DEGC

TO: Council Member Latisha Johnson
Council President Mary Sheffield

FROM: Kevin Johnson, President & CEO
Detroit Economic Growth Corporation (DEGC)

DATE: March 25, 2025

RE: FY 2025-26 DEGC Budget Questions

This memo is in response to Council Member Latisha Johnson's questions dated March 20, 2025.

1. **When considering providing a tax abatement to a project, how does the Detroit Economic Growth Corporation (DEGC) assess the success of a developer's past projects before providing future abatements or incentives on their newly proposed projects?**

   DEGC inquiries about past performance of projects when evaluating requests from developers or business owners we have not worked with in the past. However, tax abatement agreements that incorporate such things as adherence to affordability requirements are monitored by HRD and job commitments are monitored by CRIO. HRD also checks to determine if there are outstanding blight violations and processes income tax clearances to ensure the developer does not have outstanding city income tax liabilities.

   a. **If a project that received a tax abatement goes into receivership during the lifetime of their abatement what's the process to revoke the abatement?**

      This process would involve the recommendation of revocation of a tax abatement certificate by HRD and the Law Department for the Council to revoke a particular abatement by resolution.

2. **There are many reasons why businesses or developments fail. When conducting the but-for-analysis, outside of looking at the pro forma, what other market analyses or qualitative data is used to determine or conclude that a project would not be viable if not for a tax incentive?**

   DEGC undertakes a rigorous and thorough examination of the project's financial model, ensuring that the data and underlying assumptions presented are reasonable and justifiable. As part of this review, DEGC compares the assumptions in the proposed project's financial model to those used in similar recent projects to ensure the consistency of critical data points across projects. For example, DEGC compares the rental rates of a proposed project to those of a competitive set of similar assets in close proximity to the proposed project. Oftentimes, the success of a project hinges on the accuracy and reasonableness of revenue projections. We also examine the strength of the market by assessing abortion, vacancies, and the pipeline of projects to determine demand and supply constraints that will support or be a hindrance to the success of a proposed project.

3. **Motor City Match assists Detroit businesses in moving from an idea to opening a brick and mortar. What support does the DEGC provide to businesses once they're open to ensure their sustainability?**

   Open businesses across Detroit have access to DEGC and City of Detroit programing such as the District Business Liaisons, BuyDetroit which supports Detroit-based suppliers seeking procurement opportunities with the city and institutional purchasers, and Detroit Means Business, which connects businesses to small business support partners. We have explored ways to provide specific support to the 683 previous Motor City Match awardees and to provide MCM awardee specific support as alumni of the program, but that work is currently not funded. We have envisioned offering awardees a host of networking, technical assistance, and learning opportunities to bolster their ability to sustain and scale operations. If we launched an MCM alumni support process, that process would begin with a baseline assessment of their current revenues, pain points, areas of opportunity, and staffing priorities. From there, we could work on providing training for scaling across all industries or for specific industries that cover large numbers of existing awardees such as retail and hospitality. We estimate that it would cost between $500,000 and $1M to launch a robust support program for the hundreds of MCM awardees over the first 10 years of the program. Alternatively, an option without technical assistance or with a narrower focus could be piloted for around $375,000.

4. **Last year, the Citizen's Research Council of Michigan released three reports assessing the City of Detroit's use of tax abatements. In the report titled "An Assessment of Detroit's Economic Condition and a Critique of its Economic Development Efforts," the CRC argues that the economic conditions of the city have not improved enough for us to cease the use of tax abatements or end the Downtown Development Authority after 50 years.**

   a. **Outside of tax abatements, what strategies are the DEGC/DDA utilizing or planning to pursue to improve the economic condition of the city to decrease the need of abatements and increase property tax revenue?**

In answering this question, it first must be highlighted that the primary drivers for the need to utilize tax abatements are beyond our control in that they are structural, and market driven. The structural issue we are facing is the city's exorbitant tax burden that developers and business owners face. Detroit has one of the highest millage rates in the State as well as the Country. The market-driven factors impacting the need for the use of tax abatements are high construction and labor costs, as well as high interest rates. The State has recently developed economic development tools such as amending Public Act 381 of 1996, as amended, to include the use of tax increment financing for affordable housing eligible costs under an approved brownfield plan and the Revitalization and Placemaking program 3.0 (RAP) that assists in mitigating the above-mentioned issues, including the need for tax abatements.

b. **What long-term plans do you have to assist small businesses in sustaining themselves after their tax abatement expires?**

We are currently brainstorming with the Administration to suggest some state legislative action to address this situation.

5. **A February presentation by the Citizen's Research Council of Michigan outlined the decline of jobs in the Central Business District between 1977 and 2019 noting a 24% decrease or 25,292 of total jobs with the largest decreases in manufacturing, wholesale trade, retail trade, transportation and utilities, and information and financial activities.**

It is important to note that when looking back over this time period, one must consider several contributing factors to this level of job decline. First, Detroit's population decreased by 46.9% from 1980 to 2020, going from 1,202,339 to 639,111 and secondly, in the US. From 1980 to 2019, the number of manufacturing jobs declined by 39.5%, going from 19 million manufacturing jobs in 1980, to 11.5 million manufacturing jobs in 2019.

a. **What plans do the DEGC/DDA have to attract different types of businesses to the central business district and across the city?**

i. DEGC's Business Development Team focuses its business attraction efforts on companies operating within our "Prosperity Sectors" – 1) Auto Mobility & Manufacturing, 2) Clean Energy & Sustainability, and 3) Research, Engineering &

Design ("RED"). We travel to trade shows, domestic and foreign trade missions, and industry convenings to meet directly with companies operating in our Prosperity Sectors and pitch the customized value of a Detroit location. We also attend local industry events, trade shows and convenings to network with companies in our Prosperity Sectors. We engage with site selection consultants who have clients with projects that need a better understanding of the value of a downtown Detroit location. In these conversations, we pitch Detroit as a location for an office presence, even if the company's current project is focused on another function like manufacturing or logistics.

ii. Our Prosperity Sectors receive differential focus because they provide the right combination of the City and region's existing auto and manufacturing industry strengths, quality entry level jobs and high paying innovative jobs for Detroit residents, and opportunities to expand the City's corporate business ecosystem. The Clean Energy & Sustainability and RED sectors are largely additive to Detroit's existing mix of downtown office tenants.

iii. It has been a difficult market across the country for downtown office attraction given the shift to remote work post-COVID. However, there is a recent trend of companies gradually returning to the office and seeking high quality Class A office space. In our conversations with companies seeking office space, DEGC will market greater downtown's competitive cost profile and emerging innovation assets (like the UM Center for Innovation, Henry Ford Future of Health, and Michigan Central developments), along with its outstanding live/work/play amenities. We will work closely with brokers and real estate developers to understand and market their Class A office spaces. We will also host a broker roundtable event three times a year where we will gather insights from the brokerage community to inform our downtown office tenant attraction strategy.

6. How is the DEGC working to bring more retail to our neighborhood commercial corridors where rooftops and disposable income align with the requirements of retail stores?

Presently, the DEGC, through its Small Business Services unit, collaborates with the Planning and Development Department and Neighborhood Economic Development to connect developers to available parcels where there are nodes of opportunity or community sourced intelligence that indicates unmet retail demand. We have discussed opportunities to use more technology-driven tools that track customer flow and commercial activity based on cell phone geolocation and extrapolates possible disposable income data by estimating the mobile user's home census data. In the past, we have worked with the City to commission retail studies such as the Streetsense report produced in 2018. These reports tend to lag real-world community intelligence and typically don't guarantee funding to implement findings.

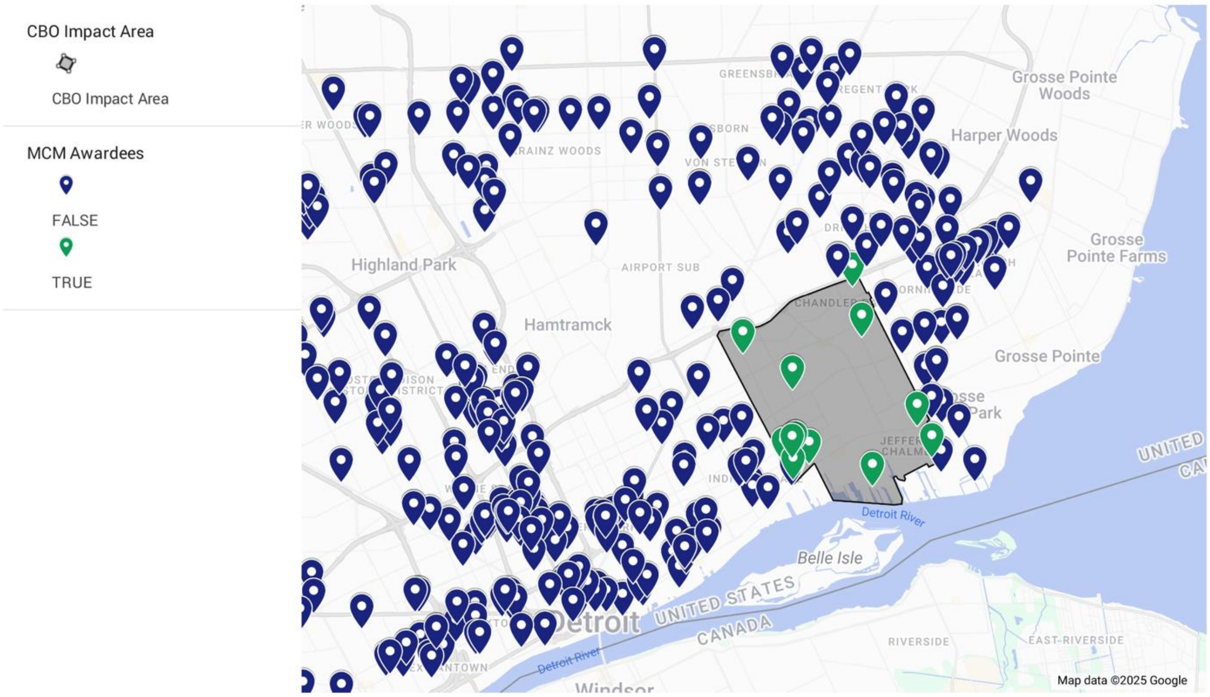
Furthermore, Through the Strategic Neighborhood Fund, there has been nearly $200 million invested to support dozens of projects in the 10 SNF neighborhoods. In almost every case, these projects also leveraged tax incentives—and the data in fact shows Council has approved more tax incentives for the neighborhoods than for Downtown and Midtown combined. Other programs like Motor City Match and the Supporting Equitable Economic Development (SEED) are also focused almost exclusively on neighborhood revitalization, and when the city was awarded a grant through the RAP program last year, DEGC focused those state dollars almost exclusively on supporting vibrant neighborhood development.

7. There were funds allocated to businesses in the FCA impact area; how were the funds used?

Stellantis (FCA) has distributed its committed investment of approximately $800,000 for home repairs in the impact area. Invest Detroit, the designated fiduciary of the funds, has made an initial $600,000 payment to the City. To date, the City is scheduled to meet with Stellantis in April to determine the use for the remaining $198,000 in funding.

The programming proposed for the Stellantis (FCA) Impact Area included procurement support for small businesses as possible Stellantis (FCA) suppliers. The DEGC, through its BuyDetroit program, stands ready to support this programming but has not received a related request at this time. Through round 28, the Motor City Match program has awarded 14 businesses in the impact area a combined $417,000.

CBO Impact Map



On the above map, “true” indicated businesses that are both MCM awardees AND located in the FCA impact area. The other identified pins are MCM awardees not located in the FCA impact area.

cc: Hon. Detroit City Council
Hon. Janice Winfrey, City Clerk
Malik Washington, City Council Liaison
Douglas Ortiz, Budget
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