Politics & Policy

Key incentive for RenCen, other 'transformational' developments in legislative limbo

By David Eggert

Gift Article

Credit: Bedrock/Gensler/Rossetti

Plans by General Motors Co. and Dan Gilbert's Bedrock LLC for the Renaissance Center includes demolishing two towers and creating an entertainment district on riverfront land to the east.

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LANSING — The future of a key tax incentive that has been used to spur some of Michigan's most prominent redevelopments is in legislative limbo and, as a result, so are would-be projects in the pipeline.

The highest-profile plan, to partially tear down and renovate General Motors' Renaissance Center in Detroit, hinges on whether lawmakers raise a $1.6 billion cap so new Transformational Brownfield Plans can be authorized beyond the 13 that have been approved or invited to apply since the program was enacted in 2017. But it is not just GM and its partner, Bedrock, that are watching closely following a half-year of inaction on many issues in the state Capitol,

Changes in 'transformational' incentives shift focus from offices to housing, retail projects

A year after GM picked a new HQ, what's next for the RenCen?

Massive $270M development planned next to Novi convention center

Developers who want to tear down much of the closed Lakeside Mall in Sterling Heights and replace it with a mix of uses are waiting. So is the owner of the Suburban Collection Showplace in Novi, who plans a new hotel, among other things, near the convention center.

Also in the wings are Muskegon and Holland, where officials hope to re-envision waterfront sites where a paper mill and power plant were demolished in recent years. In Traverse City, the subsidy could assist in finishing what has been a successful redevelopment of an old, massive state psychiatric hospital complex.

Supporters of expanding the program so more projects qualify beyond three for which funding is being held aside, like the Fulton & Market development in Grand Rapids backed by the DeVos and Van Andel families, are cautiously optimistic despite no bill having been introduced yet. They are working behind the scenes to build support so when budget negotiations conclude — possibly not until Sept. 30, the 11th hour — the Legislature can take up the pending legislation, which will be proposed in the House.

"The reality is we are kind of in a posture of patience," said Jared Fleisher, vice president of Dan Gilbert's Rock Family of Companies, which includes Bedrock.

He pointed to the budget situation, which is tied in part to friction over road funding.

"I think all of us remain cautiously optimistic that there will be an opportunity for this legislation to be considered after (the) budget," Fleisher said, saying there is "broad support for transformational brownfields" among lawmakers. “Folks have seen the record of the program. They support brownfield redevelopment. And, most people who live and work at the sites they redevelop for mixed use, along with sales taxes on construction materials and income taxes paid by construction workers. There are minimum capital investment levels.

The future reimbursement of taxes, proponents say, makes the math work on projects that otherwise would not be financially feasible because of how much they cost.

"You cannot do large projects without it," said Joe Agostinelli, founder of Michigan Growth Advisors, a Miller Johnson law firm subsidiary that helps clients bridge the gap between a project's costs and financial viability. "Michigan's traditional incentives, particularly with the proposed cuts to (Michigan Economic Development Corp.) incentive budgets that are being discussed right now, you just can't do anything. The math doesn't work. So this is really, really important that the Legislature gets this done if we want to keep doing big transformational real estate investment in our communities."

Two clients, he said, want to pursue the incentive but "there's no money left."

The Republican-controlled House and Democratic-led Senate have sent Gov. Gretchen Whitmer just six bills in six months, the fewest in 20 years, following a return to a split Legislature for the first time since 2007-10. Legislators missed a legally toothless July 1 deadline to pass the budget, a stalemate that will likely dominate their attention when both chambers fully return to session after Labor Day.

While the development subsidy is on the back burner for now — along with many other issues — it provides an opportunity for bipartisanship that has been largely elusive other than a February deal to soften minimum wage and paid sick leave laws.

Legislation that increased the main cap to $1.6 billion from $800 million sailed through on 25-12 and 90-19 votes in 2023 despite some criticism that projects should rise or fall on their own merits without tax subsidies.

Republican House Speaker Matt Hall, who was then the minority leader, voted yes. Democrat Whitmer, who signed the 2023 bill, has called for the program's expansion and has highlighted transformational brownfield projects awaiting the state's blessing.

Rep. Joe Aragona, R-Clinton Township, said he is aiming to introduce the bill around October and to get it out of the House by early next year. His district is across the street from Lakeside Mall, whose redevelopment would be boosted with the "great" economic development tool, he said.

"At this rate, it's tough because with everything that's going on in Lansing, especially with how the budget's going this year, it's really sucking a hell of a lot of oxygen out of the room," he said.

Details to be worked out, Aragona said, include whether to increase the cap or to lift it entirely and — if it were raised — by how much.

Also, until this past week, there had also been rumblings in and around the Capitol that the cap legislation could be bundled into or affected by any potential economic development incentives bills for a massive semiconductor plant near Flint. "Project Grit" fell through, which might ease the way for separate movement on the forthcoming brownfield legislation.

The Michigan Strategic Fund to date has approved $1.2 billion in post-construction income and withholding tax

The state has authorized or held aside $90 million in construction-period captures, roughly $110 million below a $200 million limit.

The proposed Novi City West mixed-used development, which would be near the Suburban Collection Showplace, is "somewhat of a poster child for this transformational brownfield programming," said Blair Bowman, who owns the conference center. "Taking an old … post-industrial, languishing corridor and doing in large part what the city has envisioned for their City West master planning — reimagine and redevelop and reinvigorate an entire corridor."

Bowman, who met with lawmakers at the Detroit Regional Chamber's Mackinac Policy Conference in May, said they like the incentive because it is performance-based, is used to generate economic activity that would not occur "but for" the subsidy and has a track record. The first transformational brownfield plan, which was OK'd in 2018, covered four Gilbert projects in Detroit, including the new Hudson's Detroit skyscraper.

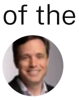
"It's 100% performance-based, 100% accountable. You don't do what you say you're going to do and there's nothing generated, you don't receive reimbursement," said Fleisher, who is advocating for the RenCen renovation. "If your project is half as successful as you said it was going to be, it generates half the new tax revenue, you're going to get half of the reimbursement. … This is not a blank check on the front end but rather 100% performance-based on the back end."

Bowman's $270 million Novi project was announced in May. It could grow, potentially by up to $200 million in investment, due to new interest from other developers, he said.

"We're hopeful that the process can move forward as soon as it's possible but understand that there is very important work being done on the larger-scale budget issues," Bowman said. "We're working on a timeframe that we would hopefully see something dealt with in the fall on the budget and perhaps the transformational brownfield and that we would pursue the application and approval process."

MEDC Chief Place Officer Michele Wildman said it is hard to quantify developers' interest in the program if not for the cap because some projects are more real than others and deals are complex and take a long time to put together.

The incentive is by no means the only financing option, she said, but is one of the better tools for projects that are "transformative in nature. You're talking about large sites, large impacts or both. … It's one of the best fits for some of the more challenged sites that we've seen in the projects that have come through the portfolio."



By **David Eggert**

David Eggert is a senior reporter covering politics and policy for Crain's Detroit Business. He joined Crain's in 2022 after a combined 15 years at The Associated Press in Lansing and jobs at MLive, the Lansing State Journal and various other newspapers.

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