

► ABATEMENTS

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decided to leave the community.

Tim Robinson, Ann Arbor SPARK's vice president for operations, has helped write most of the tax abatements approved in the county for the past decade.

"I think it's an excellent tool for economic development," he said. "Even if you did it and the company went out of business, I'm not sure you'd call it a failure."

Michael Shore, chief communications officer for the Michigan Economic Development Corporation, said tax abatements continue to be "a vitally important tool" to spur business expansion and job growth.

But he acknowledged that Michigan may face a tough time attracting new businesses with tax abatements alone.

"There are states now offering cash, not just abatements, to companies for moving," Shore said.

Texas, he said, has a \$290 million fund for distribution to companies as an incentive to move there.

"They also have abatements or tax credits," Shore said. "There was a time when the tools we have were leading edge, but other states have ramped up what they're doing to bring large job-expansion projects into the state."

The average tax abatement in Washtenaw County from 2000 to 2006 was given for companies investing about \$23.02 million. The average abatement promised the creation of about 52.6 jobs. Economically, that would equal an investment of about \$438,773 for each job promised.

When excluding the three abatements on a total of \$800 million given to Pfizer Inc., the average tax abatement was for an investment of \$14.31 million and an average 47.3 jobs were promised.

But Robinson said abatements aren't just about jobs. Tax abatements offer

companies a tax break of about 50 percent on new equipment or building construction, for example.

The creation of jobs is not required to get a tax abatement, a municipal agreement that allows a company to avoid 50 percent of its taxes on a new investment for up to 12 years.

In fact, 26 of the 87 abatements awarded from 2000 to 2006 didn't promise any new jobs.

"You don't have to add jobs to get a tax abatement," Robinson said, "(although) some communities look on it positively."

Shore said it's unclear whether tax abatements are being sought more frequently. But he said that companies still pursue them actively.

"It's a tremendously competitive environment," he said.

An analysis of tax abatements in Washtenaw County reveals that smaller communities have used them most often: Saline awarded 25 tax abatements from 2000 to 2006. Chelsea – first as a village, then as a city – awarded 15. Dexter agreed to eight.

The city of Ann Arbor agreed to only five abatements during that time period. Three of those were given to Warner-Lambert Co., later acquired by Pfizer Inc. Pfizer announced in January its plans to leave its 2.3-million-square-foot operation in Ann Arbor.

Lee Bourgoïn, Saline's finance director, said his city has used tax abatements as a strategic advantage to diversify its tax base, attract companies and keep business within the city limits.

"If we had some advantages like the name Ann Arbor, for example, or we were sitting on a freeway, we might change our mix," he said. "We have a distinct disadvantage in that way. On the other hand, we can give personal attention to individual developments."

The city of Ann Arbor and Pittsfield can offer companies an Ann Arbor mailing ad-

dress, an inherent advantage, Bourgoïn said. To compensate, he said the city focuses on facilitating an expeditious approval process.

"Our development approval process is at least twice as fast as any of our abutting communities," he said.

Saline successfully convinced Liebherr Aerospace to keep its business and expand its operation multiple times by providing an abatement in 2005 for an investment of about \$4.99 million. The company said it would add 25 jobs to an existing 87.

Perhaps the most successful recent tax abatement was given to Toyota in York Township. That is the only tax abatement agreed to in York during that time period.

Toyota received a tax abatement for \$93.2 million in real investment and \$9 million in personal investment. More than 400 jobs are expected to be created. Construction is currently under way on a 343,000-square-foot, three-story office building and a 190,000-square-foot safety test building.

Local and state officials used the tax abatement to convince Toyota to come here.

But more often job growth is a result of businesses that are already here expanding.

"Most of the growth in any state comes from businesses that are in the state. You don't want those expansions going to another state," Shore said. "It's a competitive business that we're in."

Real investment – largely what Toyota wanted its abatement for – encompasses taxes associated with building costs. Personal investment involves taxes related to equipment and furniture costs.

In Ann Arbor, Pfizer's departure comes five years after Warner-Lambert promised to add 600 jobs in exchange for three tax abatements. That hiring expansion didn't take place.

Michael Finney, CEO of Ann Arbor SPARK, said Pfizer's commitment to expand was genuine.

"I think that companies, including Pfizer, all make commitments to expand their businesses and projects on a good faith basis," Finney said.

He said the company invested \$500 million to \$600 million in its Ann Arbor operation before announcing that it would close.

"Is that good? I say yes," he said.

In Saline, the city in 2004 gave a 10-year tax abatement to what is now Automotive Components Holdings LLC based on an investment of \$30,954,565 at the former Visteon plant. The city is hoping to keep the ACH plant on Michigan Avenue despite worries that it will close. (See related story).

Aside from Pfizer, Ann Arbor's other tax abatements from 2000 to 2006 were given to Picometrix LLC (\$2.76 million personal investment) and Xoran Technologies Inc. (\$649,549 personal investment).

Xoran – which manufactures miniature, mobile CAT-scanning devices – is often heralded as a success for the city of Ann Arbor.

In the past, only manufacturing companies were eligible for tax abatements. But Robinson said the regulations have been broadened to include high-tech companies.

That is a positive development for businesses considering the pursuit of a tax abatement. But it is also a foggy term that is hard to interpret, Robinson said.

"It's a legislative definition, not Webster's. So some folks who think they're qualified, and you think should qualify, don't," Robinson said.

Tax abatements remain popular, if mostly because they're necessary, Shore said.

"The reality is for a state that needs to generate jobs," he said, referring to Michigan, "there are not many other tools."

■ Contact Nathan Bomey at (734) 302-1725 or nbomey@mbizreview.com.

► CURE

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leukemias and lymphomas, some of which are treatable. The discovery brings hope of new treatments for other solid cancers, including breast, colon and lung cancer in addition to prostate cancer.

"Now the search is on to find these gene fusions in these other solid tumors," said Chinnaiyan.

An unusual bidding war at U-M's Office of Tech Transfer to license the technology for a prostate diagnosing product ensued after the discovery.

"This was so attractive and hot that a number of companies were interested simultaneously," said Ken Nisbet, executive director of U-M Tech Transfer.

Gen-Probe of San Diego, Calif., licensed the technology in April 2006 for \$500,000. Gen-Probe will also pay royalties on any eventual product sales and will fund research at U-M over the next five years.

The National Cancer Institute estimates that there will be approximately 218,890 new cases of prostate cancer and 27,050 deaths

from the disease in the U.S. this year, which is the second leading cause of death in men.

"We're very excited ... because Dr. Chinnaiyan and his colleagues at the U-M have really identified one of the key ignition switches that turns on the engine for prostate cancer to grow in a man's body. The way to ultimately end every death from prostate cancer is to understand how this switch works," said Simons.

The Prostate Cancer Foundation has awarded Chinnaiyan \$275,000 for three different grants over five years, and \$4.6 million to U-M since 1995.

To make the prostate cancer discovery, Chinnaiyan's team used Compendia Bioscience's cancer profiling data and analysis tool named Oncomine. The tool contains cancer molecular signatures captured on a DNA microarray, which is a small chip containing all of the data for a single cancer genome.

Chinnaiyan and colleagues – along with Compendia co-founder Daniel Rhodes – aggregated hundreds of databases of labs around the world into one huge database to form the tool.

"Aggregating so much of the data made it

possible to look for different types of events, and they came up with creative and novel ways to analyze that data," said Freshley.

The database was initially developed as a tool for academics, said Chinnaiyan. Scientists from pharmaceuticals contacted U-M to use the database after reading Chinnaiyan's publications in the "New England Journal of Medicine" in September 2005 and "Science" in October 2005.

Like the prostate cancer discovery, the database tool used to make the discovery made waves among the pharmaceuticals.

"When these papers came out, the potential was so clear to the business community that my phone started ringing off the hook," said Robin Rasor, director of licensing in the U-M Tech Transfer office. "This what licensing people dream about."

Chinnaiyan and Rhodes set up Compendia in February 2006. The company received \$50,000 in seed funds from Ann Arbor Spark, \$1.2 million from the 21st Century Job Fund, and matching funds from private investors.

During commercialization, Compendia upgraded the database by eliminating bugs,

scrubbing the data and ensuring that data is available 24/7.

"As part of the license, academics can use the database for free," said Chinnaiyan. "In that way it's a mutually beneficial partnership." Without the database, making the prostate cancer discovery would be like looking for a needle in a haystack, he said.

Over 10,000 academic scientists and physicians have used the database since its inception, and 2,000 use it each month. Over 10 pharmaceutical companies pay a license fee to use the database, including eight of the top 20 oncology drug companies.

Compendia has 13 employees, with the co-founders as the primary shareholders.

In the next five years, Chinnaiyan is looking at the possibility of 5-10 more licenses, plus a possible spin-off for a therapeutic product based on gene fusion. His 40-person lab in the U-M Cancer Center has been approved as the Michigan Center for Translational Pathology. It will study useful molecular diagnostics and therapeutics for patient use.

■ Debbie Merion is a freelance writer.