

Office of the
Legislative Fiscal Analyst

FY 2002 Budget Recommendations

Joint Appropriations Subcommittee for
Community Development and Human Resources

Utah Technology Finance Corporation

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1.0 Summary: Utah Technology Finance Corporation

Utah Technology Finance Corporation provides capital and technical assistance to starting and emerging Utah businesses.

	Analyst FY 2002 Base	Analyst FY 2002 Changes	Analyst FY 2002 Total
Financing			
Federal Funds	\$15,000		\$15,000
Dedicated Credits	6,740,000		6,740,000
Beginning Nonlapsing	8,039,300		8,039,300
Closing Nonlapsing	(7,865,300)		(7,865,300)
Total	\$6,929,000		\$6,929,000
Programs			
Utah Technology Finance Corporation	\$6,929,000		\$6,929,000
Total	\$6,929,000		\$6,929,000

3.0 Programs: Utah Technology Finance Corporation

3.1 Administration

Recommendation

The Analyst recommends \$6,929,000. If the program is liquidated the Analyst recommends that the Legislature use the funds to replenish the Industrial Assistance Fund. As a fall-back position for UTFC, the Analyst recommends approving the FY 2002 budget.

	FY 2000	FY 2001	FY 2002	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Federal Funds	\$63,300	\$55,000	\$15,000	(40,000)
Dedicated Credits	5,934,700	6,507,000	6,740,000	\$233,000
Transfers				
Beginning Nonlapsing	8,660,100	7,990,800	8,039,300	48,500
Closing Nonlapsing	(7,990,800)	(8,039,300)	(7,865,300)	174,000
Total	\$6,667,300	\$6,513,500	\$6,929,000	\$415,500
Expenditures				
Pass-Through	\$6,667,300	\$6,513,500	\$6,929,000	\$415,500
Total	\$6,667,300	\$6,513,500	\$6,929,000	\$415,500

Purpose

Utah Technology Finance Corporation provides capital and technical assistance to emerging Utah business. The hardest part of growing a new technology business is finding enough capital. UTFC's goal is to fill some of that gap.

UTFC has ten loan programs:

- ▶ Emerging Technology Business Capital (EBTC) Phase I Loan Program
- ▶ EBTC Phase II Loan Program
- ▶ Bridge Loan Program
- ▶ Participating Loan Program
- ▶ Utah Revolving Loan Fund Program (URLF)
- ▶ Small Business Administration Microloan Program
- ▶ USDA Rural Development Loan Program
- ▶ Defense Conversion Loan Program
- ▶ Salt Lake County Loan Program
- ▶ Five County Association of Governments (AOG) Loan Program

Privatization Initiative

In October 1999, UTFC was requested by House leadership to investigate the possibility of privatizing UTFC. In developing a plan, UTFC's goals have been:

- Continuation of the economic development programs currently administered by UTFC
- Return full residual value of all state assets to the state
- Avoid conflicts of interest between UTFC's Board and employees

The Current Plan

The current plan calls for them to organize a private for-profit corporation, which will apply to the Small Business Administration (SBA) for a license to conduct business as a non-leveraged Small Business Investment Company (SBIC), receiving its capital investments from Industrial Loan Corporations (ILC's or Industrial Banks) chartered in Utah. Chartered industrial banks, are required to invest a certain percentage of their assets back to their communities. This federal and state requirement is known as the Community Reinvestment Act (CRA).

**Conflict of Interest
Leads to Liquidation**

Avoiding conflict of interest is a more difficult problem. The same people would be on both sides of any transaction. Neither UTFC's board nor the industrial banks find this acceptable. The solution that they have come up with is to liquidate rather than privatize. Liquidation would involve transferring some of the federally funded loan programs to a not-for-profit Community Development Financial Institution (CDFI) or other public lending organizations then transfer all of UTFC's assets to the state Administrative Services Department. At that point it's assets would consist of its office building, furniture, fixtures and office equipment, cash and loan portfolio. The building will be deeded to the state. State Surplus Property will get the office equipment, furniture, etc. The loan portfolio will be assigned to the state. The cash will be paid to the State Treasurer. The State may want to rent the building and furnishings to the newly formed SBIC. The state may collect the loan portfolio, contract with someone to do it for them, or sell the loans individually or collectively. If Administrative Services decides to contract their collection, the SBIC would likely bid on the portfolio as they know the borrowers, and can get added value for CRA purposes.

Current estimates are that the state would get \$4,800,000 in FY 2001 and another \$750,000 in FY 2002. Total eventual value to the state would be between nine and ten million dollars.

UTFC is hopeful that legislation repealing UTFC's charter can be introduced in the 2001 session.

4.0 Additional Information

4.1 Funding History

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Financing	Actual	Actual	Actual	Estimated	Analyst
General Fund	\$1,000,000				
Federal Funds		58,900	63,300	55,000	15,000
Dedicated Credits	4,172,400	6,737,400	5,934,700	6,507,000	6,740,000
Transfers		832,000			
Beginning Nonlapsing	3,170,400	6,929,100	8,660,100	7,990,800	8,039,300
Closing Nonlapsing	(3,170,400)	(8,678,100)	(7,990,800)	(8,039,300)	(7,865,300)
Total	\$5,172,400	\$5,879,300	\$6,667,300	\$6,513,500	\$6,929,000
% Change		13.7%	13.4%	(2.3%)	6.4%
Programs					
UTFC	\$5,172,400	\$5,879,300	\$6,667,300	\$6,513,500	\$6,929,000
Total	\$5,172,400	\$5,879,300	\$6,667,300	\$6,513,500	\$6,929,000
Expenditures					
Pass-Through	\$5,172,400	\$5,879,300	\$6,667,300	\$6,513,500	\$6,929,000
Total	\$5,172,400	\$5,879,300	\$6,667,300	\$6,513,500	\$6,929,000