



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #252

### Forward Innovation Fund/Deleted Financial Assistance Programs (Commerce -- Economic Development)

[LFB 2009-11 Budget Summary: Page 182, #6]

#### CURRENT LAW

The rural economic development program (RED), minority business development program (MBD), and the community-based economic development program (CBED) provide financial assistance for economic development projects through specific grant and loan programs. Each is funded through separate appropriations. The Development Finance Board, Rural Economic Development Board, and the Minority Business Development Board assist Commerce in administering the Wisconsin Development Fund (WDF), RED, and MBD respectively. The high-technology business development corporation grant program provides grants to the Wisconsin Technology Council.

#### GOVERNOR

Eliminate the rural economic development, minority business development, and community-based economic development financial assistance programs, and create the forward innovation fund as shown in the following table.

<u>Program</u>	<u>Annual Amount</u>
Forward Innovation Fund	\$1,410,000
High-technology Business Development	100,000
Women's Business Initiative Corp.	94,000
Community-Based Economic Development	-712,100
Rural Economic Development	-606,500
Minority Business Development	<u>-254,200</u>
Total Annual Change to Base	\$31,200

## **DISCUSSION POINTS**

### **Minority Business Development Program**

1. The Minority Business Development (MBD) program was created in 1989 and provides the following types of financial assistance: (a) early planning grants; (b) entrepreneurial training grants; (c) business development grants and loans; (d) grants and loans to local development corporations for development projects and local revolving loan fund programs; (e) business incubator grants; and (f) education and training grants. The Department also makes business employee's skills training (BEST) grants through MBD. The Wisconsin Entrepreneur's Network (WEN) awards early planning grants and entrepreneurial training grants, with funding provided by the Department. Final approval of MBD awards rests with the Minority Business Development Board. The Board consists of five persons appointed by the Governor for two-year terms.

2. The Minority Business Development Board may not award a grant or loan for a project unless, after considering the application and other material submitted by an eligible recipient, it determines that all of the following criteria have been met: (a) the project serves a public purpose; (b) the project will retain or increase employment in Wisconsin; (c) the project is not likely to occur without the grant or loan; (d) financing is unavailable from any other source on reasonably equivalent terms; (e) the recipient of the grant or loan will contribute required matching funds and meet other requirements; (f) grant or loan funds will not be used to replace funds from any other source; (g) the project will not displace workers in the state; (h) the project has sufficient potential to be profitable; (i) if a development finance project, or education and training project, state funds will not be used to refinance existing debt; (j) if a development project, the project has potential to promote economic development and employment opportunities for minority group members or minority businesses; and (k) the project meets any other criteria established by Commerce by rule.

3. Commerce or the Board must also consider the following additional criteria before awarding an early planning grant or a minority business development grant or loan:

a. The extent to which the project will retain or increase employment in Wisconsin, benefit minority group members, and be located or attract capital into locations where unemployment exceeds the statewide average, or per capita income is below the statewide average.

b. If a development project, whether it will be located in an area of high unemployment, or below average income.

c. The likelihood that the project will be successful.

d. If a development project, the financial soundness of the minority business involved and the commitment of the recipient to repay the state funds.

4. The MBD includes the following grant and loan programs:

a. Early Planning Grants. Early planning grants fund professional services related to the preliminary stages of considering and planning the start-up or expansion of a business that will be a minority business. The maximum grant is 75% of eligible project costs up to \$3,000. Applicants must provide a cash match of at least 25% of eligible project costs from non-state sources. The early planning grant program is administered by the Wisconsin Entrepreneur's Network (WEN), with funding from Commerce.

b. Entrepreneurial Training Grants. Entrepreneurial training grants provide funds for individuals to participate in the University of Wisconsin-Extension Small Business Development Center (SBDC) Entrepreneurial Training Program. Grants fund a portion of the cost of attending an ETP course, up to a maximum of 75% of eligible tuition expenses. Participants must provide a cash match of at least 25% of eligible tuition costs. The entrepreneurial training grant program is administered by the Wisconsin Entrepreneur's Network (WEN), with funding from Commerce.

c. Business Development Grants and Loans. Minority business development loans provide financial assistance 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. The maximum amount that can be awarded to an eligible recipient for a development project is \$100,000. The award amount is determined by a review process that uses the Department's general underwriting criteria. Awards are generally made in the form of loans at below market interest rates (4%) with payment terms amortized to correlate with the useful life of the financed assets. Award recipients must contribute matching funds equaling at least 25% of project costs. Recipients may use awards for working capital, machinery, equipment, land and buildings, to acquire existing businesses, and for related expenses. Funds may not be used to refinance existing debt. Eligible project costs do not include entertainment expenses or expenses incurred more than six months before the award is approved.

d. Revolving Loan Fund Grants and Loans. Commerce may award minority business grants and loans to provide funding to local development corporations for grants and loans, or to provide capital to revolving loan funds administered by local development corporations to fund minority business development projects. Eligible applicants are local development corporations that are controlled and managed by minority group members. The local development corporation must: (1) operate within specific geographic boundaries; (2) promote economic development within a specific geographic area; and (3) demonstrate a commitment to and experience in economic development with minority groups, members, or businesses. The maximum amount the Board may award to any one eligible local development corporation for grants and loans is \$200,000 in a biennium. The local development corporation must provide matching funds equal to at least 50% of the cost of the project. Awards to local development corporations must be used to: (1) make grants or loans up to \$50,000 to minority group members or minority businesses for development projects; or (2) to create, expand or continue a revolving loan fund program that is operated by the local development corporation and that benefits, or will benefit, minority businesses or minority group members that are residents of the state. Program funds must be targeted to certifiable minority business enterprises that have their principal place of business in

Wisconsin. Local development corporation and revolving fund grants and loans can be used to fund: (1) costs incurred in the start-up of a minority business; (2) the expansion or acquisition of a minority business; or (3) for the promotion of economic development and employment opportunities for minority group members or minority businesses. All funds must be used for financing; funding cannot be used for administration.

e. Business Finance Grants and Loans. The MBD Board is authorized to make grants to nonprofit organizations or private financial institutions for micro-loans for minority group members and minority-owned businesses. Eligible applicants are nonprofit organizations and private financial institutions. Financial institutions include banks, savings and loan associations, credit unions, insurance companies, finance companies, mortgage bankers, community development corporations, small business investment corporations, pension funds, and other lenders that provide commercial loans in the state. The Board makes grants to financial institutions or nonprofit organizations for micro-loans, and to fund financing costs for minority group members and minority businesses. Micro-loans made by these institutions and organizations cannot exceed \$5,000. Matching funds equal to 25% of project costs are required. Nonprofit organizations and financial institutions may use grant proceeds for (1) loans for working capital; and (2) paying origination fees or other administrative costs associated with making loans for working capital.

f. Education and Training Grants. The Board may award grants to a nonprofit organization that is a minority business to fund an education and training project. "Education and training project" is defined as a business education and training program for minority group members and minority businesses that have received loans for working capital from an eligible nonprofit organization.

5. A "minority business" is a sole proprietorship, partnership, limited liability company, joint venture or corporation that is: (a) at least 51% owned, controlled and actively managed by a minority group member or members who are U.S. citizens or persons lawfully admitted to the U.S. for permanent residence; and (b) is currently performing a useful business function. A "minority group member" is one of the following: (a) a Black; (b) a Hispanic; (c) an American Indian; (d) an Eskimo; (e) an Aleut; (f) a native Hawaiian; (g) an Asian-Indian; and (h) a person of Asian-Pacific origin.

6. The MBD program is funded through both a GPR appropriation and a program revenue repayments appropriation. The GPR appropriation is biennial and, consequently, funds that are not encumbered at the end of the biennium lapse to the general fund. Loan repayments are placed in the continuing program revenue repayments appropriation and used to fund MBD awards. Table 1 shows total MBD funding and the amount of grants and loans encumbered for each fiscal year since 2001-02 (the 2001-03 biennium). The table shows that, total amounts awarded were less than the total amount appropriated for each biennium. However, GPR funding was entirely distributed as awards during the 2003-05 and 2005-07 biennia.

**TABLE 1****Minority Business Development Program Appropriations  
and Amounts Awarded and Encumbered**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
<b>Appropriations</b>							
GPR	\$279,200	\$279,000	\$0	\$254,200	\$254,200	\$254,200	\$254,200
PR Repayments	<u>477,200</u>	<u>317,200</u>	<u>571,400</u>	<u>317,200</u>	<u>317,200</u>	<u>317,200</u>	<u>317,200</u>
Total MBD Funding	\$756,400	\$596,400	\$571,400	\$571,400	\$571,400	\$571,400	\$571,400
<b>Awards*</b>							
Funding Set Asides	\$160,000	\$0	\$0	\$0	\$0	\$0	\$0
Early Planning Grants**	187,300	150,600	147,300	32,700	15,000	0	0
Business Development							
Grants and Loans	342,200	283,500	433,700	406,100	320,000	682,500	185,000
Revolving Fund							
Grants and Loans	0	0	100,000	0	0	100,000	0
Minority Business							
Incubator Grants	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Awards							
Encumbered	\$689,500	\$434,100	\$681,000	\$438,700	\$340,000	\$782,500	\$185,000

N.A. - Not Available.

\* Because the GPR appropriation is biennial, in one year of a biennium, annual awards may exceed the annual appropriation.

\*\* Includes Minority Business Early Planning Grants, Entrepreneurial Training Grants, and Business Employee Skills Training (BEST) grants. Awards are made by the Wisconsin Entrepreneur's Network. Funding is provided by block grants from Commerce to WEN. In 2008-09, \$1.2 million in WDF funding was provided.

Source: Department of Commerce, Minority Business Finance Program history report.

7. Table 2 shows MBD loan repayments and program revenue expenditures for each fiscal year from 2001-02 through 2007-08. The table indicates that there was a substantial unencumbered balance in the repayments appropriation at the end of 2007-08. The balance is primarily a result of a low level of expenditures and encumbrances in the appropriation from 1991-92 through 1997-98. The fluctuation in expenditure authority reflects shifts made in the proportion of total MBF funding provided by the program revenue appropriation in order to use the balance that was building up in the appropriation. For example, the total amount of funding appropriated for MBD awards in 2003-04 is \$571,400 PR, all from the repayments appropriation. (funding of \$254,200 GPR and \$317,200 PR is provided the MBD in 2008-09). In 2004-05 and 2005-06, expenditures were significantly higher than revenues. Similarly, the annual expenditure authority exceeded annual revenues. However, in recent years, annual revenues have exceeded expenditures. This is reflected in an increase in the balance in the repayments appropriation between 2006-07 and 2007-08. Through March, 2009, the unencumbered balance in the appropriation was approximately \$1.1 million. The administration indicates that under the bill, \$317,200 would be lapsed to the general fund each year of the 2009-11 biennium from the MBD repayments appropriation.

**TABLE 2**

**MBD Loan Repayment Appropriation -- Annual Revenues,  
Expenditures, and Expenditure Authority**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Prior Year Unexpended Revenue	\$870,100	\$1,034,200	\$1,097,700	\$1,137,800	\$1,031,700	\$895,900	\$914,900
Current Year Revenue	<u>286,500</u>	<u>304,600</u>	<u>294,500</u>	<u>185,100</u>	<u>188,600</u>	<u>224,300</u>	<u>336,000</u>
Total Revenue	\$1,566,600	\$1,338,800	\$1,392,200	\$1,322,900	\$1,220,300	\$1,120,100	\$1,250,900
Expenditures	<u>122,400</u>	<u>241,100</u>	<u>254,400</u>	<u>291,200</u>	<u>324,400</u>	<u>205,300</u>	<u>203,100</u>
Year End Unexpended Revenue	\$1,034,200	\$1,097,700	\$1,137,800	\$1,031,700	\$895,900	\$914,900	\$1,047,800
Encumbrances	<u>261,000</u>	<u>341,100</u>	<u>573,400</u>	<u>395,900</u>	<u>68,200</u>	<u>351,900</u>	<u>136,200</u>
Year End Unencumbered Balance	\$773,200	\$756,600	\$564,400	\$635,800	\$827,700	\$563,000	\$911,600
Expenditure Authority	\$477,200	\$317,200	\$571,400	\$317,200	\$317,200	\$317,200	\$317,200

**Rural Economic Development Program**

8. The rural economic development program (RED) was created in 1989, and provides grants for professional services, entrepreneurial training, and for dairy farm and other agricultural business start-ups, modernizations, and expansions. The program also provides grants and loans for working capital and fixed asset financing in starting or expanding a business, and to pay certain employee relocation and certain retraining costs. Business employee skills training grants are made through the RED.

9. A nine-member, Rural Economic Development Board approves RED grants and loans. The Board consists of the Secretaries of Commerce and Agriculture, Trade and Consumer Protection (or designees); one Senator and one Representative from each party representing rural districts; and three public members appointed by the Governor for staggered, three-year terms. The gubernatorial appointees are required to have experience in operating a business in a rural municipality, and one member must have experience operating a cooperative in a rural municipality.

10. For the Board to approve planning grants or working capital and fixed asset financing grants and loans the following must apply: (a) the business, together with any affiliate, subsidiary, or parent entity, has fewer than 50 employees; (b) the business is located in a rural municipality; (c) the business is starting or expanding its operations. Between 25% and 50% of these grants and loans must be awarded for purposes related to agricultural businesses. The Departments of Agriculture, Trade, and Consumer Protection (DATCP) and Commerce are required to designate staff to evaluate applications for grants and loans for purposes related to agricultural businesses, and to make recommendations and assist the board in reviewing and approving applications.

11. As a lead agency in the Dairy 2020 initiative, Commerce has worked through the

Diary 2020 Council to develop activities that would improve dairy farm profitability and dairy industry competitiveness. Beginning in 1996-97, early planning grants and implementation grants and loans were made to farms and agricultural businesses through the Dairy 2020 program. In 1997-98, working capital and fixed asset financing loans were awarded. The grant program for dairy farm or agricultural business start-ups, modernizations or expansions was also developed through the Department's Dairy 2020 activities.

12. The RED includes the following grant and loan programs:

*a. Grants for Professional Services (Early Planning Grants).* Early planning grants provide funding for professional services related to starting or expanding a business, and for management assistance continuing after the start-up or expansion. The early planning grant program is administered by the Wisconsin Entrepreneur's Network (WEN), with funding from Commerce. Final approval of grants rests with the Board.

*b. Dairy 2020 Early Planning Grants.* Dairy 2020 early planning grants provide financial assistance to stimulate the start-up, modernization, and expansion of Wisconsin dairy farms. The Dairy 2020 early planning grant program is administered by WEN, with funding from Commerce. Eligible applicants include existing and start-up Wisconsin dairy producers.

*c. Entrepreneurial Training Grants.* The grants provide financial assistance to cover a portion of the cost of attending SBDC's Entrepreneurial Training Program, a program developed in conjunction with the University of Wisconsin-Extension Small Business Development Center (SBDC) designed to help entrepreneurs. The Entrepreneurial Training Grant Program is administered by WEN, with funding from Commerce.

*d. Loans for Working Capital and Fixed Asset Financing.* The program provides working capital or fixed asset financing for starting or expanding a business in a rural area, or to fund employee relocation costs. Awards are provided as grants or loans for up to 50% of project costs. The maximum award amount is \$100,000. The amount of an award is based upon an analysis of the following factors: targeted business; targeted location; competition; community benefit; business viability; job creation/retention; employee wages and benefits; and targeted hires. The business is required to contribute matching funds of at least 25% of project costs.

*e. Dairy Farm and Agricultural Business Grant Program.* This is a specific grant program that provides funds to improve the profitability and competitiveness of the dairy industry and other related agricultural businesses. In order to award grants, the Department must determine that: (a) the applicant persons or businesses own, either currently, or in the future, the dairy farms or agricultural businesses; and (b) the grants are likely to result in the start-up, modernization, or expansion of dairy farms or agricultural businesses. Awards are made as grants. The maximum total amount of grants that can be awarded under this subprogram is \$500,000 per year. Grant recipients must provide matching funds of at least 25% of project costs. Grant proceeds can be used to pay for professional services related to the start-up, modernization or expansion of dairy farms or agricultural businesses, or for management assistance continuing after completion of those activities.

13. A "rural municipality" is a city, village or town with a population of 6,000 or less, or a municipality located in a county with a population density of less than 150 persons per square mile.

14. RED loans and grants are made from both a GPR appropriation, as well as from a program revenue repayments appropriation. The GPR appropriation is the primary source of RED funding. The appropriation is biennial and, as a result, funds that are not encumbered at the end of a biennium lapse to the general fund. Loan repayments are placed in the program revenue repayments appropriation and used to fund additional RED awards. Table 3 shows RED appropriations and the amounts awarded from 2001-02 through 2007-08. The Table indicates that funds appropriated for RED awards are usually all distributed.

**TABLE 3**

**Rural Economic Development Appropriations and Amounts Awarded and Encumbered**

	<u>GPR</u>	<u>PR</u>	<u>Total</u>	<u>Awards Encumbered</u>
2001-02	\$656,500	\$120,100	\$776,600	\$789,100*
2002-03	656,500	120,100	776,600	902,800*
2003-04	368,800	357,800	726,600	580,100
2004-05	606,500	120,100	726,600	985,685*
2005-06	606,500	120,100	726,600	1,011,300*
2006-07	606,500	120,100	726,600	776,600
2007-08	606,500	120,100	726,600	680,500

\*Total encumbrances exceed the total amount appropriated because the GPR appropriation is biennial and the repayment appropriation is a continuing program revenue appropriation. As a result, awards in one year of a biennium may exceed the amount appropriated.

Source: Department of Commerce, RED program history report.

15. Table 4 shows program revenue repayment revenues, expenditures, and appropriation authority for seven fiscal years. The table indicates that a substantial year-end, unencumbered balance existed in the appropriation at the end of fiscal year 2007-08. This was primarily due to a low level of expenditures for the appropriation through 2004-05, and a substantial increase in repayments in the appropriation in recent years. The increase in expenditure authority in 2003-04 reflects a shift in the proportion of total RED funding provided by the repayments appropriation, in order to use the balance in the appropriation. Expenditure authority was reduced back to prior year levels beginning in 2004-05. At the end of March, 2009, the unencumbered balance in the RED repayments appropriation was \$1.13 million. Under the bill, the administration intends to lapse \$133,100 annually to the general fund from the RED repayments appropriation during the 2009-11 biennium.



**TABLE 4**

**RED Loan Repayment Appropriation --  
Annual Revenues, Expenditures, and Expenditure Authority**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Prior Year Unexpended Revenue	\$261,700	\$233,800	\$341,200	\$532,100	\$615,800	\$634,500	\$602,800
Current Year Revenue	<u>147,800</u>	<u>192,900</u>	<u>298,900</u>	<u>180,200</u>	<u>231,300</u>	<u>291,500</u>	<u>372,600</u>
Total Revenue	\$409,500	\$426,700	\$640,100	\$712,300	\$847,100	\$926,000	\$975,400
Expenditures	<u>175,700</u>	<u>85,500</u>	<u>108,000</u>	<u>96,500</u>	<u>212,600</u>	<u>323,200</u>	<u>133,200</u>
Year End Unexpended Revenue	\$233,800	\$341,200	\$532,100	\$615,800	\$634,500	\$602,800	\$842,200
Encumbrances	<u>41,300</u>	<u>97,100</u>	<u>90,100</u>	<u>297,900</u>	<u>145,300</u>	<u>209,700</u>	<u>73,400</u>
Year End Unencumbered Balance	\$192,500	\$244,100	\$442,000	\$317,900	\$489,200	\$393,100	\$768,800
Expenditure Authority	\$120,100	\$120,100	\$357,800	\$120,100	\$120,100	\$120,100	\$120,100

**Community-Based Economic Development Program**

16. The Community-Based Economic Development (CBED) program was created in 1989 to provide grants to community-based organizations and business incubators. In general, CBED programs provide financial assistance on a local level for the support of small businesses, entrepreneurs, business incubators and community-based organizations. Annual funding of \$712,100 GPR is provided for the community-based economic development programs through a GPR annual appropriation.

17. Commerce is required to consider the following factors before making awards through community-based economic development programs: (a) the level of economic distress in the area, as measured by the unemployment rate; percentage of persons in the area with low to moderate income; the number of persons permanently laid off due to a major business closing; declining property values; and declining population; (b) the need and demand for the project; (c) the need for state financial assistance; (d) the qualifications of the persons who will be managing and operating the project; (e) the level of community support, including financial support, for the project; (f) the viability of the project; (g) the likelihood that the project will result in the creation or retention of jobs; (h) the likelihood the project will result in business development; (i) the quality and effectiveness of the performance of the applicant on previous CBED grants; and (j) the extent of municipal participation in the design and implementation of the project.

18. CBED grant programs include:

*a. Local Economic Development Project Grants.* These grants provide funds to community-based organizations to conduct local economic development projects. The maximum grant amount is the lesser of \$30,000 or 75% of project costs, except in cases where Commerce determines the project is in an area of extreme financial hardship. Grants made to assist a local economic development project may be made for: (1) development of project-specific plans for industrial parks, for downtown business districts, or for public infrastructure projects that focus on

water, sewer and/or transportation; (2) implementation of training programs for local economic development professionals; and (3) development or implementation of plans that support local economic development projects.

*b. Business Assistance Grants.* Business assistance grants provide funds to community-based organizations for management assistance to small businesses planning a start-up or expansion project, if the Department determines the business will provide jobs. The maximum grant amount is the lesser of \$30,000 or 75% of project costs, unless the Department determines that the project is in an area of extreme hardship. Grants may be used to provide one or more of the following direct management services to small businesses that are planning start-up or expansion projects in the service area of the community-based organization: (1) production of feasibility studies, financial plans, financial projections, or business plans; (2) assistance with preparation of loan applications or with reviewing in-house operating procedures; and (3) entrepreneurship and management training.

*c. Economic Diversification Planning Grants.* These grants are awarded to political subdivisions to allow them to develop economic development or diversification plans. Eligible applicants include community-based organizations or political subdivisions (counties, cities, villages, towns and Indian tribes). The maximum grant amount is the lesser of \$30,000 or 75% of project costs, unless Commerce determines that the project is in an area of extreme hardship. Grants may be used to develop economic development plans for: (1) diversifying the local or regional economy; (2) attracting new businesses and jobs; or (3) promoting development. An "economic development diversification plan" is a plan which has as its goal and objectives the creation or retention of private sector employment or investment in the area to which the plan applies.

*d. Business Incubator Grants.* The program provides grants to support business incubators or technology-based incubators. Eligible applicants are community-based organizations that use grant monies to support business incubators or technology-based incubators. The Department must consider these factors: (1) the potential of the incubator (business and technology-based) to help start businesses; (2) the potential of the incubator to provide employment opportunities; (3) how the unemployment rate in the area in which the incubator is or will be located compares to the state average; (4) how the household income levels of residents in the area compare to the applicable median household income; (5) how the assessed value of real property in the most recent assessment in the area compares to the assessed value of that property two years before; (6) how the percentage of households in the area that are participating in Wisconsin Works (W-2) compares to the statewide percentage of households that are participating in W-2; and (7) the percentage of members of the workforce in the municipality in which the incubator is or will be located that were permanently laid off by their employer in the preceding 18 months.

Commerce can make grants to a community-based organization to fund: (1) the operation of an existing incubator; (2) technical assistance in the process of starting an incubator, including planning, engineering, architectural and legal services and assistance in preparing a feasibility

study of the need for and initial design of an incubator or a business plan; (3) starting, expanding or rehabilitating an incubator; or (4) creation of a revolving loan fund for tenants of an incubator. Community-based organizations may make grants of the indicated amounts for the following purposes:

Operating incubator	\$30,000 per year
Technical assistance for starting incubators	\$10,000 per year
Start, rehabilitate or expand incubator	\$100,000 per year
Revolving loan fund for tenants	\$50,000 per year

The Department cannot provide a particular incubator more than a specified number of each type of grant. "Business incubator" means a person who operates an organization that is designed to encourage growth of new businesses and that provides at least two of the following services: (1) rental space that is below market rate; (2) shared business services; (3) management and technical assistance; and (4) direct access to capital for member businesses through at least one financial institution. "Technology-based incubator" means a facility that provides new or expanding technology oriented businesses with all of the following: (1) office and laboratory space; (2) shared clerical and other support service; and (3) managerial and technical assistance.

*e. Regional Economic Development Grants.* These grants are made to community-based organizations that join with political subdivisions for regional economic development activity. Eligible applicants include community-based organizations that join with counties, cities, villages and towns. The Department may make a grant if the following criteria are satisfied: (1) the economic development activity is unique to or within the region; (2) the economic development activity is consistent with any economic development policy or plan of the political subdivision; (3) the economic development activity will likely stimulate investment in the region's economy or create or retain jobs in the region; (4) the community-based organization will receive cash or in-kind contributions from private sources and from political subdivisions in the region for the economic development activity and such contributions are documented; (5) the applicants submit a plan that describes the economic development activity, how that activity meets required criteria, how the grant will be administered, and how the proceeds will be used to support the economic development activity; (6) the Secretary of Commerce approves the plan. In addition to the criteria that must be met before awarding grants, Commerce must also consider: (1) the prospects for new investment and economic development in the region that may result from the proposed regional development activity; (2) the amount of investment likely to result from the economic development activity; (3) the likely impact of the economic development activity on the economy of the region; (4) the likelihood that one or more businesses will relocate outside the region if the economic development activity does not occur; (5) the size of the region affected by the economic development activity; (6) the likelihood that the economic development activity will enhance other economic development efforts, or build upon other economic development activities in the region; and (7) the likelihood that the economic development activity will result in increased spending in the region by persons who reside in the region. Grant limits are not specified in statutes or rules. However, grants typically do not exceed \$100,000. Grants may be used to fund regional economic development projects that are unique to the area and will

stimulate the region's economy, or create or retain jobs in the region.

*f. Entrepreneurship Training Grants.* Entrepreneurship training grants provide funding to nonprofit organizations for entrepreneurship training for economically disadvantaged and at-risk children. Eligible applicants are private, nonprofit organizations or private nonprofit foundations, including the National Foundation for Teaching Entrepreneurship to Handicapped and Disadvantaged Youth, that teach business skills to economically disadvantaged or socially at-risk children. In awarding grants, Commerce must consider the following: (1) the extent to which the applicant partners with educational institutions in designing and implementing the training projects; (2) the extent of collaboration with area businesses for financial and operational support; (3) the extent to which the training projects provide real-life experiences for youth; (4) placement and follow-up activities; and (5) expertise in working with economically disadvantaged or socially at-risk children. The maximum grant amount is not specified in the statutes but is typically \$30,000. Grant proceeds must be used for costs associated with teaching skills and developing knowledge necessary to start and maintain business enterprises.

*g. Venture Capital Development Conference Grants.* These grants provide funds to community-based organizations or private nonprofit organizations for venture capital development conferences. Community-based organizations and private, nonprofit organizations are eligible for awards. Commerce may award grants if the following criteria are met: (1) the venture capital development conference will assist entrepreneurs in the state in obtaining capital for the start-up or development of a business; (2) the conference is likely to stimulate investment, promote economic development or create or retain jobs in Wisconsin; (3) the applicant submits a plan that describes: the proposed activity; how the activity meets required criteria; how the grant will be administered; how the grant proceeds will be used to support the activity; and how the activity will be coordinated with other venture capital development conferences or programs including Commerce conferences and programs; and (4) the Secretary of Commerce approves the plan. The Department is also required to consider the additional following criteria: (1) the applicant's access to capital markets; (2) the experience of the applicant in linking investors with emerging businesses; (3) the experience of the applicant in providing business plan assistance; (4) the size of the area in which the project will be located; and (5) the level of ongoing assistance that will be provided to entrepreneurs. The Department may not award more than \$75,000 in grants per year. Grant recipients must fund at least 50% of the cost of the conference by providing cash or in-kind contributions. Grants may be used to fund costs associated with conducting venture capital development conferences.

19. Under current law, Commerce is required to award an annual CBED grant of up to \$125,000 to the women's business initiative corporation (WBIC) to fund its costs if all of the following apply: (a) WBIC submits a plan to Commerce for each grant detailing the proposed use of the grant and the Secretary of Commerce approves the plan; (b) WBIC enters into a written agreement with the Department that specifies the conditions for use of the grant proceeds, including reporting and auditing requirements; (c) WBIC agrees in writing to provide services to individuals throughout the state; and (d) WBIC agrees in writing to submit to the Department within six months after spending the full amount of the grant, a report detailing how the grant proceeds were used.

Commerce typically awarded annual grants of \$100,000 to WBIC.

20. A "community-based organization" is an organization that is involved in economic development and helps businesses that are likely to employ persons.

21. Table 5 shows appropriation amounts and award amounts for CBED programs from 2001-02 through 2007-08. The table shows that the entire CBED appropriation is consistently distributed in awards.

**TABLE 5**

**Community-Based Economic Development Appropriations  
and Amounts Awarded and Encumbered**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Total Appropriation	\$762,100	\$762,100	\$712,100	\$712,100	\$712,100	\$712,100	\$712,100
Grants Awarded and Encumbered:							
Business Assistance	\$60,000	\$202,000	\$137,000	\$25,000	\$38,500	\$18,000	\$81,000
Economic Development Project	60,000	53,000	56,500	20,000	25,000	20,000	0
Economic Diversification	14,500	45,000	9,000	0	0	0	0
Business Incubator	344,500	235,100	229,000	285,000	238,000	196,900	74,800
Regional Economic Development	27,500	100,000	155,600	160,000	131,600	282,200	357,300
Revolving Loan Fund	38,000	40,000	0	0	0	0	0
Entrepreneurship	40,000	20,000	50,000	42,500	104,000	20,000	24,000
Venture Capital Development Conference	67,500	65,000	75,000	75,000	75,000	75,000	75,000
Other	<u>110,100**</u>	<u>0</u>	<u>0</u>	<u>104,600**</u>	<u>100,000**</u>	<u>100,000**</u>	<u>100,000**</u>
Total Grants	\$762,100	\$762,100	\$712,100	\$712,100	\$712,100	\$712,100	\$712,100

\*Grant to City of Menasha for pedestrian enhancements to the city square.

\*\*Grant to Women's Business Initiative Corporation.

**High-Technology Business Development Corporation Grants**

22. The high-technology business development corporation grant program currently provides an annual grant of \$250,000 GPR to the Wisconsin Technology Council. The Council promotes the development of high-technology businesses in the state. A match equal to 50% of the state grant is required

## **Development Finance Board**

23. An eleven-member Development Finance Board, which is attached to Commerce, approves most WDF grants and loans. The Board consists of the Secretaries of the Departments of Commerce and Workforce Development (DWD) (or designees), the Director of the Wisconsin Technical College System (WTCS) (or designee), and six members appointed by the Governor for two-year terms representing the scientific, technical, labor, small business, minority business, and financial business communities in the state. In addition, 2007 Wisconsin Act 20 expanded the Board to include two legislative members, one appointed by the Speaker of the Assembly, and one by the Majority Leader of the Senate. All other appointed members of the Board must be confirmed by the Senate.

## **Delete Existing Grant and Loan Programs**

24. AB 75 includes the following related provisions:

*a. Delete RED.* The bill would delete \$606,500 GPR annually and eliminate the rural economic development program. The Rural Economic Development Board would also be eliminated. RED grant or loan repayments could be deposited in the RED program revenue repayments appropriation only up to June 30, 2009, and the funds would be used to make grants and loans under the newly created forward innovation fund program.

*b. Delete MBD.* The bill would delete \$254,200 GPR annually and eliminate the minority business development program. The Minority Business Development Board would also be eliminated. MBD grant and loan repayments could be deposited in the MBD program revenue repayments appropriation only up to June 30, 2009, and the funds would be used to make grants and loans under the newly created forward innovation fund program.

*c. Delete CBED.* The bill would delete \$712,100 GPR annually and eliminate the community-based economic development (CBED) program.

*d. Eliminate Development Finance Board.* The bill would eliminate the Development Finance Board and replace it with the 11-member Economic Policy Board. The Economic Policy Board would be responsible for approving most Wisconsin Development Fund (WDF) grants and loans, and consulting with the Department in implementing and administering the Forward Innovation Fund program. The Economic Policy Board's required membership would be the same as the Development Finance Board's membership, and would include the Secretaries of the Departments of Commerce and Workforce Development (DWD) (or designees), the Director of the Wisconsin Technical College System (WTCS) (or designee), and six members appointed by the Governor for two-year terms representing the scientific, technical, labor, small business, minority business, and financial business communities in the state. In addition, the Board would include two legislative members, one appointed by the Speaker of the Assembly, and one by the Majority Leader of the Senate. The six appointed members of the Board would be confirmed by the Senate.

## **Funding for WBIC and the Technology Council.**

25. AB 75 would provide \$94,000 GPR annually in a new appropriation to make grants to WBIC for operating costs subject to the same conditions of the current CBED grant. In addition, the annual grant to the Wisconsin Technology Council (high-technology business development corporation grant) would be increased by \$85,000, from \$250,000 to \$335,000.

### **Forward Innovation Fund**

26. A new Forward Innovation Fund would be created with funding provided by amounts appropriated to MBD, RED and CBED. Specifically, \$1,410,000 GPR annually would be provided in a new biennial appropriation for forward innovation fund program grants and loans. A separate, continuing program revenue repayments appropriation would be created for repayments of forward innovation fund grants and loans, and for repayments of MBD and RED grants and loans made after July 1, 2009. Funds in the repayments appropriation would be used to make forward innovation fund grants and loans.

27. To receive an award under the program an eligible recipient would submit an application to Commerce. Upon receipt of an application from an eligible recipient, the Department could consider any of the following in determining whether to award a grant or make a loan:

a. Whether the eligible activity proposed to be conducted by the eligible recipient served a public purpose.

b. Whether the eligible activity proposed to be conducted by the eligible recipient would retain or increase employment in this state.

c. Whether the eligible activity proposed to be conducted by the eligible recipient was likely to occur without the grant or loan.

d. Whether and the extent to which the eligible activity proposed to be conducted by the eligible recipient would contribute to the economic growth of this state and the well-being of residents of this state.

e. Whether the eligible activity proposed to be conducted by the eligible recipient would be located in an economically distressed area.

f. The economic condition of the community in which the eligible activity proposed to be conducted by the eligible recipient was proposed to occur.

g. The potential of the eligible activity proposed to be conducted by the eligible recipient to promote the employment of minority group members.

h. Any other criteria established by the Department by administrative rule, including the types of projects that are eligible for funding and the types of eligible projects that will receive priority.

28. After consulting with the Economic Policy Board, Commerce would be authorized to make a grant or loan from the forward innovation fund appropriations to "eligible recipients" for "eligible activities." An "eligible recipient" would include any of the following: (a) a business or small business; (b) the governing body of a municipality; (c) a community-based organization; (d) a cooperative or association incorporated or organized under state law; (e) a local development corporation; or (f) a nonprofit organization whose primary purpose is to promote the economic development of, or community development in a particular area or region in the state. "Eligible activities" that could receive awards would include: (a) the start-up, expansion, or retention of minority businesses; (b) the start-up, expansion, or retention of businesses in economically distressed areas; (c) innovative proposals to strengthen inner cities; (d) innovative proposals to strengthen communities in rural municipalities; (e) innovative programs to strengthen clusters; (f) innovative proposals to strengthen entrepreneurship.

Commerce, in cooperation with the Economic Policy Board, would be required to encourage small businesses to apply for grants and loans by ensuring that there were no undue impediments to their participation and by actively encouraging small businesses to apply for grants and loans. The Department would have to do all of the following: (a) publish and disseminate information about projects that may be funded by a grant or loan and about procedures for applying for grants and loans; (b) simplify the application and review procedures for small businesses so that they would not impose unnecessary administrative burdens on small businesses; and (c) assist small businesses in preparing applications for grants and loans.

29. In each biennium, Commerce would be authorized to expend or encumber up to a total of 1% of the moneys appropriated the forward innovation fund program for that biennium for any of the following: (1) evaluations of proposed technical research projects; and (2) evaluation costs, collection costs, foreclosure costs, and other costs associated with administering the program's loan portfolio, excluding staff salaries. The Department could also charge a grant or loan recipient an origination fee of not more than 2% of the grant or loan amount if the grant or loan equaled or exceeded \$100,000. All origination fees collected would be deposited into the WDF administration appropriation.

30. The Economic Policy Board would be required to develop a policy relating to obtaining reimbursement of grants and loans provided under the program. The policy could provide that reimbursement be obtained through full repayment of the principal amount of the grant or loan plus interest, through receipt of a share of future profits from or an interest in a product or process, or through any other appropriate means. The Board would also have to require, as a condition of a grant or loan, that a recipient contribute to a project an amount that was not less than 25% of the amount of the grant or loan (at least 20% of eligible project costs).

Commerce, in consultation with the Economic Policy Board, would be required to promulgate rules that established procedures, policies, and standards for implementing the forward innovation fund program and for awarding grants and making loans under the program. The rules would be required to include all of the following:

- a. A statement of the Department's economic development objectives for the



program, together with the goals and accountability measures required under current law.

b. The methodology for designating an area as economically distressed. The methodology would have to require the Department to consider the most current data available for the area and for the state on the following indicators: (1) unemployment rate; (2) percentage of families with incomes below the poverty line established under federal law; (3) median family income; (4) median per capita income; (5) average annual wage; (6) real property values; and, (7) other significant or irregular indicators of economic distress, such as a natural disaster.

c. Provisions for the development of a biennial plan for awarding grants and making loans under the program, before the commencement of each odd-numbered fiscal year, and for the submission of the biennial plan to the Governor and the Chief Clerk of each house of the Legislature for distribution to the appropriate standing committees .

d. Procedures related to grants and loans for all of the following: (1) submitting applications for grants and loans; (2) evaluating applications; (3) monitoring project performance; and (4) auditing the grants and loans;

e. Conditions applicable to a grant or loan awarded.

f. Procedures for monitoring the use of grants awarded and loans made, including procedures for verification of economic growth, job creation, and the number and percentage of newly created jobs for which state residents are hired.

Commerce would be authorized to promulgate emergency rules, without a finding of emergency, that would remain in effect until July 1, 2010, or the date on which permanent rules took effect, whichever was sooner. If the Secretary of Administration required Commerce to prepare an economic impact report for the rules required under the provisions of the act, the Department could submit the proposed rules to the Legislature for review before Commerce completed the economic impact report and before the Department received DOA approval of the report.

31. "Business" would be defined as a company located in this state, a company that has made a firm commitment to locate a facility in this state, or a group of companies at least 80 percent of which are located in this state. "Cluster" would mean a geographic, categorical, horizontal, or vertical concentration of interconnected, interdependent, or synergistic businesses, industries, research centers, or venues for the performance, creation, or display of the arts. "Community-based organization" would mean an organization that is involved in economic development and helps businesses that are likely to employ persons. "Economically distressed area" would be defined as an area designated by Commerce using a methodology established by rule. "Governing body" would be a county board, city council, village board, or town board.

"Local development corporation" would be defined as any of the following:

a. The elected governing body of a federally recognized American Indian tribe or

band in this state or any business created by the elected governing body.

b. A corporation organized under state law that is a nonprofit corporation, as defined under state law, that is at least 51 percent controlled and actively managed by minority group members, and that does all of the following: (a) operates primarily within specific geographic boundaries; (b) promotes economic development and employment opportunities for minority group members or minority businesses within the specific geographic area; and (c) demonstrates a commitment to or experience in promoting economic development and employment opportunities for minority group members or minority businesses.

"Minority business" and "minority group member" would be defined under current law minority business certification provisions. "Municipality" would mean a county, city, village, or town. "Rural municipality" would be any of the following: (a) a municipality that is located in a county with a population density of less than 150 persons per square mile; or (b) a municipality with a population of 6,000 or less. "Small business" would be defined as a business with fewer than 100 employees, including employees of any subsidiary or affiliated organization.

### **Discussion Points**

32. Under current law, the MBD, RED, and CBED programs are appropriated a total of \$1,572,800 GPR annually for grants and loans. AB 75 appropriates \$1,410,000 to the new consolidated forward innovation fund for similar grants and loans. In addition, the bill creates a separate appropriation of \$94,000 GPR for annual grants to WBIC that are currently awarded from CBED. If it is assumed that the 1% across-the-board funding reductions in AB 75 would have applied to the current MBD, RED, and CBED GPR appropriations, then the total annual amount of GPR funding appropriated to the forward innovation fund is approximately \$54,000 less than would be the case if MBD, RED, and CBED were retained as separate programs. (Note that an additional \$85,000 GPR is provided for high-technology business development corporation grant program as part of this budget item. The Technology Council received a CBED venture fair grant of \$50,000 in 2006-07, but did not receive a CBED grant in 2007-08.) Also, the administration intends annual lapses to the general fund of \$317,200 from the MBD program revenue repayments appropriation and \$133,100 from the RED program revenue repayments appropriation.

33. Commerce proposed the consolidation for the following reasons: (a) to fund new activities that are not currently eligible; (b) to create a larger pool of funds than is available separately in each current program; (d) to continue to fund projects that are currently eligible for MBD, RED, and CBED awards; and (e) to consolidate and streamline economic development programs as recommended by the Legislative Audit Bureau (LAB) in its August, 2006, audit of state economic development programs (Report 06-9).

34. Table 5 shows that, in recent years, most CBED awards were made for regional economic development grants and loans. These grants are not specifically established under the forward innovation fund eligibility criteria. Similarly, Dairy 2020 grants, and revolving loan fund grants and loans are not delineated as specific fund awards. However, the program criteria for "eligible recipient" and "eligible activities" would appear to authorize Commerce to make awards to

most projects that are currently eligible for MBD, RED, or CBED awards. Commerce indicates that the eligibility provisions were written with the intent of making all current recipients eligible for awards, and the Department intends to administer the program with this purpose.

35. The Department anticipates that the forward innovation fund will allocate approximately one-third of total funds to rural development initiatives, one-third of the funds to minority development projects, and one-third of the funds to entrepreneurial development. As noted, a purpose of the program consolidation is to fund projects beyond those currently eligible for MBD, RED, and CBED grants and loans. For example, grants could be made to any business or nonprofit organization for innovation proposals to strengthen inner cities, and innovative programs to strengthen clusters. As a result, the amount of awards to businesses in rural areas, minority-owned businesses, or community-based organizations could be substantially less in a given year than would be the case under the current programs.

36. Wisconsin Development Fund (WDF) awards are made using general grant and loan criteria, or through the Wisconsin trade project, and the technology commercialization grant and loan program. Commerce is authorized to make grants or loans for eligible activities. Activities eligible for awards include: (a) capital financing; (b) worker training; (c) entrepreneurial development; (d) providing assistance to technology-based business or to businesses at a foreign trade show or event; (e) promoting urban or regional economic development; (f) establishing revolving loan funds; (g) providing working capital; and (h) promoting employee ownership by conducting or implementing feasibility studies to investigate the reorganization or new incorporation of existing businesses as employee-owned businesses. The Wisconsin trade project program provides grants to small- to medium-sized businesses to attend international trade shows. The technology commercialization grant and loan program provides funding for various stages of business venture development and for an entrepreneurial and technology transfer center. WDF grants and loans can provide up to 75% of project costs, depending on the program. The WDF is funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. Under AB 75, the WDF is provided annual funding of \$6,472,500 GPR and \$4,009,500 PR.

37. In the 2006 audit report, the LAB recommended that the Legislature consider reducing the number of economic development programs by consolidating statutory requirements and standardizing eligibility criteria for programs that have similar purposes and provide similar services. As an alternative, the MBD, RED, and CBED GPR funding that would comprise the forward innovation fund could be deposited in the WDF GPR appropriation, RED and MBD repayments could be deposited in the WDF program revenue repayments appropriation and used to make WDF grants and loans after the effective date of the bill, and eligibility criteria of the proposed forward innovation fund could be incorporated into WDF general eligibility criteria, to the extent it is not currently provided. Under this alternative, total annual expenditure authority for WDF awards would be \$8,882,500 GPR and \$4,446,800 PR (Alternative A2). Further, most Commerce economic development programs require a grant or loan recipient to pay at least 25% of project costs, while the bill would specify 20% for the forward innovation fund. A 25% minimum could be considered (Alternative A3).

38. The bill would eliminate the Development Finance Board, the RED Board, and the MBD Board, and replace them with the Economic Policy Board, which would be responsible for approving most WDF awards and consulting with Commerce in administering the forward innovation fund program. Membership of the Economic Policy Board would be identical to the current Development Finance Board, and would not include former members of the RED and MBD Boards. An alternative would be to require that the Economic Policy Board include a minority group member who was an owner of a minority-owned business, and a member who was an individual who had experience operating a business in a rural area (Alternative B2).

39. As noted, WBIC currently receives an annual CBED grant of \$100,000, and would receive an annual grant of \$94,000 from a separate appropriation under the bill. WBIC provides access to capital through direct lending, individualized business assistance, and business education focusing on women, minority and low income individuals. WBIC is under contract with Commerce to provide the following in 2009: (a) encourage and increase micro-enterprise development by assisting entrepreneurs and small business owners; (b) increase clients' understanding of business technology applications; (c) coordinate small business initiatives with the Wisconsin Entrepreneur's Network (WEN); (d) collaborate with local organizations to provide financing and training to small businesses; and (e) advocate for microenterprise in Wisconsin. Under the bill, required annual WDF grants and the associated funding of \$100,000 for the Center for Advanced Technology and Innovation (CATI) of Racine County, and \$100,000 to Urban Hope Corporation are deleted as part of budget reductions. In addition, required gaming economic diversification grants and the associated funding of \$500,000 to Oneida Small Business, Inc, and Project 2000, and of \$150,000 to the Northwest Regional Planning Commission would be deleted as budget reductions. To provide comparable treatment, the annual grant to WBIC of \$94,000 and related appropriation could also be deleted. WBIC would continue to be eligible to apply for the grant from the forward innovation fund or WDF (Alternative C2).

40. The annual grant to the Wisconsin Technology Council for operations would be increased by \$85,000, from \$250,000 to \$335,000. Currently the Council receives the annual grant of \$250,000 for operations. In addition, the Council receives an annual grant of \$50,000 from Commerce to underwrite the Early Stage Symposium and Entrepreneur's conferences and an annual grant of \$50,000 to operate the Wisconsin Angels Network from various grant programs. The bill would consolidate the three grants in a single grant, of a lower total amount.

## **ALTERNATIVES**

### **A. Consolidation**

1. Approve the Governor's recommendation to eliminate the rural economic development (RED), minority business development (MBD), and community-based economic development (CBED) financial assistance programs, and create the forward innovation fund, provide an annual grant of \$94,000 to the Woman's Business Initiative Corporation, and provide an additional \$85,000 in the annual grant to the Wisconsin Technology Council.

2. Delete the Governor's recommendation and, instead, deposit the RED, MBD, and CBED GPR amounts that would comprise the forward innovation fund in the WDF GPR appropriation, provide that the RED and MBD repayments be placed in the WDF program revenue repayments appropriation after the effective date of the bill, and incorporate eligibility criteria of the proposed forward innovation fund into WDF general eligibility criteria, to the extent it is not currently provided.

3. Adopt Alternative 1 or 2, but require a recipient of forward innovation fund related programs to provide at least 25% of eligible project costs (rather than 20% under the bill).

4. Delete the Governor's recommendation (the separate RED, MBD and CBED programs would remain).

<b>ALT A4</b>	<b>Change to Bill</b>
	Funding
GPR	- \$62,400

## **B. Economic Policy Board**

1. Adopt the Governor's recommendation to eliminate the RED, MBD and Development Finance Board and replace it with an 11 member Economic Policy Board, with the same membership as the Development Finance Board.

2. Adopt the Governor's recommendation, but require that one member be a minority who operated a minority-owned business, and one member be an individual who had experience in operating a business in a rural area.

## **C. Grant to Woman's Business Initiative Corporation**

1. Approve the Governor's recommendation to provide \$94,000 GPR annually in a new GPR appropriation to make grants to the Woman's Business Initiative Corporation (WBIC).

2. Delete the Governor's recommendation (WBIC could continue to seek funding under existing programs).

<b>ALT C2</b>	<b>Change to Bill</b>
	Funding
GPR	- \$188,000

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