Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 1223, 1224, and 1225 (as reported without amendment)
Sponsor: Senator Jason E. Allen (S.B. 1223)
Senator Tony Stamas (S.B. 1224)
Senator Hansen Clarke (S.B. 1225)
Committee: Commerce and Tourism

CONTENT

Senate Bill 1223 would add Chapter 8b to the Michigan Strategic Fund (MSF) Act to do all of the following:

-- Require the MSF board to establish a Michigan Promotion Program to promote tourism.
-- Require the MSF board to select all vendors for all Michigan Promotion Program expenditures under Chapter 8b by issuing a request for proposal (RFP), and specify information that responding entities would have to disclose.
-- Require the MSF board to establish a standard process to evaluate proposals submitted as a result of an RFP and appoint a committee to review the proposals.
-- Appropriate and transfer from the 21st Century Jobs Trust Fund to the MSF $60.0 million ($20.0 million each in fiscal years 2007-08, 2008-09, and 2009-10) for a work project to implement the Michigan Promotion Program.
-- Require that at least 75% of the appropriated funds target out-of-State people or entities.
-- Require the MSF to recommend a dedicated funding proposal for the Michigan Promotion Program, by December 31, 2009.
-- Specify legislative declarations, findings, and intent.

Senate Bill 1224 would amend the Michigan Trust Fund Act to include in the 21st Century Jobs Trust Fund the net proceeds from a refunding or refinancing of bonds or the sale of residual interests in tobacco settlement revenue (as Senate Bill 1225 would allow).

Senate Bill 1225 would amend the Michigan Tobacco Settlement Finance Authority Act to authorize the refunding and refinancing of, and the sale of residual interests in, the State's tobacco receipts.

(The Act defines "state's tobacco receipts" as all tobacco settlement revenue received by the State that is required to be made, under the terms of the master settlement agreement, by tobacco manufacturers to this State; and the State's right to receive the tobacco settlement revenue under the master settlement agreement (the agreement entered into between 46 states and the U.S. tobacco industry in November 1998).

"Residual interests" means one or more of the following as provided in any sale agreement:

-- The unencumbered tobacco revenue (the portion of tobacco settlement revenue sold to the Tobacco Settlement Finance Authority that is not pledged to the repayment of any bonds).

-- The net proceeds not previously paid to the State.
-- The income of the Authority that exceeds requirements to pay its operating expenses, debt service, sinking fund requirements, reserve fund or escrow fund requirements, and any other contractual obligations to the owners of the bonds or benefited parties or the execution or repayment of ancillary facilities (e.g., credit agreements).
-- Contractual rights, if any, as provided to the State in accordance with the terms of any sale agreements.

"Net proceeds" means the amount of proceeds remaining after the sale of bonds that are not required by the Authority to establish and fund reserve or escrow funds or termination or settlement payments under ancillary facilities and to provide the financing costs related to the issuance of bonds.)

Proposed MCL 125.2089-125.2089d (S.B. 1223) Legislative Analyst: Patrick Affholter
MCL 12.257 & 12.258 (S.B. 1224)
129.268 (S.B. 1225)

FISCAL IMPACT

The bills would provide $60.0 million in appropriations for tourism promotion to the Michigan Strategic Fund, providing $20.0 million per year in FY 2007-08, FY 2008-09, and FY 2009-10. The appropriations would be funded from the 21st Century Jobs Trust Fund which, under the proposal, would receive an estimated $60.0 million in additional revenue from refinancing bonds previously issued by the Tobacco Settlement Finance Authority.

The Department of Treasury has estimated that $60.0 million could be realized by a combination of extending the term of the bonds and replacing bonds previously issued as taxable bonds with lower-cost tax-exempt bonds, now that it possible to segregate projects with tax-exempt purposes into separate bond issues. At the time of original issuance, the State authorized the sale of a portion of its tobacco settlement revenue to pay the debt service on these bonds. The State foregoes this revenue while the bonds are outstanding. Extending the term of the bonds would delay the return of this portion of the tobacco settlement revenue stream to the State. The Department of Treasury is estimating that of the total $60.0 million in tobacco settlement revenue bonding, $20.0 million would result from replacing taxable bonds with tax-exempt bonds and $40.0 million would result from extending the terms of the outstanding bonds. It is anticipated that the terms of the outstanding bonds would be extended by an additional four years.

In recent years, tourism promotion funding has been provided through annual appropriations in the Michigan Strategic Fund budget. The amount of GF/GP revenue appropriated for tourism promotion is shown in the table below. Public Act 225 of 2005 appropriated $15.0 million from the 21st Century Jobs Trust Fund for tourism promotion. This funding was used during FY 2005-06 and FY 2006-07. In FY 2007-08, $11,417,500 was appropriated in the annual budget in the line item for tourism promotion. This consisted of $5,717,500 GF/GP and $5.7 million in one-time money from the Investment Fund – Returns to Fund, which consists primarily of repayments from prior life sciences and technology tri-corridor programs. The budget bill authorized the MSF board to allocate this $5.7 million between tourism promotion and business marketing. In January 2008, the board authorized $4,282,500 for tourism and $1,417,500 for business marketing. Providing an additional $20.0 million for promotion in FY 2007-08 would increase available funds by 200% over the $10.0 million allocated year-to-date. The tourism promotion appropriation history through FY 2006-07 and the proposed funding through FY 2009-10 are shown in the table below.

Under Senate Bill 1223, the Michigan Strategic Fund would be permitted to use up to 4% or $800,000 of each $20.0 million annual appropriation for administration. The bill would require that 75% of expenditures be targeted to people out of State. The appropriations would be established as work projects and would carry forward until December 31, 2010.

Estimated Tourism Promotion Funding Under Senate Bill 1223

	GF/GP	21st Century Jobs Trust Fund	Returns to Fund	Total
FY 2004-05	$5,717,500			$5,717,500
FY 2005-06	$5,817,500	$7,500,000		$13,317,500
FY 2006-07	$5,717,500	$7,500,000		$13,217,500
FY 2007-08 est.	$5,717,500	$20,000,000 [b]	$4,282,500 [d]	$30,000,000
FY 2008-09 est.	$5,717,500 [a]	$20,000,000 [b]		$25,717,500
FY 2009-10 est.	$5,717,500 [c]	$20,000,000 [b]		$25,717,500

[a] The Governor recommended $5,717,500 for tourism promotion in FY 2008-09.
[b] These amounts would be appropriated by Senate Bill 1223.
[c] Assumes that GF/GP funding continues at the current level.
[d] Reflects the MSF board allocation of the $5.7 million between tourism promotion and business marketing.

A private study commissioned by the Michigan Economic Development Corporation estimated the State revenue impact of State expenditures on tourism promotion. The study estimated that tourism promotion expenditures by the State over the last three years resulted in estimated increased tax revenue at an average rate of $2.76 of additional State tax revenue for each State dollar spent on advertising. It is likely that the additional tourism expenditures would result in a positive return to the economy at large and to State revenue in particular. The actual impact on State revenue, however, would depend on many State and national economic factors and is not known.

Date Completed: 3-26-08

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