues can be resolved if professional mediation, conflict management, and negotiation opportunities are available to local decision makers. However, both counties and regional agencies list providing mediation services for cooperative efforts as one of their lowest priorities.

Role of Planning Consultants

Most municipalities and counties in Michigan lack adequate resources to plan, zone, and enforce land use policies effectively. Although regional agencies seem to be doing better than counties and municipalities in terms of capacity, the distribution of staff across regional agencies is highly varied.

Thus, it is not surprising that about three-fourths of local master plans are prepared by planning consultants. Several municipalities indicated that planning consultants are more likely to provide unbiased advice on what municipalities "ought" to do in terms of planning and zoning. Planning consultants thus have a unique opportunity to provide both assistance and information on cooperation to decision makers at the local level, especially when adjacent local governments hire the same consultant independently.

Training

Two-thirds of municipalities had received training on the benefits of cooperation on planning and zoning issues. However, such training does not appear to have a significant direct impact on local cooperation. Case studies indicate that training works indirectly through the process of local and regional networking. Training also seems to be effective in terms of providing decision makers with access to the information and expertise available for the topic at hand, should the municipality seek to take the first step toward cooperative action.

Motivations for Cooperation

Most decision makers indicated that cooperation with each other on land use issues was important to ensure the compatibility and consistency of land use policies and decisions across jurisdictional lines. They were less convinced that some problems relating to land use planning, social equity, and environmental protection might be better solved at a metropolitan or regional level. Similarly, they were tentative about justifying cooperation using arguments of sustainable land use patterns.

Local decision makers who were currently pursuing cooperative efforts between urban areas and rural townships indicated the presence of compatible goals as a key motivator of cooperation. Here townships that wanted to stay rural cooperated with cities that wanted to stay urban. This allowed the townships to direct development toward the city, where infrastructure was already in place using policies such as growth and service boundaries. Local cooperative efforts have also capitalized on commonalities such as school district and watershed boundaries to define common issues of concern. Several jurisdictions started their interactions by identifying small common problems and achieving small cooperative successes in solving these problems together. Others started planning cooperatively by reinterpreting their jurisdictional lines as common areas rather than boundaries and focusing on boundary uses as the starting of point for joint planning. Finally, many local governments have sought protection against claims of exclusionary zoning and needed development by engaging in cooperative planning. Although not tested in the courts yet, the Joint Municipal Planning legislation provides this protection.

Conclusion

Despite obstacles, constraints, and a lack of incentives, municipalities in Michigan are cooperating to some extent on planning and zoning issues. These cooperative efforts range from informal conversations to more formal plans and planning commissions. This study indicates that county and regional planning agencies have the basic infrastructure in place to play a larger and clearer role in facilitating local cooperation. Planning consultants may be valuable to local cooperative efforts and their roles in such efforts should be more carefully examined. ●

Global Positioning

Mark I. Wilson and Kenneth E. Corey, Michigan State University

Michigan's economic future must incorporate three major elements: the knowledge economy, globalization, and network society.

The knowledge economy captures the significance of science and technology as a driver of the economy, and the need for an educated workforce to facilitate economic growth.

As structural change progresses in terms of what is made and how products and services are delivered, there is also a geographical restructuring with production systems fragmented to locate in the lowest cost and most advantageous areas. This globalization of production affects people and places as they now compete across the world rather than locally.

The third phenomenon, network society, reflects the impact of information and communication technologies (ICT) on how people live, work, and interact. To be successful, cities must reach out internationally to attract the business enterprises of the 21st Century.

It is essential for stakeholders to have a global mindset. This means an orientation that links the local and global, and recognizes the forces shaping economic change and growth. A global mindset should prepare us to capture the benefits of the many forces shaping urban development in Michigan, and at the same time alert us to the costs and disadvantages that need to be minimized. What is required from cities is sustained and creative engagement supported by the will and commitment to have the city prosper in the new realities of the global economy.

Policies and Strategic Processes: The ALERT Model

Each city and region must invest in its own unique strategy for attracting business and investment from abroad and be recognized as a unique location for international businesses. To be successful, strategies must build on the particular advantages of each city.

The policies and strategic processes outlined here are based on the ALERT model, which frames complex policy formulation activities in the context of the global economy and network society. The ALERT model asks planners and communities to raise their **A**wareness of changing geographic **L**ayers and technological (**E**-Business) forces and to positively and creatively react (**R**esponsiveness) through information, collaboration and relational planning (**T**alk). The principal elements of the model consist of five activities or components that need to be led by stakeholders of Michigan's cities. The ALERT model was employed to identify core features and issues for the global positioning of Michigan's cities.

Analysis of the global positioning possibilities for Michigan's cities focuses on three dimensions: competitiveness, investment, and branding. Mindset is also important to global competitiveness. Actions that cities can take in each of these areas are presented.

Competitiveness

There is not a specific formula for a city to be globally competitive. Some of the common factors widely accepted as being important for competitive cities are: human resources; productivity; knowledge and innovation; regulatory environment; infrastructure; and amenity and quality of life issues, including housing and living costs.

Actions

- Be globally aware/think globally.
- Seek advice from local globally competitive firms to learn about trends and issues.
- Assist local firms to export, and seek the advice of current exporters.
- Review internal processes for attracting international firms and investors and develop strategies to better serve potential investors.
- Benchmark against competitor cities to identify strengths and challenges, be in a position to respond to potential investors, and review best practices by cities worldwide.

Investment

The conventional terminology for attracting business from outside the United States is foreign direct investment, or FDI. Among the benefits of FDI for Michigan's cities are the creation of jobs, use of new production technologies, more efficient and effective business-process approaches, and improved management as a result of fresh perspectives and innovative mindsets. Additionally, host cities can gain access to new business networks to enhance marketing, sales, and procurement.

Actions

- Develop the capacity to attract and manage foreign investment through specialized staff and marketing.
- Establish processes for handling inquiries and initiating contact with prospective firms, and create a data and intelligence gathering function to track trends for firms and industries.
- Target firms and industries from countries that already have a presence in Michigan.
- Target countries in the short- to medium-term should include Germany, the U.K., France, the Netherlands, Italy, Ireland, the United Arab Emirates (Dubai and Abu Dhabi), Japan, Singapore, Taiwan, Hong Kong, and South Korea.
- Identify local stakeholders able to offer advice and inform policy, and establish regular contact with local resources able to assist with global marketing.

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- Smaller cities should consider partnering together to market their location and investment-attraction strategies.
- Create a place-specific strategy to handle foreign investment.

Branding

One of the challenges of a global economy is that cities and regions must develop an identity in a crowded marketplace. This stage of the analysis focused on two related elements of city branding: identity and Web presence. The Web is an essential tool in any city's planning to be globally competitive. The Web sites of Michigan's cities were analyzed for brand identity and content associated with global business and investment.

In general, Michigan's cities tended to have only a limited Web presence, and therefore represent a limited window for the rest of the world to see the benefits of a Michigan location. The Web is very much under-utilized by cities as a marketing strategy or source of interaction with potential investors. Among the findings of our study were the lack of global awareness and international content on Web sites, which signals a lack of familiarity or interest by Michigan cities in global business. In all but two cases, there was no foreign language content, and only one site provided access to a free online translation interface. It was often difficult to quickly find economic development information and contacts on Web sites, giving the impression that there was a lack of interest in these activities from Michigan cities.

Actions

- Develop awareness of Michigan cities and their economic advantages.
- Promote an identity for each city based on core strengths that can be supported with hard facts about economic advantage.
- Develop Web portals or Web sites that feature economic development and global competition assets; create multiple portals for different audiences.
- Consider non-English language content to signal awareness to potential investors and visitors.

Mindset

An essential element of the global positioning process is the mindset that policy makers, stakeholders, and citizens bring to the task. New ways of thinking about our economic futures that encompass holistic views of our communities and comprehensive strategies for economic development are part of a changed mindset that we must all adopt. The changed mindset should embody the characteristics and behavioral traits of intelligent development.

Actions

- Recognize locally unique value-added content and the competitive advantage of a city's assets.
- Build on the goal of universal digital infrastructure roll-out and continuous modernization of infrastructure.
- Use the best locally applicable strategic planning practices and benchmarking. The city does not copy others, rather, it tailors a unique strategy to serve its needs.
- Invest in regions principally for wealth creation, higher wage employment, and improved quality of life via human capital development and enterprise culture development.
- Develop a community and region holistically and equitably while recognizing the supportive development role of amenity factors and quality of life functions.
- Draw on contemporary research, theory, and methods as cities partner with business and educational institutions to identify and learn about their global advantage.

The necessary mindset change to adopt intelligent development practices will take a great deal of time and effort to be realized. It took a long time for Michigan and its cities and regions to get to their present state of development and relatively competitive position. In turn, there should be every expectation that it will also take a great deal of time to change mindsets sufficiently to realize the kinds of futures that will be desired and intended. It may be a long process, but it is one that we must start today.

Making Brownfield Programs Work for Michigan Communities

Roger Hamlin, Richard C. Hula, Cynthia Jackson-Elmoore, and Cristina R. Leuca, Michigan State University
Bianca Cobarzan, Babes-Bolyai University, Romania

Over the past 50 years, suburban sprawl has contributed to the destabilization of core cities. New highways, low-cost mortgages, and a long list of other factors pushed residents and businesses out of Michigan cities, leaving behind vacant factories, warehouses, and contaminated parcels. For thirty years, local governments have attempted to reverse trends and stimulate local development by providing incentives to investors and developers. Cities realize that brownfield redevelopment incentives are necessary to overcome greenfield competition.

How Effective are Current Brownfield Redevelopment Incentive Programs?

While some researchers have attempted to evaluate brownfield programs in general, few have examined the preference of developers and property owners for specific incentives. In the fall of 2007, the authors of this study evaluated research into the Michigan brownfield program using analysis of the literature, accumulation and coordination of existing Michigan data, and in-depth interviews with local community and state leaders. Our purpose here is not to

report the details of these research results, but to glean future policy directions.

Policy Implications of Research Findings

Nearly every interested party perceives the Michigan brownfield effort as essential to the state's future, and as having an impact worthy of the resources invested. Key to this success is the program's attack on both the risk and the reward sides of the developer/investor equation. The "linchpin" is limiting liability through the baseline environmental assessment process and reducing redevelopment costs by allowing cleanup to standards befitting future use. Communities appreciate the Single Business Tax/Michigan Business Tax (SBT/MBT) tax credit, the Brownfield Redevelopment Financing Act (BRFA) of 1996 tax increment financing program, and the Clean Michigan Incentive (CMI) grants, but perceive these as just another set of economic development tools. Surprisingly, they are a minor part of many brownfield projects.

The sites being redeveloped are not the most contaminated, but the ones most in demand, such as those near waterfronts, on the fringe of viable downtowns, adjacent to major universities, or other high value locations. The risk/reward gap can only be closed in situations where developers perceive future rewards to be large. Fringe industrial sites seldom offer that calculus.

Options for Small, Easy Changes

1. **Enforceable due care plans.** Limiting developer liability through baseline environmental assessments (BEAs) is key to getting the risk/reward ratio into balance; the concept of due care plans is a counter-balance, ensuring that environmental goals are met. But many, including Brownfield Redevelopment Authority directors and state officials, have concerns about the enforcement of due care plans. Given that a single project often involves many jurisdictions as well as complex and changing ownership, some fear that monitoring and enforcement of due care plans might be lax. One approach is to have the flexibility and mandate for communities to escrow monies to cover follow-up inspections and reports. These funds might come from, and be a legitimate cost of, BRFA recapture or Clean Michigan loans.

2. **Land acquisition.** Successful community-wide redevelopment may require generating momentum in a particular block, street, or neighborhood. To establish this critical mass, communities need the ability to purchase and control land parcels. Most community general funds do not have enough flexibility for this activity. The ability to use BRFA tax increment capture to acquire adjacent parcels could magnify project benefits.

3. **Program evaluation.** The Michigan brownfield program needs more evaluative research to discern which strategies are working. Currently, program data is scattered among several agencies. Standardized evaluation templates with mandatory follow-up might be a solution, with funding to come from tax increment financing (TIF) capture or a small part of the grants and loans themselves.

4. **Training for local officials.** Active communities have entrepreneurial redevelopment champions who seek out and ride herd on complex projects, sometimes for years, to bring them to fruition. This may be the most important factor separating active communities from less active ones. Training should include internships, mentoring, study of best practices and cases, evaluative research, and community short-term job swapping.

Options for Big Policy Shifts

1. **Utilizing private capital and market forces.** Brownfield redevelopment needs to continue, from the perspectives of both public health and core cities redevelopment. Yet, for both political and economic reasons, public funding is eroding. While arguing for continued public support, investment by the private sector must be promoted more boldly.

   Critical to this process is matching the risks investors take with the rewards associated with investment. One non-financial example of risk reduction is limiting liability through a fully implemented BEA/due care process as described above. Another is government's ability to own, assemble, and prepare land. On the financial side is the government's authority to create appropriate institutions and share some of the risk.

2. **Mezzanine finance.** For reasons that are not totally understood, the financial intermediary process in the middle range of the risk/reward spectrum is not well served. On the one hand, risk-averse savers prefer to put their wealth into conservative banks; traditional bank financing seldom satisfies all of the needs of a brownfield project. On the other hand, venture capitalists provide very high-risk capital, generally to technology-intensive firms with the promise of several hundred percent return on investment; this kind of financing is seldom relevant to physical redevelopment.

   The large middle of the risk/reward spectrum, where nearly all brownfield projects reside, includes everything in between. Neither private institutions nor governments are well equipped to deal with medium-risk clients. However, no broad-based and sophisticated intermediary system can succeed without government legitimizing an institutional structure and sharing some of the risk. Methods for providing mid-risk debt capital include direct government loans, revolving loan funds, loan guarantees, subordinated loans, revenue bonds, loan insurance, bond insurance, secondary money markets, and loans with equity or royalty features.

3. **Government grants and loans.** One method to directly leverage private capital is to provide second-position loans. If private lenders are willing to cover 50% of project costs, the CMI might cover 40%, giving the private lender senior position. Lenders should also be allowed to have equity or royalty kickers to help compensate for the higher risk.

4. **Loan guarantees.** Private capital can also be leveraged by using state bond issue funds to guarantee private loans. Given the size of many brownfield projects, this might mean guaranteeing a bond issue or buying bond insurance rather than guaranteeing a conventional loan. Taxpayers would only foot the bill if a borrower failed to repay and collateral did not cover the outstanding balance.

   Concerns about this method include the quality of financial analysis, since governments often do not have the expertise to assess whether terms and conditions are appropriate and in

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line with the prevailing market. Also, loans and loan guarantee programs might upset the market's risk/reward balance, inducing borrowers and lenders to go too deeply into debt and creating unfair competition for unsubsidized businesses.

5. **Loan insurance pooling and capital access programs.** One approach to promoting medium-risk/reward financing is loan insurance. Loan insurance programs are less invasive than loan guarantees and more guided by market forces. Like all insurance, loan insurance spreads risk among many clients and reduces the cost to each, while providing some protection for all. The pool is funded through fees provided by participating higher risk borrowers.

   Loan insurance programs incur little cost to the taxpayer and require little government oversight. Such programs are called Capital Access Programs (CAPs). In a CAP program, the lender matches the borrower's deposit. States typically match private contributions, with many states increasing their matching ratio for target areas such as brownfield sites. The collection and claims process is designed to work in a routine way. If any loan in the portfolio stops performing, the lender implements the normal recovery process and pursues all available remedies, including foreclosure and collateral confiscation. Flexibility is key, and market mechanisms are allowed to work. Lenders decide what types of loans to make, as well as interest rates, fees, terms of maturity, collateral requirements, and other conditions.

Recommendations

1. Continue to pursue a strong brownfield program. Both the environmental and economic objectives are critical to Michigan's future.

2. Monitor implementation of long-term due care plans. Environmental goals should not be lost.

3. Provide greater flexibility for the use of BRFA-TIF capture, including some administrative costs and purchase of adjacent land.

4. Evaluate the Michigan brownfield program to discern which strategies are working. Currently, program data is scattered among several agencies, and neither state nor local staff have the time to evaluate it.

5. Train the entrepreneurial leaders in active communities who seek out and ride herd on complex projects. Include internships, mentoring, study of best practices, evaluative research, and community short-term job swapping in the curriculum.

6. Look for ways to induce private action with minimal expenditure of taxpayer funds and greater utilization of market forces through risk/reward balance. Budget and political realities make it necessary to seek the maximum private leverage for every public dollar. However, the private sector will not redevelop without incentives. ●

Michigan's Local Finance Structural Deficit

Jeff Horner, Wayne State University

Erosion of Financing for Municipal Services

In the past thirty years, local governments in Michigan have experienced a convergence of significant limitations on their ability to finance municipal services.

With the passage of the Headlee Amendment in 1978, local taxing jurisdictions were compelled to roll back property tax rates when existing property tax revenue increases exceeded the rate of inflation. In 1994, Proposal A effectively capped tax increases on homestead properties at the rate of inflation. Finally, the 1980 U.S. Census was the first in history to result in the loss of a Congressional seat for Michigan, a trend that has continued in every subsequent Census, sound evidence that Michigan is no longer robust in population (and tax base) growth.

Collectively, these Constitutional and demographic limitations on local tax revenues have compromised municipal services in Michigan.

At the same time, municipal finances have been strained by faster-than-inflation increases in service costs. Double-digit annual increases in health care and pension expenses are not uncommon. Maintenance of aging sewers, roads, and public utilities has further exacerbated local financial shortcomings.

Declining Quality of Services

Loss of traditional sources of municipal revenue has led to a decline in quality of services. In many communities, services such as parks and recreation programs have been cut back or eliminated. Core services such as planning, assessing, and housing programs are subject to budget reductions, or farmed out to private consultants or county governments. Even police and fire protection services have been subject to cuts, including reductions in personnel levels, special programs, training, and equipment, which has resulted in increased response times. Finally, code and building inspections, engineering services, road maintenance, and numerous other infrastructure services are often reduced or deferred to future administrations.

Legislative Proposal

In her 2007 State of the State address, Governor Granholm warned: "Cities and townships that want to see their revenue sharing increase this year will need to show us they are sharing services or consolidating with other units of government to save taxpayers money."

Resulting from the speech was a provision in a 2007 appropriations bill that sought to earmark $27 million (2.5%) of the statutory revenue

sharing pool for communities that "achieve greater efficiencies in the delivery of essential public services." This legislation was viewed by some stakeholders as an insufficient response to a large problem.

Nonetheless, the legislation raised two policy questions: (1) how far does $27 million go in terms of promoting cooperation in local unit service provision; and (2) how, precisely, are "greater efficiencies" defined? This research examines, in part, the first question.

Analyzing the Effectiveness of Service-Sharing Agreements

Implicit in the legislative proposal to earmark a portion of state revenue sharing for intergovernmental cooperation agreements is the assumption that local governments require incentives over and above the financial efficiency gained through service-sharing.

According to stakeholders, significant statutory and administrative barriers prevent local governments from merging or otherwise seeking service provision efficiencies. These barriers include funding costs for efficiency studies, Public Act 312 provisions, and political intransigence regarding mergers and sharing agreements. However, a longer-term question is whether local financial stress can be stopped or significantly forestalled with service-sharing agreements, incentivized or not.

Research Assumptions

To test this question, we made several long-range hypothetical assumptions about local finances in Michigan. We assumed that:

- There are no administrative or political barriers to intergovernmental cooperation.
- Property taxes and state revenue sharing are the two largest sources of revenue for all local units.
- Local units will continue to pay health and retirement costs from their general funds.
- Revenue-sharing payments will continue at their 2006 levels.
- Cost savings resulting from increased service sharing will range from 3% to 5% of the average annual gain in property tax revenues.

Study Method

The research examined 32 local governments in four homogenous metropolitan regions in Michigan, arbitrarily chosen as prime areas for increased intergovernmental cooperation. The regions are: Grand Rapids (Metropolitan Council of Governments), the Tri-Cities area (Bay City, Midland, Saginaw, and outlying townships), Downriver Detroit (communities in the Downriver Community Conference), and cities in Southern Macomb County.

These four regions represent older, generally disinvested areas of the state. They are relatively homogenous communities likely to explore enactment of service-sharing agreements. They are also large enough to capture a significant proportion of state population, but small enough to be a manageable study area.

Financial data on the 32 cities and townships was taken from Certified Annual Financial Reports and State of Michigan property tax and revenue sharing reports. These reports were reviewed for fiscal trends, such as increases in health care costs, personnel, pension costs, and associated costs. For all 32 local units in the study, the following data was obtained for the years 1997 and 2006: health care and retirement contributions; property tax revenues; and revenue sharing figures.

Although health care and retirement contributions are not the sole costs associated with local administration, they are often cited by finance directors as rising faster than other expenditures. Conversely, property taxes and state revenue sharing are not the sole sources of local unit revenue, but they are usually the two largest ones.

Results

Based on the 1997-2006 financial data for each region, we summarized projections using three sets of assumptions: optimistic, less optimistic, and pessimistic. The "less optimistic" projection rates are derived from the actual rate of change over the 1997-2006 period, while the "optimistic" and "pessimistic" rates are arbitrarily adjusted 15 percent up and down.

Under the most optimistic scenario, Grand Rapids, Downriver, and South Macomb will not have major costs that exceed revenues until 2018 at the earliest. The actual revenue and cost picture offers good news for those same three regions, but has the Tri-Cities area with major costs and expenses at parity—that is, the time when the annualized costs catch up with revenues, assuming no rate changes—at the close of this year. The more pessimistic projections (slower-than-historic revenue increases and faster-than-historic cost increases) have costs catching up with revenues in all regions no later than 2020.

Conclusion

These findings should in no way be interpreted to suggest that local government finances are in good shape in the selected areas or across the state. Indeed, this hypothetical analysis necessarily has financially healthy local units supporting distressed ones. Revenue and cost analysis has been vastly oversimplified here. However, these findings do suggest that local governments seeking to economize on service provision through sharing agreements can probably afford do so without the help of legislative earmarks. It is imperative that administrative and statutory barriers to service-sharing agreements be lifted or reformed to allow such agreements to occur organically.

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UNIVERSITY

Center for Community and Economic Development

1615 E. Michigan Avenue
Lansing, MI 48912

Phone: (517) 353-9555
Fax: (517) 884-6484

E-mail: ced@msu.edu
Web: www.ced.msu.edu

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