

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

March/April 2008



### **21<sup>st</sup> Century Jobs Trust Fund Programs**

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The appropriations for the 21<sup>st</sup> Century Jobs Trust Fund programs have been adjusted several times since the creation of the program in November 2005. This article reviews the changes to the original appropriation, the allocations of the fiscal year (FY) 2007-08 funding, and the Governor's recommendation for FY 2008-09.

#### **Background**

The 21<sup>st</sup> Century Jobs Trust Fund program was created by Public Act (P.A.) 225 of 2005 and related legislation. Public Act 225 of 2005 and P.A. 153 of 2006 made a total of \$400.0 million in appropriations funded by the proceeds of securitization of a portion of the State's tobacco settlement revenue. Public Act 232 of 2005 required the appropriation of \$75.0 million from tobacco settlement revenue to the 21<sup>st</sup> Century Jobs Trust Fund each year from FY 2007-08 to FY 2014-15, providing an additional \$600.0 over eight years.

The original \$400.0 million appropriation consisted of \$115.5 million in earmarks for specific projects and \$284.5 million for allocation by the Michigan Strategic Fund (MSF) Board in accordance with statutory limitations. These appropriations were generally for multiyear projects and available funds continue as statutory work projects. The Senate Fiscal Agency Issue Paper [21<sup>st</sup> Century Jobs Trust Fund Programs](#) from February 2007 outlined the parameters of the programs, the various earmarks, and the status of the implementation of the programs at that time. Since then, several adjustments have been made to the program by Executive Order, legislation, and actions of the MSF Board and the Strategic Economic Investment and Commercialization (SEIC) Board.

#### **FY 2006-07 Appropriation Reductions**

In order to balance the FY 2006-07 budget, funding for the 21<sup>st</sup> Century Jobs Trust Fund was reduced in two separate actions by a total of \$50.0 million, from \$400.0 million to \$350.0 million. The first revision was included in Executive Order 2007-3, which reduced the statutory earmark for the Michigan Forest Finance Authority from \$26.0 million to \$6.0 million, for savings of \$20.0 million. An additional unspecified \$30.0 million reduction in the program was agreed to as part of the Leadership Target Agreement on the FY 2006-07 budget. To meet the \$30.0 million reduction, the MSF Board chose not to fund the loan guarantee program called the Choose Michigan Fund, which had been approved by the Board but not yet implemented. The Board also eliminated funding of the statutory earmark for the \$2.0 million University Technology Transfer Program. Public Act 50 of 2007 completed the appropriation reductions by transferring \$50.0 million from the 21<sup>st</sup> Century Jobs Trust Fund to the General Fund.

#### **Allocation of the Original Appropriation**

The MSF Board allocated its discretionary funds among the programs permitted by statute: the Investment Program, Loan Enhancement Program, and Competitive Edge Technology Grant and Loan Program operated by the SEIC Board. A total of \$114.0 million was allocated for the Investment Program, which is conducted by Credit Suisse. The MSF Board made two separate allocations to the SEIC Board, the first in December 2005 for \$100.0 million, and the second in September 2006 for \$35.0 million. These funds were awarded in accordance with the statutory program for Competitive Edge Technology Grants and Loans for projects in four categories: Advanced Automotive,

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Manufacturing, and Materials Technology; Alternative Energy; Homeland Security and Defense; and Life Sciences. Of these funds, however, \$8.7 million was either returned or declined by awardees as of May 2007.

Early in 2007, the Pfizer Corporation announced that it was relocating some operations out of the State and would close its Ann Arbor research facilities. As a result, the MSF Board and the SEIC Board determined that a portion of the funds returned to the SEIC Board would be used for various programs to retain the Pfizer assets and employees in Michigan. The MSF Board approved a total of \$12.0 million for three projects: approximately \$8.0 million for a loan fund to assist former Pfizer employees in starting new businesses, \$3.4 million for a grant to Lakeshore Advantage to use a donated Pfizer building for life science technology projects in conjunction with Michigan State University, and \$550,000 to Ann Arbor SPARK which will operate the Michigan Innovation Equipment Depot to receive and distribute lab equipment donated by Pfizer. As of March 12, 2008, the SEIC Board retained a balance of \$2.8 million from awards returned in prior years under the Competitive Edge Technology Grants and Loans program. Under Section 1024(2) of P.A. 127 of 2007, awards returned in FY 2007-08 are required to be allocated to the Small Business Technology Development Centers to fund the Federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) matching grant program. To date, \$4,975,000 has been returned to the SEIC Board in FY 2007-08. The Michigan Economic Development Corporation (MEDC) (which staffs the MSF Board) had indicated that this level of funding is more than is needed for this program. A supplemental appropriation bill, House Bill 5344, would repeal this requirement.

The MSF Board also allocated \$30.8 million for a loan enhancement program known as the Choose Michigan Fund, but this program was not implemented due to the budget reductions described above.

The uses of the original 21<sup>st</sup> Century Jobs Trust Fund appropriations are summarized in Table 1.

**Table 1**

<b>21<sup>st</sup> Century Jobs Trust Fund - Use of Original Appropriations (Millions of Dollars)</b>	
Original Appropriation, P.A. 225 of 2005 .....	\$400.0
Appropriation Reductions, E.O. 2007-3 and P.A. 50 of 2007 .....	(50.0)
Remaining Appropriation .....	\$350.0
<b>Allocation of Funds</b>	
Investment Program .....	\$114.0
Competitive Edge Technology Grants and Loans .....	121.3
Administration .....	16.0
Business Development and Marketing .....	20.0
Other Earmarks <sup>1)</sup> .....	57.5
Life Science Pipeline .....	1.4
Pfizer Asset Retention Projects .....	12.0
SEIC Board Balance .....	7.8
<b>Total .....</b>	<b>\$350.0</b>
<sup>1)</sup> These consist of the following: Michigan Forest Finance Authority, \$6.0 million; Defense Contract Coordination Center, \$10.0 million; Van Andel Research Institute, \$4.0 million; Automotive Acceleration, \$6.0 million; Michigan Film Office, \$2.0 million; Michigan Promotion Program, \$15.0 million; Agriculture Development Fund, \$10.0 million; Small Business Capital Access Program, \$3.5 million; and Wet Lab Redevelopment, \$1.0 million.	

**Source:** Michigan Economic Development Corporation and Senate Fiscal Agency



### **FY 2007-08 Appropriation**

Public Act 232 of 2005 required the deposit of \$75.0 million annually from FY 2007-08 to FY 2014-15 from Tobacco Settlement Revenue into the 21<sup>st</sup> Century Jobs Trust Fund. The FY 2007-08 budget for the Michigan Strategic Fund (P.A. 127 of 2007) reflected this requirement and appropriated \$75.0 million from the 21<sup>st</sup> Century Jobs Trust Fund to the MSF for the Jobs for Michigan Investment Program: 21<sup>st</sup> Century Jobs Fund.

Several earmarks were placed on this annual appropriation. The MSF Act required allocation of \$30.0 million to the SEIC Board for Competitive Edge Technology Grants and Loans. At its April 2008 meeting the SEIC Board approved a request for proposals for the \$30.0 million in FY 2007-08. These funds will be used for a Commercialization Business Plan competition for for-profit companies "...to create or expand viable, sustainable Michigan business opportunities in competitive edge technologies with near term job creation - five (5) years or less" (MEDC RFP-DOC-1343). Applications are due June 4, 2008, followed by the peer review process, with awards expected on September 10, 2008.

The MSF Act also permitted the use of up to 4.0% or \$3.0 million for administration and up to 5.0% or \$3.75 million for business development and marketing. A boilerplate allocation in Section 1024 of the budget bill granted \$1.4 million to the Small Business Technical Development Centers for the Federal Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) matching grant program. These earmarks total \$38.1 million in FY 2007-08. The remaining balance of \$36.9 million in FY 2007-08 is available to the MSF Board to allocate based on the programs and restrictions established in the authorizing legislation.

The MSF Board has allocated a portion of the balance. The Board authorized \$18.75 million for the Choose Michigan Fund, the loan enhancement program that it had reduced previously due to the FY 2006-07 budget reductions. The Choose Michigan Fund would be used to provide low-cost loans for job creation projects. The loans would be awarded to companies that qualify for Michigan Economic Growth Authority job creation credits, making the cash value of the anticipated future credits available to a company to provide cash at the beginning of a project. Public Act 80 of 2008, part of the film industry package, amended the Michigan Strategic Fund Act to require the MSF to create a Michigan Film and Digital Media Investment Loan Program as part of the loan enhancement program.

The MSF Board has not yet allocated the remaining \$18.1 million in FY 2007-08. Staff from the Michigan Economic Development Corporation have proposed that the funds be used for the Centers of Excellence program. The proposed program would provide grants to companies that collaborate with universities to commercialize alternative energy technology. Statutory changes would be needed to authorize this program. To date, the MSF Board has not acted on this proposal.

The uses of the FY 2007-08 appropriation from the 21<sup>st</sup> Century Jobs Trust Fund are shown in Table 2.



**Table 2**

<b>21<sup>st</sup> Century Jobs Trust Fund Use of FY 2007-08 Appropriations (Millions of Dollars)</b>	
	<b>FY 2007-08</b>
<b>FY 2007-08 Appropriation - P.A. 127 of 2007</b> .....	<b>\$75.0</b>
<b>Uses of Appropriation</b>	
<u>Statutory Earmarks - P.A. 225 of 2005</u>	
Competitive Edge Technology Grants and Loans .....	30.0
Administration.....	3.0
Business Development and Marketing .....	3.75
<u>Boilerplate Earmark - PA 127 of 2007</u>	
Small Business Tech. Development Centers for SBIR/STTR Matching Grant Program	1.4
<u>Allocation by MSF Board</u>	
Loan Enhancement Program - Choose Michigan Fund.....	18.75
Total Allocated Funds .....	<b>\$56.9</b>
<b>Unallocated Balance</b> .....	<b>\$18.1</b>

**Source:** Michigan Economic Development Corporation and Senate Fiscal Agency

In addition, Public Acts 98 through 102 of 2008 were enacted in April to provide additional resources for tourism promotion and business marketing. Public Act 98 of 2008 appropriated supplemental funding of \$60.0 million from the General Fund for the Michigan Promotion Program and business marketing from FY 2007-08 through FY 2009-10. This new revenue is generated from a combination of restructuring a portion of the original Tobacco Settlement Finance Authority bonds and extending the term on the original bonds. Of this \$60.0 million, \$50.0 million was appropriated to the MSF for FY 2007-08 and FY 2008-09. The remaining \$10.0 million is intended for appropriation in FY 2009-10. The Act requires that the funds be used for tourism promotion and business marketing, with not more than one quarter or \$12.5 million being eligible for business marketing.

On April 23, 2008, the MSF Board passed two resolutions to amend the existing Business Marketing Campaign and the Tourism Promotion Campaign contracts to extend the duration of the existing contracts through FY 2008-09. The Board allocated \$37.5 million for tourism promotion spending, distributing \$10.0 million in FY 2007-08 and \$27.5 million in FY 2008-09. The Board also authorized \$12.5 million for business marketing, allocating \$5.0 million in FY 2007-08 and \$7.5 million in FY 2008-09.

**FY 2008-09 Proposed Appropriation**

The Governor's recommendation for the MSF budget for FY 2008-09 included the appropriation of \$75.0 million from the 21<sup>st</sup> Century Jobs Trust Fund. This funding would be allocated by the MSF Board according to the MSF Act provisions. Under current law, several statutory earmarks will apply in FY 2008-09. These consist of the requirement to allocate \$30.0 million to the SEIC Board for Competitive Edge Technology Grants and Loans, and the allocation of up to 4.0% or \$3.0 million for administration and up to 5.0% or \$3.75 million for business development and marketing. Under the Governor's proposal, the remaining \$38.25 million would be available to the MSF Board to distribute in accordance with the statutory requirements.