

Legislative Analysis



JOBS FOR MICHIGAN FUND

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

House Bill 4768

Sponsor: Rep. Steve Tobocman

House Joint Resolution I

Sponsor: Rep. Andrew Meisner

Committee: Commerce

Complete to 5-31-05

A REVISED SUMMARY OF HOUSE BILL 4768 AND HOUSE JOINT RESOLUTION I AS INTRODUCED 5-10-05

House Bill 4768 would create a new Chapter 8A in the Michigan Strategic Fund Act to authorize the state to borrow up to \$2 billion in general obligation bonds in order "to diversify the economy of this state, encourage long-term economic growth and full employment, and create jobs." Up to 20 percent of the total bond proceeds could be allocated in the first calendar year after the new chapter was adopted. Thereafter, no more than 10 percent of total bond proceeds could be allocated in any calendar year. Bonds would be issued so that debt payments would not begin before October 1, 2007.

Bond proceeds would be placed in a new Jobs for Michigan Economic Development and Diversification Bond Fund to be used for purposes related to the following "competitive edge" technologies:

- life sciences;
- advanced automotive, manufacturing, and materials;
- alternative energy; and
- homeland security and defense.

The term "life sciences" would include bioengineering, biomedical engineering, biogeochemistry, genomics, proteomics, molecular and chemical ecology, and biotechnology. It would not include stem cell research with human embryonic tissue and various other activities prohibited by the Public Health Code.

House Joint Resolution I would make amendments Article IX of the State Constitution needed to authorize the issuance of the \$2 billion in general obligation bonds and the use of the proceeds by the Jobs for Michigan Fund. It also would require an annual independent financial audit by a certified public accountant, with the results to be published. The constitutional amendment would specify that the Jobs for Michigan Fund

could not impose or increase any tax. As introduced, the resolution would put the proposed amendment before the state's voters on November 8, 2005.

Under House Bill 4768, all of the programs established by the Jobs for Michigan Economic Development and Diversification Bond Fund would be administered by the Michigan Economic Development Corporation (MEDC). The board of the Jobs for Michigan Fund (previously the Strategic Fund) would be required to establish standards to ensure that money expended under the new chapter will result in economic benefit to Michigan and that a major share of the resulting business activity occurs in Michigan. The proceeds of bonds could only be expended by the fund following an appropriation authorized by law with the assent of a majority of the members elected to and serving in each house of the Legislature.

Money from the bond fund could be used for the following purposes.

** A program to provide grants for basic and applied research in competitive edge technologies at institutions of higher education, Michigan nonprofit research institutes, or qualified businesses. Included would be research targeted to developing research capacity, fostering world-class centers of excellence, developing technologies with strong potential for commercialization, and developing or improving research facilities.

** A program to provide grants aimed at "growing" (i.e., increasing the quantity or size of) competitive edge technology companies.

** A program to provide grants to attract and retain scientific talent in competitive edge technology or related business talent.

** A program to provide grants to serve as a match to promote or secure competitively awarded federal research grants, with the state match not to exceed 10 percent.

** A program to make "qualified investments" in "qualified businesses," whereby an investment management company would make investments on behalf of the state fund. These would be investments in Michigan business entities that develop, market, or commercialize competitive edge technology products or services and investments in other business entities that invest in such businesses.

In developing programs, the Jobs for Michigan Board would be required to encourage collaborations among two or more of the following: institutions of higher education, Michigan nonprofit research institutes, and competitive edge businesses.

The board of the Jobs for Michigan Fund would have to seek advice from a newly created Steering Committee before issuing basic and applied research grants and grants to develop competitive edge technology companies. Further, the Fund board could only make an investment in a company if recommended by an independent job creation expert selected by a newly created steering committee.

The bill also specifies that from 25 percent to 35 percent of bond proceeds would have to be spent for life sciences technology; no more than 10 percent of bond proceeds could be spent on basic research; a maximum of 15 percent could be spent on investments in competitive edge technology businesses; and up to three percent would be available for offsetting costs of the fund and the MEDC (although this limit would not apply to the costs associated with issuing bonds).

The Jobs for Michigan Research and Commercialization Steering Committee would be an advisory body consisting of 19 members, including as ex officio members the directors of the Department of Labor and Economic Growth (DLEG), the chief executive officer of the Michigan Economic Development Council (MEDC), and the state treasurer. The other 16 members would be appointed by the Governor, with one each from Michigan State University, the University of Michigan, Wayne State, Western Michigan, and Michigan Technological University. One member would represent another state university and one the Van Andel Institute. Six would represent qualified businesses or individuals with business, technological, or financial expertise related to competitive edge technologies, and three would represent the general public. The Governor would designate one as committee chair. Members would serve four-year terms (although initial terms would be staggered).

The steering committee could act only by resolution approved by a majority of committee members appointed and serving. The committee would be subject to the Open Meetings Act and the Freedom of Information Act. However, certain information would be exempt from FOIA, such as personnel, medical, and similar records whose disclosure would constitute an unwarranted invasion of privacy; confidential intellectual property and work product; and scientific working papers or unpublished research data. Exempt financial and proprietary information could not be disclosed by the committee or MEDC without the consent of the person submitting the information. Certain information about investments or potential investments of the fund would also be exempt from disclosure.

The independent job creation expert would be a person or persons with the appropriate expertise to conduct an independent, unbiased, objective, and competitive evaluation of activities funded under the newly created Chapter 8A. This could include an investment management company used to make qualified investments in qualified businesses. The expert or experts would have to demonstrate the capability and experience to conduct a highly competitive and intensive, independent multiphased, peer-review based evaluation process; employ personnel with appropriate business, scientific, technical, or other specialized expertise to carry out each aspect of the evaluation process; provide recommendations to or assist the steering committee or the Jobs for Michigan Fund in identifying high-quality activities for funding likely to result in the development and commercialization of competitive edge technology and job creation; and assure that any peer review process maintained a high level of integrity.

Bond funds could not be used for the development of a stadium or arena or for the development of a casino. Funds also could not be used to induce an enterprise to relocate outside the United States or outside Michigan if relocating was likely to result in a loss of

the enterprise's employment in the U.S. or in the state. Also prohibited would be assistance that would contribute to the violation of internationally recognized workers rights; grants or investment to a corporation that is incorporated in a tax haven country after September 11, 2001, but has the U.S. as the principal market for the public trading of its stock; and grants to or investments in a person convicted of certain specified criminal offenses or held liable in certain civil proceedings that reflect negatively on business integrity.

An independent audit of Fund activities would be required each year, to be conducted by a certified public accounting firm. The results would have to be published on the Internet or published in another manner designed to advise citizens of the result. Further, the Fund would have to submit a list of its activities to the Governor, the Clerk of the House of Representatives and the Secretary of the Senate.

House Bill 4768 contains a great many technical provisions regarding the issuance of the bonds. The bill specifies that the bonds would not be subject to the Revised Municipal Finance Act but would be subject to the Agency Financing Reporting Act; would be fully negotiable under the federal Uniform Commercial Code; would be exempt from all taxation by the state or any political subdivision of the state; and would be securities in which financial institutions, insurance companies, and fiduciaries could properly and legally invest.

The Department of Treasury would establish within the Bond Fund a Repayment Subaccount to be used to repay principal and interest, and any redemption premiums, on the bonds issued under the new Chapter 8A. The subaccount would consist of, generally speaking royalties, returns on investment, returns of principal, and other payments received by the Fund or the MEDC from Jobs for Michigan programs and from the state's general fund or tobacco settlement revenue under the Michigan Life Sciences and Technology Tri-Corridor Initiative and similar or successor programs.

FISCAL IMPACT:

According to public testimony from State Treasurer Jay Rising, \$2 billion in bond proceeds will be committed at the rate of \$200 million per year during the fiscal years 2006-2015. Interest costs will total approximately \$1.9 billion from fiscal year 2007 until the last issue of the 30-year bonds is retired. However, Treasurer Rising assumes that loan repayments and returns on investment from purchases of private company stock would total \$1.4 billion, reducing the net interest cost to approximately \$500 million.

The loan repayment assumptions are based on 14-year amortization, a 7 percent rate of interest and a 10 percent default rate on the \$750 million allotted to loans to private, for-profit companies from the \$2 billion bond proceeds. The rate of return on investment in private company stock was assumed to be 11 percent — three percentage points above the normal rate of return on equity, as cited in the Wilshire Index, of 8 percent. \$300 million would be allotted to equity investments under this bond proposal. Treasurer Rising further stated in his testimony that the return on investment assumptions are

conservative compared to the actual results of emerging technology firms that have received assistance from the Michigan Economic Development Corporation under the Life Sciences Initiative and the Technology Tri-Corridor. However, these results were not available at the time this analysis was prepared.

Additional testimony from the state treasurer indicated that some of the private firms in which the state would invest would be startup or newer companies, while others may be well-established firms starting a new division in one or more of the four target technology areas. Similarly, the loans could also be made to a combination of startup companies and well-established firms.

Because the mix of companies receiving either loans or equity investment is indeterminate, it is not possible to provide accurate historical comparisons of loan repayments and returns on investment for similar firms. Further, reliable public statistics on loan repayment and return on investment are generally only available for publicly-traded firms. Publicly traded firms tend to be larger and well-established compared to at least some of the firms who would receive loans and equity investments under this bond proposal.

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

■ 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.