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BILL ANALYSIS

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Senate Bills 1223, 1224, and 1225 (as introduced 3-19-08)

Sponsor: Senator Jason E. Allen (S.B. 1223)
Senator Tony Stamas (S.B. 1224)
Senator Hansen Clarke (S.B. 1225)

Committee: Commerce and Tourism

Date Completed: 3-20-08

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.**
- **Appropriate and transfer from the 21st Century Jobs Trust Fund to the MSF \$60.0 million, over three fiscal years, 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.

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 bills are described in detail below.

Senate Bill 1223

Michigan Promotion Program

The bill would require the MSF board to establish a Michigan Promotion Program to promote tourism in this State. Upon request from the board, the State Treasurer would have to transfer appropriated funds from the 21st Century Jobs Trust Fund to the MSF in the amounts designated by the MSF board at the time and as necessary to fund disbursements required for the Michigan Promotion Program. The funding for tourism promotion would be "intended to enhance funding beyond that included in the annual appropriation for Travel Michigan to attract additional tourism expenditures and development of the tourism industry in this state". Not more than 4% of the annual appropriation as provided by law from the 21st Century Jobs Trust Fund could be used for administering the Michigan Promotion Program.

The MSF board would have to select all vendors for all Michigan Promotion Program expenditures under Chapter 8b by issuing a request for proposal (RFP). At a minimum, the RFP would have to require the responding entities to disclose the following: any conflict of interest, any criminal convictions, any investigations by the IRS or any other Federal or State taxing body or court, and any pertinent litigation regarding an entity's conduct. The RFP also would

have to require the responding entities to maintain records and evidence pertaining to work performed for at least five years.

The MSF board would have to establish a standard process to evaluate proposals submitted as a result of an RFP and appoint a committee to review the proposals. Members of any committee or individuals working on behalf of the MSF, paid or unpaid, could have no conflict of interest as determined by the Office of the Chief Compliance Officer established under the MSF Act.

Appropriations

The bill would appropriate and transfer \$20.0 million from the 21st Century Jobs Trust Fund to the MSF for carrying out the purposes of Chapter 8b, in each of the following fiscal years: 2007-08, 2008-09, and 2009-10.

Each appropriation would be a work project appropriation and any unencumbered or unallotted funds would have to be carried forward into the following fiscal year. The bill states that the following would be in compliance with Section 451a(1) of the Management and Budget Act (which governs work project appropriations):

- "The purpose of the project is to provide economic benefits and job creation within this state through the promotion of tourism."
- "The work project will be accomplished through the use of interagency agreements, grants, state employees, and contracts."
- "The total estimated completion cost of the project is \$60,000,000.00."
- "The expected completion date is December 31, 2010."

At least 75% of the funds appropriated under Chapter 8b would have to be targeted to people or entities outside of Michigan. No funds could be used for any Michigan Promotion Program effort that included a reference to or the image or voice of an elected official, appointed State employee, State employee governed by a senior executive service limited term employment agreement, or candidate for elective office, and that was targeted to a media market in Michigan.

Dedicated Funding Proposal

The bill would require that, by December 31, 2009, the MSF give a dedicated funding proposal for the Michigan Promotion Program to the Governor, the chairpersons of the Senate and House Commerce Committees, and the chairpersons of the Senate and House Appropriations Committees.

Legislative Declarations, Findings, & Intent

The bill states: "The legislature finds and declares that the activities authorized under this chapter to promote this state and the creation of jobs in this state are a public purpose and of paramount concern in the interest of the health, safety, and general welfare of the citizens of this state. It is the intent of the legislature that the economic benefits and the creation of jobs resulting from this chapter shall accrue substantially within this state."

The bill also specifies that activities authorized under Chapter 8b would not be considered a project, economic development project, or a product assisted by the MSF for purposes of Chapter 1 or 2 of the MSF Act. (Chapter 1 provides for the creation of the Michigan Strategic Fund and contains general provisions of the Act. Chapter 2 pertains to acquisition and succession by the MSF to existing rights, property, and obligations; and provides for financing and contracts.)

Senate Bill 1224

The Michigan Trust Fund Act established the 21st Century Jobs Trust Fund in the Department of Treasury. That Fund consists of donations of money made to it from any source and, to the extent provided in the Michigan Tobacco Settlement Finance Authority Act, the net proceeds of the sale of tobacco settlement revenue to the Tobacco Settlement Finance Authority. The bill also would include in the 21st Century Jobs Trust Fund the net proceeds resulting from a refunding or refinancing of bonds or the sale of residual interests under the Michigan Tobacco Settlement Finance Authority Act, to the extent provided in Section 8(2) of that Act (which Senate Bill 1225 would amend).

Under the Michigan Trust Fund Act, upon request from the MSF board, the State Treasurer may transfer and disburse appropriated funds from the 21st Century Jobs Trust Fund only for the purpose of carrying out, and at the specified time and as necessary to implement, Chapter 8a of the MSF Act. The bill also would allow those actions for purpose of carrying out, and at the specified time and as necessary to implement, Chapter 8b of the MSF Act.

Senate Bill 1225

Under the Michigan Tobacco Settlement Finance Authority Act, the State budget director, with the approval of the State Administrative Board, may sell to the Authority, and the Authority may purchase, all or a portion of the State's tobacco receipts. As an alternative, the budget director, with the Board's approval, may sell all or a portion of the State's tobacco receipts to a person or persons other than the Authority, if the terms of the sale are in the best interests of the State and the net proceeds of the sale will not be more than \$400.0 million.

The bill specifies that a sale agreement or combined sale agreement also could provide for refunding, refinancing, and the sale by the State of residual interests. Any net proceeds resulting from a refunding or refinancing of bonds issued under the Act before the bill's effective date or the sale of residual interests existing on or after that date would have to be deposited to and held, used, and spent by the State Treasurer in the manner provided for in the Michigan Trust Fund Act.

(The Michigan Tobacco Settlement Finance Authority 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 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)
MCL 12.257 & 12.258 (S.B. 1224)
129.268 (S.B. 1225)

Legislative Analyst: Patrick Affholter

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	21 st 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.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.