

Colorado Legislative Council Staff Fiscal Note

**STATE
REVISED FISCAL IMPACT**

(replaces fiscal note dated January 22, 2014)

Drafting Number: LLS 14-0117	Date: January 27, 2014
Prime Sponsor(s): Rep. Young; Gerou Sen. Heath	Bill Status: House Business, Labor, Economic, and Workforce Development
	Fiscal Analyst: Alex Schatz (303-866-4375)

SHORT TITLE: ADVANCED INDUSTRY ECONOMIC DEVELOPMENT FUNDING

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	<u>\$0</u>	<u>\$0</u>
<i>State Transfers</i>		
General Fund	(\$12,000,000)	(\$12,000,000)
Cash Funds	12,000,000	12,000,000
State Expenditures	<u>\$12,000,000</u>	<u>\$12,000,000</u>
Cash Funds	11,983,429	11,982,556
Centrally Appropriated Costs**	16,571	17,444
FTE Position Change	2.0 FTE	2.0 FTE
Appropriation Required: None. Funds are continuously appropriated.		

* This summary shows changes from current law under the bill for each fiscal year. Transfers and diversions result in no net change to state revenue. Parentheses indicate a decrease in funds.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

The fiscal note is revised to reflect information concerning current AI grant program funding and a FY 2014-15 decision item under the proposed budget for the Governor's Office.

Summary of Legislation

For six fiscal years, the bill transfers \$12 million each year from the General Fund to the Advanced Industries Acceleration Cash Fund (AI cash fund). Transfers to the AI cash fund under the bill commence on July 1, 2014, and reoccur each July 1 for five additional years.

Under current law, on January 1, 2015, and each January 1 for the next three years, \$300,000 will be transferred from the General Fund to the Advanced Industry Export Acceleration Cash Fund (AIEA fund). For the next four fiscal years, the bill adjusts these transfers to the AIEA fund from the beginning of the third quarter of each fiscal year, on January 1, to the beginning of each fiscal year, six months earlier, on July 1.

Background

Two advanced industry economic development programs were enacted in Colorado's 2013 legislative session.

Advanced Industry Export Acceleration Program. The Advanced Industry Export Acceleration Program (House Bill 13-1193) provides \$300,000 each fiscal year through FY 2017-18 for the reimbursement of international export development expenses by private industry, as well as export training and a referral system for trade consulting administered by the Office of Economic Development and International Trade (OEDIT).

Advanced Industry Acceleration Grant Program. Under House Bill 13-1001, the Advanced Industry Acceleration Grant Program (AI grant program) consolidated and expanded existing advanced industries funding sources, creating the AI cash fund and continuing transfers of over \$10 million each year to the fund from the Limited Gaming Fund and other sources. In addition, the program received a \$5 million General Fund transfer in September 2013.

The AI cash fund is continuously appropriated and used by OEDIT to fund three types of grants: proof-of-concept, early stage capital and retention, and infrastructure funding. In addition, OEDIT may use up to 5 percent of transfers to the AI cash fund for administrative costs. HB 13-1001 specified grant criteria, annual reports, and other administrative requirements for the use of the AI cash fund by OEDIT.

Enlargement of the AI grant program and OEDIT's duties under HB 13-1001 resulted in an estimated workload increase of 1.4 FTE at OEDIT. This increase was not appropriated in the enacted bill.

OEDIT budget. Under current law, OEDIT appropriations include 1.1 FTE to administer an estimated \$15,426,032 in funding in the AI grant program. Accounting for HB 13-1001, resources required to administer this level of funding include 2.5 FTE.

The FY 2014-15 budget request for the Governor's Office included a decision item for \$5 million in annual transfers to the AI cash fund and 1.4 FTE, noting that an FTE appropriation was not provided with HB 13-1001. Without additional funding, transfers to the AI cash fund will fall to an estimated \$10 million in FY 2014-15. The Joint Budget Committee (JBC) staff recommended withdrawal of the decision item based on prospective legislation, presently represented by this bill.

State Revenue

The bill produces no net change in state revenue. Certain grants may remain in the custody of state institutions of higher education after the AI cash fund receives transfers from the General Fund.

Institutions of higher education. As research institutions, certain institutions of higher education in Colorado are eligible to receive proof-of-concept grants from the AI cash fund. Colorado institutions of higher education compete with other nonprofit and private research institutions for these grants, and increased state revenue to public institutions depends on their participation and the relative quality of grant applications.

State transfers. For the next six fiscal years, the bill transfers \$12 million annually from the General Fund to the AI cash fund, for a net total transfer of \$72 million as of July 1, 2019. The bill also modifies the schedule for periodic transfers to the AIEA fund, but it does not change the fiscal year in which those transfers occur or the net total transfer.

State Expenditures

The bill increases state expenditures in OEDIT by \$12 million each fiscal year from FY 2014-15 through FY 2019-20. Table 1 summarizes increased costs in OEDIT, including administrative expenditures of \$418,805 and 2.0 FTE in FY 2014-15 and \$259,478 and 2.0 FTE in FY 2015-16.

Table 1. Expenditures in OEDIT Under HB 14-1011		
Cost Components	FY 2014-15	FY 2015-16
Personal Services	\$108,234	\$108,234
FTE	2.0	2.0
Standard Operating Expenses	1,900	1,900
Capital Outlay Costs	9,406	0
Program Costs (see detail on Table 2)	292,100	131,900
Grants	11,571,789	11,740,522
Centrally Appropriated Costs*	16,571	17,444
TOTAL	\$12,000,000	\$12,000,000

* Centrally appropriated costs are not included in the bill's appropriation.

Assumptions. Relative to current law, the bill represents a \$12 million increase in annual transfers to the AI cash fund. The fiscal note assumes staff requirements increase proportionally to grant funding.

The fiscal note also assumes that existing workload does not change in the Advanced Industries Export Acceleration Program. The bill adjusts transfers to the AIEA fund to align with the fiscal year, which temporarily increases fund balance and allows for greater flexibility in paying reimbursements to industry.

Office of Economic Development and International Trade. By attracting additional applicants to the AI grant program, workload for OEDIT increases to field questions about the program and the application process, review applications and applicant facilities, prepare contracts, monitor awards, and make reports. To manage increased workload, OEDIT will hire an additional grant manager and an additional administrative assistant. In addition, the OEDIT will increase spending on marketing, travel, and consulting, as detailed in Table 2. The remainder of annual transfers are available for grants, as shown in Table 1.

Table 2. Expanded Advanced Industries Grant Program Costs*	
One-Time Program Costs (FY 2014-15)	One-Time Cost
Marketing - Collateral and campaign	\$20,000
Website - Industry portals	50,000
Consulting - Temporary grant processing (\$45/hr.*1560 hr.)	70,200
Consulting - Software improvements (Salesforce)	20,000
TOTAL ONE-TIME PROGRAM COSTS	\$160,200
Recurring Program Costs (FY 2014-15 and FY 2015-16)	
Recurring Program Costs (FY 2014-15 and FY 2015-16)	Annual Cost
Travel - In-state promotions	\$3,000
Consulting - Office support**	112,900
Consulting - Federal grant opportunities	16,000
TOTAL RECURRING PROGRAM COSTS	\$131,900

* Program costs are in addition to standard operating costs and standard capital outlay.

** Office support includes annualized costs for site visits (\$17,000), a half-time manager of the Key Industry Networks (\$62,400), and general office support, including accounting (\$33,500).

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB 14-1011*		
Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$9,055	\$9,055
Supplemental Employee Retirement Payments	7,516	8,389
TOTAL	\$16,571	\$17,444

*More information is available at: <http://colorado.gov/fiscalnotes>

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

The bill does not require an appropriation. State expenditures from the AI cash fund are continuously appropriated.

State and Local Government Contacts

Higher Education
Treasury

Office of Economic Development and International Trade
Personnel and Administration