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Only 8% of $400M 21st Century Money Left

The big $400 million barrel of securitized tobacco settlement money designed to be spent on economy-boosting projects in Michigan until Oct. 1, 2007, is all but drained, spent either by the Legislature or through an administrative board process less than 12 months after the bill creating it was signed into law.

Roughly $33.6 million remains unspoken for in the 21st Century Jobs Fund, a fact that disturbs some of the architects of this first-of-its-kind venture. It also opens the debate of whether the free spending speaks more to the great need of this type of fund for cutting-edge enterprises or whether politics is keeping the wallet open.

Rep. Bill HUIZENGA (R-Zeeland), the legislative co-author to the 21st Century Jobs Fund, said he's concerned the gubernatorial-appointed boards charged with monitoring the $400 million rushed through a significant pieces of spending unnecessarily. He wondered aloud whether Gov. Jennifer GRANHOLM's tight re-election campaign has something to do with it.

"I can't believe that we have blown the wad like this," Huizenga said. "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."

But officials at the Michigan Economic Development Corporation (MEDC), the quasi-government agency blazing the path for arguably Granholm's most noteworthy economic development accomplishment, note that heavier-than-expected interest in the 21st Century Job Fund money created a scenario where the monitoring boards weren't picking winners from a patch of otherwise losing proposals. They were picking winners among winners.

"We're doing what the law requires," said MEDC Spokesman Mike SHORE. "We're spending money within the two-year window given us."

He added that getting into a discussion over what amounts to $35 million in 21st Century Jobs Fund money slated to be spent over the next 10 months is a "fairly silly exchange to get involved in."

Yet, a popular underlying feeling from this spending is that its all being driven by politics, that during an election year, elected officials — Republicans and Democrats — are eager to give away money. The Republican legislators did it early by injecting a bunch of earmarks into the $400 million and the Governor is doing it now by frontloading the major piece of the 21st Century Jobs Fund.

Michael LaFAIVE, a fiscal policy analyst for free-market think tank the Mackinac Center, said he's not surprised the 21st Century Jobs Fund is running on empty with 10 months to go. Government will always expand to the money available to it and the greatest cheerleaders are the sitting office holders. They benefit from the press release, photo opportunity and headline that a big check can bring in the local and statewide media, he said.

For example, he noted that Republicans set aside $26 million in 21st Century money for a forestry initiative that would look good politically in the district of at least one vulnerable rural Republican. Likewise, it should be no surprise the Granholm administration is overly eager to spread out the names of as many winning 21st Century projects as possible.

"If this isn't proof that this is political initiative and not an economic one, I don't know what does," said LaFaive, a skeptic of the program from its outset.

Granholm first mentioned the 21st Century Jobs Fund during the 2005 State of the State address as a $2 billion bonding proposal. Republican lawmakers quickly cooled on the idea of asking voters to spend future revenues on an unproven venture. But a bi-partisan agreement worked out later that year allowed the state to tap into the roughly $300 million it receives annually from tobacco companies as part of the 1998 Master Settlement Agreement.

The administration and Republican legislative leadership worked out a complex agreement in which a fraction of future tobacco settlement monies would be sold on Wall Street for one $400 million lump-sum payment. The expectation was that another $600 million would be spent in $75 million increments from the Master Settlement payments every year until Fiscal Year 2015.

According to the agreement, the first $400 million would be spent from roughly early Summer 2006 to the end of Fiscal Year (FY) 2007, Sept. 30, 2007. The Legislature found $113.9 million in projects and earmarked them right off the bat. The forestry project received $26 million. Automation Alley saw another $6 million. Roughly $16 million went to administration, etc.

Of the $286 million left, the Michigan Strategic Fund (MSF) Board — nine of the 11 of whom are gubernatorial appointees — used the new law as a guide to steer $114 million to what is known as "Capital

Investment Programs."

These are pots of money made available to increasingly successful high-tech enterprises that need additional revenue to keep their projects rolling, but can't count on banks to help out. Venture capital funds, "mezzanine funds" and private equity programs fall under this category. The law reads that no more than 40 percent of the eventual $1 billion can go into these projects.

Another funding option is the "Loan Enhancement Program," which also helps promising start-ups get on its feet. Up to 25 percent of the eventual $1 billion can go into the fund. Not a penny has been put there, yet.

The largest chunk of change is going into what is known as the "commercialization programs." This is where private business folks, universities and non-profit ventures send the state their great ideas. The independent experts at the American Association for the Advancement of Science (AAAS) flush out the good proposals from the bad and a 19-member board known as the Strategic Economic Investment and Commercialization (SEIC) Board gives the projects the OK.

Initially, $100 million was set aside for immediate commercialization projects, but when the state was flooded with a higher-than-expected 505 proposals, some adjustments were made.

The AAAS came back to highly recommend 85 proposals, costing $137 million.

These included projects for companies such as Velcura Therapeutics of Ann Arbor, which was looking for $2 million to help advance the first bone growth-promoting drug to help combat bone diseases. Zeeland Farm Services wanted $1 million to help develop a new oxidation technology it was using to convert soy oil into a substance that could replace the need for petroleum.

The SEIC approved $100 million, but on Sept. 6, approved a motion to fund all $137 million. The motion passed on a rare split vote, 11-7. The board is made up of the state Treasurer, the head of the Department of Labor and Economic Growth, seven business and investment professionals, someone from the Van Andel Institute, someone from Automation Alley, six university presidents and an appointment each from the House Speaker and Senate Majority Leader.

Sources indicate the hesitation from some members stemmed from a belief that the board was being over-eager with the awards, which basically are loans to for-profit ventures and grants to non-profit operations.

The skepticism was this was the first time the state of Michigan and the SEIC had issued these awards. Wouldn't it be more wise to grant a limited number in the first round, analyze how things went, work out the kinks and come back with a stronger second round of awards a few months down the line?

On the flip side, it was argued that if 85 proposals were judged by the AAAS as highly recommended, this speaks to a void in the research community for this type of funding and $37 million extra will help quench that need.

The request to spend the extra $37 million went to the 11-member MSF, which approved the request, 9-2. Huizenga spoke in opposition to the extra funding at the board's Sept. 27 meeting.

"There are good projects that were funded," Huizenga said. "There is no doubt about it. The question is, 'Are these the best projects?' We've gone through 80 percent of the money for what was supposed to be a multi-year program.

"Let's assume there is pent-up demand. I can see it. But to come back with an additional $36 million…I'm a little fuzzy as to why it's good policy."

Shore argued that these decisions were made by a board of university presidents, business professionals and research/technology experts who do not have a "R" or a "D" next to their names. He said any grumbling about the spending of the $37 million has more to do with the fund not having enough money to satisfy the demand than anything else.