



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #666

Expand Loan Activity (Wisconsin Economic Development Corporation)

[LFB 2017-19 Budget Summary: Page 477, #2]

CURRENT LAW

Pursuant to 2015 Wisconsin Act 55, the Wisconsin Economic Development Corporation (WEDC) cannot originate new loans of more than \$10 million in 2015-16 and \$5 million in 2016-17. WEDC cannot originate a new loan after June 30, 2017. However, this provision does not apply to the technology development loan (TDL) program as it existed and was administered by WEDC on January 1, 2015. Under the TDL program, WEDC can originate new loans of up to \$3 million from non-federal sources, annually, and no annual limit applies to technology development loans funded from federal revenues.

GOVERNOR

Repeal the current law provisions limiting WEDC's ability to originate new loans. Instead, all loans originated by WEDC, other than loans issued under its TDL program as that program was constituted on January 1, 2015, could not be funded from any of WEDC's appropriations and could only be funded from repayments of other loans. WEDC would be prohibited from originating a loan that may be forgivable, in whole or in part, upon the loan recipient's achievement of one or more conditions or goals. These provisions would first apply to a loan originated by WEDC on the effective date of the bill. Also, each new lending program implemented or administered by WEDC would have to adhere as closely as practicable to commonly accepted commercial lending practices. WEDC would have to adopt policies and procedures to implement this requirement.

DISCUSSION POINTS

1. Prior to Act 55, WEDC could issue loans directly to businesses through programs developed and implemented pursuant to policies and procedures created by WEDC's Board. In general, WEDC's Board has broad discretionary authority to develop and implement economic development programs to support businesses that are investing, expanding, and creating jobs in Wisconsin. In 2014-15, prior to the Act 55 limitation, WEDC's Board had created policies and procedures to issue loans to businesses through three loan programs: (a) the TDL program; (b) the business opportunity loan fund (BOLF) program; and (c) the special project loan fund program. However, in response to the Act 55 limitations, the Board eliminated the special project loan fund program in 2016-17 (after originating one loan), and intends to eliminate the BOLF program in 2017-18. WEDC can only issue loans through its TDL program starting in 2017-18.

2. On July 1, 2011, a total of 219 loans with receivables of \$41.4 million were transferred from the former Department of Commerce to WEDC. As of June 30, 2016, WEDC was servicing 189 loans with receivables of \$73.3 million. The Attachment provides information regarding WEDC loan activity during state fiscal years 2011-12 through 2015-16 for its active and non-active loan programs.

3. According to the administration, a variety of economic development programs serve different purposes for businesses. Tax credits and grants serve the purpose of providing conditional financial assistance that is not repaid by the recipients. The venture capital program operated through the Department of Administration and the early stage business development tax credit program administered by WEDC help provide equity investments for startups, either directly or indirectly through tax credits. Lending programs developed by WEDC could serve the purpose of providing short to intermediate term loans for financing select stages of business development for businesses that cannot obtain financing from the private market. It should also be noted that, unlike tax credit and grant programs, loan repayments can be reused when making future loans, which could reduce WEDC's need for future appropriated amounts from the state.

Limit Type of Lending Program

4. The \$73.3 million of gross loans receivable as of June 30, 2016, does not reflect the amount of outstanding loans that are expected to be collected by WEDC. Each year, WEDC must estimate an allowance amount that will be forgiven or written off as bad debt from gross loans receivable to accurately reflect the net loans receivable that are considered assets on its balance sheet. The \$73.3 million of gross loans receivable is reduced by the entire amount of forgivable loans receivable (\$23.4 million) and approximately 15% of the non-forgivable loans receivable (\$7.3 million). Net loans receivable, or the amount that WEDC expects to recover from outstanding loans, are estimated at \$42.6 million (approximately 58% of gross loans receivable). It is anticipated that net loans receivable will be repaid over a number of years, pursuant to the terms of each loan contract.

5. The Governor recommends prohibiting WEDC from originating a loan that may be forgivable, in whole or in part, upon the loan recipient's achievement of one or more conditions or goals. Forgivable loans are more similar to grant awards than traditional loans, since the business is

not required to repay the loan if certain conditions are met. Also, each new lending program implemented or administered by WEDC would have to adhere as closely as practicable to commonly accepted commercial lending practices. According to the administration, the intent of these provisions would be to provide guidance to WEDC's Board to develop policies and procedures for future lending programs that would result in lower rates of nonpayment. The Governor's proposal to limit the amount of loans that WEDC could originate to the amount of loan repayments would also create an incentive for WEDC to recover a larger portion of loans receivable if the Board wanted to continue originating non-TDL loans in future years.

Limit Amount of Lending Activity

6. The bill would allow WEDC to originate non-TDL loans, provided the loans were funded from repayments of other loans and not from any of WEDC's appropriations, beginning with loans repaid on the effective date of the bill. The statutory language in the bill refers to "repayments" of other loans. According to the administration, the term "repayments" is intended to include repayments of principal and payments of interest.

7. It is estimated that the amount of loans that might be repaid, based on WEDC's projections for loan repayments on outstanding loans and loans that could be originated under current law, could be up to \$6 million in 2017-18 and 2018-19 (declining annually thereafter as the amount of net loans receivable declines under the statutory limits), which could allow WEDC to make up to \$12 million of loans over the 2017-19 biennium. As compared to WEDC's overall budget for its economic development programs, other than administrative expenses, \$6 million of loan disbursements would reflect approximately 18% of its estimated expenditures in 2016-17.

8. Pursuant to 2011 Wisconsin Act 7, WEDC was created under state law to serve as the state's lead agency in promoting economic development. WEDC's Board is required to develop and implement economic programs to provide business support, expertise, and financial assistance to companies that are investing and creating jobs in Wisconsin, and to support new business start-ups, business expansion, and growth in Wisconsin. As noted previously, WEDC's Board generally has broad discretionary authority to develop and implement any economic development program or activity to support businesses that are investing, expanding, and creating jobs in Wisconsin. It could be argued that limiting the amount of loans that WEDC's Board could originate each year would hinder its ability to serve businesses seeking short to intermediate term financing, if businesses preferred loans rather than conditional grants or tax credits to expand their businesses in Wisconsin. The Committee could choose to delete the Governor's recommendation to prohibit non-TDL loans from being funded from any of WEDC's appropriations and limit loan originations to the amount of repayments from other loans [Alternative 2]. Under this alternative, WEDC's Board would have additional flexibility to respond to business needs for short to intermediate term financing, at its discretion.

ALTERNATIVES

1. Adopt the provisions recommended by the Governor.

2. Approve the Governor's request, but delete the provision from the bill that all loans originated by WEDC, other than loans issued under its TDL program as that program was constituted on January 1, 2015, cannot be funded from any of WEDC's appropriations and can only be funded from repayments of other loans

3. Eliminate the provisions recommended by the Governor and maintain current law.

Prepared by: Sean Moran
Attachment

ATTACHMENT

Summary of WEDC's Loan Portfolio Activity from June 30, 2011, through June 30, 2016

	Business Opportunity Loan Fund			Technology Development Loans -- State Funds			Technology Development Loans -- Federal Funds			Loan Programs No Longer Active			Total		
	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average
Loans Receivable															
7/1/2011				\$11,553,669	61	\$189,404				\$29,874,153	158	\$189,077	\$41,427,822	219	\$189,168
Draws				1,621,470	10	162,147				12,871,702	24	536,321	14,493,172	34	426,270
Repayments				829,399	25	33,176				2,765,811	117	23,639	3,595,210	142	25,318
Write Offs				0	0	0		Not Active in 2011-12		0	0	0	0	0	0
Forgiven	Not Active in 2011-12			0	0	0				0	0	0	0	0	0
Loans Receivable															
6/30/2012				12,345,740	68	181,555				39,980,044	162	246,790	52,325,784	230	227,503
Interest Received				159,720						523,163			682,883		
Interest Accrued				572,027						1,291,729			1,863,756		
Loans Receivable															
7/1/2012				12,345,740	68	181,555	\$0	0	\$0	39,980,044	162	246,790	52,325,784	230	227,503
Draws				2,044,541	12	170,378	3,885,000	7	555,000	8,741,523	19	460,080	14,671,064	38	386,081
Repayments				1,213,254	24	50,552	0	1	0	2,968,316	98	30,289	4,181,570	123	33,997
Write Offs	Not Active in 2012-13			925,565	7	132,224	0	0	0	1,347,748	21	64,178	2,273,312	28	81,190
Forgiven				0	0	0	0	0	0	0	0	0	0	0	0
Loans Receivable															
6/30/2013				12,251,462	67	182,858	3,885,000	7	555,000	44,405,503	132	336,405	60,541,965	206	293,893
Interest Received				166,775			3,334			306,203			476,312		
Interest Accrued				657,156			61,767			1,876,842			2,595,765		
Loans Receivable															
7/1/2013	\$0	0		12,251,462	67	182,858	3,885,000	7	555,000	44,405,503	132	336,405	60,541,965	206	293,893
Draws	6,573,126	8	\$821,641	2,937,232	15	195,815	313,563	2	156,782	7,285,520	11	662,320	17,109,441	36	475,262
Repayments	0	0		1,052,167	32	32,880	55,841	3	18,614	2,358,042	77	30,624	3,466,050	112	30,947
Write Offs	0	0		899,882	5	179,976	0	0	0	4,813,136	8	601,642	5,713,017	13	439,463
Forgiven	0	0		30,460	1	30,460	0	0	0	1,967,500	5	393,500	1,997,960	6	332,993
Loans Receivable															
6/30/2014	6,573,126	8	821,641	13,206,185	71	186,003	4,142,722	9	460,302	42,552,346	118	360,613	66,474,379	206	322,691
Interest Received	0			309,490			75,139			386,043			770,673		
Interest Accrued	77,203			711,749			121,744			2,080,294			2,990,989		

	Business Opportunity Loan Fund			Technology Development Loans -- State Funds			Technology Development Loans -- Federal Funds			Loan Programs No Longer Active			Total		
	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average	Amount	Number	Average
Loans Receivable															
7/1/2014	\$6,573,126	8	\$821,641	\$13,206,185	71	\$186,003	\$4,142,722	9	\$460,302	\$42,552,346	118	\$360,613	\$66,474,379	206	\$322,691
Draws	11,698,428	17	688,143	2,251,080	14	160,791	1,000,000	1	1,000,000	500,000	2	250,000	15,449,508	34	454,397
Repayments	785,998	6	131,000	1,672,469	39	42,884	189,057	6	31,510	2,885,834	73	39,532	5,533,359	124	44,624
Write Offs	0	0		391,234	3	130,411	0	0		1,171,601	6	195,267	1,562,835	9	173,648
Forgiven	50,000	1	50,000	0	0		0	0		1,691,332	3	563,777	1,741,332	4	435,333
Loans Receivable															
6/30/2015	17,435,556	21	830,265	13,393,562	72	186,022	4,953,665	10	495,367	37,303,578	99	376,804	73,086,362	202	361,814
Interest Received	101,944			357,066			90,607			402,351			951,968		
Interest Accrued	358,782			846,279			179,986			2,326,445			3,711,491		
Loans Receivable															
7/1/2015	17,435,556	21	830,265	13,393,562	72	186,022	4,953,665	10	495,367	37,303,578	99	376,804	73,086,362	202	361,814
Draws	12,884,399	17	757,906	4,563,780	15	304,252	700,000	2	350,000	373,667	2	186,834	18,521,846	36	514,496
Repayments	2,744,362	2	1,372,181	2,484,531	6	414,089	1,182,103	1	1,182,103	2,739,567	21	130,456	9,150,562	30	305,019
Write Offs	0	0		1,482,385	7	211,769	0	0		965,657	3	321,886	2,448,042	10	244,804
Forgiven	0	0		0	0		0	0		6,689,321	9	743,258	6,689,321	9	743,258
Loans Receivable															
6/30/2016	27,575,593	36	765,989	13,990,426	74	189,060	4,471,563	11	406,506	27,282,700	68	401,216	73,320,283	189	387,938
Interest Received	237,872			504,673			177,825			380,847			1,301,218		
Interest Accrued	835,771			670,137			173,319			2,007,975			3,687,203		

Source: Wisconsin Economic Development Corporation