

Legislative Analysis



REGIONAL CONVENTION FACILITY AUTHORITY

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House Bill 5690

Sponsor: Rep. Morris Hood, III

House Bill 5691

Sponsor: Rep. Paul Condino

House Bill 5692

Sponsor: Rep. Edward Gaffney, Jr.

Committee: Regulatory Reform

Complete to 6-26-08

A SUMMARY OF HOUSE BILLS 5690-5692 AS INTRODUCED 2-6-08

House Bill 5690 would create a new act, the Regional Convention Facility Authority Act. Under this act, the City of Detroit and Wayne County could jointly create an authority and then the ownership of the Cobo Conference/Exhibition Center could be transferred to the authority by resolution of the current owner, the City of Detroit.

The local legislative body would have 90 days after the authority is created to transfer the "right, title, interest, and ownership" of the facility. If the local legislative body does not approve the transfer by that deadline, the authority would be dissolved.

The area of the authority would appear to consist of Wayne County, Oakland County, and Macomb County. Once the authority is formed, a city or county could become a member by means of a resolution requesting membership approved by a majority of its legislative body and a resolution approving membership adopted by two-thirds vote of the authority governing board.

There are two tie-barred bills:

House Bill 5691 would make the authority a local governmental unit under the State Convention Facility Development Act, so that the authority would become the recipient of tax revenues under that act. Among other provisions, House Bill 5691 would extend the sunset for the tax from 2015 to 2022. The authority, under House Bill 5690, could make payments to counties to compensate for diminished payments under Section 10 of the State Convention Facility Development Act, resulting from increased disbursements under Section 9 to pay for obligations of the authority. The authority could establish a trust and place all or a portion of such payments into the trust in lieu of full immediate payments to entitled counties. (See Fiscal Impact section later in the summary.)

House Bill 5692 would amend the General Sales Tax Act so that the convention facility could become a "sales-tax-free zone."

Specifically, House Bill 5690 refers to a "qualified city," a "qualified county," and a "qualified convention facility." A qualified city is one with a population of more than 300,000. A qualified county is one with a population of more than 700,000 that contains a qualified city. A qualified convention facility is a publicly owned convention facility with at least 600,000 square feet of usable exhibition area and located in a qualified county.

The bill describes the area of the authority as consisting of the qualified county in which the facility is located and each county bordering on the qualified city or, if none, then the county bordering the qualified county with the greatest population among bordering counties.

Authority Board. The authority would be directed and governed by a board consisting of an odd number of board members. One member would be appointed by the governor; three members by the chief executive officer of the qualified city (the mayor of Detroit), one of which would be a representative of the convention and tourism industry; one member by the chief executive officer of a qualified county (the Wayne County executive); and one member each by chief executive officers of other participating counties (e.g., Oakland and Macomb county executives). If an additional member is needed to reach an odd number, that member would be appointed jointly by the local chief executives. Board terms would be four years, although initial terms would be staggered from one to three years.

Chief Executive Officer. The board could appoint a chief executive officer by majority vote of those serving; the CEO would serve at the pleasure of the board. The CEO would supervise and be responsible for the day-to-day operation of the convention facility, including, among other things, the issuance of board-approved bonds, the compensation and terms of employment of employees, the supervision and enforcement of contracts and contractors. The CEO could appoint a chief financial officer, who could serve as treasurer of the authority.

Bonding/Borrowing. The authority could issue self-liquidating bonds under the terms of the Revenue Bond Act. Revenue bonds would not be a debt of any county or city, or of the state. The authority could borrow money and issue municipal securities under the terms of the Revised Municipal Finance Act. Debt would be tax-exempt.

Legislative Finding. The bill contains a finding, as follows:

The Legislature finds that there exists in this state a continuing need for programs to promote tourism and convention business in order to assist in the prevention of unemployment and the alleviation of the conditions of unemployment, to preserve existing jobs, and to create new jobs to meet the employment demands of population growth and that, to achieve these purposes, it is necessary to assist and encourage local units of government to acquire, construct, improve, enlarge, renew, replace, repair, finance, furnish, and equip regional convention facilities and the real property on which they are located, to refinance these activities, and

to enter into contracts and procure services necessary and appropriate for the development and ongoing management and operation of regional convention facilities.

The following are among other provisions in the bill.

** Public Hearings would be required before local governments could incorporate an authority.

** An authority would be a public body corporate with power to sue and be sued and would be considered an agency and instrumentality of the state. It would possess all the powers necessary to carry out the purposes of its formation and all things incident to carrying out the purposes of its formation. Its property and income would be tax exempt, and its bonds and other indebtedness would be free and exempt of all taxation, except transfer and franchise taxes.

** The board of the authority could establish a sales-tax-free zone, where sales of tangible property would be exempt from sales tax. The zone could not exceed the boundaries of the convention facility. As mentioned earlier, House Bill 5692 would make the necessary complementary amendment to the General Sales Tax Act.

** The transfer of the real and personal property and operational jurisdiction over a convention facility to the authority could not in any way impair any contracts with licensees, franchisees, vendors, tenants, bondholders, or other parties in privity with the transferring local government, so long as those contracts were not entered into or modified in violation of the act.

** After the transfer, the transferring local government would be relieved of all further costs and responsibilities associated with the convention facility, except that if in any fiscal year the authority's funds are not sufficient to pay costs of operating and maintaining a convention facility, the local government will be responsible for the difference between costs and revenues. In addition, the local unit will continue to be responsible for all costs of municipal services, such as police, fire, and emergency medical services, without additional compensation from the authority.

** The authority, as of the transfer date, would have to assume and be bound by any existing collective bargaining agreements for employees of the local government whose employment is transferred to the authority. Employees would continue to have the same bargaining representatives (although this would not limit the right of employees to assert otherwise under existing labor law). The rights and benefits protected in the act could be altered by future collective bargaining agreements or, for employees not covered by collective bargaining agreements, by future benefit plans adopted by the authority.

** Transferred employees would not by reason of the transfer have their accrued local government pension benefits or credits diminished. Non-vested employees would have their post-transfer service credited toward vesting in the prior system but would not be

credited for any other purpose. Transferred employees would remain in the local unit's retirement system until the authority has established its own system. Moreover, transferring employees could stay in that system rather than joining the authority's system if the local unit's system allows for continuing participation.

** Employees not transferred would be reassigned within the transferring local government, following the terms of any collective bargaining agreement.

** The authority board could by resolution establish a Convention Facility Operating Trust Fund to accumulate funds to pay the costs of operating and maintaining a convention facility. The resolution would designate the Fund's investment fiduciary. The bill lists the potential sources of revenue, including rents, admission fees, and other charges for the use of the facility; grants, loans, appropriations, or contributions from government or other public and private sources; proceeds from the sale, mortgage, or lease of property; distributions from the Convention Facility Development Fund; and investment earnings. Revenues raised could be pledged, in whole or in part, for the repayment of bonded indebtedness and other expenditures issued or incurred.

** The authority could, but would not be required to, accept the transfer of ownership or operational jurisdiction of other convention facilities within the area of the authority.

** The property of the authority and its incomes and operations would be exempt from taxes and special assessments. However, property leased to private persons would not be tax-exempt.

** The legislative body of any local government within the area of the authority would be authorized to (1) pledge its full faith and credit behind any obligation or evidence of indebtedness of the authority; (2) advance funds to the authority for working capital and other purposes; (3) appropriate and grant funds to the authority; (4) grant and convey real or personal property to the authority; and (5) enter into cooperative agreements with the authority.

FISCAL IMPACT:

House Bills 5690 and 5691..Under current law, the debt service payments for Cobo Hall are paid from the Convention Facility Development Fund. This fund was established by the State Convention Facility Development Act, PA 106 of 1985. Its purpose is to help local governments finance convention facilities in their area.

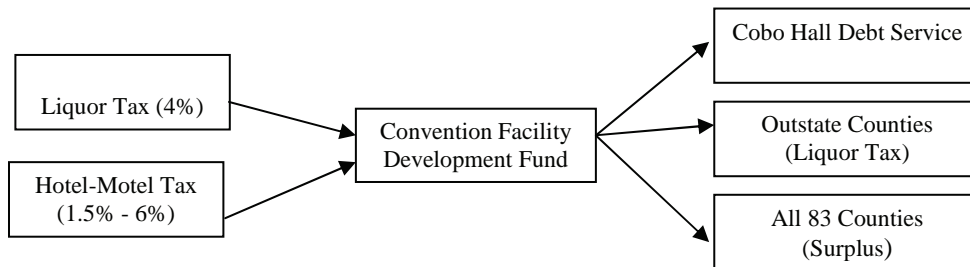
There are two sources of revenues deposited into the fund. The first is the Tri-County Accommodations Tax which is a hotel occupancy tax levied in Wayne, Oakland, and Macomb counties. The tax, established in the Convention Facility Development Act, imposes a 1.5% tax on hotels with 81 to 160 rooms (3% in Detroit) and a rate of 5% on hotels with more than 160 rooms (6% in Detroit). The second revenue credited to the fund is from a 4% liquor excise tax imposed under the Liquor Control Code of 1998

(MCL 436.2207). In FY 2008, approximately \$58 million is expected to be deposited into the Fund from these two taxes.

Current law provides that the first collections of the Convention Facility Development Fund are to be distributed to the City of Detroit for the annual debt service payments on bonds issued to renovate and expand Cobo Hall. (The latest series of bonds was issued in 2003, and has final maturity date of 2015.) In FY 2008, the Fund will pay \$16.2 million for Cobo Hall debt service payments. Any amount remaining in the fund at the end of the fiscal year is to be distributed as follows:

- The annual increase in the accommodation tax revenue compared to the prior fiscal year is paid to the City of Detroit to retire Cobo Hall bonds early.
- The amount of the four percent liquor tax collected in the 80 "outstate" counties is paid to those counties based on proportionate share of each county's liquor tax collections.
- The remaining funding is distributed to all 83 counties based on the amount of liquor tax collected in each county. Detroit's liquor tax collections are excluded from the Wayne County total for this calculation.

Convention Facility Development Fund Sources and Distribution



The Cobo Hall bonds are expected to be repaid by September 30, 2015. During the years 1985 to 2006, approximately \$375 million of the \$800 million collected in the Convention Facility Development Fund has been used to pay the debt service payments on the Cobo Hall bonds.

House Bill 5691 would extend the sunset on the Accommodation Tax until December 31, 2022. Under current law, both the 4% Liquor Excise Tax and the Accommodation Tax sunset on December 31, 2015. Under the provisions of House Bill 5691, the Accommodation Tax would be continued to be collected for an additional 7 years. (This tax generated \$18.6 million in FY 2006.) If a regional convention authority was created and the ownership of the Cobo Conference/Exhibition Center was transferred to the

authority, then these bills would allow the new authority to receive funding to pay the Cobo Hall debt service payments.

Convention Facility Development Fund Debt Service Payments

Fiscal Year	Debt Service	Special Payments	Total
2000	\$16,285,528	\$1,530,217	\$17,815,745
2001	\$16,268,203	\$0	\$16,268,203
2002	\$16,278,163	\$0	\$16,278,163
2003	\$16,217,213	\$0	\$16,217,213
2004	\$16,217,163	\$94,087	\$16,311,250
2005	\$16,216,680	\$71,399	\$16,288,079
2006	\$16,216,278	\$1,365,465	\$17,581,742

Source: Department of Treasury – Economic and Revenue Forecasting Division

House Bill 5692: The bill would reduce sales tax revenue by an unknown amount. Approximately 73 % of sales tax revenue goes to the School Aid Fund and an additional 10 % is earmarked for constitutional revenue sharing. Smaller amounts are earmarked to the Comprehensive Transportation Fund and various health initiatives.

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■ 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.