

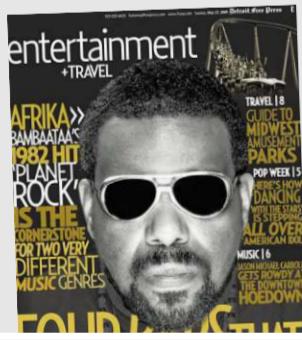
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Red Wings vs. Blackhawks | Game 1: Today, 3 p.m., Detroit

# PLAYOFF HERO

DAN CLEARY, NEWFOUNDLAND'S FAVORITE SON, STEPS UP FOR WINGS. NEXT UP: CHICAGO MITCH ALBOM, 1C



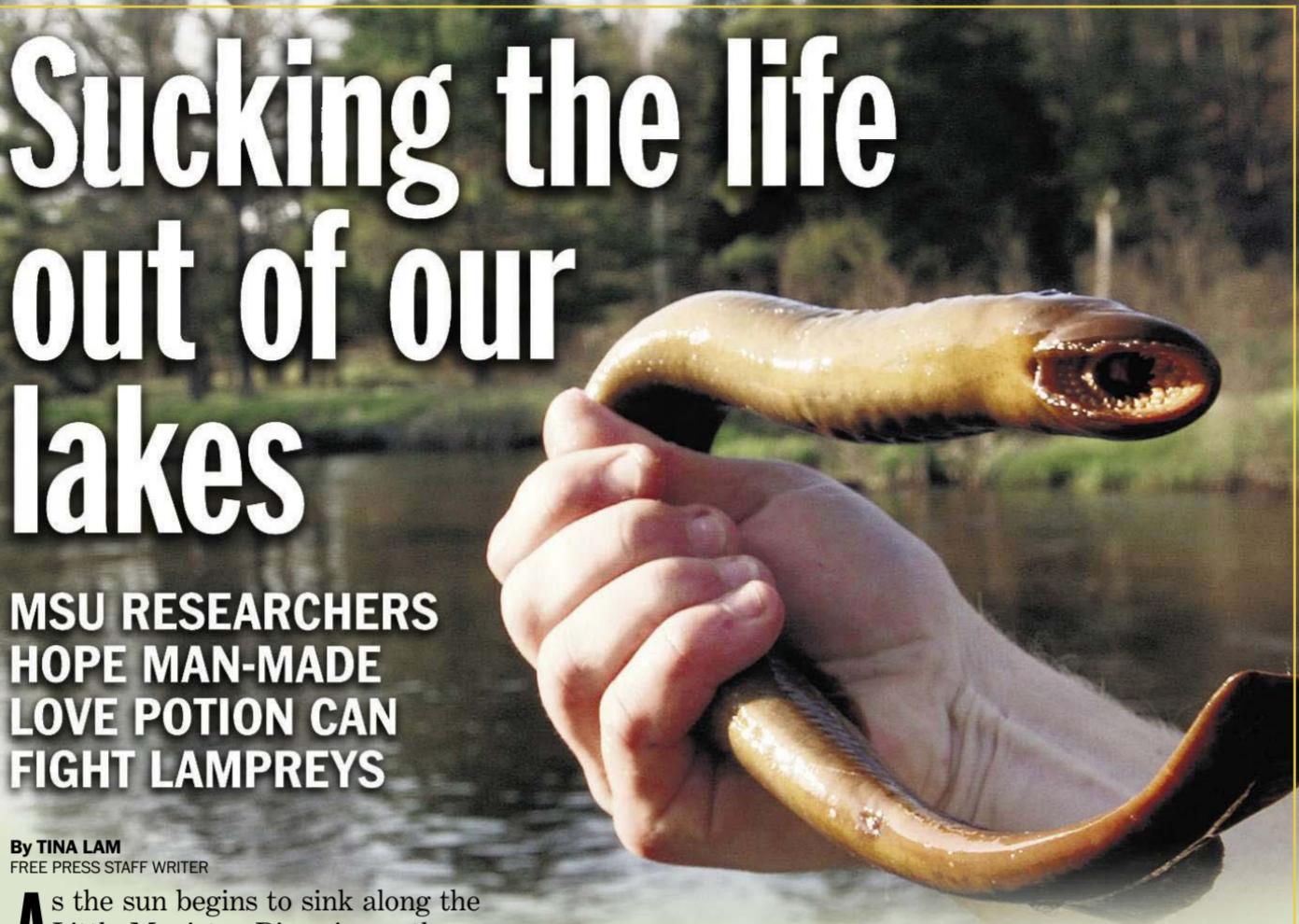
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**MSU RESEARCHERS HOPE MAN-MADE LOVE POTION CAN FIGHT LAMPREYS**

By TINA LAM  
 FREE PRESS STAFF WRITER

**A**s the sun begins to sink along the Little Manistee River in northern Michigan, researcher Nick Johnson is excited and a little nervous. There's a lot riding on what he's about to do.

It's spawning season for the sea lamprey, a prehistoric creature that invaded the Great Lakes 80 years ago, and Johnson is injecting a love potion into the river to lure female sea lampreys into traps.

The eel-like lampreys are one of the Great Lakes' most destructive invasive species, devouring native fish by sucking out their innards. They invaded the lakes in the 1920s, wiping out lake trout in some lakes by the 1950s. A chemical developed to kill lampreys has helped lower their numbers to about half a million in the lakes, but it is expensive and there still are too many lampreys.

Scientists at Michigan State University have developed a man-made copy of a love scent male sea lampreys emit during spawning. Now, they are testing it in 10 Michigan streams.

"It has shown a dramatic impact on the behavior of lamprey," said Mike Sieffkes, lamprey control specialist at the Great Lakes Fishery Commission in Ann Arbor.

If the pheromone works, it could be a breakthrough in the battle against lamprey in the Great Lakes.

■ MSU TEST OF MAN-MADE PHEROMONE A FIRST ON FISH OR VERTEBRATES. 8A

**(FreeP.com** See more photos of researchers' fight against these marine marauders.



Researcher Nicole Griewahn, 27, of Cheboygan carries equipment to shore after taking water measurements in the Little Manistee River.



Researcher Nick Johnson, 27, of Rogers City said in cold water, he is lucky to catch one lamprey, but when the river temperature warms into the 60s, the traps might hold as many as 500.

## Sea lampreys

- Using file-like tongues, lampreys rasp out holes in fish and feed on their blood and other fluids.
- An anticoagulant in their saliva keeps wounds open for hours or even weeks.
- One lamprey can kill more than 40 pounds of fish during its 5-to-8-year lifetime.
- Centuries ago, English royal families were fond of lamprey pie. Some chronicles say King Henry I died of "a surfeit of lampreys" in 1135.
- Great Lakes lampreys are inedible because they feed on big fish full of contaminants.

## NO DANGER TO HUMANS

Lampreys in rivers and streams aren't in a feeding phase, so they're no risk. During their feeding phase in the Great Lakes, they go for cold-water fish, not warm-blooded humans.

If they attach to a human, they can be brushed off.

Sources: Great Lakes Fishery Commission; Encyclopaedia Britannica

# Promises to create new jobs fall short

Many tax incentives go unused because firms fail to deliver on pledge

By KATHERINE YUNG  
 FREE PRESS BUSINESS WRITER

Michigan's major economic development tool has produced only about 24,000 new jobs over its 14-year life, a Free Press examination has found.

State officials also say the program — tax incentives granted for jobs that are created or saved — has retained more than 43,000 positions.

The state, however, has shed more than 700,000 jobs since the decade began. In March of this year alone, 25,000 people in Michigan joined the unemployment rolls.

Overall, the Free Press found that when it comes to job creation projects in Michigan, reality often falls short of promises.

Each month, state economic development officials trumpet business expansions and relocations that have won tax credits because they will add jobs in Michigan even as the auto industry's slump makes that difficult.

The Free Press studied 195 of these incentives awarded from 1999 through 2005 and found that slightly more than half of them were not fully utilized or never used at all because companies failed to create enough jobs to claim the tax credits.

The Michigan Economic Development Corp. defends the incentives, which have cost \$411 million, noting that companies benefit only if they create jobs. "It has had a big impact," said Peter Anastor, the agency's manager of community and urban development.

But Michael LaFaive, a director at the Mackinac Center for Public Policy, said: "This is a job announcement program, not a real jobs program."

■ EFFECTIVENESS OF MICHIGAN TAX CREDIT PROGRAM QUESTIONED. 4A-5A

## News+Views

SUPREME COURT

**Will Granholm make short list?**

She may be a long shot for the high court, but her lack of time as a judge shouldn't hurt her, legal experts say. 25A



## POLITICOS KEEP IT REAL ON TWITTER

By KATHLEEN GRAY  
 FREE PRESS STAFF WRITER

Michigan Attorney General Mike Cox likes the TV shows "Southland" and "Two and a Half Men."

Rep. Dave Camp, R-Mich., thinks everybody should get 30 minutes of exercise five times a week.

Gov. Jennifer Granholm likes to give shout-outs to reality-show contestants and sports teams.

All this comes from the quick blasts of Michigan politicians on Twitter, the fast-growing social networking tool. Facebook remains the most popular sharing site with

65 million users around the globe. But Twitter grew by 1,382% in the last year, with 12 million people expected to join and tweet by year's end.

The form of Twitter — messages limited to 140 characters or less — takes some of the wind out of elected windbags as they talk issues, bills and upcoming elections.

Or personal concerns like: "If my nephew is ruining my house, don't let me know :)"

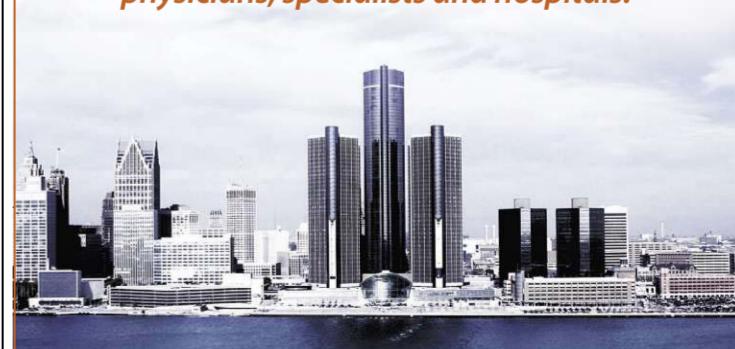
From an April 15 post to Cox's Twitter account while he vacationed in Florida.

■ WHY, AND WHAT, POLITICIANS ARE TWEETING. 10A.

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## COVER STORY TAX INCENTIVES

## Giving out more tax breaks

More Michigan Economic Growth Authority tax credits were awarded to companies in 2008 than in any other year since the program began in 1995. And the increase looks likely to continue this year.

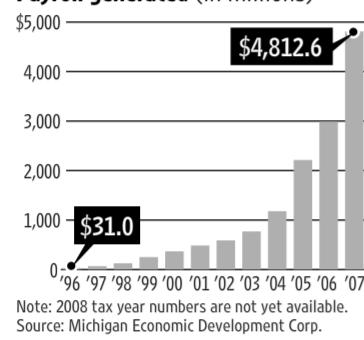
## Number of MEGA tax credits



## Tax credits' income effect

The Michigan Economic Development Corp. says the state's business job-creation tax credits have increased income in the state by adding and retaining jobs. Here's how much employers that used the credits have paid their workers:

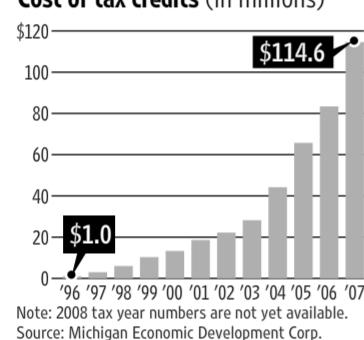
## Payroll generated (in millions)



## The price of MEGA tax credits

Since their inception 14 years ago, the Michigan Economic Growth Authority tax credits have cost the state \$411 million in tax revenue. Here's a breakdown of how much has been paid out each year:

## Cost of tax credits (in millions)



## Who used the tax credits

What kinds of businesses were able to take advantage of the MEGA credits? Automakers and their suppliers led the list, accounting for almost half of the 95 credits awarded from 1999 through 2005 that were successfully used. Here's how the different industries fared:

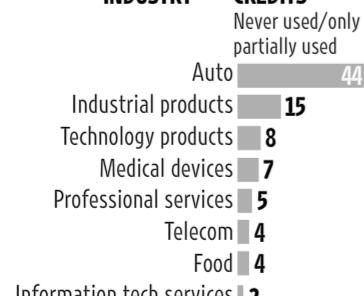
## INDUSTRY CREDITS USED



## Who didn't use the tax credits

Slightly more than half of the 195 MEGA tax credits awarded by the State of Michigan from 1999 through 2005 have not been fully utilized, with many businesses never using them at all. About 44% of these 100 credits belonged to companies in the auto industry, mainly auto suppliers.

## INDUSTRY CREDITS



Information tech services | 2  
Financial services | 2  
Alternative energy | 2  
Aerospace/aviation | 2  
Consumer products | 1  
Retail | 1  
Business equipment | 1  
Media | 1  
Defense | 1  
Source: Free Press research  
KOFI MYLER/Detroit Free Press



Photos by ANDRE J. JACKSON/Detroit Free Press

Vizier Singleton, a Whirlpool technician, modifies Kitchen Aid gas stoves while completing testing at the Whirlpool cooking technology center in St. Joseph on April 27. Whirlpool Corp. used part of the savings from two \$7.5-million tax credits it received in 2001 in Michigan to invest in software at a call center in Benton Township, which helped retain 350 jobs.

# Lapsed tax breaks raise questions on job creation plan

## IT MAY NOT HELP AS MUCH AS EXPECTED

By KATHERINE YUNG  
FREE PRESS BUSINESS WRITER

Hyundai America Technical Center Inc.

The automaker has been able to take advantage of a similar but smaller tax credit it received in 2003 for moving its technical center from Pittsfield Township to Superior Township.

Hyundai's experience isn't unique. Many of the business expansions and relocations that were awarded tax breaks by the state earlier this decade haven't generated the promised jobs, the Free Press has found.

"This is yet another incredible win for the state and its talented workforce," James Epolito, the head of the Michigan Economic Development Corp. at the time, said in an announcement.

The state awarded Hyundai a \$32.6-million, 20-year tax credit.

Today, nearly four years later, the tax credit has lapsed because Hyundai was never able to use it.

Though the company expanded its tech center, it wasn't able to create 75 new jobs a year — the minimum needed to claim the tax break.

"We overanticipated what we were going to do back in 2006," said Mark Torigian, general counsel and liaison with the State of Michigan for

creation requirements.

But a six-month examination of the Michigan Economic Growth Authority tax credit program — once described by Granholm as "the flagship of Michigan's economic development efforts" — uncovered trends that raise questions about the incentives' effectiveness.

■ A large percentage of the tax credits has gone to companies that later couldn't meet the job

creation requirements.

When the Free Press tracked what happened to 195 of these tax breaks awarded by the state from 1999 through 2005, it found that 51% of these incentives had either never been used or were not used in recent years.

Most of these cases involved companies that added too few jobs to claim the credits. Even though the state awards the tax breaks to companies, they still must produce a minimum number of new jobs each year in order to use the incentives.

The Free Press focused on the years 1999 through 2005 for two reasons. The MEDC, which administers the program, didn't begin operations until 1999. And it's too early to assess the results of tax credits awarded beyond 2005 because of the lengthy time it often takes to complete business expansion and relocation projects.

■ Despite Michigan's efforts to diversify its economy, the auto industry has been a big recipient of the tax credits. Auto suppliers and automakers received 45% of the 195 tax breaks awarded by the state from 1999 through 2005.

The industry accounted for 46% of the 95 tax credits successfully used, more than any other sector. However, it also had 44% of the 100 credits that weren't fully claimed or never

used at all, the most of any type of business.

■ About 90% of the 491 total tax breaks granted since the incentive program began have gone to Michigan companies planning expansions rather than to out-of-state firms.

■ In recent years, the state has expanded the incentive program by enabling more companies, particularly smaller tech firms, to qualify for the tax credits, primarily by lowering the job-creation requirements.

To claim the tax break, most Michigan companies must create 50 new jobs each year, compared with 75 when the program started. For out-of-state firms, the requirement also is 50 jobs, down significantly from the previous 150.

Tech businesses must create at least five jobs in the first

year of the credit and a total of 25 by the fifth year.

As a result of these lowered standards, 97 tax breaks were awarded last year — a record number since the program began in 1995, according to the MEDC.

### Tailored incentives

To diversify Michigan's economy, the agency has tailored the incentives to appeal not just to manufacturers, the original target of the tax breaks, but to other kinds of companies as well.

Such tax breaks have become a necessity for attracting investment. All but five states offer businesses tax incentives for creating jobs, according to Site Selection magazine.

See INCENTIVES, PAGE 5A



Karen Embury, senior consumer scientist, bakes a cake April 27 to test the Kitchen Aid stoves at the Whirlpool cooking technology center.



Leslie Isaacs, consumer science technician, cleans and tests a Kitchen Aid stove at the Whirlpool cooking technology center on April 27.

### Promising projects, missing jobs

Giving businesses tax breaks for creating jobs often doesn't result in the jobs promised. Here are four examples of tax credits that didn't work out.

#### ATLANTIC AUTOMOTIVE COMPONENTS LLC

(auto supplier majority owned by Visteon Corp.)

**Project:** \$22-million plant expansion in Benton Harbor

**Tax credit received:** \$707,000 over 10 years

**Year tax credit awarded:** 2004

**Promised jobs:** 71

**Outcome:** Never able to claim the credit because it couldn't create enough new jobs.

#### LDM TECHNOLOGIES INC.

(auto supplier acquired by Plastech Engineered Products Inc. in 2004)

**Project:** \$39-million injection molding plant in Romulus

**Tax credit received:** \$5.3 million over 12 years

**Year tax credit awarded:** 2000

**Promised jobs:** 520

**Outcome:** Plastech, which had acquired LDM, was liquidated in 2008. The plant is now closed.

#### AKEBONO CORP.

(Japanese automotive brake supplier)

**Project:** \$54-million facility in Northville Township

**Tax credit received:** \$3.6 million over 10 years

**Year tax credit awarded:** 2002

**Promised jobs:** 190

**Outcome:** Never opened a facility in Northville Township. In 2007, company moved headquarters to Kentucky but kept R&D center in Farmington Hills.

#### CHAMPION FOODS LLC

(food manufacturer, part of Ilitch Holdings Co.)

**Project:** New food processing plant in Huron Township

**Tax credit received:** \$4.7 million over 20 years

**Year tax credit awarded:** 2002

**Promised jobs:** 199

**Outcome:** Plant is operating, but company was not able to create enough jobs to claim the tax credit.



## "INCENTIVES DON'T PAN OUT IN A LOT OF CASES IN TERMS OF JOB CREATION. IT'S COMMON."

KENNETH THOMAS, a University of Missouri political science professor and expert on business incentive programs

A factory once owned by Plastech stands abandoned April 17 in Romulus after the company filed for bankruptcy last year. Michigan's deteriorating economy has left a lot of businesses scrambling to survive, and many are finding it hard to meet the job creation requirements of tax incentives.

## INCENTIVES: Effectiveness of tax break plan is questioned

FROM PAGE 4A

Yet critics have long argued that the tax credits often go to companies that would have made the investments anyway, and that a lot of Michigan firms adding jobs don't get any breaks.

The Michigan Chamber of Commerce and others say they would prefer that the state offer tax relief to all businesses, not just select ones.

"Many of our members feel the MEGA tax credits are either a mixed blessing or a necessary evil," said Richard Studeley, chief executive officer and president of the chamber, which represents 7,100 businesses, trade associations and others. "There is a growing frustration."

"These programs give politicians cover by claiming they have created jobs when they haven't," said Michael LaFaive, a longtime critic of the incentives and a director at the Mackinac Center for Public Policy, a free-market economic policy research firm in Midland.

In 2005, he found that the incentives were a failure because they had not increased income or employment in Michigan. But in recent years, the program has received little attention because legislators have

been busy trying to improve the state's overall business tax system.

"Incentives don't pan out in a lot of cases in terms of job creation," said Kenneth Thomas, a University of Missouri political science professor and expert on business incentive programs. "It's common."

### MEDC weighs in

The MEDC says a variety of circumstances can affect whether a company can use the tax credits, ranging from a poor economy to something as mundane as nobody ever claiming the tax break after a change in personnel.

The incentives have performed well in one key aspect — their cost to the state.

So far, the tax breaks have saved companies \$411 million in tax payment — money that normally would go to the state's coffers. That's about \$6,063 for each job created or retained.

The MEDC says the actual cost per job is \$1,832, based on the number of years every new or retained job has existed.

These costs are more than offset by the \$556 million in payroll taxes the state has received from the new and retained jobs.

"While the program hasn't created that many jobs, it has done so in a cost-effective manner," Thomas said.

Peter Anastor, the MEDC's manager of community and urban development, also noted that businesses that fully utilized the credits have created a high percentage of the jobs they promised.

Not surprisingly, these companies praise the incentives,

### Tax credit alternatives

Is there a better way to stimulate job growth than offering Michigan Economic Growth Authority tax credits? Here are a few alternatives:

- Abolish the tax credits and lower tax rates for all businesses.
- Provide refundable, 3-year tax credits per new job that are larger than the current incentives.
- Set up a fund that gives grants to companies for locating new plants, headquarters or other facilities in Michigan.

Sources: Tax Foundation, Mackinac Center for Public Policy, professor Kenneth Thomas and Free Press research

which can help offset labor, electricity and other costs in Michigan that often are higher than in other states.

Hemlock Semiconductor Corp., which makes polycrystalline silicon used in solar panels, has received four of these tax credits since 2004, including one last year for an upcoming \$1-billion expansion of its Hemlock plant that's expected to add 190 jobs.

"Without these incentives, I'm not sure Michigan would have been in the running for the most recent expansion," said Aaron Howald, Hemlock's chief financial officer.

Whirlpool Corp. used part of the savings from two \$7.5-million tax credits it received in 2001 to invest in software at a call center in Benton Township, which helped retain 350 jobs.

The appliance maker also moved a cooking product development center to St. Joseph from Dayton, Ohio. Along with

other investments, it has added 375 jobs, just shy of the 385 it had promised.

"The State of Michigan does an outstanding job," said Whirlpool spokesman Jeff Noel.

### Economic struggles

Many other companies, though, haven't been as fortunate. The state's deteriorating economy has left a lot of businesses scrambling to survive, never mind expand.

Auto suppliers, in particular, have struggled to meet the incentives' job creation requirements because of the Detroit automakers' woes.

In Dundee, the Global Engine Manufacturing Alliance, which makes engines for Chrysler LLC, Hyundai and Mitsubishi Motors Corp., has not used a \$21.6-million tax credit it received in 2004 for opening a second plant.

The facility is mothballed and GEMA has yet to create the expected 300 jobs.

Even tech firms haven't been immune.

In 1999, Jabil Circuit Inc., a Florida-based electronics company, got a \$14.5-million tax break from the state for establishing a circuit board plant in Auburn Hills.

Today, the factory is still running, but the company never succeeded in its plans to create 451 jobs there. The tax credit it has gone unclaimed.

"Unfortunately, when the tech bubble burst in 2001 with the telecom bust, things changed abruptly," said Jabil spokeswoman Beth Walters.

■ CONTACT KATHERINE YUNG: 313-222-8763 OR KYUNG@FREEPRESS.COM

### Business incentives

# Experts call for changes in tax plan

State can do more to attract jobs, they say

By KATHERINE YUNG  
FREE PRESS BUSINESS WRITER

Michigan's main business tax incentive programs gets high marks for protecting taxpayers' money, but some experts argue that it should be overhauled or eliminated because it doesn't produce a lot of new jobs.

The Michigan Economic Growth Authority tax credits have cost the state \$411 million since their introduction in 1995. Though companies may receive approval for the tax breaks, they can't claim them unless they create a minimum number of new jobs, usually 50 each year.

Timothy Bartik, a senior economist at the W.E. Upjohn Institute for Employment Research, said Michigan economic development officials are selective in who gets the tax breaks.

Only projects expected to create high-wage jobs usually qualify. And officials analyze the benefits and costs of granting the tax credits before they are awarded.

"MEGA is a relatively good incentive," he said.

Others also praise the safeguards built into the program but question whether the tax breaks are the most effective tool to stimulate job growth.

"The state hasn't wound up paying for the jobs it didn't get," said Kenneth Thomas, a University of Missouri political science professor and expert on business incentives. "But the issue is, what can Michigan do better?"

He suggests that the state offer refundable, 3-year tax credits per new job that are larger than the current incentives.

Josh Barro, an economist at

the Tax Foundation, a nonpartisan tax research group, urged Michigan to enhance its attractiveness by eliminating the tax credits and fixing its tax code to make it more business-friendly.

Michigan falls in the middle of the pack in the foundation's ranking of states with the most favorable tax systems for companies.

"We generally think business tax incentives are not effective in creating economic growth," Barro said.

The incentives have become so widespread around the country that by themselves, they may not help a state stand out from others.

These inducements were not among the top three factors that corporate real estate executives said they consider when determining a location for a new facility, according to a survey conducted last year by Site Selection magazine.

The executives' chief concerns: the ease of permitting and regulatory procedures, transportation infrastructure and existing workforce skills. State and local tax schemes ranked fourth, and the flexibility of incentive programs came in at No. 8.

Not surprisingly, though, companies that have received the tax breaks say the incentives played a critical role in their decision to expand or relocate their operations in Michigan.

"If it had not been for the incentives, we could not have cost-justified" moving a cooking product development center to St. Joseph from Ohio, said Whirlpool Corp. spokesman Jeff Noel.

■ CONTACT KATHERINE YUNG: 313-222-8763 OR KYUNG@FREEPRESS.COM

## "WE GENERALLY THINK BUSINESS TAX INCENTIVES ARE NOT EFFECTIVE IN CREATING ECONOMIC GROWTH."

JOSH BARRO, an economist at the Tax Foundation, a nonpartisan tax research group. He urges Michigan to make its tax code business-friendly.

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(FreeP.com) See a database on tax credits and job creation statewide.

### Michigan Economic Growth Authority tax credits

**What:** Job-creation tax credits for companies expanding or relocating their operations in Michigan.

**Who's eligible:** Companies engaged in manufacturing, mining, research and development, wholesale and trade, film and digital media, office operations and certain tourism projects. Retail facilities generally are not eligible.

In addition to the standard MEGA credit, there are ones specifically designed for high-tech companies, high-wage firms, businesses in rural counties and companies that are considering closing their facilities in Michigan.

**History:** Established in 1995 under then-Gov. John Engler after Michigan lost a General Motors Corp. assembly plant in Willow Run to Texas.

**Size of the credit:** Up to 100% of an amount equal to a company's salaries and wages and employer-paid health care benefits multiplied by the personal income tax rate.

**Maximum length of the credit:** 20 years

**Job creation requirements:** At least 50 new full-time jobs each year for both in-state and out-of-state companies.

**Who pays for the program:** The State of Michigan.

Source: Michigan Economic Development Corp.