

Legislative Analysis



EARMARK 21ST CENTURY FUND REVENUE AND MSF REVENUE FOR ROAD FUNDING

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**House Bill 4607 (reported from committee as H-1)
Sponsor: Rep. Phil Pettalia**

Analysis available at
<http://www.legislature.mi.gov>

**House Bill 4608 (reported as H-1)
Sponsor: Rep. Lee Chatfield**

**Committee: Roads and Economic Development
Complete to 6-5-15**

SUMMARY:

House Bill 4607 would amend the Michigan Trust Fund Act to allocate \$75 million from tobacco settlement revenue to the Michigan Transportation Fund, to be distributed as described below. This would be an annual allocation beginning with 2016-2017 Fiscal Year. That revenue currently is earmarked for the 21st Century Jobs Trust Fund.

House Bill 4608 would amend the Michigan Strategic Fund Act to earmark an amount of revenue equal to the amount the MSF receives each year from the Indian Gaming Compact receipts for the Michigan Transportation Fund, to be distributed as described below. (Currently, this amount is about \$60 million per year.) This annual earmark would begin in Fiscal Year 2016-2017. The bill would specify that the revenue to be deposited in the MTF could not include any revenue received by the MSF from Indian Gaming Compact receipts.

Further, the bill would specify that "it is the intent of the Legislature that beginning Fiscal Year 2016-17 and each fiscal year thereafter, Pure Michigan shall be funded from General Fund/General Purpose revenue appropriated to the Fund at an amount not less than what was appropriated to Pure Michigan in Fiscal Year 2014-15." (That appropriation was \$29 million.)

Both bills would direct revenue for deposit in the Michigan Transportation Fund for distribution "as provided in Section 10(1)(k) of PA 51 of 1951." That subdivision (as reorganized by amendments to PA 51 made in House Bill 4613), distributes funds as follows:

- 39.1% to the State Trunk Line Fund (for the preservation of the state trunkline system—state highway maintenance, state road and bridge capital construction and reconstruction program, MDOT administration, and debt service.)
- 39.1% to county road commissions.
- 21.8% to cities and villages.

As a result, the bills would bypass the 10% distribution to the Comprehensive Transportation Fund (CTF) currently made in Section 10(1)(f) of PA 51 of 1951, which is restricted for public transportation purposes.

FISCAL IMPACT AND BACKGROUND INFORMATION:

21st Century Jobs Trust Fund

The 21st Century Jobs Trust Fund was established in Public Act (PA) 232 of 2005. Over the ten-year period of funding agreed to at the time of passage, the 21st Century Jobs Trust Fund was allocated approximately \$1.0 billion for economic development and tourism purposes under Section 7 of the Michigan Trust Fund Act (MCL 12.257). Specifically, in FYs 2005-06 and 2006-07 \$394.0 million was deposited in the fund through the securitization of future tobacco settlement revenues. An additional \$600.0 million (\$75.0 million annually) was statutorily scheduled for deposit over the following eight years ending in FY 2014-15. An additional transfer of \$72.0 million was added in FY 2015-16 to offset the various transfers from the 21st Century Jobs Trust Fund to the General Fund carried out in an effort to balance the state budget. Most recently, PA 504 of 2014 eliminated the \$72.0 million transfer in FY 2015-16 and extended the deposit of \$75.0 million into the 21st Century Jobs Trust Fund until FY 2018-19 (See Table 1).

Table 1
21st Century Jobs Trust Fund Deposits (Current Law)

<u>Fiscal Year</u>	<u>Orig. Appropriation</u>	<u>Adjustment</u>	<u>TOTAL</u>
2005-06	\$394,000,000	(\$55,950,000)	\$338,050,000
2006-07*	0	0	0
2007-08	75,000,000	50,000,000	125,000,000
2008-09	75,000,000	(22,050,000)	52,950,000
2009-10	28,500,000	0	28,500,000
2010-11	75,000,000	0	75,000,000
2011-12	75,000,000	0	75,000,000
2012-13	75,000,000	0	75,000,000
2013-14	75,000,000	0	75,000,000
2014-15	75,000,000	0	75,000,000
2015-16 (est.)	75,000,000	N/A	75,000,000
2016-17 (est.)	75,000,000	N/A	75,000,000
2017-18 (est.)	75,000,000	N/A	75,000,000
2018-19 (est.)	75,000,000	N/A	75,000,000
TOTAL	\$1,247,500,000	(\$28,000,000)	\$1,219,500,000

*FY 2005-06 appropriation covers two-year period.

Funds in the 21st Century Jobs Trust Fund are subject to legislative appropriation for economic development and tourism purposes outlined in the Michigan Strategic Fund Act, PA 270 of 1984. Since FY 2011-12 there have been three uses of the \$75.0 million appropriated to the MSF:

- Business Attraction and Community Revitalization (MEGA, Brownfield, and Historic Preservation Tax Credit replacement) – FY 2014-15 Appropriation: **\$28.8 million** (*This represents 22.5% of the appropriation for these programs.*)
- Entrepreneurship Eco-System (Accelerator Funds, Business Incubators, Entrepreneurial Support Initiatives, Next Energy, University Technology Acceleration)

- FY 2014-15 Appropriation: **\$17.2 million** (*This represents 100% of the appropriation for these programs.*)
- Pure Michigan (tourism campaign) – FY 2014-15 Appropriation: **\$29.0 million** (*This represents 100% of the appropriation for this program.*)

House Bill 4607 would reduce available appropriations to the MEDC by \$75.0 million annually. Moreover, the programs noted above funded in whole or in part with the \$75.0 million would be eliminated or reduced without an alternative funding source.

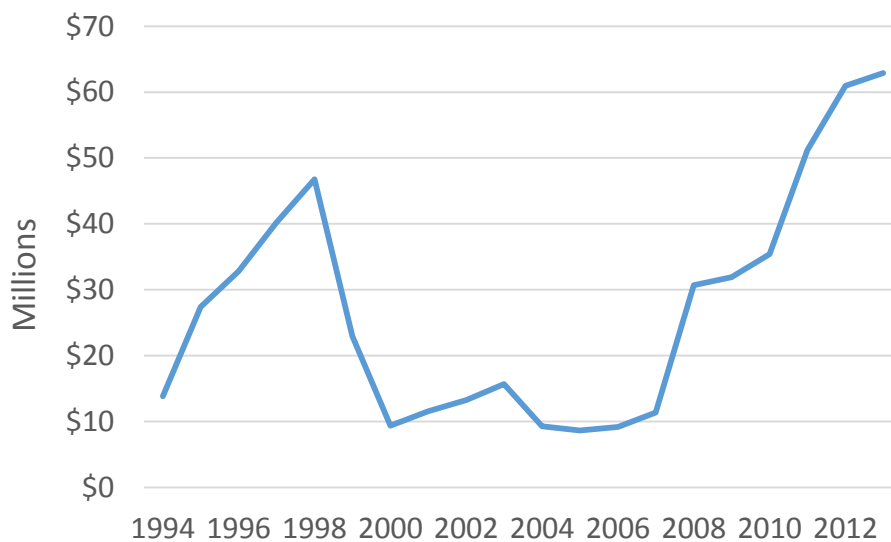
Indian Gaming Compacts

The MEDC receives direct payments, also known as corporate revenues, under various Indian Gaming Compacts. The revenues flow directly from the tribal casino operations to the MEDC, or its Jobs for Michigan Investment Fund (permanent fund), and are not subject to the legislative appropriations process.

All but one of the tribes operating under the 1993 Tribal-State Gaming Compacts have stopped making payments to the MEDC. Payments were stopped in FY 1998-99 upon the approval of the three Detroit casinos by the voters, which terminated the exclusivity agreement in the 1993 Tribal-State Gaming Compacts. Payments under the 1993 compacts had reached a high of \$46.8 million in 1998.

Since 2006, tribal gaming payments have grown substantially due to new compacts (1998 and 2007 compacts) and new tribal gaming facilities created under the authority of those compacts. Tribal payments to MEDC reached approximately \$62.9 million in 2013 and are expected to remain relatively flat or slightly declining, all else being equal, due to current casino revenue projections. The chart below identifies the trends in tribal gaming payments to MEDC since 1994.

Tribal Gaming Payments History



Source: Michigan Gaming Control Board

The state is currently engaged in negotiations with the tribes covered under the 1993 compacts. While a fiscal impact is uncertain at this time, successful renegotiation of the compacts has the potential to increase annual tribal gaming revenues to the MEDC. If the 1993 Tribal-State Gaming Compacts are not successfully renegotiated, current compact language will continue and no payments will be made to the MEDC.

Corporate fund expenditures are spread to various entrepreneurship, business growth, capital access, community revitalization, talent enhancement, and marketing programs within the MEDC.

House Bill 4608 would require the MSF/MEDC to transfer to the Michigan Transportation Fund (MTF) an amount of revenue equal to the amount the MSF/MEDC receives under the Indian Gaming Compacts, which is approximately \$60.0 million annually. The Michigan Gaming Control Board estimates that revenues to the MEDC under the compacts will stay relatively stable in the future assuming no compacts are renegotiated. While no fund source is noted in the bill, the most likely source of revenue is the General Fund.

It is unclear how this transfer would affect MSF/MEDC operations. Any fiscal impact would depend on the annual appropriations to the MSF/MEDC and how the required transfer of revenues to the MTF is addressed in the appropriation act. For example, the legislature may choose to appropriate the amount required for transfer to the MTF over and above the amount required to maintain current MSF/MEDC operations. On the other hand, the legislature may elect to reduce annual appropriations to MSF/MEDC operations by an amount equal to the MTF transfer.

Pure Michigan

The bill also includes legislative intent language requiring Pure Michigan to be funded at a level no less than the level it was funded at in FY 2014-15. If future legislative appropriation acts follow this provision, a minimum of \$29.0 million GF/GP would be appropriated to Pure Michigan annually. It should be noted that the statutory provision included in this bill cannot bind future legislatures to make an appropriation for this program.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.