



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 #217

Minority Business Development Program -- Repayments Appropriation (Commerce)

[LFB 2003-05 Budget Summary: Page 101, #9]

CURRENT LAW

The Minority Business Development (MBD) program was created in 1989 to provide financial assistance to minority group members or minority businesses for business start-ups or expansions. The program is funded through a biennial, general-purpose revenue (GPR) appropriation and a continuing, program revenue (PR) appropriation. Annual base level funding for the MBD is \$279,200 GPR and \$317,200 PR

GOVERNOR

Delete \$25,000 GPR annually from the MBD grant and loan program.

DISCUSSION POINTS

1. The MBD program provides the following types of financial assistance:
 - a. Early planning grants to minority group members or minority businesses to fund projects that consist of the preliminary stages of considering and planning the start-up or expansion of a business in certain industry clusters that will be a minority business.
 - b. Entrepreneurial training grants to help minority entrepreneurs by providing financial assistance to cover a portion of the cost of attending the University of Wisconsin-Extension Small Business Development Center's entrepreneurial training course.
 - c. Business development grants and loans to minority group members or minority

businesses to fund development projects involving the start-up, expansion, or acquisition of minority businesses or the promotion of economic development and employment opportunities for minority group members or minority businesses.

d. Grants and loans to local development corporations to: (1) make grants or loans to minority group members or minority businesses for development projects; or (2) to create, expand or continue a revolving loan fund program operated by the local development corporation to provide assistance to minority group members or minority businesses.

e. Grants to nonprofit organizations and private financial institutions to fund microloans and education and training programs for minority group members and minority businesses.

f. Grants to nonprofit corporations and business incubators to build or rehabilitate business incubators that benefit minority group members or businesses.

2. The MBD is funded by a GPR appropriation and a program revenue repayments appropriation. The repayments appropriation was established to operate similar to a revolving loan fund so that, over time, the amounts received from loan repayments could be used to finance additional loans and reduce the need for GPR funding. The following table shows Commerce's estimate of revenues, base level expenditure authority, and the projected appropriation balance in each year of the biennium. The table shows that, with the base level expenditure authority and estimated revenues, the 2004-05 year-end balance in the MBD repayments appropriation would be at least \$323,700. Commerce revenue estimates are primarily based on scheduled repayments of outstanding loans, less 10% for potential defaults or late payments. However, in addition to scheduled repayments, Commerce often receives early payments of loans. Further, some businesses do not qualify for or utilize all monies that were previously awarded by Commerce. These remaining (or lapsed) amounts are then made available for additional economic development assistance. Therefore, available revenues often exceed the Commerce estimates (for example, Commerce estimated MBD revenues of \$135,000 in 2001-02 while actual revenues were \$286,400).

3. However, even utilizing the Commerce revenue estimates, it would be possible to use a portion of the MBD repayments appropriation balance as a one-time offset to GPR funding and still maintain program revenue funding at the established expenditure level for the 2003-05 biennium. Specifically, GPR funding for the MBD could be eliminated in 2003-04 and PR expenditure authority could be increased by a corresponding amount (\$254,200). Under this alternative, base level GPR funding for the MBD would be maintained in 2004-05.

TABLE

**MBD Projected Program Revenues,
Annual Expenditure Authority, and Projected Revenues
2003-05**

	<u>2003-04</u>	<u>2004-05</u>
Opening Balance	\$671,100	\$494,900
Revenues	141,0000	146,000
Expenditure Authority	<u>-317,200</u>	<u>-317,200</u>
Closing Balance	\$494,900	\$323,700

4. The table shows that ongoing expenditure authority exceeds ongoing revenues by a significant amount and the appropriation balance is expected to decrease each year. If the trend continues, expenditure authority for the PR repayments appropriation would eventually have to be reduced to reflect the lower amount of revenues available to fund the appropriation. As another alternative, GPR funding could be reduced by \$150,000 in 2003-04 and PR expenditure authority could be increased by the same amount. This would leave a sufficient July 1, 2005, balance in the repayments appropriation to maintain base level funding in at least the first year of the 2005-07 biennium (potentially the entire biennium if revenues exceed Commerce estimates).

5. As noted, the MBD repayments appropriation is a program revenue, continuing appropriation. Dollar amounts shown in the schedule for such appropriations represent the most reliable estimates of the amounts that will be expended. However, expenditures made from such appropriations are generally only limited by the amount of revenues that are available from the appropriation. Consequently, if program revenues were used to offset GPR funding, while estimated expenditures for the 2003-05 biennium would not be affected, the overall amount of funding available for MBD awards would be reduced by the amount of the offset.

ALTERNATIVES

1. Approve the Governor's recommendation to delete \$25,000 GPR annually from the MBD grant and loan program.

2. Approve the Governor's recommendation. In addition, reduce GPR funding for the MBD program by \$254,200 in 2003-04, and increase expenditure authority for the MBD repayments appropriation by \$254,200 PR in 2003-04.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	-\$254,200	\$254,200	\$0

3. Approve the Governor's recommendation. In addition, reduce GPR funding for the MBD program by \$150,000 GPR in 2003-04 and increase expenditure authority for the MBD repayments appropriation by \$150,000 PR in 2003-04.

<u>Alternative 3</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	- \$150,000	\$150,000	\$0

4. Delete provision.

<u>Alternative 4</u>	<u>GPR</u>
2003-05 FUNDING (Change to Bill)	\$50,000

Prepared by: Ron Shanovich