

Arizona Commerce Authority

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET	10,000,000	10,000,000	10,000,000 ^{1/}
SPECIAL LINE ITEMS			
Arizona Competes Fund Deposit	16,500,000	11,500,000	11,500,000 ^{1/}
Mexico City Trade Office	300,000	300,000	300,000
AGENCY TOTAL	26,800,000	21,800,000	21,800,000
FUND SOURCES			
General Fund	26,800,000	21,800,000	21,800,000
SUBTOTAL - Appropriated Funds	26,800,000	21,800,000	21,800,000
Other Non-Appropriated Funds	7,117,600	8,577,800	7,751,000
Federal Funds	3,402,300	1,518,400	1,518,400
TOTAL - ALL SOURCES	37,319,900	31,896,200	31,069,400

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 budget includes \$10,000,000 from the General Fund in FY 2018 for the operating budget. This amount is unchanged from FY 2017.

Of the \$10,000,000 FY 2016 operations allocation, ACA expended \$9,227,100 in FY 2016.

Arizona Competes Fund Deposit

The budget includes \$11,500,000 from the General Fund in FY 2018 for deposit into the Arizona Competes Fund. This amount is unchanged from FY 2017.

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 received a non-appropriated deposit of \$3,500,000 in lottery revenues and an average of \$1,600,000 in Corporation Commission securities fees for a total annual deposit of \$26,600,000. The FY 2016 Government Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 12), reduced 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 2016, Chapter 372 made several changes to the Arizona Competes Fund including:

- Redirecting the Corporation Commission filing fees to the newly-created Office of Economic Opportunity.
- Extending the lapsing date for the Arizona Competes Fund to July 1, 2018.
- Mandating that at least 30% of monies appropriated to the Arizona Competes Fund be used for rural and small business grants. Laws 2017, Chapter 336 further amends statute to require that 30% of this amount, up to \$1,000,000, be reserved for microenterprise development. Microenterprises are businesses that employ 10 or fewer employees including start-ups, home-based businesses, and self-employed businesses.
- Requiring that a further 25% of the monies appropriated to the Arizona Competes Fund be reserved for businesses not located in Maricopa County with preference given to a county located on the Arizona-Mexico border, a county in which a military facility is located, or projects on tribal lands. The 25% allocation is no longer reserved for these purposes after March 31 of each fiscal year.

Monies in the Arizona Competes Fund are utilized to issue grants to attract, retain, and support businesses in Arizona. Of the \$141,408,800 deposited into the Arizona

^{1/} Pursuant to A.R.S. § 43-409, \$21,500,000 of state General Fund withholding tax revenues is allocated in FY 2018 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. (General Appropriation Act footnote)

Competes Fund from FY 2012 through March 2017, ACA has expended \$28,970,100 as of March 31, 2017. 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 budget includes \$300,000 from the General Fund in FY 2018 for the operation of a trade office in Mexico City. This amount is unchanged from FY 2017.

Monies in this line item are used to lease a 2-story building in central Mexico City that serves as the Mexico City Trade Office and hire 4 contract workers to run the office. In the past, ACA partnered with the City of Phoenix, City of Tucson, the Maricopa Association of Governments, and Visit Phoenix (a non-profit) to administer the office. In FY 2015, the other partners provided \$135,000 to help fund the office. In FY 2016, however, no additional funds were provided. Currently, ACA does not fund any other trade offices.

Other Issues

Additional Legislation

Job Training Fund Extension

The FY 2018 Budget Procedures BRB (Laws 2017, Chapter 307) retroactively extends the repeal date of the Arizona Job Training Fund from July 1, 2017 to June 30, 2022. The bill also requires that all encumbrances of monies in the fund be made by December 31, 2020 and that any monies remaining in the fund as of the repeal date be transferred to the General Fund. The fund will only receive revenues from interest on the fund balance as the Job Training tax was repealed effective December 31, 2015. As a result, ACA will only be expending the existing fund balance which was \$30.5 million as of May 23, 2017, plus any interest received through 2020. In FY 2016 ACA encumbered \$6.6 million.

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 21st 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
- Healthy Forest Enterprise Incentives Program
- International Operations Center Incentives
- Job Training Program and Fund *(Eliminated effective June 30, 2022)*
- Military Reuse Zone Tax Credit
- 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 annually. 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 was 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 2018 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 beginning in FY 2012 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. Due to subsequent statutory changes, the General Fund deposit was reduced to \$16.5 million in FY 2016 and was further reduced to \$11.5 million in FY 2017 and beyond. The fund also received revenues from Corporation Commission securities fees which have averaged approximately \$1.6 million per year. In FY 2017 these fees were permanently

redirected to the Office of Economic Opportunity Operations Fund.

Through March 31, 2017, the Arizona Competes Fund received \$141.4 million in total revenues, but, due to a \$75.0 million transfer in FY 2016, net revenues to the fund total \$66.4 million. Of these revenues, ACA has made \$47.9 million in commitments and expended \$29.0 million through March 31, 2017 with recipients displayed in *Table 1* and expenditures by award year displayed in *Table 2*. 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.

Table 1	
Arizona Competes Fund Expenditures through March 31, 2017	
<u>Recipients</u>	<u>Total</u>
Competes Fund Grants for Expansion/Relocation	
Acceler8 Technologies Corporation	\$1,000,000
Clear Energy Systems, Inc.	1,000,000
General Motors, LLC	1,300,000
GoDaddy, Inc.	1,500,000
JDA Software, Inc.	353,500
Maverick Healthcare Services, Inc.	783,900
Northern Trust Corporation	1,540,000
Silicon Valley Bank Financial Services	3,010,000
Ulthera, Inc.	548,400
Zoc Doc	15,000
Total Competes Fund Grants	\$11,050,800
Arizona Innovation Challenge Grants	
Agave Semiconductor LLC	\$250,000
Allbound, Inc.	100,000
Amber Alert GPS	250,000
AniCell Biotech, LLC	150,000
appsFreedom, Inc.	250,000
Athena Wireless Communications, Inc.	250,000
Beacon Biomedical, Inc.	236,500
BeckonCall, Inc.	246,900
CampusLogic, Inc.	225,000
Cancer Prevention Pharmaceuticals, Inc.	229,900
CleanTechnology, Inc.	150,000
Clear Demand, Inc.	250,000
ClearVoice Inc.	210,000
Contatta, Inc.	245,000
Deliver IT, Inc.	250,000
EndoVantage	250,000
eVisit, LLC	250,000
Gingerbread Shed Corporation	250,000
HJ3 Composite Technologies LLC	170,000
Instant Bioscan LLC	250,000
Iris PR Management, Inc.	250,000
Iron Horse Diagnostics, Inc.	250,000
Kutta Radios, Inc.	249,500
LawLytics	250,000
MaxQ Technology LLC	250,000
Nasseo, Inc.	250,000
NuvOx Pharma, LLC	250,000
Paraffin International, Inc.	215,000
ParkX, LLC	250,000
Photon Medical Communications LLC	250,000
Picomic	250,000
Post.Bid.Ship., Inc.	232,000
Pure Chat, Inc.	250,000

Table 1 (cont.)	
<u>Recipients</u>	<u>Total</u>
Rbar Organic, LLC	250,000
Recoleta Partners LLC	250,000
ReplyBuy, Inc.	250,000
RevolutionParts, Inc.	250,000
RightBio Metrics Inc.	250,000
Salutaris Medical Devices, Inc.	150,000
Serious Integrated, Inc.	250,000
Smart Brain Aging, Inc.	150,000
Smart Clinic, LLC	175,000
Spotlight Software, LLC	172,500
Stat Health Services, Inc.	250,000
Stimwave Technologies, Inc.	152,500
Strongwatch Corporation	250,000
The Medical Memory, LLC	225,000
Triton Microtechnologies	250,000
Viomics, Inc.	250,000
Whole Sale Fund Corporation	250,000
World View Enterprises	250,000
Yolia Health, Inc.	248,000
Total Arizona Innovation Challenge Grants	\$11,932,800
Rural Economic Development Grants	
Casa Grande	\$150,000
Central Arizona Regional Economic Development Foundation	340,000
Coolidge	369,200
Flagstaff	195,000
Globe	265,500
Greater Yuma Economic Development Corporation	432,500
Kingman	170,000
Maricopa	250,000
Mohave County	500,000
Nogales	500,000
Northern Arizona Business and Technology Incubator	59,600
PineTop-Lakeside	185,000
Prescott	54,000
Prescott Valley	500,000
Sahuarita	250,000
Verde Valley Wine Consortium, Inc.	255,300
Wickenburg	250,000
Williams	250,000
Winslow	214,100
Yuma	296,300
Yuma County	500,000
Total	\$5,986,500
Total Arizona Competes Fund Grants	\$28,970,100

Table 2	
Arizona Competes Fund Expenditures by Award Year	
<u>Award Year</u>	<u>Expenditures</u>
FY 2012	\$6,445,500
FY 2013	7,638,400
FY 2014	6,952,700
FY 2015	5,571,700
FY 2016	2,361,800
FY 2017	0
Total	\$28,970,100

