

Legislative Analysis



TOBACCO SETTLEMENT REFINANCING; TOURISM PROMOTION FUNDING

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

Senate Bill 1223

Sponsor: Sen. Jason E. Allen

Senate Bill 1224

Sponsor: Sen. Tony Stamas

Senate Bill 1225

Sponsor: Sen. Hansen Clarke

Senate Committee: Commerce and Tourism

House Committee: Tourism, Outdoor Recreation and Natural Resources

Complete to 4-16-08

A SUMMARY OF SB 1223-1225 WITH ANTICIPATED FLOOR AMENDMENTS

Senate Bill 1225 would amend the Michigan Tobacco Settlement Finance Authority Act to allow for the refunding and refinancing of tobacco settlement bonds sufficient to provide net proceeds to the state of \$60 million, with the net proceeds to be deposited in the General Fund. (MCL 129.268)

Senate Bill 1223 would add a Chapter 8B to the Michigan Strategic Fund Act to appropriate and transfer \$60 million for the 2008 fiscal year from the General Fund to the 21st Century Jobs Trust Fund and then to appropriate and transfer \$50 million from the Jobs Trust Fund to a newly established Michigan Promotion Program to promote tourism and business development in Michigan. The funding would be intended to enhance funding beyond that included in the annual appropriation for Travel Michigan. (MCL 125.2089 et al.)

Senate Bill 1224 would amend the Michigan Trust Fund Act (under which the 21st Century Jobs Trust Fund was established) so the Jobs Trust Fund could receive the proceeds appropriated from the General Fund as described in Senate Bill 1225 (from tobacco settlement bond refinancing). The State Treasurer would transfer and disburse the net proceeds for the purposes described in Senate Bill 1223; that is, for tourism promotion and business development in Michigan. (MCL 12. 257 and 258)

Under Senate Bill 1223, the Board of the Michigan Strategic Fund would have to establish the Michigan Promotion Program to promote tourism in Michigan and pay business development and marketing costs to promote business development in Michigan. Tourism promotion would include "cultural, vacation, recreational, leisure, hunting-related, and agriculture-related travel across [the] state that include activities that promote tourism in all four seasons."

Not more than four percent of the annual appropriation provided from the 21st Century Jobs Trust Fund could be used to administer the program.

The appropriation would be considered a work project appropriation, and any unencumbered or unallotted funds would be carried forward into the following fiscal year. The total estimated completion cost of the project is \$50 million. The bill contains language specifying that the purpose of the project is "to provide economic benefits and job creation within this state through the promotion of tourism." The project is to be accomplished through interagency agreements, state employees, and contracts and has an expected completion date of December 31, 2010.

The board of the Michigan Strategic Fund would select all vendors for all promotion program expenditures by issuing a request for proposal. At a minimum, the RFP would require responding entities to disclose any conflict of interest, disclose any criminal convictions, disclose any federal or state tax investigations, disclose any pertinent litigation, and maintain records and evidence on work performed over at least the previous five years. The board would have to establish a standard process to evaluate proposals and appoint a committee to review the proposals. Members of any committee or individuals working on behalf of the MSF, paid or unpaid, could have no conflict of interest as determined the chief compliance officer.

At least 75 percent of the appropriated funds would have to be targeted to individuals or entities outside Michigan. No funds could be used for promotion efforts targeted to a media market in Michigan if those efforts include a reference to or the image or voice of an elected official, appointed state employee, state employee under a senior executive limited term employment agreement, or candidate for elective office

The bill also contains a findings section, which states:

The Legislature finds and declares that the activities authorized under this chapter to promote this state and the creation of jobs in this state are a public purpose and of paramount concern in the interest of the health, safety, and general welfare of the citizens of this state. It is the intent of the Legislature that the economic benefits and the creation of jobs resulting from this chapter shall accrue substantially within this state.

FISCAL IMPACT:

State of Michigan receives tobacco settlement funding from tobacco companies under the provisions of the Master Settlement Agreement entered into by the tobacco companies and 46 states. In FY 2007, the state of Michigan received \$266.5 million from the tobacco settlement agreement.

The Michigan Tobacco Settlement Finance Authority (MTSFA) was created by PA 226 of 2005 and authorized the state budget director to sell to MTSFA a portion of the state's tobacco settlement revenue that would net \$400 million dollars, which was deposited into the 21st Century Jobs Trust Fund. MTSFA issued bonds in FY 2006 upon the agreement that MTSFA would receive 13.34% of the state's share of the annual payments made under the MSA after April of 2008 to make future payments of principal and interest on the bonds.

This package of bills proposes to refinance the outstanding 2006 Tobacco Settlement securitization bonds which funded the 21st Century Jobs Trust Fund. The State Budget Office estimates that additional one-time funding of \$60 million over a two-year period can be realized through this refinancing proposal because a review of the 21st Century Jobs Trust Fund projects indicates that a portion of these bonds can be refinanced as tax-exempt bonds. In addition, additional tax-exempt bonds can be issued which would provide more revenue to the 21st Century Jobs Trust Fund. By changing the tax-exempt status for refinancing a portion of the bonds, issuing additional tax-exempt bonds, and extending the portion of revenues currently pledged by four years, it is estimated that an additional \$60 million funding would be raised. These bills propose to appropriate this \$60 million funding to the General Fund. Subsequently, \$50 million is to be appropriated to the Michigan Promotion Program to be used to promote tourism and business development in Michigan over the next two years.

Legislative Analyst: Chris Couch
Fiscal Analyst: Viola Bay Wild

■ 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.