

## **JOBS FOR MICHIGAN INVESTMENT FUND: GRANTS AND LOANS FOR COMPETITIVE EDGE TECHNOLOGY**

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**House Bill 5047**

**Sponsor: Rep. Bill Huizenga**

**Committee: Commerce**

**Complete to 7-11-05**

### **A SUMMARY OF HOUSE BILL 5047 AS INTRODUCED 7-6-05**

House Bill 5047 would create a new Chapter 8A in the Michigan Strategic Fund Act under which money in a new Jobs for Michigan Investment Fund would be spent only for basic research, applied research, university technology transfers, and commercialization of products, processes, and services to encourage the development of competitive edge technologies with a high probability of creating jobs in Michigan.

A Strategic Economic Investment Board would direct the Fund, which would be required to 1) establish a competitive process to award grants and make loans for competitive edge technologies; and 2) contract with independent peer review experts to assist the board with its responsibilities. This board would exercise its powers, duties, and decision-making authority as an autonomous entity independent of the Fund and the Department of Labor and Economic Growth.

Under the bill, "competitive edge technologies" would comprise:

- life sciences technology;
- advanced automotive, manufacturing, and materials technology;
- homeland security and defense technology;
- alternative energy technology;
- medical informatics; and
- bioterials.

The term "life sciences" would include bioengineering, biomedical engineering, biogeochemistry, genomics, proteomics, molecular and chemical ecology, and biotechnology. It would not include stem cell research with human embryonic tissue and various other activities prohibited by the Public Health Code.

Competitive Process for Grants and Loans. The required competitive process for the awarding of grants and loans would have the following features:

- Applications would be peer-reviewed by independent peer review experts based on the scientific, technical, and commercial merits.
- Preference would be given to Michigan-based applicants.
- Out-of-State businesses would need a significant existing or proposed business activity in Michigan.
- Preference would be given to proposals that can contribute directly to the development of employment opportunities in the state.
- Contracts would need to use measurable milestones, clear objectives, revocation provisions for breach of contract, and repayment provisions for loans to businesses that leave Michigan within 7 years.
- Applicants would have to leverage other resources as a condition of a grant or loan. The Fund could not make a grant or loan exceeding 10 percent of the amount of federal funds in the case of new competitively awarded federal program funds. For small business innovation research or technology transfer programs, the grant or loan could not exceed 25 percent of federal funds and must leverage third-party commercialization funding at both the Phase 1 and Phase 2 levels.
- Overhead rates would have to reflect actual overhead but cannot exceed 15 percent of direct costs.
- Grants, other grants for federal matches, could only be made to Michigan institutions of higher education and Michigan nonprofit research institutions.
- Preference would be given to collaborations between institutions of higher education, nonprofit research institutions, and Michigan businesses that research, develop, market, or commercialize competitive edge technology products or services.
- In developing programs, the Jobs for Michigan Board would be required to encourage collaborations among two or more of the following: institutions of higher education, Michigan nonprofit research institutes, and competitive edge businesses.

The standards listed above would be published on the Internet and disseminated by other means chosen by the board. When the board approved a grant or loan, the board would have to state the specific objective reasons the applicant was selected over other applicants for a grant or loan.

Strategic Investment Board. The board would consist of 19 members, including as ex officio voting members the directors of DLEG and the State Treasurer. One member

would be appointed by the Governor from a list of two or more individuals selected by the Speaker of the House, and one from a list of two or more selected by the Senate Majority Leader. The Governor would appoint the other 15 with the advice and consent of the Senate, including 8 members representing business; one member representing the Van Andel Institute; one each representing Michigan State University, the University of Michigan, Wayne State University, Western Michigan University, Michigan Technological University; and one from another public university. The business members would need expertise, knowledge, skill, or experience in venture capital investments, business finance, bringing competitive edge technology products to market or would need to represent a Michigan business that researches, develops, markets, or commercializes competitive edge technology products or services.

**Independent Peer Review Experts.** These persons would need to have the appropriate expertise to conduct an independent, unbiased, objective, and competitive evaluation of activities funded under the newly created Chapter 8A. The expert or experts would have to demonstrate the capability and experience to conduct a highly competitive and intensive, independent multiphased, peer-review based evaluation process; employ personnel with appropriate business, scientific, technical, or other specialized expertise to carry out each aspect of the evaluation process; provide recommendations to or assist the Fund board in identifying high-quality activities for funding likely to result in the development and commercialization of competitive edge technology and job creation; and assure that any peer review process maintained a high level of integrity. An independent peer review expert could not have any financial interest in a recipient of Fund proceeds.

**Board Operations.** The Fund board could act only by resolution approved by a majority of the members appointed and serving. A majority of members in office would constitute a quorum. The board would be subject to the Open Meetings Act and the Freedom of Information Act. However, certain financial and proprietary information would be exempt. Exempt financial and proprietary information could not be disclosed by the committee or MEDC without the consent of the person submitting the information.

**Bond funds could not be used** for the development of a stadium or arena or for the development of a casino. Funds also could not be used to induce an enterprise to relocate outside the United States or outside Michigan if relocating was likely to result in a loss of the enterprise's employment in the U.S. or in the state. Also prohibited would be assistance that would contribute to the violation of internationally recognized workers rights; grants or investment to a corporation that is incorporated in a tax haven country after September 11, 2001, but has the U.S. as the principal market for the public trading of its stock; and grants or loans to a person convicted of certain specified criminal offenses or held liable in certain civil proceedings that reflect negatively on business integrity.

**Fund Sources.** The Fund would consist of, generally speaking royalties, returns on investment, returns of principal, and other payments received by the Fund or the MEDC from the programs instituted under the new Chapter 8A, from the state's general fund or

tobacco settlement revenue under the Michigan Life Sciences and Technology Tri-Corridor Initiative and similar or successor programs, and from the 21<sup>st</sup> Century Jobs Fund Authority (proposed in House Bill 5005).

Auditor General Audit. Not later than May 15 of each year (beginning in 2007), the auditor general would conduct a performance post audit of the board and the Fund and a post audit of financial transactions and accounts of the Fund and board. The results would have to be published on the Internet and disseminated by other means in a manner designed to advise citizens of the results. Copies would have to be provided to the Governor, Clerk of the House of Representatives, and Secretary of the Senate.

Further, the board and Fund would have to report to the Governor, the Clerk of the House of Representatives and the Secretary of the Senate not later than December 31 of each year, with the report to contain the list of entities receiving funding and the amount and type received; the number of new patents, copyrights, or trademarks applied for and issued; the number of new start-up businesses; the number of new jobs and projected new job growth; the amount of other funds leveraged; money or other revenue and property returned to the Fund; the total number of new licensing agreements by institution and the number of new licensing agreements entered into with Michigan-based firms; and products commercialized.

Michigan Strategic Fund. The bill would change the name of the existing Michigan Strategic Fund to the Jobs for Michigan Fund and would correspondingly change the name of the act to the Michigan Jobs for Michigan Fund Act. The bill would specify that activities under the new Chapter 8A would not be considered a project, and economic development project, or a product assisted by the Michigan Strategic Fund for other purposes of the act.

## **FISCAL IMPACT:**

A related bill, House Bill 5048, provides for the sale of three fourths of the state's future tobacco settlement revenue. Some portion of these tobacco receipts are to be allocated to the economic development activities enumerated in this bill. This allocation is likely to be defined in subsequent budget appropriation bills. Additional revenue for the Jobs for Michigan Trust Fund will be derived from investments and loans as described in another related bill, House Bill 5005. In addition, House Bill 5047 provides for private donations. However, the total revenue available from all of these sources is not yet determinable. The amount of proceeds available from the sale of future tobacco settlement revenue will be depend on the prevailing bond market interest rate for this type of security at the time of sale. If such interest rates rise, the gross proceeds will be reduced.

State expenditures may increase due to the hiring of full time staff to support the Strategic Investment Board created in this bill. Additional expenditures will be needed for legal counsel, independent peer review experts and other consultants, and the reimbursable expenses of the non-compensated members of the Board. It appears these costs are to be paid from the Jobs for Michigan Investment Fund revenue sources cited

above. The amount of such costs cannot be estimated until information regarding the size and composition of full time staff, and the expected annual level of economic development activity becomes available.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.