ENROLLED BILL ANALYSIS

BILL NUMBER: Enrolled House Bills 4195, 4196 and 4365

TOPIC: Michigan Early Stage Venture Investment Act Amendments

SPONSOR: Representatives Al Pscholka, Michael McCready and Brandt Iden

CO-SPONSORS: Numerous bi-partisan co-sponsors

COMMITTEE: House Commerce & Trade / Senate Economic Development & International Investment

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DATE OF COMPLETED ANALYSIS: October 31, 2015

SHORT SUMMARY/HIGHLIGHTS OF THE BILL

House Bills 4195 and 4196 amend the Michigan Early Stage Venture Investment Act of 2003 to eliminate the last $150 million in tax vouchers. House Bill 4365 amends the corresponding language in the Michigan Business Tax Act to reflect the $150 million reduction.

ADMINISTRATION POSITION

The Administration supports the bills.

PROBLEM/BACKGROUND

Public Act 296 of 2003, as amended, created the Early Stage Venture Capital Investment Act. The stated purposes of the act are to promote a healthy economic climate in this state by fostering job creation, retention and expansion through the promotion of investment in certain businesses and allow the state to enter into agreements with Michigan early stage venture investment corporations to promote a healthy economic climate in this state.

The Michigan Early Stage Venture Investment Fund has been critical to the success of Michigan's venture capital and technology industries and has helped put the state on a more economically diverse growth trajectory; however, recent history has demonstrated the budgetary impact of using tax credits to incent economic activity.

DESCRIPTION OF BILLS

- House Bill 4195 amends the Michigan Early Stage Venture Investment Act of 2003 to do the following:
  - Prohibit the Michigan Early Stage Venture Investment Corporation from entering into new agreements with investors after the effective date of the bill.
  - Allow the corporation to modify an existing agreement with an investor as long as no additional principal was borrowed from the investor and tax vouchers were not increased above the level that had been approved on the effective of the bill.
  - Allow the corporation to modify an existing agreement with an investor that the corporation had received a loan or line of credit from and could expend money to modify the agreement as long as (1) expenditures were no more than $500,000 without the consent of the state budget director and (2) notification of the modification was reported to the State Budget Office and the chairpersons of the House and Senate Appropriations Committees within 30 days of finalization of the modification.
  - Prohibit the corporation from creating a Michigan Early Stage Venture Investment Fund or make any new commitments to contribute capital to a venture capital company after the effective date of the bill. It could, however, modify an existing agreement with a venture capital company as long as no additional funds were committed to the company after the effective date of the bill.
  - Prohibit the Department of Treasury from approving any new tax voucher certificates after the effective date of the bill and reduce the total dollar amount of credit vouchers issued under the act from $600 million to $450 million.

  - Add transparency language that requires that the corporation's annual report be made available on the internet and requires that copies be sent to the House and Senate Appropriations Committees. New reporting items related to investments made and tax vouchers used under the corporation's activities would be added to the report's contents.
  - Require all money in the fund (minus outstanding debts and obligations) to be distributed in a specific manner upon dissolution. The first $140 million would have to go to the General Fund and the remaining amount to the 21st Century Jobs Trust Fund.
- House Bill 4196 amends the same act to move the expiration date for the fund from January 1, 2054, to January 1, 2030, and requires all money in the fund (minus outstanding debts and obligations) to be distributed in a specific manner upon dissolution. The first $140 million would have to go to the General Fund and the remaining amount to the 21st Century Jobs Trust Fund.
- House Bill 4365 amends the Michigan Business Tax Act to reduce the total dollar amount of credit vouchers issued for the purposes provided in the Michigan Early Stage Venture Investment Act of 2003 from $600 million to $450 million.

The bills are tie-barred to one another, meaning none can take effect unless all are enacted.

SUMMARY OF ARGUMENTS

Pro:

- The bills would save $150 million by ending the Venture Michigan Fund before all of the tax vouchers have been used.
- The termination date of the Venture Michigan Fund would be moved back to 2030. This should be sufficient time to fully liquidate the funds, while allowing the state to continue to receive funds from existing agreements until 2030.

Con:

The state's commitment to the fund allows venture capital companies to attract other private investors to their funds. Some members of the venture capital community believe that once the state investment is gone, private investors might be leery of bringing their dollars to the state, potentially stalling Michigan's emerging venture capital industry.

FISCAL/ECONOMIC IMPACT

Are there revenue or budgetary implications in the bill to the –

(a) Department
Comments: None

(b) State
Comments: House Bills 4195 and 4365 would limit the amount of any future state liability through tax vouchers authorized by the Michigan Early Stage Investment Corporation. The impact of House Bill 4196 would depend on the performance of fund investments between 2030 and 2054; it would ensure that the first $140 million of the remaining funds in 2030 would go to the state's General Fund and any remaining amount would go to the 21st Century Jobs Trust Fund.

(c) Local Government
Comments: None

OTHER STATE DEPARTMENTS

The Michigan Department of Treasury and the State Budget Office would have an interest in these bills.

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ANY OTHER PERTINENT INFORMATION

Support: Oakland Schools
Oppose: None known

ADMINISTRATIVE RULES IMPACT

There are no administrative rules necessary for Early Stage Venture Capital Investment Act.

FINAL PASSAGE VOTE (House and Senate)

House Bill 4195:	House:	107 Yeas	3 Nays
	Senate:	36 Yeas	0 Nays
House Bill 4196:	House:	108 Yeas	2 Nays
	Senate:	36 Yeas	0 Nays
House Bill 4365:	House:	108 Yeas	2 Nays
	Senate:	36 Yeas	0 Nays