



Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

REPORT NUMBER 2006-07
June 2006

Southeast Utah Small Business Investment Fund Provides Some Economic Benefits

The Office of the Legislative Auditor General was asked to review the Southeast Utah Small Business Investment Fund (SEUSBIF) program to determine:

- its level of economic benefit to the rural communities of southeastern Utah,
- the effects the program has had on participants' use of public assistance, and
- the efficiency of program administration.

SEUSBIF program is seeking \$2 million in general funds to continue small business investment opportunities in seven counties for the next two years.

The program—designed to give seed capital to low-income families wanting to start small businesses—originally operated under a Temporary Assistance to Needy Families (TANF) grant. SEUSBIF board members are now seeking \$2 million in state general funds to continue the program in Carbon, Emery, Grand, and San Juan counties and to expand the program into Duchesne, Uintah, and Daggett counties. Regarding the program's past performance, we conclude:

1. SEUSBIF has provided some economic benefits to the rural communities they served, through increased business spending for materials and supplies in the local economies and through an increase in the number of jobs. To date, it appears that the economic benefits provided to these rural communities as a result of SEUSBIF exceeded the program costs. We concluded from our sample alone of 42 percent of the SEUSBIF businesses still operating that business spending in the local economies exceeded total program costs by more than \$800,000, twice the amount of total project funding. Overall benefit could be higher if all SEUSBIF businesses that are still operational were reviewed.
2. SEUSBIF may not have decreased participants' use of public assistance in the short-run, as originally asserted by its board members. In fact, \$98,000 in public assistance and \$28,000 in unemployment insurance was paid out to program participants since they began in the program.
3. The program has been administered efficiently in that administrative costs have been kept low. Still, if the program was to be funded, some operations would be modified, which may affect administrative efficiency.

The question of whether or not the SEUSBIF program should be funded remains a legislative issue. Therefore, the intent of this report is to provide policymakers with accurate, independent information pertaining to the SEUSBIF program to aid in their decision making process. If the Legislature decides to fund the SEUSBIF program, we believe that our recommendations to the SEUSBIF board would enhance the efficiency and effectiveness of the program in the future.

SEUSBIF Program Provided Means To Establish Small Businesses

The SEUSBIF program was a rural economic development program designed to enhance the local economy in southeastern Utah by providing funds to low-income individuals to establish small businesses. The SEUSBIF program operated under the premise that given capital, training, and mentoring, low-income individuals could successfully conceptualize, create, and operate small businesses in such

This report is intended to provide independent analysis to the Legislature who will decide whether or not to fund the SEUSBIF program.

SEUSBIF provided seed capital to low income individuals to start small businesses.

quantity and quality as to become an economic engine for generating economic growth from within each county.

The Southeastern Utah Association of Local Governments (SEUALG) was the legal entity administering the SEUSBIF program under the direction of the SEUSBIF Advisory Board. The SEUSBIF Advisory and Funding committees were comprised of members from the Small Business Development Center (SBDC), county economic development staff, Utah's Department of Workforce Services (DWS), Vocational Rehabilitation, SEUALG, and other organizations deemed appropriate and necessary to carry out the mission of the SEUSBIF program, such as the College of Eastern Utah (CEU).

SEUSBIF operated under a TANF grant authorized by the Department of Workforce Services.

The SEUSBIF program ran from October 2001 through September 2003 under a TANF grant from DWS totaling \$790,616. DWS contracted with SEUALG to administer the SEUSBIF program. A qualifying participant had to have a household income at or below 200 percent of the federal poverty level (determined by the U.S. Census Bureau) and have at least one dependent child. For example, if the poverty level for a household of 5 was \$20,000 annually, to be eligible for the SEUSBIF program the total household income could not exceed \$40,000 (200 percent of the poverty threshold).

Participants had to complete training from the SBDC and submit a business plan for review.

Once eligibility was determined, participants had to complete an intensive course in preparing business plans called NxLevel. NxLevel is administered by the SBDC. If participants successfully completed NxLevel, the business plan was submitted to the SEUSBIF funding committee for funding consideration. This committee decided which projects SEUSBIF would support and the amount of funds the proposed business would receive.

SEUSBIF funding was paid directly to vendors for start-up expenses, not to participants.

If approved, these businesses were then provided seed capital from TANF funds ranging from a minimum of \$1,000 to no more than \$10,000, to help cover the legitimate start-up expenses of the business. These start-up expenses included equipment, licenses, rent, phones, and so forth. Additional funds (if needed) were then sought by the start-up business. These additional funds could be personally held assets, a bank loan, or other available funding programs. SEUSBIF funding was never provided to program participants—it was paid directly to vendors for start-up expenses.

Participants were required to report to the SBDC; reporting consisted of three visits over a period of 120 days.

Once participants were awarded a funding amount and started their businesses, they were required to report to the SBDC about the progress of their businesses. The monitoring program consisted of three visits over a period of 120 days. At each visit, the SBDC and the participant reviewed the business plan to see how well objectives were being met. After 120 days, the participants were no longer monitored. However, SEUSBIF board members conducted follow-up business surveys, both in 2004 and 2006, which we reference later in this report.

Economic Benefits of SEUSBIF Are Greater than Program Costs

With regard to SEUSBIF, the economic benefits afforded to the rural counties of Carbon, Emery, Grand, and San Juan are mainly derived from two sources:

- Spending on materials and supplies by the small businesses created by SEUSBIF, and
- jobs created, although the number of jobs was limited and the average wage paid were below county averages.

The economic benefits of business spending and jobs created exceeded program costs.

In this section we examine these two sources of economic benefit. We conclude from our sample that the benefits of business spending and jobs created exceeded program costs. In 2004 and 2005, 19 businesses created with SEUSBIF funding spent over \$1.6 million in the local economies of southeastern Utah for business-related materials and supplies, and 59 jobs were created. Business spending alone exceeded total program costs of \$785,000 by over \$800,000. These economic benefits were derived from our sample alone. Actual benefits could be greater if all businesses that are still operational were surveyed.

There were some limitations to our analysis due to a lack of documentation, reliance on self-reported information, and possible economic shifts from one business to another.

However, we note some limitations to these conclusions. First, documentation was generally limited. Second, the data on business spending was primarily self-reported. Third, the level of benefit derived from jobs created is indeterminable to a certain extent because any jobs created by the SEUSBIF program could be offset by job losses in other parts of the local economies. But, by and large, the jobs

created by SEUSBIF did not appear to be jobs that typically displace others in the economy.

Sample Shows Small Businesses Spent Money in Local Economies

Small businesses created with SEUSBIF funding spent money in the local economies for the operations of their business. To determine economic benefit, we sampled businesses that were still operational and considered successful by the SEUSBIF program. In 2004 and 2006, the SEUSBIF program conducted surveys to determine the impact that the program has had. In 2006, they determined that 52 of 79 businesses (66 percent) were still operational and successful. SEUSBIF determined a business successful if it was still operating at a higher level than a profitable hobby. We sampled 22 of those 52 businesses (42 percent) and contacted them to verify that the business is indeed operating as SEUSBIF has claimed.

We also gathered information from the business owners concerning the financial accounting of their businesses. One limitation of this method was that 68 percent of the business owners we contacted had no documentation for us to review concerning the financial accounting of their businesses; therefore, most information was self-reported. We asked the 22 businesses owners in the sample the following question:

How much money (other than monies granted by SEUSBIF) did you spend on your business for things like materials and supplies in 2004 and in 2005? What was the revenue source for these expenditures, and is there documentation available for us to verify the figures?

In aggregate, we concluded that on average businesses spent about \$35,000 in 2004 and about \$50,000 in 2005 for business-related materials and supplies, as shown in Figure 1.

In 2006, SEUSBIF reported that 66% of the businesses created (52 of 79 businesses) were still operational and successful.

We sampled 22 of 52 businesses (42%), considered "successful" by SEUSBIF.

Figure 1. Small Businesses Created with SEUSBIF Funding Spent Money in The Local Economies. We sampled 42 percent of the businesses that were considered operating and successful by SEUSBIF following their 2006 survey and found that they provide economic benefits to the local economies.

In 2004 and 2005, 19 businesses spent over \$1.6 million in the local economies.

Of the 22 sampled businesses:

- 19 were still operational by the original owner.
- 1 business was no longer operational.
- 1 business was sold by the owner, but the business is still operating in the local economy.*
- 1 business is still operating but has relocated to Idaho.**

19 businesses that were operational by the original owner in southeastern Utah spent over \$1.6 million in the local economies in 2004 and 2005:

- For 2004: On average, businesses spent \$35,114 for business-related materials and supplies.
 - 1 business spent over \$200,000
 - 9 businesses spent between \$10,000 and \$100,000
 - 9 businesses spent under \$10,000
- For 2005: On average, businesses spent \$49,881 for business-related materials and supplies.
 - 1 business spent over \$200,000
 - 2 businesses spent over \$100,000
 - 6 businesses spent between \$10,000 and \$100,000
 - 10 businesses spent under \$10,000

* We did not follow up with the new owner of this business to protect confidential information about the person who originally created this business as a SEUSBIF participant.

** This business no longer provides any economic benefit to the local economies in southeastern Utah, so it was left out of the analysis.

As demonstrated in Figure 1, money spent by small businesses in the local economies should be considered a measurable benefit of the program.

SEUSBIF Should Implement Spending Measure. During our review, we discovered that this type of spending analysis did not exist in SEUSBIF success measures. So, if funded, we believe the SEUSBIF program should ensure that the measurement of dollars spent by new businesses is one indicator that should be used to validate success. The SEUSBIF program should also require businesses to maintain expenditure documentation that will be reviewed at the programs monthly follow-ups with the business owners. This data

If funded, SEUSBIF should track business expenditures as an indicator to validate success.

would determine whether or not the program has been successful at generating economic activity in the rural communities they serve.

Jobs Created Provide Some Economic Benefits

From our sample of 22 businesses, we found that the SEUSBIF program also helped create a limited number of jobs for the local economies—about 59 by the end of 2005. We found that, generally, these jobs are paying below the county averages, but they are providing economic enhancements to the local economies and helping to improve the quality of life for some people. Data on jobs created by sampled SEUSBIF businesses is shown in Figure 2.

From our sample we found that the SEUSBIF program has helped create 59 jobs from 19 businesses in 2005.

Figure 2. SEUSBIF Program Has Provided Jobs to the Local Economies. Our sample found that the SEUSBIF program has helped create 59 jobs for the local economies in 2005.

Jobs Created by 19 SEUSBIF Businesses:*			
2004		2005	
Full-time	20 jobs	Full-time	22 jobs
Part-time	19 jobs	Part-time	28 jobs
Seasonal	9 jobs	Seasonal	9 jobs
2004 Total	<u>48 jobs</u>	2005 Total	<u>59 jobs</u>

* While we sampled 22 businesses, we had to base our analysis on 19 of these businesses because one business was no longer operational, another business was sold, and one is still operational but has moved to Idaho, thus no longer providing economic benefit to Utah.

We also evaluated the wages paid for these jobs and compared those wages to the county averages. This information is shown in Figure 3.

Figure 3. SEUSBIF Program Provided Jobs, but Wages Paid Were Lower Than County Averages.* In 2004, 19 SEUSBIF businesses created 48 jobs in southeastern Utah. In 2005, these same businesses increased the number of jobs created to 59 (which corresponds to the data found in Figure 2 of this report).

Average annual wages of jobs created were generally below county averages, but still provided benefit.

Owners Average Annual Income from Business Created with SEUSBIF Funding:

2004 Average Annual Income Earned = \$11,395
 2005 Average Annual Income Earned = \$14,346

2004 Income Range:

\$0 - \$10,000 = 11 people
 \$10,001 - \$15,000 = 2 people
 \$15,001 - \$25,000 = 3 people
 \$25,001 & Up = 3 people

2005 Income Range:

\$0 - \$10,000 = 10 people
 \$10,001 - \$15,000 = 3 people
 \$15,001 - \$25,000 = 2 people
 \$25,001 & Up = 4 people

Employees Average Annual Wages from Jobs Created by SEUSBIF Businesses:

2004 Avg. Annual Wages Paid:

Seasonal - \$2,313 for 8 people
 Part-time - \$6,063 for 10 people
 Full-time - \$16,575 for 11 people

2005 Avg. Annual Wages Paid:

Seasonal - \$3,033 for 8 people
 Part-time - \$4,098 for 19 people
 Full-time - \$20,755 for 13 people

2005 Average Annual Wages For Nonfarm Jobs By County:**

San Juan County = \$24,884
 Grand County = \$23,580
 Emery County = \$37,062
 Carbon County = \$30,087

* While we sampled 22 businesses, we had to base our analysis on 19 of these businesses because one business was no longer operational, another business was sold, and one is still operational but has moved to Idaho, thus no longer providing economic benefit to Utah.

** DWS Data Source. Averages for income earned for part-time and seasonal jobs was not included because of the numerous unique variables for each (for example- job type, hours worked, age, etc.).

At the end of 2005, three business owners in Carbon County were earning above the county average for annual wages paid for nonfarm jobs. No other business owners or full-time employees of the businesses created with SEUSBIF funding were earning at or above county averages for the counties in which they reside. While only three jobs created because of SEUSBIF were above the mean wage for the counties, these businesses have still provided some economic benefits to the local economies and improved business owners' way of life.

Forty-seven percent of business owners reported that their SEUSBIF business provides their primary income.

If funded, SEUSBIF should require business owners to maintain and report data on jobs created and wages paid at monthly follow-ups.

Job displacement is a possibility, but SEUSBIF businesses appear to be filling small market niches.

For example, 47 percent of the business owners reported to us that the business they created with SEUSBIF funding was their primary income. We also found that it is common for the spouse of the business owner to be working outside of the home. We found that 58 percent of the business owners have spouses working outside of the home for an average 2005 annual wage of \$20,811.

Analysis Limited by Lack of Documentation. Our analysis on income was limited because 68 percent of business owners could not provide us with documentation to review, so about two-thirds of the income data in this report was self-reported. Because jobs created and wages paid are measurable benefits of the SEUSBIF program, the program, if funded, should require businesses to maintain such documentation in the future to be reviewed at monthly follow-ups.

The SEUSBIF program should require funded businesses to maintain documentation on jobs created and wages paid not only for the business owners but for any other employee that the business may hire. This information should be reviewed at the monthly follow-ups with the business owners. This data would help the SEUSBIF program validate whether or not they have been successful at generating economic activity in the rural communities they serve.

Businesses Fill Specific Niches. Another limitation to an analysis trying to measure the economic benefits of the SEUSBIF program is the possibility of job displacement. DWS completed a study of SEUSBIF after one year of operations, and they were concerned that any jobs created by the SEUSBIF program might be offset by job losses in other parts of the economy. While this may occur to a certain extent, our review of SEUSBIF-created businesses leads us to believe that many of these businesses are largely filling small niches in the market.

In summary, we believe that the SEUSBIF program created an economic benefit for rural counties in southeastern Utah. While dollars infused into the economy and jobs created provided moderate economic benefit, there appeared to be a positive impact for families who were living on low wages. In the next section, we discuss our concerns with SEUSBIF's claim that the program has resulted in a reduction of public assistance for participants.

SEUSBIF May Not Have Resulted in a Reduction of Public Assistance

When seeking SEUSBIF funding from the Legislature, some SEUSBIF board members claimed the program has resulted in a reduction of participants' use of public assistance. However, we were unable to substantiate this claim. Our review shows that the program may not have led to a reduction in public assistance in the short-run as some board members would have hoped. In fact, the SEUSBIF program may have resulted in increasing participants' use of public assistance for a limited time.

In the short-run, SEUSBIF has not appeared to decrease participants' use of public assistance.

We did not find an apparent correlation between SEUSBIF funding and a reduction in participants' use of public assistance in the short-run. However, in the long-run, recent decreases in the use of public assistance by program participants may be attributable to either a strong overall economy, the SEUSBIF program, or both. We do note, however, that only 29 percent of all SEUSBIF participants ever received any form of public assistance, and only 6 percent received unemployment insurance and no other form of public assistance. With only 35 percent of the SEUSBIF participants receiving any form of public assistance or unemployment insurance, it is apparent that the program was not aimed at reducing participants' use of public assistance. So, while there are other valid reasons to consider funding the program moving forward, reducing the use of public assistance may not necessarily be one of those reasons.

In the long-run, SEUSBIF may have a positive effect on participants' use of public assistance.

Some Participants Entered Public Assistance After SEUSBIF Funding

Our analysis did not find that involvement in SEUSBIF reduced the use of public assistance by program participants in the short-run. Additionally, we found that some program participants actually increased their use of public assistance after starting with SEUSBIF.

We obtained data from DWS concerning all 79 SEUSBIF participants' use of public assistance from approximately three months before the individuals began in the SEUSBIF program through May 2006. Public assistance data that was gathered from DWS' databases include the following programs:

- Temporary assistance to needy families (TANF) program,
- general assistance (GA) program,
- child care assistance (CC) programs,
- food stamp (FS) program, and
- unemployment insurance (UI), which was pulled from another DWS database and is considered separate from public assistance for purposes of this analysis.

We compiled data from DWS’ databases on SEUSBIF participants’ use of public assistance and show our conclusions in Figure 4.

Figure 4. SEUSBIF Program Has Not Reduced Participants’ Use of Public Assistance. Most participants that used public assistance continued using public assistance or started using public assistance after they started in the SEUSBIF program.*

Only 23 of 79 participants ever received public assistance (29 percent):

- Only three of 23 participants used public assistance before their approximate begin date (when they began in the SEUSBIF program) and have not returned (13 percent).
- Fourteen of 23 received public assistance before and after they began in the SEUSBIF program (61 percent).
- Six of 23 received public assistance for the first time after they began in the SEUSBIF program (26 percent).

* Data Source: Department of Workforce Services

As shown in Figure 4, since only 29 percent of SEUSBIF participants (23 of 79) have ever received public assistance and only 3 participants stopped using it after starting the program, it is difficult to prove a correlation as to how the SEUSBIF program has resulted in decreasing the use of public assistance in the short-run. The fact that 87 percent (61 percent + 26 percent in Figure 4) of those who have ever used public assistance either started or continued doing so while in the SEUSBIF program also makes it difficult to claim that SEUSBIF has reduced the participants’ need for public assistance.

Eighty-seven percent of those who have ever used public assistance either started or continued while in the SEUSBIF program.

Some Program Participants Have Used Public Assistance Since Beginning the SEUSBIF Program. In terms of public assistance costs, SEUSBIF participants have used over \$98,000 in public assistance since they have begun participation in the SEUSBIF program. This information is illustrated in Figure 5.

Figure 5. SEUSBIF Participants Have Used over \$98,000 in Public Assistance since Beginning in the Program. Twenty of 79 SEUSBIF participants (25 percent) used over \$98,000 in public assistance after they began in the program.

Type of Benefit	Public Assistance Paid Since Approximate Begin Date for Participants*	SEUSBIF Participants Receiving Benefits**
TANF Benefits	\$ 13,332	2
GA Benefits	648	1
CC Benefits	13,657	3
FS Benefits	<u>70,736</u>	18
Total	<u>\$ 98,373</u>	

* Dollar figures in this column were compiled starting after the individual's approximate begin date in the SEUSBIF program.

** This column does not total 20 because some individuals receive public assistance from multiple programs.

In addition to SEUSBIF participants receiving public assistance, as shown in Figure 5, 10 SEUSBIF participants received unemployment insurance between January 2001 and May 2006 totaling \$54,634. Of this amount, \$28,005 was paid to seven individuals after their approximate begin date in the SEUSBIF program. Of these 10 individuals, five received no other form of public assistance.

As of May 2006, only three SEUSBIF participants were still receiving any form of public assistance. All were receiving food stamp benefits, and no one was receiving unemployment insurance.

SEUSBIF participants have used over \$98,000 in public assistance since beginning in the program.

SEUSBIF participants have used \$28,000 in unemployment insurance since beginning in the program.

Recent decreases in assistance could be attributed to SEUSBIF or the economy.

Public Assistance Decrease Could Also Be Attributed to Strong Economy

The recent decrease in the use of public assistance and unemployment insurance could be partially attributed to the SEUSBIF program or to the strong economic growth in the region and the state as a whole, or both.

For example, DWS has forecasted that nonfarm employment in the southeastern region of the state (Carbon, Emery, Grand, and San Juan counties) will increase 7.8 percent between February and April 2006 alone. Since the SEUSBIF program has only served 79 households since inception, this limited number is likely too small to have any measurable effect on local economies in terms of reducing use of public assistance.

In relation to the trends of the region as a whole and SEUSBIF participation, we illustrate our findings in Figure 6.

Figure 6. Decreases in the Use of Public Assistance Seem Related to the Economy, but SEUSBIF Program Could Have Effect. The recent decreases in SEUSBIF participants' use of public assistance appear to be in line with trends for the southeastern region of the state.

Recent decreases in SEUSBIF participants' use of public assistance appear to be in line with trends for the southeastern region of the state.

Temporary Assistance to Needy Families (TANF)

- **Southeast Region:** TANF participation decreased by 27.5 percent.
- **SEUSBIF:** Only 2 SEUSBIF participants ever participated in the TANF program, and their participation began after they started in SEUSBIF.

General Assistance (GA)

- **Southeast Region:** GA participation increased by 6.3 percent.
- **SEUSBIF:** Only 2 SEUSBIF participants participated in the GA program, one of these individuals moved off of TANF and onto GA, the other received GA before he/she began in the SEUSBIF program and has not returned.

Child Care Assistance (CC)

- **Southeast Region:** CC participation increased by 24.2 percent.
- **SEUSBIF:** Only 4 SEUSBIF participants participated in the CC programs, 3 started using them after they began in the SEUSBIF program. A senior economist with DWS stated that an increase in the use of CC programs is good, "that means that people are working and need help paying for someone to watch their kids."

Food Stamp Assistance (FS)

- **Southeast Region:** FS participation decreased by 3.6 percent.
- **SEUSBIF:** 20 SEUSBIF participants participated in the FS program. Of the 20, only 2 used this program before they started in the SEUSBIF program and have not returned.

Unemployment Insurance (UI)

- **Southeast Region:** UI participation decreased by 65.8 percent.
- **SEUSBIF:** In 2003, 6 SEUSBIF participants received unemployment insurance. In 2004, that number fell to 2. In 2005, that number dropped again to 1, and no SEUSBIF participants were receiving unemployment insurance through April 2006.

Source: Department of Workforce Services databases. The southeast region numbers include the region's entire population and span from January 2003 thru through April 2006.

SEUSBIF program was designed to enhance economic development, not reduce reliance on public assistance.

Based on the data in Figure 6, it appears that the reduced need for public assistance among SEUSBIF participants can be attributed to the general health of the local economies, although the SEUSBIF program may of had an effect. But, some SEUSBIF board members told us that the program is primarily an economic development tool, and not necessarily a tool aimed at reducing individuals need for public assistance.

In the final section of this report we detail the SEUSBIF board's plans for the program going forward along with our response to these plans—provided the Legislature chooses to approve funding.

SEUSBIF Has Been Administered Efficiently So Plans to Change are Concerning

The SEUSBIF program is a collaborative effort by many different entities, each of whom has helped make the program function relatively well. More specifically, our review shows that the SEUSBIF program appears to have been administered efficiently by the Southeast Utah Association of Local Governments (SEUALG) staff and other program volunteers.

But if funded, the SEUSBIF board is proposing to modify some of the program's administrative operations. We are concerned that by changing the administrators of the program, administrative costs may rise and a fairly new program will be operating in an untested environment. We question whether some of the proposed modifications would be necessary, if SEUSBIF receives funding to go forward.

Regardless of proposed changes—and depending on whether the Legislature proceeds with SEUSBIF funding—the SEUSBIF board should address the following:

- The dependent child requirement for funding eligibility
- Business registration and licensure requirements
- SEUSBIF's lack of alignment with a state agency to seek state appropriations

SEUSBIF Program Was a Collaborative Effort by Many Entities

Many entities made SEUSBIF possible and likely contributed to low overhead costs because the oversight was voluntary and uncompensated. The program's funding was obtained by application for TANF monies, and funds were transferred by DWS' Southeast Regional Council. SEUALG was the legal entity that DWS contracted with and they ran the day-to-day operations of the

By modifying operations, administrative costs may rise and a fairly new program will be operating in an untested environment.

SEUALG was the legal entity that DWS contracted with and they ran the day-to-day operations of the SEUSBIF program.

SEUSBIF program. The SEUSBIF Advisory and Funding Committees were comprised of members from the SBDC, county economic development staff, DWS, Vocational Rehabilitation, SEUALG, and other representatives (like the College of Eastern Utah, local business representatives, and so forth).

The SEUSBIF Advisory Committee provided general oversight for the program. They reviewed program and budget activities as well as participation because each agency represented on the board also served as an entryway for potential participants. While the Advisory Committee made the decisions concerning the oversight of the program, the Funding Committee made the decisions on which business proposals to fund. The SEUSBIF Funding Committee reviewed each proposed business plan and decided whether or not to fund the proposal based on the merits of the plan and whether or not the proposal appeared viable for the local economy.

SEUALG Kept SEUSBIF's Administrative Costs Low

SEUALG staff have administered the SEUSBIF program efficiently. Our conclusion that administrative costs were low is based on the federal TANF requirement that administrative costs not exceed 15 percent on TANF grants. SEUALG kept costs at 6.7 percent which is less than half of total funding. Illustrated in Figure 7 is a breakdown of the SEUSBIF total budget.

Administrative costs were kept at 6.7% of total funding, which is half of what was allowed by TANF.

Figure 7. Administrative Costs For The SEUSBIF Program Were Kept Low. SEUALG was able to keep the administrative costs of the SEUSBIF program at 6.7 percent which is under half of what was contractually allowed.

<ul style="list-style-type: none"> Total amount contracted by DWS to SEUALG for the SEUSBIF program was \$790,616. Of that money, \$784,490 was drawn down before the terms of the contract expired. 		
\$682,829	- 87.0 %	Grant disbursements
52,614	- 6.7 %	Program Administration
49,047	- 6.3 %	NxLevel Training (not counted as admin.)
<u>\$ 784,490</u>	<u>100 %</u>	TOTALS

Because administrative costs were kept low, more money was available for program participants. As noted above, \$682,829, or 87 percent, went directly towards grant disbursements for program participants, and \$49,047, or 6.3 percent, went towards NxLevel training of program participants.

Other administrative efficiencies by the SEUALG staff that we observed included the following:

- General ledgers showed that monies were adequately tracked and accounted for.
- Files on each SEUSBIF participant were well maintained and contained comprehensive data.

SEUSBIF’s Plan to Modify Operations Is Concerning

While we can verify some administrative efficiencies, we are concerned that, if funded, the SEUSBIF board does not intend to retain SEUALG as the program administrator. We believe costs could be higher under a new administrative entity and that the new administrative entity may not be as representative of the counties as SEUALG has been.

Changing the administrative entity for the SEUSBIF program presents some concerns.

The SEUSBIF board is proposing that, if they are funded, the day-to-day administration of the program would move under the Southeast Utah Community Development Corporation (SUCDC). SUCDC is a nonprofit corporation not directly connected with government, but its day-to-day operations are supported by Carbon County Economic Development.

SEUSBIF board members also propose hiring a local accounting firm to provide independent accounting, reporting, and auditing functions for the SUCDC, and the SEUSBIF Advisory and Funding Committees. Under this arrangement, SEUSBIF board members believe that the costs to run the SEUSBIF program would not exceed 8 percent based on historical costs of the program as it was administered under SEUALG.

Our concerns with these new proposals are:

- While we can verify that the past program was administered efficiently under SEUALG, we cannot verify future administrative costs under a new entity. Specifically, we would question whether the program can operate under this new proposal with administrative costs of only 8 percent, without seeing supporting data.
- The SUCDC Board is not representative of the counties that the program will potentially serve because four of the five board members only represent Carbon County.
- SUCDC would not be as likely to facilitate program expansion (if desired by the Legislature) as SEUALG because SEUALG already has existing sister-Association of Governments (AOGs) throughout the state.

Administrative Costs May Increase. We were able to verify that the program was administered efficiently under SEUALG. For purposes of our audit tests, monies were accounted for, the funding agency (DWS) did not make us aware of any non-compliance with the programs contract, and sufficient documentation was maintained for us to follow-up with our participant sample. Under this new proposal we cannot determine if the administration of the program will be as efficient.

Under SEUALG, the SEUSBIF program was administered efficiently.

We question whether the SUCDC can operate the program at 8% of total funding.

To operate the SEUSBIF program out of the SUCDC, the SUCDC would not only have to contract with a local accounting firm, but they would also have to hire a full-time employee to administer the day-to-day operations of the program. We question whether 8 percent of total funding will cover all of these costs, plus additional administrative overhead charges that may occur in the normal course of business.

SUCDC Board is not representative of multiple counties.

Representation for All Counties Could Be Lacking. We are also concerned that the SUCDC Board that will be over the SEUSBIF program is not representative of all counties that the program will potentially serve. Currently, the SUCDC Board is made up of the following volunteers:

- Carbon County Commissioner
- SEUALG Director
- Price City Mayor
- Carbon County Economic Development Director
- Currently Vacant (but was Carbon County Assistant Attorney)

If this entity is going to represent a multi-county program, one county should not be overly represented.

If the Legislature were to expand the program, it would likely be more efficient to have the local AOGs or SBDCs administer the program.

Expansion Efforts Could Be Less Efficient Under SUCDC. Further, SEUSBIF board members envision this program as a three-phase project. If successfully funded for \$2 million over two years, pending Legislative approval, the board envisions a statewide expansion with an emphasis on rural Utah. Administering the program out of the local Association of Governments (AOGs) or the SBDCs makes more sense because the program can be more easily duplicated in other rural counties where AOGs and SBDCs already exist.

SEUSBIF Should Review Some Funding Criteria and Establish an Appropriations Channel

In addition to our concerns with administrative changes, we are recommending some areas for review. First, SEUSBIF should review two requirements for funding eligibility by participants. Second, SEUSBIF needs to seek state funding through proper appropriations

channels by working with the Governor’s Office of Economic Development (GOED).

Keeping the dependent child requirement ensures that limited funds would help a greater amount of people.

Consider Retaining Dependent Child Requirement. As mentioned earlier in this report, the initial SEUSBIF grants were made possible through TANF grants approved by DWS. Because the grants were essentially TANF funds, participants had to have a dependent child. We believe the SEUSBIF program should consider keeping the dependent child requirement for purposes of funding. If funded, SEUSBIF board members have proposed dropping the dependent child requirement because they feel that they could serve more low-income individuals by dropping this requirement. However, we recommend that the program consider keeping this requirement because the limited funds would go to families and not individuals, thus helping more people.

SEUSBIF should ensure that legally required licenses are obtained before funding is awarded.

Ensure Compliance With Licensing. We also recommend that the SEUSBIF program require businesses to register with DWS (if applicable) and acquire legally required licenses and registrations for their businesses before funding is approved. In a study issued by DWS one year into the SEUSBIF program, it was noted that many of the businesses that were required by law to acquire licenses had not done so. This requirement should be enforced prior to any funding.

If funded, the SEUSBIF program seems a likely fit under the Rural Development Program of GOED.

Align With GOED For Appropriations Process. Finally, if the Legislature does decide to fund the SEUSBIF program, we recommend that the program work its appropriations request through the Governor’s Office of Economic Development (GOED). As stated previously, the SEUSBIF program was placed under DWS because their funding source was TANF. Now that TANF funds are no longer available for SEUSBIF, and the program is seeking state general funds, the most likely fit seems to be with the Rural Development Program of GOED. The primary purpose of the Rural Development Program of GOED is to facilitate business growth and economic vitality in Utah’s rural communities. As shown in this report, this economic development is ultimately what SEUSBIF is trying to do.

Recommendations

1. We recommend that the Legislature consider whether or not to fund the Southeast Utah Small Business Investment Fund (SEUSBIF) to operate in the counties of Carbon, Emery, Grand, San Juan, Uintah, Duchesne, and Daggett.
2. If the Legislature does fund SEUSBIF, we recommend that SEUSBIF:
 - a. Improve performance measures for the program, which should include measuring the amount of monies being spent, jobs created, and wages paid by businesses created with SEUSBIF funding.
 - b. Enhance their tracking and accountability of program participants by obtaining documentation in conjunction with their performance measures.
 - c. Consider keeping the Southeastern Utah Association of Local Governments (SEUALG) as the administrators of the program to help keep administrative costs low, or consider having the SBDC administer the SEUSBIF program.
 - d. If the Southeast Utah Community Development Corporation is chosen as the administrator of the program, we recommend that board membership be altered in the bylaws to include positions that are more representative of all counties being served by the SEUSBIF program.
 - e. Consider keeping the dependent child requirement as part of the eligibility process for funding to ensure that limited resources serve the greatest amount of people.
 - f. Require business owners to register their businesses with DWS (if applicable) and acquire licensure from the state as required by law before funding is obtained.
3. If the Legislature does fund SEUSBIF, we recommend that the program be required to seek appropriations under the Governor's Office of Economic Development (GOED).

This Page Left Blank Intentionally

Agency Response

SEUSBIF
Southeastern Utah Small
Business Investment Fund

375 South Carbon Ave., Price, Utah 84501
(435) 637-5444 • Fax: (435) 637-5448



Legislative Management Committee
Audit Sub-committee
President John L. Valentine
Senator Mike Dmitrich
State Capitol Building Complex
Salt Lake City, Utah 84114

Speaker Greg Curtis
Representative Ralph Becker

Re: Audit Report # 2006-07
South East Utah Small Business Investment Fund (SEUSBIF)

Gentlemen;

The Legislative Auditor General's staff conducted their audit of the SEUSBIF program in a very professional way. Staff randomly chose 42% of the 52 businesses currently operating in southeast Utah. (Originally 79 businesses were established.) The auditor's staff verified that 19 of the 52 open businesses contributed, during years 2004 and 2005, to the community more than twice the original program cost. If the other 30 businesses had been measured, the SEUSBIF businesses would have added much more to the community benefits confirmed by the Legislative Auditor General examination.

The SEUSBIF program began in October 2001 and ran for two years. In the intervening years 66% (52/79) of the original businesses are still operating. Depending on which report you look at, this rate is 200% to 300% better than the national average and a substantially higher success ratio found among for Utah businesses.

The SEUSBIF program success is based on three essential principals; 1) mandatory education, 2) mentoring, and 3) capital. The program provides low-income families who have a good idea, and ambition, the training, mentoring, and capital to realize their dream. They begin realizing and building the American dream, and at the same time are improving and building rural Utah.

Other less quantifiable but just as real, are benefits such as the redevelopment of Main Street in downtown rural communities, the substantial difference the program has made in the lives of participants, the financial improvement of each family as well as the families better social/emotional makeup.

The program participants and supporting agencies urge the refunding and expansion of the SEUSBIF project to additional rural areas of Utah.

Respectfully,

A handwritten signature in black ink, appearing to read "Delynn Fielding". The signature is fluid and cursive, with a long horizontal stroke at the end.

Delynn Fielding
Director
Carbon County Economic Development