

(Draft - Awaiting Formal Approval)
**MINUTES OF THE
BUSINESS, ECONOMIC DEVELOPMENT, & LABOR
APPROPRIATIONS SUBCOMMITTEE
Room 210, Senate Building
October 17, 2013**

Members Present: Sen. Brian E. Shiozawa, Senate Chairman
Rep. Jim Bird, House Chairman
Rep. Stewart E. Barlow, House Vice Chair
Sen. Gene Davis
Sen. Wayne A. Harper
Sen. Scott K. Jenkins
Sen. Stuart C. Reid
Sen. Jerry W. Stevenson
Rep. Patrice M. Arent
Rep. James A. Dunnigan
Rep. Val L. Peterson
Rep. Angela Romero
Rep. V. Lowry Snow
Rep. Brad R. Wilson

Members Absent: Sen. Curtis S. Bramble
Rep. Jeremy A. Peterson
Rep. Dixon M. Pitcher
Rep. Ryan D. Wilcox

Staff Present: Dr. Andrea Wilko, Chief Economist
Mr. Zackery King, Fiscal Analyst
Ms. Rosemary Young, Committee Secretary

Note: A copy of related materials and an audio recording can be found at www.le.utah.gov.

Rep. Bird called the meeting to order at 1:06 p.m.

Fiscal Analyst, Zackery King, reviewed the Issue Brief which can be found on line by going to this committee and date on the Legislature home page. The statutory basis for the annual report and the 2013 legislative intent language were pointed out as well as the agenda items.

USTAR Audit Report

Mr. Brian Dean and Mr. Rick Coleman, Office of the Legislative Auditor General, reported on the Performance Audit of the Utah Science Technology and Research Initiative (USTAR) dated October 2013 which may be found on line by going to the Legislature home page and clicking on New Legislative Audits. The audit was requested by committee chair, Sen. Shiozawa, and it was emphasized that the purpose of the audit was fact finding and not accusatory.

It was particularly pointed out that USTAR's reported return on investment was inaccurate and flawed and that the reported jobs numbers were inaccurate and did not identify job quality. Another key indicator of USTAR success would be commercialization revenue which has failed to come up to expectations. Another area of concern is the unclear understanding of USTAR's commitment to ongoing salary support of research teams. It was determined that USTAR should execute facility lease agreements with the two universities and include terms specifying operations and maintenance obligations. Improved guidance and management is needed for the regional outreach programs. In fact, overall USTAR administration and governance of operations needs to improve.

Discussion ensued concerning the audit, specifically concerning the ROI. The auditors reported that there was not sufficient documentation to accurately calculate ROI. Rep. Wilson asked how willing USTAR had been to work with the auditors. Sen. Shiozawa explained that the reason for the request for the audit was that the funding request for USTAR was so great particularly compared to the other requests before the committee and that an audit had never been done.

Sen. Jenkins reviewed some of the history of the USTAR program and asked whether the information it was originally based on could have been flawed. Dr. Wilko responded that ROI could probably be calculated going forward if changes are implemented and that similar programs in other states can be evaluated to see if they have been successful. Rep. Bird asked whether the auditor was aware of other agencies having similar audits and the management remaining in place. Sen. Davis opined that the Governing Authority (GA) is ultimately responsible for oversight of funds appropriated to USTAR. The auditors reported the GA was very cooperative with the audit, but that they, the GA, have been more concerned with research than management.

Sen. Reid asked about private outcomes from the program and reminded the chairs that he has asked for an accurate ROI for a number of years without any satisfactory answers and that he has suggested in the past that USTAR and GOED should be combined. He also pointed out that there are opportunity costs involved because money went one place instead of another. Rep. Snow asked if there are routine audits done on a rotating basis. The Auditors stated that they are not. The auditing committee prioritizes requested audits. Rep. Arent suggested that the committee and staff should be finding out what lessons can be learned from this experience and determining best practices. Sen. Harper discussed the lack of meeting originally stated goals in the program and expressed the need to address the program and get things right or terminate it.

Dr. Dinesh Patel, chairman of the Governing Authority Board, pointed out that the board is made up of private individuals who meet once a month, so it is difficult for them to be on top of what is and is not being done right, and they have not yet had an opportunity to study the audit. They will study the audit and discuss ways to respond in their next meeting.

Mr. Ted McAleer, Executive Director of USTAR, responded to the audit and reported that they do have an action plan moving forward which will be reported to the GA at the November

meeting. He stated that every piece of information in the previous six annual reports was fully documented and truthful. The agency engaged the Bureau of Economic Business Research to conduct an economic impact analysis which was presented in Jan 2012. It was acknowledged that much of the information on that report was estimated rather than actual. The five year benchmark was to build capacity and recruit faculty and was reached. Inadequacies in the method of reporting progress and activity to governing bodies was discussed, and a balance sheet type method may be used going forward. Sen. Harper pointed out that from the beginning the purpose of the initiative was to create good-paying jobs for Utahns. Sen Stevenson expressed the opinion that the legislature has been betrayed or misled by USTAR and perhaps money would have been better spent by giving the money directly to higher education.

Rep. Dunnigan expressed the opinion that the money could have been better spent elsewhere and the glowing reports of the past were very misleading. Rep. Wilson, as a member of the legislature, accepted some responsibility for the problems and questioned whether this initiative is even a proper function of government.

Sen. Reid believes that this is a proper function of government and investigated the governing board, how it is comprised, and who actually hires the managers of USTAR. The chairman of the board is appointed by the governor to a one-year term, but the present chair has been in place for seven years with no evidence of reappointment during those years. It appears that the governance is not respectful of the interests of the taxpayers and has not been handled well. Sen. Reid wants to see the governance method changed and the legislature have more confirmation authority, and the board be advisory.

Sen. Shiozawa pointed out that the Legislature has three choices at this point: the program can continue as is, the program can cease, or it can follow the original vision and change the manner of governance. There is a need for management and the board to step up and act on this audit in a timely manner and not wait for a regularly scheduled meeting some time in the future.

Sen. Jenkins thinks that the Legislature needs to go back to the original basis for the initiative and see where it went wrong. Was the original idea flawed? Was there mismanagement? Good decisions can't be made without accurate facts and figures.

Sen. Davis has not given up on the program. USTAR was started for a good reason, but the ROI has been inflated, and the Governing Authority has not taken the role of governance seriously enough. The Governor does have a direct pipeline because the vice chair is head of GOED.

MOTION: Sen Davis moved that the Legislative Auditor General discuss with the Governing Authority this audit, and the GA respond back to the Legislature with their feelings about the information in the audit. The motion passed unanimously with Sen. Harper absent for the vote.

Sen. Shiozawa said the expectation is that the GA will give this response to the committee early in the session in January, so that the committee can determine what action to take.

USTAR Annual Report

Mr. McAleer presented the USTAR annual report as had been previously requested. The report can be found at the USTAR website under Publications. It was pointed out that there are near, medium, and long-term projects, programs, and commitments. The leaders of the teams at the University of Utah and Utah State University report monthly to the GA. It was questioned as to the contract with the BioInnovations Gateway being in place. As of now, there is a memorandum of understanding in place.

Mr. Spencer Eccles, Executive Director of the Governor's Office of Economic Development, responded to comments made earlier about the chairman of the GA. The Governor has been fully aware of the length of term of Chair Patel, and for continuity he has been left in that position. There will be five leaving in the next year, and the need for continuity has been discussed. Sen. Jenkins questioned Mr. Eccles as to the Governor's knowledge of what is happening in the GA.

MOTION: Sen. Davis moved to proceed to the next item on the agenda. The motion passed unanimously with Sen. Harper absent for the vote.

SUCCESS Framework

Mr. Steve Cuthbert of the Governor's Office of Management and Budget was unable to get his video presentation to function, so it was decided to hear his presentation during the session.

MOTION: Rep. Wilson moved to adjourn. The motion passed unanimously with Sen. Harper, Sen. Jenkins, Sen. Reid, Sen. Stevenson, Rep. Dunnigan, and Rep. V. Peterson absent for the vote.

Rep. Bird adjourned the meeting at 3:28 p.m.