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BILL ANALYSIS



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House Bill 6208 (Substitute S-1)
Sponsor: Representative Ed Clemente
House Committee: New Economy and Quality of Life
Senate Committee: Commerce and Tourism

Date Completed: 6-30-08

CONTENT

The bill would amend the Michigan Strategic Fund (MSF) Act to require the Fund to operate the "Choose Michigan Fund" program to invest in loans to qualified businesses for the promotion and enhancement of significant job creation or retention within Michigan. The bill would do the following:

- Provide that the Choose Michigan Fund could not make a loan after September 30, 2008.**
- Require the program to operate on an incentive basis.**
- Allow two of the loans to be forgiven.**
- Establish a minimum loan amount of \$500,000 and a maximum term of 10 years.**
- Allow the MSF board to convert a loan to an equity investment.**
- Require immediate repayment if a qualified business closed or relocated outside of Michigan within three years after the term of its loan.**

Specifically, the bill would require the MSF, as a separate and distinct part of the loan enhancement program, to operate the Choose Michigan Fund program to invest in loans from the Investment Fund to a qualified business. (Under the Act, "qualified business" means a business entity in Michigan.)

The Choose Michigan Fund program would have to operate on an incentive basis and provide loans to qualified businesses to promote and enhance significant job creation or retention within Michigan. The Choose Michigan Fund could not make a loan under the bill after September 30, 2008.

Notwithstanding any requirement imposed by the MSF before April 1, 2008, the MSF board would be permitted to require, or not to require, a qualified business to obtain an additional loan from an accredited financial institution or other approved lending market in order to receive a loan under the bill.

A loan would have to be provided at an interest rate of at least 1.0%, and the minimum amount of a loan would be \$500,000. The maximum term would be 10 years, including up to three years of deferred principal payments to align principal payments with receipt of primary incentives, as determined by the MSF board.

The qualified business receiving a loan would be responsible for its repayment regardless of any primary incentives received, although the MSF board could convert a loan to an equity investment. The qualified business also would be responsible for loan preparation and closing costs.

A loan would be subject to repayment provisions. If the loan were with a qualified business that closed down or relocated outside of Michigan any time within three years after the term of the loan, the provisions of the loan would have to include, at least, immediate repayment of any outstanding principal, payment of a default interest rate, and repayment of any amounts forgiven.

Up to two loans would be forgivable at the discretion of the MSF board. In determining whether to forgive a loan, the MSF would have to consider the net economic impact of the project on the State's economy. The loan agreement between the MSF and the qualified business would have to enumerate clearly the terms, conditions, and requirements under which all or part of the loan could be forgiven, including job creation and investment in Michigan.

A loan would have to be issued consistently with guidelines for the initiation of a loan and the terms of the loan approved by the MSF board.

(The Investment Fund, also known as the Jobs for Michigan Investment Fund, was created by Public Act 225 of 2005 as part of a package of legislation that created the 21st Century Jobs program, under which a portion of the State's receipts from the tobacco settlement agreement was sold ("securitized"), with the proceeds used for economic development efforts. Public Act 225 established loan and investment programs, including the loan enhancement program; appropriated \$400 million from the Fund for use in economic development; and specified the allocation of approximately half of that money.)

MCL 125.1088d

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The 21st Century Jobs Trust Fund program received an appropriation of \$75.0 million in FY 2007-08. The statute and the appropriations bill for this program include earmarks totaling \$38.15 million. These consist of \$30.0 million for Competitive Edge Technology Grants and Loans, \$3.0 for administration, \$3.75 million for business development and marketing, and \$1.4 million for the Small Business Technology Development Centers to administer the Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) Federal matching grant programs. In addition, the MSF board has allocated \$18.75 million in FY 2007-08 for this Choose Michigan Fund; however, the loan enhancement program must include the Michigan Film and Digital Media Investment Loan Program pursuant to Public Act 80 of 2008, part of the film industry package. This brings the total of earmarks and allocations in FY 2007-08 to \$56.9 million. The unallocated balance of the \$75 million appropriated in FY 2007-08 is \$18.1 million. The Michigan Economic Development Corporation has proposed using that balance for the Centers of Excellence program. Senate Bill 1380 would create a Center for Energy Excellence program to provide grants to companies that collaborate with universities to commercialize alternative energy technology.

House Bill 6208 (S-1) would require the MSF to create the Choose Michigan Fund, but would allow loans to be awarded only through September 30, 2008. As the MSF board already has voted on an allocation of \$18.1 million, a determination of how much would be allocated for this purpose and the Michigan Film and Digital Media Investment Loan Program would need to be made. Additionally, this bill would limit the number of loans that could be forgiven to two. This would require that any other loans made during these three months be paid back or be converted to equity investment by the MSF board. If more than two loans were let

during this time period, then any loan repayments or revenue from the investments would be deposited into the Jobs for Michigan Investment Fund/Permanent Fund, which may be used to fund programs under the 21st Century Jobs Fund, pursuant to an appropriation.

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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.