



# SmartZone Tax Increment Financing Analysis

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**PUBLIC SECTOR  
CONSULTANTS**

*Prepared by*

Public Sector Consultants  
[www.publicsectorconsultants.com](http://www.publicsectorconsultants.com)

*Prepared for*

TechTown Detroit  
[www.techtowndetroit.org](http://www.techtowndetroit.org)

# Executive Summary

Available data show significant disparities in the amount of tax increment financing (TIF) revenue captured by different SmartZones across Michigan. For SmartZones located in robust and historically resilient real estate markets, TIF has been a multimillion-dollar boon to their budgets. Between 2003 and 2018, for example, the Ann Arbor/Ypsilanti SmartZone captured more than \$20 million in TIF revenue, with projections of an additional \$66 million to be captured between 2018 and 2033. For SmartZones in places hit harder by the Great Recession or other macroeconomic factors, TIF revenue has been much lower or, in some cases, nonexistent where property values have fallen below the SmartZone's base taxable value.

Decreased TIF revenue means less money available for investment in technology-based economic development, which can slow revitalization efforts and make private investment less attractive. The absence of improvements in the SmartZone may contribute to stagnation or further decline in property values, reducing the revenue generated from property taxes and perpetuating low TIF revenue for the SmartZone. This downward spiral—mostly outside the control of SmartZone leaders—calls into question the fairness and effectiveness of tax increment financing as the principal mechanism for funding Michigan's SmartZone network.

## Introduction

Certified technology parks, also called SmartZones in Michigan, are specific geographic areas designated as “collaborations between universities, industry, research organizations, government, and other community institutions intended to stimulate the growth of technology-based businesses and jobs by aiding in the creation of recognized clusters of new and emerging businesses, those primarily focused on commercializing ideas, patents, and other opportunities surrounding corporate, university or private research institute R&D efforts” (Johnson and Singh 2003, 2).

SmartZones were created through Public Act (PA) 248 of 2000, which amended the Local Development Financing Act of 1986 to allow the Michigan Economic Development Corporation to designate up to ten certified technology parks in the state. The intent of PA 248 was to reduce unemployment and spur economic growth by focusing on the development and growth of small, high-tech firms, stimulating growth of technology-based businesses and jobs. To achieve these goals, SmartZones are authorized to engage in activities that include:

- Property acquisition, development, and disposal/sale of public facilities
- Business planning and feasibility studies
- Entrepreneurial training
- Coordinating venture capital
- Market analysis
- Grant writing
- Management recruitment
- Business mentoring
- Incubator services
- Coordinating research and development with universities and industry

To fund SmartZones, PA 248 of 2000 broadened the use of tax increment financing techniques authorized under state law for the development of businesses engaged in “high technology activities.” The law required Local Development Finance Authorities (LDFAs) to develop TIF plans detailing tax capture and development goals for each district and submit those plans as part of the application to be designated a SmartZone. Plans established how taxes would be captured from increasing property tax value in the SmartZone over a 15-year period. SmartZones are funded through a variety of means, in addition to tax increment financing. Other sources include:

- Contributions
- Revenues from properties that are sold, leased, licensed, or operated by the SmartZone
- Proceeds of tax increment bonds
- Proceeds of revenue bonds
- Grants
- Loans

PA 248 of 2000 only authorized ten SmartZone designations. PA 104 of 2008 amended the Local Development Financing Act to allow a municipality with a SmartZone to enter into an agreement with another LDFA and thereby designate a separate geographic area within the second authority as a “satellite” technology park. In 2016, the number of allowed “satellite” zones expanded from three to nine. Existing SmartZones were also allowed to submit amended plans for approval to include satellites, expand tax capture areas, and extend original their original tax capture plans by five or 15 years. SmartZones are now governed by Tax Increment Financing Act 57 of 2018.

## TIF Funding History

There are currently 20 SmartZones in Michigan. Initial tax captures for the first SmartZones began in or around 2003. Additional SmartZones were designated between that time and 2017. Some of the first SmartZones were able to extend their plans and continue tax increment capture beyond the initial 15 years. The requirement for SmartZones to report tax increment revenue annually did not begin until PA 57 of 2018 became effective.

Despite the lack of official tax increment revenue documentation from 2003 to 2019, there are indications that several SmartZones did not come close to capturing the amount of tax increment revenue projected in their initial plans. For example, **Automation Alley** indicated in its 2017 amended plan that it was far behind its planned capture: “the original plan anticipated total tax capture over 15 years at \$20,645,634 with approximately \$7,997,301 in school tax capture and \$12,648,333 in local tax capture.” Actual capture for the SmartZone through tax year 2014/2015 was \$5,144,099, according to the 2017 amended plan.



LDFA budget documents indicate Automation Alley collected an additional total of approximately \$500,000 in tax increment revenue between 2015 and 2018, the last year of the original designation—a \$15 million shortfall.

**Lansing Economic Area Partnership (LEAP)** submitted an amended plan in 2022, noting that it “expected TIF capture to serve as the primary funding resource for the Lansing Regional SmartZone (LRSZ)” when the LRSZ was first designated (Public Sector Consultants 2022, 11). However, “development did not materialize as projected and TIF revenue was limited until FY 2019 when it finally surpassed \$100,000” (12). According to the plan, “the realization of this revenue in recent years is a significant turning point for the Lansing Regional SmartZone” (12). Still, the total tax capture revenue between 2009 and 2020 was only \$493,608, all of it from the East Lansing capture district.

At the opposite end of the spectrum, **Ann Arbor SPARK** shared in its 2016 amended plan that “the original plan projected TIF capture of \$21 million to support the creation of 700 jobs.” Through 2016, \$16 million had been captured and 646 jobs created. In the remaining years of the original plan, “\$5.3 million was expected to be captured and the jobs created should exceed the goal of 700.” Beating expectations, the Ann Arbor/Ypsilanti SmartZone captured nearly \$7 million dollars in tax increment financing in FY 2017 and 2018. The amended plan projected that a 15-year extension from 2018-2033 would “capture \$66 million and create 1,606 jobs.”

Additional data from LDFA budgets, annual performance reports required under PA 57 of 2018, comprehensive financial reports from municipalities, local development finance authority meeting agendas, municipal budgets, and the Michigan Department of Treasury provided further insights into SmartZone performance with respect to tax increment capture between 2009 and 2023. As shown in Exhibit 1, a total of \$85, 621, 586 in total tax increment revenue was reported by the SmartZones during this period. However, this revenue was not evenly distributed across the SmartZone network. Ann Arbor SPARK reported tax increment revenue that greatly exceeded the rest, more than 50 percent of the total reported, with Grand Rapids, Sterling Heights, and Houghton-Hancock Michigan Tech Enterprise Corporation (MTEC) reporting the next highest amounts, totaling just over 25 percent of the total captured. Marquette, Troy, and Southfield represent about 12 percent of the total, with the remaining 13 SmartZones reporting capture of the final 12 percent.



EXHIBIT 1. SmartZone Tax Increment Revenue 2009–2023

Local Unit	Service Provider	TIF Plan Expiration Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*	Total	Percentage Share of Total
Adrian-Tecumseh	Lenawee Now	2029											\$30,178	\$49,973	\$162,506	\$188,960	\$198,324	\$629,941	0.7%
Ann Arbor-Ypsilanti	Ann Arbor SPARK	2032	\$1,059,965	\$1,347,497	\$1,475,504	\$1,437,146	\$1,546,577	\$1,964,393	\$2,331,380	\$2,550,824	\$3,300,000	\$3,400,000	\$3,899,557	\$4,417,262	\$4,681,057	\$4,733,557	\$4,986,699	\$43,131,418	50.4%
Battle Creek	Battle Creek Unlimited	2031	\$3,670		\$2,634	\$-		\$-	-	-	-	-	-	-	-	\$300,088	\$46,745	\$353,137	0.4%
Jackson-Blackman Township	Lean Rocket Lab	2038											\$182,239	\$199,919	\$234,430	\$172,097	\$-	\$788,685	0.9%
Detroit	TechTown												\$-	\$-	\$-	\$-	\$-	\$-	0.0%
Lansing-East Lansing	Lansing Economic Area Partnership	2027					\$17,896	\$14,834	\$40,737	\$39,391	\$45,094	\$63,964	\$121,139	\$279,900	\$456,309	\$478,917	\$484,975	\$2,043,156	2.4%
Grand Rapids	Spartan Innovations/StartG arden	2032									\$1,157,996	\$1,173,343	\$1,021,309	\$1,704,175	\$1,217,606	\$1,167,429	\$1,266,971	\$8,708,829	10.2%
Hancock-Houghton	MTEC	2033										\$1,034,000	\$1,001,788	\$1,033,499	\$1,064,460	\$1,092,863	\$1,140,170	\$6,366,780	7.4%
Holland	Lakeshore Advantage	2031									\$18,986	\$81,255	\$151,664	\$209,101	\$277,017	\$341,131	\$491,375	\$1,570,529	1.8%
Kalamazoo	WMed Innovation Center									\$623,926	\$10,617							\$634,543	0.7%
Marquette	Innovate Marquette	2029							\$26,573	\$128,881	\$205,313	\$345,147	\$487,009	\$719,490	\$973,855	\$1,226,500		\$4,112,768	4.8%
Midland	Midland Business Alliance	2029										\$20,000	\$30,000	\$77,546	\$127,767	\$125,815	\$152,640	\$533,768	0.6%
Mount Pleasant	CMURC	2022											\$102,452	\$109,947	\$-	Dissolved		\$212,399	0.2%
Muskegon	Muskegon Innovation Hub	2025					\$85,627	\$137,742	\$103,045	\$95,372	\$147,081	\$96,472	\$97,583	\$98,643	\$99,568	\$85,861	\$86,205	\$1,133,199	1.3%
Rochester Hills	OUINC	2020											\$-	\$-	\$-	\$-	\$-	\$-	0.0%
Port Huron	The Underground	2034							\$-	\$372,839	\$314,990	\$185,784	\$206,846	\$187,789	\$169,191	\$200,820	\$160,148	\$1,798,407	2.1%
Sault Ste. Marie	Sault Ste. Marie EDC	2024											\$19,988	\$67,631	\$38,784	\$111,691	\$195,705	\$433,799	0.5%
Southfield	Centrepolis Accelerator	2034							\$233,025	\$233,691	\$734,378	\$121,242	\$187,203	\$182,209	\$826,630	\$521,257		\$3,039,635	3.6%
Sterling Heights	Velocity Center	2031											\$1,254,416	\$1,263,391	\$1,383,230	\$1,523,103	\$1,560,351	\$6,984,491	8.2%
Troy	Automation Alley	2034	\$309,095	\$283,717	\$276,990	\$243,403	\$242,477	\$246,114	\$140,456	\$178,725	\$181,470	\$160,746	\$282,419	\$148,207	\$157,118	\$145,163	\$150,002	\$3,146,102	3.7%
Total Capture																\$85,621,586			

\*Not all SmartZones had submitted tax increment revenue reports for 2023 or published comprehensive financial reports at the time of this report. Prior to PA 57 of 2018, there were no requirements that LDFAs to report their tax increment revenues to the state. As a result, data on tax increment revenue prior to 2019 are incomplete and are drawn from several different sources when available.  
Sources: Municipality Comprehensive Financial Reports 2009–2023, amounts listed as tax revenue for LDFAs, reported tax increment revenue required under 2018 PA 57 provided by Michigan Department of Treasury, local development finance authority meeting agendas, and municipality annual budget documents.



## Conclusion

Considering the Growing Michigan Together Council’s recent call for Michigan to become the innovation hub of the Midwest and America’s “scale-up state,” SmartZones’ reliance on resilient and rising property values—with some receiving windfalls and others receiving \$0 based largely on forces outside of their control—deserves scrutiny. Phase II of this work will explore potential changes to the TIF mechanism and SmartZone funding generally based on how effectively they would address the documented funding imbalance, achieve the goals of the SmartZone legislation, and reflect the growing chorus to increase support for Michigan’s innovation ecosystem.

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