

Office of the
Legislative Fiscal Analyst

FY 2002 Budget Recommendations

Joint Appropriations Subcommittee for
Community Development and Human Resources

Utah Department of Community and Economic Development
Incentive Funds

Contents:

- 1.0 Summary
- 2.0 Issues
- 3.0 Programs
- 4.0 Additional Information

1.0 Summary: Industrial Assistance Fund

The Industrial Assistance fund provides “loans and other financial assistance ... related to the establishment, relocation of development of industry in Utah” emphasizing high paying jobs. The program serves financially strong companies with proven track records that can generate \$10,000,000 in additional expenditures annually for five years. The statute slackens requirements for companies that locate in “economically disadvantaged rural areas: which include 23 of Utah’s 29 counties.

The Annual interest rate for these loans is 10 percent and the loans must be paid back in cash or credits. Credits are based on factors determined by the administrator and can include the number of Utah jobs related, increased economic activity in Utah, and other events and activities that occur as a result of the loan. (UCA 9-2-1204(3))

At the end of the fiscal year, after transferring the General Fund surplus to the Budget Reserve Account as provided in Section 63-38-2.5, any additional unrestricted, undesignated General Fund balance, beyond the first \$10,000,000 shall be earmarked to the Industrial Assistance Fund in an amount equal to the credits accrued. These credits are not available until appropriated by the Legislature (UCA 9-2-1204(5))

The program also manages the State’s tax exempt bonding authority called the Private Activity Bond Authority, and the Community and Economic Development Project Fund.

	Analyst FY 2002 Base	Analyst FY 2002 Changes	Analyst FY 2002 Total
Financing			
Dedicated Credits Revenue	80,600		80,600
GFR - Industrial Assistance	185,800		185,800
Total	<u>\$266,400</u>	<u>\$0</u>	<u>\$266,400</u>
Programs			
Incentive Funds	266,400		266,400
Total	<u>\$266,400</u>	<u>\$0</u>	<u>\$266,400</u>
FTE/Other			
Total FTE	3		3

2.0 Issues: Incentive Funds

2.1 Replenish the Fund

The fund was originally capped at \$10,000,000 and was nearly full the first year. Over time the Legislature did not always replenish the fund and uncommitted balances are now below zero (\$119,500). This comes at a time of unprecedented fund activity and an expected boost in activity from the Olympics. Since the creation of the fund in 1991, the program has made 33 loans. Twelve of those were done in the last twelve months and they totaled about \$7,000,000. They are currently working on fifteen new deals that they rate at 90% probability, worth about \$7,700,000. The Analyst recommends \$1,900,900 in FY 2001 and would recommend the proceeds from the privatization of Utah Technology Finance Corporation (\$4,800,000 in FY 2001 plus \$750,000 in FY 2002) plus \$3,000,000 in one-time General Fund if such funding becomes available.

Custom Fit Replacement of One-time with Ongoing Funding

The Analyst would recommend, if funding were available, \$1,000,000 in ongoing General Fund to replace one-time funding appropriated by the Legislature last session for Custom Fit. These funds are targeted for economic development and are used to help pay for worker training.

3.0 Programs: Industrial Assistance Fund

3.1 Administration

Recommendation The Analyst recommends a budget of \$266,400.

The Industrial Assistance Fund is traditionally replenished through supplemental appropriation.

	2000	2001	2002	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund	820,500			
Dedicated Credits Revenue	78,600	80,400	80,600	200
GFR - Industrial Assistance	204,900	185,800	185,800	
Transfers	(820,500)			
Lapsing Balance	(60,200)			
Total	\$223,300	\$266,200	\$266,400	\$200
Expenditures				
Personal Services	141,500	141,900	202,300	60,400
In-State Travel	2,300	2,900	2,900	
Out of State Travel	2,800	4,100	4,100	
Current Expense	39,700	105,300	45,100	(60,200)
DP Current Expense	12,000	12,000	12,000	
Other Charges/Pass Thru	25,000			
Total	\$223,300	\$266,200	\$266,400	\$200
FTE/Other				
Total FTE	2	3	3	

Purpose The Industrial Assistance fund provides “loans and other financial assistance ... related to the establishment, relocation of development of industry in Utah” emphasizing high paying jobs. The program serves financially strong companies with proven track records that can generate \$10,000,000 in additional expenditures annually for five years. The statute slackens requirements for companies that locate in “economically disadvantaged rural areas: which include 23 of Utah’s 29 counties.

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Replenishing the Industrial Assistance Fund

The fund was originally capped at \$10,000,000 and was nearly full the first year. Over time the Legislature did not always replenish the fund and uncommitted balances are now below zero (\$119,500). This comes at a time of unprecedented fund activity and an expected boost in activity from the Olympics. Since the creation of the fund in 1991, the program has made 33 loans. Twelve of those were done in the last twelve months and they totaled about \$7,000,000. They are currently working on fifteen new deals that they rate at 90% probability, worth about \$7,700,000. The Analyst recommends \$1,900,900 in FY 2001 and would recommend the proceeds from the privatization of Utah Technology Finance Corporation (\$4,800,000 in FY 2001 plus \$750,000 in FY 2002) plus \$3,000,000 in one-time General Fund if such funding becomes available.

Intent: Performance Measures

The Legislature intends that the Division develop performance measures for each program and where possible prepare a five-year history of those measures for the FY 2002 session.

Custom Fit Replacement of One-time with Ongoing Funding

The Analyst would recommend, if funding were available, \$1,000,000 in ongoing General Fund to replace one-time funding appropriated by the Legislature last session for Custom Fit. These funds are targeted for economic development and are used to help pay for worker training.

Bonding Cap Adjusted for Inflation

After three years of work, Congress has finally adjusted the Private Activity Bond cap (effective January 2002) from \$150,000,000 to \$225,000,000 and indexed the cap to inflation. Half of the increase (to \$185,000,000) is available effective January 2001.

4.0 Additional Information

4.1 Funding History

	1998	1999	2000	2001	2002
Financing	Actual	Actual	Actual	Estimated	Analyst
General Fund	1,875,000	2,400	820,500		
General Fund, One-time		5,137,000		750,000	
Dedicated Credits Revenue		141,600	78,600	80,400	80,600
GFR - Industrial Assistance	173,800	177,100	204,900	185,800	185,800
Capital Access				326,100	
Transfers	(1,875,000)	(5,089,400)	(820,500)		
Lapsing Balance	(81,400)	(143,700)	(60,200)		
Total	\$92,400	\$225,000	\$223,300	\$1,342,300	\$266,400
Programs					
Incentive Funds	92,400	225,000	223,300	266,200	266,400
Custom Fit				1,076,100	
Total	\$92,400	\$225,000	\$223,300	\$1,342,300	\$266,400
Expenditures					
Personal Services	76,500	127,900	141,500	141,900	202,300
In-State Travel	2,200	4,100	2,300	2,900	2,900
Out of State Travel		3,700	2,800	4,100	4,100
Current Expense	7,700	37,800	39,700	105,300	45,100
DP Current Expense	6,000	1,500	12,000	12,000	12,000
Other Charges/Pass Thru		50,000	25,000	1,076,100	
Total	\$92,400	\$225,000	\$223,300	\$1,342,300	\$266,400
FTE/Other					
Total FTE	2	2	2	3	3