

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7861**

**BILL NUMBER: HB 1006**

**NOTE PREPARED: Jan 24, 2003**

**BILL AMENDED: Jan 23, 2003**

**SUBJECT:** Indiana Growth Fund and Economic Development.

**FIRST AUTHOR:** Rep. Hasler

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:**

X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) The bill transfers the Twenty-First Century Research and Technology Fund and Program from the Budget Agency to the Development Finance Authority and makes changes in the administration of the Program. The bill removes the exclusion of the funding of ordinary and recurring operating costs or expenditures from the definition of an educational facility project. The bill establishes the Indiana Venture Fund and Program and provides for the transfer of money from the Business Development Loan Fund. The bill changes the definition of "high growth company with high skilled jobs". It also makes related changes in the Development Finance Authority. The bill establishes the Indiana Growth Fund. The bill provides for the transfer of money to the Twenty-First Century Research and Technology Fund and the Indiana Venture Fund from money realized from the securitization of the payments under the Tobacco Settlement Agreement. The bill also requires the report of financial data by a business enterprise to the authority to be prepared according to generally accepted accounting principles.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** (Revised) *Appropriation of Securitized Tobacco Settlement Payments:* The bill deposits in the Indiana Growth Fund the net proceeds from bonds issued to securitized the payments under the Tobacco Master Settlement Agreement. The bill establishes the Indiana Growth Fund to receive the bond proceeds as well as appropriations, grants, gifts, donations, and interest that accrues from investment of the money in the Fund. Under the bill, the Fund is administered by an Authority to be established to securitize the payments under the Tobacco Master Settlement Agreement. Money in the Fund does not revert to the state General Fund and the expenses of administering the Fund are to be paid from the Fund. If the Authority has insufficient money to make the total amount of transfers required by law for any fiscal year, the Authority will make transfers for that fiscal year as directed by the State Budget Agency after review by the Budget Committee.

The bill requires the Authority to distribute \$36.0 M each year from the Indiana Growth Fund to the Indiana Development Finance Authority (IDFA) on a schedule approved by the State Budget Agency. The bill

requires specific distributions by the IDFA to the 21<sup>st</sup> Century Research and Development Fund and the Indiana Venture Fund (established by the bill). The yearly distributions to each fund are presented in the table below.

	<b>21<sup>st</sup> Century R &amp; D Fund</b>	<b>Indiana Venture Fund</b>
<b>FY 2004</b>	\$32.4 M	\$3.6 M
<b>FY 2005</b>	\$28.8 M	\$7.2 M
<b>FY 2006</b>	\$25.2 M	\$10.8 M
<b>FY 2007</b>	\$21.6 M	\$14.4 M
<b>FY 2008</b>	\$18.0 M	\$18.0 M
<b>FY 2009</b>	\$18.0 M	\$18.0 M
<b>FY 2010</b>	\$18.0 M	\$18.0 M
<b>FY 2011</b>	\$18.0 M	\$18.0 M
<b>FY 2012</b>	\$18.0 M	\$18.0 M
<b>FY 2013</b>	\$18.0 M	\$18.0 M
<b>Total</b>	<b>\$216.0 M</b>	<b>\$144.0 M</b>

*Indiana Venture Fund:* The bill establishes the Indiana Venture Fund to be administered by the Indiana Development Finance Authority (IDFA). The bill provides for the distribution of \$144.0 M to the Fund from FY 2004 to FY 2013. This money is from net proceeds of bonds issued to securitize the payments under the Tobacco Master Settlement Agreement (see discussion above under *Appropriation of Securitized Tobacco Settlement Payments*). Money in the Fund does not revert to the state General Fund and the expenses of administering the Fund are to be paid from the Fund. Money in the Fund is to be utilized by the IDFA to:

- (1) Make direct loans to a technology commercialization project to provide seed capital or venture capital. Such loans can not exceed the lesser of 40% of the initial funding for the project or \$600,000.
- (2) Make direct or co-venture investments in the form of loans or loan guarantees by entering into agreements with professional or accredited investors who agree to invest at least as much as the IDFA in a technology commercialization project to provide venture capital or seed capital. The IDFA may not loan, or guarantee loans, of more than \$1.0 M to any single business under these arrangements. This maximum may be increased to \$1.5 M if deemed necessary to protect or enhance the initial investment of the IDFA.
- (3) Enter into written agreements with one or more professional investors to establish a pool of funds to be used exclusively as venture capital or seed capital investments. The IDFA may not invest more than \$2.0 M in a single pool or in affiliated pools of funds.

The bill also establishes a seven member advisory board to evaluate applications for loans or co-venture investments in form of loans or loan guarantees. The advisory board consists of: (1) three members of the

IDFA other than the Lt. Governor, to be selected by the Governor; (2) three members of the 21<sup>st</sup> Century Research and Technology Fund Board other than the Lt. Governor, to be selected by the Governor; and (3) the Lt. Governor. The bill requires the advisory board to make recommendations to the IDFA, and for the IDFA to make the final determination regarding investments. Members of the advisory board are not entitled to per diem, but are entitled to reimbursement for travel and other expenses.

*21<sup>st</sup> Century Research and Technology Fund:* The bill provides for the distribution of \$216.0 M to the 21<sup>st</sup> Century Research and Technology Fund from FY 2004 to FY 2013. This money is from net proceeds of bonds issued to securitize the payments under the Tobacco Master Settlement Agreement (see discussion above under *Appropriation of Securitized Tobacco Settlement Payments*).

The bill transfers certain administrative responsibility pertaining to the 21<sup>st</sup> Century Research and Technology Program from the State Budget Agency (SBA) to the IDFA. The bill also transfers administration of the 21<sup>st</sup> Century Research and Technology Fund from the State Treasurer to the IDFA. Under the bill, the Fund Board approves and recommends applications for grants and loans to the Budget Committee. After review by the Budget Committee, the IDFA is authorized (instead of the SBA) to approve, deny, or modify grants and loans recommended by the Fund Board. However, the bill also requires that grant and loan applications recommended by the Fund Board be submitted to the SBA for approval. Under current statute, the IDOC must provide administrative assistance to the IDFA. Currently, the IDFA has a staff of approximately eight. The additional administrative responsibilities established under the bill presumably could be absorbed by these agencies given their existing budgets and resources. The December 7, 2002, state staffing table indicates that the IDOC has 52 vacant full-time positions, including regional office positions

*Fund Transfers:* The bill authorizes the IDFA to transfer funds from the existing Business Development Loan Fund to the Indiana Venture Fund (established by the bill). The allotment balance in the Business Development Loan Fund as of January 17, 2003 is \$108,125.

*High Growth Company Qualification:* The bill changes the current law definition of a *high growth company with high skilled jobs*. Under current law, a high growth company has average annual growth in earnings over the prior three years equal to 15%. The bill lowers the growth requirement to 10% average annual growth. The bill also changes the growth indicator from company *earnings* to company *gross revenue*. The first change could increase the pool of businesses that qualify for: (1) loan guarantees financed through the Industrial Development Project Guaranty Fund; and (2) enhanced assistance through the Capital Access Program. (Under the Capital Access Program the IDFA's contribution to a loan is triple the regular match for these high growth companies.) The impact of the growth indicator change is unknown, though it could potentially change the pool of eligible companies.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Department of Commerce; Indiana Development Finance Authority; State Budget Agency; 21<sup>st</sup> Century Research and Technology Fund Board; Budget Committee; State Treasurer; Lt. Governor; Governor.

**Local Agencies Affected:**

**Information Sources:**

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