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BILL ANALYSIS

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House Bill 5018 (Substitute H-2 as passed by the House)
Sponsor: Representative David Nathan
House Committee: Tourism, Outdoor Recreation and Natural Resources
Senate Committee: Finance

Date Completed: 2-11-10

CONTENT

The bill would enact Chapter 3A of the Michigan Strategic Fund Act to do the following:

- **Create the "Michigan Promotion Fund" for the promotion of tourism and business development.**
- **Require the Fund to be credited with the tourism-generated increase in sales and use tax collections (under tie-barred legislation).**
- **Require the Michigan Economic Development Corporation to commission a return-on-investment study every three years.**
- **Discontinue the distribution of sales and use tax revenue to the Fund if the study showed a return-on-investment ratio of less than one for one.**
- **When the Fund balance exceeded $40.0 million, require additional deposits to be used to fully fund statutory revenue sharing, and require any remainder to be deposited in the General Fund.**
- **Authorize the Michigan Promotion Fund to borrow money and issue notes.**

The bill is tie-barred to House Bills 5088 and 5089. (House Bill 5088 (H-3) would amend the Use Tax Act and House Bill 5089 (H-3) would amend the General Sales Tax Act to require the State Treasurer to deposit into the Michigan Promotion Fund the tourism-generated increase in the collection of the use and sales taxes, over the amounts collected in fiscal year 2009, from the sale of tourist-oriented goods and services. The deposit of sales tax revenue would have to be made after other allocations and distributions required under the General Sales Tax Act. Both bills also would require a portion of the Fund to be used to promote motor sports events at a facility with over 70,000 fixed seats.)

Specifically, House Bill 5018 (H-2) would create the Michigan Promotion Fund as a separate fund in the State Treasury, and require it to be administered by the Michigan Strategic Fund (MSF). The Michigan Promotion Fund would have to be used to promote economic development and job creation in the State through the promotion of tourism and business development. Not more than 25% of amounts credited to the Fund could be used to promote business development.

The State Treasurer would have to credit to the Michigan Promotion Fund all amounts designated for it by Chapter 3A, Section 21 of the Use Tax Act, and Section 25 of the General Sales Tax Act (the sections that House Bills 5088 (H-3) and 5089 (H-3) would amend). The State Treasurer would have to direct the investment of the Fund in the same manner as all other funds are invested, and credit to it the interest and earnings.

Money deposited, funds granted, or funds received as gifts or donations to the Fund would be available for disbursement when deposited. The Fund would not have to maintain a minimum balance. Money could be disbursed from the Fund at any time upon request by the MSF. Money in the Fund at the close of the year would remain in the Fund and not lapse to the General Fund.

If the balance of the Michigan Promotion Fund at the end of any fiscal year exceeded $40.0 million, adjusted annually for the rate of inflation, beginning with the first fiscal year after the balance reached that amount, additional revenue received under Chapter 3A for the following fiscal year would have to be used first to fully fund statutory revenue sharing. Any remaining funds would have to be deposited in the General Fund. Any amount in the Michigan Promotion Fund that was earmarked for debt service could not be included in determining its balance at the end of a fiscal year.

Beginning January 1, 2013, and then every three years, the Michigan Economic Development Corporation (MEDC) would have to commission a return-on-investment study with an independent private entity for the three preceding years. The study would have to be reported to the Legislature and the Governor by July 1 of that year. If the study were not reported as required, or if it showed that the funds disbursed under the Fund in the three prior years had a ratio of return on investment of less than one for one, then, beginning January 1 of the following year, the MSF could not distribute to the Fund amounts that otherwise would be credited to it.

The Michigan Promotion Fund could borrow money and issue notes to provide sufficient funds to achieve its purpose and objectives, including amounts necessary to pay the costs for promoting economic development and job creation through the promotion of tourism and business development, and for all other expenditures of the Fund incidental to and necessary or convenient to carry out its purposes, objectives, and powers.

The Fund could borrow money and issue notes as long as the amount in the Fund at the end of any fiscal year did not exceed its adjusted balance excluding any amounts earmarked for debt service.

The Fund would have the same borrowing powers as the MSF.

The powers and duties of the MSF under Chapter 3A would have to be exercised and performed by the MEDC as a joint exercise of power authorized under the Urban Cooperation Act, pursuant to the contractual interlocal agreement, effective April 5, 1999, between local participating economic development corporations formed under the Economic Development Corporations Act.

The bill includes the following statement: "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 creation of jobs resulting from this chapter shall accrue substantially within this state."

Proposed MCL 125.2038 & 125.2039 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would establish the Michigan Promotion Fund (MPF) and require it to be administered by the Michigan Strategic Fund. Revenue to the MPF would come from earmarked collections from sales and use taxes that otherwise would be directed to the General Fund and/or statutory revenue sharing. These earmarks are proposed in House

Bills 5088 and 5089, which are tie-barred to this bill. The MPF also could receive gifts and donations. The MPF would retain interest earnings on any balances and money in the Fund would not lapse to the General Fund at year-end, but would be carried forward. Money in the MPF would be available for disbursement when deposited and thus would not be subject to appropriation.

The bill would increase the funds available for tourism and business promotion by up to $40.0 million per year, the maximum that the MPF could retain. Local governments could potentially see an increase in revenue sharing payments if the balance of the MPF exceeded the inflation-adjusted balance of $40.0 million and the additional revenue were appropriated for statutory revenue sharing. Otherwise, the additional revenue would be directed to the General Fund.

The bill would require the Michigan Economic Development Corporation to determine the uses of the Fund, including tourism promotion, using up to 25% of the Fund for business development, and potentially borrowing money or issuing notes to fund projects consistent with the general purpose of the MPF, which would be economic development and job creation in Michigan through the promotion of tourism and business development.

The bill would require the MEDC to contract for a study of the return on investment from the promotional spending. The MEDC currently has a contract for estimating return on investment and assessing Michigan's image by conducting surveys of travelers at the end of the summer travel season. The cost of the current contract is $227,880, which covers a one-year study. Based on current practices, the three-year study required by the bill in 2013 would need to be completed with studies conducted each of the three years.

The Michigan Strategic Fund budget for FY 2009-10 (Public Act 128 of 2009) includes an appropriation for the Michigan Promotion Program of $5,402,800 from General Fund/General Purpose revenue.

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