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Senate Bill 488 (as introduced 5-10-05)
Sponsor: Senator Mark H. Schauer
Committee: Appropriations Subcommittee on Commerce, Labor and Economic Development

Date Completed: 5-12-05

CONTENT

The bill would amend the Michigan Strategic Fund Act to rename the Michigan Strategic Fund the "Jobs for Michigan Fund", and increase the duties of the Fund to include the administration of the proposed Jobs for Michigan Economic Development and Diversification Bond Fund. This Bond Fund would contain the proceeds from the proposed sale of $2.0 billion of general obligation bonds, contingent upon the passage of Senate Joint Resolution C and the successful passage of the ballot initiative to amend the State Constitution to authorize the sale of these bonds. The proceeds from the bonds would be allocated by the board of directors of the Jobs for Michigan Fund.

The Jobs for Michigan Economic Development and Diversification Bond Fund

The bill would create a Bond Fund and a Bond Repayment Subaccount. The Bond Fund would include proceeds from the sale of the bonds as well as any interest accrued on the delivery of the bonds or the balance in the Fund, and any repayments required to be deposited into the Fund or the Bond Repayment Subaccount. The Subaccount would include revenue generated from royalties, return on investments or principal, or other payments made pursuant to grants, investments, or other agreements entered into by the Fund or the Michigan Economic Development Corporation (MEDC). Also included are repayments of any grants or loans funded through the Life Sciences Initiative since its creation in 1999 and the deposits made into the Life Sciences Commercial Development Fund. The Life Sciences Commercial Development Fund was created by Public Act 173 of 2003. to provide for the repayment of the $10.0 million appropriation to the Biosciences Research and Commercialization Center at Western Michigan University, as well as 3.0% of any royalties or return on investment directly related to research or commercialization activities developed by the Center. All of these sources of revenue would be used to repay the principal, interest, or redemption premiums on the bonds. In the event that the balance in the subaccount fund was insufficient to meet the cost obligations of these bonds, an appropriation from the General Fund would be required.

Timing of Allocation of Funds

The bill would authorize the Bond Fund to allocate up to 20.0% or $400.0 million of the total proceeds of the sale of the bonds in the first calendar year following voter approval, lowering that cap to 10.0% or $200.0 million for the remaining years that funding was available. Following this schedule, the distribution of funds could be entirely authorized by 2014. Allocations would be cumulative, allowing unspent funds to be carried forward into the next year but excluded from the subsequent year's allocation cap. Actual issuance of the bonds would depend on the schedule for distributing the funds, which could lag behind the award of funds by one to three years.

The Jobs for Michigan and Commercialization Programs

The bill would establish six funding programs that would be administered with the proceeds from bonds. The funds would be distributed as grants; "grant" would be defined in the bill as a grant, loan, convertible loan, or guarantee.

1. Basic and Applied Research. This funding category would provide grants to universities, Michigan nonprofit research institutes, or qualified businesses for basic and applied research in competitive edge technologies, defined as life sciences technology; advanced automotive, manufacturing, and materials technology; alternative energy technology; and homeland security and defense technology. Grant funds could be awarded for projects that would include, but not be limited to, one or more of the following:

    a) Research targeted to developing competitive edge technology research capacity in Michigan;
    b) Fostering "world class centers of excellence" in competitive edge technology;
    c) Developing competitive edge technologies with strong potential for commercialization;
    d) Developing or improving facilities for competitive edge technologies.

2. Commercialization. This funding category would provide grants to universities, Michigan nonprofit research institutes, or businesses for commercialization activities.

3. Attraction and Retention of Individuals. This funding category would provide grants to universities, Michigan nonprofit research institutes, or businesses to attract and retain talent in competitive edge technology or related businesses.

4. Matching Grants. This funding category would provide grants to universities, Michigan nonprofit research institutes, or businesses that could serve as a match for Federal funding in competitive edge technology. Grant amounts would be capped at 10.0% of the Federal award.

5. Investment. This category would provide funding for a contract with an investment management company to invest on behalf of the Fund in qualified businesses. The company would be required to assure a return on the investment.

6. Miscellaneous. Any other activities associated with development or commercialization of competitive edge technology.

Allocation of Bond Proceeds

Allocations of the bond proceeds would be made by the board of directors of the Jobs for Michigan Fund, subject to restrictions in the bill that would limit the percentage of funds for various purposes and require the board to receive advice from the Jobs for Michigan Research and Commercialization Steering Committee.

The bill would restrict the allocation of bond proceeds; however, not all program categories would be subject to restrictions. Funding to support basic research in competitive edge technologies--defined as life sciences technology; advanced automotive, manufacturing, and materials technology; alternative energy technology; or homeland security and defense technology--would be capped at not more than 10.0% of the total proceeds. Funding to support life sciences technology would be restricted to not less than 20.0% and not more than 35.0%, and funding to support qualified investments in businesses at not more than 15.0%, of the total proceeds. Additionally, the Department of Treasury would use the proceeds to pay the cost of bond issuance. Up to 3.0% of the total amount of the bonds issued, or approximately $6.0 million per year during the period of allocation of funds, would be available to the Michigan Economic Development Corporation for administrative costs. The bill does not specify how the funding restrictions would be allocated between years. Except for the restrictions that would apply to funding for Life Sciences Technology, there are no restrictions on how funds would allocated among the competitive edge technologies. The programs and funding restrictions are shown in Table 1.

Table 1

Allocation Categories and Restrictions
Allocation Restrictions by Program
Basic and Applied Research
Not more than 10% of the bonds or $200.0 million could be used for basic research, defined in part as original investigation for advancement of scientific or technological knowledge. Applied research (defined in part as research conducted to attain a specific benefit or solve a specific problem, with potential commercial application or the potential to create jobs) is not included under this cap. The limit would apply to all competitive edge technologies.
Commercialization
No restriction applies to this program.
Attraction and Retention
No restriction applies to this program.
Matching Grants
No restriction applies to this program.
Investments
Not more than 15% of the bond proceeds or $300.0 million could be spent for qualified investments in qualified businesses. A qualified business would be a Michigan business entity that develops, markets, or commercializes competitive edge technology products or services. A qualified investment would be an investment made by the board in a qualified business or in a business entity investing in a qualified business. Qualified investments would have to be recommended to the board by an independent job creation expert.
Miscellaneous
No restriction applies to this program.
Other Restrictions
Life Sciences Technology
This is defined separately from "life sciences" and would have to be funded under the bill at not less than 20.0% and not more than 35.0% of the total proceeds of bonds authorized or between $400.0 million and $700.0 million.
Administration
Not more than 3% of the bond proceeds could be used for administration by the Michigan Economic Development Corporation, which would staff the Jobs for Michigan Fund. Costs of bond issuance would not be part of this limitation.

Approval of Disbursements of Bond Proceeds

The allocation of the bond proceeds to specific projects would be determined by the board of directors of the Jobs for Michigan Fund. The Jobs for Michigan Commercialization Steering Committee would be created to recommend eligible projects to the board in the categories of basic and applied research in competitive edge technologies and commercialization opportunities.

The Steering Committee itself would be advised by an independent job creation expert or experts. The Steering Committee would select the independent job creation expert for approval by the board. The independent job creation expert would have to be a person or persons with "appropriate expertise" to conduct unbiased evaluations of the programs, and could include an investment management company. The expert would need to be capable of performing peer-review evaluations, employ personnel with adequate expertise in the grant categories, and be capable of identifying "high quality activities" that would result in commercialization. The independent job creation expert also would provide direct advice to the Board on investments.

The approval of the various categories is summarized in Table 2.

Table 2

Review Process for Distribution of Bond Proceeds	
Funding Category	**Review Process**
Basic and Applied Research	Jobs for Michigan Fund board of directors with advice from the Jobs for Michigan Commercialization Steering Committee, advised by the independent job creation expert or experts
Commercialization	Jobs for Michigan Fund board of directors with advice from the Jobs for Michigan Commercialization Steering Committee, advised by the independent job creation expert or experts
Attraction and Retention of Individuals	Jobs for Michigan Fund board of directors
Federal Matching Grants	Jobs for Michigan Fund board of directors
Investments	Jobs for Michigan Fund board of directors upon the recommendation of the independent job creation expert.
Miscellaneous	Jobs for Michigan Fund board of directors

The board of directors would be required to develop standards to ensure that the expenditure of the bond proceeds resulted in economic benefit to the State, reflecting the stated intent of the Legislature that a majority of the economic benefits and job creation occur within the State. The board also would be required to develop programs to encourage collaboration between institutions of higher education, Michigan nonprofit research institutes, and qualified businesses.

<u>The Board of the Jobs for Michigan Fund - Membership</u>

The current Michigan Strategic Fund board has nine members. These consist of the Director of the Department of Labor and Economic Growth (DLEG), the State Treasurer, and seven other members appointed by the Governor with the advice and consent of the Senate. The board would be renamed the board of directors of the Jobs for Michigan Fund, but membership would not be changed by the bill.

<u>The Jobs for Michigan and Commercialization Steering Committee - Membership</u>

The bill would create the Jobs for Michigan Commercialization Steering Committee as an advisory board to the Fund. The Committee would consist of 19 members including the Director of DLEG, the Chief Executive Officer of the MEDC, and the State Treasurer as ex officio members. The other 16 members would be appointed by the Governor for staggered four-year terms, with the terms of four members expiring each year, beginning December 31, 2006. The appointments would be required to include: a representative from Michigan State University; a representative from the University of Michigan; a representative from Wayne State University; a representative from Western Michigan University; a representative from Michigan Technological University; a representative from a public university other than the ones listed; a representative from the Van Andel Institute; six representatives from qualified businesses or individuals with expertise related to competitive edge technologies; and three members of the general public. The bill would change the membership categories from the current Technology Tri-Corridor Steering Committee by having a designated seat for a member representing Michigan Technological University, omitting members appointed by the Speaker of the House of Representatives and the Majority Leader of the Senate, requiring six members instead of three to represent competitive edge businesses, and reducing the number of at-large seats.

<u>State Administrative Board</u>

The State Administrative Board would be authorized to carry out the mechanics of bond issuance, refinancing, and repayment.

Avoidance of Conflicts of Interest

Members of the board of directors or the Steering Committee would be prohibited from using their positions to influence a decision regarding a loan, grant, investment, or other expenditure to their employers. The independent job creation expert (excluding an investment management company approved by the board) would be prohibited from having any financial interest in a recipient of bond proceeds.

Prohibited Expenditures

The bill would prohibit the use of funds for the following: a stadium or arena for a professional sports team; casinos or property associated with a casino; grants to persons with a criminal background; assistance to businesses likely to relocate production out of the United States or away from Michigan; grants that would contribute to the violation of "internationally recognized workers rights as defined in Section 507(4) of the Trade Act of 1974, 19 USC 2467(4)…", or grants or investments in companies affiliated with a corporation incorporated in a tax haven country.

Required Reports and Audit

The bill would require the Fund, by May 15 of each year, to contract with a certified public accounting firm for an independent audit. The audit would have to examine the activities funded with the proceeds of the bonds and be published on the internet. By December 31 of each year, the Fund would have to submit to the Governor, the Clerk of House of Representatives, and the Secretary of the Senate a list of activities funded during the year. These reports would be in addition to those currently required of the Michigan Strategic Fund, which include an annual report to the Legislature and an annual audit. These reports would continue under the renamed Jobs for Michigan Fund.

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This bill would not take effect unless Senate Joint Resolution C became a part of the State Constitution.

MCL 125.2003 et al.

FISCAL IMPACT

The bill would increase the funds available to the State for economic development projects involving research and commercialization by permitting the issuance of $2.0 billion in general obligation bonds over a period 10 or more years beginning in 2006. This compares with a total of $222.5 million in funding for Life Sciences research and commercialization and the Technology Tri-Corridor: Life Science Initiative that was appropriated during fiscal years 1999-2000 through 2004-05.

If approved by the voters, bonds could be issued beginning in 2006. The timing of bond issuance would depend on the allocations made by the board of directors and the pace of distribution to the recipients. In the first year of the program, not more that 20.0% of the total bonds or $400.0 million could be allocated. The remaining authority would be allocated at not more than 10.0% per year. Issuance of bonds would lag behind the allocations.

The bill provides that the first repayment of the bonds would not begin until FY 2007-08. The actual interest cost, repayment provisions, and structure of the debt would be determined by the market conditions at the time of issuance and the extent to which the bonds qualified for tax-exempt status. Table 3 below shows an example of what the debt service on these bonds would be, assuming the bonds were issued on the schedule shown at a 5.0% interest rate and a term of 30 years.

Table 3

Senate Bill 488 and Senate Joint Resolution C General Obligation Bond Proposal Debt Outstanding and Debt Service Payments (Millions of Dollars)		
Fiscal Year	**Bonds Outstanding**	**Debt Service Payment**
2005-06	$ 400.0	$ 0.0
2006-07	600.0	0.0
2007-08	800.0	52.0
2008-09	1,000.0	65.0
2009-10	1,200.0	78.0
2010-11	1,400.0	91.0
2011-12	1,600.0	104.0
2012-13	1,800.0	117.0
2013-14	2,000.0	130.0

Note: Annual debt service payments would continue at the amount of $130 million per year until approximately FY 2037-38 when the bonds would begin to be paid off and the annual debt service would decline until FY 2043-44 when all of the 30-year bonds would be paid off.

The balance in the Bond Fund would be invested by the State Treasurer. Income would remain in the Fund and not lapse to the General Fund.

The money available to repay the bonds would reside in the Jobs for Michigan Bond Repayment Subaccount. This account would include payments of loans, royalties, return on investments, and return of principal under this bill and repayments, return on investment, and royalties from previous life sciences and technology tri-corridor projects. If these revenue sources were insufficient to pay the bonds, a General Fund appropriation would be required to repay these general obligation bonds.

Not more than 3.0% or a total of $60.0 million would be available to the Michigan Economic Development Corporation over the life of the bonds for administrative costs. Expenses would include staff for the Jobs for Michigan board, compensation of the independent job creation expert or experts, and the reimbursement of expenses for the members of the Jobs for Michigan Commercialization Steering Committee. In addition to the administrative expenses, the Department of Treasury would use bond proceeds to cover the cost of bond issuance.

The bill would require the Governor to include appropriations for General Fund debt service, if necessary, in his or her annual executive budget recommendation. Appropriations also would be required for the expenditure of bond proceeds.

The bill would have no fiscal impact on local government.

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