



Senate Fiscal Agency
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BILL ANALYSIS



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House Bill 4480 (Substitute H-3 as passed by the House)
House Bill 4481 (Substitute H-2 as passed by the House)
House Bill 4482 (Substitute H-5 as passed by the House)
Sponsor: Representative Tom Leonard (H.B. 4480)
Representative Harvey Santana (H.B. 4481)
Representative Frank Foster (H.B. 4482)

House Committee: Commerce
Senate Committee: Economic Development

Date Completed: 12-3-14

CONTENT

The bills would amend the Michigan Strategic Fund (MSF) Act.

House Bill 4480 (H-3) would codify and expand annual reporting requirements that apply to the MSF, and require some information to be posted on the MSF website.

House Bill 4481 (H-2) would provide for the MSF board's responsibilities regarding strategic economic investment and commercialization (consistent with a 2010 executive reorganization order that abolished the Strategic Economic Investment and Commercialization Board and transferred its responsibilities to the MSF board). The bill also would expand requirements regarding the competitive process to award grants and make loans for competitive edge technologies.

House Bill 4482 (H-5) would grant additional powers to the MSF.

House Bill 4480 (H-3) is tie-barred to House Bills 4481 and 4482 and to Senate Bill 271. House Bills 4481 (H-2) and 4482 (H-5) are tie-barred to House Bill 4480. (Senate Bill 271 would revise the Michigan Community Revitalization Program under Chapter 8C of the Act.)

House Bill 4480 (H-3)

MSF Annual Report

The Act requires the MSF to transmit an annual report of its activities to the Legislature. Under the bill, the report would have to be sent to each member of the Legislature, the Governor, the Secretary of the Senate, the Clerk of the House, and the Senate and House Fiscal Agencies. The report would have to be transmitted by April 10 of each year for activities in the immediately preceding State fiscal year.

The Act requires the report to include information on the name and location of all applicants, amount and type of financial assistance requested, type of project or product financed, number of net jobs created or retained, duration of financial assistance, and amount of financial support other than State resources, as well as the status of any loans of the Fund, excluding industrial development revenue loans, that are in default. The bill would

delete those requirements and would require the report to include at least all of the following for each program operated under the Act:

- A list of entities that received financial assistance.
- The type of project or product being financed.
- The amount and type of financial assistance
- The duration of the financial assistance.
- The amount of financial support other than State resources.
- Money or other revenue or property returned to the MSF, including any repayments through a clawback provision in the agreement.
- The status of all MSF loans.
- A summary of the approximate administrative costs used to administer the programs and activities authorized under the Act.
- Any other required information.

The bill also would require the report to include all of the following, for each separate form of financial assistance under the Act:

- The number of new jobs committed or promised at the time of application for the financial assistance.
- The number of retained jobs committed or promised at the time of application for the financial assistance.
- The actual number of full-time jobs created that were not temporary or contract employees.
- The actual number of full-time retained jobs that were not temporary or contract employees.
- The average annual salary of the new jobs created that were not temporary or contract employees.
- The average annual salary of the retained jobs that were not temporary or contract employees.
- A copy of the agreement entered to receive any financial assistance and any revisions to that agreement.

In addition, the report would have to include a list of all entities that were in bankruptcy, for which the MSF had received actual notice, filed by a direct recipient of a single incentive of at least \$500,000. Within 120 days after receiving notice, the MSF also would have to post a report of the notice of bankruptcy on its website and forward the report to each of the following:

- The Senate Majority Leader and the Senate Minority Leader.
- The Speaker of the House and the House Minority Leader.
- The members of the House Commerce Committee.
- The members of the House Appropriations Subcommittee on General Government.
- The members of the Senate Economic Development Committee.
- The members of the Senate Appropriations Subcommittee on General Government.

Additional Information in the Report

21st Century Investments. The bill would require the MSF annual report to contain all of the following that were related to an investment made by the MSF board under Chapter 8A (21st Century Investment Programs and Activities) of the Act:

- The amount of qualified Venture Capital Fund investments, qualified Mezzanine Fund investments, and qualified Private Equity Fund investments under management in Michigan, including year-to-year growth.

- The value of Loan Enhancement Program investments, qualified Private Equity Fund investments, qualified Mezzanine Fund investments, and qualified Venture Capital Fund investments in qualified businesses, including year-to-year growth.
- A statement of the amount of money in each loan reserve fund established under the Small Business Capital Access Program under Chapter 8A.

Michigan Business Development. The bill would require the MSF annual report to include all of the following for all actions under Section 88r of the Act (the Michigan Business Development Program):

- The total actual amount of qualified investment attracted under Section 88r, as reported to the MSF.
- The total actual number of new jobs created, as reported to the MSF.
- The actual amount of the grant, loan, or other economic assistance made, separately for each qualified business verified by the MSF.
- For each qualified business, whether it was a new business, an expansion of an existing business, or a business that relocated from outside of Michigan.
- An evaluation of the aggregate return on investment that Michigan realized on the actual qualified new jobs and actual qualified investment made by qualified businesses.

Michigan Promotion. The MSF annual report would have to include all of the following for all actions under Chapter 8B (Michigan Promotion Program) of the Act:

- For tourism promotion efforts, an itemized list by market of how much was spent, when the promotion occurred, and the types of media purchased; and the return on investment analysis that used existing baseline data and compared results with prior outcome evaluations funded by Travel Michigan.
- For business development efforts, an itemized list by market of how much was spent, when the promotion occurred, and the types of media purchased; and a performance analysis comparing the program or campaign objectives and outcome of the campaign or program.

Community Revitalization. The MSF annual report would have to include all of the following for all actions under Section 90d of the Act (Community Revitalization Loans):

- The total actual amount of private investment attracted under Section 90d, as reported to the MSF.
- The actual amount of the community revitalization incentives made under Chapter 8C (Community Revitalization Program), separately for each project.
- The total actual amount of square footage revitalized or added for each project approved under Section 90d, as reported to the MSF, by category, including commercial, residential, or retail.
- The aggregate increase in taxable value of all property subject to a written agreement under Chapter 8C when established and recorded by local units of government, as reported to the MSF.
- The total actual number of residential units revitalized or added for each project approved under Section 90d, as reported to the MSF.
- Each project that received a community revitalization incentive outside the MSF program standards and guidelines and why the variance was given.
- A summary of the projected and actual aggregated taxpayer return on investment of each eligible investment that received a distribution in the reporting period.

Beginning on January 1, 2012, on a monthly basis the MSF would have to provide exact copies of all information regarding all actions under Chapter 8C that was provided to MSF board members for purposes of monthly board meetings, subject to confidentiality restrictions, to the chairperson and minority vice-chairperson of each of the following:

- The House Commerce Committee.
- The House Appropriations Subcommittee on General Government.
- The Senate Economic Development Committee.
- The Senate Appropriations Subcommittee on General Government.

The MSF also would have to post that information on its website.

Administrative Costs. The MSF annual report would have to include the actual administrative costs, and those costs as a percentage of total costs, used to administer the following programs:

- Programs created and operated under Chapter 8A.
- The Jobs for Michigan Investment Fund.
- The Michigan Community Revitalization Program.

Business Incubators. The MSF annual report would have to include all of the following for all actions for business incubators approved by the MSF after the bill's effective date:

- The number of new jobs created and projected new job growth by current clients of the business incubator.
- Amounts of other funds leveraged by current clients of the business incubator.
- Increases in revenue for current clients of the business incubator.

Failure to Comply with Agreement. The MSF annual report would have to include the actual repayments it received for failure to comply with provisions of the written agreement for various programs administered by the MSF.

Financial Assistance

Beginning on January 1, 2014, the MSF would have to post on its website a copy of each contract, agreement, or other written loan or grant documentation for financial assistance under the Michigan Business Development Program and the Michigan Community Revitalization Program that the MSF entered into or modified in the immediately preceding year. The MSF also would have to post and update periodically all of the following for all loans made under those programs:

- A description of the project for which the loan was made.
- The total amount of the loan.
- The outstanding balance of the loan.
- Whether payments on the loan balance were current or delinquent.
- The interest rate of the loan.

Beginning on January 1, 2014, the MSF annual report would have to contain all of the following for each program that provided financial assistance under the Act and that required a site visit:

- A copy of the site visit guidelines for the program.
- The number of site visits conducted under the program.
- The number of site visit reports that the MSF audited to ensure compliance.

The MSF would have to post all of that information on its website and update it periodically.

For purposes of all of the reporting requirements described above, "financial assistance" would mean grants, loans, other economic assistance, and any other incentives or assistance under the Act.

House Bill 4481 (H-2)

Chapter 8A created the Strategic Economic Investment and Commercialization Board within the MSF. Executive Reorganization Order (ERO) 2010-4 abolished the Commercialization Board and transferred all of its powers and responsibilities to the MSF board.

The Commercialization Board was required to exercise its powers, duties, and decision-making authority under Chapter 8A independently of the MSF, the MSF board, and the Department of Treasury. The bill specifies that that authority applied through October 17, 2010, and that, beginning October 18, 2010 (the effective date of ERO 2010-4), the MSF board would have to exercise all powers, duties, and decision-making authority of the Strategic Economic Investment and Commercialization Board.

Chapter 8A requires the MSF to establish a competitive process to award grants and make loans for competitive edge technologies, and specifies provisions that the competitive process must include. Among those is a provision that the program will use contracts with measurable milestones, clear objectives, provisions to revoke awards for breach of contract, and repayment provisions for loans given to qualified businesses that leave Michigan within three years of the execution of the contract or that otherwise breach the terms of the contract. Under the bill, the competitive process also would have to include provisions to revoke awards for failing to meet measurable milestones, and provide for repayment of grants for breach of contract or for failing to meet measurable outcomes. The loan repayment provisions also would apply to qualified businesses that failed to meet measurable outcomes.

House Bill 4482 (H-5)

Under the bill, in addition to the powers and duties provided in the Act, the MSF also would have the power to do the following:

- Procure goods and services, purchase and sell real and personal property, and lease property independent of any other State department or agency.
- Appoint any individuals, including MSF and Michigan Economic Development Corporation employees, to boards to represent the interests of the MSF.
- Establish and operate a Job Training Fund that would support the training of workers for Michigan businesses as determined by the MSF.
- Establish and operate a Brownfield Historic Investment Program that would provide capital for projects, as determined by the Fund.
- Take necessary and reasonable steps to pursue repayment of funds disbursed for any grant or loan for failure to comply with provisions of a written agreement, as required under the Business Development Program and the Community Revitalization Program.

The bill also would repeal Section 89d of the Act, which requires an annual report to the Legislature regarding the MSF's tourism promotion and business development efforts. (Reporting on those efforts would be included in the MSF annual report under House Bill 4480 (H-3).)

MCL 125.2009 & 125.2088c (H.B. 4480)
125.2088k & 125.2088n (H.B. 4481)
125.2007 (H.B. 4482)

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

House Bill 4480 (H-3)

The bill could have a minimal fiscal impact on the Michigan Strategic Fund as a result of the consolidation of the reporting requirements which traditionally have been contained in budget legislation. There could be a saving to the Fund in administrative costs as a result of efficiencies that resulted from the inclusion of all reporting requirements into a single section. Any cost savings are indeterminate, but would be negligible.

Additionally, the bill could result in a cost to the MSF as a result of the posting of required information on the Fund's website. Any costs to the Fund would depend on whether the Fund currently has the staff and technology in place to perform this function. Technology enhancement costs would depend on whether any system upgrades would become necessary. If additional personnel were needed to perform these required tasks under the bill, the current Statewide average for salary and benefits for a State classified employee is \$85,000 Gross, \$45,000 General Fund per FTE equivalent.

House Bill 4481 (H-2)

The bill would have no fiscal impact on State or local government.

House Bill 4482 (H-5)

The bill would not have a fiscal impact on the MSF's funding; however, the expanded authority granted to the Fund under the bill could affect how funds are distributed and spent by the Fund. Programs and entities currently receiving funds from the MSF could be affected by the expanded authority if it resulted in smaller grants and loans for those entities.

Fiscal Analyst: Joe Carrasco

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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.