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Regional Revolving Loan Fund Grant Program (Wisconsin Economic Development Corporation/ Forward Wisconsin Development Authority)

[LFB 2015-17 Budget Summary: Page 164, #2]

CURRENT LAW

The Wisconsin Economic Development Corporation (WEDC) is a public-private entity created under state law as the state's lead agency in promoting economic development. WEDC offers a number of tax credits, loans, grants, and technical assistance programs to eligible Wisconsin companies. Certain programs administered by WEDC are required by statute while other programs are developed under policies and procedures approved by WEDC's Board.

GOVERNOR

Under the budget bill introduced by the Governor, WEDC would be merged with the Wisconsin Housing and Economic Development Authority to create the Forward Wisconsin Development Authority (FWDA), effective January 1, 2016. However, on May 8, 2015, the Governor announced that he was requesting that provisions associated with the proposed merger be removed from the budget bill. The remainder of this paper describes the regional revolving loan fund grant program under the assumption that the program would be administered by WEDC, instead of FWDA.

The bill would provide $55,000,000 GPR in 2016-17 for WEDC to establish a regional revolving loan fund grant program. WEDC would be required to establish policies and procedures relating to the program, including all of the following:

a. Grants must be awarded to multicounty regions in proportionate amounts based upon the percentage of the state population residing within each region;

b. Grants must be awarded only to regional organizations having sufficient private sector involvement, as determined by WEDC;

c. WEDC must approve the structure, regional investment strategy, and administrative guidelines of regional loan funds;

d. Each regional organization awarded a grant must, at a time determined by WEDC, make a report to the Corporation containing information required by WEDC; and

e. For each regional organization awarded a grant, WEDC may annually assess a fee as a percentage of the monies managed to the extent necessary to reimburse the Corporation for costs incurred for oversight and management.

These provisions would take effect on January 1, 2016. These monies would be provided on a one-time basis in 2016-17 and would not be included in WEDC's 2017-19 base budget.

DISCUSSION POINTS

1. Current state statutes do not require WEDC to make grants for regional revolving loan funds in a similar manner as the proposed program. The Corporation does, through its policies and procedures, provide grants to not-for-profit minority business associations to administer the minority business development revolving loan fund program. Under that program, a grant recipient provides loans to the minority business community with a one-to-one matching requirement from the grant recipient. WEDC provided $500,000 of grant awards under this program in 2013-14.

2. In 2013-14, WEDC contracted 141 grant awards totaling $17.2 million. The proposed $55 million grant program would represent more than three times as much in grant awards (assuming the grants were all made in one fiscal year) in support of the proposed program as compared to the total amount of grant awards WEDC made in the most recently completed fiscal year. WEDC also entered into 36 loan contracts totaling $19.4 million in loan awards in 2013-14. It should be noted that the proposed program would be considered a grant program, awarding grants to regional organizations for the purpose of entering into loans with businesses in a specified multicounty geographic area. These monies would not be loans receivable on WEDC's balance sheet.

3. According to WEDC, details of the new program are not developed beyond the scope of the budget language. The administration indicates that details regarding how the program would be designed, structured, and administered would be as directed by WEDC's Board. Because the program has not been approved, specific details of the program have not been developed by the Board are not available.

4. Under the bill, grants would be made to regional organizations that operate in multi-county regions in this state. The bill does not define a "regional organization." However, the bill does specify that multicounty regions would be granted such awards in proportionate amounts to their population size in the state.

5. According to the administration, the rationale behind creating a regional revolving loan fund program would be to ensure that economic development dollars are disbursed equitably throughout the state. Current programs do not make investments with regards to geographic diversity, which could result in economic development dollars being deployed into a geographically concentrated area. The administration indicates that the development of the program through regional organizations would decentralize the lending programs, as compared to current WEDC policies and procedures, and enable regional organizations with a better understanding of economic development opportunities in each region to disburse those funds equitably.

6. It should be noted that, while creating a regional revolving loan fund program could decentralize the disbursement of economic development dollars at the local level, the proposed program could still result in concentrated use of economic development dollars within that multicounty region. For instance, if a regional organization operated in a sparsely populated multi-county rural region of the state, it is possible that economic development dollars used by that regional organization could be located in a specific area of the region, such as to support one large economic development project located in a single municipality.

7. As noted, details of the program have not been developed and it is unknown what the structure or composition of the regional organizations would be under the program or how specifically those dollars would have to be disbursed in the region. The bill would require WEDC to approve the structure, regional investment strategy, and administrative guidelines of the regional loan funds for each regional organization. In addition, each regional organization would have to make a report to WEDC, as would be required by the Corporation.

8. Based on information provided by WEDC, other regional revolving loan fund programs generally rely on grant funding to begin operations and create a base fund of monies. Loans are made to eligible recipients from the fund based on specified criteria for making such loans to recipients. Typically, loans under this type of program are made to eligible business to finance the acquisition of land, buildings, or equipment for site work, such as preparation, clearance, and demolition, as well as working capital for the business. Subsequent loans can be made by the regional entity from the proceeds of interest and principal generated from the original loans (or from additional grant monies provided by other sources).

9. Currently three revolving loan funds exist in this state; the Northwest Wisconsin Regional Economic Development Fund, the Regional Business Fund, Inc., and the Central Wisconsin Economic Development Fund. The current revolving loan fund programs were created through a consolidation effort, encouraged by the former Department of Commerce, of individual county and municipal revolving loan fund programs, which were originally funded with monies provided by the federal Community Development Block Grant. For example, WEDC states that Regional Business Fund, Inc. was created through the consolidation of 31 revolving loan fund programs that existed at various municipal levels throughout an eight-county region. Recently, WEDC provided a grant of $260,000 to the Northwest Regional Economic Development Fund for the purpose of securing a microloan pilot program from the U.S. Small Business Administration. These entities typically make small loans to businesses as a supplement to other local or private sector investment dollars for use in economic development projects. However, WEDC has stated

that the proposed regional revolving loan fund program may not resemble the three existing funds.

According to persons engaged in promoting statewide economic development, revolving loan fund programs are generally funded with federal dollars, including the three such programs that exist in Wisconsin. These programs have federal requirements for how such monies must be used. Because the regional revolving loan program proposed under the bill would not be funded with federal dollars, federal restrictions would not apply and only the requirements specified by WEDC's Board would apply.

10. WEDC could assess an annual fee under the bill as a percentage of the monies managed to the extent necessary to reimburse the Corporation for costs incurred for oversight and management of the program. It is unclear whether the "percentage of the monies managed" would include only those monies provided by WEDC, or whether this would also include monies managed by the recipient that were generated from other private, non-profit, or public sector sources. WEDC's Board would have to develop policies and procedures governing how the annual fee would be levied on grant recipients.

11. According to the administration, a variety of tools are employed to foster economic development in the state, one of which is economic development lending. Lending programs, such as the proposed regional revolving loan fund grant program, serve the purpose of providing short to intermediate term loans for financing select stages of business development at submarket interest rates for businesses that cannot obtain financing from banks.

12. The Committee could choose to approve the Governor's request and provide one-time funding of $55 million to WEDC in 2016-17 for a regional revolving loan fund grant program. As noted, the proposed funding level for this program would be more than the amount of funds awarded for all of WEDC's other grant and loan programs combined in the most recent fiscal year. The Committee could choose to reduce the proposed level of funding as compared to the amount recommended by the Governor. Under this alternative, the Committee could retain those GPR dollars for other state purposes.

13. On January 28, 2015, the Governor issued a statement that it is the administration's intent to provide an additional $60 million to the regional revolving loan funds over a three-year period through a reallocation of funding that is currently provided to WEDC. Under current and proposed law, WEDC's Board could choose to reallocate existing state funds for any economic development purpose specified by the Board. If $20 million were reallocated annually from WEDC's existing funds to the revolving loan fund grant program over a three-year period, the regional revolving loan program would likely be significantly larger than any other economic development grant or loan program operated by WEDC. In 2013-14, the Corporation awarded $19.4 million in loans through two loan programs and $17.2 million in grants through 13 grant programs, totaling $36.6 million in grant and loan contracts. If $20 million in grant and loan awards had been reallocated to the proposed program from the amounts contracted for grant and loan awards in 2013-14, only $16.6 million would have been available for all other WEDC grant and loan awards in that year.

14. Under a separate provision of the budget, base GPR funding for the Corporation would

be reduced by $7.9 million, annually, and the Corporation would have to make unspecified cuts as directed by the Board to absorb this reduction. The Corporation does not anticipate that layoffs would occur as a result of the reduction in funding. As compared to funding used for grant and loan contracts entered into by the Corporation in 2013-14, if WEDC were to have absorbed the proposed GPR reduction and the Governor's proposed reallocation of economic development monies from grant and loan awards to the proposed regional revolving loan program in that year, only $8.7 million would have been available for other economic development grant and loan programs that are required under state law or that are created under the policies and procedures of the Board. As noted, the details as to how the proposed cuts and reallocation of monies would be administered would be at the discretion of the Board and it is unknown which of WEDC's current grant and loan programs would continue to be funded by WEDC's Board.

15. The bill would not provide funding for the proposed program until 2016-17. Because of this delay, the Committee could choose to set aside $55 million in its supplemental GPR appropriation and require WEDC to submit a plan under a 14-day passive review process detailing how the regional revolving loan program would be implemented, structured, and administered. This alternative would provide legislative oversight through JFC as to how the proposed $55 million program would be implemented, structured, and administered.

16. As noted, WEDC was created to be the state's lead agency in promoting economic development. Another alternative would be to eliminate the proposed appropriation and statutes associated with the regional revolving loan grant program and, instead, provide an additional $55 million GPR on a one-time basis to WEDC's general program operations appropriation.

Under this alternative, the additional funding could be allocated by WEDC's Board in a manner that would be considered the highest and best use of available state economic development dollars. Based on the Board's discretion, those monies could be used for the proposed regional revolving loan grant program or could be used for other economic development grant or loan programs. WEDC's Board would have the authority under the bill to create policies and procedures to enact a regional revolving loan fund grant program without the statutory provisions included in the bill, and it is possible that other programs may be developed by the Board that could act as a complement to the proposed program, also developed by the Board through its policies and procedures, which have not been contemplated under the bill.

17. The state provides monies to businesses to promote economic development in the state from several sources and for a number of reasons. In 2013-14, WEDC awarded $94.7 million of tax credits, $19.4 million of loans, and $17.2 million of grants to businesses for economic development purposes. The State of Wisconsin Investment Board (SWIB) makes efforts to consider in-state investment within the context of the Board's fiduciary responsibility to manage funds responsibly. For the fiscal year ending June 30, 2014, SWIB held about $115.6 million of new investments in Wisconsin companies and holds existing investments in companies that are either domiciled or have a significant presence in this state of nearly $737 million. In addition, DOA oversees the Venture Capital Investment Fund, which was created under 2013 Wisconsin Act 41 and was provided $25 million of state funding as seed investment to be managed by an Investment Manager with secured private capital for the purpose of encouraging new investment in the state. It could be argued that the state already invests a significant amount of state dollars into promoting and aiding economic

development in Wisconsin and the Legislature may consider it preferable to use the $55 million that would be allocated under the bill for the regional revolving loan fund grant program for other purposes.

18. The administration states that loans and equity investments serve different purposes in different markets and businesses tend to choose a blend of debt and equity financing to serve different aspects of a business's capital structure. For instance, the venture capital program operated by DOA supplies funds to help meet the equity investment needs of startups, whereas tax credits provide conditional financing and are not repaid by the claimants. In addition, the administration states that SWIB investments do not primarily serve an economic development purpose because they are primarily made with regards to the investment needs of the state retirement system.

19. The Committee could choose to eliminate, or reduce, funding for the regional revolving loan fund grants program. Under this alternative, WEDC could choose to reallocate monies from other sources if the Board considered providing funds to create a regional revolving loan fund program to be a priority. While WEDC would have fewer economic development dollars, the Corporation would still retain the authority to provide loan and equity investment programs, as developed by the Board, and respond to the economic development needs of businesses in the state.

ALTERNATIVES

1. Approve the Governor's recommendation, but specify that the regional revolving loan fund grant program would be administered by WEDC.

2. Apply the statutory changes recommended by the Governor to WEDC. However, specify that $55,000,000 GPR in 2016-17 would be provided to JFC's supplemental appropriation rather than WEDC's regional revolving loans fund grant appropriation. Create in a nonstatutory provision requiring WEDC to submit a plan to JFC under a 14-day passive review detailing how the regional revolving loan fund program would be administered.

3. Delete the Governor's statutory provisions to create a regional revolving loan fund grant program in state statutes. Instead, provide $55,000,000 GPR on a one-time basis in 2016-17 to WEDC's operations and programs appropriation to be used for economic development purposes at the discretion of WEDC's Board.

4. Adopt Alternative 1, 2, or 3, but provide one-time GPR funding to WEDC at one of the following levels:

a. $50,000,000 in 2016-17.

ALT 4a	Change to Bill
GPR	- $5,000,000

b. $40,000,000 in 2016-17.

ALT 4b	Change to Bill
GPR	- $15,000,000

c. $30,000,000 in 2016-17.

ALT 4c	Change to Bill
GPR	- $25,000,000

d. $20,000,000 in 2016-17.

ALT 4d	Change to Bill
GPR	- $35,000,000

e. $10,000,000 in 2016-17.

ALT 4e	Change to Bill
GPR	- $45,000,000

5. Delete provision.

ALT 5	Change to Bill
GPR	- $55,000,000

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