

**MINUTES OF THE
ECONOMIC DEVELOPMENT AND WORKFORCE SERVICES INTERIM COMMITTEE**
Wednesday, November 19, 2014 – 9:00 a.m. – Room 20 House Building

Members Present:

Rep. Rebecca P. Edwards, House Chair
Sen. Patricia W. Jones
Sen. Stuart C. Reid
Sen. Brian E. Shiozawa
Sen. Jerry W. Stevenson
Rep. Jim Bird
Rep. Rich Cunningham
Rep. Lynn N. Hemingway
Rep. Bradley G. Last
Rep. Ronda Rudd Menlove
Rep. Kraig Powell
Rep. Dean Sanpei

Members Absent:

Sen. Aaron Osmond, Senate Chair
Rep. Angela Romero
Rep. Brad R. Wilson

Staff Present:

Mr. Benjamin N. Christensen, Policy Analyst
Mr. Peter Asplund, Associate General
Counsel
Ms. Debra Hale, Legislative Secretary

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

1. Committee Business

Chair Edwards called the meeting to order at 9:19 a.m. Sen. Osmond and Rep. Romero were excused from the meeting.

MOTION: Rep. Cunningham moved to approve the minutes of the October 15, 2014, meeting. The motion passed unanimously. Rep. Bird and Rep. Menlove were absent for the vote.

2. Utah Workforce Services Code – Sunset Review (draft legislation)

Mr. Asplund reviewed draft legislation "Department of Workforce Services Sunset Authorization" (2015FL-0268/002), which would eliminate the sunset provision of Title 35A, Utah Workforce Services Code. He explained that Title 35A is the statutory basis for the administration of the Department of Workforce Services, including its divisions and programs, and that the title was scheduled to sunset July 1, 2015.

Ms. Kathy Bounous, Director, Adjudications/Appeals, and General Counsel, Department of Workforce Services, said that the department supports the draft legislation.

MOTION: Sen. Shiozawa moved to recommend draft legislation "Department of Workforce Services Sunset Authorization" as a committee bill. The motion passed unanimously. Rep. Bird and Rep. Menlove were absent for the vote.

3. Employment Support Act Revisions (draft legislation)

Mr. Christensen reviewed "Employment Support Act Revisions – Summary Sheet" and draft legislation "Employment Support Act Revisions" (2015FL-0269/006), copies of which were provided in the meeting packet. He explained that the bill would revise Utah Code 35A, Chapter 3, Employment Support Act, by updating language, restructuring sections and parts, amending definitions, and adding cross-references.

Ms. Bounous said that the Department of Workforce Services appreciated working with committee staff members in cleaning up the code and that it has been beneficial to the department. She said that changes had been made in the department that were not yet reflected in the statute and, with the passage of the draft legislation, would be aligned with federal regulation mandates.

Ms. Sisifo Taatiti, Program Manager, Department of Workforce Services, said that code change will align with the department's application process.

MOTION: Rep. Last moved to amend draft legislation "Employment Support Act Revisions" to fix a technical error on page 28, lines 839-843. The motion passed unanimously.

MOTION: Rep. Last moved to recommend draft legislation "Employment Support Act Revisions" as a committee bill. The motion passed unanimously.

4. Governor's Office of Economic Development Revisions (draft legislation)

Mr. Asplund distributed "Governor's Office of Economic Development Revisions – Summary Sheet," "Governor's Office of Economic Development Revisions," and draft legislation "Governor's Office of Economic Development Revisions" (2015FL-0271/006), and reviewed a visual presentation, "Governor's Office of Economic Development Revisions." He explained that in the July meeting, the committee discussed possible revisions to Utah Code, Title 63M, Chapter 1, Governor's Office of Economic Development (GOED).

Mr. Asplund said that this chapter is the statutory basis for the administration of GOED and its programs and incentives. At the suggestion of GOED, he continued, the committee voted to open a bill file in order to update and reorganize the chapter. He said the draft legislation would restructure the chapter into its own Title 63N, Governor's Office of Economic Development.

Dr. Kimberly Henrie, Deputy Director, Governor's Office of Economic Development, said that GOED is appreciative of the opportunity to create a more organized statute for its programs. She said that reorganizing the statute and putting it into chapters that make more sense for its programs will make it easier to track and monitor programs to make sure the office is compliant with statute.

MOTION: Rep. Bird moved to recommend draft legislation "Governor's Office of Economic Development Revisions" as a committee bill. The motion passed unanimously. Rep. Powell was absent for the vote.

5. Motion Picture Incentive Program – Update

Mr. Q. Val Hale, Executive Director, Governor's Office of Economic Development, introduced Ms. Virginia Pearce, Director, Utah State Film Commission, who reviewed a visual presentation, "Utah Film Commission Report." She said that since the early 1920s, Utah has been recognized around the world for its iconic landscapes, which have been portrayed in over 900 films. Ms. Pearce added that, since 2004, the film commission has offered incentives to encourage the use of Utah as a site for the production of motion pictures and television series in a consistent, conservative approach that has been very effective. She reviewed the state's Motion Picture Incentive Program, administered by GOED, and said that it provides refundable tax credits and cash rebates for approved productions on a post-performance basis. She compared Utah's incentives with those of other states.

Mr. Derek Mellus, Producer Services Executive, Utah Film Commission, said that in order to shoot films in Monument Valley, Lake Powell, Zions National Park, and other national parks, there are many criteria to follow. He said that the commission has great relationships with national park officials. He said that film companies also have to work with other federal agencies to find replicas of national park locations as options to shoot films.

6. Utah Capital Investment Corporation Audit – Follow-up

Mr. Darin Underwood, Audit Manager, Office of the Legislative Auditor General, distributed "A Performance Audit of the Utah Fund of Funds," which was first discussed in the September committee meeting. Mr. Underwood presented findings on the progress of the audit and distributed a booklet, "A Follow-Up of the Performance Audit of The Utah Fund of Funds."

Mr. Brian Dean, Audit Supervisor, Office of the Legislative Auditor General, gave an overview of the auditor's 18 recommendations to increase the overall accountability of the corporate incentives program and provide greater controls to ensure consistent and fair treatment. He said the recommendations called for improved (1) economic development reporting, (2) economic development impact and planning, (3) investment performance reporting, and (4) oversight and operations of the Utah Fund of Funds. Mr. Dean reported that 13 of the 18 audit recommendations have been fully implemented by the Utah Fund of Funds, and the remaining five recommendations are in the process of being implemented.

Mr. Bret Jepsen, Managing Director, Utah Capital Investment Corporation, expressed satisfaction at having fully implemented many of the audit recommendations. He responded to the Legislative Auditor General's audit findings by referring to page 21 of the follow-up audit titled "Utah Capital Investment Economic Development Plan," to assist Utah's small entrepreneurs in gaining access to and knowledge of the venture capital and private equity space.

Mr. Jepsen spoke regarding the recommendations on pages 9-11 of the follow-up audit to improve investment performance reporting. He requested that the Legislature provide some clarifying points as to the duration of service of the Utah Capital Board chair. He added that legislation vaguely states a duration limited to one year, yet it takes about eight months for a chair to become acclimated to the position.

Regarding the Utah Fund of Funds debt loan of \$121 million, Mr. Richard Pugmire, Chartered Financial Analyst, Utah Capital Investment Corporation, said that the balance of the loan is \$100 million at below 4%, the rate of return on the Fund of Funds has been good, and over the last year there has been a 12% return after all fees.

7. Economic Development Incentives

Chair Edwards turned the chair to Rep. Cunningham.

Mr. David Pulsipher, Director, Performance Audit, Office of the Utah State Auditor, addressed highlights of "A Performance Audit of GOED's Corporate Incentives Program," which outlined concerns of insufficient program guidance and oversight, inadequate controls to prevent preferred treatment, improper applicant approval, and questionable payments.

Mr. Pulsipher and Mr. Chris Otto, Supervisor, Performance Audit, Office of the Utah State Auditor, gave a visual presentation that described three key issues of the audit:

- 1) Enhancing oversight at GOED will improve corporate incentives accountability;

- 2) A complete cost benefit analysis can help establish minimum performance thresholds for Economic Development Tax Increment Finance recipients; and
- 3) Insufficient post-performance controls led to questionable incentive awards.

Mr. Hale gave a visual presentation and reviewed the state's Economic Development Tax Increment Finance program, which is a post-performance refundable tax credit for up to 30% of new state revenues over the life of a project. He said that the program is available to companies seeking relocation and expansion of operations to the state of Utah and that it is the envy of the nation.

Mr. Hale discussed what GOED learned from issues raised by the audit and outlined ways the office is working to address the issues and incorporate improvements to the methods in which incentives are administered. He said the office will work with the Legislature to ensure clarity of program goals and achievements, improvement of administrative rules, operation of programs as expected, full compliance with the statutes, and engagement in transparent and ethical practices.

In response to questions from the committee, Ms. Theresa A. Foxley, Managing Director, Corporate Recruitment and Business Services, Governor's Office of Economic Development, stated that when additional employees are hired to complete a project, these new employees need to meet all requirements of the project.

8. Other Committee Business / Adjourn

Acting Chair Cunningham recognized the service of outgoing legislators Rep. Hemingway, Rep. Menlove, Sen. Jones, and Sen. Reid.

MOTION: Sen. Jones moved to adjourn the meeting. The motion passed unanimously. Rep. Edwards, Rep. Powell, and Rep. Sanpei were absent for the vote.

Acting Chair Cunningham adjourned the meeting at 12:02 p.m.