

EMAGINE THEATRE TAX SUBSIDY – CONCLUSIONS, Rev 01

Generating an estimated \$45 million in annual sales, Emagine Entertainment, Inc. owns 18 theatres in Michigan, Minnesota, and Illinois. Nine of these theatres are located in Michigan. Emagine Entertainment, Inc. names their theatres Emagine Theatres. The CEO of Emagine Entertainment is Mr. Paul Glantz. Mr. Glantz is also affiliated with Proctor Financial, Inc.

Hartland Township has proposed providing Mr. Glantz a seven-year property tax abatement to build an Emagine Theatre near the intersection of M-59 and US-23. The value of this subsidy is approximately \$500,000. Township officials have stated that Mr. Glantz needs the subsidy in order to qualify for the loan to build the theatre. Township officials have stated that Mr. Glantz underestimated the construction costs associated with this theatre. The cost of the theatre is estimated to be about \$15 million. The extra \$500,000 represents about a 3% cost overrun.

There are 19 movie theatres within 20 miles of Hartland. There are 73 movie theatres within 30 miles of Hartland.

Movie ticket sales have steadily declined since their peak in 2002. On a per capita basis, ticket sales have declined 26.6% from 2002 to 2016. This rate of decline is about 1.9% per year. Using this rate of decline, by 2024, when the proposed tax subsidy expires, per capita ticket sales are projected to decline by 41.8% from their 2002 peak.

The proposed tax abatement raises some public policy questions:

1. Is it appropriate for government to pick winners and losers in the marketplace?
2. What is the public policy imperative behind subsidizing the cost of movie tickets?
3. In today's favorable business climate, is it wise to subsidize a project which cannot qualify for a loan?

In addition to these considerations, there are others:

1. What will be the impact upon our roads? It is estimated that 500,000 people/year will use this theatre. This means 3,500,000 people will be using our roads over the course of the 7-year subsidy. Shouldn't these users pay their fair share?
 - a. Road maintenance is an issue in Hartland Township. Recently the Township millage was increased to raise additional funds for roads. Also, the Township board recently considered eliminating private garbage pick-up, stating there were concerns that multiple garbage trucks were damaging our roads.
2. What will be the impact upon road safety? Traffic flow in the proposed area is, to put it mildly, less than optimum. It is my understanding that the M-59 and US-23 intersection is one of the worst in the county. Traffic flow and accidents will only get worse when 3,500,000 extra people traverse the roads.
3. What will be the impact upon public safety? Hartland township officials have already expressed concern about slow response times from the County Sheriff department. The extra burden placed on our public safety officials from 3,500,000 theatre-goers should rightly be paid for by the theatre. In turn, the theatre can pass these costs on to their customers.

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The legal mechanism for delivering the proposed subsidy is the formation of a Commercial Rehabilitation District (CRD). While the use of a CRD in Hartland Township appears to meet the letter of the law, it certainly does not meet the spirit of the law.

The legislature originally intended a CRD to apply to property that was blighted or functionally obsolete, or contaminated property in core cities. Even under the broadest definition, the property for the proposed theatre cannot be considered blighted or functionally obsolete as it was developed when Meijer opened for business. No rehabilitation is needed as the proposed property currently sits vacant. Further, it is obvious to any observer that the proposed property is not contaminated, nor does it reside in one of Michigan's core cities.

Often referred to as "corporate welfare," subsidy schemes like the CRD can be taken advantage of by insiders who know about the loopholes. This appears to be the case with Emagine Entertainment, Inc. Officials at Emagine have successfully leveraged subsidies in three prior instances. Emagine was able to gain tax subsidies in Saline (2016), Royal Oak (2010), and Roseville (2013). Exhibits provided elsewhere in this document indicate Emagine has received both local and state subsidies.

That Emagine needs a tax subsidy in order to have a viable business in Livingston County is a troubling sign of financial weakness. Livingston County has one of the friendliest tax environments in the entire state of Michigan. Statistics (2016) compiled by the Michigan Department of Treasury show that 77% of counties levy non-homestead taxes which are higher than those levied by Livingston County. These same statistics show that 57% of townships and municipalities within Livingston County levy taxes which are higher than those of Hartland Township. Emagine would be hard-pressed to find a more tax friendly environment in Michigan.

In addition to the business-friendly tax environment in Livingston County, Emagine also benefits from the repeal of the Michigan Business Tax in 2011. This tax cut saved Michigan businesses about \$1.65 billion per year.

Policymakers should carefully consider the viability of any business claiming it cannot survive in tax-friendly Livingston County.

Summary

This section summarizes why our County Commission should veto the tax subsidies for Emagine Entertainment:

1. Government should not be in the business of picking winners and losers. Let Emagine's business plan stand on its own two feet.
2. Allowing Emagine to subsidize its business via a CRD skirts the intent of the legislation. The property under consideration does not need rehabilitation.
3. Activity associated with Emagine Theatre places a burden on our road system, traffic flow, and public safety resources. Emagine should not be allowed to offload the costs of these burdens on local taxpayers.
4. Today's business climate along with the proposed theatre location offers several advantages for Emagine. These advantages include: Low interest rates, low property tax rates, a recent business tax cut, no costs associated with rehabilitating the property, and high median family income in

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the local area. Policymakers should not be handing out subsidies to business who can't survive in this favorable business climate.

Supplemental Summary

This section summarizes results of additional research, performed after the initial report was presented on June 5, 2017.

Findings from this additional research are listed below:

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These findings indicate the current number of theatres within the Hartland area are more than sufficient to provide movie-goers with plenty of options. The fact that the Fenton Cinema went out of business in 2008 suggests the market is saturated. Couple this saturation with declining ticket sales suggests that commercial lenders are wise to be wary of loaning money for a theatre in Hartland.

Livingston County taxpayers should not be required to subsidize a business venture which cannot stand on its own two feet and secure a commercial loan. A business operating with a government handout has a competitive advantage over others. With a declining market for movie tickets, the proposed Emagine Theatre would draw business away from its local competitors, placing these unsubsidized businesses under government-induced financial stress. With a shrinking market for ticket sales, it is not beyond belief that MJR Theatres in Livingston County could be an unintended victim of government intervention in the marketplace.

Other businesses could suffer financially as well. That Emagine Theatre will be serving alcohol and food as part of their "theatre experience" suggests that local restaurants could suffer business loss as well. Further, with the tight local labor market it is probable that labor costs for local business will increase as subsidized Emagine Theatre is able to pay its employees more.

It would be best if Livingston County stayed out of the business of picking winners and losers. There will be many unintended consequences if this subsidy is allowed to proceed. Governmental bodies should not be tinkering with the delicate balance of the free market.