

A MACKINAC CENTER REPORT

AN EVALUATION OF MICHIGAN'S
**21ST CENTURY
JOBS FUND**

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The Mackinac Center for Public Policy

An Evaluation of Michigan's 21st Century Jobs Fund

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Introduction

In 2005, Michigan Gov. Jennifer Granholm launched a project intended to stimulate the state's economy: the 21st Century Jobs Fund. At the time the state had not yet recovered from the 2001 national recession and was suffering the country's highest unemployment levels.

After a tough political battle to establish the program and after making a number of compromises, the 21st Century Jobs Fund was created. The program was to be funded from 2006 to 2015, and in the 2013-14 legislative session, under a new governor and Legislature, it was extended until 2019 and provided with \$75 million in continued annual funding.

After ten years of existence, this program has received little attention and its effectiveness has never been measured. All government programs should be reviewed regularly, and it is time for a close look at the 21st Century Jobs Fund.

This review finds several fundamental problems with the structure and operations of the 21st Century Jobs Fund. These problems include:

1. It may violate Michigan's constitutional ban on state investment in private companies.
2. It has no clear objectives or overall guiding strategy, which has led to economic development decisions being made for political purposes rather than economic ones.
3. It does not hold to any clear and consistent performance benchmarks.
4. It regularly fails to meet its legislative reporting requirements.

A complete review of the 21st Century Jobs Fund program would include a thorough study of its economic impact. Unfortunately, this would be impossible because the program does not provide consistent records that would be required to conduct such an analysis. However, based on the available information, it is highly unlikely that the 21st Century Jobs Fund has had a meaningful impact on Michigan's economy. Consider these facts:

1. The program has spent hundreds of millions of dollars since its inception, but could report having created only 6,549.3 new jobs.
2. The 6,549.3 new jobs resulting from spending by the 21st Century Jobs Fund amount to just 0.15 percent of the state's total current workforce.
3. From 2005 through 2015, the total amount of economic activity in Michigan was valued at \$4.5 trillion, and the total the 21st Century Job Fund invested, awarded or leveraged over that period was \$4.85 billion. Even assuming that all of that investment was productive and would not have happened without state support, it still only amounts to 0.08 percent of the total economic activity over the period.

Given the problems stated above and the lack of demonstrable economic impact, policymakers should consider discontinuing the 21st Century Jobs Fund. Taxpayers should not have to pay for a government program that lacks clear objectives, fails transparency requirements and cannot demonstrate how it benefits the public. If policymakers choose to continue this operation despite its obvious shortcomings, they should, at a minimum, enforce the requirement that the program report regularly and consistently on its entire activity so that a full economic analysis can be conducted.

History of the 21st Century Jobs Fund

In 2005, Gov. Jennifer Granholm announced in her “State of the State” address that she wanted to amend Michigan’s Constitution to “allow the state to invest \$2 billion in bond money to create 21st century jobs[.]”¹ Under her plan, the state would borrow money, loan and invest in companies providing jobs to Michigan residents and use the return on investment to repay the bond proceeds. Only if those investments did not provide returns would the state’s general fund be needed for bond payments.²

Gov. Granholm’s speech stated that the plan would make the state “a world-wide center of research and innovation.”³ The initial legislation covered targets “includ[ing], but not limited to” research, development and building infrastructure for “competitive edge technologies” and “world class centers of excellence.”⁴ This new job creation plan would also sponsor endeavors to keep individuals working in select industries within the state, commercialize certain activities and provide matching grants to targeted projects eligible for federal funding.⁴

The goals of the program were two-fold: targeted economic development and return on investment. But these dual goals make the program’s success difficult to achieve — in fact, they can at times be in conflict with one another. Money spent to produce a return on investment may not create any jobs or may even reduce jobs, and money spent on creating jobs may produce a negative return on investment.

Furthermore, by limiting the investments to targeted activities in targeted industries — “life sciences technology; advanced automotive, manufacturing, and materials technology; alternative energy technology; and homeland security and defense technology” — the state may forgo the greatest opportunities for return on investment or job creation.⁵ In other words, unless the targeted industries the state invests in also happen to be the most profitable investment opportunities and create the most jobs, this two-fold goal will limit the possible success of the program.[†]

The governor’s legislation clarified that the return on investment was a secondary objective compared to economic development. It stated that the program intended to “diversify the economy of this state, encourage long-term economic growth and full employment, and to create jobs.”⁶

* “Competitive edge technologies” were defined as “life sciences technology; advanced automotive, manufacturing, and materials technology; alternative energy technology; and homeland security and defense technology.” Elizabeth Pratt and Maria Tyszkiewicz, “Jobs for Michigan Fund S.B. 488: Committee Summary” (Michigan Senate Fiscal Agency, May 12, 2005), <https://perma.cc/5Z43-ACNX>.

† There’s also no indication that policymakers considered the profitability of the industries it selected to be eligible for these taxpayer-funded investments. In fact, there’s evidence that at least some of the industries were chosen for political reasons rather than economic ones. The industries targeted for grants and loans were not likely chosen at random, but no explanation was made for selecting these industries and not others.

Constitutional Issues

Policymakers originally believed that the Michigan Constitution would need to be amended in order to legally authorize the actions of the 21st Century Jobs Fund, as it would involve long-term borrowing and direct investments in private enterprises. They eventually found a way to work around these requirements, but the program's constitutionality is still not entirely in the clear and the following section will describe this in more detail.

Constitutional Amendment Attempt

Gov. Granholm's initial idea to fund the 21st Century Jobs Fund was for the state to borrow \$2 billion. This money would be backed by the state's general obligation to repay bonds, pledging its full faith and credit. These bonds would not be secured by a separate funding source, like the Mackinac Bridge Authority bonds that were paid off through toll revenues, but would be paid from general state revenues. At the time, the state's general fund was funded mostly by unearmarked revenue from the state's income tax, Single Business Tax and sales and use taxes.⁷

Article IX, Section 15 of the Michigan Constitution, however, restricts the ability of the state to engage in long-term borrowing (longer than one fiscal year). It only allows the state to borrow long term if the debt is approved by two-thirds of both legislative houses and a majority of voters in a general election. The ballot question must specify the purpose of the borrowing, the total amount to be borrowed and the method by which the debt will be repaid.⁸

In light of this constitutional limitation, a joint resolution was introduced in the Michigan Senate after Gov. Granholm's State of the State speech that would put before voters a proposal to amend the Michigan Constitution. This resolution proposed adding a new section to Article IX of the Constitution that would specifically empower the "Jobs for Michigan Fund" to promote economic growth and create jobs. It also called for the state to borrow a maximum of \$2 billion to finance the program, audit the Jobs for Michigan Fund every year and stipulated that this program was not authorized to impose or increase any tax.⁹

Based on the Senate resolution, Michigan voters would be asked to "authorize bonds to finance the creation of new jobs in Michigan and the diversification of Michigan's economy." This would be accomplished "by making loans, grants or investments in private businesses and public entities based on recommendations from independent job creation experts."¹⁰

The effect of these proposed changes to the Michigan Constitution would do more than just authorize the state to borrow the money needed to fund this economic development program. By specifically naming and authorizing the Jobs for Michigan Fund, the proposed constitutional amendment would provide permanence to the program. It would require an additional constitutional amendment to eliminate this program, should a future Legislature desire to do so.

In the end, this constitutional amendment proved unnecessary because the proposal devised and passed by the Legislature used a different funding mechanism. These bills proposed using a different source of revenue — instead of relying on long-term borrowing, the state would sell its

revenue stream from tobacco settlement money for an upfront cash payment.¹¹ The revenue from these sales would then be used to fund the jobs program. This plan eliminated the need to amend Article IX, Section 15 of the state constitution, since the state would not actually be borrowing money; instead it would be selling off a portion of its future revenues.* The amount that the state securitized in the initial year of the program was 13.34 percent of future proceeds from the tobacco settlement payments over the next 20 years.¹²

This also meant that the program would have a larger impact on the state budget. Tobacco settlement revenues have some statutory guidance on how they are to be spent, but are practically unrestricted funds, essentially general taxpayer dollars.¹³ By using this settlement money to “securitize” payments for economic development, the state was pledging the use of these unrestricted funds for this purpose. This means that any gains from this program would not pay down the debt (as originally planned), but instead these unrestricted funds would.

In addition to the interest costs required to get more cash up front, using the tobacco settlement money converted an uncertain taxpayer cost to a definitive taxpayer cost. Since the state has wide latitude in how it can spend this tobacco settlement revenue, spending it on this new economic development program means less spending on other government services. These other services may have benefitted taxpayers more broadly than investments in targeted businesses and industries. Funding the program this way also means the Legislature is less able to return money to taxpayers in the form of revenue-neutral tax rate reductions as it was committing to spend these revenues.

Other Constitutional Concerns

Despite changing the funding source to avoid having to amend the Michigan Constitution, the plan that would become the 21st Century Jobs Fund still runs up against a different constitutional requirement. The plan allows state experts to invest in targeted businesses and industries. Article IX, Section 19 of Michigan's Constitution, however, prohibits the state from directly investing in a private enterprise. It states, “The state shall not subscribe to, nor be interested in the stock of any company, association or corporation,” except to provide retirement benefits (pensions) for public employees, endowments for charitable or educational purposes, and for “permanent funds.”¹⁴

This language dates back to Michigan's second constitution, which was approved in 1850 and made effective in 1851. According to historian Burt Folsom of Hillsdale College, this prohibition was created in response to the failed attempts at state-funded economic development, led by Michigan's first governor, Stevens T. Mason. Under Gov. Mason, the state borrowed heavily to finance internal improvements, which included investing directly in railroad and canal building projects. The new constitution banning this activity was supported by a significant portion of early Michigan residents.¹⁵

* Using future tobacco settlement revenues is in a sense long-term borrowing, because the state is borrowing against future revenues. However, the law pertaining to using this revenue declares that it is not in fact borrowing, stating that selling future revenues from the tobacco settlement would “be treated as a true sale and absolute transfer of the state's tobacco receipts transferred and not as a pledge or other security interest for any borrowing.” MCL § 129.268(6).

In addition to its particular history in Michigan, state ownership of businesses and enterprises is controversial, because the state can possibly take control over the direction and leadership of the enterprise it invests in. Thus, the business could be under pressure to meet political ends rather than economic ones. It was unclear whether the state would exercise controlling influence in any of the businesses it would invest in through the proposed 21st Century Jobs Fund program, but it was also unclear how the state would handle having a controlling influence if one did materialize.

In order to avoid this constitutional restriction on investing in private companies, the Legislature created a new “permanent fund” with the monies generated by securitizing tobacco settlement revenue. The legal requirements of a “permanent fund” are unclear, as stressed by Attorney General Mike Cox in an opinion at the time:

The judiciary has not had the opportunity to interpret what ‘permanent fund’ means. Likewise, the Legislature has not provided a definition of the constitutional term ‘permanent fund’ since the time that term was added to art 9, § 19 in 2002. It would, therefore, be premature to express a legal opinion concerning features necessary to qualify a fund as a permanent fund.¹⁶

Nevertheless, the opinion stated that the 21st Century Jobs Fund had some of the features of the other permanent funds and that the Legislature was “entitled to a presumption of constitutionality” in determining that the fund was a permanent fund.¹⁷

While the program has not been challenged on this front and continues to operate, there remains questions about exactly what constitutes a “permanent fund.” Outside of holding stakes in companies, the 21st Century Jobs Fund program is not inherently different from a number of the activities already performed by the state, and it performs functions that can be supported by the state’s general fund. Indeed, the 21st Century Jobs Fund currently supports the state’s Pure Michigan advertising campaign, which has been supported by the state’s general fund in the past.* It appears the sole reason the 21st Century Jobs Fund operates as a permanent fund is so that it can make direct investments and hold stock in companies, something that is unconstitutional for other types of state funds.

A meaningful and distinct definition of a permanent fund is important, because it is meant to limit the types of state-funded investments in and ownership of private enterprises. The act of investing in selected private businesses appears to be unconstitutional. Only by using the mechanism of a permanent fund is this program thought of as legal, even though it is essentially operating in the same way that it would have under the originally proposed scheme, which policymakers, including former attorney general and governor at the time, Jennifer Granholm, thought to be unconstitutional. A generous interpretation of what makes a permanent fund declares the constitution’s prohibition on the state from investing in private companies.

* For an example of joint funding from both the 21st Century Jobs Fund and the state’s general fund, see: Elizabeth Pratt and Maria Tyszkiewicz, “State Notes: Michigan Travel Promotion and Business Marketing Programs” (Michigan Senate Fiscal Agency, 2008), <https://perma.cc/7D3L-FM2V>.

A Directionless Program

In studying the history of the 21st Century Jobs Fund program, one thing becomes clear: There is not a well-defined and consistent long-term strategy for how to use the fund to achieve its stated goals. Part of the reason for this lack of strategic consistency might be that many of the funding decisions are ultimately determined through a political process and heavily influenced by political considerations rather than economic, financial or strategic ones.

Inconsistent Investment Strategy

Policymakers have constantly tinkered with the 21st Century Jobs Fund program. It has changed drastically since its inception: The statutory guidance for the program has been amended 19 times since it was introduced.¹⁸ Because money for the program must be appropriated each year, boilerplate requirements and earmarks were routinely added to the program, and, especially in times when state tax revenues were not keeping pace with state expenditures, the planned amount originally designed to fund the effort was not always appropriated. And from the very beginning of the program, lawmakers had a difficult time agreeing to and sticking with a consistent investment strategy.

Gov. Granholm's initial idea for this economic development program was to expand an existing program, which provided grants and loans to select industries — the Technology TriCorridor Initiative. This program used securitized tobacco settlement money in 2004 and 2005 to make grants and loans to business projects in the life sciences, advanced automotive and homeland security industries. In addition to expanding the Technology TriCorridor Initiative, the Governor's initial plan also included targeting the alternative energy technology industry for state investment.¹⁹

The bills introduced in the Legislature in response to the governor's proposal followed fairly closely the governor's original intent, albeit with some structure changes. For instance, instead of an immediate expenditure of \$2 billion, the bills proposed spending \$1 billion initially and then creating an annual expenditures for the program each year from 2006 to 2015.²⁰ The bills also expanded the industries that the program could fund to include "medical informatics" and "bioterials."²¹ Finally, the original legislative bills did not include talent attraction and retention or matching grants.²²

More substantial changes to the legislative bills occurred after the House bill was introduced on July 6, 2005. About seven weeks after its introduction, an amendment was offered to give the Michigan Forest Finance Authority \$25 million from the new program.* This authority's statutorily defined purpose is to "preserve existing jobs, create new jobs, and alleviate and prevent unemployment through the retention, promotion, and development of forestry and forest industries and to protect the health and vigor of forest resources."²³

* "Journal of the House of Representatives: No. 71" (State of Michigan, Aug. 31, 2005), 1257, <https://perma.cc/RV36-BJZW>. The amount granted to the Michigan Forest Finance Authority was increased to \$26 million in the version of the bill that passed the House. "Substitute for House Bill No. 5047" (State of Michigan, Sept. 28, 2005), 32, <https://perma.cc/R63K-7Q35>.

The Legislature discussed numerous other changes and amendments to the House bill. Loans for “WiMax” internet connection services were added and then later removed. There were earmarks for the tourism industry, military contractors, nonprofit medical research and a Southeast Michigan business association for the automobile industry. In addition, it proposed giving \$16 million (4 percent of initial \$400 million authorized to be spent in 2006) to the Michigan Economic Development Corporation for administering the program.²⁴

Legislators also later proposed substantial changes to the program's functions. They devoted a significant amount of the money for investment funds in private equity, venture capital and mezzanine financing. They also sought to make the program operate as a guarantor to businesses seeking loans and to expand its use for loans to small businesses.²⁵

Finally, the plan for financing the program was changed once again. Funding was shifted more into the future and cut in half: The state would make an initial allocation of only \$400 million and pledged an additional \$75 million for each fiscal year starting in 2008 and running until 2015, for a total of \$1 billion.²⁶

The bills had bipartisan support and easily passed both legislative houses.* However, after signing the bills, Gov. Granholm made reductions in appropriations with an executive order that lowered the Michigan Forest Finance Authority spending by \$20 million — to just \$6 million.²⁷ And a subsequent bill decreased the 21st Century Jobs Fund spending by an additional \$50 million, which was transferred to the state's general fund.²⁸ The state was anticipating overspending that year and needed additional money in the general fund to cover its costs.

When all was said and done, the final bill spent only \$350 million of the initially proposed \$2 billion in the upcoming fiscal year, with another \$600 million pledged in the future, for a total of \$950 million. Of the \$350 million to be spent immediately, \$57.5 million was earmarked for a variety of specific projects: The Defense Contract Coordination Center (\$10 million), the Van Andel Research Institute in Grand Rapids (\$4 million), an automotive technology business “accelerator” (\$6 million), the Michigan Film Office (\$2 million), a Michigan promotion program (\$15 million), the Agricultural Development Fund (\$10 million), the Michigan Forest Finance Authority (\$6 million), the Small Business Capital Access Program (\$3.5 million) and the “Wet Lab Redevelopment” (\$1 million). Other spending included business development marketing (\$20 million), Pfizer Asset Retention Projects (\$12 million), a “Life Science Pipeline” (\$1.4 million), and administrative costs (\$16 million). A further \$7.8 million was unallocated but subject to approval by a board organized under this package. About \$235 million of the initial

* “Securitization In, Tax Plan Out,” *MIRS Capital Capsule* (Michigan Information & Research Service, Nov. 21, 2005); “2005 House Bill 5047: Create ‘21st Century Jobs Fund’” (MichiganVotes.org, 2005), <https://perma.cc/2L3F-86GJ>. The bills were taken up in conjunction with a business tax adjustment that changed some credits, exemptions and deductions and had a small rate reduction. The bills included “tie-bar” language that said that it would not go into effect unless other bills in the package went into effect. The 21st Century Jobs Fund bill was also tie-barred to pieces of legislation in the business tax bills. However, not all of the pieces were tied together and the governor vetoed two pieces of the business tax legislation while approving the others. The vetoes caused the ten bills that were tied to the vetoed legislation to stay out of effect, while allowing the 21st Century Jobs Fund bills to go into effect.

\$350 million — 67 percent — was allocated to grants and loans for targeted industries and businesses or to the state's investment programs.²⁹

This \$121 million funded the Competitive Edge Technology Grants and Loans program, which was an extension of the Technology TriCorridor Initiative, which itself was an extension of the Health and Aging Research and Development Initiative, later called the Life Science Corridor Initiative, which was instituted in 1999 by former governor, John Engler.³⁰ Grants and loans from this program are overseen by a 19-member Strategic Economic Investment and Commercialization Board, whose members are appointed by the governor.*

To help score applicants for grants and loans, the SEIC Board contracted with the American Association for the Advancement of Science to review project ideas and interview top candidates.³¹ AAAS is an international science advocacy organization that also works with private industry and governments in providing expert advice.³² Recommended candidates were then either accepted or rejected by the SEIC Board, subject to funding availability.³³

After the first round of applicants, the SEIC Board approved \$101.2 million worth of grants and loans to select businesses and organizations in September 2006. The SEIC Board requested an additional \$35 million from the Michigan Strategic Fund Board, which is responsible for allocating money from the 21st Century Jobs Fund.³⁴ This request was approved, and in the end, the SEIC Board made 85 loans and grants worth about \$137 million for the 2006 fiscal year.³⁵

The 21st Century Jobs Fund also made allocations to the investment program in 2006 that was part of its statutorily defined functions. The MSF Board was responsible for running this operation and selected Credit Suisse as the fund manager for its venture capital, mezzanine lending and private-equity programs.³⁶ But it would be years before these funds were actually invested in companies.³⁷ At the end of fiscal year 2007, the state had committed itself to \$57.5 million of its \$114 million allocation and only \$3.3 million had been called for investment.³⁸

What originated as a gubernatorial call for \$2 billion worth of investment in target industries at the beginning of the legislative session amounted to just a \$137 million investment in grants to universities and loans to firms, \$109 million to partner in high-risk investments and a significant number of funding for earmarked programs.³⁹

The Pfizer Emergency

In just its second year of being operational, the 21st Century Jobs Fund program turned its focus away from long-term investing and diversifying the economy and shifted its efforts to try to minimize a localized economic shock. In January 2007, Pfizer announced that it was closing its Ann Arbor facility and downsizing other operations in Michigan.⁴⁰ In response, the SEIC Board issued RFPs specifically aimed at retaining the people and infrastructure Pfizer had employed, and

* "Public Act 215 of 2005" (State of Michigan, Nov. 21, 2005), <https://perma.cc/L29U-7B86>. To be considered for an award by the fund, companies, private or public project managers, and entrepreneurs would send a letter of intent and complete an electronic application. The proposals were judged based on four criteria, equally weighted: scientific and technical merit, personnel expertise, commercialization merit, and the participants' ability to leverage other resources.

the Michigan Strategic Fund board allocated \$12 million for the newly created Retention of Pfizer Assets Toward the Advancement of Life Sciences Technologies program.⁴¹

The Retention of Pfizer Assets program would award loans of \$50,000 for every former Pfizer worker a company hired. The largest loan amount was for \$450,000. There were a total of 41 loans worth a combined \$8 million awarded under this program between 2007 and 2010 to companies and startups, mostly in Kalamazoo and Ann Arbor.⁴² There were also grants offered to local economic development agencies to find uses for vacated Pfizer properties and to distribute lab equipment donated by the exiting company.⁴³ The total amount of money dedicated to the Retention of Pfizer Assets was \$14.9 million.⁴⁴

An analysis done by The Kalamazoo Gazette in 2009 found that, of the 2,400 Michigan jobs the company shed, loans through the 21st Century Jobs Fund to companies accounted for the retention of only 50 employees.⁴⁵ The 2015 21st Century Jobs Fund legislative report states that there were 124 people employed at firms that received loans from this program.⁴⁶

The Pfizer incident demonstrates the lack of long-term investing strategies guiding the efforts of the 21st Century Jobs Fund. In just its second year, the program turned into a rescue operation for a local economic downturn. It's hard to demonstrate that there was much merit in this effort, as it ended up only impacting 7 percent of the employees who were laid off as a result of the Pfizer program. And the opportunity costs of attempting to alleviate the impact of the Pfizer closing are impossible to calculate, because it is unknown what other opportunities might have existed at the time that could have yielded a greater economic return for the state.

Additional Modifications to the Fund's Programs

The 21st Century Jobs Fund continued to change after its initial couple years of operation. In 2008, the SEIC Board switched the peer reviewer of its proposals and chose the National Center for Manufacturing Sciences.⁴⁷ The group, however, had conflicts of interest over six of the proposals it was called to review and asked for an alternative reviewer.⁴⁸ Also in 2008, the state created a new "Centers of Energy Excellence" initiative within the 21st Century Jobs Fund program. This program made matching awards to energy sector companies and spent a total of \$63 million.⁴⁹ The state stopped making awards through this program in 2010. This bill establishing this initiative was passed with only one dissenting vote in the Senate and six dissenting votes in the House.⁵⁰ Gov. Granholm stated when signing the bill, "This particular tool will help us attract, fund and grow jobs the country is begging for."⁵¹

The Michigan Strategic Fund approved money from the 21st Century Jobs Fund to start the Michigan Supplier Diversification Fund in May 2009, which attempts to make it easier for manufacturing firms to get access to capital.⁵² The state made six deals under this program in 2009, securing \$11.55 million in loans with \$5,453,500 in 21st Century Jobs Fund money. Companies receiving assistance pledged to create 718 jobs, and the program is still operating, but no longer reports the number of jobs created or historical information.⁵³

That same year, the state also began its “Choose Michigan” program and made \$9 million in loans to two companies — A123 Systems, a battery manufacturer, and VenTower Industries, a maker of wind turbine towers. No expected economic outcomes were listed in the report, but it noted, “Choose Michigan Fund recipients qualified for this funding opportunity as one component of a full suite of State of Michigan incentives.”⁵⁴

In 2010, the state also began an “Accelerator” program where it partnered with two early stage venture capital firms and committed \$12 million.⁵⁵ It also maxed out the Centers of Energy Excellence awards, giving out \$10 million for the year.⁵⁶ Finally, in August of the same year, the Governor moved to end the SEIC Board, with the MSF Board adopting any of its further responsibilities.⁵⁷

More Changes under Gov. Snyder

Upon taking office in 2011, Gov. Rick Snyder recommended broadening the uses of the 21st Century Jobs Fund. He signed a bill opening up the targeted industries of the fund to include information technology and agricultural processing and to give broader discretion to the MSF Board in determining who could be awarded incentives.⁵⁸

In addition to these changes to the 21st Century Jobs Fund, under Gov. Snyder, the state also stopped the practice of awarding tax credits to select companies, notably by eliminating the Michigan Economic Growth Authority program, and began using an annual appropriation to make cash grants to certain businesses instead. These new programs would require annual appropriation through the legislative process, and instead of digging deeper into general fund dollars, the state widened the uses of the 21st Century Jobs Fund.⁵⁹ Thus, the revenue stream for the fund began to be used to pay for the replacement programs of MEGA and other tax credit programs and not programs originally designed to be supported by the 21st Century Jobs Fund.

The Legislature appropriated \$75 million to the 21st Century Jobs Fund for fiscal 2012, with \$25 million pegged for “business attraction and economic gardening,” \$25 million for “innovation and entrepreneurship” and \$25 million for the Pure Michigan tourism advertising campaign. An additional \$25 million from the general fund was allocated to the business attraction and gardening line item.⁶⁰

This represented a major change in the use of economic development programs, including the 21st Century Jobs Fund money. What the state promised in tax credits to select companies and industries through certain economic development programs was to be accounted for in the state budget by subtracting these amounts from expected business tax revenues. In other words, the Legislature had to take into consideration the revenue the state would not be collecting due to targeted tax credits while attempting to establish the annual state budget. Furthermore, the discretion that the MSF Board had on allocating money through the 21st Century Jobs Fund was drastically reduced. Now, the Legislature was limiting the use of this \$75 million for more specific purposes. Lawmakers had done so in the past — consider the earmarks in the original legislation

— but this change also meant fewer dollars going towards the state's speculative economic development programs.

The new programs funded by revenue from the 21st Century Jobs Fund included the “Centers of Innovation” program, aimed to “help stimulate the development of innovative technology clusters in areas where the State has competitive advantages in natural resources, workforce, supply chain, intellectual capital and other assets.”⁶¹ The MSF Board allocated \$7 million to the program and made one \$5 million grant during the 2012 fiscal year.⁶²

Under Gov. Snyder, the state also began operating several new programs as part of the 21st Century Jobs Fund. These include the Pure Michigan Venture Match Fund, the Pure Michigan Venture Development Fund, the Michigan Early Stage Funding Programs, the Entrepreneurial Support Services and Entrepreneurial Service Providers, the Michigan University Technology Acceleration and Commercialization Program, the Michigan Translational Research and Commercialization Program and the Capital Conduit program.

The changes to the 21st Century Jobs Fund program over the years have produced a program that spends taxpayer dollars but does not have a defined purpose or consistent goals — aside from the very broad goals of “diversifying the economy” and “creating jobs.” The original vision was to make steady investments in targeted industries and businesses with the intent of producing a positive return on investment.

As a 2010 MEDC report stated in reference to the 21st Century Jobs Fund early progress towards creating new jobs, “To achieve success, it is imperative that the state make a consistent, long-term investment in these efforts.”⁶³ It's not at all clear that this would have led to a successful economic development program. But the programs of the fund have been under constant change and would fail to meet the standard of success given by its administrator at the time.

Political Investments: Diverted Revenue and Earmarks

The political considerations made for these programs are evident in the allocations for the programs, as well as the influx of additional spending areas. The funding levels are not the result of any economic analysis but rather that of political maneuvering. The 21st Century Jobs Fund programs purposefully diverts resources to political uses — promoting and investing in certain industries, not because they are economically more important to the state and to taxpayers, but because they are merely favored by politicians, for whatever reason.

Using the 21st Century Jobs Fund revenue for political purposes rather than strictly economic ones started before the bill to create the program was even passed. The original bill was introduced on July 6, 2005, and an amendment was offered on August 31 to give the Michigan Forest Finance Authority \$25 million.⁶⁴ It certainly appears that this proposal was made for political reasons, as the goal of preserving jobs in the logging industry does not fit with the original intent of the 21st Century Jobs Fund program, and, more importantly, the sponsor of this amendment's had been involved in transportation for the logging industry.⁶⁵

Another example is Gov. Granholm's veto of \$10 million of 21st Century Jobs Funds money for the Agricultural Development program. She defended the action by pointing out that the Legislature restricted the type of produce half of the funds could subsidize, and that the reason for her veto was that she hadn't agreed to that before the bills passed the Legislature. In other words, politicians were arguing over how much and which fruits and vegetables should be subsidized by a program whose aim was to make targeted investments in competitive technologies, advance manufacturing and life sciences. And in the end, Gov. Granholm vetoed spending this money for political and procedural reasons, not economic ones.⁶⁶

Moreover, the \$75 million that was originally intended to create consistent annual investments in select industries has been and still is frequently diverted for other purposes altogether. For instance, in 2017, \$34 million of this money supports the Pure Michigan marketing campaign, which does not intend to support new targeted industries, but simply operates to promote tourism in the state through advertising, largely to the benefit of the existing tourism industry.⁶⁷

In addition, another \$21.6 million allocated in 2016 supports the business development and community revitalization programs, which replaced those funded previously by tax credits programs. These grants go to companies that previously would have been eligible for MEGA credits and are supported by general tax revenues. Only \$19.4 million of the most recent \$75 million for the 21st Century Jobs Fund went to "entrepreneurship eco-system" programs that, while not envisioned in the original idea of the fund, at least seem to carry some semblance of the intentions of the 21st Century Jobs Fund programs.⁶⁸

There have also been questions in the past about whether the spending through this program has been motivated by the timing of elections. The initial allocation in 2006 was supposed to last for two years as an additional \$75 million was not to be allocated until 2008. But most of the money was handed out before 2008, causing even the original bill's sponsor in the House to become skeptical of the timing of when the money was spent. "I can't believe that we have blown the wad like this," Rep. Huizenga said to Lansing-based news service, MIRS. "We have a long, cold winter in front of us and they shoveled all the coal on the fire for tonight. This just does not make sense to me."⁶⁹

Lack of Performance Benchmarks

Benchmarks and performance targets allow policymakers and managers to explore whether a program is producing its expected outcomes. These are important tools to use as they help identify programs that are working well and those that are not. This enables policymakers to prioritize spending in ways that will produce the most efficient and beneficial outcomes for taxpayers and people who use government programs. Unfortunately, the Legislature has not effectively used these tools to measure the effectiveness of the 21st Century Jobs Fund program.

The original proposal from Gov. Granholm contained at least one real and easily measurable benchmark for performance: return on investment. The state could measure the success of the program based on whether or not its investments yielded a return. Indeed, under the original

plan, the program would not have funding if it was not generating a return on investment. The Legislature modified the plan and funding source, and the result was that there was not a clear, overarching benchmark for successful performance of the 21st Century Jobs Fund. The legislation that eventually passed and created the program contained earmarks for specific institutions and organizations, but do not specify clear objectives for this spending.

For instance, the Competitive Edge Technology Grants and Loans program — the signature element of the 21st Century Jobs Fund in the early years — did not have any performance targets. Expected results from the grants were sparse. The statute made some requirements for companies that would be eligible for grants, and some guidance to the MSF for how to judge applications for the grant.⁷⁰ But the legislation lacked definitive expectation of economic results of the grants and goals program.

And although the investment programs did contain some benchmarks for performance in statute, they were poorly designed and never used. Private equity, mezzanine and venture capital funds were supposed to provide a greater return than the commercial loan portion of the loan enhancement program established by the initial law.⁷¹ However, this original loan enhancement program that was to act as a benchmark for these investment programs was never administered in a way that would provide a performance benchmark, so even these cursory pieces of guidance were ineffective.

It should be noted that the failure of the initial legislation to create any meaningful performance benchmark did not hamper the ability of future legislatures from instituting ones. As described above, policymakers regularly created brand new programs through the 21st Century Jobs Fund. These were opportunities to create performance benchmarks to assess whether the programs would meet expectations. But the Legislature rarely required performance standards for them.

Additionally, lawmakers could have created performance benchmarks when it earmarked 21st Century Jobs Fund money for select purposes. But when it assigned new 21st Century Jobs Fund spending for particular purposes, the Legislature rarely created performance targets. In 2006, the first year money was allocated from the 21st Century Jobs Fund, the Legislature created \$57.5 million worth of earmarks, but did not create any performance standards for these earmarks or reporting requirements for the money spent on these earmarks.

There are some performance-related requirements pertaining to the 21st Century Jobs Fund, however. The statute mandates that the Office of the Auditor General make a performance audit on the fund's financial transactions and make these available online.⁷² According to the department, performance audits are “to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.”⁷³

While this mandatory audit is useful and brings some element of transparency to how these programs are administered, it is not the same thing or nearly as valuable as performance targets or benchmarks. Setting performance targets would allow an investigation into whether the program

is actually meeting its expectations and doing what it was designed to do: grow and diversify Michigan's economy. Without measuring against these expectations, there is no real way to measure how effective the program is.

The plan for the initial allocation of money to the 21st Century Jobs Fund was to make additional annual allocations until 2015 and then reevaluate the program. Clear benchmarks would have gone a long way to determining whether the program was successful and worthy of additional taxpayer support. But a look at the 21st Century Jobs Fund's activities shows that the program has permutated so much that the legislative intent in 2005 is irrelevant to the program's current functioning. It is a spending program with little guidance or accountability to taxpayers.

Lack of Transparency

The statute governing the 21st Century Jobs Fund mandates that the program report annually on its actions. For instance, the grants and loans programs must report on the grant amounts and results, including a list of new patents, copyrights and trademarks, and economic impacts, like the number of new jobs and dollars spent on investments. This seems like fairly straightforward information to report, but, unfortunately, the results of those activities — arguably the most important information of all — are inconsistently reported or not reported at all.

The state required reporting under its initial legislation, though this was recently replaced as part of a consolidated report.⁷⁴ The original statute required some of the basic disclosures, including the names of entities receiving funding and the amount they received, both the projected jobs and “number of new jobs” created by the programs.⁷⁵ The updated statutory reporting requirements include the “amount and type of financial assistance,” the “duration of the financial assistance,” the “status of all loans of the fund,” “the actual number of new jobs created that are not temporary employees” and “the actual number of retained jobs that are not temporary employees,” among other things.⁷⁶ It further specifies that the report will also contain information on the investments of the 21st Century Jobs Fund.⁷⁷

As seen in the Graphic 1, the figures that have been reported by the 21st Century Jobs Fund programs are inconsistent and the state is not meeting its statutory disclosure requirements. Even though details about the awards and loans handed out through most programs are listed, many of them are not comprehensive. For instance, the Retention of Pfizer Assets program lists only \$4.3 million of its awards, even though the program gave out \$8 million worth of awards.⁷⁸ Similarly, the Competitive Edge and Technology Grants and Loans program reports awards made and also money that was returned (possibly because a company failed to meet the terms of their award agreement), but the report only includes a portion of the grants and loans awarded through the life of this program.⁷⁹

Jobs are not reported in five of the programs, and when jobs are reported, they are done so inconsistently. For example, “jobs” are defined in five different ways. Total spending — grants, loans, investments and other transfers — is also not included in the reports on a consistent basis.

The individual recipients of state assistance are not disclosed in nine 21st Century Jobs Fund programs.⁸⁰

The value of the assistance given from the state to individual recipients is rarely included in the reports. For the lending program, there are no records of payment histories in any of the programs. For lending support programs, no detailed information is provided concerning the status of this support — whether, for example, the state's security has been tapped or when payments from the state to the companies has occurred. This is further complicated by the numerous amendments to the awards that may be added on after the initial award has been granted.

And sometimes, reporting on entire programs are simply left out of these annual reports. For example, the Centers of Energy Excellence program has been completely expunged from recent reports. The last it was mentioned was in the 2013 report.⁸¹

Graphic 1: Reporting Results of 21st Century Jobs Fund Programs, 2016

Program	Itemized Total Spending	Total Number of Awards Made	Jobs Definition
Competitive Edge Technology Grants and Loans	Not reported	Not reported	"Current FTEs"
Retention of Pfizer Assets	Not reported	Not reported	"Current FTEs-net jobs"
Pure Michigan Venture Match Fund	Not reported*	Reported	"Current FTEs"
Choose Michigan Fund	Not reported*	Not reported	"Current FTEs"
Centers of Innovation	Reported	Reported	"Current direct jobs"
Programs Administered by the Grantee	Not reported*	Not reported	Not reported
Michigan Early Stage Funding Programs	Reported*	Reported	"Current FTEs" and "FTEs retained in MI"
Entrepreneurial Support Services and Entrepreneurial Service Providers	Reported*	Reported	"Jobs created"
Michigan University Technology Acceleration and Commercialization Program	Reported*	Reported	Not reported
Michigan Translational Research and Commercialization Program	Reported*	Reported	Not reported
Investment Fund	Reported**	Reported	"Jobs created/retained"
Accelerator Fund	Reported**	Reported	"Current FTEs-net Jobs"
Pure Michigan Venture Development Fund	Reported**	Reported	"Current FTEs-net Jobs"
Michigan Supplier Diversification Fund	Not reported*	Not reported	Not reported
Small Business Capital Access Program	Not reported	Not reported	Not reported
Capital Conduit	Reported**	Reported	"Jobs created"
Centers of Energy Excellence	Not reported	Not reported	Not reported

* Only the size of approved awards are reported. In some cases, it is not possible to tell with certainty whether these awarded amounts have actually been spent.

** Awards are reported as "Amount Committed" and actual receipts are reported as "Capital Called for Investment."

Source: "Michigan Strategic Fund Act Annual Report to the Legislature" (Michigan Economic Development Corporation, 2016), <https://perma.cc/A92V-VAMW>.

In addition, while the statutory guidance for the 21st Century Jobs Fund requires each project to be reported upon, closed or completed projects of certain funds have been expunged from the reports. The 2015 legislative report lists just 22 projects from the Competitive Edge Technology Grants and Loan program, a minority of the total number of projects these programs funded.⁸²

This is especially odd because this report is meant to provide a snapshot of the current state of funded projects and not a comparison of the activities that took place between reports. It should give the results of the program in its entirety, not just those projects that are still active. In fact, both the previous reporting requirements and the current version require information on all entities that “received financial assistance” and provide no guidance for removing this data from the reports. Valuable reporting information would give a glimpse of the total results of the program so that its overall efficiency can be assessed. Unfortunately, this type of assessment is not possible given the limited information reported.

Even when figures are reported, there is a question about their accuracy. In scanning MSF Board meeting minutes, sometimes projects are mentioned that are never included in any of the reporting. For instance, the MSF Board amended a “supplier diversification award” to Production Engineering in its December 16, 2009 meeting.⁸³ This company is not mentioned in any of the 21st Century Jobs Fund’s annual legislative reports.

Reporting issues have been a recurring problem for these 21st Century Jobs Fund programs. Audits conducted in 2010 and 2013 both pointed out that the MSF needed to improve the consistency and thoroughness of its reporting. Specifically, the 2013 audit noted that the 2011 report on the 21st Century Jobs Fund did not include its Accelerator Fund, even though this program made awards in 2010. The state responded that this was an “oversight.”⁸⁴ Later reports corrected this, though the Accelerator Fund does not list the individual businesses that received state money via these venture capital firms — it only lists the names of the venture capital firms themselves.⁸⁵

The reporting problem is not one of lack of information — these projects generate a substantial amount of paperwork. The 2010 audit remarked that the process of subsidizing select businesses generates hundreds of progress reports, site visits and milestone achievements.⁸⁶ Yet these are unpublished or not organized in such a way as to allow publishing. The report on the program’s activities provides scarce information about the results of the programs, and the auditor general has highlighted this substandard level of reporting multiple times.⁸⁷

Basic transparency of its activities would require a report on what was awarded to each project, what was received, and the jobs and investment the spending produced. For programs where the state secures lending to a company with pledges of taxpayer support, a record of whether the state’s assistance has been tapped should be recorded.

Results

The state government expenditures on economic development activities are a different sort of expenditures from its typical service provisions. The goal of corrections spending, for instance, is to administer justice. That spending has economic impacts nevertheless. Spending on economic development should show direct results from the program's impact on the economy of the state.

According to the legislation that created the 21st Century Jobs Fund, the goal of spending these hundreds of millions of dollars was to “diversify the economy of this state, encourage long-term economic growth and full employment, and create jobs.”⁸⁸ The progress towards this goal should be relatively easy to measure.

Economic growth is not secret — there are monthly reports on employment and unemployment, quarterly reports on personal income, annual reports on state gross domestic product and dozens of other economic indicators. Michigan's economy is difficult to hide, and government statistical services provide information on employment, income and production and can be used with the program's stated effects to see if it has large impacts on the economy.

In light of those stated intentions, the total amount of economic activity — all of the investment, consumption, governmental activities in the state was \$4.5 trillion from 2005 to 2015.⁸⁹ The 2015 report to the Legislature indicates that all the 21st Century Jobs Fund programs combined invested, awarded or leveraged \$4.85 billion.* Thus, total investments — even making the questionable assumption that none of these projects would have occurred without state support — represent 0.08 percent of the state's total economic activity over the period.

The jobs claims again show the relatively small impact of the 21st Century Jobs Fund program. Its latest report says that there are 6,549.3 jobs because of projects receiving assistance from the 21st Century Jobs Fund, but this amounts to just 0.15 percent of total employment in Michigan.† If all the jobs created in Michigan from 2006 to 2015 are considered, the program accounts for less than 0.08 percent of the job creation since its inception.⁹⁰

While the companies who received state aid through the 21st Century Jobs Fund were positively impacted by this program, in the context of entire Michigan economy, it's hard to argue that anyone else has really benefitted in any tangible way, because the impact of the program amounts to a microscopic fraction of the state's total economy. Even if the program only made good

* The failure to provide adequate and consistent reporting on the programs means that this figure should be given as a best-guess estimate about the program impacts. In addition, it appears that some of the activities of the fund through its history were not included in its most recent report, which may increase the total level of investments. “Michigan Strategic Fund Act Annual Report to the Legislature” (Michigan Economic Development Corporation, 2016), <https://perma.cc/A92V-VAMW>.

† The failure to provide adequate and consistent reporting on the programs means that this figure should be given as a best-guess estimate about the program impacts. In addition, it appears that some of the activities of the fund through its history were not included in its most recent report, which may increase the total level of investments. Author's calculations based on “Michigan Strategic Fund Act Annual Report to the Legislature” (Michigan Economic Development Corporation, 2016), <https://perma.cc/A92V-VAMW>; “State and Area Employment, Hours, and Earnings” (Bureau of Labor Statistics, Aug. 18, 2016), <https://perma.cc/56TY-KDS4>.

investment decisions and created a positive return on investment, the 21st Century Jobs Fund program is never going to have a sizable impact on the state's economy as a whole.

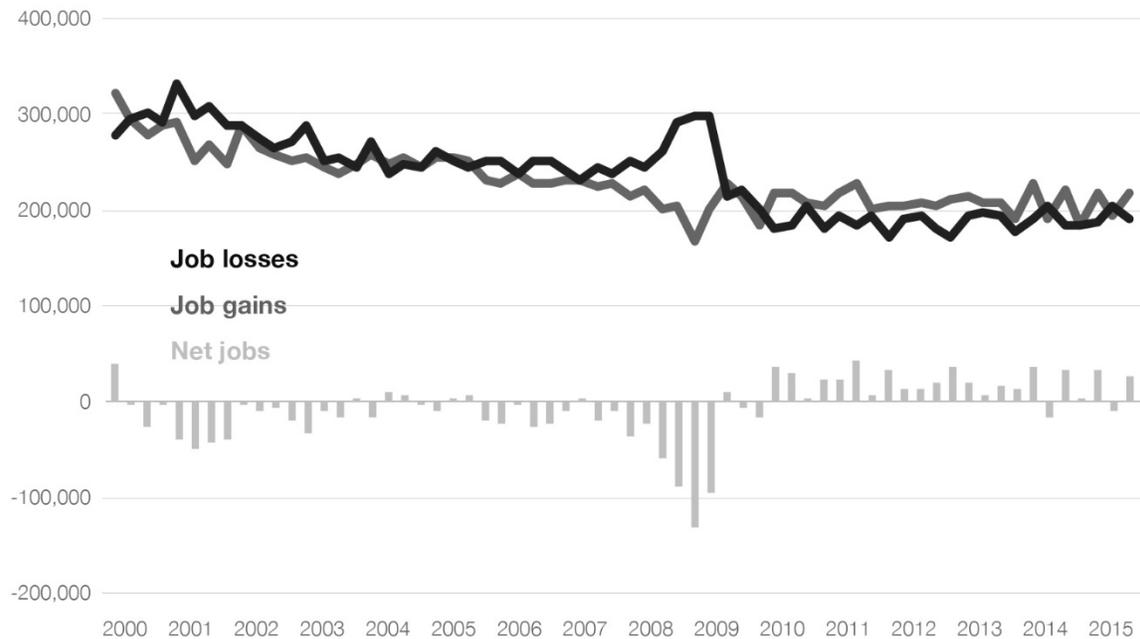
Unfortunately, due to the lack of performance benchmarks and inconsistent and incomplete reporting, it is difficult to measure the actual effectiveness of the 21st Century Jobs Fund programs in any more detail. For instance, it is difficult to tell the level of economic growth that was envisioned by policymakers when designing the program. Gov. Granholm desired that this program would "create 72,000 jobs," but this goal is not necessarily as straightforward as it appears.⁹¹ It could be calling for a net increase in employment levels. It could be an increase in the normal amount of job creation going on in the state. Or it could be the number of jobs performed at business projects that received assistance from 21st Century Jobs Fund programs. Even assuming a straightforward calculation of what "jobs" this goal was meant to count, based on the most recent report of the program, it's less than 10 percent of the way towards this goal of 72,000 jobs.

The differences between these three measures — net job creation, gross job addition, and verified job creation from the program — are important. Michigan's economy is dynamic; it is continuously adding jobs and eliminating jobs. Data from the Bureau of Labor Statistics pegs the figures at around 200,000 jobs gained and lost each quarter.* The graphic below shows these trends over time and in more detail.

* The most recent data available, from the fourth quarter of 2015 shows 218,548 private sector job gains and 192,282 private sector job losses.

Graphic 2: Job Gains and Job Losses in Michigan, 2000-2015

Michigan Job Gains and Losses



Source: Bureau of Labor Statistics

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A net job creation of 72,000 jobs would have added 1.6 percent to total employment in 2005.⁹² However, the impact of just 72,000 jobs over the long term — over the course of the 10-year history of the program — amounts to much less. While it may increase some of the job gains figures, it does not have a meaningful impact on net job growth, limited simply by its size and scope compared to the large and dynamic state economy.

Despite this ambiguity over the original overarching goal of the program and the lack of consistent and complete reporting of the program's activities, government officials have from time to time issued statements about the performance of the 21st Century Jobs Fund. For instance, in April 2010, after four years of the program, the MEDC claimed that 21st Century Jobs Fund programs had created 1,000 jobs.⁹³ Later, in September of the same year, Gov. Granholm claimed that the fund had “created or retained” more than 24,000 jobs, although this figure was likely inflated.⁹⁴ The 2010 year-end 21st Century Jobs Fund legislative reported that the programs created only 2,308.5 net jobs, less than 10 percent of Gov. Granholm's assertion.⁹⁵

The state auditor general also expressed some caution over reporting of job and development goals. A 2013 audit remarked that “[The Michigan Strategic Fund] did not consistently ensure that recipients were in compliance with grant or contract provisions. As a result, MSF could have disbursed funds for grants or contracts that did not achieve the desired economic development goals.”⁹⁶

The money used in the programs of the 21st Century Jobs Fund indeed could have been used for other governmental purposes. Consider that the state could have paid down unfunded liabilities in the school retirement system. The state has promised \$26.7 billion more in school employee pensions than it has saved.⁹⁷ The retirement benefits are constitutionally protected and represent a failure of the state to adequately set aside enough money to pay for pensions as they were earned. Had the state put the money it spent on the 21st Century Jobs Fund programs in the pension system and received the same returns as the other investments in the fund, the state would be \$1.2 billion closer to meeting its promises.⁹⁸

Consider also that the 21st Century Jobs Fund programs did not accomplish its goals. As noted, reporting on jobs is scant and inconsistent. It is not clear that investing this money in the pension system would have provided smaller economic returns than spending it on economic development. And it would have better served the state's required functions.

Or instead of giving money to targeted industries, the state could also have used tobacco revenues to increase general fund support for other government programs. This may have reduced pressure on the state's budget, where there is a constant demand for extra money for a number of programs. And while \$75 million per year is a small figure compared to the \$30 billion in state tax revenues spent in the state budget, it could also be turned over to taxpayers in the form of tax rate reductions.

Perhaps there are other goals not stated in the legislation or mentioned by policymakers. For instance, perhaps this was to boost the state's stature with venture capital and other financiers of high-risk investments. If so, such reputational goals are not measured or reported on.

Recommendations and Conclusion

Lawmakers should be skeptical of spending on a program for the purpose of "economic development" when the program cannot or does not demonstrate that it creates jobs or improves the economic outcomes of the state. Ultimately, based on this review of the program, the most prudent move would be to discontinue the 21st Century Jobs Fund's programs and eliminate the 21st Century Jobs Fund as a revenue source.

This would have a few impacts. The current contractual arrangements between the state and the program's recipients will need to be honored, but no new agreements should be made. The state will need to continue managing its loan portfolio. It can continue its partnerships with investment entities but should seek to liquidate its stakes as soon as feasible. Its "permanent fund" balance should be sent back to the state's general fund. State balances at banks for loan guarantees can continue, but the state should not reinvest when those balances are used up.

The state should eliminate the earmark of \$75 million from tobacco settlement money towards the fund. This money can instead be transferred to the general fund and spent on whatever lawmakers deem appropriate.

If the current programs funded by the 21st Century Jobs Fund — the Pure Michigan campaign, the Michigan Business Development Program and the Community Revitalization Program — are economically beneficial, the state could still continue to fund them via different means. But the state should apply skepticism to those programs' efficacy as well.

If lawmakers choose not to eliminate the 21st Century Jobs Fund, they should at least require the program to be fully transparent. As noted in Graphic 1, the program fails to provide even a basic level of transparency. The statutes controlling the 21st Century Jobs Fund already require a number of disclosures to be made, but the 21st Century Jobs Fund program has not met those requirements. The state should hold hearings to ask the program's administrators why they have not complied with those requirements, and if improvements are not made, suspend or discontinue the program.

Beyond this noncompliance, the 21st Century Jobs Fund has earned dissolution. It was a program that was intended to improve the economy, but its design and constant manipulation have made its economic outcomes only hypothetical and made it impossible to measure the effectiveness of the program empirically. It has been inconsistent in its approach to economic development and inconsistent in its reporting. Its funds have been leached for other causes. And it has been noncompliant with state requirements. All this adds up to a failed government experiment.

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