



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #145

Anaerobic Digester Research and Development (DATCP)

Bill Agency

[LFB 2007-09 Budget Summary: Page 52, #10 & Page 55, #15]

CURRENT LAW

The 2005-07 budget created a bio-industry grant program with one-time funding of \$1 million from the agrichemical management fund.

GOVERNOR

Repeal the bio-industry grant program.

Further, provide \$250,000 from the recycling fund in 2007-08 in a new, biennial appropriation that would be available for the research and development of anaerobic digesters at farms participating in the discovery farm program under the Wisconsin agricultural stewardship initiative (WASI).

DISCUSSION POINTS

1. The new program initiative was part of DATCP's budget request in response to a provision in 2005 Act 141 that required the Department to submit a proposal to provide additional funding for the research and development of anaerobic digesters at farms participating in the discovery farms program as part of its 2007-09 biennial budget.

2. The Wisconsin agricultural stewardship initiative (WASI) is a collaborative, research-oriented effort among farmers, university researchers, agricultural and environmental organizations and government agencies, including the Department of Agriculture, Trade and

Consumer Protection (DATCP) and the Department of Natural Resources (DNR), to develop an approach to production agriculture that results in environmentally compatible and economically sustainable farms. The initiative consists of three components: (a) an agricultural stewardship farm at UW-Platteville; (b) discovery farms (a series of operating, commercial farms that conduct on-farm research and demonstrate projects); and (c) basic research projects performed at various UW campuses.

3. Anaerobic digestion is a biochemical degradation process that converts complex organic material into methane and other byproducts. Manure deposited into a digester can be broken down into digested solids and biogas, such as methane, and used to produce energy.

4. Under the Governor's recommendations, \$250,000 would be provided from a biennial appropriation funded from the recycling fund. As a biennial appropriation, funding provided in 2007-08 would be available in either year of the 2007-09 biennium, with any unspent and unencumbered funds lapsing back to the recycling fund at the end of the biennium.

5. The language recommended by the Governor allowing DATCP to make anaerobic digester grants is broad, specifying only that, "[DATCP] shall provide funding for research and development of anaerobic digesters at farms participating in the discovery farms program of the Wisconsin Agricultural Stewardship Initiative, Inc." As a result, the Committee could consider: (a) requiring DATCP to promulgate administrative rules specifying eligibility criteria and for determining which eligible projects will receive financial assistance under the program; and (b) requiring a cost-share match of grant recipients.

6. Requiring DATCP to promulgate administrative rules for the awarding of anaerobic digester research and development grants could result in a more transparent application and scoring process for these grants. In addition, requiring DATCP to promulgate administrative rules on the administration of these grants would provide for greater legislative oversight as the Department would be required to submit its proposed rules to the Legislature for review. On the other hand, since only one-time funding is provided some might argue the time and expense of promulgating rules may not be necessary.

7. In addition, the bill does not specify a local match requirement. In order to ensure that the recipient has a significant financial interest in the project, that more projects have the potential to be funded, and to leverage additional public or private funds, the Committee could consider requiring a cost-share match. Many grant programs require the participant to pay at least 50% of project costs. However, requiring a cost-share could also burden some projects that may otherwise be eligible for the program.

8. The recycling fund receives revenues from a business tax recycling surcharge and a recycling solid waste tipping fee. Revenues are primarily used to provide financial assistance to local governments and businesses for solid waste recycling and waste reduction purposes. The administration argues that anaerobic digester funding is part of the Governor's renewable energy package that draws from the recycling fund. They argue the use of digesters will reduce waste that

is produced as a result of energy produced from fossil fuels.

9. If the Committee wanted to provide funding for anaerobic digester research and development grants, but did not want to utilize the recycling fund, it could consider other revenues. For example, funding the grants from DATCP's agrichemical management (ACM) fund was used to provide \$1 million in bio-industry grants on a one-time basis in the 2005-07 biennium.

10. DATCP's agrichemical management fund receives revenues from several feed, fertilizer and pesticide license and tonnage fees. These funds are used for DATCP administration of feed, fertilizer and pesticide regulation programs and for the administration of agricultural chemical cleanup grants. The cleanup grants are funded from surcharges on the sale of agricultural chemicals, which are deposited to DATCP's agricultural chemical cleanup program (ACCP) fund.

11. In 2005-06, ACM revenues totaled \$6.9 million and expenditures were \$5.4 million. The funds are used for: (a) DATCP administration of the cleanup reimbursement program; (b) inspection and regulation of the individuals and businesses that manufacture and distribute feed, fertilizer and pesticide products in Wisconsin; (c) DATCP administration of groundwater management programs; and (d) agriculture in the classroom program grants that help teachers educate students about agriculture. Under the Governor's recommendations, the ACM fund is expected to have a June 30, 2009, balance of approximately \$2.4 million.

12. Currently, DATCP has two existing programs that may fund the research and development of anaerobic digesters: the agricultural development and diversification (ADD) grant program and the bio-industry grant program.

13. Under the ADD program, DATCP provides grants for projects that it determines are likely to stimulate Wisconsin's agricultural economy. ADD grants are competitive and may be requested by individuals, associations, agribusinesses, and industry groups. The grant may not exceed 50% of project costs. The statutes specify a maximum ADD grant of \$50,000 per project, and specify that DATCP may not make an ADD grant to a project that will last more than three years. ADD grants may be made for research and development purposes of new or alternative agricultural technologies, but may not fund start-up or operational costs.

14. DATCP is appropriated \$380,000 GPR annually to provide ADD grants to applicants, with a maximum grant of \$50,000. In 2005-06, DATCP awarded 16 grants worth a total of \$380,000, with grants ranging from \$9,500 to \$45,000. One of these grants was made related to the topic of anaerobic digesters. Specifically, the award was a \$17,500 grant to evaluate a specific type of digester and its potential use on a dairy farm with a small herd size.

15. The bio-industry grant program is a competitive program under which DATCP may award grants for: (a) research and development of technologies that use agricultural products or waste, including digesters, as energy sources; (b) encouraging the use of agricultural products or waste as energy sources; (c) reducing the generation of agricultural wastes or increasing their beneficial uses; and (d) encouraging the development of bio-chemicals from agricultural products.

Under the program, a grant may not exceed 50% of project costs and may not exceed \$300,000 to one recipient, of which up to \$150,000 may be for planning and \$150,000 may be for implementation.

16. The bio-industry grant program and an associated biennial appropriation funded from the agrichemical management (ACM) were created as a part of the 2005-07 biennial budget act. The biennial appropriation was provided \$1,000,000 in 2005-06, and DATCP awarded \$1,000,000 in grants in 2005-06 to 12 projects, with grants ranging from \$7,500 to \$150,000. Two of these grants were related to anaerobic digesters. The first involved testing and analyzing the commercial viability of a specific anaerobic digestion process. The second involved determining the technical and economic feasibility of generating methane from a byproduct of the brewing process (spent brewer's grain).

17. After the initial \$1,000,000 provided for the bio-industry grant program in 2005-06, no additional funding has been provided. The bill would eliminate DATCP's bio-industry grant program and the associated biennial appropriation funded from the agrichemical management (ACM) fund. A related provision recommended by the Governor would create a biennial appropriation in the Department of Commerce, from the recycling fund, to provide grants and loans for renewable energy projects.

18. If either the anaerobic digester or Commerce renewable energy grant programs are not adopted, the Committee could consider providing \$250,000 in 2007-08 to continue the DATCP bio-industry grant program from either the ACM fund or the recycling fund.

ALTERNATIVES TO BILL

A. Anaerobic Digesters

1. Approve the Governor's recommendation to provide \$250,000 SEG from the recycling fund in 2007-08 in a new, biennial appropriation that would be available for the research and development of anaerobic digesters at farms participating in the discovery farm program under the Wisconsin agricultural stewardship initiative (WASI).

ALT A1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$250,000

2. Adopt the Governors recommendation, except provide the \$250,000 SEG from the agrichemical management fund (rather than the recycling fund).

ALT A2	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$250,000

3. In addition to Alternative A1 or A2:

a. Require DATCP to promulgate an administrative rule specifying eligibility criteria for projects under the program and for determining which eligible projects will receive financial assistance under the program.

b. Specify that an anaerobic digester research and development grant may not exceed 50% of the cost of the project.

4. Maintain current law.

ALT A4	Change to Bill Funding	Change to Base Funding
SEG	-\$250,000	\$0

B. Bio-Industry Grant Program

1. Adopt the Governor's recommendation to delete the bio-industry grant program.

2. Rather than the Governor's recommendation, provide \$250,000 in 2007-08 in a biennial appropriation to continue the bio-industry grant program from:

a. the agrichemical management fund; or,

ALT B2a	Change to Bill Funding	Change to Base Funding
SEG	\$250,000	\$250,000

b. the recycling fund.

ALT B2b	Change to Bill Funding	Change to Base Funding
SEG	\$250,000	\$250,000

3. Maintain current law (the bio-industry grant program would be retained, but no funding would be provided).

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