



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #173

Tribal Gaming Revenue Allocations

Agricultural Development and Diversification Program (DATCP)

[LFB 2001-03 Budget Summary: Page 100, #4]

CURRENT LAW

The agricultural development and diversification (ADD) program provides grants for up to three years to farmers or other entrepreneurs to develop agricultural crops and livestock products, value-added and other new uses for existing products and new business ventures. Total grants to any individual may not exceed \$50,000 and there are no match requirements. The ADD program base budget for grants is \$400,000 GPR annually.

GOVERNOR

Create an annual appropriation and provide \$325,000 in 2001-02 and \$485,000 in 2002-03 from tribal gaming revenues to increase agricultural development and diversification (ADD) program grant funding.

Further, expand the program to allow DATCP to make grants and provide technical assistance to agricultural producers and organizations to support preliminary research and investigations on potential business enterprises that may increase the value of raw agricultural commodities. However, prohibit DATCP from providing funding for more than two years or from awarding more than \$25,000 to a single business for research and investigations. Require DATCP to promulgate rules to administer the program expansion.

DISCUSSION POINTS

1. While the statutes set general eligibility standards and outcome goals for the ADD

program, actual selection criteria are guided by DATCP administrative rule. Proposals are selected on a competitive basis and evaluated based on the following criteria: (a) value to industry; (b) agriculture economic development potential measured in terms of job creation, capital investment, market expansion and near-term economic activity; (c) degree to which the project has a near-term practical or commercial application for the industry as a whole; (d) reasonableness and feasibility of the proposed approach, including adequacy of workplan and time frame; (e) demonstrated capacity of project leaders and staff to successfully carry out the proposed activity; (f) reasonableness of costs relative to the work to be performed, including cost effectiveness of project versus the product(s) to be delivered; and (g) follows the purposes and objectives outlined in the application and clearly defines the expected results.

2. Since its establishment in 1989, the ADD program has awarded \$3.3 million for 173 projects. As shown in the following table, the demand for grants has generally increased under the program. DATCP estimates a current economic return (including annual sales increases, added value from processing and other returns to resources) of over \$60 million from projects funded under the grant program. Providing additional grant funding may allow less viable projects to receive grants, thereby decreasing the Department's current rate of return on ADD grants. However, DATCP officials estimate that about 50% of grant proposals would meet program eligibility requirements and have a reasonable chance of success.

Recent ADD Grant Program Activity

<u>Year</u>	<u>Proposals</u>	<u>Funds Requested</u>	<u>Awards</u>	<u>Allocated Funds</u>
1996	68	\$1,798,692	12	\$200,000
1997	100	2,713,138	17	300,000
1998	110	3,359,995	24	500,000
1999	128	4,227,538	19	400,000
2000	107	3,389,578	17	400,000
2001	116	3,743,177		400,000

3. Under the bill, the amount available for ADD grants would more than double from \$800,000 to \$1,610,000. In its budget request to DOA, DATCP sought an increase of \$160,000 in the biennium for the ADD program, while the bill would provide an \$810,000 increase. Since the rate of return on investments could diminish as more proposals are funded, the Committee may wish to provide a lower amount of additional funding or to replace a portion of current GPR funding with tribal gaming revenues. If \$810,000 in tribal gaming revenues were provided as under the bill, reducing annual GPR allocations for the grant program by \$300,000 annually would provide an overall funding increase of 26%. Reducing GPR by \$200,000 annually would increase ADD grant funding by 51% and an annual GPR reduction of \$100,000 would increase funding by 76%.

4. The Department has received ADD proposals to fund preliminary research and

investigation into potential business enterprises, but DATCP states that these applications have not scored well against other grant proposals. The proposed types of earlier stage projects that would be allowed under the bill inherently carry more risk in terms of return on investment, since the projects are not as far along as other ADD grant recipient projects. Still, while fewer projects would probably reach fruition, those that do succeed may earn a greater return on investment. Further, this provision could be seen as supporting other state initiatives in the venture capital area by encouraging start-up business investment, job growth and the health of the agricultural economy in the state. On the other hand, since the Department believes many current proposals merit grants that are not awarded due to funding constraints, expanding the program could take additional grants from such projects to fund potentially riskier applicants.

5. Some may question whether using tribal gaming revenues for ADD grants is appropriate. The agreements with most tribes indicate funds should be used for economic development in areas where tribes are present. Further, while tribal gaming revenues provide funds for economic development programs statewide in the Department of Commerce, monies from these Commerce programs are awarded to businesses that are affected by Native American gaming operations. Thus, providing ADD grants from tribal gaming revenues could be seen as expanding on the current state uses of tribal gaming funds.

ALTERNATIVES TO BASE

1. Approve the Governor’s recommendation to:

a. Create an annual appropriation and provide \$325,000 in 2001-02 and \$485,000 in 2002-03 from tribal gaming revenues to increase agricultural development and diversification (ADD) program grant funding.

Alternative 1a	PR
2001-03 FUNDING (Change to Base)	\$810,000
<i>[Change to Bill</i>	<i>\$0]</i>

b. Allow DATCP to make grants and provide technical assistance to agricultural producers and organizations to support preliminary research and investigations on potential business enterprises that may increase the value of raw agricultural commodities. Prohibit DATCP from providing funding for more than two years or from awarding more than \$25,000 to a single business for research and investigations. Require DATCP to promulgate rules to administer the expansion.

2. Create an annual appropriation and provide one of the following amounts annually from tribal gaming revenues to increase agricultural development and diversification (ADD) program grant funding:

a. \$100,000

Alternative 2a	PR
2001-03 FUNDING (Change to Base)	\$200,000
<i>[Change to Bill]</i>	- \$610,000]

b. \$200,000

Alternative 2b	PR
2001-03 FUNDING (Change to Base)	\$400,000
<i>[Change to Bill]</i>	- \$410,000]

c. \$300,000

Alternative 2c	PR
2001-03 FUNDING (Change to Base)	\$600,000
<i>[Change to Bill]</i>	- \$210,000]

3. Reduce current annual GPR funding of \$400,000 by one of the following amounts to partially offset funding provided from tribal gaming revenues:

a. \$350,000

Alternative 3a	GPR
2001-03 FUNDING (Change to Base)	- \$700,000
<i>[Change to Bill]</i>	- \$700,000]

b. \$300,000

Alternative 3b	GPR
2001-03 FUNDING (Change to Base)	- \$600,000
<i>[Change to Bill]</i>	- \$600,000]

c. \$200,000

Alternative 3c	GPR
2001-03 FUNDING (Change to Base)	- \$400,000
<i>[Change to Bill]</i>	- \$400,000]

d. \$100,000

Alternative 3d	GPR
2001-03 FUNDING (Change to Base)	- \$200,000
<i>[Change to Bill]</i>	- \$210,000]

4. Maintain current law.

Alternative 4	PR
2001-03 FUNDING (Change to Base)	\$0
<i>[Change to Bill]</i>	- \$810,000]

Prepared by: David Schug