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BILL ANALYSIS

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Senate Bill 418 (Substitute S-1 as passed by the Senate)

(as enrolled)

Sponsor: Senator Jason E. Allen

Committee: Commerce and Tourism

Date Completed: 10-19-09

### **RATIONALE**

Public Act 175 of 2008 amended the Michigan Strategic Fund (MSF) Act to allow the MSF to create and operate a Centers of Energy Excellence Program to promote the development and commercialization of innovative energy technology in Michigan. The legislation allows the MSF board to spend up to \$45.0 million from the 21<sup>st</sup> Century Jobs Trust Fund appropriations on the Program. Grants may be awarded to for-profit companies for certain purposes, and at least 50% of the funds allocated for the Program must be used to match foundation funding, Federal funding, or international investments. Most of the \$45.0 million authorized for the Program was allocated over fiscal years 2007-08 and 2008-09, and some people believe that more funds should be designated for Centers of Energy Excellence. In addition, it has been suggested that all of the money allocated to the program should be used strictly to match Federal funding.

- **Require that all of the funds allocated to the Program be used to match Federal funding, rather than that at least 50% of the allocated funds be used to match foundation funding, Federal funding, or international investments.**
- **Include a national laboratory in the Act's definition of "qualified entity".**
- **Require an agreement between the MSF board and a qualified entity for the operation of a Center of Energy Excellence, to include participation by at least one qualified business and at least one institution of higher education or a national laboratory.**

### **Maximum Expenditure**

The Act allows the MSF to create and operate a Centers of Energy Excellence Program to promote the development, acceleration, and sustainability of "energy excellence sectors" (new and developing industry sectors in the energy field in Michigan where the MSF has determined the State has a competitive advantage and there are barriers to the commercialization of technology within the sectors). The MSF may enter into agreements with one or more qualified entities for the designation and operation of a Center of Energy Excellence.

The MSF board may not spend more than \$45.0 million of the money appropriated for programs authorized under Chapter 8A from the 21<sup>st</sup> Century Jobs Trust Fund created in the Michigan Trust Fund Act for the Centers of Energy Excellence Program. Under the bill, the MSF board could not spend more than that amount through FY 2008-09 and

### **CONTENT**

**The bill would amend Chapter 8A (21<sup>st</sup> Century Investment Programs and Activities) of the Michigan Strategic Fund Act to do all of the following:**

- **Allow the MSF board to spend up to \$30.0 million from the 21<sup>st</sup> Century Jobs Trust Fund appropriations on the Centers of Energy Excellence Program for fiscal year (FY) 2009-10 through FY 2010-11.**
- **Delete authorization for grants for the Program to be used to provide a match for foundation funding or international investments.**

more than \$30.0 for FY 2009-10 through FY 2010-11.

#### Use of Grants Awarded for the Program

Under the MSF Act, grants given for the Centers of Energy Excellence Program must be awarded only to for-profit companies for one of the following purposes:

- Providing a match for foundation funding, Federal funding, or international investments of up to 50% of the total project costs.
- Supplementing in-kind contributions provided by a person or entity other than the State.
- Accelerating the commercialization of an innovative energy technology or process that will be ready for market within three years.
- Activities of the center, including workforce development and technology demonstration.

The bill would require grants to be awarded for all, rather than one, of those purposes. The bill also would refer to providing up to a 1-for-1 match for Federal funding, instead of providing a match for foundation funding, Federal funding, or international investments, of up to 50% of the total project cost.

In addition, under the Act, not less than 50% of the funds allocated to the Program must be used to match foundation funding, Federal funding, or international investments. The bill instead would require that all of the funds allocated to the Program be used to match Federal funding.

#### National Laboratory

The Act defines "qualified entity" as a qualified business (a business entity located in Michigan), an institution of higher education, a Michigan nonprofit corporation, or a political subdivision of the State. The bill would include a national laboratory in that definition.

Under the Act, if the MSF board enters into an agreement with one or more qualified entities for the operation of a Center of Energy Excellence, the agreement must include participation by at least one qualified business and at least one institution of higher education. The bill would require

participation by at least one qualified business and at least one institution of higher education or a national laboratory.

MCL 125.2088q

#### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

The Centers of Energy Excellence Program uses significant State grants as a match for foundation funding, Federal funding, or international investment to assist businesses by serving as a catalyst for energy technology development. The idea is that grants from the Program will speed new technologies to market and position Michigan to attract other players in the growing energy sector. In turn, this should spur new job growth and business development across the State. The Program allows the expenditure of up to \$45.0 million and most of that money already has been allocated. By authorizing up to \$30.0 million more to be spent for the Program over the next two fiscal years, the bill would allow the MSF board to continue providing grants from 21<sup>st</sup> Century Jobs Trust Fund appropriations to pursue successful job growth in a burgeoning economic sector. Projects that already have received funds include a center focused on the manufacture of rechargeable lithium batteries for the transportation and alternative energy sectors, a biorefinery that will produce high-value specialty and fine biochemicals and biofuels from natural feedstock, and a waste-to-energy/biomethane center at a municipal wastewater treatment facility.

In addition, Michigan Economic Development Corporation officials have identified sufficient sources of available Federal funding to provide the required match for Program grants, so there is no need for grant recipients to seek matching funding from foundations or international investors. Requiring that the grants be used to match only Federal funding would not place a burden on grant recipients and could serve as a vehicle to bring increased Federal funding for energy research, development, and manufacturing projects into Michigan.

Legislative Analyst: Patrick Affholter

## **FISCAL IMPACT**

The bill would increase the amount that the Michigan Strategic Fund board may allocate from its appropriations from the 21<sup>st</sup> Century Jobs Trust Fund to the Centers of Energy Excellence Program by a total of \$30.0 million from FY 2009-10 through FY 2010-11.

The 21<sup>st</sup> Century Jobs Trust Fund is scheduled in statute to receive an allocation of \$75.0 million annually from FY 2007-08 to FY 2014-15 from the State's tobacco settlement revenue. In FY 2008-09, however, the appropriation from the 21<sup>st</sup> Century Jobs Trust Fund to the MSF board was reduced to \$52.9 million, and for FY 2009-10 the appropriation is reduced to \$28.5 million, due to State budgetary constraints.

The MSF board allocates the annual appropriation from the 21<sup>st</sup> Century Jobs Trust Fund according to the statutory guidelines in the MSF Act. The Act requires, for example, that at least \$25.0 million of the annual appropriation be allocated by the MSF board for a commercialization competition administered by the Strategic Economic Investment and Commercialization Board. The Act also permits up to 4% of the annual appropriation to be used for administration and up to 5% for business development and marketing. The Legislature has earmarked funds for projects, such as the \$1.4 million FY 2009-10 allocation for the Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) Federal matching grant program. Remaining funds may be allocated by the board to the other 21<sup>st</sup> Century programs including investments, loan enhancement, Centers of Energy Excellence, and the Choose Michigan Fund.

Under current law, the Michigan Strategic Fund is authorized to operate a Centers of Energy Excellence Program. The MSF board may allocate up to \$45.0 million from its appropriations from the 21<sup>st</sup> Century Jobs Trust Fund. In FY 2007-08, from the \$75.0 million appropriated from the 21<sup>st</sup> Century Jobs Trust Fund to the MSF, the MSF board allocated \$18.1 million to the Centers of Energy Excellence Program. In FY 2008-09, from 21<sup>st</sup> Century Jobs Trust Fund appropriations of \$52.9 million, the MSF

board allocated an additional \$24.9 million to the Centers of Energy Excellence Program. The remaining \$2.0 million of authorization for Centers of Energy Excellence has not been allocated to date.

The bill would retain the existing \$45.0 million limit on authorization for the Program for allocation through FY 2008-09 and authorize the MSF board to spend an additional \$30.0 million from the 21<sup>st</sup> Century Jobs Trust Fund appropriation for Centers of Energy Excellence for FY 2009-10 through FY 2010-11. If the MSF board supported the Centers of Energy Excellence pursuant to the authorization in the bill, then fewer resources would be available for allocation by the MSF board to other 21<sup>st</sup> Century programs, including loan enhancement, investment programs, and the Choose Michigan Fund.

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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.