FISCAL BRIEF

THE CONVENTION FACILITY DEVELOPMENT FUND REVENUES AND DISTRIBUTIONS

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FAST FACTS

- CFDF revenues comprise the Accomodations Tax, Liquor Excise Tax, and Health and Safety Fund transfer.
- The CFDF distributes 100% of annual revenues which totaled $100.7 million in FY 2017-18.
- Distributions are made to the DRCFA for debt service payments and for operating shortfalls, to all 83 counties, and for early debt service payments.
- Revenue collections will cease once all bonds are retired.
- Additional debt service distributions that began in FY 2015-16 will result in bonds being retired significantly earlier than the scheduled FY 2038-39 payoff date.

INTRODUCTION

Cobo Center, also known as Cobo Hall, originally opened in 1960 as the largest convention facility in the country with 400,000 square feet of exhibition space. Owned by the city of Detroit, Cobo Center is named after former Detroit Mayor Albert E. Cobo, who was mayor from 1950 to 1957.

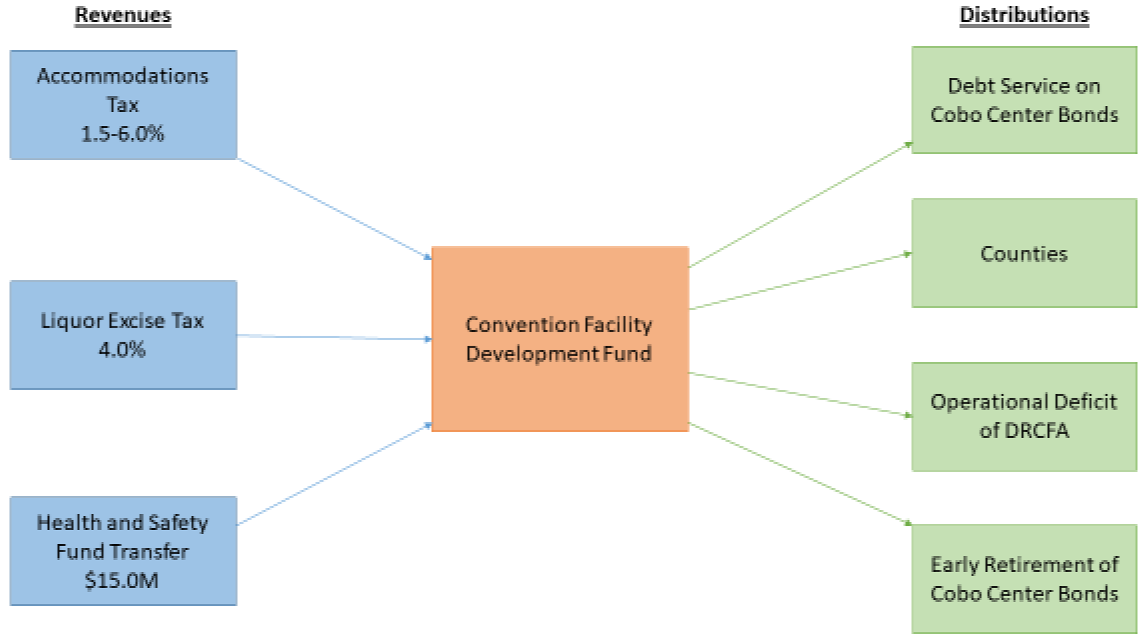
In 1985, the City began a substantial expansion project which nearly doubled Cobo Center's size. The expansion was financed by the sale of bonds and funded by the Hotel Accommodations Tax and Liquor Excise Tax established under the State Convention Facility Development Act (the Act), Public Act 106 of 1985. The goal of the legislation was to support tourism and economic development in Michigan, specifically through the expansion and renovation of the Cobo Center.

In the mid-2000's, negotiations on the future of the North American International Auto Show (NAIAS) and the need for upgraded and expanded space prompted renewed discussion of renovating the Cobo Center. In 2009, Public Acts 60 through 63 authorized the lease of the Cobo Center to a new legislatively established Detroit Regional Convention Facility Authority (DRFCA). The DRCFA was charged with full operational control and responsibility of the facility and the ability to issue bonds (up to $299.0 million) for the renovation and expansion of the facility to keep the NAIAS at the Cobo Center. The DRCFA made a one-time payment of $20.0 million to the city of Detroit for the 30-year lease of the facility. After the transfer by lease to the DRCFA, the second renovation began in 2009 with the majority of the capital improvements completed by the end of Fiscal Year (FY) 2014-15. To finance the renovations, the DRCFA issued a total of $295.4 million in bonds in 2014.

CONVENTION FACILITY DEVELOPMENT FUND - BACKGROUND

The Convention Facility Development Fund (CFDF), created under the Act with the passage of Public Acts 106 and 107 of 1985, primarily serves as a depository for the revenues used to pay off any bonds issued to finance the Cobo Center renovations. Distributions are also made to counties pursuant to a statutory formula based on the amount of Liquor Excise Tax collected in the county and to the DRCFA for operational deficits in an amount fixed by statute. Per statute, the entire balance of the CFDF is distributed annually. Revenues and distributions are described in further detail below. **Figure 1** provides a flow chart of revenues into and distributions out of the CFDF.

Figure 1
Convention Facility Development Fund
Revenues and Distributions – Since FY 2015-16



CONVENTION FACILITY DEVELOPMENT FUND - REVENUES

Under current law there are three sources of CFDF revenue, which totaled $100.7 million in FY 2017-18, including the Hotel Accommodations Tax, Liquor Excise Tax, and Health and Safety Fund transfer. Pursuant to statute, once all notes, bonds, or other debt obligations related to the Cobo Center are retired, they shall no longer be levied.

First, the Act established a tri-county Hotel Accommodations Tax which is effectively a hotel room rate tax levied in Wayne, Oakland, and Macomb counties.[1] Hotels with fewer than 81 rooms are not subject to the Hotel Accommodations Tax. Hotels with more than 160 rooms must levy a higher Hotel Accommodations Tax rate than hotels with 81 to 160 that are similarly situated geographically. Generally speaking, hotels within the city of Detroit are levied a per room tax rate higher than hotels in the rest of Wayne, Oakland, and Macomb Counties because of the Cobo Center's location within the city of Detroit. **Table 1** provides Hotel Accommodations Tax rates by location and hotel size. Revenues from the Hotel Accommodations Tax have steadily increased since its introduction, totaling $28.5 million in FY 2017-18.

Table 1: Tri-County Accommodations Tax

Hotel Location	Rooms	Tax on Room Rate
City of Detroit	81 to 160	3.0%
	>160	6.0%
Wayne (not including Detroit), Oakland, and Macomb Counties	81 to 160	1.5%
	>160	5.0%

[1] http://legislature.mi.gov/doc.aspx?mcl-207-624

Second, the CFDF receives revenues from a statewide 4% Liquor Excise Tax imposed under the Michigan Liquor Control Code. The Liquor Excise Tax was established under Public Act 107 of 1985 alongside the Act. Liquor Excise Tax revenues have steadily increased since inception, totaling $57.2 million in FY 2017-18.

The Health and Safety Fund transfer was added as a third revenue source in FY 2008-09.[2] Specifically, the act required an annual transfer of $16.0 million from the Health and Safety Fund to the CFDF between FY 2008-09 and FY 2014-15. Statute required the deposit to be lowered to $15.0 million beginning in FY 2015-16 once the Cobo Center was transferred to the DRCFA as provided in 2008 PA 554.[3] The Cobo Center was ultimately transferred to the DRCFA via lease on September 15, 2009.[4] The annual deposit is scheduled to remain at $15.0 million through FY 2038-39.

Table 2 provides the most recent 10-year history of all three revenue sources.

Table 2: Convention Facility Development Fund Revenues
FY 2008-09 through FY 2017-18

Fiscal Year	Accommodations Tax	Liquor Excise Tax	Health and Safety Fund	TOTAL
2008-09	15,682,612	37,680,081	16,000,000	**69,362,693**
2009-10*	15,285,859	37,605,532	16,000,000	**68,891,391**
2010-11	17,202,483	39,142,954	16,000,000	**72,345,436**
2011-12	18,578,136	41,304,739	16,000,000	**75,882,875**
2012-13	19,847,525	43,992,702	16,000,000	**79,840,227**
2013-14	21,758,860	46,177,154	15,890,526	**83,826,540**
2014-15	23,605,980	49,330,359	15,771,438	**88,707,776**
2015-16	24,877,383	52,235,894	15,000,000	**92,113,277**
2016-17	26,374,390	54,227,346	15,000,000	**95,601,737**
2017-18 (prelim)	28,456,714	57,249,181	15,000,000	**100,705,895**

*FY 2009-10 total does not include the one-time deposit of $9.0 million from the 21st Century Jobs Trust Fund pursuant to 2009 PA 62. Funds were pooled with other revenue sources for a total deposit of $77.9 million.

[2] http://legislature.mi.gov/doc.aspx?mcl-141-475

[3] Public Act 554 of 2008 created the Detroit Regional Convention Facility Authority and provided for the transfer of Cobo Center to the authority. The purpose was to transfer control of the facility to the authority to permit upgrades and renovations of the facility for the purpose of retaining the North American Auto Show. The Act also allowed the Detroit City Council to disapprove the transfer of the facility to the authority by adopting a resolution disapproving the transfer within 45 days of the bill's effective date. On February 24, 2009, the Detroit City Council passed a resolution disapproving the transfer. On March 4, 2009, the Mayor vetoed the resolution and the City Council challenged it in Circuit Court. The Circuit Court sided with the City Council, ruling that the veto was null and void because the statute gave exclusive power to disapprove the transfer to the City Council. The Mayor filed an appeal with the Michigan Court of Appeals, and the Michigan Court of Appeals upheld the lower court ruling.

[4] Public Acts 60 through 63 of 2009 were subsequently enacted as part of an agreement reached following the disapproval of the transfer of Cobo Hall to the DRCFA. The main difference between the 2008 legislation and the 2009 legislation was that the transfer of Cobo Hall was structured as a 30-year lease as opposed to an indefinite transfer to the DRCFA. While the Detroit City Council had the opportunity to disapprove the transfer by lease, they chose not to. It should be noted that the 2009 legislation included an opportunity for the mayor to veto the disapproval which was not present in the 2008 legislation.

CONVENTION FACILITY DEVELOPMENT FUND - DISTRIBUTIONS

Annual Debt Service Payments

The primary distribution from the CFDF is for the annual debt service payments associated with any bonds issued to renovate and expand the Cobo Center. Up until FY 2013-14, distributions from the CFDF for debt service were made to the city of Detroit since it was the issuer of the bonds associated with the 1985 renovation.

Distributions for the debt service associated with the bonds issued to finance the 2009-2015 renovation and expansion shifted to the DRCFA pursuant to the Cobo Center lease agreement. The annual debt service payment for the 2014 bond issuance is approximately $21.0 million, and payments are scheduled to continue through FY 2038-39 (assuming no advance payments – see below for discussion on early payoff). Once the bonds are retired, management and oversight of the Cobo Center could revert back to the city of Detroit. **Table 3** provides a 10-year history of CFDF distributions for annual debt service payments to both the city of Detroit and the DRCFA.

DRCFA Operational Deficits

As part of the agreement to transfer the Cobo Center to the DRCFA, the statute designated an amount to be distributed to the DRCFA for operational deficit costs associated with the Cobo Center. These distributions began in FY 2009-10 and are statutorily scheduled to be made through FY 2022-23 (See **Table 3**). The FY 2017-18 distribution for operational deficits was $5.0 million and will continue at that level until the distributions end in FY 2022-23.

Payments to Counties

Historically, all Michigan counties have received distributions from the CFDF under the Act. Prior to FY 2015-16, distributions to counties were made as follows:

- An amount equal to the 4% Liquor Excise Tax collected in the 80 "outstate" counties (not including Macomb, Wayne, and Oakland) was distributed to those counties based on the proportionate share of each county's Liquor Excise Tax collections.
- Any funds remaining in the CFDF, after all required distributions, were distributed to all 83 counties based on the proportionate share of each county's Liquor Excise Tax collections (city of Detroit Liquor Excise Tax collections were excluded from the Wayne County total for this calculation).

In FY 2014-15, the final year counties received distributions according to the above formula, counties as a whole received $1.47 for every $1 collected from the 4% Liquor Excise Tax collected. As noted above, statute differentiates between the tri-county area of Macomb, Oakland, and Wayne and the 80 outstate counties when making distributions. When reported this way, the 80 outstate counties received $1.93 for every $1 collected in the county, while the tri-counties (excluding Detroit) received $1.36 for every $1. The FY 2014-15 county distribution ratios were significantly higher than normal because debt service payments were significantly lower than normal due to the transition from the old bonds to the new bonds.[5] In FY 2011-12, the final full year of 1985 renovation bond payments, counties received $1.18 for every $1 collected. The 80 outstate counties receive a higher distribution ratio than the tri-county area because the tri-county area benefits from the distributions for the Cobo Center renovations.

Per statute, beginning in FY 2015-16, county payments were reduced to an amount equal to the total tax collected from the 4% Liquor Excise Tax and distributed to all counties in FY 2014-15 multiplied by 101%. This change led to a $22.9 million reduction in total county payments between FY 2014-15 and FY 2015-16. When compared to FY 2012-13 (the last year with a full debt service payment on prior bonds) the reduction was $6.2 million. Future distributions increase by 1% annually, not to exceed the total amount collected from the Liquor Excise Tax in that

[5] Limited debt service distributions were made in FY 2013-14 and FY 2014-15. The bonds associated with the 1985 renovation/expansion were retired in FY 2012-13. The bonds for the FY 2009-2014 renovation/expansion were issued in 2014 and while interest payments began in FY 2014-15, principal payments did not begin until FY 2015-16.

fiscal year. Gross distributions to counties are represented in **Table 3**.[6] Pursuant to statute, once all notes, bonds, or other debt obligations related to the Cobo Center are retired, the Hotel Accommodations Tax, Liquor Excise Tax, and Health and Safety Fund transfer shall no longer be levied.

The amount available for distribution to the 80 outstate counties equals their proportion of total Liquor Excise Tax collections from the 80 outstate counties in the immediately preceding year multiplied by the total amount available for distribution to all counties. From this amount, each of the 80 outstate counties receives a proportional share of the distribution based on Liquor Excise Tax collections.

The amount available for distribution to the tri-counties (Macomb, Oakland, and Wayne), excluding the city of Detroit, equals their proportion of total Liquor Excise Tax collections in the immediately preceding year multiplied by the total amount available for distribution to all counties. From this amount, each of the tri-counties receives a proportional share of the distribution based on Liquor Excise Tax collections.

Early Retirement of Bonds

Under statute, the funding available as a result of the reduction in county distributions in FY 2015-16 was redirected to the early retirement of the 2014 bonds.[7] Early retirement of the bonds would allow for significant interest cost savings. In addition, all three revenue sources of the CFDF would cease after all bonds, notes, or other debt obligations are retired.

Payments associated with the early retirement of the 2014 bonds totaled $18.4 million in FY 2016-17 and are estimated to be $23.7 million in FY 2017-18. Assuming continued growth in tax revenue and the end of operational deficit payments in 2023, these payments will continue to exceed the required debt service payments associated with the bonds. Continued use of the early payments could reduce the payoff timeframe by a decade or more.

Table 3: Convention Facility Development Fund Distributions
FY 2008-09 through FY 2017-18

Fiscal Year	Debt Service (Cobo)	Debt Service (DRCFA)	County Payments	DRCFA Operational Shortfall	Early Payoff Distribution	TOTAL
2008-09*	16,216,140	0	37,146,553	9,400,000	0	**62,762,693**
2009-10*	15,826,090	0	37,065,300	20,000,000	0	**72,891,390**
2010-11	15,821,250	495,241	45,028,945	11,000,000	0	**72,345,436**
2011-12	15,822,000	2,183,285	48,877,590	9,000,000	0	**75,882,875**
2012-13	11,103,750	3,717,897	56,018,579	9,000,000	0	**79,840,226**
2013-14	0	4,719,143	71,107,397	8,000,000	0	**83,826,540**
2014-15	0	8,000,000	72,707,776	8,000,000	0	**88,707,776**
2015-16	0	21,262,050	49,823,662	7,000,000	14,027,565	**92,113,277**
2016-17	0	20,849,703	50,321,899	6,000,000	18,430,135	**95,601,737**
2017-18 (prelim)	0	21,156,857	50,825,118	5,000,000	23,723,920	**100,705,895**

*FY 2008-09 and FY 2009-10 included additional distributions to the General Fund totaling $6.6 million and $5.0 million, respectively.

[6] FY 2019 Projected distributions to counties: https://www.michigan.gov/documents/treasury/Convention_Facility_Development_Fund_Projected_Distributions_Fiscal_Year_2019_630342_7.pdf

[7] See MCL 207.630(2)(f)