

**MINUTES OF THE
BUSINESS, ECONOMIC DEVELOPMENT, & LABOR
APPROPRIATIONS SUBCOMMITTEE**

Room 210, Senate Building

January 28, 2014

Members Present: Sen. Brian E. Shiozawa, Senate Chairman
Rep. Jim Bird, House Chairman
Rep. Stewart E. Barlow, House Vice Chair
Sen. Curtis S. Bramble
Sen. Wayne A. Harper
Sen. Scott K. Jenkins
Sen. Stuart C. Reid
Rep. Patrice M. Arent
Rep. James A. Dunnigan
Rep. Jeremy A. Peterson
Rep. Val L. Peterson
Rep. Dixon M. Pitcher
Rep. Angela Romero
Rep. V. Lowry Snow
Rep. Ryan D. Wilcox
Rep. Brad R. Wilson

Members Absent: Sen. Gene Davis
Sen. Jerry W. Stevenson

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 of the meeting can be found at www.le.utah.gov.

Chair Shiozawa called the meeting to order at 8:03 a.m.

MOTION: Rep. Bird moved to approve the minutes of meetings held February 26, 2013 and October 17, 2013. The motion passed unanimously with Sen. Bramble and Rep. Wilson absent for the vote.

The chair invited staff and committee members to introduce themselves.

Overview of Base Budget

Dr. Wilko explained the new format for meetings this session and how to access all necessary documents on line, particularly focusing on COBI and on SB4 which specifies the appropriations allocated to this committee by the Executive Appropriations Committee. A proposed bill

addressing off-budget funds which do not require an appropriation as the funds are in restricted accounts, but which are nevertheless approved by the committee, was brought up. The Issue Brief titled "Fiscal Note & Budget Item Follow-Up Report" was explained as a means of evaluating by creating a feed-back loop that improves future estimates and initiatives.

Financial Institutions

Fiscal Analyst, Zackery King, also demonstrated accessing materials on line focusing on Financial Institutions, and pointed out the trend analysis chart. He went to the Financial Institutions portion of SB4, Item 26, line 260, showing that there is one line item from the General Fund Restricted account which is almost entirely fee revenue from examinations of the financial institutions. Examiners are the primary part of the budget since the two primary goals of the department are to complete the number of examinations required to maintain the health of the State-chartered banking and credit union systems in Utah and to remain accredited by state regulatory peers in an interstate banking environment. The analyst has no base budget reallocation recommendations as there are no General Fund nor Education Fund monies nor non-lapsing balances involved.

Edward Leary, Commissioner of Financial Institutions, and Michael Jones, Chief Examiner, discussed what the agency does and how. The Commission only supervises state chartered banks, and banks are free to move from state charter to federal charter. The health of the restricted fund is an indication that the commission is doing its job well, and banks are choosing to stay under state charter. In Utah 93% of all banks are state chartered. This status is constantly under attack. A policy decision was made to do examinations jointly with the federal regulators which has resulted in Utah becoming a financial services center. Today 18 industrial banks total \$144 B in assets, and this is the asset base for charging fees. This is the only regulatory agency in the state in which the institutions being regulated are there by choice.

Ninety-nine percent of fees are in statute. The primary one is the fee assessed once a year based upon the total assets of the institutions. The Financial Institutions Board by statute meets quarterly and reviews budget and approves travel. Utah is the fourth largest state in the nation in banking by total assets in the institutions under supervision and has a national reputation. Major focus is safety and soundness of the financial institutions. Eight examiners were lost in 2012, so about 20% of examiners have just one year's experience which reduces capability. It would be good to be able to devote more resources to the very large institutions.

There are 28 commercial banks with a total of approximately \$115B total assets. There are 19 industrial banks with \$124B assets, and 41 credit unions with \$1.6B assets, totaling 88 institutions with \$241B in total assets under state supervision. There is an increasing balance in the restricted fund because revenues continued to come in, but expenditures were curtailed during the economic downturn. The Commission is proposing a reduced fee to more accurately

approximate the amount of the appropriation. There were 36 examiners as of Dec. 30, 2011, which equates to roughly \$6.6 B per examiner which results in assets under supervision per examiner in Utah being high compared to other top states. It's a balancing act to adequately do the job but still keep the number of examiners down. There are a number of different examinations done, the most common being safety and soundness or risk management. Seventy-five per cent of examiner time is spent evaluating the quality of loans and assets. Every institution is visited within a 12 to 15 month interval, but follow up exams may be conducted far more frequently as needed. During the recent downturn 6 institutions were closed, the last being in November 2011. The conditions of the institutions are improving.

The Commission determined a measure of success was to follow the number of "watched institutions" as a percentage of the total number of institutions. The beginning number was 38%. Presently the percentage is 35.3%, and the target is 28.5%. Examiner turnover is a problem resulting from aging out and examiners being hired by other states or the federal government. The ongoing challenge of the commission is meeting the expectations of the federal agencies. Banks want quality supervision, and the agency feels this is their most important function. Perhaps the least important function is trying to enhance consumer financial education because this may not be the best fit to the agency.

USTAR

Chair Shiozawa explained the background of the USTAR Initiative and the decision made last year to ask for a legislative audit. Greg Bell, Chairman of the Governing Authority, Scott Anderson, President and CEO of Zions Bank, and Jim Grover, Finance Director of USTAR, testified before the committee. Greg Bell explained the genesis of USTAR and the desired goal of aligning industry with higher education. In 2005 32 states had research funding initiatives, spending far more than Utah. Goals of USTAR were to: 1. seed things with state investment money, 2. bring in new external research funds, 3. spin out new companies which would create good paying jobs, and 4. generate increased tax revenue. The premise was that USTAR would operate throughout the state and not just at the two participating universities. It was pointed out that USTAR figured prominently in an article from the Milken Institute which listed Provo second and Salt Lake City fifth in its list of Best Performing Cities in 2013.

Scott Anderson addressed the aforementioned legislative audit and said that steps have been taken to address the 15 recommendations made. He said that the Governing Authority has been detail focused, accountable, and actively involved in providing oversight and approval of USTAR's activities.

Chairman Bell explained the prospectus which was established early in the development of USTAR. The Governing Authority engaged Tanner LLC to conduct an audit based on the prospectus of 2005. Reed Chase and Kent Bowman, audit partners at Tanner LLC, the largest

Utah based CPA firm, which does a lot of work with technology and biotech companies, discussed the audit and explained that since the actual funding was lower than the original commitment the goals were adjusted proportionately. The key performance measures were: levels of external funding and license revenue, job creation, employment earnings, and tax revenue, looked at in comparison to the agreed upon prospectus. External money was significantly higher than expected and was verified by looking at the actual contracts awarded. It was pointed out that the period covered by this activity was during the period of national and international economic problems, so some negative impact was expected. Other performance measures were more difficult to quantify than external funds.

Sen. Reid recommended that an ongoing model be set up to be able to show progress toward goals if some audits are too expensive or time consuming to do. He made the point that no real return on investment has been calculated which proves to the legislature that the initiative is successful.

Kent Bowman explained that ROI calculations vary from business to business. The original prospectus for USTAR did not specify that ROI as such be calculated. There was discussion as to the kind of jobs which have been or will be created through the initiative. Also whether research grants could have been obtained by the universities without USTAR was discussed. It was pointed out that in the 7th year of a 30-year program some of the goals have been met, but others are yet to be met. Greater financial return is expected in the later stages of the program.

Dr. Tom Parks, Vice President for Research at the University of Utah, introduced Nanotechnology Professor Florian Solzbacher who explained how USTAR has enabled nanotechnology research which has created a number of businesses who have now built their own building. Dr. Parks reported that the average time from signing a license to first revenue is 9.9 years and that about 1.4% of licenses ultimately generate more than \$1M annually.

Robert Behunin, Vice President of Commercialization and Regional Development at Utah State University, reported that but for USTAR they would not have 15 principal investigators engaged at USU or 70 plus USU faculty affiliates working on projects. There are 42 projects in the USTAR portfolio in various stages of activity in the research to commercialization pathway. Highlighted were the WAVE project, wireless power transfer between roadway and bus, clean coke metallurgical briquettes, and spider silk.

Sen. Harper asked Brian Dean of the Legislative Audit department whether the audit findings of their audit were correct. Mr. Dean reported that they stand behind the audit. Mr. Bell responded that the audit recommendations are being addressed. They are putting in place an on-going reporting methodology. Sen. Harper asked how much of the technology could have been done at the universities without benefit of USTAR. Dr. Parks, U of U, reported that the school has hired faculty through USTAR who then bring in half again as much external funding as non USTAR

faculty and produce 8 times as many invention disclosures and generate 5.8 times as many provisional US patents and 4 times as many full US patents, and generated 5.7 times as many licenses for technologies. Dr. Behunin, USU, reported that USTAR faculty are outperforming in measurable ways other faculty.

Sen. Jenkins expressed the opinion that there has been a culture of untruth in the past surrounding USTAR. Chairman Bell replied that there has been no misappropriation of money and pledges to do an excellent job in the future including hiring a new executive director capable of doing the job the legislature wants.

MOTION: Rep. Val Peterson moved to adjourn. The motion passed unanimously with Sen. Bramble and Rep. Pitcher absent for the vote.

Sen. Shiozawa adjourned the meeting at 11:08 a.m.

Sen. Brian E. Shiozawa, Chair

Rep. Jim Bird, Chair