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BILL ANALYSIS



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Senate Bills 1065 through 1068 (as introduced 6-12-18)
Sponsor: Senator Ken Horn (S.B. 1065)
Senator John Proos (S.B. 1066)
Senator David Knezek (S.B. 1067)
Senator Curtis Hertel Jr. (S.B. 1068)
Committee: Economic Development and International Investment

Date Completed: 9-6-18

CONTENT

Senate Bill 1065 would enact the "Large Special Events Fund Act" to do the following:

- Create the "Large Special Events Fund" within the State Treasury.
- Require the Michigan Strategic Fund to spend money from the Fund, upon appropriation, as provided under the proposed Act.
- Appropriate \$2.0 million from the General Fund for the 2018-19 fiscal year for events grants.
- Prescribe the circumstances under which a bureau or local organizing committee could apply to the MSF for an event grant.
- Provide the circumstance under which the MSF could award an event grant.
- Require the Treasurer to determine the anticipated incremental increase in the receipts collected by the State from the sales tax and the use tax that would be directly attributable to the preparation for and hosting of the large special event and related activities.
- Specify the amounts the Department of Treasury would have to remit to the MSF and that the Strategic Fund would have to deposit into the Fund.
- Require the MSF, beginning with the third year after the first grant was awarded, and annually thereafter, to publish a report that itemized certain information about the Fund.

Senate Bill 1066 would amend the Use Tax Act to require the State Treasurer to deposit an amount equal to 50.0% of the total anticipated incremental increase in the collections of the use tax attributable to the preparation for and hosting of large special events and related activities, each State fiscal year, into the Fund.

Senate Bill 1067 would amend the General Sales Tax Act to require the Treasurer to deposit amount equal to 50.0% of the total anticipated incremental increase in the collections of the general sales tax attributable to the preparation for and hosting of large special events and related activities, each State fiscal year, into the Fund.

Senate Bill 1068 would amend the Michigan Liquor Control Code to require the Michigan Liquor Control Commission to deposit an amount equal to 50.0% of the total anticipated incremental increase in the collections of the tax imposed under the Michigan Liquor Control Code attributable to the preparation for and hosting of

large special events and related activities, as determined by the Treasurer, each State fiscal year, into the Fund.

Senate Bills 1066 and 1067 are tie-barred to Senate Bill 1065.

Senate Bill 1065

Definitions

"Bureau" would mean a nonprofit corporation incorporated under the laws of the State, existing solely to promote convention business and tourism within the State or a portion of the State, and which would collect an assessment under the Convention and Tourism Marketing Act, the Community Convention or Tourism Marketing Act, or the Regional Tourism Marketing Act.

"Eligible expenses" would mean the actual and necessary expenses incurred or to be incurred by a bureau or a local organizing committee to provide hosting services for a large special event under an event support contract between the site selection organization and a bureau or local organizing committee. The term would include one or more of the following:

- Venue rentals.
- Transportation services.
- Food service costs.
- Printing and media production costs.
- Licensing fees.
- Lodging and travel expenses of the organization staging the large special event incurred after a site in the State has been selected to host a large special event.
- Promotional activities.
- Equipment and staging rental charges.
- Additional security or sanitation expense incurred by a local municipality in connection with a large special event.
- Temporary improvements to a venue necessary to stage a large special event.

"Event grant" would mean an award of money from the Fund by the MSF to assist a bureau or local organizing committee with defraying eligible expenses that were the responsibility of the bureau or local organizing committee pursuant to an event support contract between a site selection organization and a bureau or local organizing committee.

"Event support contract" would mean an undertaking, agreement, or a bid to host a large special event executed or submitted by a bureau or its local organizing committee and executed or otherwise accepted by a site selection organization.

"Large special event" would mean an event or a related series of events regularly staged or sponsored by a multistate or nationally recognized organization for which a bureau or a local organizing committee sought approval from a site selection organization to hold the event at a site in the State that was expected to bring out-of-State visitors to the State for a period of at least two days, had the required attendance, and met one of the following:

- Had not been hosted in the State within the 12-month period prior to the anticipated start date for the event.
- Was a multiyear event staged by the same site selection organization to be staged in sequential years in the same state.

"Local organizing committee" would mean a subsidiary of a bureau organized by the bureau to provide support services for a large special event pursuant to an event support contract entered into between the local organizing committee and the site selection organization.

"Required attendance" would mean one of the following:

- An attendance of at least 5,000 people who reside outside of the State for an event held within the marketing area of a bureau collecting an assessment under the Convention and Tourism Marketing Act.
- An attendance of at least 1,500 people who reside outside of the State for an event held within the marketing area of a bureau collecting an assessment under the Convention or Tourism Marketing Act, whose assessment district included a county with a population of at least 550,000 but not more than 650,000.
- An attendance of at least 900 people who resided outside of the State for an event held within the marketing area of a bureau collecting an assessment under the Convention or Tourism Marketing Act, not subject to the description above or the Regional Tourism Marketing Act.

"Site selection organization" would mean designated officials of a multistate or nationally recognized entity that held large special events who were charged by that entity with selecting the sites to hold the event.

Large Special Events Fund

The bill would create the Large Special Events Fund within the State Treasury. The State Treasurer could receive money or other assets from any source for deposit into the Fund. The State Treasurer would have to direct the investment of the Fund and would have to credit to it interest and earnings from Fund investments. Money in the Fund at the close of the fiscal year would have to remain in the Fund and would not lapse to the General Fund. The Strategic Fund would be the administrator of the Fund for auditing purposes. The Strategic Fund would have to spend money from the Fund, upon appropriation, only as provided in the bill. From the General Fund for the 2018-2019 fiscal year, \$2.0 million would be appropriated to the Fund for event grants.

Event Grants

A bureau or local organizing committee that intended to submit a bid to host a large special event to a site selection organization or that had entered into an event support contract with a site selection organization could apply to the MSF for an event grant. The Strategic Fund could award an event grant prospectively in order to support the bureau's bid, with actual payment of the event grant contingent upon the bureau's or local organizing committee's entering into an event support contract with the site selection organization. The Strategic Fund could award the event grant in the sum requested by the bureau or local organizing committee upon determining all of the following:

- The event to be held in the State was a large special event.
- Expenses for which the grant was requested were eligible expenses.
- The bureau or local organizing committee had demonstrated to the Strategic Fund that at least 60% of the incremental increase in tax receipts as a result of staging the event in the State would be derived from out-of-State residents or businesses.

The grant would have to be used by the bureau or local organizing committee solely for defraying the eligible expenses incurred or that would be incurred by the bureau or local organizing committee pursuant to an event support contract.

An event grant would have to be paid over to the bureau or local organizing committee by the Strategic Fund in installments that coincide with the bureau's or local organizing committee's payment of eligible expenses under the event support contract.

Determination of Revenue

If a site selection organization selected a site for a large special event in the State under a bid by a bureau or a local organizing committee, upon request of the Strategic Fund or a bureau or local organizing committee, the Treasurer would have to determine for a one-year period that began six months before the date on which the large special event would begin, in accordance with procedures developed by the Treasurer, both of the following:

- The anticipated incremental increase in the receipts to the State from tax imposed under the Michigan Liquor Control Code within the market areas designated below, that would be directly attributable to the preparation for and hosting of the large special event and related activities.
- The anticipated incremental increase in the receipts collected by the State in the market area from the sales tax as provided the General Sales Tax Act, and the use tax as provided in the Use Tax Act, that would be directly attributable, as determined by the Treasurer, to the preparation for and hosting of the large special event and related activities.

A request for a determination of the amount of anticipated incremental increase in tax receipts would have to be submitted to the Treasurer not earlier than one year and not later than 90 days before the date the large special event began. The Treasurer would have to base the determination on information submitted by the bureau or local organizing committee to the MSF and would have to make the determination within 30 days after the date the Treasurer received the request and related information. For the purposes of making a determination, the Treasurer would have to designate as a market area for the event each area in which the Treasurer determined there was a reasonable likelihood of measurable economic impact directly attributable to the preparation for and presentation of the large special event and related activities, including areas likely to provide venues, accommodations, and services in connection with the large special event based on the proposal provided by the bureau or local organizing committee to the MSF. The Treasurer would have to determine the geographic boundaries of each market area, which could not be less than the assessment district of the bureau within which the large special event would be held.

Deposit into Fund

The Department of Treasury would have to remit to the MSF and it would have to deposit into the Fund the following amounts:

- Fifty percent of the anticipated incremental increase in taxes to be collected by the State as determined by the Treasurer, as provided in the Michigan Liquor Control Code.
- Fifty percent of the anticipated incremental increase in taxes to be collected by the State as determined by the Treasurer, as provided in the General Sales Tax Act and the Use Tax Act.

The Treasurer would have to remit the sums on or before 60 days after making the determination or at a time otherwise determined to be practicable by the Treasurer.

Request to the State Treasurer

The Treasurer could not undertake any of the responsibilities or duties set forth under the Act unless a request were submitted by a bureau or local organizing committee. The request also

would have to be accompanied by documentation from a site selection organization selecting the site for the event.

MSF Report

Beginning with the third year after the first grant was awarded under the Act, and annually thereafter, the MSF would have to publish a report that itemized all of the following:

- The number and amount of grants awarded under the Act.
- The large special events supported by grants under the Act.
- The bureaus that were the recipients of grants under the Act.
- The amount of money deposited into the Fund from the incremental increase in taxes.
- The total incremental increase in taxes realized by the State from the special events staged in the State.
- Any other information considered appropriate by the MSF.

Legislation Findings & Construction

The bill states, the legislature finds all of the following:

- (a) Out-of-state tourism, out-of-state business meetings and conventions, and national and international sporting events convened in this state are major sources of employment, income, and tax revenues in this state, and the expansion of the tourism and meeting industry is vital to the growth of this state's economy.
- (b) When deciding where to stage an event, organizers of large special events often consider financial assurances that bidders seeking to host an event can offer to meet the obligations promised to the organizers in a bid to host a large special event.
- (c) Investment of state resources is needed to provide a more effective means of marketing the state as a destination to host large special events, and to optimize the considerable investment of time, energy, capital, and resources being made by the tourism and meeting industry, which is at a disadvantage to other states when soliciting large special events to come to this state, as other states provide monetary support to their tourism, meeting planning, and sporting event partners that solicit large special events.
- (d) The state can best undertake effective marketing to, and solicitation of, large special events to the state through the coordinated efforts of existing state government agencies promoting this state as a destination for business with private convention and tourism promotional bureaus that are better able than state agencies to market and promote their unique assessment districts to attract large special events to this state.
- (e) A coordinated and rational funding policy for soliciting and staging large special events through the state government and local bureaus is necessary to maximize the benefits to this state and its citizens of a vibrant tourism, meeting and convention, and sporting event industry and to ensure proper funding of a comprehensive large special event program for this state.
- (f) State tax revenues are increased as a result of out-of-state economic activity brought into the state by hosting out-of-state visitors in this state in connection with a large special event.

The Act could not be construed as creating or requiring a State guarantee of obligations imposed on any bureau or local organizing committee under an accepted bid or event support contract or other agreement relating to hosting one or more large special events in the State.

A final bid that was submitted by a bureau or local organizing committee to a site selection organization, or a draft of that bid, would be exempt from public disclosure by the Strategic Fund under the Freedom of Information Act, until the applicable site selection organization

accepted the bid. Nothing in the bill could be construed as subjecting a bureau or local organizing committee to the Freedom of Information Act.

Senate Bill 1066

Except as otherwise provided, all money received and collected under the Use Tax Act must be deposited by the Department of Treasury in the State Treasury to the credit of the General Fund, to be disbursed only by appropriations by the Legislature.

The bill would require that, from the money received and collected under the Use Tax Act for the State share, an amount equal to 50.0% of the total anticipated incremental increase in the collections of the tax imposed under the Act attributable to the preparation for and hosting of large special events and related activities, as determined by the Treasurer pursuant the Large Special Events Fund Act, would have to be deposited each State fiscal year into the Large Special Events Fund created in the Large Special Events Fund Act.

Senate Bill 1067

All of the money received and collected under the General Sales Tax Act must be deposited by the Department of Treasury in the State Treasury to the credit of the General Fund, except as otherwise provided.

The bill would require that an amount equal to 50.0% of the total anticipated incremental increase in the collections of the sales tax imposed under the Act attributable to the preparation for and hosting of large special events and related activities, as determined by the Treasurer pursuant to the Large Special Events Fund Act, would have to be deposited each State fiscal year into the Large Special Events Fund created in the Large Special Events Fund Act.

Senate Bill 1068

The Liquor Control Code, in addition to any and all taxes imposed by law, imposes and levies a specific tax equal to 4.0% of the retail selling price of spirits. The tax must be collected by the Liquor Control Commission at the time of sale by the Commission. Upon collection, the Commission must deposit the proceeds in the State Treasury, to the credit of the General Fund. The Code imposes an addition tax equal to 4.0% of the retail selling price of spirits. This tax must be collected in the same manner; however, the proceeds must be deposited in the State Treasury, to the credit of the State School Aid Fund. The Code also imposes and levies specific taxes equal to 4.0% of the retail selling price of spirits for consumption on and off the premises. The proceeds of these taxes must be deposited in the State Treasury to the credit of the Convention Facility Development Fund. Under the bill, proceeds from all of the above taxes would have to be deposited into the General Fund, School Aid Fund, or Convention Facility Development Fund, except as provided below.

The bill would require the Commission to deposit an amount equal to 50.0% of the total anticipated incremental increase in the collections of the tax imposed under the Michigan Liquor Control Code attributable to the preparation for and hosting of large special events and related activities, as determined by the Treasurer pursuant to the Large Special Events Fund Act, each State fiscal year into the Large Special Events Fund created in the Large Special Events Fund Act.

MCL 205.111 et al. (S.B. 1066)
205.75 (S.B. 1067)
436.2201 et al. (S.B. 1068)

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

Senate Bill 1065

The bill would have an impact the General Fund, Departments of Treasury and Talent and Economic Development, and local units of government. The bill would make a one-time \$2.0 million deposit to the Large Special Events Fund to provide an initial balance in the Fund. Though this bill only makes an initial appropriation into the Fund, future legislatures could decide to make additional deposits. However, by capturing the revenue generated from these special events, future legislatures would have alternative ways to pay for the costs of these special events instead of from the General Fund.

The Department of Treasury would experience administrative costs from investing the funds in the Large Special Events Fund. These costs would be minimal and within current appropriations. The Department of Treasury also would experience costs from analyzing the proposed tax boundaries around special events to capture the additional revenue and capturing those funds. These activities would affect the Office of Revenue and Tax Analysis and information technology. At this time, these costs are indeterminate, but are likely to be minimal and within current appropriations.

The Department of Talent and Economic Development would experience administrative costs from processing, awarding, and reporting special event grants. Since these types of events occur more sporadically from year-to-year, it is difficult to estimate an annual cost to the department. However, these costs are likely to be minimal and within current appropriations, because of the long-term nature devoted to planning these events.

Local units of government could experience a positive fiscal impact. First, the unit has a formal way to request State dollars to offset the costs of large special events that would directly affect local governments, such as additional safety and security. Also, local units of government that levy a local income tax could receive additional revenue from additional staff hired for these events which may not have occurred otherwise.

Senate Bills 1066 & 1067

The bill would reduce General Fund revenue by an unknown amount that would depend on the number of the large special events that occurred in the State, and the economic activity associated with each event. Any reduction in General Fund revenue would increase revenue to the Large Special Events Fund by an equal amount. The bills would have an indeterminate impact on the Department of Treasury. Currently, the Department does not collect sales tax at a local geographic level. Changes to this process could result in additional costs. The Department could capture the increased incremental revenue based off of estimates. This would not result in additional administrative costs, but the amount captured would be less accurate than the true incremental increase in the geographic area. The Department also could capture the actual incremental revenue in the geographic boundary, which would result in additional information technology costs that could exceed current appropriations.

Senate Bill 1068

The bill would have an indeterminate impact on State and local government. The bill would require the Michigan Liquor Control Commission to deposit 50.0% of the increase in revenue from each of the following specific taxes attributable to special events held under the terms of Senate Bill 1065 into the newly-created Large Special Events Fund within the Department of Treasury: (1) the 4.0% tax on the retail selling price of spirits, currently deposited into the

General Fund; (2) the 4.0% tax on the retail selling price of spirits, currently deposited into the School Aid Fund; and (3) the 4.0% tax on the retail selling price of spirits, currently deposited into the Convention Facility Development Fund. The remaining 50.0% of the increase in revenue would be deposited in the General Fund, School Aid Fund, and Convention Facility Development Fund as directed by current statute. The magnitude of the increase would depend on the number of qualifying events held and the amount of spirits sold that would not have occurred in the absence of the enactment of Senate Bill 1065.

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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.