HOUSE FI$CAL AGENCY

Legislative Analysis

DETROIT REGIONAL CONVENTION FACILITY AUTHORITY PUBLIC-PRIVATE ARRANGEMENTS AND CONVENTION FACILITY DEVELOPMENT FUND DISTRIBUTIONS

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Senate Bills 1222 and 1223 as passed by the Senate
Sponsor: Sen. Wayne Schmidt
House Committee: Tax Policy
Senate Committee: Economic and Small Business Development [Discharged]
Complete to 12-6-22

(Enacted as Public Acts 275 and 276 of 2022)

SUMMARY:

Senate Bills 1222 and 1223 would amend different acts related to convention facilities. Among other things, the bills would allow a regional convention facility authority to enter into a public-private arrangement, make other changes related to the powers of such an authority, and revise the distribution of money from the Convention Facility Development Fund.

Senate Bill 1222 would amend the Regional Convention Facility Authority Act. That act created the Detroit Regional Convention Facility Authority[1] in Wayne, Oakland, and Macomb Counties, which is responsible for overseeing the development, ongoing management, and operation of Huntington Place (formerly Cobo Hall). The authority has various powers under the act it can exercise to implement the act's purposes and provisions. The bill would add to these powers the ability to enter into a ***public-private arrangement***.

> ***Public-private arrangement*** would mean an agreement between an authority and a private entity that relates to researching, planning, studying, designing, developing, financing, acquiring, constructing, renovating, operating, maintaining, or charging rent or other fees for a convention facility.

In addition, the act currently prohibits the authority from expending more than $279.0 million to develop an expanded or renovated convention facility. The bill would eliminate this cap.

The bill also would amend the definition of ***convention facility*** to include bicycle paths, plazas, green space, and roads necessary or convenient for use in connection with the facility.

Finally, the act now defines ***qualified city*** as a city with a population of more than 700,000 according to the most recent decennial census that contains a qualified convention facility. The bill would change this population threshold to 550,000 according to the most recent census.

MCL 141.1355 et seq.

Senate Bill 1223 would amend the State Convention Facility Development Act change the distribution of money from the Convention Facility Development Fund and to make other changes complementary to Senate Bill 1222.

[1] https://www.michigan.gov/whitmer/appointments/oma/all/1/detroit-regional-convention-facility-authority

The act imposes an excise tax on any person engaged in the business of providing accommodations to transient guests in a ***convention hotel***. The revenue from this tax is deposited in the Convention Facility Development Fund. Collections from certain other sources, including a 4% specific tax on spirits,[2] are also deposited in the fund. Money from the fund is disbursed and must be used in accordance with the act.

> ***Convention hotel*** means a facility used in the business of providing accommodations that has more than 80 rooms for providing accommodations to transient guests and that complies with both of the following:
> - It is located within a county with a population of 700,000 or more according to the most recent decennial census.
> - It is located within a county that is either or both of the following:
>   - A county that has a convention facility with 350,000 square feet or more of total exhibit space.
>   - A county that has 2,000 or more rooms to provide accommodations for transient guests.

Public-Private Arrangements

Currently, the act requires distributions from the fund to qualified local governmental units to equal the collection of taxes that are deposited into the fund. However, the distributions cannot exceed the amount the local unit has pledged, assigned, or dedicated for the payment of bonds, obligations, or other evidences of indebtedness incurred under the act or under the Regional Convention Facility Authority Act during that fiscal year plus operating deficit cost expenditures and other expenditures authorized by the act.

The bill would amend the above provisions to exclude operating deficit cost expenditures and other expenditures from the calculation of the disbursement amount. The bill also would provide that this amount does not include payments under a public-private arrangement.

In addition, the act requires the money remaining in the fund after all other disbursements to be distributed to a metropolitan authority that is a qualified local governmental unit (i.e., the Detroit Regional Convention Facility Authority) to be used for the retirement of outstanding bonds, obligations, or other evidences of indebtedness for which other distributions under the act are pledged. The bill would allow this disbursement to be used for capital expenditures, including payments to public-private arrangements.

The act currently allows a local governmental unit to assign or pledge all or a portion of the distribution of taxes it is eligible to receive under the act for the payment of bonds, obligations, or other evidences of indebtedness for related to convention facilities or general fund expenditures. If funds are pledged to a specific purpose, the state treasurer may transmit the assigned distribution to the trustee or trustees appointed by the local unit for that purpose. The bill would additionally allow local governmental units to assign or pledge their distribution of taxes for payments under a public-private arrangement.

Under the act, a metropolitan authority that became a qualified local governmental unit after December 1, 2008, cannot issue bonds, obligations, or other evidences of indebtedness to

[2] See http://legislature.mi.gov/doc.aspx?mcl-436-2207

which distributions under section 9 of the act are pledged in order to finance a total cost for all projects under taken by the unit exceeding $299.0 million. The bill would specify that the aggregate principal amount of these obligations cannot exceed $299.0 million and that this cap does not include payments under a public-private arrangement.

Other Changes

The act requires that distributions from the fund be made to counties in amount equal to the amount of the liquor tax collections deposited in the fund in the immediately preceding fiscal year multiplied by 1.01. Under the bill, the distributions to counties for fiscal years 2022-23, 2025-26, 2028-29, 2031-32, 2034-35, and 2037-38 would have to be equal to the amount of liquor tax collections from the immediately preceding fiscal year.

The act currently requires that, for fiscal years 2019-20, 2020-21, and 2021-22, up to $5.0 million from revenue remaining in the fund after these and certain other disbursements be distributed to the operator of a street railway system (the QLine in Detroit).[3] The bill would extend these disbursements through FY 2038-39.

Under the act, if the governing body of a taxing unit approves an additional millage rate under section 24e of the General Property Tax Act[4] due to distributions from the fund, the unit must use an amount equal to 50% of the distribution under this section for substance abuse treatment within the unit. Under the bill, the amount required to be used for substance abuse treatment would be not less than either 40% of the distribution or the amount used for substance abuse treatment within the unit in the fiscal year ending September 30, 2022.

Finally, the bill would eliminate a cap on the issuance of bonds, obligations, and other evidences of indebtedness by building authorities that became a qualified local governmental unit after May 1, 2009.

MCL 207.623 et seq.

FISCAL IMPACT:

The bills would result in distributional changes from the Convention Facility Development Fund (CFDF),[5] as described below.

Convention Facility Authority

The bills would allow for additional bond issuances and capital expenditures associated with the Huntington Place convention facility. Currently, any funds exceeding the distributions to the convention authority for debt service, the convention facility operational deficit payment, distribution to counties, and any other statutorily directed distributions are dedicated to early payoff of the existing bonded indebtedness on the convention facility. Some portion of the funds currently used for early payoff of existing bonds would be redirected to the expanded uses under the bills, assuming actions are taken to start new capital expenditures under the bills' provisions. Existing expenditure and bond caps would be lifted and replaced with a cap

[3] http://legislature.mi.gov/doc.aspx?mcl-125-4507
[4] http://legislature.mi.gov/doc.aspx?mcl-211-24e
[5] For additional historical information on the CFDF, see here.

on the aggregate principal amount of bonds, obligations, or other indebtedness, which would allow new debt issuances for capital expenditures in future years.

According to the distribution schedule for FY 2020-21 (the most recent information available),[6] $9.4 million was distributed for debt service, $8.0 million was statutorily required to be distributed for convention facility authority operations, and $25.2 million was used for early payoff of bonded indebtedness.

Pursuant to statute, any debt service associated with Huntington Place receives the first distribution.

Counties

Counties would receive an increase in distributions under the bills relative to current law. Per statute, beginning in FY 2015-16, county payments were reduced to an amount equal to the total tax collected from the 4% liquor excise tax and distributed to all counties in FY 2014-15 multiplied by 101%, with a 1% increase in subsequent years.

The bills' provisions resetting the county distributions to actual collections would significantly increase distributions to counties in FY 2022-23 (the first year distributions are reset under the bill). For example, in FY 2020-21 (the last year of data available), county distributions totaled $52.4 million. Liquor excise tax collections associated with the CFDF totaled $77.0 million. Based on recent revenue estimates, counties could realize an increase in distributions of approximately $25.0 million in FY 2022-23. In the subsequent two years, counties would receive 1% growth off of the FY 2022-23 distribution. Counties would have distributions reset to actual collections every third year through FY 2037-38, with 1% growth in the intervening years. It should be noted that the reset every three years could also result in lower distributions in future years if liquor excise tax collections fell.

Lastly, the bills' funding floor requirements for substance abuse treatment expenditures from the county distribution ensure that substance abuse expenditures would not fall below the FY 2021-22 amount. With the projected increase in FY 2022-23 county distributions under the bills, the alternative funding floor of 40% of the county distribution likely would result in a nominal increase for substance abuse even though the amount required to be spent on substance abuse treatment would be lowered to 40% from 50%.

QLine Street Railway System

The bill would continue the annual $5.0 million distribution to the QLine street railway system in Detroit through FY 2038-39, as long as sufficient funding remained after distributions to the authority for debt service, costs associated with any public-private arrangement, and distributions to counties. This distribution was scheduled to end in FY 2021-22 under current law. The distribution began in FY 2019-20.

Generally, the expanded uses and increased distributions listed above and elimination of the bond and project cap presumably would reduce the amount available annually for early payoff of existing bonded indebtedness on Huntington Place. Under current law, the accommodations tax and liquor excise tax imposed to fund the CFDF would not be levied after December 31, 2039, or 30 days after all bonds, notes, or other obligations issued by the authority are retired.

[6] Historical distributions from the fund can be found here.

Current distributions allowed for significant contributions to make advance payments on existing bonds, which presumably would have resulted in bonds being paid off prior to 2039. The broadening and expansion of distributional uses, including allowing the authority to issue new bonds, would extend the projected end date of the tax levies by an unknown number of years, but not beyond the current statutory end date of December 31, 2039. A current estimate of the existing bond payoff date does not exist because it would depend on available revenue in the fund in any given year.

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