

# Legislative Analysis



## 21st CENTURY JOBS AMENDMENTS: CENTERS OF INNOVATION PROGRAM

Mary Ann Cleary, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 5477 (Substitute H-1)**  
**Sponsor: Rep. Wayne Schmidt**  
**Committee: Commerce**

**Complete to 5-4-12**

### A SUMMARY OF HOUSE BILL 5477 AS REPORTED BY COMMITTEE

The bill would amend three sections of the Michigan Strategic Fund Act to make changes to the 21st Century Jobs Fund program.

#### *Centers of Innovation*

\*\* In 2008, the MSF Act was amended to allow for the operation of a Centers of Energy Excellence Program to promote the development, acceleration, and sustainability of "energy excellence sectors" in Michigan. House Bill 5477 would eliminate references to "Centers of Energy Excellence" and replace them with references to "Centers of Innovation."

Section 88q would now allow the MSF to create and operate a Center of Innovation Program to promote the development, acceleration, and sustainability of "competitive edge technology" sectors in the state.

In the MSF Act, "competitive edge technology" means one or more of the following: life sciences technology; advanced automotive, manufacturing, materials, information, and agricultural processing technology; homeland security and defense technology; alternative energy technology; and any other innovative technology as determined by the MSF board.

\*\* The act currently says that grants given for the Centers of Energy Excellence program can be awarded only to for-profit companies. House Bill 5477 would allow nonprofit companies, benefit companies, universities, and national laboratories to receive funding from the Center for Innovation Program, in addition to for-profit companies, and would also allow for loans and other economic assistance, in addition to grants.

\*\* Currently, funding must be used to match federal funding. House Bill 5477 would allow funds allocated to the Center for Innovation Program to be used to match federal, collaborative partners, or third party funding.

\*\* Funding is to be made now to accelerate the commercialization of an innovative technology or process that will be ready to market within three years. The bill would change that to within five years.

\*\* Now, no more than 15% of funding can be used for administrative costs or overhead by the awardee or any subcontractor. The bill would raise that to 25%.

\*\* Currently, agreements must contain a provision for repayment of grants from the Fund in the event a qualified entity fails to comply with the agreement. House Bill 5477 would specify, instead, that the agreement must contain the negotiation of specific claw-back and repayment provisions if performance to contract related to job creation, commercialization, or other metrics do not comply with the agreement. Such a provision would have to be part of the public record and would be subject to the Freedom of Information Act.

### ***Venture Capital Investment Program***

\*\* The bill would amend Section 88f, which deals with the Venture Capital Investment Program. Under this program, the MSF Board can authorize investments in or alongside a qualified venture capital fund that invests primarily in early state businesses. The bill would specify that the MSF Board can limit overhead rates for recipients of awards (qualified venture capital funds) to reflect actual overhead, administrative fees, and management fees, in an amount the Board determines. However, overhead rates could not exceed 25% of the award. Further, the bill says that start-up costs can be reimbursed as determined by the MSF Board.

Under the Venture Capital Investment Program, the return on investment sought is to be greater than the return on investment under the commercial loan portion of the Loan Enhancement Program to reflect the greater risk. The bill would specifically require the program to track actual return-on-investment performance comparison between the two kinds of investments on an ongoing basis in the annual report.

### ***Michigan Micro-Enterprise Loan Program***

As a separate and distinct part of the Loan Enhancement Program, the MSF would be required to operate the Michigan Micro-Enterprise Loan Program to invest in or make loans to qualified micro-enterprise lenders.

The bill defines a "qualified micro-enterprise lender" as an organization that currently administers a successful micro-enterprise loan program, making micro-enterprise loans to qualified micro-enterprise businesses, as determined by the MSF.

Guidelines for the program would have to include a provision that:

\*\* The person who borrows from the lender acts as a personal guarantor or provides a surety agreement for the loan.

\*\* The amount of a loan may not exceed federal Small Business Administration guidelines.

\*\* Requires a position of security on assets that are purchased through the loan program.

\*\* Requires consideration of the default rate of the qualified lender before approving loans under the loan program.

\*\* Prohibits the qualified lender from using funds from the loan program as a match for SBA loans.

\*\* Provides that the lender is not eligible to receive funds under the loan program if the lender has a loan loss reserve of 15% or less for the portfolio of loans under the Michigan loan program.

MCL 125.2088f and 2088q

### **FISCAL IMPACT:**

House Bill 5477 would have no fiscal impact on current appropriation levels. The bill would make certain changes that would restructure the "Centers for Energy Excellence" to "Centers of Innovation." Further, the bill would revise the expenditures authorized under the act for Centers of Innovation and administration of the program.

Legislative Analyst: Chris Couch  
Fiscal Analyst: Ben Gielczyk

---

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.