

## Arizona Commerce Authority

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
<b>OPERATING BUDGET</b>	10,000,000	10,000,000	10,000,000
<b>SPECIAL LINE ITEMS</b>			
Arizona Competes Fund Deposit	21,500,000	16,500,000	11,500,000
Mexico City Trade Office	300,000	300,000	300,000
<b>AGENCY TOTAL</b>	<b>31,800,000</b>	<b>26,800,000</b>	<b>21,800,000</b>
<b>FUND SOURCES</b>			
General Fund	31,800,000	26,800,000	21,800,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>31,800,000</b>	<b>26,800,000</b>	<b>21,800,000</b>
Other Non-Appropriated Funds	8,593,100	7,859,600	5,673,800
Federal Funds	3,097,300	2,818,500	1,755,200
<b>TOTAL - ALL SOURCES</b>	<b>43,490,400</b>	<b>37,478,100</b>	<b>29,229,000</b>

**AGENCY DESCRIPTION** — The Arizona Commerce Authority (ACA) promotes economic, community, and workforce development. The Authority's duties include: support statewide for business expansion and attraction; workforce development and job training; online assistance for new business start-ups; tax credit administration.

### Operating Budget

The Baseline includes \$10,000,000 from the General Fund in FY 2017 for the operating budget. This amount is unchanged from FY 2016.

Of the \$10,000,000 FY 2015 operations allocation, ACA expended \$9,779,400 in FY 2015.

### Arizona Competes Fund Deposit

The Baseline includes \$11,500,000 from the General Fund in FY 2017 for deposit into the Arizona Competes Fund. FY 2017 adjustments would be as follows:

<b>Deposit Reduction</b>	<b>GF</b>	<b>FY 2017</b>
		<b>\$(5,000,000)</b>

The Baseline includes a decrease of \$(5,000,000) from the General Fund in FY 2017 for a reduction in the Arizona Competes Fund deposit.

Prior to FY 2016, the Arizona Competes Fund received an annual appropriation of \$21,500,000 in income tax withholding from the General Fund. Additionally, the fund also receives a non-appropriated deposit of \$3,500,000 in lottery revenues for a total annual deposit of \$25,000,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduces the General Fund deposit by \$(5,000,000) in FY 2016 to \$16,500,000. In FY 2017 and each year thereafter, the deposit is reduced by \$(10,000,000) to \$11,500,000.

Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, however, eliminates the Arizona Competes Fund effective July 1, 2016. The Baseline estimates presume the continuation of the fund in FY 2017.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$100,000,000 deposited into the Arizona Competes Fund from FY 2012 through FY 2015, ACA has expended \$17,531,500 through June 30, 2015. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) included a transfer of \$75,000,000 from the fund balance in FY 2016. *(Please see Other Issues section for list of award recipients.)*

### Mexico City Trade Office

The Baseline includes \$300,000 from the General Fund in FY 2017 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2016.

Currently, ACA partners with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer a trade office in central Mexico City. The other partners provided \$135,000 in FY 2015 to help ACA lease a 2-story building and hire 4 FTE contract workers to run the trade office. Currently, ACA does not fund any other trade offices.

\* \* \*

**FOOTNOTES**

*Standard Footnotes*

Pursuant to A.R.S. § 43-409, \$21,500,000 of state General Fund withholding tax revenue is allocated in FY 2017 to the Arizona Commerce Authority, of which \$10,000,000 is credited to the Arizona Commerce Authority Fund established by A.R.S. § 41-1506, and \$11,500,000 is credited to the Arizona Competes Fund established by A.R.S. § 41-1545.01.

*New Footnotes*

By August 31, 2016, the Arizona Commerce Authority shall submit for review by the Joint Legislative Budget Committee a report on progress made in implementing the Auditor General’s recommendations included in their September 2015 audit of the authority. *(Please see Auditor General Recommendation below for more details.)*

**Other Issues**

**ACA Responsibilities**

A.R.S. § 41-1502 established ACA in place of the Department of Commerce. ACA’s main purpose is to attract and retain business in Arizona and is governed by a board of directors. In addition to attracting businesses, ACA is responsible for the following functions:

- Arizona 21<sup>st</sup> Century Fund Administration and Fund
- Arizona Fast Grant Program
- Arizona Innovation Accelerator Fund
- Arizona Step Grant Program
- Capital Investment Incentives (Angel Investment) Program
- Commercial Solar Energy Tax Credit Applications
- Computer Data Center Tax Exemptions
- Energy Reduction Grant
- Environmental Technology Assistance Program
- Governor’s Council on Workforce Policy Member
- Healthy Forest Enterprise Incentives Program
- International Operations Center Incentives
- Job Training Program and Fund *(Eliminated Effective January 1, 2017)*
- Military Reuse Zone Tax Credit
- Private Activity Bonds
- Qualified Energy Conservation Bonds
- Qualified Facility Tax Credit
- Quality Jobs Tax Credit
- Renewable Energy Tax Incentive Program Applications
- Research and Development Refundable Tax Credit
- Small Business Investment Tax Credit
- Solar Tax Credit

Prior to FY 2016, ACA received \$31.5 million in income tax withholding from the General Fund. Of that amount, \$10.0 million was deposited into the Arizona Commerce Authority Fund for ACA operational expenses and \$21.5 million was deposited into the Arizona Competes Fund. Beginning in FY 2016, the Arizona Competes Fund deposit is reduced to \$16.5 million with a further reduction to \$11.5 million being implemented in FY 2017 and beyond. In accordance with statute, the General Appropriation Act allocates these monies to ACA. Both funds are non-appropriated.

Additionally, ACA receives an annual deposit of \$3.5 million in lottery revenues to the Arizona Competes Fund. Combining General Fund and lottery revenues, ACA will have \$15.0 million in new resources in FY 2017 to provide grants to help attract, expand, or retain businesses in Arizona.

**Arizona Competes Fund Expenditures**

A.R.S. § 41-1545.01 established the Arizona Competes Fund with an annual deposit of \$21.5 million in income tax withholding monies from the General Fund and an additional appropriation of \$3.5 million in lottery tax revenues. From FY 2012 through FY 2015, the Arizona Competes Fund received \$100.0 million in total revenues and made \$35.3 million in commitments. Of these commitments, \$17.5 million has been expended through June 30, 2015 with recipients displayed in *Table 1*. Currently, 3 types of grants are awarded from the fund: 1) Competes Fund grants awarded to businesses that are expanding in or relocating to Arizona; 2) Arizona Innovation Challenge grants for early-stage start-up companies; and 3) Rural Economic Development grants that are awarded to local governments to improve infrastructure and attract businesses.

**Auditor General Recommendation**

In a September 2015 audit, the Auditor General recommended that the Arizona Commerce Authority implement measures to enhance reporting, implement written procedures for all of its Competes Fund grants, and develop written grant-monitoring and grant-amending policies. The Auditor’s specific recommendations were:

- Post a summary report on the ACA website that shows the authority’s cumulative progress towards its economic development goals.
- Clarify whether reported information represents company commitments for investment and job creation or actual results.

- Develop a report that compares the cost of financial incentives to the actual economic benefits the state has received.
- Ensure the annual Competes Fund report includes the required information.
- Develop comprehensive written procedures for all of the Competes Fund grants.
- Create written grant-monitoring policies and procedures.
- Construct policies and procedures for making changes to grant agreements and documenting reporting requirement exceptions.

The Baseline includes a recommendation for a new footnote that would require ACA to come before the Joint Legislative Budget Committee for review of the progress made on implementing the Auditor General's recommendations. *(Please see the Footnotes Section for more information.)*

<b>Table 1</b>	
<b>Arizona Competes Fund Expenditures through June 30, 2015</b>	
<b>Recipients</b>	<b>Total</b>
<b>Competes Fund Grants for Expansion/Relocation</b>	
Acceler8 Technologies Corporation	\$1,000,000
Clear Energy Systems, Inc.	1,000,000
General Motors, LLC	13,000
GoDaddy, Inc.	500,000
Hot Chalk	12,500
Maverick Healthcare Services, Inc.	875,000
Northern Trust Corporation	540,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
United Healthcare Services, Inc.	2,000
Zoc Doc	15,000
<b>Total Competes Fund Grants</b>	<b>\$7,515,900</b>
<b>Arizona Innovation Challenge Grants</b>	
Agave Semiconductor LLC	\$250,000
Amber Alert GPS	175,000
appsFreedom, Inc.	245,000
Athena Wireless Communications, Inc.	250,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
Clear Demand, Inc.	250,000
Contatta, Inc.	220,000
Deliver IT, Inc.	250,000
EndoVantage	224,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	75,000
Iron Horse Diagnostics, Inc.	75,000
Kutta Radios, Inc.	249,500
LawLytics	225,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	225,000
NuvOx Pharma, LLC	75,000
ParkX, LLC	75,000
Photon Medical Communications LLC	250,000
Picomix	175,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	125,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
Serious Integrated, Inc.	250,000
Spotlight Software, LLC	125,000
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	225,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	250,000
<b>Total Arizona Innovation Challenge Grants</b>	<b>\$7,547,900</b>
<b>Rural Economic Development Grants</b>	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Flagstaff	195,000
Greater Yuma Economic Development Corporation	432,500
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Verde Valley Wine Consortium, Inc.	255,300
Yuma	296,300
<b>Total</b>	<b>\$2,467,700</b>
<b>Total Arizona Competes Fund Grants</b>	<b>\$17,531,500</b>

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
<b>Application Fees Fund (CAA3005/A.R.S. § 41-1504)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A processing fee equal to 1% of the relevant tax credit being refunded per tax credit application.		
<b>Purpose of Fund:</b> To provide funding for staff to determine if taxpayers who qualify for a tax credit for increased research activities qualify for other income tax refunds.		
<b>Funds Expended</b>	532,900	943,800
<b>Year-End Fund Balance</b>	1,015,000	622,100
<b>Arizona Commerce Authority Fund (CAA2547/A.R.S. § 41-1506)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> An annual deposit of \$10,000,000 in corporate income tax withholding revenues, gifts, grants, and other donations. Expenditures are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$9,779,400 in FY 2015.		
<b>Purpose of Fund:</b> To fund the operating costs of the Authority.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	382,700	382,700
<b>Arizona Commerce Authority Carryover Fund (CAA1001/A.R.S. § 41-1504)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The remaining \$13,991,325 in left-over funds transferred from various funds belonging to the Arizona Department of Commerce and any residual FY 2011 revenue collected in FY 2012.		
<b>Purpose of Fund:</b> To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
<b>Funds Expended</b>	2,660,600	2,185,800
<b>Year-End Fund Balance</b>	2,290,700	104,900
<b>Arizona Commerce Authority Local Communities Fund (EPA2498/A.R.S. § 41-1505.12)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Tribal contributions from gaming revenue. The Tribal-State Gaming Compact dictates that 12% of revenues received by the state be utilized for government services benefiting the general public. The tribes can grant funds directly to communities or deposit revenues into the CEDC Local Communities Fund. Any monies remaining in this fund at the end of FY 2011 were transferred to the Arizona Commerce Authority Carryover Fund. Beginning in FY 2012, any remaining revenues to this fund were redirected to the Arizona Commerce Authority Carryover Fund.		
<b>Purpose of Fund:</b> To provide grants to cities, towns and counties for government services that benefit the general public including public safety, the mitigation of impacts of gaming or the promotion of commerce and economic development. All grant applications must have a written endorsement of a nearby Indian tribe to receive an award from the commission.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Commerce Development Bond Fund (CAA2196/A.R.S. § 41-1504)</b>		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Filing fees and charges for services related to the provision of a registry of bond allocations.		
<b>Purpose of Fund:</b> To pay for the review and approval of all corporate bond financing related to the construction of multi-family apartments, sanitariums, clinics, medical hotels, retirement homes, skilled nursing facilities and life-care centers.		
<b>Appropriated Funds Expended</b>	0	0
<b>Non-Appropriated Funds Expended</b>	1,100	5,000
<b>Year-End Fund Balance</b>	211,000	241,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
<b>Arizona Competes Fund (CAA2548/A.R.S. § 41-1545.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receives an annual deposit of \$16,500,000 in income tax withholding revenues, \$3,500,000 in lottery ticket sales revenues, gifts, grants, and other donations. The FY 2016 Government Budget Reconciliation Bill (Laws 2015, Chapter 12) reduced the FY 2016 income tax withholding deposit from \$21,500,000 to \$16,500,000. The bill also included an additional reduction of \$(5,000,000) to the income tax withholding deposit in FY 2017 and each year thereafter for a total annual deposit of \$15,000,000. Expenditures of the income tax withholding revenues are not displayed to avoid double counting the original General Fund appropriation to this fund. Expenditures from this fund totaled \$5,226,600 in FY 2015.		
<b>Purpose of Fund:</b> To provide deal closing grants to businesses for the purpose of attracting, expanding or retaining businesses and to support programs and projects for rural Arizona and small businesses that enhance economic development.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	89,898,800	27,137,800
<b>Corporation for Skilled Workforce Fund (CAA1002/A.R.S. § 41-1502)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Pass-thru federal funding to the Department of Economic Security.		
<b>Purpose of Fund:</b> To fund the Re-inventing Arizona's Human Services System which helps the Arizona Commerce Authority, Department of Education, the Community Colleges, and the Department of Economic Security to coordinate efforts to align Arizona's human capital development efforts with its economic growth and job creation efforts.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Donations Fund (CAA3189/A.R.S. § 41-1504)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Gifts, grants, and donations.		
<b>Purpose of Fund:</b> To be expended in accordance with the restrictions placed on the respective gift, grant, or donation.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	164,800	340,800
<b>Federal Funds (CAA2000/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants for community development, job training, and home programs.		
<b>Purpose of Fund:</b> To be expended as stipulated by federal statutes authorizing the federal grants.		
<b>Funds Expended</b>	2,853,300	2,551,500
<b>Year-End Fund Balance*</b>	(1,330,600)	0
<b>Arizona Innovation Accelerator Fund (CAA9507/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The U.S. Department of Treasury State Small Business Credit Initiative Act of 2010.		
<b>Purpose of Fund:</b> To fund state created programs that increase the amount of capital made available by private lenders to small businesses.		
<b>Funds Expended</b>	244,000	267,000
<b>Year-End Fund Balance</b>	9,912,500	10,315,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
<b>Job Training Fund (CAA1237/A.R.S. § 41-1544)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, gifts, grants, interest earned on investments and, primarily, proceeds from a 0.1% employers' wage tax. The FY 2015 Revenue Budget Reconciliation Bill (Laws 2015, Chapter 10) repeals the job training tax effective December 31, 2015 and redirects unencumbered monies in the fund as of December 31, 2016 to the Unemployment Compensation Fund and General Fund. Tax revenues collected and interest earned on the fund in FY 2015 were \$12,637,400 and \$379,600, respectively.		
<b>Purpose of Fund:</b> To provide training and retraining for specific employment opportunities with new and expanding businesses or businesses undergoing economic conversion. Training shall be through the community college system, a licensed private postsecondary educational institution, or a community college operated by a tribal government, unless the employer requests another qualified training provider. Of the monies appropriated to the fund, 25% is set aside for small and rural businesses.		
<b>Funds Expended</b>	5,398,500	4,725,000
<b>Year-End Fund Balance</b>	62,466,900	36,638,900
<b>Arizona Twenty-First Century Competitive Initiative Fund (CAA2524/A.R.S. § 41-1506.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, earnings from the fund, gifts, and donations.		
<b>Purpose of Fund:</b> One-time monies used to build and strengthen medical, scientific, and engineering research programs with an emphasis in bioscience for the purpose of promoting statewide economic development.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0

\* As reported by the agency. Actual ending balance will not be negative.