



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

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April 30, 2013

Joint Committee on Finance

Paper #694

### **Grant to VETransfer, Inc. (Veterans Affairs -- Departmentwide, Veterans Programs, and Museums)**

[LFB 2013-15 Budget Summary: Page 490, #6]

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#### **CURRENT LAW**

The Department of Veterans Affairs (DVA) currently administers a number of programs that provide grants to veterans and to veterans organizations. None of the Department's current programs provide grants to help veterans start businesses.

The VetEd program provides tuition and fee reimbursements to veterans who have successfully completed a semester at an eligible institution. The retraining grant program provides grants to unemployed and underemployed veterans participating in retraining programs and enrolled in a state technical college or an approved in-state proprietary school. The assistance to needy veterans program provides grants of up to \$3,000 to veterans for assistance with health care costs and for temporary aid for veterans that have experienced a loss of income.

#### **GOVERNOR**

Provide \$500,000 SEG in 2013-14 for DVA to provide as a one-time grant to Veteran Entrepreneurial Transfer, Inc. (VETransfer), an organization that provides training and other assistance to veterans engaged in entrepreneurship. Modify an appropriation that currently funds assistance to needy veterans to also fund the grant to VETransfer.

*Start-Up Grants.* Require VETransfer to grant at least \$300,000 of the state grant to pay for costs associated with the start-up of a business located in Wisconsin that a veteran owns. Provide that these grants may only be made to veterans who are Wisconsin residents or to businesses owned by veterans who are state residents.

*Entrepreneurship Training.* Require VETTransfer to use up to \$200,000 to provide entrepreneurial training and related services to veterans who are state residents.

*Reporting Requirement.* Require VETTransfer to submit to the Secretary of DVA, the Governor, and the Secretary of Administration a report annually by March 1, until 2018, or one year following the sunset date established by DVA for when VETTransfer may no longer expend moneys from the grant.

Require the report to include the following: (a) the most recent financial statement for VETTransfer; (b) a detailed description of the criteria VETTransfer used to determine who received a grant during the previous year; (c) a verified statement describing in detail grants VETTransfer made to veterans' business start-up costs or veterans' entrepreneurial training during the previous year, which must be signed by an independent certified public accountant and the director or principal officer of VETTransfer, so as to attest to the accuracy of the verified statement; and (d) a summary of all investments and grants of any kind that VETTransfer made during the previous year.

Provide that, for each award VETTransfer made during the previous year, the verified statement that VETTransfer is required to include in its annual report must include the following information for each grant awarded: (a) the name and address of the grant recipient and the name and address of the start-up business; (b) the names and addresses of all of the start-up business's owners, including an identification of the business's owners who are veterans, and, if the grant recipient was a business other than the start-up business, the names and addresses of the grant recipient's owners, including an identification of the business's owners who are veterans; (c) the names and addresses of the start-up business's board of directors and key management employees and, if the grant recipient was a business other than the start-up business, the names and addresses of the grant recipient's board of directors and key management employees; (d) a description of the nature of the start-up business; (e) any information the grant recipient submitted to VETTransfer to apply for the grant; (f) the amount of the grant and the date VETTransfer awarded the grant; and (g) a statement of the number of employees the start-up business employed on January 1 of the previous year and the number of employees the start-up business employed on December 31 of the previous year.

*Records.* Require VETTransfer to maintain records, as required by DVA, concerning its expenditures of the \$500,000 grant, and provide DVA access to those records upon DVA's request, and authorize DVA to audit those records to ensure compliance with the requirements of the grant.

*Program Termination.* Prohibit VETTransfer from expending any of the grant after June 30, 2017, or a later date established by DVA. Require VETTransfer to pay the Secretary of the Department of Administration, for deposit in the general fund, any of the \$500,000 it receives but does not expend by June 30, 2017, or by a later date established by DVA.

## **DISCUSSION POINTS**

1. VETTransfer's VictorySpark program is a three-month entrepreneurial program for

veterans who seek to create or improve their own start-up company. Accepted applicants receive between \$2,500 and \$20,000 in funding to help start their companies. On average, start-ups receive grants of approximately \$5,000. VETransfer provides office space for enrollees to use, and sets up two or three workshops and meetings per week with successful entrepreneurs in the Milwaukee area.

2. VETransfer focuses on companies that have a repeatable business model, often in the Internet, software, medical device, hardware, mobile electronic, or social fields. VETransfer does not fund biotechnology companies, restaurants, consultancies, or other local service-oriented companies.

3. VETransfer's operating revenues and expenditures for calendar year 2011 and 2012 are shown in the table below. Most of the revenue the company received in those years came from federal grants. Approximately \$5,300 came from private contributions.

#### **VETransfer, Inc., Operating Revenues and Expenditures**

	<u>2011</u>	<u>2012</u>
Revenues	\$943,800	\$1,069,300
Expenditures	593,100	1,194,600

4. The Wisconsin Economic Development Corporation (WEDC) provided VETransfer a \$150,000 grant in 2011-12 and a \$300,000 grant in 2012-13. To date, \$100,000 of the 2011-12 award has been disbursed. WEDC provided \$50,000 of the grant to support VETransfer's marketing expenses related to videos and website promotions for veterans' companies and \$50,000 for seed grants to be disbursed by VETransfer to veteran-owned businesses. WEDC indicates VETransfer must demonstrate matching funding to receive the final \$50,000 from its 2011-12 award. All of the \$300,000 in the 2012-13 grant award is to be used for grants to veteran-owned startups that have gone through VETransfer's VictorySpark program.

5. In March, 2011, VETransfer received a two-year \$2.1 million grant from the U.S. Department of Veterans Affairs Center for Innovation (VACI). The grant funding ended in March, 2013. Under this contract, VETransfer was required to accept all veterans and ideas at any stage of business. With the federal contract completed, VETransfer intends to accept future companies based on their application, team, and viability of the company's business model. The Grant Review Committee will also provide input. VETransfer indicates the state funding from DVA provided in the bill would be used to support those startups most likely to succeed and create jobs in Wisconsin.

6. VETransfer indicates its annual operating expenses are approximately \$400,000. To date, these costs have been funded from a federal grant VETransfer received from VACI. The WEDC grant funding VETransfer has received has been used to support grants to veteran-owned companies. VETransfer indicates it has been working to secure funding partnerships with foundations and corporations, but without these partnerships in place the funding in this proposal is needed to support program operations going forward. As of April 15, 2013, VETransfer had \$220,000 available for grants to companies that complete VETransfer programs. VETransfer expects \$140,000 of this funding will be used for grants to companies set to complete the program

in May, 2013.

7. VETranfer indicates that the funding provided in the bill would allow it to build on the achievements the program accomplished through the federal funding and apply those practices specifically to Wisconsin veterans. A new class of startups could begin immediately once state funding is approved and disbursed, and grants to veteran-led startups could be distributed as early as August. Operational funding for facilities, salary, community outreach, and program development could be used immediately.

8. Participants would be required to complete the milestones established by VETranfer and receive final approval from the VETranfer management team and external Grant Review Committee before receiving grant funding. There are currently five milestones in the program. These include the following: (a) contacting 100 or more customers during the 12-week program; (b) regular updating of the startup's progress in the program's online customer development tracking tool; (c) mandatory participation in weekly Tuesday and Thursday workshops; (d) weekly engagement with visiting entrepreneurial mentors and VETranfer staff; and (e) a final presentation to VETranfer staff describing what the veteran learned in the program and how their startup has changed during that time.

9. The Grant Review Committee is made up of experienced private and non-profit professionals. The Committee bases the amount of the grant awards on information provided by the VETranfer staff, the individual needs of the startup, and the startup's accomplishments. Grant amounts are determined under the following general guidelines: (a) businesses featuring an engineered product receive \$15,000 or more; (b) software businesses receive between \$10,000 and \$15,000; and (c) service businesses receive between \$2,500 and \$5,000.

10. In 2011 there were 100 startups that completed the VETranfer program, while in 2012 there were 71 startups. Through March, 2013, there were 13 startups that completed the VictorySpark program VETranfer operates. The curriculum VETranfer offers to veteran startups has changed over the past three years. In 2011, VETranfer focused on one-on-one coaching sessions with veterans, but in 2012 VETranfer started to provide bi-weekly startup orientations and Lean startup classes. In 2013, VETranfer offered participants orientations to VETranfer programs and a 12-week seed accelerator program called VictorySpark. Of these participants, VETranfer indicates 40 have successfully started profitable businesses.

11. VETranfer did not provide any grants in 2011, but provided \$125,000 in grants in 2012. As of April 8, 2013, VETranfer had awarded \$10,000 in grants in 2013.

12. Given the grants that have already been provided to VETranfer by WEDC, it could be argued that the state should wait to provide additional funding until the effectiveness of the program can be reviewed.

13. The bill would create a positive balance in the veterans trust fund (VTF) in 2014-15 by depositing PR revenue generated by the veterans homes to the VTF and converting the veterans home PR appropriations to SEG appropriations supported by the VTF. However, VTF expenditures would exceed revenues in both years of the 2013-15 biennium. The grant to VETranfer is a one-time expenditure from the VTF and would not increase the ongoing imbalance between VTF

revenues and expenses in the VTF. However, it would reduce the balance in the VTF. The Committee could reduce or delete funding for this item (Alternative A2 or A4) so that this funding may be available to fund current veterans programs in future biennia.

14. As mentioned previously, WEDC has already provided VETransfer with grants of \$150,000 in 2011-12 and \$300,000 in 2012-13. Rather than use funding from the VTF, the Committee could direct WEDC to provide VETransfer with another \$500,000 grant in 2013-14 from one of its grant or loan programs (Alternative A3). Funding in the bill would be reduced by \$500,000 SEG to reflect that funding for the grant or loan would come from WEDC's base appropriations. All statutory provisions related to this item would be modified to reflect that WEDC would administer the grant.

15. Finally, the Committee could modify the bill to stipulate that all of the grant funding be used for one of the two purposes identified in the bill, either grants to veteran-owned businesses (Alternative B2) or for entrepreneurial training (Alternative B3).

## ALTERNATIVES

### A. Funding

1. Approve the Governor's funding recommendation to provide \$500,000 SEG in 2013-14 as a one-time grant to VETransfer.

2. Reduce funding in the bill by \$250,000 SEG to provide a grant of \$250,000 to VETransfer, Inc. in 2013-14.

<b>ALT A2</b>	<b>Change to Bill Funding</b>
SEG	- \$250,000

3. Reduce funding in the bill by \$500,000 SEG in 2013-14. Instead, direct WEDC to provide VETransfer, Inc. with a \$500,000 grant in 2013-14 from one of its grant or loan programs, as deemed appropriate by WEDC. Modify all provisions in AB 40 relating to this grant to reflect that WEDC, and not DVA, would administer the grant.

<b>ALT A3</b>	<b>Change to Bill Funding</b>
SEG	- \$500,000

4. Delete all funding and statutory provisions in the bill relating to this item.

<b>ALT A4</b>	<b>Change to Bill Funding</b>
SEG	- \$500,000

**B. Use of Funds**

If the Committee adopts Alternative 1, 2, or 3:

1. Adopt the Governor's recommendation to provide 60% of the funding for start-up grants and 40% of the grant funding for entrepreneurship training and related services to state veterans.

2. Modify the Governor's recommendation to require that VETransfer, Inc. use all of the grant funding to provide grants to veteran-owned businesses.

3. Modify the Governor's recommendation to require that VETransfer, Inc. use all of the grant funding to provide entrepreneurial training and related services to veterans who are residents of the state.

Prepared by: Grant Cummings