Subcommittee on Business Development

Louisiana Economic Development

Budget Topics

February 3, 2010

Chairman

Representative Gary Smith

Louisiana Economic Development

Agenda:

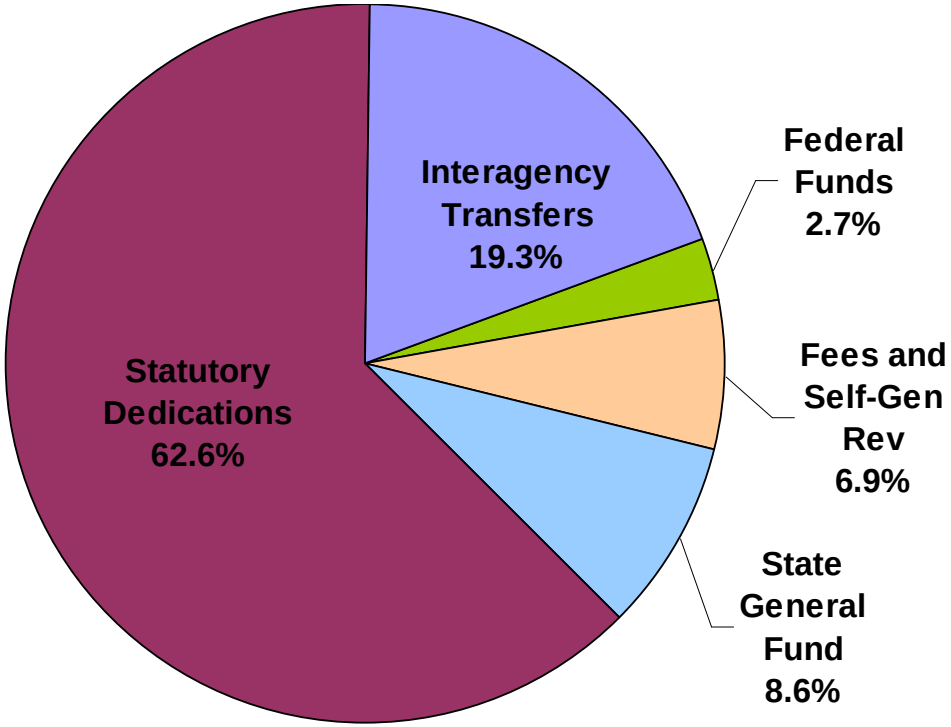
- FY 09-10 Existing Operating Budget
- Statutory Dedications
  - Rapid Response Fund
  - Louisiana Mega-Project Development Fund

New Initiatives

Ongoing projects from prior administration

Existing Operating Budget

- LED's FY 09-10 Total Existing Operating Budget is $263M



Budget Comparison

Louisiana Economic Development FY 09-10 EOB compared to FY 10-11 Requested					
Means of Finance	FY 08-09 Actual	FY 09-10 Existing Operating Budget	FY 10-11 Requested	Change from FY08-09 to FY09-10	Percent Change
State General Fund	$28,233,420	$22,675,929	$37,505,115	$14,829,186	65.4%
Interagency Transfers	$72,863,277	$50,826,873	$1,697,695	($49,129,178)	-96.7%
Fees and Self-Gen Re	$1,958,016	$18,102,237	$2,850,468	($15,251,769)	-84.3%
Statutory Dedications	$101,211,683	$164,724,486	$30,372,350	($134,352,136)	-81.6%
Federal Funds	$808,996	$7,017,250	$0	($7,017,250)	-100.0%
TOTAL	$205,075,392	$263,346,775	$72,425,628	($190,921,147)	-72.5%

Statutory Dedications

- Rapid Response Fund
- $42.6M appropriated and the unappropriated fund balance is $4.35M
  - The fund was created by Act 398 of the 2005 Regular Session.
  - The source of revenue is State General Fund and the state treasurer is directed to deposit into the fund at the beginning of each fiscal year an amount sufficient to bring the unencumbered balance in the fund to ten million dollars.
  - All unexpended and unencumbered monies in the fund at the end of the fiscal year remain in the fund.
  - Funds are to be used by the secretary of the department for immediate funding of all or a portion of economic development projects necessary in order to successfully secure the creation or retention of jobs by a business entity under circumstances determined by the secretary or the governor.

Statutory Dedications

- Louisiana Mega-Project Development Fund
- $55.3M unappropriated fund balance
  - The fund was created by Act 208 of the 2007 Regular Session.
  - All unexpended and unencumbered monies in the fund at the end of the fiscal year remain in the fund.
  - Funds are to be used by the secretary of the department for immediate funding of economic development mega-projects necessary in order to successfully secure the creation or retention of jobs by a business entity.
  - In order to meet the definition of a mega-project, the project must create 500 new direct jobs to the state or have a minimum initial investment of $500M, and project a substantial return on the investment by the state as measured by projected tax revenues. The state investment in any mega-project shall not exceed 30% of the total cost of the project.

Other Items

- New projects
  - Blue Ocean Initiative
- Items from prior administration
  - Union Tank Car
  - Northrop Grumman
  - CG Railway

Blue Ocean Initiative

The Blue Ocean initiative is a strategy project designed to: (a) identify the state's best narrowly defined growth industries of the future (industries with significant growth potential in which no states have yet cemented a commanding leadership position); and (b) develop and execute action plans to cultivate each of these sectors. Preliminary state targets include the following industry segments:

- Digital media / software development (including selected segments within healthcare IT, education IT, video-game development, and possibly eReaders)
- Next-generation automotive manufacturing (e.g., electric vehicles, composites manufacturing)
- Specialty healthcare (medical corridor(s), obesity/diabetes research and treatment, pharmaceutical manufacturing)
- Renewables and energy efficiency (green building/manufacturing, hydropower, algae-based energy production, nuclear power module manufacturing)
- Water management (developing a world-class water-management industry – Netherlands of the U.S.)
- Next wave oil & gas (ultra deep water oil, unconventional natural gas, enhanced oil recovery)

Union Tank Car

The original CEA was signed in 2004. Union Tank Car (UTC) agreed to build an approximately $100million facility with the state investing $32million and the company investing $68 million. Employment was committed to be 850 jobs for 10 years. The initial year for the UTC job commitments was to begin two years after the facility was placed into service. After the facility was built, the market took a sharp downturn, and employment peaked at approximately 500 jobs. Today employment is approximately 375. The state and UTC have negotiated a CEA amendment which is under final review by DOA. Once this is executed, the state will maintain the overall economic value of the project with a structure that establishes a lower jobs/payroll target (650 jobs vs. 850 jobs) over a longer time period (13 years vs. 10 years). Actual UTC employment and payroll relative to targets, and resulting UTC reimbursement payments due to underperformance, will be calculated once the CEA amendment is finalized.

Northrop Grumman

An agreement was signed in 2002 for the state to invest $55M ($39M in infrastructure and $16M in training) for the retention of 5200 jobs for 4 years with a match of $55M. As of 2010, NG has met their job commitment numbers and has maintained at or near 5000 employees for years over and above the original commitment. NG has invested over $125M and continues to invest yearly into the facility. The $39M infrastructure investment is for panel line equipment (which has been purchased) and should be installed by October 2010. The delay in installation has been hindered by several events primarily Hurricane Katrina which caused NG to concentrate their efforts in getting the facility up and running. The CEA states that if the equipment is not installed by the October 2010 deadline, NG will owe the state $39M.

CG Rail

- Total Project Costs: $41.5 million - N.O. project costs: $25million; vessel costs: $10.5 million; Mexico rail costs: $6 million
- State commitment: $15 million towards N.O. project costs
- Company commitment: $26.5 million for remainder of project
- In addition the costs above, the City of N.O. was also to perform work valued at $2 million
- Ongoing CG Rail commitments: 60 ship voyages per year originating at the facility, for 10 years beginning in 2006 (if facility completed) or later (if facility completed at a later date)
- Annual reimbursements from CG Rail: $25K per ship voyage shortfall
- LED estimated 600 direct and indirect jobs associated with the facility and ship voyages
- CG Rail put up $6.5 million for the project. Port of New Orleans staff person did not know if they recouped any of the funds from other sources after the storm.
- Maritime moveable equipment was sold to CG Rail in the amount of $2.5 million and repaid to the state. CG Rail moved to Mobile since the facility was rendered useless when the Mississippi River Gulf Outlet (MRGO) was closed – force majeure was invoked
- The authorization of $75 million to move tenants to the river due to the MRGO closure was in the Federal Water Resources Development Act of 2007, but Congress did not appropriate the funds. The Port or any tenants have not received any funds from this authorization. This would have no impact on CG Rail since they left the Port.