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BILL ANALYSIS

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House Bills 5109 (Substitute H-5), 5048 (Substitute H-7), 5047 (Substitute H-11), 5216 (Substitute S-2), and 5215 (Substitute S-2) As Enrolled
Senate Bills 533 (Substitute H-5), 359 (Substitute S-2), 298 (Substitute S-2), and 521 (Substitute S-2) As Enrolled
Sponsor: Representative Rick Baxter (H.B. 5109)
Representative Bill Huizenga (H.B. 5047 and 5048)
Representative David Law (H.B. 5216)
Representative Dave Hildenbrand (H.B. 5215)
Senator Valde Garcia (S.B. 533 and 359)
Senator Wayne Kuipers (S.B. 298)
Senator Mike Bishop (S.B. 521)
House Committee: Commerce
Senate Committee: Government Operations

Date Completed: 11-16-05

CONTENT

The securitization agreement includes bills that would securitize a portion of tobacco settlement revenue, deposit the proceeds in a trust fund, and allocate the proceeds for investments in private companies, grants, and loans for competitive edge technology and loan enhancement programs. The package also would make appropriations and amend the Income Tax Act, Single Business Tax Act, and Business Corporation Act. This summary highlights the following bills:

Bill	Act
House Bill 5109	Michigan Trust Fund Act
House Bill 5048	Michigan Tobacco Settlement Finance Authority Act (proposed)
House Bill 5047 Senate Bill 533 Senate Bill 359	Strategic Fund Act
Senate Bill 298	Business Corporation Act
Senate Bill 521 House Bill 5216	Income Tax Act
House Bill 5215	Single Business Tax Act

Attachment 1 illustrates the mechanics of the securitization proposal.

House Bill 5109 (H-5) - Michigan Trust Fund Act

The bill would repeal sections of the Act that establish the Michigan Tobacco Settlement Trust Fund. The bill would create the 21st Century Jobs Trust Fund to receive the net proceeds of the sale of tobacco settlement revenue. The bill also would allocate $75.0 million of tobacco settlement revenue to the 21st Century Jobs Trust Fund each year from FY 2007-08 to FY 2014-15 for a total of $600.0 million. The State Treasurer would direct the investment of the 21st Century Jobs Trust Fund. Disbursements from the Fund would be made by the State Treasurer pursuant to appropriations to the Michigan Strategic Fund. Interest earnings on the 21st Century Jobs Trust Fund would be deposited into the General Fund.

The authority for the Michigan Merit Award Trust Fund in the Michigan Merit Award Act would be repealed and recreated in the Michigan Trust Fund Act. The bill also would repeal language in the Michigan Merit Award Act that specifies the percentage of tobacco settlement revenue allocated annually to the Michigan Merit Award Trust Fund. It specifies that any tobacco settlement revenue received by the State that has not been sold to the Tobacco Settlement Finance Authority or distributed to the 21st Century Jobs Trust Fund would be allocated to the Michigan Merit Award Trust Fund.

House Bill 5048 (H-7) - Michigan Tobacco Settlement Finance Authority Act

The bill would create the Michigan Tobacco Settlement Finance Authority, an independent public body within the Department of Treasury. The Authority could issue bonds that would be special revenue obligations secured by a pledge of the tobacco settlement proceeds.

The Authority would acquire rights to the State's tobacco settlement proceeds by purchasing them. Under the bill, the State Budget Director, with the approval of the State Administrative Board, could sell to the Tobacco Settlement Finance Authority all or a portion of the State's tobacco receipts. The sale would be constructed to provide net proceeds to the State in the amount of $400.0 million, for deposit in the Michigan 21st Century Jobs Trust Fund and in a reserve fund. The bill also provides that, as an alternative, the State Budget Director, with the approval of the State Administrative Board, could sell all or a portion of the State's tobacco receipts to a person or persons other than the Authority, if the sale would result in net proceeds of not more than $400.0 million and the terms would be more favorable to the State than a transaction through the Authority. The Authority Board would have an independent financial advisor to assist the Authority Board.

The Authority would be directed by a seven-member board of directors consisting of the following members:

-- The State Treasurer, who would serve as chairperson;
-- The Director of the Department of Labor and Economic Growth (DLEG);
-- Three members with business or financial knowledge, skill or experience, appointed by the Governor with the advice and consent of the Senate;
-- One member with business or financial knowledge, skill or experience, selected by the Governor from a list of two or more nominees provided by the Majority Leader of the Senate; and
-- One member with business or financial knowledge, skill or experience, selected by the Governor from a list of two or more nominees provided by the Speaker of the House.

The bill would provide for the manner of issuance of the bonds. The Authority would be required to involve at least two financial institutions or brokerage firms, including at least one that is chartered in Michigan, has at least one-third of its branch offices located in Michigan, and has at least one-quarter of its employees in Michigan in marketing and underwriting the bonds.

The Authority would be permitted to contract for legal, financial, and technical services, and employ temporary and permanent personnel. The bill would appropriate $1.0 million from the General Fund for FY 2005-06 to pay the operating expenses of the Authority and fund any reserve requirement. These funds, if not spent by the end of the fiscal year, would be carried forward by the Authority.

The Authority would have to report on its activities annually by March 1.

Senate Bills 533 (H-5) and 359 (S-2) and House Bill 5047 (H-11) - Michigan Strategic Fund Act

The bills would transfer the Michigan Strategic Fund from DLEG to the Department of Treasury, where it would be an autonomous agency, exercising its statutory functions independently of the State Treasurer.

The Strategic Fund board of directors would oversee the programs financed by the tobacco settlement securitization. Membership on the board of the Strategic Fund would be the same as the current Strategic Fund board with several exceptions. Currently, not more than two of the seven appointed members may be State employees. Under the bill, none of the nine appointed members could be State employees and five would have to be members of the private sector.

The Governor would have to appoint one private sector member to represent persons with private sector experience in private equity, venture capital, commercial lending, or commercialization of technology, from a list of three or more nominees submitted by the Speaker of the House of Representatives. Similarly, the Governor would appoint one private sector member from a list provided by the Majority Leader of the Senate.

The Chief Executive Officer of the Michigan Economic Development Corporation (MEDC) would be included as a member of the board.

The bills would add experience requirements for board members, requiring that after December 31, 2005, at least two of the members of the board have experience in private equity or venture capital investments, at least one member have commercial lending experience, and at least one member have experience in commercialization of technology.

The size of the board would be increased temporarily by two. By December 15, 2005, the Governor would be required to appoint, with the advice and consent of the Senate, two additional members with experience in private equity or venture capital investments, commercial, lending or commercialization of technology, temporarily increasing the size of the board from nine to 11 members for the period from December 15, 2005, to December 31, 2007.

The Strategic Fund would be required to operate programs related to 21st century investments as follows:

-- Private equity investments under a Private Equity Investment Program. The program would invest in or with a private equity fund meeting certain criteria with regard to presence and participation in Michigan projects and amount of capital at-risk.
-- Venture capital investments under a Venture Capital Investment Program, 80.0% of which would be for competitive edge technology consisting of life sciences technology; advanced automotive, manufacturing, and materials technology; homeland security and defense technology; and alternative energy technology. The Venture Capital Program would invest in or alongside a venture capital fund that met criteria with regard to the amount of capital at-risk, Michigan office, in-State investments, and coordination with the Michigan Early State Venture Investment Program.
-- Mezzanine investments (those in a qualified mezzanine fund, a person or entity making loans or investments ranging in size from $250,000 to $6.0 million) under a Mezzanine Investment Program.

The Strategic Fund would be permitted to offer commercial loan guarantees under a Loan Enhancement Program and would be required to conduct a Small Business Capital Access Program.

The Strategic Economic Investment and Commercialization Board (formerly the Technology Tri-Corridor Steering Committee and the Life Sciences Steering Committee) would be created within the Strategic Fund to award, on a competitive basis, grants, and loans for competitive edge technology (as discussed below). The Strategic Economic Investment and Commercial Board would be advised by an independent peer review expert.

Limits on Allocations

The Strategic Fund board would allocate funds pursuant to appropriations for investments and grants within the annual limits established by the bills as follows:

- Not more than 25.0% for the loan enhancement program.
- Not more than 40.0% for the investment programs including the private equity investment program, the venture capital investment program and the mezzanine investment program.
- Not more than 70.0% for competitive edge technology grants and loans.
- Not more than $100.0 million for basic research over the life of the program.
- Not more than 4.0% for administration; however, administrative costs are capped at 3.0% unless a 2/3rds vote of the Fund board authorizes the additional 1.0%.
- Not more than 5.0% for marketing and business development activities. At least 80.0% of these funds must be targeted to businesses or entities outside of Michigan.

Appropriations

House Bill 5047 (H-11) would require the State Treasurer, upon request by the board of the 21st Century Jobs Fund and pursuant to appropriation, to transfer money from the 21st Century Jobs Trust Fund to the Strategic Fund for allocation by the Strategic Fund board.

The bills would provide for the appropriation of the $400.0 million securitization proceeds from the 21st Century Jobs Trust Fund to the Strategic Fund in FY 2005-06. Of this amount, the following specific allocations would be made:

1. Life Sciences Technology. $90.0 million would be allocated as follows: $40.0 million in FY 2005-06 and $50.0 million in FY 2006-07.
2. Michigan Forest Finance Authority. $26.0 million would be granted to this Authority.
3. Defense Contract Coordination Center. $10.0 million would be used to develop a program to assist Michigan companies in obtaining Federal contracts from the U.S. Departments of Defense and Homeland Security. Up to half of the $10.0 million could be used for low-interest loans to expand manufacturing operations if necessary to fulfill Federal contracts. Loan repayments would be made to the Investment Fund.
4. Van Andel Institute. $3.0 million would be allocated for a grant for a good manufacturing facility at the Van Andel Institute.
5. Core Technology Alliance. $1.0 million to implement a grant program for early drug discoveries.
6. Capital Access Program. $3.5 million to implement this program.
7. Automotive Technology Business Accelerator. $6.0 million for research and commercialization of innovative technologies, international business development, and outreach and growth of technology-based businesses and professionals.
8. Michigan Film Office. $2.0 million to promote filming of motion pictures in Michigan. The funds would be used for a study to determine Michigan's status within the film industry and recommend improvements needed to attract motion picture projects, marketing Michigan as a location for filming movies and other projects, and supporting job training of film and media technicians.

9. Technology Transfer. $2.0 million for transfer of competitive edge technology from universities to the private sector.
10. Michigan Promotion Program. $15.0 million for additional tourism advertising.
11. Agriculture Development Fund. $10.0 million would be granted to this fund for grants and loans. At least $5.0 million would be awarded for grants and loans for specialty crops. No funds could be spent until after April 1, 2006.
12. Administrative costs. Not more than 4.0% or $16.0 million for the administration of economic diversification programs. A two-thirds vote of the Fund board would be required to spend more than the first $12.0 million.
13. Business Development and Marketing. Not more than 5.0% or $20.0 million for business development and marketing expenses. At least 80.0% of these funds would have to be targeted outside of Michigan.
14. Other Expenditures. Remaining funds of up to $195.5 million would be allocated by the Strategic Fund board for the loan guarantees (if operated), the Small Business Capital Access Program, private equity investment program, venture capital program, mezzanine investment program, and grants and loans for competitive edge technology. Funds allocated in FY 2005-06 but not spent, would be considered work projects and carried forward.

The bills earmark $30.0 million for competitive edge technology for five years from FY 2007-08 through FY 2011-12.

Jobs for Michigan Investment Fund

The Jobs for Michigan Investment Fund, also referred to as the Investment Fund, would be created within the State Treasury as a "permanent fund". The Investment Fund would consist of appropriations from the 21st Century Jobs Trust Fund, earnings or loan repayments from programs conducted by the Strategic Fund, and payments due to the MEDC from loan or equity investments related to life sciences programs. Interest earnings on the Investment Fund would remain in the Fund at year end.

The Strategic Fund would use the Investment Fund to diversify the economy, retain or create jobs, increase capital investment, increase commercial lending, and encourage the development and commercialization of competitive edge technologies.

The Strategic Fund board would direct the investment of money in the Jobs for Michigan Investment Fund. It could contract with the State Treasurer for assistance in administering the Fund. Money not invested by the Fund could be managed by the State Treasurer as part of the common cash fund. The Strategic Fund could not use the funds to purchase or improve real property; however, recipients of expenditures or investments would be permitted to use funds for those purposes. Certain types of investments would be prohibited.

Strategic Economic Investment and Commercialization Board

The Strategic Economic Investment and Commercialization Board, or Commercialization Board, would be created as an independent entity within the Strategic Fund. The Board would have to use a competitive process to award grants and loans for competitive edge technology projects likely to create jobs in Michigan. The grants and loans could be awarded for basic research, applied research, university technology transfer, and commercialization of products and services. Only Michigan institutions of higher education and Michigan research institutions, and Michigan nonprofit corporations would be eligible for grants.

The Commercialization Board would be required to allocate at least $40.0 million in FY 2005-06, $50.0 million in FY 2006-07, and $30.0 million annually in FY 2007-08 through FY 2011-12 for life sciences. Not more than $100.0 million over the life of the program could be allocated by the Commercialization Board for basic research.

All applications would have to be reviewed by independent peer review experts for scientific, technical, and commercial merit, personnel expertise, and the ability to leverage additional funding. The grant process also would consider the economic diversification and job creation potential of the project; an out-of-state business's presence in Michigan; the ability of the project to meet measurable goals, the ability to generate revenue within two years; and the involvement of experienced investors and managers.

The Board would have 19 members, consisting of:

-- The Director of the Department of Labor and Economic Growth.
-- The State Treasurer.
-- Seven members representing business, with related business, technology or finance experience, appointed by the Governor with the advice and consent of the Senate.
-- One representative of the Van Andel Institute, appointed by the Governor with advice and consent of the Senate.
-- Five designated university representatives, including one from each of the following: Michigan State University, the University of Michigan, Wayne State University, Western Michigan University, and Michigan Technological University, appointed by the Governor with the advice and consent of the Senate.
-- One representative from a university not listed above, appointed by the Governor with the advice and consent of the Senate.
-- One representative from Automation Alley, appointed by the Governor with the advice and consent of the Senate.
-- One member with relevant business, technology or finance experience appointed by the Governor from a list of at least two nominees selected by the Majority Leader of the Senate.
-- One member with relevant business, technology, or finance experience appointed by the Governor from a list of at least two nominees selected by the Speaker of the House.

The Strategic Fund board would be required to hire a fund manager to oversee the private equity investment program and the venture capital investment program.

The Office of the Chief Compliance Officer would be created within the Strategic Fund. The State Administrative Board would appoint the chief compliance officer who would help ensure ethical conduct of board members, employees, and agents, and assist with the monitoring and implementation Strategic Fund board policies.

The bill would require the Auditor General to conduct an annual financial audit of the Michigan Strategic Fund and related funds, an annual financial post audit, and a performance post audit at least every three years beginning May 1, 2007. The cost of an independent public accounting firm employed by the Auditor General to conduct audits would be funded by appropriations from the 21st Century Jobs Trust Fund. The Strategic Economic Investment and Commercialization Board and the Michigan Strategic Fund would be required to report annually on the grants or loans made, including recipients, amounts, and types of funds, and detailed information on jobs, commercialization, business start-ups, and related information. The Michigan Strategic Fund also would be required to report annually on private equity, venture capital fund, and mezzanine investments and loan enhancement programs, and make recommendations for program modifications, if necessary.

Senate Bill 359 (S-2) - Michigan Life Sciences Pipeline

The bill would require the Michigan Strategic Fund to create a Michigan Life Sciences Pipeline to promote the development of businesses providing goods and services related to the development and commercialization in the life sciences. The pipeline would have to be operational by June 1, 2006. The pipeline would be required to:

-- Recruit Michigan-based companies involved in life science research and commercialization to affiliate themselves with the pipeline.
-- Market the services of Pipeline members to develop business for them.
-- Otherwise assist Pipeline members to develop life science research and commercialization in Michigan.
-- Maintain and make available a list of Pipeline members.
-- Charge members a reasonable fee for services provided, at the discretion of the Pipeline.
-- Encourage recipients that receive funding from the 21st Century Jobs Trust Fund that were involved in the development or commercialization of life sciences to use services provided by a member of the Pipeline.

The bill also would require the Fund to issue a request for proposal for administration of the Pipeline and would place minimum requirements to be included in the proposal. The Fund would be required to enter into a contract of not less than four years with person or entity selected to operate the Pipeline. The bill would require a report from the administrator of the Pipeline, within five years after the bill's effective date, to the Senate and House of Representatives standing committees on Commerce on the effectiveness of the Pipeline in the development of life science research and commercialization in the State.

Senate Bill 298 (S-2) - Business Corporation Act

This bill would amend the Business Corporation Act to reduce the fees charged under the Act for initial organization, admission fees, and organization fees for both domestic and foreign corporations increasing the number of originally authorized shares.

Under the Act, at the time of filing its articles of incorporation, a corporation must pay, as an initial organization fee and an initial admission fee, a fee based on the number of authorized shares. A corporation that increases its authorized shares must pay an additional organization fee based on the increased number of shares.

The bill would reduce the fee amounts based on the number of shares authorized. Tables 1 through 6 below, show the differences between the current fee structure and the one proposed under the bill.

Domestic Corporation Initial Organization and Admission Fees

Table 1

Current Law Public Act 284 of 1972	
Number of Shares	**Current Fees**
0 to 60,000	$50
60,001 to 10,000,000	$30 per 20,000/max $5,000.00
10,000,001 or more	$30 per 20,000/ max $200,000.00

Table 2

Proposed Changes in Senate Bill 298 (S-2)	
Number of Shares	**S.B. 298 Fee**
0 to 60,000	$50
60,001 to 1,000,000	$100
1,000,001 to 5,000,000	$300
5,000,001 to 10,000,000	$500
10,000,000 or more	$500 plus $1,000 per 10,000,000 over initial $10,000,000

Additional Organizational Fees for Increases in Authorized Shares

Table 3

Current Law Public Act 284 of 1972	
Number of Increased Shares	**Current Fees**
20,000 to 10,000,000	$30 per 20,000/ max $5,000.00
10,000,001 or more	$30 per 20,000/ max $200,000.00

Table 4

Proposed Changes in Senate Bill 298 (S-2)	
Number of Increased Shares	**S.B. 298 Fee**
0 to 60,000	$50
60,001 to 1,000,000	$100
1,000,001 to 5,000,000	$300
5,000,001 to 10,000,000	$500
10,000,001 or more	$500 plus $1,000 per 10,000,000

Foreign Corporation Increases in Authorized Shares

Table 5

Current Law Public Act 284 of 1972	
Number of Increased Shares	**Current Fees**
20,000 to 10,000,000	$30 per 20,000/ max $5,000
10,000,001 or more	$30 per 20,000/ max $200,000

Table 6

Proposed Changes in Senate Bill 298 (S-2)	
Number of Increased Shares	**S.B. 298 Fee**
0 to 60,000	$50
60,001 to 1,000,000	$100
1,000,001 to 5,000,000	$300
5,000,001 to 10,000,000	$500
10,000,001 or more	$500 plus $1,000 per 10,000,000

The bill is tie-barred to Senate Bills 664, 665, 666, and 667, which would require DLEG to develop processes for electronic filing of business documents with the Department.

Related Taxation Changes

Senate Bill 521 (S-2)

This bill would amend the Income Tax Act to create a new deduction equal to all or a portion of a gain realized from an initial equity investment of at least $100,000, if the initial investment plus the gain, or a portion of it were reinvested in an equity investment in a qualified business within one year after the initial gain was realized. This deduction could be claimed for tax years beginning on or after January 1, 2007, and the initial equity investment would have to be made before December 31, 2009. A qualified business would be a business that: 1) is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003 (MCL 125.2233); 2) has its headquarters in Michigan, is domiciled in Michigan, and has a majority of its employees working in Michigan; 3) has a pre-investment valuation of less than $10.0 million; 4) has been in existence less than five years (although this does not apply to business doing research at a college or university or a tax-exempt organization; 5) is engaged only in competitive edge technology; and 6) is certified by the Michigan Strategic Fund as a "qualified" business.

House Bills 5215 (S-2) and 5216 (S-2)

These bills are designed to accomplish the following: 1) make the income tax and the single business tax consistent with changes enacted to the Michigan Early Stage Venture Investment Act by Public Act 102 of 2005, which established a tax voucher certificate system for investors in the Michigan Early Stage Venture Investment Fund, and 2) increase the total dollar amount of the vouchers that may be issued from $150.0 million to $600.0 million. In addition, in any one year, the vouchers used by taxpayers could not exceed 25.0% of the total amount of vouchers issued. House Bill 5215 (S-2) would amend the Single Business Tax Act to allow a taxpayer who has a voucher to use it to pay a single business tax liability and House Bill 5216 (S-2) would amend the Income Tax Act to allow a taxpayer who has a voucher to use it to pay an income tax liability. Under both of these bills, the vouchers could be used to help pay a taxpayer's tax liability for tax years beginning after December 31, 2008. These bills are not tie-barred to the other bills dealing with the securitization package. However, the proposal in House Bill 5215 (S-2) to increase the dollar amount of vouchers that could be issued would occur only if the Michigan Tobacco Settlement Finance Authority were authorized by law to issue bonds, but not sooner than November 1, 2005. In addition, the total amount of tax voucher certificates approved under the Michigan Early Stage Venture Investment Act could not exceed an amount sufficient to allow the Michigan Early Stage Venture Investment Corporation to raise $450.0 million for the purposes authorized under the Michigan Early Stage Venture Investment Act, but the total amount of all tax vouchers could not exceed $600.0 million.

Under both of these bills, the amount of the tax voucher used to pay a taxpayer's income or single business tax liability could not exceed the lesser of: 1) the amount of the tax voucher; 2) the amount authorized to be used in the tax year under the terms of the voucher agreement; and 3) the taxpayer's liability due.

Tie-Bars

The bills have the tie-bars shown below:

Bill	**Tie-bar**
House Bill 5215 (S-2)	None
House Bill 5216 (S-2)	None
House Bill 5109 (H-5)	Senate Bill 533 and House Bills 5047 and 5048
House Bill 5047 (H-11)	Senate Bills 298, 359, 521, 533, 633, and House Bills 4342, 4972, 4973, 5048, 5108, and 5109
House Bill 5048 (H-7)	Senate Bill 533, 633, and House Bills 4342, 4972, 4973, 5047, 5108, and 5109
Senate Bill 533 (H-5)	Senate Bills 298, 359, 521, 633, House Bills 4342, 4972, 4973, 5047, 5048, 5108, and 5109
Senate Bill 359 (S-2)	Senate Bill 533 and House Bills 5047, 5048, and 5109

Senate Bill 298 (S-2)	Senate Bills 533, 664, 665, 666, and 667 and House Bills 5047, 5048, and 5109
Senate Bill 521 (S-2)	Senate Bill 533 and House Bills 5047, 5048, and 5109

FISCAL IMPACT

House Bills 5109 (H-5), 5047 (H-11), and 5048 (H-7); Senate Bills 359 (S-2) and 533 (H-5)

The bills would change the current allocation of the proceeds the State is receiving from the settlement agreement entered into with the major tobacco companies in 1999. Under this settlement agreement, the State receives annual payments from tobacco companies. The amount of the annual payments is based on a complex formula that takes into account cigarette sales and inflation. During FY 2005-06, the State is assuming the settlement payment will equal $278.0 million. Under current law, the settlement revenue is deposited into the Merit Award Trust Fund and the Tobacco Settlement Trust Fund and is spent pursuant to State appropriations. During FY 2005-06, the majority of the settlement revenue has been appropriated for the Merit Award Scholarship program and the Medicaid program. Actual FY 2005-06 appropriations are shown in Table 7.

Table 7

FY 2005-06 Tobacco Settlement Appropriations (actual dollars)	
Merit Award Trust Fund	
Department/Program	**FY 2005-06 Enacted**
Community Health	
Medicaid Base Funding	$50,300,000
Education	
Michigan Education Assessment Program	16,359,300
Higher Education	
Merit Award Scholarships	126,400,000
Tuition Incentive Program	6,600,000
Nursing Scholarship Program	4,000,000
Operations Funding	9,500,000
Treasury	
Merit Award Board	1,636,800
Tuition Incentive Program Administration	399,700
Michigan Education Savings Program	1,000,000
Information Technology	400,400
Total Merit Award Trust Fund Appropriations	**$216,596,200**
Tobacco Settlement Trust Fund	
Attorney General	
Legal Services	$386,800
Community Health	
Senior Prescription Drug Program	3,900,000
Nursing Home Personal Needs Allowance	5,000,000
Senior Respite Care Services	5,000,000
Medicaid Base Funding	58,100,000
Total Tobacco Settlement Trust Fund Appropriations	**$72,386,800**
Total Tobacco Settlement Appropriations	**$288,983,000**

In order to obtain $400.0 million in FY 2005-06 for economic diversification programs, the package would create the Tobacco Settlement Finance Authority, which could sell revenue bonds that would be repaid with a portion of the tobacco settlement revenue. The repayment schedule would be determined at the time of issuance. Assuming taxable debt would be repaid over a 20-year period beginning in FY 2006-07 at 6.58% interest, debt service payments would be approximately $40.0 million annually. In FY 2007-08 through FY 2013-14, $75.0 million of tobacco settlement revenue would be allocated annually to the Michigan 21st Century Jobs Trust Fund for the economic development programs described above, providing an additional $600.0 million over eight years. Table 8 illustrates the impact that the debt service payments and the tobacco settlement earmarking could have on the amount of tobacco settlement revenue available for disbursement from the Michigan Merit Award Trust Fund.

Table 8

Estimated Tobacco Settlement Allocations Under the Securitization Package (in millions)

Fiscal Year	Estimated Tobacco Settlement Revenue	Estimated Debt Service on Bonds	Tobacco Settlement Earmarking	Estimated Michigan Merit Award Trust Fund	Tobacco Settlement Trust Fund[1]
2005-06	$278.0	$ 0.0	$ 0.0	$216.6	$72.4
2006-07	278.0	40.0	0.0	238.0	
2007-08[2]	278.0	40.0	75.0	163.0	

1) The Tobacco Settlement Trust Fund would be repealed by the securitization package.
2) In this example debt service would continue until FY 2025-26. Tobacco settlement revenue would continue annually based on the parameters of the settlement.

The bills would appropriate $400.0 million in FY 2005-06 from the 21st Century Jobs Trust Fund to the Michigan Strategic Fund and $1.0 million to the proposed Tobacco Settlement Finance Authority for expenditure as shown in Table 9.

Appropriations in Senate Securitization Proposal

Table 9

FY 2005-06 Appropriations in House Bill 5047

Purpose	FY 2005-06 Amount (in millions)
Michigan Strategic Fund	
Life Science	$90.0
Michigan Forest Finance Authority	26.0
Defense Contract Coordination Center	10.0
Van Andel Institute, Good Manufacturing Facility	3.0
Core Technology Alliance	1.0
Automotive Technology Business Accelerator	6.0
Michigan Film Office	2.0
Technology Transfer, Universities to Private Sector	2.0
Michigan Promotion Program	15.0
Agriculture Development Fund	10.0
Capital Access Program	3.5
Administrative Costs	Not more than 16.0
Business Development and Marketing	Not more than 20.0
Allocations to other programs (investments, loan enhancement, small business capital access program, grants and loans for competitive edge technology) as determined by the Strategic Fund Board	195.5
Total Appropriation	**$400.0**
FY 2005-06 Appropriation in House Bill 5048	
Tobacco Settlement Finance Authority	$1.0 GF/GP

House Bill 5109 (H-5) would require that any interest earnings on the Michigan Tobacco Settlement Trust Fund would be deposited into the General Fund. This amount is estimated to be $12.4 million in FY 2005-06 but would decline in FY 2006-07 and FY 2007-08 due to the reducing balance that would remain in the Trust Fund after the initial allocations were made.

Senate Bill 359 (S-2) would allow the Fund to contract with a person or entity to operate the Michigan Life Sciences Pipeline. The cost of this contract and the revenue stream that would be dedicated to covering that cost are unknown at this time.

House Bill 5048 (H-7) would appropriate $1.0 million General Fund/General Purpose revenue to the Tobacco Settlement Finance Authority for operating expenses and the creation of a reserve fund. This funding would carry forward if not spent in FY 2005-06. The Authority could employ personnel or contract for services, such as legal, accounting, or technical expertise. The level of compensation for these employees would be set by the board.

The Strategic Fund could by resolution establish fees or penalties associated with participation in its programs, after public hearings, and notice to participants, the Governor, and the Legislature.

Senate Bill 298 (S-2)

The bill could reduce the amount of revenue generated from corporations' fees by $600,000 to $3.0 million. This revenue currently lapses to the General Fund if unencumbered. In FY 2005-06, $18.0 million has been appropriated, exhausting any estimated corporate fee revenue for FY 2005-06 in DLEG. The Department is using these fees, instead of General Fund dollars, to support general operations and administration of the Workers' Compensation unit, the Tax Tribunal unit, and the Michigan Occupational Safety and Health Administration, as well as the administration of the Business Corporation Act.

Senate Bills 664-667, which are tie-barred to Senate Bill 298, would require DLEG to provide electronic filing of records and would create a new expedited filing fee. These new fees could generate approximately $3.0 million in revenue, which, if enacted, could replace the loss of revenue that would result from the proposed reduction of organization and admission fees paid by corporations.

Senate Bill 521 (S-2)

The fiscal impact cannot be identified because at this time there is no way to estimate the amount of capital gain investors would realize from initial equity investments and how much of this gain they would then reinvest in qualified businesses. The fiscal impact would not occur until the 2007 tax year. This bill would have no direct impact on local government.

House Bills 5215 (S-2) and 5216 (S-2)

The fiscal impact of these bills cannot be identified because there is no way to make a reasonable estimate of the amount of vouchers that would be issued, although the maximum cost of these bills would be $600.0 million spread over several years and $150.0 million in any one given year. These bills would have no direct impact on local government.

Fiscal Analysts: Elizabeth Pratt, Maria Tyszkiewicz, Jay Wortley

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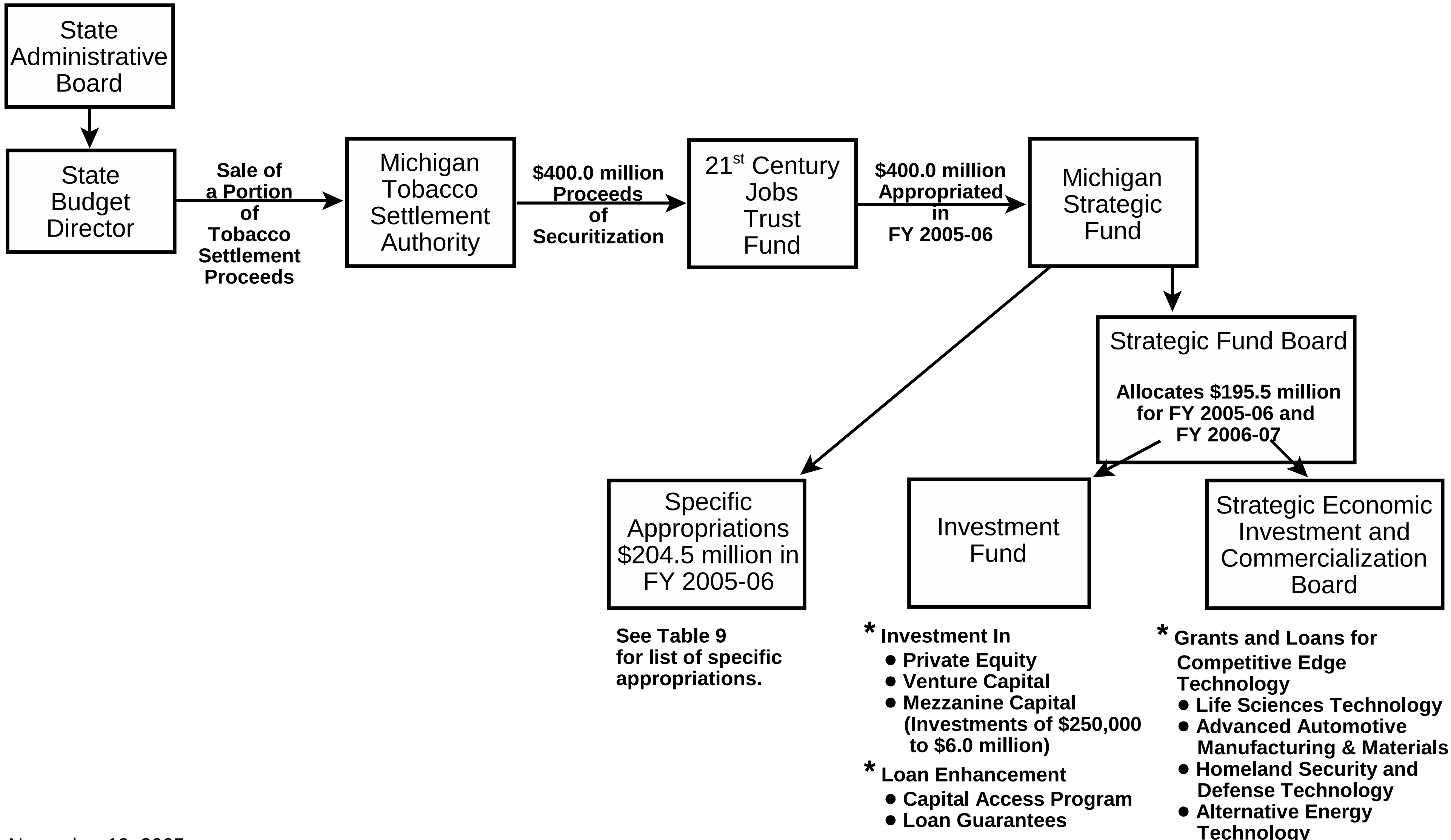
Attachment 1

Illustration of Securitization Plan for FY 2005-06 and FY 2006-07



November 10, 2005

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