

DETROIT, MICHIGAN

The manufacturing renaissance, as a result of the assembly line, created a thriving automotive industry that made Detroit one of America's most prosperous urban areas. Greater Detroit's economy is powered by the automobile, energy, health care, manufacturing, and professional services industries. In 2012, Detroit generated \$208.3 billion on gross metropolitan product.²⁹ The city serves as the gateway to Canadian markets in Greater Toronto and cities in Ontario and Quebec. More than 25% of North America's merchandise trade between the United States and Canada passes over Detroit's Ambassador Bridge. Greater Detroit's population totals 4.2 million, with more than 700,000 living in the city.³⁰

Detroit has fallen on hard times in the past few decades: the city's population has decreased rapidly since the turn of this century, and economic downturns have hampered the local economy. A pivotal point was Detroit's filing of Chapter 9 bankruptcy in 2013. Despite the city's financial woes, there is a reason for optimism. While no other major American city has experienced recent decline like Detroit has, a community of entrepreneurs and start-ups are reenergizing and revitalizing the city and its future prosperity.

2014 Regulatory Climate Index

Understanding and improving the regulatory environment in a city begins with an assessment of the burden and complexity that businesses incur when complying with local business regulations. The city-level data are derived from local laws and regulations; they are then verified by local government officials, professionals, and experts. Each of the five areas of business regulation has three components: the number of procedures, time (measured in business days), and costs required for compliance with local regulations in the city (Table 1).

Table 1.
Regulatory Environment in Detroit, Michigan

Area of Business Regulation	Number of Procedures	Time (days)	Cost
Starting a Business	4	4	\$150
Dealing with Construction Permits	17	73	\$40,218
Registering Property	5	10	\$40,355
Paying Taxes	32	—	\$207,510
Enforcing Contracts	22	371	\$205

Benchmarking against Others

Among the cities under review, the 2014 *Regulatory Climate Index* ranks Detroit in sixth position, with the first place representing the most efficient regulatory environment. The Technical Appendix provides a detailed description of the construction of the *Index*.

Table 2.
Overall Scores and Ranking of 10 Cities

City	Overall Score	Ranking
Dallas	89.5	1
St. Louis	85.2	2
Raleigh	73.7	3
Boston	73.3	4
Atlanta	72.7	5
Detroit	64.9	6
Chicago	52.9	7
Los Angeles	47.9	8
San Francisco	41.3	9
New York City	34.7	10

The overall score of the *Regulatory Climate Index* is the simple average of the scores of five areas of regulation. While Detroit ranks sixth overall (score of 64.9), the city ranks third in Starting a Business (98), eighth in Dealing with Construction Permits (60), ninth in Registering Property (51), second in Paying Taxes (64), and sixth in Enforcing Contracts (53).

Table 3.
Scores of 5 Areas of Regulation of 10 Cities

	Starting Business	Construction	Registering Property	Paying Taxes	Enforcing Contracts	Overall
Dallas	80	92	98	100	77	89.5
St. Louis	98	90	100	56	83	85.2
Raleigh	85	99	76	63	45	73.7
Boston	75	86	74	50	81	73.3
Atlanta	86	65	77	58	78	72.7
Detroit	98	60	51	64	53	64.9
Chicago	11	61	71	38	83	52.9
Los Angeles	99	53	52	0	35	47.9
San Francisco	99	0	51	10	46	41.3
New York City	29	72	0	53	20	34.7

Highest Score

Lowest Score

Detroit is the sixth-ranked city in the report, with an average cumulative performance of the 10 cities covered in the report. The city performs near the top in Starting a Business and Paying Taxes.

Where Detroit Is Doing Well

- Detroit requires the lowest number of procedures and waiting time in the area of Starting a Business. The city requires an administrative fee that ranks as one of the lowest of the 10 cities assessed in the report. As a result, Detroit ranks just behind Los Angeles and San Francisco for Starting a Business.
- Detroit ranks second in the area of Paying Taxes, which translates to a low tax burden for entrepreneurs and small businesses. Detroit and other cities in Michigan have a moderate corporate tax rate and a low unemployment tax rate in comparison with other cities. Further, the city has the lowest sales tax rate across the 10 cities covered in the report.

Where Detroit Needs Improvement

- Detroit ranks near the bottom in Dealing with Construction Permits, a position driven by its high number of procedures, waiting time for permits, and overall cost. The total cost of construction permits is 1.3% of total construction costs, which is on the higher end of the cities covered in this report.
- Detroit ranks poorly in the area of Registering Property, which is a result of longer waiting times and higher costs for businesses. Local professionals noted that accessing property records at the Register of Deeds in Detroit is often unpredictable, with inaccurate and out-of-date records. As a result, many title companies must purchase commercial databases. Additionally, the city has a high real estate transfer tax compared to those of the other cities covered in the report. Both of these factors contribute to Detroit's performance in this area.
- While Detroit has the lowest administrative costs for Enforcing Contracts, the city has some of the highest numbers of procedures and waiting time for the business area. Entrepreneurs and small businesses can expect to wait an entire calendar year before the final enforcement of judgment on a contractual dispute in Detroit.

City Initiatives

Many viewed Detroit's bankruptcy as the final straw that broke the back of America's most famous single-industry town. Pessimism is easy when a city is \$18 billion in debt and cannot pay its bills. Detroit's bankruptcy and acceptance of its longstanding fiscal woes is an important signal to investors and entrepreneurs that the problems are being addressed. And while these issues won't be solved overnight, these actions may allow for the local economy to have a fresh start.

The Detroit Regional Chamber of Commerce along with Detroit Economic Growth Corporation, Invest Detroit, and the Downtown Detroit Partnership are advocating for the transformation of downtown area into a vibrant and economically prosperous community. The New Economy Initiative for Southeast Michigan is investing \$100 million to transform regional Detroit into an entrepreneurial hot spot. Entrepreneur and venture capitalist Dan Gilbert is another key player in the effort to transform Detroit. Gilbert, with his diverse portfolio of companies, has invested more than \$1 billion to help return Detroit to prosperity. Start-up accelerator Bizdom and venture capital firm Detroit Venture Partners are helping Detroit regain its entrepreneurial edge.

The renewed focus in revitalizing downtown Detroit has seen dozens of companies relocating from the suburbs into downtown offices.³¹ There is an energy and excitement from Detroit's start-up community coalescing around revitalizing its downtown core. The city would benefit from an increased effort to streamline and increase efficiency for local regulations to make Detroit a vibrant, diverse business environment.

Conclusion

Detroit is in the middle of the pack among the cities covered in this report. Detroit's regulatory environment is on two different sides of the spectrum. On the one side, it is easy to start a business and pay taxes in the city. On the other side, it is difficult and costly to apply for construction permits and register property from the sale of a commercial building. Moreover, while the city has low administrative costs for commencing the enforcement of contracts, it is a burdensome and long task to see to completion. As noted, Detroit is at a crossroads, given the city government's fiscal situation. This represents an opportune moment for Detroit to enact reforms that would improve its regulatory environment for start-ups and small businesses.

METROPOLITAN AREA

DETROIT, MI WARREN, MI LIVONIA, MI

POPULATION
2012

4,292,060

POPULATION GROWTH
2011-2012

0.10%

GDP
2012

\$208,379,000

GDP GROWTH
2013

4.39%

REAL GDP PER CAPITA
2012

\$42,655

CIVILIAN UNEMPLOYMENT RATE
OCTOBER 2013

9.0%

PERCENTAGE OF RESIDENTS WITH A BACHELOR'S
DEGREE OR HIGHER

2013

27%

FORTUNE 500 HEADQUARTERS
2012

14

ENTREPRENEURS PER 100,000 PEOPLE
2012

100

SMALL ENTERPRISES
LESS THAN 20 EMPLOYEES

58,804

MEDIUM ENTERPRISES
20-499 EMPLOYEES

13,799

NEW ESTABLISHMENTS
2013

8,000

ESTABLISHMENTS THAT SHUT DOWN
2013

10,087

Sources: U.S. Census Bureau, Kauffman Foundation, Regulatory Climate Index

DETAILED CITY DATA

DETROIT, MICHIGAN

The rankings are based on five areas of business regulation for starting and operating a business in the United States. These areas are Starting a Business, Dealing with Construction Permits, Registering Properties, Paying Taxes, and Enforcing Contracts. In order to measure the regulations necessary to start and operate the business, we examine the combination of required procedures, time, and costs. Detroit's detailed findings can be seen below.

Area of Business Regulation	Number of Procedures	Time (days)	Cost
Starting a Business	4	4	\$150
Dealing with Construction Permits	17	73	\$40,218
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Enforcing Contracts	22	371	\$250

**Area 1.
Starting a Business**

Phase	Name of Procedure	Procedures	Time	Cost
1.1	Reserve the company's business name, file the company's articles of organization, and adopt the company's operating agreement	2	2	\$150
1.1.1	Check availability of entity name with the Secretary of State	1	1	\$0
1.1.2	Incorporate LLC with Secretary of State	1	1	\$150
1.2	Apply for EIN for tax and employer purposes	2	2	\$0
1.2.1	Federal procedure (uniform)	1	1	\$0
1.2.2	State tax procedure	1	1	\$0
1.3	Register as an employer with the unemployment insurance division of the state's department of labor	—	—	—
1.3.1	Register with Department of Labor	—	—	—
1.4	Comply with any local regulations, including registrations, licenses, and publication requirements	—	—	—
1.4.1	Obtain necessary business and/or professional license and comply with specific requirements	—	—	—
	TOTALS	4	4	\$150

**Area 2.
Dealing with Construction Permits**

Phase	Name of Procedure	Procedures	Time	Cost
2.1	Pre-Construction	10	61	\$39,685
2.1.1	City Planning department	2	2	\$0
2.1.1.1	Submit the Zoning Diagram	1	1	\$0
2.1.1.2	Submit City Environmental Quality Review Form to Department of Environmental Protection	1	1	\$0
2.1.2	Department of Buildings	8	59	\$39,682
2.1.2.1	Submit compliance forms of Building Code to Department of Buildings (DoB)	1	10	\$160
2.1.2.2	Request & obtain approval and permit from DoB	6	48	\$39,510
2.1.2.2.1	Request & obtain plan approval from DoB	2	35	\$1,000
2.1.2.2.2	Request & obtain work permit from DoB	4	13	\$38,510
2.1.2.2.2.1	Building permit	1	10	\$36,110
2.1.2.2.2.2	Electrical permit	1	1	\$800
2.1.2.2.2.3	Plumbing permit	1	1	\$800
2.1.2.2.2.4	Mechanical permit	1	1	\$800
2.1.2.3	Grading permits or other procedures	1	1	\$12
2.1.3	Department of Transportation	—	—	—
2.1.3.1	Request & obtain permit from Dept. of Transportation (DoT)	—	—	—
2.2	Post-Construction	7	12	\$536
2.2.1	Department of Planning	2	2	\$0
2.2.1.1	Receive on-site inspection by zoning	1	1	\$0
2.2.1.2	Request & obtain on-site inspection approval by Department of Environmental Protection	1	1	\$0
2.2.2	Department of Buildings	5	10	\$536
2.2.2.1	Request & obtain on-site inspection approval by DoB	1	2	\$134
2.2.2.2	Receive on-site electric inspection and obtain approval	1	2	\$134
2.2.2.3	Receive on-site mechanical inspection and obtain approval	1	3	\$134
2.2.2.4	Receive on-site plumbing inspection and obtain approval	1	2	\$134
2.2.2.5	Receive on-site inspection regarding grading permit or others	—	—	—
2.2.2.6	Request & obtain Occupancy Certificate from the DoB	1	1	\$0
2.2.3	Department of Transportation	—	—	—
2.2.3.1	Request & obtain on-site inspection by DoT	—	—	—
	TOTALS	17	73	\$40,218

**Area 3.
Registering Property**

Phase	Name of Procedure	Procedures	Time	Cost
3.1	Obtain a Title Report	3	8	\$5,898
3.1.1	Request and obtain title report	2	5	\$350
3.1.2	Purchase title insurance policies	1	3	\$5,548
3.2	Title Transferring	1	1	\$34,400
3.2.1	Real estate transfer tax	1	1	\$34,400
3.3	Title Recording	1	1	\$57
3.3.1	Public recordation	1	1	\$57
3.3.2	Mortgage recording tax	—	—	—
3.4	Additional Procedures	—	—	—
3.4.1	Real property transfer tax	—	—	—
	TOTALS	5	10	\$40,355

**Area 4.
Paying Taxes**

Phase	Name of Procedure	Payments per Year	Statutory Tax
4.1	Corporate Tax	4	\$36,000
4.1.1	Corporate income tax – state, county, city	4	\$36,000
4.2	Employment Tax	24	\$161,910
4.2.1	Employer paid – hospital insurance contributions	12	\$140,310
4.2.2	Employer paid – state unemployment tax (new hire)	12	\$21,600
4.2.3	Employer paid – commuter transportation mobility tax	—	—
4.3	Operating Tax	4	\$9,600
4.3.1	Sales tax – state, county, city	4	\$9,600
4.4	Additional Local Regulations & Procedures	—	—
4.4.1	License tax (selective and max)	—	—
4.4.2	State disability insurance or employee	—	—
4.4.3	State employee expense tax	—	—
4.4.4	State franchise tax	—	—
	TOTALS	32	\$207,510

**Area 5.
Enforcing Contracts**

Phase	Name of Procedure	Procedures	Time	Cost
5.1	Commencing Litigation Phase	6	30	\$150
5.2	Attachment Request Phase	2	0	\$15
5.3	Litigation Phase	12	231	\$40
5.4	Enforcement of Judgment	2	110	\$0
	TOTALS	22	371	\$205