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\$1.00

\$1.5 BILLION FOR NEW DMC

'LIKE NOTHING THIS CITY HAS EVER SEEN'

DMC'S MIKE DUGGAN: Among 'biggest investments ever in the city of Detroit'
DMC'S STEPHEN D'ARCY: 'Extraordinary vote of confidence in the city'
ROGER PENSKE ON JOBS: 'A Christmas tree full of opportunity'



An artist's rendering of a proposed expansion of Children's Hospital of Michigan. Plans are for the hospital to get more than \$208 million worth of work.



MARTHA THERRY/Detroit Free Press

By PATRICIA ANSTETT
FREE PRESS MEDICAL WRITER

In a stunning announcement that would bring Detroit one of its biggest investments ever, the Detroit Medical Center on Friday announced plans to use its \$1.5-billion deal with a Nashville, Tenn., health care company to transform its aging facilities into state-of-the-art medical destinations, luring both Detroiters and patients from afar.

"This is like nothing this city has ever seen," CEO Mike Duggan said.

He said the DMC has made money for six years, but banks and investors have balked at lending the nonprofit money for new projects, given the DMC's \$639 million in bond and pension debt, hefty losses caring for the poor as Michigan's largest safety net provider and the city's declining population.

Vanguard Health Systems, an investor-owned company, plans to invest \$850 million at DMC facilities, including a new Cardiovascular Institute and significant expansions at its Children's Hospital of Michigan, projects stalled for years by lack of financing. The two hope to complete the purchase by June.

Wayne County Executive Robert



REGINA H. BOONE/Detroit Free Press

Ficano said the deal is bigger than the investments in Ford Field, Comerica Park and Campus Martius combined. Civic booster and DMC board member Roger Penske called the deal a home run.

Blue Cross Blue Shield of Michigan CEO Dan Loepp said he hoped the deal would not compromise care to poor people. "We encourage careful consideration and review of this transaction," he said.

■ HOPE IS TO LURE MORE PATIENTS. 12A

HIGHLIGHTS OF PLAN

BIG INVESTMENT IN CITY OF DETROIT
Vanguard agrees to spend \$1.5 billion to buy the Detroit Medical Center.

\$850 MILLION FOR IMPROVEMENTS
Vanguard to help pay for capital projects, including building new facilities, renovations.

THOUSANDS OF JOBS CREATED
The projects may create up to 5,000 construction jobs.

DMC WOULD BE FREE OF DEBT
Vanguard to assume \$639 million in DMC debt, including bond debt and pension contributions.

MIDTOWN COULD SEE A BOOM

The central-city neighborhood, which already has drawn substantial investments, gets a huge boost to secure it as a medical and biotech research hub.

RESIDENTS MAY GET TAX BREAKS
If the state approves a Renaissance Zone, any residents in the zone won't have to pay city or state taxes for 12 years.

INDIGENT CARE TO CONTINUE
DMC promises no decline in care for poor, uninsured or underinsured people.

VANGUARD SEES MARKET GROWTH
With new facilities and equipment, DMC could lure patients from suburban hospitals.

Health care vote drives House pals apart

By TODD SPANGLER
FREE PRESS WASHINGTON STAFF

WASHINGTON — Fifty-five years ago, John Dingell filled his father's footsteps as an advocate in Congress for a health care system more accessible to more Americans. This weekend, he's on the verge of a final House vote for a bill doing just that.

Standing in the way is one of his best friends and a fellow Democrat — U.S. Rep. Bart Stupak from the Upper Peninsula.

Stupak, a protégé of Dingell's when the latter was chairman of the powerful Energy and Com-



U.S. Reps. John Dingell, left, and Bart Stupak, both of Michigan



tentatively planned for a vote Sunday.

Dingell of Dearborn would not criticize his friend on Friday. But Stupak said his feelings for Dingell have made his decision that much harder.

"John's a great friend," Stupak said. "It's very, very difficult."

■ WHAT'S AT STAKE FOR BOTH. 2A

Elderly woman swindled by scam artist who tricked state, cops say

By CHRIS CHRISTOFF
FREE PRESS LANSING BUREAU CHIEF

FLINT — Before he got a \$9.1-million tax break for his new business this week, convicted embezzler Richard Short had swindled an 86-year-old Flint woman out of thousands of dollars, Flint law enforcement officials said Friday.

Short was charged with 24 felony counts that could land him in jail for life as a habitual offender, Genesee County

Prosecutor David Leyton said. Last year, Short fraudulently obtained power of attorney for Margaret Bennett, 86, a neighbor he combed at a mobile home park north of Flint, said Leyton and Genesee County Sheriff Robert Pickell.

They said Short used Bennett's ATM card to take money for himself from her bank account.

"Scamming the State of Michigan is one thing; it causes a great deal of embarrassment

to state officials," Pickell said. "But preying on an elderly, vulnerable adult is, quite frankly, another thing."

Earlier Friday, the state charged Short with 10 counts of violating parole for a 2002 embezzlement conviction.

Don't look for Short to get out anytime soon. Flint's 67th District Court Judge John Conover did the state one better and set bail at \$9.2 million.

■ CONVICTED EMBEZZLER IS FACING LIFE IN PRISON. 4A

DMC leaders see rosier future with investment

Hope is to lure patients back from suburban hospitals

Q&A

What does this mean for DMC's future?

By PATRICIA ANSETT
 FREE PRESS MEDICAL WRITER

Here are answers to some key questions about the purchase of the Detroit Medical Center by the for-profit Vanguard Health Systems:

QUESTION: Why is DMC doing this?
ANSWER: The DMC says that while it has made money for seven years, it can't attract donor or investment money for key projects it needs to renovate its aging facilities or to build new ones, such as a Cardiovascular Institute or expansion of Children's Hospital of Michigan. As a result, 40% of the people who live near the DMC campus or near its Sinai-Grace Hospital in northwest Detroit leave for care in the suburbs — even though the DMC has some of the state's top-ranked physicians.

Q: Will it close any hospitals?
A: Vanguard signed a commitment to keep all the hospitals open for 10 years.

Q: What will happen to the DMC's longtime commitment to provide care for poor people?
A: Vanguard has committed to maintain the system's charity care policy. It also expects to continue to receive enhanced Medicaid reimbursement to care for poor people.

Q: What happens after the 10-year commitment on keeping hospitals open ends?
A: That's unclear, though both DMC and Vanguard said each organization has a strong commitment to the historic mission to serve the poor and train doctors at the DMC.

Q: Will DMC continue to train all the WSU doctors it does now?
A: Yes, Vanguard said it will retain all specialty training programs with Wayne State University's School of Medicine.

Q: How soon will the improvements begin?
A: The DMC said groundbreaking will be no later than June for its new outpatient pediatric center, if the deal is approved.

Q: Will the state approve this?
A: The DMC researched the legal history of purchases of nonprofits by private companies and is confident Michigan's attorney general will approve the deal.

Q: Will this happen at other hospitals?
A: That's possible. One in five U.S. hospitals is investor-owned, though few are in Michigan. But as many nonprofit hospitals struggle to survive, more hospitals could go in this direction as they look for new revenue.

Q: What's in it for Vanguard?
A: The company is buying DMC for less than the value of DMC's buildings and equipment. A large hospital system, like Vanguard, can buy expensive hospital equipment at lower prices than DMC.

CONTACT PATRICIA ANSETT: PANSETT@FREEPRESS.COM

By PATRICIA ANSETT
 FREE PRESS MEDICAL WRITER

Five years from now, the Detroit Medical Center hopes, an infusion of \$1.5 billion will turn it into a premiere medical center, such as the Cleveland Clinic.

DMC CEO Mike Duggan said 40% of the system's potential customers bypass its Detroit hospitals for suburban facilities with more modern amenities. He hopes to lure them back with world-class facilities at the DMC.

The proposed deal with Tennessee-based Vanguard Health Systems provides \$850 million for new investments, while promising to maintain the DMC's historic mission serving poor people, for the next 10 years. It will allow the DMC to proceed with projects shelved for years, for lack of financing, allowing it to compete with metro Detroit's newest, head-turning hospitals in the suburbs.

The improvements proposed for the DMC's Midtown campus, north of Detroit's downtown, promise to boost medical and bioscience research already there with millions in investments, bring as many as 5,000 new construction jobs and trigger other new business, leaders said. "The ripple effect, I believe, will be a lot larger than the actual Vanguard investment," said Stephen D'Arcy, DMC board chairman.

Other plans call for business as usual: The DMC hospitals will retain their names; Duggan and other executives will remain in their jobs, and residency programs that train thousands of doctors in specialty care will continue with the Wayne State University School of Medicine.

Approvals needed

The purchase must be approved by Michigan Attorney General Mike Cox. It also requires that the DMC obtain status as a Renaissance Zone, a state program that gives lucrative tax breaks, even to citizens in the zones, in exchange for investments in depressed neighborhoods.

In a statement, Cox said his office "has an obligation to look at issues related to charities, and we will conduct a review as more information becomes available." The new partners set June 1 as a deadline to complete their deal.

Wayne County Executive Robert Ficano said he wants to use money designated for Wayne County for a Renaissance Zone project to help get the deal done. It would require approval by the Detroit City Council and the Wayne County Board of Commissioners. Ficano said the Vanguard deal is bigger than the investments in Ford Field, Comerica Park and Campus Martius combined.

"I think it sends a message that Wayne County is a good place to do business," Ficano said.

Detroit Mayor Dave Bing, appearing at a news briefing on the DMC campus Friday, also supports the purchase and pledged support winning the grant.

The medical leadership representing DMC's 2,500 doctors also voted unanimously in support of the purchase, said John Haapaniemi, president of DMC's medical staff and a member of the DMC board. They applauded investments.

DMC CEO Mike Duggan said 40% of the system's potential customers bypass its Detroit hospitals for suburban facilities with more modern amenities. He hopes to lure them back with world-class facilities at the DMC.

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Dr. Lorna Thomas, chairwoman of Detroit Receiving Hospital's board, and Trip Pilgrim, chief development officer and senior vice president of Vanguard Health. Thomas called the deal "a marriage made to happen."



Dr. Lorna Thomas, chairwoman of Detroit Receiving Hospital's board, and Trip Pilgrim, chief development officer and senior vice president of Vanguard Health. Thomas called the deal "a marriage made to happen."



Conrad Mallett Jr., president of DMC's Sinai-Grace hospital, speaks about the benefits of Vanguard Health Systems taking over his hospital.

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Concerns raised

The news stunned Michigan health leaders and caught many by surprise.

While it brought cheers on the DMC campus, it raised concerns from some community and business leaders, in a state where most hospitals are nonprofits. Nationwide, one in five hospitals are now investor-owned, the preferred term used by for-profit health company leaders.

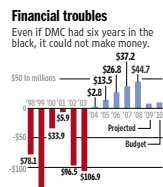
Sister Mary Ellen Howard, a nationally known health reform advocate and director of Detroit's Cabrini Clinic, the oldest free clinic in the U.S., said she also shared concerns because "the mission of for-profit health care is to make a profit for their investors."

She added that if the DMC board saw purchase by a for-profit as its best option, then "the financial situation at the DMC must be much worse than we were led to believe."

Vanguard said it has signed a letter of intent in which it promised to keep all DMC hospitals open and maintain its charity care policies for 10 years.

DMC's board also will take over the administration of \$140 million in previously donated funds, to see that the money is spent as intended. DMC and Vanguard may set up a nonprofit foundation to take over the job. Now, donations are overseen by a hospital board and its managers.

Duggan, the DMC's CEO, said the DMC board voted unanimously to approve the



purchase by a for-profit, or investor-owned company, because, even though it made money for six consecutive years, "the nonprofit model is killing health care in the city of Detroit."

Old debts blamed

Today, Detroit has only six hospitals, four of them run by the DMC, far fewer than in 1987, Duggan said.

He said he had tried and failed to find investment money to renovate DMC buildings and construct new facilities.

"I've been to Wall Street for six years," Duggan said. "They won't lend the DMC a dollar now and they won't for several years" even though the system has made money since 2004, including \$44.7 million last year.

Duggan blamed old debts from his predecessors as major problems he inherited. Vanguard will assume \$450 million in bond debt and another

What's next

Here is what the Detroit Medical Center and Vanguard Health Systems need to do by June 1:

- DMC must apply for a Renaissance Zone grant, a state program that provides 12 years free of local and state taxes for companies that have development projects in depressed communities. Taxes are paid on a graduated basis in future years.
 - Wayne County and Detroit must approve the grant before it is considered by the state.
 - Michigan Attorney General Mike Cox has to approve the deal. He will review whether the charitable mission of the DMC still will be served under the new for-profit structure.
- Source: Free Press interviews

er \$189 million in pension contributions, DMC board member Roger Penske said. "This is a home run," he said. Haapaniemi said a tour of Vanguard's Baptist Health System in San Antonio convinced him to approve the deal.

"When I started here, most of our DMC hospitals were old at that time," Haapaniemi said, drawing laughs after noting he's been a doctor in the city for 30 years. He said he expects Vanguard to do for DMC what it did for Baptist.

"It was very impressive. Vanguard had taken this system of five hospitals and taken tired old buildings and transformed them to state-of-the-art hospitals."

Suburban competition

Duggan said he expects to win back Detroit patients who bypass his hospitals for ones further away in the suburbs.

While the DMC has top care, its facilities can't compare to ones like the new Henry Ford West Bloomfield Hospital, a jaw-dropping facility with posh shops and gourmet food offerings that celebrated its first anniversary Friday.

"We've had to sit by and watch while West Bloomfield and Novi and Ann Arbor make huge investments in modern new hospitals and we've been frustrated we can't do the same in the city of Detroit," Duggan said. "Now we can. Detroit will no longer take a back seat to anyone in the quality of our hospital facilities."

CONTACT PATRICIA ANSETT: 313-222-5021 OR PANSETT@FREEPRESS.COM. FREE PRESS STAFF WRITERS TAMMY STABLES, BETH LAM AND JOHN WISSEY CONTRIBUTED TO THIS REPORT.

Vanguard Health Systems

Analyst: Buyer 'lives on the edge'

Tennessee firm has \$1.8 billion in debt

By KATHERINE YUNG
 FREE PRESS BUSINESS WRITER

The for-profit company proposing to take over the Detroit Medical Center is a relatively small hospital operator burdened by high debt.

For the privately owned Vanguard Health Systems of Nashville, Tenn., buying the nonprofit DMC and its eight hospitals would be its biggest acquisition in its 13-year history, and its first since December 2004. The deal would instantly give it control of a company about two-thirds its size in terms of revenue.

Vanguard owns and runs 15 hospitals in San Antonio,

Phoenix, Chicago and Worcester/Framingham, Mass. But none of those hospitals is No. 1 or No. 2 in their markets, according to Vicki Bryan, a senior high-yield bond analyst at Gimme Credit, an independent debt ratings firm in New York.

"This is a company that lives on the edge," she warned Friday, referring to Vanguard's \$1.8 billion in outstanding debt and its ambitious spending plans for the DMC. "Nothing better go wrong. We don't have a lot of margin for error here."

She said Vanguard generates profit margins below that of its rivals and recently wrote

off its investments in a hospital system it bought in Chicago. "Almost all of Vanguard's revenue growth has come from the ramp up of new facilities and new contracts at its health plan segment, which has offset otherwise tepid core results," she wrote in a January report.

Besides the 15 hospitals, Vanguard owns three managed health care plans in Arizona and Illinois and two surgery centers in Orange County, Calif. It employs slightly more than 19,000 workers.

Vanguard has made no secret that it is seeking new sources of revenue in urban markets with aging populations. Like other hospitals, it hasn't been immune to the re-

cession. "We continue to experience limited volume growth due to stagnant demand for inpatient healthcare services and increased competition for available patients," the company said in its most recent quarterly earnings report.

"This diversifies them a little bit more," said Dean Diaz, a senior credit officer at Moody's Investors Service. Standard & Poor's gives Vanguard's corporate debt a B rating, which means the company has the capacity to meet its debt commitments.

The company has steadily increased its revenues, from \$2.4 billion in 2006 to \$3.2 billion last year. Profits have been less dependable. Vanguard

earned \$28.6 million in its 2009 fiscal year, its first profit since 2006.

In January, the company refinanced its debt, giving it the financial resources to pursue an acquisition.

The company is still headed by its founder, Charles Martin. But since 2004, most of the company has been owned by one of the world's largest private equity firms, the New York-based Blackstone Group.

Some analysts have speculated that Blackstone may soon take the company public or sell it because private equity firms usually don't hold their investments for many years.

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COVER STORY

THE NEW AND IMPROVED DMC

Vanguard Health Systems has signed a letter of intent to buy the Detroit Medical Center, assume \$639 million in debt and pension contributions and another \$850 million in capital improvements. Here's how the money would be spent, some \$1.5 billion in all.

Children's Hospital new outpatient center



1 More operating room capacity. Expanded intensive care. 175,000-square-foot tower.



2 About 30% more floor space. Larger inpatient rooms. Would have five floors and new patient beds.



11-13 Bathrooms to meet Americans with Disabilities Act standards. New nursing areas.



Where the money will go

Project	Hospital	Estimated Cost	Total
1 Pediatric specialty center	Children's	\$33,000,000	
2 Children's new tower	Children's	\$170,000,000	
3 Clinic building backfill	Children's	\$5,200,000	\$208,200,000
4 Patient care unit renovations	Detroit Receiving	\$20,000,000	
5 Pre/post op space enhancement	Detroit Receiving	\$2,400,000	
6 Two additional operating rooms	Detroit Receiving	\$6,400,000	\$28,800,000
7 Surgical services renovation	Harper/Hutzel/CVI	\$20,000,000	
8 Lobby expansion/renovation	Harper/Hutzel/CVI	\$10,000,000	
9 Ground floor redesign	Harper/Hutzel/CVI	\$20,000,000	
10 Inpatient unit renovations	Harper/Hutzel/CVI	\$11,250,000	
11 Cardiovascular Institute & Outpatient Specialty Bldg.	Harper/Hutzel/CVI	\$75,140,000	\$136,390,000
12 Rebuilding Mack parking deck	Central Campus	\$35,300,000	\$35,300,000
13 Sixth floor renovation	Rehab Hospital	\$2,850,000	\$2,850,000
14 Emergency dept. expansion	Sinai-Grace	\$33,000,000	
15 Facade/front entrance	Sinai-Grace	\$10,000,000	
16 Outpatient Ambulatory Bldg.	Sinai-Grace	\$25,500,000	
17 ICU expansion	Sinai-Grace	\$5,000,000	
18 Radiology relocation	Sinai-Grace	\$4,200,000	\$77,700,000
19 Private room renovation	Huron Valley-Sinai	\$6,800,000	
20 ICU bed expansion Huron Valley	Huron Valley-Sinai	\$4,000,000	\$10,800,000
21 Routine capital expenditures		\$350,000,000	\$350,000,000

Note: No funds designated for DMC Surgery Hospital, Madison Heights **\$850,040,000**

Harper/Hutzel new entrances



8 Larger, more welcoming patient lobby. Easier floor plan for patients to navigate hospital.



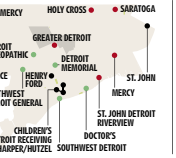
14 More space to treat trauma patients. Safer, more private environment.



19 ICU would expand by six beds. About 40 new private rooms.

Fewer hospitals

In 1987, there were 13 safety net hospitals in Detroit. Today, there are only six, with four run by DMC.



Vanguard Health

Vanguard is the eighth-largest investor-owned hospital system in U.S. and will be fifth largest with DMC merger.



C by the numbers

Established as a nonprofit in 1985 from a cluster of Detroit hospitals that date back more than 100 years. Includes eight hospitals and the Kresge Eye Institute in Detroit, Madison Heights and Commerce Township.

6.9 million MEDICARE REVENUE
\$69 million FREE CARE
\$4.7 million UNCOLLECTED PATIENT DEBITS
1,734 LICENSED BEDS
13,940 EMPLOYEES
3,000 DOCTORS

Reaction

Many see cause for optimism

By TAMMY STABLES BATTAGLIA, JOHN WISELY and PATRICIA ANSTETT
 FREE PRESS STAFF WRITERS

The potential sale of the Detroit Medical Center to Tennessee-based Vanguard Health Systems was met with optimism in metro Detroit on Friday, particularly the company's promise to invest \$850 million in improvements in the DMC.

"Any investment in these facilities is positive," said Dr. Valerie Parisi, interim dean of the Wayne State University School of Medicine, the DMC's longtime clinical partner.

Parisi said she hopes the ownership change will "strengthen the relationship" between the school and the DMC.

Brenda Hillock, a nurse at DMC's Children's Hospital of Michigan since 1990, said she hopes for better facilities, including a helipad at Children's that would allow critically ill children to be flown there instead of nearby Hutzel Hospital.

"They've got the money to spend; we need it," Hillock said.

"We would be state of the art," added Lori DeLay, a registered nurse at Children's. "You know the mecca over there in Ann Arbor?" she asked, referring to the University of Michigan Health System. "We'd be up there with them."

Government officials saw positives for the region.

What they said

"We were being choked to death by the non-profit model."
Mike Duggan, CEO of the Detroit Medical Center

"Investment is what we needed; we have the human capital."
Roger Penske, DMC board member

"It was a marriage made to happen."
Dr. Lorna Thomas, a Detroit dermatologist and chairwoman of the board of Detroit Receiving Hospital, referring to what she sees as similar values between DMC and Vanguard

"We would be state of the art. ... We'd be up there with them."
Lori DeLay, a registered nurse at DMC, referring to the University of Michigan Health System

"I don't trust private organizations."
Mahmoud Subehi of Dearborn Heights, saying he's hesitant to believe Vanguard's promise to maintain and exceed services for needy patients

"We intend to work closely with the DMC during this transition to ensure our continued progress as one of the premier medical schools in the nation."
Wayne State University President Jay Noren, in an e-mail to employees Friday

"I think this is an extraordinary vote of confidence in the City of Detroit."
Stephen D'Arco, chairman of the DMC board

"It's good for the city of Detroit and for all of Wayne County," said Wayne County Commission Chairman Edward Boike, D-Taylor. "I guess I'm excited," said Tom Zoner, supervisor of Commerce Township, where the DMC's Huron Valley Hospital is located. The change in

In Detroit

City officials hopeful deal will bring jobs

By NAOMI R. PATTON and TAMMY STABLES BATTAGLIA
 FREE PRESS STAFF WRITER

As details unfolded Friday about the potential sale of the Detroit Medical Center to Vanguard Health Systems, City of Detroit officials said they are eyeing the prospect of new jobs coming to the city.

"I think it will send a message around the country that we, as a city, are open for business," Mayor Dave Bing said at a news conference announcing the deal. "This is an \$850-million investment in our city, in our neighborhoods and our future."

Later, Bing said he hopes the deal — estimated to bring 10,000 jobs to the city over the next five years — lures other investment to Detroit.

The Detroit City Council and the Wayne County Board of Commissioners will need to approve Renaissance Zone tax abatements for the medical center.

The Renaissance Zone designation grants 100% tax abatements on city and state taxes for 12 years. The tax break then drops to 75% in the 13th year; 50% in the 14th year; 25% in the 15th year, and full taxes due after that.

Bing administration officials said they have not determined the amount of taxes they would receive when the zone designation expires.

City Council President Charles Pugh said he was con-

Renaissance Zones

Michigan lawmakers created Renaissance Zones in the mid-1990s to encourage redevelopment of distressed areas. Within a designated zone, most state and local taxes are abated, including property taxes, state income taxes and the Michigan Business Tax. The tax breaks reduce the cost of doing business for companies located within a zone.

More than 150 areas in Michigan have been designated as Renaissance Zones. Some have had redevelopment spurred by the tax breaks. In others, the reduction in taxes was not enough to spur development.

- JOHN GALLAGHER

cerned about access for care and Detroiters having access to the jobs created. "As we proceed, we're going to work out the details," he said.

County Executive Robert Ficano said the challenge now is to get all the permits and designations approved, something he promised the region can do within 60 days.

The deal's first stop for approval will be the council's Planning and Economic Development Committee. Saunteel Jenkins, who chairs the committee, said she's still learning about the deal.

"We want to make sure that the investment remains in the city of Detroit," she said.

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