

**MINUTES OF THE
BUSINESS, ECONOMIC DEVELOPMENT, & LABOR
APPROPRIATIONS SUBCOMMITTEE
Room 25, House Building**

February 6, 2015

Members Present: Sen. Brian E. Shiozawa, Senate Chairman
Rep. Dixon M. Pitcher, House Chairman
Rep. Stewart E. Barlow, House Vice Chair
Sen. Curtis S. Bramble
Sen. Wayne A. Harper
Sen. Ann Millner
Sen. Jerry W. Stevenson
Sen. Evan Vickers
Rep. Patrice M. Arent
Rep. Jeremy A. Peterson
Rep. Val L. Peterson
Rep. John R. Westwood
Rep. Mark Wheatley

Members Absent: Sen. Gene Davis
Rep. Johnny Anderson
Rep. James A. Dunnigan
Rep. Brad R. Wilson

Staff Present: Dr. Andrea Wilko, Chief Economist
Ms. Clare Tobin Lence, Fiscal Analyst
Ms. Rosemary Young, Committee Secretary

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

Rep. Pitcher called the meeting to order at 8:10 a.m.

GOED Audit State Auditor Presentation

David Pulsipher, Performance Audit Director, and Chris Otto, supervisor of the current audit which focused on economic development tax increment financing (EDTIF), distributed a handout and reported to the committee. It was found that inadequate program oversight resulted in the following concerns:

1. Insufficient post-performance controls led to questionable incentive awards.
2. GOED gradually reduced corporate incentives requirements since 2008.
3. Inadequate oversight limits accountability for corporate incentives.

Thirty-two recommendations fall into these main categories: 1. Clarify the Statute, 2. Consistent, Fair and Equitable Program, and 3. Transparent Oversight.

GOED Response to Audit

Val Hale, Executive Director, expressed gratitude for the audit and the suggestions which will strengthen the EDTIF program. With a handout the FY2016 GOED budget priorities were presented. It was pointed out that job development is a high priority among voters. The purpose of the EDTIF program is 3-fold: 1. attract new commercial projects to address the loss of high-paying jobs. 2. incremental new state and local revenue, and 3. economic growth to competing states. Since 2006 GOED has successfully worked with 140 companies to add 12,763 jobs to the economy and add \$128.6M in net new state revenue. One of the metrics used to measure quality of jobs is the average projected wage of new jobs created compared to county average. Of the 183 tax credits issued for 2013 55% went to companies whose total average projected wage exceeded 200% of county average.

Theresa Foxley, Managing Director of Corporate Recruitment and Business Services, explained the EDTIF application process and the follow through once a contract has been created and incentives are being received. The steps taken by GOED to address specific recommendations of the audit were explained.

The Executive Director reported that GOED's incentive program is consistently ranked by outside parties as being middle of the pack in richness. It was emphasized that the agency does not believe in front-end incentives. They believe the EDTIF program is working very well and is the envy of the nation.

Chair Shiozawa informed the committee that a bill is in process which will address some of the mentioned concerns including clarifying definitions, creating consistency of awards, keeping the state competitive in negotiating with companies, and providing appropriate transparency. Sen. Bramble reported that from the perspective of his national position, Utah is doing well economically, in the creation of jobs, and in creating a healthy business climate.

There was a discussion as to the process of handling requests for appropriations and the need to meet earlier than usual to accommodate all those making requests.

USTAR Follow Up Audit Auditor General Presentation

A follow up review of the USTAR initiative was distributed and discussed by Candace Ware and Rick Coleman of the Office of the Legislative Auditor General. The review addressed the following matters: A report on the status of implementation of recommendations from the October 2013 audit, verify the accuracy of information to be reported in USTAR's FY2014 annual report, the status of implementation of the recommendations of the previous audit, and the need for establishing performance metrics and the need for a rigorous process for outcome reporting. Another follow up will come next year. So far the initiative hasn't produced much in economic development, but all parties recognize that it is a long-term program which could bear fruit.

USTAR Follow Up Audit USTAR Response

Greg Bell, Chairman of the Governing Authority, and Ivy Estabrook, Executive Director, responded by saying that they accept the audit and its findings and are trying to be transparent and compliant. SB 62 passed last year greatly raised the bar and resulted in reporting today which is very different from that required 5 years ago. The board is nearly all new; the management team is entirely changed; and the philosophy is changed. It was pointed out that the universities were accounting for funds differently from the legislative side of government. USTAR is only a small part of the huge research operations of the universities. An internal auditor has been hired who is looking at all contracts and commitments. USTAR is now taking responsibility for every expenditure on the line items of the two universities. Since her hiring in June, Dr. Estabrook has spent weeks on the various campuses interviewing and coming to an understanding of the research programs. Clearly some of the research will result and is resulting in commercialization. WAVE from UVU which has wireless recharging of bus batteries was referred to as was the spider silk project. The Governing Authority commits to understand what each research team's project is every year and is working hard to create a metric which will define Return on Investment. They have come to the conclusion that USTAR has invested in research too early in the process where it's much harder to pick winners.

USTAR's function is to take advantage of research which is directed toward commercialization; whereas the universities are not commercially motivated in their research. There was discussion as to how to terminate non-producing programs, and it was emphasized that it is important to keep commitments to professors who have Memorandums of Understanding. Dr. Estabrook addressed the issue of the leases of buildings which is complicated because of the relationship of the universities and USTAR as to O & M, rent, etc. The internal auditor will help in the future with the state audit.

Sen. Shiozawa and Sen Harper expressed the opinion that the committee is more optimistic about the USTAR program than in the past.

MOTION: Rep. Westwood moved to adjourn. The motion passed unanimously with Sen. Bramble, Rep. Arent, and Rep. V. Peterson absent for the vote.

Rep. Pitcher adjourned the meeting at 10:14 a.m.

Sen. Brian E. Shiozawa, Chair

Rep. Dixon Pitcher, Chair