

**Senate Community, Economic, and Recreational Development Committee  
House Finance Committee  
SB 1279 and HB 2340  
June 29, 2010**

**Department of Community and Economic Development (DCED)  
Testimony on Economic Development Fiscal Accountability Act**

Thank you Chairman Earll, Chairman Fontana, Chairman Levdansky and Chairman Rohrer, for the opportunity to present this testimony on the Economic Development Fiscal Accountability Act.

The Department is fully committed to fiscal accountability and transparency and would like to find an effective way to achieve that objective. I'd like to share with you today what DCED currently has in place that is commensurate with your proposed legislation.

While we agree with the concept of fiscal accountability and transparency, it is important to consider that many of the measures to be taken, as written, would require resources at a time when resources are at a premium: both staff and funding have been reduced. It would not be possible to administer this legislation without additional resources. We would, however, like to bring your attention to current measures that may mitigate the dependence on costly additional resources. There are procedures and policy currently in place that could be expanded to accommodate this Act. The first is:

**Annual Financing Strategy (Act 2004-12, S.B. 778)**

Act 12 of 2004 requires DCED to report annually to the Secretary of the Senate, the Senate Appropriations Committee Chair, the House Chief Clerk, and the House Appropriation Committee Chair, on twenty-one economic development programs. The report includes for each program:

- Budget/appropriation data for the past three years
- Narrative descriptions of program accomplishments for the prior fiscal year
- Detailed descriptions of program parameters, terms and conditions
- An aggregate performance target chart
- Report of approved individual projects under each program

Section 3 of SB 1279 and HB 2340 would require a unified economic development budget report. Because of the similarity to the Annual Financing Strategy, DCED recommends amending either legislation to eliminate any duplication of reporting. Act 12 of 2004 could be amended adding the additional information to be reported.

**Business Assistance Performance Monitoring Unit**

The Business Assistance Office Performance Monitoring Division is responsible for all post-approval monitoring activity required by business financing program statutes and

guidelines. Monitoring requirements are program specific and include project audits, job creation, job retention, private investment and site development activity. The division is also responsible for post-closing activity for loan document covenants such as maintaining updated insurance and job creation. The Monitoring Division also surveys companies receiving financing assistance from the Commonwealth Financing Authority (CFA) to determine the economic impact of individual projects, programs and the Authority as a whole. The information collected includes quantitative data on job creation and retention, private investment, wage levels and other performance statistics. The division works closely with other Business Assistance Office divisions, the legal office, and the DCED Secretary on collections activity and claw back correspondence.

This division is capable of handling the collection and reporting of data as outlined in SB 1279 and HB 2340 *provided* additional resources (staff, funding) are granted which are outlined at the end of this testimony.

### **Sections More Appropriate for Agencies other than DCED**

Section 4 SB 1279 and HB 2340. Unified reporting of property tax reductions and abatements and other local subsidies. The Department of Revenue would be the most appropriate agency to collect the data. They do not currently release this information to DCED.

Section 4 SB 1279 and 2340 (15). Hourly wage data may already be collected through the Department of Labor and Industry. DCED could utilize these existing resources.

## **Analysis of Additional Resources**

Section 5 of SB 1279 and HB 2340 describes the contents of the application for economic development subsidies which would be used for reporting purposes. DCED currently has a "single application" that contains many of the data described in SB 1279 and HB 2340, but additional enhancements to the database would be needed to capture all data described in Section 5. DCED would need to conduct the following:

- Issue an RFP for Information Technology Services to enhance our existing financing data base (Single Application for Assistance) to collect the new data fields. Our IT Director indicated it is difficult to determine an exact timeframe and cost to build the enhancements into the database, but a conservative estimate would be a 6 month turnaround for two application developers at a cost of \$100/\$250/hr. This is an approximate cost of \$208,000 to \$520,000 for application/database enhancements.
- Add additional DCED staff to manage data collections and reporting. Numerous sections of the proposed legislation describe data collection that would be staff intensive (e.g., Section 6, health care coverage; statements from companies). Our initial financial analysis is below. These numbers could vary greatly based on final legislation. Factors include:
  - 1) Statewide economic development programs identified to be monitored
  - 2) Data to collect (i.e., tax abatements, wage data, healthcare data)
  - 3) Agency that would be collecting data (i.e., tax abatements in Revenue or DCED, wage data in L&I or DCED), and coordination with other Departments.

## **Financial Analysis of SB 1279 and HB 2340**

From the DCED Business Assistance standpoint:

Staff resources for the requirement of the collection of recommended data in this legislation currently do not exist. A complement of two people per "development subsidy" divisions (bonds, grants, loans, loan guarantees, tax increment financing, tax credits, abatements and tax exemptions) would be required to collect, organize, and report the data to the Monitoring and Reporting divisions (Assuming Monitoring and Reporting is the primary Office to compile all data into a report). All 36 programs (68 programs if you count those that offer grant/loans/loan guarantees and other sub-categories under one program name) in Business Assistance would be affected by this legislation. There are currently 7 program divisions. 14 individuals would be needed to collect the data at an approximate cost of \$59,000 per position (Economic Development Analyst 1) for salary and benefits for a total estimate of \$826,000 to implement.

As a side note, this legislation is NOT just DCED, but all economic development programs in the Commonwealth. Given this is "Fiscal Accountability" going beyond Business Assistance, the Monitoring and Reporting division may be the appropriate division to collect this information.

The electronic Web Application would need to be re-engineered to accommodate the additional data fields required to be added to the single application, along with re-engineering of existing databases to capture new data. A very rough estimate for re-engineering would be \$200,000 (would need to do an in-depth analysis working with IT on this).

Costs for Business Assistance to implement SB 1279 and HB 2340; approximately \$1,000,000 each.

---

### **Last year's analysis on similar legislation:**

#### **Business Assistance Office – Cost Analysis to Implement HB 811 – “Economic Development and Corporate Accountability Act”**

DCED currently collects quantifiable data such as jobs created, private investment, company name/address, and other pertinent information from applicants when applying for funding through the Department. The mechanism used to collect and report this data is the Single Application for Assistance.

HB 811 would require significant enhancement of not only the Single Application for Assistance data system, but also the application itself that grantees use to apply for funding. The enhancements would include:

- Hourly wage (broken down by full-time, part-time, temporary and further broken down by wage groups).
- Average hourly wage paid to non-management employees (specific criteria in legislation)
- Average weekly wage paid to non-managerial employees in the county for industries involved at the project.
- Type and amount of health care coverage to be provided to the applicant within 90 days of commencement of employment at the project site, including any costs to be borne by the employees.
- List all development subsidies that the applicant requested and the name of any other granting body from which such subsidies are sought (could include in budget).
- A statement as to whether the development subsidy may reduce employment at any other site controlled by the applicant or its corporate parent, inside or outside this commonwealth, resulting from automation, merger, acquisition, corporate restructuring or other business activity.
- A statement as to whether or not the project involves the relocation of work from another address, and, if so, the number of full-time, part-time and temporary positions to be relocated and the address from which they are to be relocation.
- Development of a NEW form to capture (or additional enhancement to single application) for property-taxing entities to capture property tax abatements.
- Enhancement of our existing Monitoring database to capture and compile job creation data from other state entities as described in HB 811.

- Develop a trigger within the database to capture delinquent corporations that fail to provide information.

**Costs:**

It is difficult to determine the exact timeframe to build these enhancements. The below are estimates assuming a 6 month turnaround time (conservative) for 2 application developers:

- 2 Application Developers: \$100 to \$250/hr – 6 month period = \$208,000 to \$520,000 for application/database enhancements.
- DCED staff personnel to management data collection and reporting: \$57,257/annually (Economic Development Analyst 1)
- Regional data analysts to collect data from over 3,000 properties receiving tax abatements: 12 regions @ average of \$55,000 per data analyst = \$720,000/annually.

Total approximate cost to implement data collection requirements of HB 811: **\$985,257**  
**- \$1,297,257**