



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 556 (Substitute S-1 as reported by the Committee of the Whole)
Sponsor: Senator John Proos
Committee: Economic Development

CONTENT

The bill would amend Chapter 8A (21st Century Investment Programs and Activities) of the Michigan Strategic Fund (MSF) Act to do the following:

- Require the MSF to create the Michigan Business Development Program to provide economic assistance to businesses making investments or providing jobs in Michigan.
- Require the Program to provide grants, loans, and other economic assistance to qualified businesses.
- Limit the amount a qualified business could receive for a project in a fiscal year to \$10.0 million.
- Require the Program to provide for a detailed application, approval, and compliance process and make it available on the MSF website.
- Specify requirements for a written agreement between the MSF and a qualified business, including a repayment provision that would apply if the business did not comply.
- Require the MSF to establish background check policies regarding qualified businesses applying for assistance.
- Require an annual report to the Legislature regarding activities authorized under the bill.

The bill also would amend the Act to:

- Allow the MSF president to authorize grants, loans, or other economic assistance of up to \$1.0 million under the Michigan Business Development Program.
- Authorize the MSF to spend or invest 21st Century Jobs Trust Fund money for the Michigan Business Development Program and the community revitalization incentives (proposed by Senate Bills 567 and 568).
- Delete percentage restrictions on expenditures from the 21st Century Jobs Trust Fund.
- Authorize the MEDC to charge fees associated with loans under Chapter 8A.
- Include in the Jobs for Michigan Investment Fund any funds appropriated for programs under Chapter 8A.

MCL 125.2005 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would expand the allowable 21st Century Jobs Trust Fund programs by establishing the Michigan Business Development program to replace the Michigan Economic Growth Authority (MEGA) credits that will no longer be awarded after December 31, 2011. The bill also would increase the flexibility of the Michigan Strategic Fund (MSF) board to allocate appropriations among the allowable programs.

Under current law, the MSF board is authorized to allocate appropriations from the 21st Century Jobs Trust Fund among programs subject to conditions and earmarks included in

statute and the annual budget. The statute limits allocations to various programs to not more than 25% for loan enhancements, not more than 40% for investment programs, and not more than 70% for competitive edge technology grants and loans. The bill would eliminate these constraints. It would allow the MSF board to determine the allocation of funds from the 21st Century Jobs Trust Fund among those programs, tourism promotion, other programs authorized under Chapter 8A, the Michigan Business Development Program that would be created by the bill, and the Michigan Community Revitalization Program that would be created in Chapter 8C of the MSF Act by Senate Bills 566, 567, and 568.

The FY 2011-12 budget for the MSF (in the General Government budget within Article VIII of Public Act 63 of 2011), includes \$100.0 million in FY 2011-12 for business attraction and economic gardening. This total funding consists of several sources: \$25.0 million from the 21st Century Jobs Trust Fund and \$25.0 million GF/GP appropriated in a traditional line item, and \$50.0 million GF/GP appropriated in Section 1201 and characterized as one-time funding. These funds are available in FY 2011-12 for allocation by the MSF board between the Michigan Community Revitalization Program and the Michigan Business Development Program. Section 1024 of Public Act 63 of 2011 requires that at least \$20.0 million be used for brownfield and historical preservation grants, which would be funded under the proposed Michigan Community Revitalization program.

Appropriations for any 21st Century program under Chapter 8A, including the proposed Michigan Business Development Program, would be redirected by the bill from the 21st Century Jobs Trust Fund, or the General Fund, as applicable, for deposit into the Jobs for Michigan Investment Fund, a permanent fund under the control of the MSF board. Interest earnings on the Investment Fund remain in that Fund, while interest earnings on the 21st Century Jobs Trust Fund accrue to the General Fund; thus, there would be a small revenue loss to the General Fund due to foregone interest earnings. The amount would depend on the share of appropriations allocated to programs under Chapter 8A (as opposed to the Community Revitalization Program under Chapter 8C) and the interest earned on the State's common cash fund. The current interest rate on common cash is quite low, approximately 0.1%. If interest rates increase, the loss to the General Fund would become more significant. If the balance in the Investment Fund were increased, the interest earnings on the balance would increase and those earnings would be available for appropriation.

The proposed Michigan Business Development Program would provide financial assistance to eligible businesses that make investments or create jobs in the state. Assistance to a business would be limited to a maximum of \$10.0 million in any fiscal year. Awards of more than \$1.0 million would be subject to approval by the MSF board; authority to approve awards of \$1.0 million or less would be delegated to the MSF president. The MSF board adopted program guidelines for the proposed Program at its meeting on August 24, 2011.

The MSF would experience increased costs from additional administrative responsibilities, including establishing and conducting the Business Development Program, verifying businesses' compliance with the written agreements, completing background checks, and verifying the creation of qualified new jobs. Resources available for paying for these additional costs would include the allocation of up to 4% of the annual appropriations from the 21st Century Jobs Trust Fund, fee revenue paid by program participants, and the MSF's annual appropriation for Job Creation Services which funds the classified staff of the agency.

The Michigan Business Development Program would continue State support for selected local economic development projects after MEGA credits are no longer issued. Local governments with projects in their communities would be required to provide a local match such as in-kind staff support, financial, or economic commitments.

Date Completed: 10-5-11

Fiscal Analyst: Elizabeth Pratt

floor\sb556

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.