



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #221

Recycling Market Development Board (Commerce)

[LFB 2003-05 Budget Summary: Page 105, #20]

CURRENT LAW

The Recycling Market Development Board (RMDB) provides grants, loans or manufacturing rebates to governmental or business entities to assist waste generators in the marketing of recovered materials or to develop markets for recovered materials. At the request of the RMDB, Commerce provides the financial assistance awarded by the Board. During the 2001-03 biennium, the RMDB is appropriated \$2,000,000 PR from loan repayments in each year for financial assistance, but cannot make financial assistance awards that exceed revenues to the continuing appropriation. The source of the program revenue is repayments of loans. Prior to 1999-00, the Board was also appropriated monies from the segregated recycling fund for financial assistance. The RMDB is appropriated \$65,800 recycling fund SEG with 1.0 SEG position in 2002-03 for operations.

GOVERNOR

Lapse \$1,200,000 PR to the general fund in each of 2003-04 and 2004-05 from the Recycling Market Development Board loan repayments appropriation account.

DISCUSSION POINTS

1. As of July 1, 2002, the RMDB had \$3,759,300 in available loan repayments for financial assistance. In January 2003 Special Session Senate Bill 1, the Governor proposed lapsing \$1,000,000 PR from the RMDB loan repayments appropriation account to the general fund in 2002-03. The Legislature increased the lapse by \$2,800,000 to \$3,800,000. At that time, it was estimated that 2002-03 loan repayment revenues would be \$751,800, 2002-03 expenditures would be

\$711,100, and the \$3,800,000 lapse represented all of the anticipated June 30, 2003, appropriation account balance. It was also assumed that the \$3,800,000 lapse would result in no further financial assistance being provided in 2002-03 beyond the amounts approved by the RMDB and encumbered by Commerce before February, 2003. The Governor signed the increased lapse amount included in 2003 Act 1.

2. Since Act 1 was enacted, Commerce has reestimated 2002-03 loan repayment revenue upward to \$961,700 due to early repayments of loans, and has reestimated encumbrances downward by \$302,800 because of lapses of prior year financial assistance awards. As of April 1, 2003, Commerce has encumbered or expended \$405,800 in 2002-03 (instead of \$711,100 estimated in February, 2003). Commerce staff have recommended approval of \$553,000 in financial assistance (a \$550,000 loan and a \$3,000 grant) and expects that the RMDB will meet in June, 2003, to consider the recommendation. Thus, there may be a minimal June 30, 2003, appropriation account balance if the RMDB and Commerce make additional financial assistance awards in 2002-03, and expenditures in 2002-03 would total \$921,000 rather than the \$711,100 anticipated under Act 1.

3. Commerce estimates that loan repayments due during the 2003-05 biennium will equal \$1,234,400 (\$620,900 in 2003-04 and \$613,500 in 2004-05). Thus, repayments received in 2003-05 would be \$1,165,600 less than the \$2,400,000 required to be lapsed under the bill. In addition, under the bill, no funds would be available for other financial assistance awards by the RMDB during the biennium.

4. The Commerce estimates are based on an assumption that 90% of repayments due would be received. In 2002-03 and prior years, actual loan repayment revenues were significantly higher than earlier Commerce estimates because the appropriation received revenue from early loan repayments and expenditures were less than 100% of some prior awards. This resulted in higher available balances being available for future financial assistance. For example, in 2001-02 Commerce estimated revenues of \$600,000 while actual revenues totaled over \$1,000,000. If Commerce receives additional loan repayments by June 30, 2003, revenue may be \$1,000,000 in 2002-03, and Commerce would have a June 30, 2003, balance of up to \$553,500, depending on whether the Board makes additional awards. If, during the 2003-05 biennium, loan repayment revenues are 15% higher than estimated due to prepayments or closure of financial assistance agreements with lower expenditures than awards, the appropriation would receive revenue of \$793,400 in 2003-04 and \$783,900 in 2004-05.

5. Further, it could be argued the intent of 2003 Act 1 was to lapse all funds not committed by February, 2003. If the RMDB does not award the remaining balance of \$553,500 in 2002-03, revenues of approximately \$2,130,800 could be available for lapse in 2003-05 (versus a \$2,400,000 lapse requirement under the bill), as shown in the following table.

Estimated Recycling Market Development Board Revenue

	<u>2003-04</u>	<u>2004-05</u>
Opening Balance	\$553,500	\$0
Loan Repayment Revenue	<u>793,400</u>	<u>783,900</u>
Total Available for Lapse	\$1,346,900	\$783,900

6. The Administration has not recommended that the Legislature make any change to the \$1,200,000 annual lapse requirement, but recognizes that the full amount of lapse likely can not be made from the appropriation as drafted under the bill. DOA officials indicate that a general goal during the budget process was to provide agencies flexibility in planning for lapses.

7. An alternative that would result in lapse of the entire \$2,400,000 specified in the bill would be to lapse to the general fund the July 1, 2003, appropriation balance and all RMDB loan revenues received during the biennium (up to \$2.1 million), and to require that Commerce lapse from other appropriation funds so that the total amount lapsed to the general fund is \$2,400,000 for the biennium. For example, Commerce could be directed to lapse any amount not available from the RMDB repayments appropriation from GPR financial assistance appropriations such as the Wisconsin Development Fund (appropriated \$4,498,400 in each year under the bill), rural economic development program (appropriated \$606,500 in each year) and the community-based economic development program (\$712,100 in each year).

8. Before the RMDB awards financial assistance, it is required to consider the extent to which the project: (a) maximizes the marketability of recovered materials on a statewide basis; (b) minimizes the amount of recovered materials disposed of in landfills or burned without energy recovery in incinerators; (c) includes materials that are banned from landfills and that will support community recycling efforts; and (d) maintains present markets or creates new or expanded markets for recovered materials.

9. 1999 Act 9 directed the RMDB and Commerce to provide specified financial assistance awards to two groups. While the bill does not modify the statutory requirement to provide financial assistance to the two entities, no funds would be available in the RMDB appropriation account for awards to the two groups during the biennium. The two statutorily required awards include to:

a. Provide a grant of \$50,000 annually to a private, nonprofit organization that provides waste reduction and recycling assistance through business-to-business peer exchange. Commerce provided the grant to WasteCap Wisconsin Inc. in each year from 1999-00 through 2002-03.

b. Annually contract for a statewide materials exchange program with a materials

exchange program that received funding from the RMDB in the 1997-99 biennium. While the statutes do not specify a grant amount, Commerce awarded \$100,000 in each year from 1999-00 through 2002-03 to the Business Materials Exchange of Wisconsin maintained by the Greater Beloit Chamber of Commerce. (Commerce plans to lapse \$22,700 in unused funds from the 1999-00 award and \$24,500 from the 2000-01 award.)

10. Recycling market development programs were administered by the former Department of Development (now Commerce) from 1991-92 through 1994-95. DOD spent \$15.1 million on recycling market development grants, loans, technology assistance and rebates for qualified recycling equipment. In 1993-94, the RMDB was created, and has since awarded over \$26 million for: (a) low-interest loans to encourage the use of materials recovered from solid waste as a raw material in production, including for equipment purchases for start up or expansion of recycling businesses; (b) low-interest and forgivable loans to encourage businesses to research and develop innovative ways to utilize recovered materials generated in the state; (c) rebates for a portion of the cost of eligible machinery or equipment that is used in making a product from recoverable materials; (d) grants to help entrepreneurs and small businesses obtain professional services necessary to evaluate the feasibility of a proposed recycling business start up or expansion; (e) technical assistance to develop and promote the development of recycling markets for specific recoverable materials; (f) grants for research studies related to recycling market development priorities, most of which was for the University of Wisconsin System's Solid Waste Recovery Research Program; (g) administrative and consultant services for the RMDB; (h) grants for activities that educate businesses about the use of recovered materials in their products or processes and educate waste generators on their role in the development of markets for recovered materials; and (i) the statutorily designated grants described above.

11. Throughout the existence of the state recycling market development programs, there has been continuing debate about the effectiveness of spending state funds on such activities. Some view the use of state funds to be an appropriate method of encouraging the development of markets for recycled materials or the use of recycled materials in manufactured products. Others view the use of state funds to be ineffective in stimulating markets that are more influenced by national or international economic trends.

12. In March, 2003, the Speaker's Task Force on State Budget Review recommended that the Recycling Market Development Board and program be eliminated, and that all RMDB loan repayments be deposited in the general fund.

13. Former Commerce Secretary Albert informed the Speaker's Task Force that the recycling market development programs have been unsuccessful and have not created new markets because products made from virgin materials are cheaper than products made from recycled materials. Recently, Commerce officials indicated that markets have not responded well to recycled materials, and that it is cheaper to utilize virgin resources in many circumstances, but that as markets evolve, the Department would foresee increased demand for funding to pursue the development of new markets and products.

14. State recycling grants to WasteCap Wisconsin, Inc. began with a Department of Natural Resources waste reduction and recycling demonstration grants of \$20,618 in 1997 and \$11,775 in 1999 for business-to-business information exchanges related to waste reduction. In 1998, WasteCap became a private nonprofit 501(c)(3) organization. In 1998-99 the RMDB awarded two grants to WasteCap totaling \$47,320. The \$50,000 annual RMDB statutory awards to WasteCap Wisconsin, Inc. in 1999-00 through 2002-03 have been used to: (a) conduct educational open houses called “talk and tours” at several state businesses to demonstrate innovations in reducing, reusing and recycling construction and demolition debris, food scraps and computers; (b) perform site visits to businesses to make waste reduction assessments; (c) maintained a web site and email bulletin; and (d) presented information at meetings, workshops and conferences. The \$50,000 grant has provided approximately one-third of the organization’s annual income. Other income comes primarily from private sources.

15. State recycling grants to the Greater Beloit Chamber of Commerce for the Business Material Exchange of Wisconsin (BMEX) began in 1995 with a DNR waste reduction and recycling demonstration grant of \$29,338 to implement a materials exchange network. RMDB awarded grants to BMEX of \$116,386 in 1997-98 and \$70,714 in 1998-99. Statutory awards of \$100,000 annually began in 1999-00. BMEX maintains a web site that allows businesses throughout and outside the state to place materials on the exchange and to search for and respond to materials listed on the exchange. It is the only business exchange in the state. The \$100,000 grant has provided approximately two-thirds of the organization’s annual budget in the last few years.

16. It could be argued that state funding to two non-state organizations that primarily serve private businesses should not continue on a long-term basis, especially during the current period of limited funds for state programs. If businesses want the services provided by the organizations, they could choose whether, or to what extent, to continue funding the efforts. Under the bill, there would be no RMDB funds available for the statutory awards, but the statutory requirement for RMDB to make the awards is maintained. The bill could be modified to repeal the statutory award requirements.

17. Others may argue that the state subsidy to the two organizations provides a worthwhile recycling market development service to businesses and should be continued. The bill could be modified to maintain \$150,000 annually in the RMDB loan repayments appropriation for the two statutory awards. This would reduce the amount that could be lapsed to the general fund by \$300,000 from the maximum amount of loan repayments available during the biennium.

18. Alternative methods of continuing to provide state funding for the two statutory awards would be to: (a) create a Commerce appropriation from the segregated recycling fund for the two grants; or (b) direct the Department of Natural Resources to fund the statutory awards from the existing waste reduction and recycling demonstration grant appropriation. Currently, and under the bill, the DNR program is appropriated \$500,000 annually to provide cost-share grants to municipalities, public entities, businesses and nonprofit organizations for projects which implement innovative waste reduction and recycling activities. A grant may not exceed 50% of the project’s actual eligible costs.

19. Since the bill provides no funds for financial assistance or the two statutory awards, the RMDB and 1.0 SEG recycling fund position would not be able to provide any financial assistance during the biennium. Commerce staff activities would consist of monitoring existing grant and loan agreements, preparing performance reports and closeout documents, providing technical assistance to companies interested in utilizing recycled materials, collecting underperforming or non-paying loans, working with businesses that may be interested in applying for financial assistance in the 2005-07 biennium. An alternative to maintaining this minimal level of activity would be to eliminate the RMDB, the \$78,500 SEG recycling fund and 1.0 SEG position annually, and the statutory award program. In addition, \$78,500 could be transferred from the recycling fund to the general fund, equal to the expenditure authority reduction. Any loan repayments received during the biennium and after June 30, 2005, would be deposited in the general fund.

ALTERNATIVES

A. Lapse and Financial Assistance

1. Approve the Governor's recommendation to lapse \$1,200,000 PR to the general fund in each of 2003-04 and 2004-05 from the Recycling Market Development loan repayments appropriation account. (If the Board makes no additional awards before June 30, 2003, lapses of up to \$1,200,000 in 2003-04 and \$930,700 in 2004-05 would be anticipated.)

<u>Alternative A1</u>	<u>GPR</u>
2003-05 REVENUE (Change to Bill)	- \$269,300

2. Modify the Governor's recommendation to lapse the July 1, 2003, RMDB loan repayment balance and all revenues deposited in the appropriation during the 2003-05 biennium to the general fund (estimated at up to \$2.1 million). In addition, direct that Commerce lapse amounts from other GPR financial assistance appropriations, including the Wisconsin Development Fund, rural economic development program and the community-based economic development program so that the total lapse to the general fund would equal \$2,400,000 for the 2003-05 biennium. Further, decrease the RMDB PR loan repayments appropriation from \$2,000,000 to \$0 in each year to reflect available revenues.

<u>Alternative A2</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$4,000,000

3. Approve Alternative A1. In addition, provide continued funding for the two current statutory awards in one of the following ways:

a. Create a SEG recycling fund appropriation in Commerce with \$150,000 annual funding for the two awards.

<u>Alternative A3a</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	\$300,000

b. Require DNR, rather than Commerce, to make the two statutory awards specified under current law. Direct DNR to make the awards from the existing waste reduction and recycling demonstration grant program appropriation. (The bill provides the DNR program with \$500,000 SEG annually from the recycling fund.)

4. Require that the RMDB loan repayments July 1, 2003, balance and all loan repayments received in excess of \$150,000 annually be lapsed to the general fund (estimated at up to \$1.8 million). [Loan repayment revenues would be available in each of 2003-04 and 2004-05 for the two RMDB statutory awards. No funds would be available for other financial assistance.] In addition, decrease the RMDB PR loan repayments appropriation from \$2,000,000 to \$150,000 in each year to reflect available revenues. Further, direct that Commerce lapse amounts from other GPR financial assistance appropriations, including the Wisconsin Development Fund, rural economic development program and the community-based economic development program so that the total lapse to the general fund would equal \$2,400,000 for the 2003-05 biennium.

<u>Alternative A4</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$3,700,000

5. Delete the provision for a lapse from the RMDB loan repayments appropriation account to the general fund. [Approximately \$793,400 would be available in 2003-04 and \$783,900 in 2004-05 for RMDB financial assistance, including \$150,000 for the two RMDB statutory awards in each year.] In addition, decrease the RMDB PR loan repayments appropriation from \$2,000,000 to \$793,400 in 2003-04 and \$783,900 in 2004-05 to reflect anticipated revenues.

<u>Alternative A5</u>	<u>GPR</u>	<u>PR</u>
2003-05 REVENUE (Change to Bill)	- \$2,400,000	\$0
2003-05 FUNDING (Change to Bill)	\$0	- \$2,422,700

B. RMDB Structure and Staff

1. On the effective date of the bill, repeal: (a) the RMDB and related grant program; (b) the requirement that Commerce make financial assistance awards to two specified entities; (c) the PR financial assistance appropriation; and (d) the SEG recycling fund appropriation (\$78,500 in each year) with 1.0 SEG position. In addition, transfer \$78,500 from the recycling fund to the general fund in each of 2003-04 and 2004-05. (This alternative would lapse all RMDB loan

repayments to the general fund.)

<u>Alternative B1</u>	<u>GPR</u>	<u>SEG</u>
2003-05 REVENUE (Change to Bill)	\$157,000	\$0
2003-05 FUNDING (Change to Bill)	\$0	- \$157,000
2004-05 POSITIONS (Change to Bill)	0.00	- 1.00

2. Maintain current law.

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