

Program Summary
Department of Commerce
Commerce and Economic Development Commission (CEDC) Fund

Program Overview

The Department of Commerce administers the Commerce and Economic Development Commission (CEDC) Fund. The CEDC was established in 1989 as the state’s economic policy and planning board. The commission is responsible for developing the state’s 10-year economic strategy. In addition, the commission also administers the CEDC Fund, which provides financial assistance to support the state’s economic development efforts.

Commerce states the overall goal of the commission is to “Develop comprehensive long-range strategic economic plans for this state, assist the department in the coordination of the independent efforts of all state and local agencies involved in economic planning and economic development, and to either directly or indirectly, provide financial assistance to businesses locating or expanding within this state”.

The CEDC Fund is partially-appropriated, meaning a portion of the fund’s expenditures are controlled by the Legislature. In FY 2009, the appropriated amount is \$3,068,700. The majority of these monies are used to fund the following programs in FY 2008:

- \$966,800 for International Trade Offices. Monies are used to establish business incentives and assistance procedures to retain, expand, or locate businesses and other qualified projects in the state.
- \$659,200 for Advertising and Promotion. Monies are used for advertising and promoting the department’s various programs through magazine ads, direct mail, and special events.
- \$200,000 for the National Law Center/Free Trade. The National Law Center for Inter-American Free Trade is a research and educational center that seeks to identify and eliminate mechanical and structural obstacles to the free movement of goods and services between Mexico, Canada, and the United States.
- \$130,000 for Main Street. This line item provides funding for the historical preservation or refurbishment of downtown areas, or “main streets,” in selected rural Arizona communities.

The non-appropriated portion of the CEDC Fund is used for business attraction in the form of loans and grants. The majority of the monies distributed to businesses have been in the form of grants rather than loans.

Statute requires that expenditures from the CEDC Fund be allocated as follows:

- A minimum of 25% of the monies disbursed from the fund shall be used to provide assistance, either directly or indirectly, for businesses or other qualified projects located in rural areas of the state until April 1 of each fiscal year (ARS § 41-1505.10E). The Department of Commerce states that since 1989 the share of monies disbursed for rural businesses have been approximately 28%.
- A minimum of 25% of the monies shall be used for businesses employing less than 100 employees, until April 1 of each fiscal year (ARS § 41-1505.10F). The department states that since 1989 the monies disbursed for small businesses have been approximately 28%.
- A minimum of 15% of the assistance shall be awarded; either directly or indirectly, to businesses or other qualified projects located in the economically-disadvantaged areas of the state until April 1 of each fiscal year (ARS § 41-1505.10G). In conjunction with the department, the commission shall determine which areas of the state are economically disadvantaged. The department states that since 1989 the monies disbursed to businesses or other qualified projects located in economically-disadvantaged areas of this state have been approximately 27%.

Program Funding

The CEDC Fund receives funding from at least 21.5% of the revenues from 2 of the Arizona Lottery’s scratch games, in addition to principal and interest payments on loans and securities and investment management fees paid by private businesses (ARS § 41-1505.10D(1)). In FY 2009, expenditures from the CEDC Fund are expected to be \$4,446,000. The FY 2009 expenditure level represents an increase of 39% from FY 2001 levels. *Table 1* displays total appropriated and non-

Table 1					
CEDC Fund Expenditure History					
<u>Fund</u>	<u>FY 2001</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
CEDC	\$3,187,200	\$3,591,200	\$3,652,900	\$4,667,900	\$4,446,000

appropriated expenditures from the CEDC Fund.

Maximizing CEDC Fund Revenues

In recent years, non-appropriated CEDC Fund expenditures devoted to business attraction and retention have been increasingly in the form of grants rather than loans. Since grants do not generate principal and interest payments as loans do, one source of revenues used to replenish the CEDC Fund has declined. Loan repayment revenues declined from \$1,111,100 in FY 2005 to \$136,800 in FY 2008.

Performance Measures

Table 2 includes the measures the Department of Commerce uses to assess the performance of the CEDC Fund. None of these measures are included in the General Appropriation Act.

All of these measures assess process-related issues such as the number of companies recruited to rural locations. These measures do not necessarily measure the effectiveness of the programs, but rather serve as an indicator of the level of funding they receive. The department states that its primary goal is to increase per capita income.

Commerce should consider several new performance measures to determine if its economic development efforts are effective. Examples include: Number of loans vs. grants, % of loans paid back on time, personal income per capita, job growth rate and investment data. The measures would depend on the availability of data, as some of these measures might not be collected in rural communities. All of these measures could be used to test the effectiveness of the CEDC Fund when compared to historic data from the same communities prior to the attraction and retention of businesses by Commerce.

Table 3			
CEDC Fund			
Performance Measures			
<u>Performance Measure</u>	<u>FY 2006 Actual</u>	<u>FY 2007 Actual</u>	
Number of companies recruited to rural locations	10	11	
Locate/expansion of capital investment (in millions)	452	1600	
Average hourly wage rate per job	\$23.00	\$23.67	
Jobs created by companies utilizing Commerce business development programs	8,076	9,814	
Number of new company relocations and expansions	45	46	