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Legislative Fiscal Bureau

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May 4, 2001 | Joint Committee on Finance | Paper #282

Administrative Position Reallocation (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 178, #15]

CURRENT LAW

Commerce is authorized $763,400 PR and 12.0 PR positions for environmental cleanup activities related to the Federal Leaking Underground Storage Tank (LUST) program. Prior to April, 2001, program revenue came from a federal LUST program grant received through an interagency agreement with the Department of Natural Resources (DNR).

The Division of Administrative Services (AS) and its personnel are funded by charges made to the Department's programs for administrative services provided.

GOVERNOR

Provide $51,900 FED and 1.20 FED positions annually and reduce funding by $51,900 PR and delete 1.20 PR positions annually to reallocate administrative positions and related funding to match revenues from charges for services provided. This provision would shift $116,500 PR and 3.20 PR positions from the AS program revenue administrative services appropriation to the program revenue sale of materials or services appropriation. In addition, $51,900 and 1.20 positions would be reallocated from the AS administrative services appropriation to the FED indirect cost reimbursements appropriation. The reallocation would align administrative personnel and related expenditure authority with administrative fee revenues from programs receiving services from the personnel.

MODIFICATION TO BASE

Adopt the Governor's recommendation. In addition, delete annual expenditure authority of $116,500 PR and 3.2 PR positions and instead provide annual expenditure authority of $116,500 FED and 3.2 FED positions.

Explanation: The 3.2 positions and related expenditure authority provide administrative support to the Department's LUST personnel and activities. At the time Commerce prepared its budget request, funding for LUST was received through the interagency agreement with DNR. As a result, the positions were aligned with the program revenue funding source for revenue received through the DNR agreement. However, the Federal Environmental Protection Agency (EPA) approved a separate LUST grant for Commerce, effective April, 2001. This modification would realign the 3.2 positions and annual expenditure authority of $116,500 with the appropriate federal revenue funding source to reflect the LUST funding received from the direct contract with EPA.

Modification	FED	PR	TOTAL
2001-03 FUNDING (Change to Base)	$336,800	- $336,800	$0
[Change to Bill	*$233,000*	*- $233,000*	*$0]*
2002-03 POSITIONS (Change to Base)	4.40	- 4.40	0.00
[Change to Bill	*3.20*	*- 3.20*	*0.00]*

Prepared by: Ron Shanovich

MO#__________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

AGENCY: Commerce

PAPER: #283

ISSUE: Econ. Development Admin. Consolidation

RECOMMENDATION: Alternatives 2 & 3

SUMMARY:

Don't really care what happens here, but if were going to cut things like Heritage Tourism then programs like this should be treated the same. Also, these spots have been vacant for some time and other people have been doing the job.

BY: Barry

~~Russ might be w/ Alt 4.~~

Everyone else ok w/ 2+3

ok

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May 4, 2001 Joint Committee on Finance Paper #283

Economic Development Administration Consolidation (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 179, #16]

CURRENT LAW

The Wisconsin Development Fund (WDF) consists of nine programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) urban early planning grants; (e) Wisconsin trade project; (f) employee ownership assistance grants; (g) manufacturing extension center grants; (h) revolving loan fund capitalization grants; and (i) the rapid response fund. Commerce is authorized to charge an origination fee of up to 2% of the award amount on major economic development (MED) and customized labor training (CLT) grants and loans in excess of $200,000. Fee collections are placed in a program revenue appropriation used to provide funding for administration of the WDF. The appropriation has base level expenditure authority of $113,000 PR and 2.0 PR positions.

The Certified Capital Companies (CAPCO) program was created by 1997 Wisconsin Act 215. Under the program, an insurance premiums tax credit is provided for insurance company investments in certified capital companies. The certified capital companies are required to use these funds to provide capital to certain small businesses. If the certified capital companies fail to make the required investments in these small businesses, the insurance companies must repay all or part of the credits. Commerce administers the program and certified capital companies must pay an application fee of $7,500 and an annual certification fee of $5,000 to the Department. Fees are placed in a program revenue appropriation used to fund administrative expenses. The Act provided 2.0 PR positions to administer the CAPCO program.

GOVERNOR

Transfer expenditure authority of $116,500 PR and 2.0 PR positions from the Wisconsin Development Fund (WDF) administration appropriation to the Department's economic development operations appropriation to consolidate administrative personnel and funding. In addition, the WDF administration appropriation would be deleted but loan origination fees and the unencumbered balance in the appropriation would be placed in the economic development operations appropriation. Similarly, the Certified Capital Companies (CAPCO) administration appropriation would be deleted but CAPCO administrative fees and the unencumbered balance in the appropriation would be placed in the economic development operations appropriation.

DISCUSSION POINTS

1. The 1997-99 biennial budget (1997-99 Wisconsin Act 27) provided Commerce with 1.0 PR auditor position, converted a GPR grants specialist position to PR funding and authorized the Department to charge a loan origination fee of 1.5% of the award amount on customized labor training grants (CLT) and major economic development (MED) grants and loans in excess of $100,000. The Department cited a 1996 study that showed that staffing for the Bureau's loan portfolio was lower than private lending institution staffing levels for comparable loan portfolios. The Department also indicated that the preapplication process, monitoring responsibilities and audit responsibilities had increased. The loan origination fee was proposed as a means of charging award recipients for a portion of the cost of administering the economic development grant and loan programs. However, loan origination fee revenues were not sufficient to fund both positions and the auditor position was left vacant. In the 1999-01 biennial budget (1999 Wisconsin Act 9), the loan origination fee was increased to 2% of award amounts for CLT and MED grants and loans in excess of $200,000. The increased fee has not generated enough program revenue to allow the Department to fill the vacant auditor position.

2. Table 1 shows the projected revenues, expenses and appropriation balances for the WDF administration appropriation for the biennium. The table shows that, under current law, loan origination fee revenues would be sufficient to continue funding the grants administration position but there would be no additional revenues to fund the auditor position. Expenditures for fiscal year 2001 are low, because the grants specialist position was switched to GPR funding for the year. The change was made to address the deficit in the appropriation in fiscal year 2000-01. Note that the table shows projected actual expenses, not the total expenditure authority, since one of the authorized positions is vacant.

TABLE 1

WDF Administration Appropriation Revenues, Expenditure and Appropriation Balances

	2001-02	2002-03
Opening Balance	$14,100	$19,000
Revenues	70,000	70,000
Expenditures	-65,100	-66,200
Closing Balance	$19,000	$22,800

3. The grants specialist position is located in the Bureau of Business Finance while the vacant auditor position is in the Office of Loan and Grant Administration. The Bureau of Business Finance is responsible for underwriting, evaluating projects and making funding recommendations for many of the Department's economic development grant and loan programs. The Bureau underwrites grants and loans for the WDF, Minority Business Finance (MBF), Rural Economic Development (RED), and the federal small cities Community Development Block Grant (CDBG) programs. The Bureau consists of 10.5 authorized positions. The Office of Loan and Grant Administration provides administrative services for the economic development grant and loan programs and for other units in the Department. The Office provides services such as processing and review of certain documents, contracting, loan and grant drawdowns and closeouts, technical assistance, customer assistance and reconciling encumbrances, receipts and disbursements. The Office is authorized 10.6 positions.

4. Act 215 provided Commerce with 2.0 positions to administer the CAPCO program. It was estimated that funding for the positions and related expenses would be $100,700. The Department indicated that the positions would have a number of responsibilities related to the program including certifying capital companies, capital investments and qualified businesses, reviewing reports and statements, making written determinations, conducting compliance reviews and producing certain written notices.

5. As noted, the positions were to be funded with registration and annual certification fees. However, the fee revenues have been not been sufficient to fund either position. Consequently, the positions have remained vacant. Moreover, since there are three certified capital companies authorized to make certified capital investments, total annual revenues for the appropriation will be $15,000. This would not allow Commerce to fill either position. It should be noted that the accounting system for the budget does not include the positions or related expenditure authority. Since the appropriation is a program revenue, continuing appropriation, expenditure authority is not technically necessary for Commerce to expend appropriation monies. A technical change is necessary to recognize the authorized positions.

6. The CAPCO program is currently administered by the Office of Loan and Grant

Administration.

7. The bill would delete the WDF and CAPCO administration appropriations and transfer the four authorized positions and appropriation balances to the Department's program revenue economic development operations appropriation. Annual WDF loan origination fee and CAPCO certification fees would be placed in the appropriation. Currently, there is no ongoing source of program revenue for the economic development operations appropriation.

8. Commerce indicates that consolidation of positions and funding sources would allow the Department to continue funding the grants specialist position and to fill an auditor position that would perform audit activities related to both WDF and the CAPCO programs. Table 2 shows projected revenues, expenditures and appropriation balances for the consolidated appropriation including expenses for the auditor position. If sufficient additional revenues were generated in future years, Commerce could use the funds to fill the remaining authorized positions.

TABLE 2

Revenues, Expenditure and Appropriation Balances for Consolidated Economic Development Operations Appropriation

	2001-02	2002-03
Opening Balance	$79,600	$54,300
Revenues		
Loan Origination Fees	70,000	70,000
CAPCO Fees	15,000	15,000
Expenditures	-110,300	-127,700
Closing Balance	$54,300	$11,600

9. The table shows that if the auditor position is filled, the appropriation would have sufficient revenues to fund that position and the existing grants specialist position during the biennium. However, ongoing expenditures would exceed ongoing revenues and the consolidated appropriation would only generate enough revenues to fund the grants specialist position on an ongoing basis. As a result, the auditor position would not have a permanent source of ongoing funding from the consolidated appropriation. Moreover, the WDF auditor position has been vacant since October, 1997, while the CAPCO positions have been vacant since April, 1998. Other Commerce staff have been performing the functions of these vacant positions. It could be argued that this indicates that the vacant positions are not necessary to administer the WDF and CAPCO programs. As a result, instead of consolidating the administrative staff in a single appropriation, the three vacant positions and related expenditure authority could be deleted. If, in the future, the Department determined that the positions were necessary to meet the workload associated with the CAPCO and WDF programs and sufficient administrative revenues were generated, Commerce could request additional staff under s. 16.505. If the CAPCO administrative positions are deleted,

the year-end balance and annual fee revenues in the CAPCO administration appropriation could be lapsed to the general fund. It could be argued that this would recognize that GPR funded positions would be administering the program. This would increase GPR-Earned by $80,500 in 2001-02 and $15,000 in 2002-03.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation, as technically corrected, to transfer $116,500 PR annually and 2.0 PR positions from the Wisconsin Development Fund (WDF) administration appropriation [20.143(1)(gm)] and 2.0 positions from the CAPCO administration appropriation [20.143(1)(hm)] to the Department's economic development operations appropriation [20.143(1)(h)] to consolidate administrative personnel and funding. Delete the WDF administration appropriation and place loan origination fees and the unencumbered balance in the appropriation in the economic development operations appropriation. Delete the Certified Capital Companies (CAPCO) administration appropriation and place CAPCO administrative fees and the unencumbered balance in the appropriation in the economic development operations appropriation.

Alternative 1	PR
2002-03 POSITIONS (Change to Base)	2.00
[Change to Bill	*2.00]*

2. Delete expenditure authority of $51,400 PR in 2001-02 and $50,300 PR in 2002-03 and 1.0 vacant PR position in the WDF administration appropriation [20.143(1)(gm)] and 2.0 PR positions in the CAPCO administration appropriation [20.143(1)(hm)].

Alternative 2	PR
2001-03 FUNDING (Change to Base)	- $101,700
[Change to Bill	*- $101,700]*
2002-03 POSITIONS (Change to Base)	- 1.00
[Change to Bill	*- 1.00]*

3. Require that the year-end balance in the CAPCO administration appropriation lapse to the general fund as GPR-Earned. (This alternative could be adopted in addition to, or in lieu of, Alternative #2).

Alternative 3	PR
2001-03 REVENUE (Change to Base)	$95,500
[Change to Bill	*$95,500]*

4. Maintain current law.

Prepared by: Ron Shanovich

MO# Alts 2+3

1	BURKE	Y	N	A
	DECKER	Y	N	A
	MOORE	Y	N	A
	SHIBILSKI	Y	N	A
	PLACHE	Y	N	A
	WIRCH	Y	N	A
	DARLING	Y	N	A
	WELCH	Y	N	A
2	GARD	Y	N	A
	KAUFERT	Y	N	A
	ALBERS	Y	N	A
	DUFF	Y	N	A
	WARD	Y	N	A
	HUEBSCH	Y	N	A
	HUBER	Y	N	A
	COGGS	Y	N	A

AYE ____ NO ____ ABS ____

No analysis prepared

Alt 2 - per JFC staff

Gard 1

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May 4, 2001 | Joint Committee on Finance | Paper #284

Community-Based Economic Development Program Conversion To New Economy for Wisconsin Program (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 179, #17]

CURRENT LAW

The Community-Based Economic Development (CBED) program provides grants to community-based organizations for local development projects, management assistance and to establish revolving loan funds, grants to political subdivisions for economic development or diversification plans, business incubator grants, regional economic development grants, grants for entrepreneurship training, and grants to conduct venture capital development conferences. Base level funding for the program is $762,100 GPR.

GOVERNOR

Eliminate the CBED program and replace it with the New Economy for Wisconsin (NEW) program that would provide grants to community-based business incubators and nonprofit organizations that promote entrepreneurship or provide services to high-tech businesses.

DISCUSSION POINTS

1. Under the NEW program, Commerce could award grants of up to $100,000 to a community-based business incubator that focused on providing services to high-technology businesses or promoting entrepreneurship. The business incubator would be required to meet at least two of the following criteria: (a) charging below market space rental rates; (b) providing shared services; (c) offering management and technical assistance; and (d) providing access to

financial capital through a direct relationship with at least one financial institution. Grant proceeds could only be used for projects that did any of the following: (a) assisted small businesses in adopting new technologies in their operations; (b) assisted technology-based small businesses in activities that furthered the transfer of technology; or (c) assisted entrepreneurs in discovering business opportunities. A community-based business incubator would be defined as a person who was involved in local economic development who operated a facility that was designed to encourage the growth of new businesses by providing office or laboratory space. A small business would be a business with fewer than 100 full-time employees.

2. Under the CBED program, Commerce can make grants to community-based organizations to fund expenses of business or technology-based incubators as follows: (a) up to $30,000 for operating an existing incubator; (b) up to $10,000 for technical assistance in the process of starting an incubator, including a feasibility study of the need for and the initial design of the incubator; (c) up to $100,000 for starting, expanding or rehabilitating an incubator; and (d) up to $50,000 to create a revolving loan fund for tenants of an incubator. Eligible expenditures include salaries, fringe benefits and other personnel, administrative and operating costs of the community-based organization or incubator that are directly related to starting or operating an incubator. A "business incubator" is 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: (a) rental space that is below market rate; (b) shared business services; (c) management and technical assistance; and (d) direct access to capital for member businesses through at least one financial institution. A technology-based incubator is a facility that provides new or expanding technology oriented businesses with all of the following: (a) office and laboratory space; (b) shared clerical and other support service; and (c) managerial and technical assistance. A technology-based incubator must help tenants forge linkages with higher educational institutions and/or federal laboratories for the purpose of technology transfer. A small business is a business that has fewer than 100 full-time employees.

3. Incubator grants made through the NEW program would be used to provide direct services to tenants of the incubator. In addition, the type of tenants that could be assisted with grants would be limited to small high-tech businesses, entrepreneurial enterprises or small-businesses implementing new technologies. In contrast, the CBED incubator grants generally fund costs incurred by the incubator operator such as start-up, operating and expansion expenses, although revolving loan funds could be used to provide direct assistance to tenants. CBED does not specify services that must be provided or the types of tenants that must be served. However, community-based incubators can provide the services required under the NEW program and, specifically, technology-based incubators focus on high-technology businesses.

4. The NEW program would provide grants of up to $100,000 to nonprofit organizations that provided services to high-technology businesses, promoted entrepreneurship, or provided services or opportunities linking entrepreneurs with potential investors. Similar to incubator grants, grant proceeds could only be used for projects that did any of the following: (a) assisted small businesses in adopting new technologies in their operations; (b) assisted technology-based small businesses in activities that furthered the transfer of technology; or (c) assisted entrepreneurs in discovering business opportunities.

5. CBED provides the following types of financial assistance:

(a) Grants of up to $30,000 to community based organizations to provide assistance for economic development projects. Eligible local economic projects include: development of a project-specific plans for industrial parks, for downtown business districts or for public infrastructure projects that focus on water, sewer and/or transportation; implementation of training programs for local economic development professionals; and development or implementation of plans that support local economic development projects. (Community-based organizations are organizations involved in economic development that assist businesses likely to employ persons.)

b. Grants of up to $30,000 to provide one or more of the following management services to small businesses that will create jobs: production of feasibility studies, financial plans, financial projections, or business plans; assistance with preparing loan applications or with reviewing in-house operating procedures; and entrepreneurship and management training.

c. Grants of up to $30,000 to develop economic development plans for: diversifying the local or regional economy; attracting new businesses and jobs; or promoting development.

d. Grants to community-based organizations that join with political subdivisions to conduct 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.

e. Grants of up $50,000 to community-based organizations to establish a local revolving loan fund to make loans to small businesses.

f. Grants of up to $30,000 to provide funding to private, nonprofit organizations or private nonprofit foundations, including the National Foundation for Teaching Entrepreneurship to Handicapped and Disadvantaged Youth, to teach business skills to economically disadvantaged or socially at-risk children. Grant proceeds must be used for costs associated with teaching skills and developing knowledge necessary to start and maintain business enterprises.

g. Grants of up to $75,000 to community-based organizations or private nonprofit organizations to conduct venture capital development conferences.

Commerce is also specifically authorized to make annual grants of up to $125,000 to the Women's Business Initiative Corporation (WBIC) from CBED funding.

6. The grants authorized under the NEW program would be for more limited purposes than the grants to community-based organizations, political subdivisions and nonprofit organizations authorized under CBED. Again, the NEW grants would provide funding to nonprofit organizations that provide services, including linkages with investors, to small high-tech businesses, entrepreneurial enterprises and business that are adopting new technologies in their operations. CBED grants can be made for a wide array of purposes including economic development and diversification plans, management assistance and funding venture capital fairs. CBED programs, such as management assistance, revolving loan fund, entrepreneurship and, to

the extent links to investors could be established, venture capital development fair grant programs, can be used to fund projects similar to those targeted under the NEW program. However, the local economic development project, economic development and diversification plan, and regional economic development project grant programs would be unlikely to fund NEW type projects. The bill would continue to authorize annual grants to WBIC from NEW funding.

7. In awarding NEW grants, Commerce would be required to consider: (a) the quality of the applicant's proposal; (b) the applicant's commitment to the project; (c) the project's potential for economic growth; (d) the past performance of the applicant and of any proposed partners; (e) the qualifications of the individuals who would work on the project; (f) the need for the project by the applicant's clients; (g) the strength of the applicant's collaboration or partnership with other organizations; (h) the project's use of available resources from Wisconsin educational institutions; (i) the project's ability to produce sustainable and continuing benefits after it is completed; (j) the economic distress of the area served by the project; and (k) the readiness of the applicant to implement the project.

8. Under the CBED program, Commerce is directed 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 percentage of households participating in the Wisconsin Works (W-2) program; 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; and (i) whether the project is located in a development zone or an enterprise development zone.

In addition to these general criteria, for certain types of grants, the Department must consider specific criteria related to the project's likelihood of meeting objectives, financial integrity, effect on economic development, and in some cases, effect on certain distress factors, such as unemployment in the area. Specific criteria apply to incubator grants, grants for regional economic development projects, revolving loan fund grants, entrepreneurship training grants and grants for venture capital development conferences.

9. With a few exceptions, the general criteria used to award grants under NEW and CBED are similar, focusing on the need for the project, fiscal soundness of the project, availability of other support and its effect on economic development. NEW specifically requires consideration of the use of resources from Wisconsin educational institutions while CBED requires consideration of the number of jobs created. In addition, CBED has other specific criteria that apply to certain types of grants.

10. Table 1 shows CBED grants by type for fiscal years 1994-95 through fiscal year

2000-01. The table indicates that a substantial number projects that have been funded through CBED would not be eligible for grants under the NEW program. As is noted above, it is not likely that projects funded by economic development project, economic development and diversification plan, and regional economic development grants would receive funding under the NEW program. In addition, many of the incubator grants are used to fund various expenses incurred by operators and business assistance grants are not necessarily targeted to technology or entrepreneurial projects.

TABLE 1

Community-Based Economic Development Grants Awarded and Encumbered

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Business Assistance	$153,600	$268,700	$258,000	$190,500	189,000**	206,100+	N.A.
Economic Development Project	113,800	79,500	122,000	37,600	69,100	65,000	N.A.
Economic Diversification	73,400	38,000	59,200	142,000	25,000	36,000	N.A.
Business Incubator	464,800	310,900	257,900	182,000	215,000	210,000	N.A.
Regional Economic Development	0	100,000	100,000	100,000	100,000	25,000	N.A.
Revolving Loan Fund	0	0	0	0	0	0	N.A.
Entrepreneurship	0	0	0	0	33,000	45,000	N.A.
Venture Capital Development Conference	0	0	0	75,000	75,000	75,000	N.A.
Other	80,000*	0	0	0	0	100,000++	
N.A.							
Total Grants	$885,600	$797,100	$797,100	$727,100	$762,100	$762,100	N.A.
Total Grants and Set Asides	$885,600	$797,100	$797,100	$727,100	$762,100	$762,100	N.A.

*Grant to Women's Business Initiative Corp (WBIC).
**Includes a grant of $95,000 to WBIC.
+Includes a grant of $25,000 to CAP Services, Inc., and a grant of $101,100 to WBIC.
++Grant to City of Menasha.

11. A December, 2000, report presented to the Wisconsin Economic Summit in Milwaukee indicated that two-thirds of the total differences in economic growth among metropolitan areas in the U.S. during the 1990's could be attributed to two factors: (a) an area's relative growth in high-tech output; and (b) an area's relative concentration of high-tech activity. This effect is not limited to the growth of companies that create technology, but also to companies that employ or apply high-technology. Regions with strong high-tech communities experience related economic growth in other sectors. Although the state's economy has performed well, according to the report, it has symptoms that are common to states that are not currently strong in developing high technology companies or jobs. The average technology worker's wage in Wisconsin is $41,000, which is below the national average of $58,000. Twenty-three percent of residents over 25 years old have college degrees which is slightly below

the national average of 24%, and below the averages of 31% and 26% for Minnesota and Illinois, respectively. Finally, Wisconsin ranked 32nd in a Progressive Policy Institute study that ranked states by their proficiency in the new economy. One cause for the low ranking was the state's poor performance in creating high-tech jobs. The state also ranked 27th in availability of venture capital. The study indicated that the most effective way to stimulate economic growth and creation of quality jobs regionally is to create an environment, such as that found in incubators, that facilitates the origination, growth, and success of high-tech businesses. Because the NEW program would direct investment to small new and developing high-tech businesses and fund technology development in businesses, some view the program as a means for the state to foster the growth of high-tech in Wisconsin. Moreover, no additional funding would be required.

12. On the other hand, many projects that also contribute to economic growth and that are funded under CBED could not be funded under the NEW program. Conversely, CBED does provide grants, such as business assistance and entrepreneurial training grants, that could be used to promote high-tech development in Wisconsin. In addition, the total annual funding of $762,100 might not be sufficient to have a significant effect on the growth of the technology sector of the state's economy. From this view, a more efficient use of the monies would be to fund local projects that would have a significant effect on local economies, as is the case under CBED. However, it should be noted that, due to the high level of demand for awards, funding for many projects under CBED are prorated.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to eliminate the CBED program and replace it with the New Economy for Wisconsin (NEW) program that would provide grants to community-based business incubators and nonprofit organizations that promote entrepreneurship or provide services to high-tech businesses.

2. Maintain current law.

MO# Alt 1

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

Prepared by: Ron Shanovich

AYE 8 NO 8 ABS 0

Senator Plache

COMMERCE – DEPARTMENTWIDE AND ECONOMIC DEVELOPMENT

Community-Based Economic Development/
New Economy for Wisconsin Program

[LFB Paper #284]

Motion:

Require the Department of Commerce to make a grant of $25,000 in 2001-02 [from appropriation s. 20.143 (i) (fg)] to Gateway Technical College for costs related to a consortium for a manufacturing training center if the consortium is located in the Racine-Kenosha area.

Note:

The Community-Based Economic Development (CBED) program provides grants to community-based organizations for local development projects, management assistance and to establish revolving loan funds, grants to political subdivisions for economic development or diversification plans, business incubator grants, regional economic development grants, grants for entrepreneurship training, and grants to conduct venture capital development conferences. Base level funding for the program is $762,100 GPR.

This motion would require Commerce to make a grant of $25,000 to Gateway Technical College for costs related to a consortium for a manufacturing training center in the Racine-Kenosha area. The grant would be made from the amounts appropriated for the current CBED or the NEW program under the bill.

MO#________

2 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

Motion #228

Senator Burke
Representative Gard
Senator Moore
Senator Welch
Senator Darling
Representative Coggs

COMMERCE -- DEPARTMENTWIDE AND ECONOMIC DEVELOPMENT

Minority Business Finance Program -- Grant to United Community Center

[LFB Paper #285]

Motion:

Move to require the Department of Commerce to make a grant of $160,000 to the United Community Center in Milwaukee and provide $160,000 in 2001-02 from the program revenue repayments appropriation of the Minority Business Finance program.

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1. Note: The Minority Business Finance program (MBF) provides the following types of financial assistance:

a. Early planning grants to minority group members or minority businesses to fund projects that consist of the preliminary stages of considering and planning the start-up or expansion of a business that will be a minority business.

b. Business development grants and loans 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.

c. Grants and loans to local development corporations to: (1) make grants or loans to minority group members or minority businesses for development projects; or (2) to create, expand or continue a revolving loan fund program operated by the local development corporation to provide assistance to minority group members or minority businesses.

d. Grants to nonprofit organizations and private financial institutions to fund microloans and education and training programs for minority group members and minority businesses.

e. Grants to nonprofit corporations, nonprofit organizations or business incubators to build or rehabilitate business incubators that benefit minority group members or minority businesses.

The MBF is financed through both a GPR and program revenue repayments appropriation. Annual base level funding for the MBF is $329,200 GPR and $267,200 PR. The MBF repayments appropriation is a program revenue, continuing appropriation. Dollar amounts shown in the schedule for such appropriations represent the most reliable estimates of the amounts that will be expended. However, expenditures made from such appropriations are generally only limited by the amount of revenues that are available from the appropriation.

This motion would require the Department of Commerce to make a grant of $160,000 to the United Community Center in Milwaukee in 2001-02 from the balance in the MBF repayments appropriation [s. 20.143(1)(im)].

[Change to Base: $160,000 PR
Change to Bill: $160,000 PR]

MO#__________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS ____

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May 4, 2001 | Joint Committee on Finance | Paper #285

Rural and Minority Business Economic Development Programs -- Repayments Appropriations (Commerce -- Departmentwide and Economic Development)

CURRENT LAW

The Minority Business Finance (MBF) and Rural Economic Development (RED) programs were created in 1989. Both MBF and RED programs are funded through a biennial general purpose revenue (GPR) and a program revenue (PR) appropriation. Annual base level funding for the MBF program is $329,200 GPR and $267,200 PR. Annual base level funding for the RED program is $656,500 GPR and $120,100 PR.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The MBF provides the following types of financial assistance:

a. Early planning grants to minority group members or minority businesses to fund projects that consist of the preliminary stages of considering and planning the start-up or expansion of a business that will be a minority business.

b. Business development grants and loans 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.

c. Grants and loans to local development corporations to: (1) make grants or loans to minority group members or minority businesses for development projects; or (2) to create, expand or continue a revolving loan fund program operated by the local development corporation to provide assistance to minority group members or minority businesses.

d. Grants to nonprofit organizations and private financial institutions to fund microloans and education and training programs for minority group members and minority businesses.

e. Grants to nonprofit corporations, nonprofit organizations or business incubators to build or rehabilitate business incubators that benefit minority group members or minority businesses.

2. The RED provides grants and loans to businesses with fewer than 50 employees that are located in a rural municipality. A rural municipality is: (a) a city, town or village with a population of 6,000 or less; or (b) a municipality located in a county with a population density less than 150 persons per square mile. The RED provides: (a) grants for professional services (early planning grants) to fund professional services related to starting or expanding a business or for continuing management assistance; (b) loans for working capital, fixed asset financing for starting or expanding a business or to fund employee relocation costs; (c) grants for services related to the start-up, modernization or expansion of dairy farms or agricultural businesses or for continuing management assistance; and (d) loans to businesses in low income areas for working capital, purchases of land, buildings, equipment, furniture and inventory, and job training and employee relocation costs.

3. Both the RED and MBF are funded by GPR and program revenue repayments appropriations. The repayments appropriations were established to operate similar to revolving loan funds so that, over time, the amounts received from loan repayments could be used to finance additional loans and reduce the need for GPR funding. The following shows the estimated revenues, base level expenditure authority and projected appropriation balances for the MBF and RED repayments appropriations in each year of the biennium. The table shows that, with the base level expenditure authority and estimated revenues, the 2002-03 year-end appropriation balances in the MBF and RED would be $465,100 and $168,900, respectively. However, ongoing expenditure authority exceeds ongoing revenues and the appropriation balances decrease each year. It would be possible to use a portion of the MBF and RED repayments appropriations balances as one-time offsets to GPR funding and still maintain positive appropriation balances. Specifically, GPR funding for the MBF could be reduced by $300,000 in 2001-02 and PR expenditure authority could be increased by a corresponding amount. Similarly, GPR funding for the RED could be reduced by $135,000 and PR expenditure authority could be increased by a corresponding amount in 2001-02. This would leave sufficient appropriation balances, along with annual revenues to fully fund base level expenditure authority into the next biennium.

RED, MBF Projected Program Revenues, Annual Expenditure Authority and Projected Appropriations Balances 2001-03

	MBF		RED	
	2001-02	2002-03	2001-02	2002-03
Opening Balance	$724,700	$592,500	$214,400	$198,700
Revenues	135,000	139,800	104,400	90,300
Expenditure Authority	-267,200	-267,200	-120,100	-120,100
Closing Balance	$592,500	$465,100	$198,700	$168,900

4. The MBF and RED repayments appropriations are program revenue, continuing appropriations. Dollar amounts shown in the schedule for such appropriations represent the most reliable estimates of the amounts that will be expended. However, expenditures made from such appropriations are generally only limited by the amount of revenues that are available from the appropriation. Consequently, if program revenues are used to offset GPR funding, while estimated expenditures for the 2001-03 biennium would not be affected, the overall amount of funding available for MBF and RED awards would be reduced by the amount of the offset.

ALTERNATIVES TO BASE

1. Reduce GPR funding for the MBF by $300,000 and increase expenditure authority for the MBF repayments appropriation [20.143(1)(im)] by $300,000 in 2001-02.

Alternative 1	GPR	PR	TOTAL
2001-03 FUNDING (Change to Base)	- $300,000	$300,000	$0
[Change to Bill	*- $300,000*	*$300,000*	*$0]*

2. Reduce GPR funding for the RED by $135,000 and increase expenditure authority for the RED repayments appropriation [20.143(1)(ir)] by $135,000 in 2001-02. (This alternative could be adopted in addition to, or in lieu of, Alternative #1.)

Alternative 2	GPR	PR	TOTAL
2001-03 FUNDING (Change to Base)	- $135,000	$135,000	$0
[Change to Bill	*- $135,000*	*$135,000*	*$0]*

3. Maintain current law.

Prepared by: Ron Shanovich

MO#____________________

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS _____

No analysis prepared.

Alt 3 per staff

Burke (UCC) motion first

Gard 1+2

- Potter motion -
- UCC - $160,000 from minority business fund.

Burke Gard

Welch Moore

Senator Decker

COMMERCE

Electrical Construction Inspection Staff

Motion:

Move to provide $140,200 PR in 2001-02 and $169,500 PR in 2002-03 with 2.0 PR engineering consultant positions to conduct electrical construction inspections. Program revenue would be provided from plan review and inspection activities.

Note:

One of the responsibilities of Commerce is to conduct electrical construction inspections. The positions provided under the motion would: (a) inspect electrical construction as requested by builders; (b) inspect electrical construction in municipalities that have not adopted ordinances to provide such inspection (Commerce is required to provide inspections in these municipalities); (c) respond to complaints; (d) provide consultation; and (e) conduct educational presentations. Currently, 3.0 PR positions perform these activities. The program revenue appropriation receives revenues from a variety of plan review and inspection activities.

[Change to Base: $309,700 PR, 2.0 PR positions
Change to Bill: $309,700 PR, 2.0 PR positions]

MO#________________

2 BURKE	Y	N	A
1 DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 8 NO 8 ABS ____

Motion #214

Senator Welch
Senator Shibilski

COMMERCE – DEPARTMENTWIDE AND ECONOMIC DEVELOPMENT

Community-Based Economic Development/
New Economy for Wisconsin Program

[LFB Paper #284]

Motion:

Require the Department of Commerce to make a grant of $25,000 in 2001-02 from CBED/NEW program to CAP Services in Wautoma.

MO#

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
2 SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
1 WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 15 NO 1 ABS 0

Motion #229

Decker has some electrical
motion dealing
w/ PR

[illegible]

COMMERCE

Departmentwide and Economic Development

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
1	Standard Budget Adjustments
6 (b)&(c)	Wisconsin Development Fund Program Modifications
14	Information Technology Central System Cost Reallocation
18	Rural Economic Development Program -- Grants for Professional Services Modification
19	Minority Business Finance Program Modifications
20	Consolidate Business Development Assistance Center and Entrepreneurial Assistance Networks Reports

LFB Summary Items to be Addressed in Subsequent Papers

Item #	Title
2	Base Budget Reduction
3	Brownfields Grant Program
5	Gaming Economic Development and Diversification Grant and Loan Programs
6 (a)	Wisconsin Development Fund Program Modifications
7	Technology Research Grants
8	Business Employees' Skills Training Program Funding
9	Native American Economic Development
10	Funding for Forward Wisconsin
11	Dental Loan Reimbursement Program
13	Position Transfer to Office of the Governor
21	Milwaukee Development Opportunity Zone and Capital Investment Credit
22	Technology Zones Tax Credit

LFB Summary Item for Introduction as Separate Legislation

Item #	Title
23	Regulatory Flexibility Committee

MO#____________________

1 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0

Ask Kendra if savings is based on a different rate of interest.

AGENCY: Environmental Improvement Fund

PAPER: #430

ISSUE: Present Value Subsidy Limit

RECOMMENDATION: Alternatives A3 & B5 A2, B2

SUMMARY:

This is confusing. Brian should talk to Lang and Gard about the best option here. Personally, I think any alternative under either part A or part B is probably ok (except A4! – definitely don't go for A4. We definitely need to provide adequate funding for the clean water fund program.

(NOTE TO BRIAN: Possible impact on MMSD – he should read paragraph 9 on page 4, & ask Lang about this.)

BY: Barry

Ask Lang – most people want A3 – Barb thinks A2

Breydrick wants A2, B2 for MMSD

B5 is okay (no consensus)

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May 4, 2001 Joint Committee on Finance Paper #430

Clean Water Fund General Obligation and Revenue Bonding Authority, Present Value Subsidy Limit and Priority List Allocation (Environmental Improvement Fund)

[LFB 2001-03 Budget Summary: Page 290, #1; Page 291, #3(a); Page 291, #5(a)]

CURRENT LAW

The clean water fund program within the environmental improvement fund provides low-interest loans to municipalities for planning, designing, constructing or replacing a wastewater treatment facility, or for nonpoint source pollution abatement or urban stormwater runoff control projects. The program provides loans using proceeds of federal capitalization grants, general obligation bonds and revenue obligation bonds. The federal grants are used for a state revolving loan fund, and must be matched by state funds equaling at least 20% of the federal grant amount. The state match is provided with general obligation bond proceeds. The program also uses general obligation bonding authority to leverage a larger amount of capital through the sale of state revenue obligation bonds, with the general obligation bonds paying the costs of the state subsidy to municipalities that results because loans to municipalities are made at an interest rate below the market interest rate the state pays for its revenue bonds.

To provide a financial control mechanism, the statutes provide a concept unique to the environmental improvement fund, termed a "present value subsidy" limit. This limit is a means for the Legislature to control the commitment of state financial assistance to municipalities in a biennium. Because it incorporates the debt service that will be paid on bond issuances, the present value subsidy limit reflects the total cost to the state, in current dollars, of subsidizing clean water fund program projects. The present value subsidy limit acts as a cap on the sum of all assistance provided through the clean water fund program in a biennium. To the extent that actual bond interest rates are greater or less than assumed rates, the number of projects that may be funded would decrease or increase. The amount of present value subsidy is intended to be the equivalent of the amount the state would expend, but not be repaid, for a given project if that entire subsidy were provided in the year the loan was made, rather than over twenty years. Conceptually, the present value subsidy is the amount the state would need to invest today at a 7% annual rate of return to receive interest payments equal to the annual subsidy provided to municipalities. There is $85.2 million authorized in present value subsidy for the 1999-01 biennium and $1,000 authorized for subsequent biennia.

Clean water fund projects, other than financial hardship assistance projects, are funded on a continuous funding cycle. If the amount of present value subsidy, general obligation bonding authority or revenue bonding authority available for a biennium is 85% or less of the amount requested in the biennial finance plan prepared by DOA and DNR, funding is allocated on the basis of a priority list and funding may only be provided in a fiscal year to projects for which an application is submitted by the June 30 preceding that fiscal year. Under current law, if the Governor's budget recommendation includes an amount of present value subsidy, general obligation bonding authority or revenue bonding authority for a biennium that is 85% or less of the amount requested in the biennial finance plan, DNR is required to inform municipalities that, if the Governor's recommendations are approved, clean water fund assistance during a fiscal year of that biennium will only be available to municipalities that submit financial assistance applications by the June 30 preceding that fiscal year.

GOVERNOR

Provide $177 million in additional bonding authority for the clean water fund program, as follows: (a) increase general obligation bonding authority by $65 million on the effective date of the biennial budget act, from $552,743,200 to $617,743,200; (b) increase general obligation bonding authority by an additional $20 million on July 1, 2003, from $617,743,200 to $637,743,200; and (c) increase revenue bonding authority by $92 million, from $1,297,755,000 to $1,389,755,000. Provide a "present value subsidy limit" totaling $90.0 million for the clean water fund program during the 2001-03 biennium. Reduce both thresholds for allocating clean water funds based on a priority list, as described under "Current Law" above, from 85% to 75%.

DISCUSSION POINTS

Bonding Authority and Present Value Subsidy Limit

1. The bill's provision of $65 million of general obligation bonding authority during 2001-03 would equal 59% of the $110.12 million in general obligation bonding authority requested in the biennial finance plan. After the bill adds $20 million in general obligation bonding authority on July 1, 2003, in the 2003-05 biennium, the provided $85 million would equal 77.2% of the amount requested in the biennial finance plan. The bill would provide 83.3% of the present value subsidy ($90 million of the requested $108 million) requested in the biennial finance plan.

2. The biennial finance plan requested sufficient general obligation bonding authority and present value subsidy limit to fund all expected wastewater needs during the biennium. DNR

identified needs of $439.8 million, plus a 10% construction contingency, to equal $483.7 million in estimated total financial assistance needs. DNR's projections represented the Department's best estimates of need as of September 1, 2000, based on both file materials and a comprehensive survey of municipalities.

3. The biennial finance plan was based on an estimated revenue obligation market interest rate of 7% for planning purposes, based on long-term historical trends. The bill provides $25.1 million less in general obligation bonding authority and $18 million less in present value subsidy than included in the biennial finance plan, based primarily on assuming a 6% instead of 7% revenue obligation market interest rate. DOA officials indicate the Governor's proposed levels of general obligation bonding authority and present value subsidy limit is intended to fund the same level of wastewater needs identified in the September 1, 2000, analysis.

4. The changes in assumptions made by the Governor are to: (a) assume a revenue obligation market interest rate of 6% instead of the earlier estimate of 7%, which decreases the need for general obligation bonding authority by approximately $16.7 million and present value subsidy by approximately $18 million; (b) allocate an additional $4 million of municipal loan repayments for GPR debt service instead of new loans, which increases the need for general obligation bonding authority by approximately $1 million; (c) carry forward $10.8 million in unused hardship general obligation bonding authority that will not be needed in 1999-01; and (d) round the provided general obligation bonding authority to $85 million and the present value subsidy to $90 million.

5. The impact of market interest rates on the amount of funding needed under the clean water fund program, is demonstrated by the difference between the 7% "planning interest rate" and the lower 6% used in the Governor's assumptions. If actual interest rates are lower than the 7% planning interest rate, a smaller amount of general obligation bonding authority and present value subsidy limit would be required to fund the same amount of need. The market interest rate for most of the 1999-01 biennium was 5.4% and decreased to 5% when $70 million in revenue obligation bonds were issued in April, 2001.

6. If market interest rates continue at the current 5% to 5.5% range during the 2001-03 biennium, the Governor's recommended levels of bonding authority and present value subsidy limit would be sufficient to fund a greater amount of projects than were projected in the biennial finance plan. For example, if the interest rate continues at 5.5% (or lower), general obligation bonding authority of $75.5 million would be sufficient to fund all need projected in September, 2000, instead of the proposed $85 million, and present value subsidy of $80.8 million would be sufficient instead of the proposed $90 million. (These amounts would represent 68.5% of the general obligation bonding authority and 74.8% of the present value subsidy limit included in the biennial finance plan.) If market interest rates increase above 6%, if need is the same as or greater than identified in the September, 2000, biennial finance plan, and if the program is operating on the current continuous funding cycle rather than using a priority list (see following section related to the priority list threshold), amounts provided in the bill may not be sufficient to fund all need. In such a situation, some projects that are ready to enter into a financial assistance agreement in the spring of 2003 might have to wait until the 2003-05 biennium for financing.

7. The DOA Budget Office indicates that the bill delays authorization for $20 million of the general obligation bonding authority until July 1, 2003, because it is not needed until the 2003-05 biennium. DOA indicates that providing the authority at this time would ensure continuous bonding authority into the next biennium and is necessary to fund loans originated in 2001-03 but where loan disbursals will not be made until 2003-05.

8. In previous biennia, DNR, DOA and the Governor requested, and the Legislature approved, a level of general obligation bonding authority sufficient for allocation to a project at the time the financial assistance agreement is made. However, bonds are generally issued as loan funds are disbursed over two to four years of construction. While approval of the recommended $20 million on July 1, 2003, instead of during 2001-03, represents a change in current policy, it could be argued that it is not necessary to authorize bonding authority until it needs to be issued. Alternatively, it could be argued that the current policy should be continued to have bonding authority in place for a project at the time the state enters into a financial assistance agreement with a municipality to fund a project, and that doing so demonstrates the state's commitment to a project.

9. As discussed earlier, the biennial finance plan and the bill are intended to fund all need identified in September, 2000. In August, 2000, the Milwaukee Metropolitan Sewerage District (MMSD) identified project costs for the District totaling $134.7 million in the 2001-03 biennium. The biennial finance plan included MMSD low-interest project costs totaling $158.8 million (including a construction contingency allowance) and present value subsidy of $30.3 million. The percentage of the total present value subsidy allocated to MMSD is 33.8% of the present value subsidy limit provided in the plan and bill. This is within the statutory requirement that an individual municipality may receive no more than 35.2% of the total present value subsidy limit. MMSD and DNR officials are currently reviewing MMSD financing needs in order to maximize the amount of MMSD financial assistance agreements in 2000-01 and to update MMSD clean water fund program needs for future biennia. MMSD officials recently reestimated clean water fund program needs as $135.9 million for 2001-03 (which is $1.2 million more than identified in August, 2000, and within the funding provided by the bill under current interest rates). MMSD program needs for a northwest side relief sewer and other projects may change at some future date as MMSD implements plans to meet state and federal requirements related to sanitary sewer overflows and bypassing.

Priority List Threshold

10. The bill provides less than the current law threshold of 85% of the requested general obligation bonding authority and present value subsidy. Thus, if the threshold percentage remains at the current 85% instead of being modified to 75% as proposed or instead of being amended in some other way, DNR would have to establish a priority list for funding projects in the 2001-03 biennium. The priority list would be based on environmental factors. Compliance maintenance projects or projects to meet new or changed permit limits receive the highest priority. Current law requires DNR to notify municipalities that if the bill passes with less than the currently-required 85% of bonding authority and present value subsidy, the program would have to fund projects in 2001-02 based on a priority list and financial assistance would be available only to municipalities

that submitted applications before June 30, 2001. DNR sent the required notice to municipalities on March 14, 2001.

11. Although the bill changes the threshold for establishing a priority list from 85% to 75%, the bill provides less than 75% of the general obligation bonding authority requested for the 2001-03 biennium. This happens because the bill provides $65 million of general obligation bonding authority in 2001-03 and provides the remaining $20 million on July 1, 2003, which is in the 2003-05 biennium.

12. The DOA Budget Office indicates that it was not intended that the bill require the use of a priority list. In its March 22, 2001 "errata" memorandum to the Joint Committee on Finance, DOA recommended that the following changes be made to the bill so that a priority list would not be needed in 2001-03: (a) delete the references to the amount of bonding authority or present value subsidy required for a biennium for the threshold to go into effect, so that the total amount of bonding authority provided in the biennial budget act (including the amount authorized for future biennia) would be used to calculate whether the threshold will require use of a priority list; and (b) provide DNR with the authority to extend the financial assistance deadline, in a situation where the threshold would require implementing a priority list, beyond the current "June 30 preceding that fiscal year" to also include "or the date established by the Department." DNR officials indicate that if the second change would be made, and if implementation of a priority list is required in 2001-03 or future biennia, the Department would probably allow municipalities 30-45 days after the effective date of the budget act to submit applications.

13. DOA officials indicate that the intent of the change in the priority list threshold from 85% to 75% is to allow a smaller amount of general obligation bonding authority to be included than the amount recommended in the biennial finance plan, while maintaining a provision for a priority list if the amounts in the final budget act are much lower than included in the biennial finance plan.

14. The priority list funding threshold provision was added to the program in 1995 Act 27, effective January 1, 1996. The provision allowed the program to transition to a continuous funding cycle. Currently, projects are funded as they are ready for financing and do not have to wait for a specific funding cycle. The provision to use a priority list in years that provided funds are less than requested ensures that if available funds are less than estimated need, the program will fund projects with the highest environmental priority first.

15. In times, such as current or recent years, when interest rates are low or falling, a 75% or 65% threshold level may be adequate to fund all clean water fund demand. For example, if the bill is amended to provide a lower amount of general obligation bonding authority and present value subsidy limit based on a projected 5.5% interest rate, the threshold could be lowered to 65% and all need identified in the fall of 2000 could likely be funded without implementation of a priority list. However, in times of high or rising interest rates, a threshold set at 100% of the planning rate may be inadequate to fund program demand.

16. Since the impact of a percentage threshold for implementation of a priority list varies depending on interest rate assumptions, an alternative to the use of a statutory percentage threshold would be to require DNR and DOA to implement a priority list if they determine clean water fund program authority is insufficient to fund all projects in the biennium.

ALTERNATIVES TO BASE

A. Bonding Authority and Present Value Subsidy Limit

1. Approve the Governor's recommendation to make the following clean water fund program changes: (a) increase general obligation bonding authority by $65 million on the effective date of the biennial budget act, from $552,743,200 to $617,743,200; (b) increase general obligation bonding authority by an additional $20 million on July 1, 2003, from $617,743,200 to $637,743,200; (c) increase revenue obligation bonding authority by $92 million, from $1,297,755,000 to $1,389,755,000; and (d) provide a "present value subsidy limit" totaling $90.0 million for the clean water fund program in the 2001-03 biennium.

Alternative A1	BR
2001-03 BONDING (Change to Base)	$177,000,000
[Change to Bill	*$0]*

2. Approve Alternative 1, as modified to provide the entire $85 million in general obligation bonding authority in the 2001-03 biennium (instead of deferring authorization of $20 million of the amount until July 1, 2003).

Alternative A2	BR
2001-03 BONDING (Change to Base)	$177,000,000
[Change to Bill	*$0]*

3. Provide the following levels of bonding authority and present value subsidy limit (assuming a 5.5% revenue market interest rate): (a) increase general obligation bonding authority by $75.5 million on the effective date of the biennial budget act, from $552,743,200 to $628,243,200; (b) increase revenue obligation bonding authority by $92 million, from $1,297,755,000 to $1,389,755,000; and (c) provide a "present value subsidy limit" totaling $80.8 million for the clean water fund program in the 2001-03 biennium.

Alternative A3	BR
2001-03 BONDING (Change to Base)	$167,500,000
[Change to Bill	*- $9,500,000]*

4. Maintain current law. There would be no new bonding authorized for the clean

water fund program. The current law clean water fund present value subsidy limit for any biennium after 1999-01 is $1,000, which would not be sufficient to fund any expected clean water fund projects during the biennium.

Alternative A4		BR
2001-03 BONDING (Change to Base)		$0
	[Change to Bill	- $177,000,000]

B. Priority List Threshold

1. Approve the Governor's recommendation to reduce the threshold for allocating clean water funds based on a priority list to 75%.

2. Adopt Alternative B1 and, in addition, include DOA's requested modifications to: (a) delete the references to the amount of bonding authority or present value subsidy required for a biennium for the threshold to go into effect, so that the total amount of bonding authority provided in the biennial budget act (including the amount authorized for future biennia) would be used to calculate whether the threshold will require use of a priority list; and (b) provide DNR with the authority to extend the financial assistance deadline, in a situation where the threshold would require implementing a priority list, beyond the current "June 30 preceding that fiscal year" to also include "or the date established by the Department." (If Alternative A3 is also adopted, DNR and DOA would have to provide clean water fund program funding based on a priority list.)

3. Adopt Alternative B2 and, in addition, reduce the threshold to 65%. (If Alternative A1, A2 or A3 is also adopted, DNR and DOA would continue the current practice of providing clean water fund program funding on a continuous funding cycle.)

4. Delete the statutory threshold for when a priority list must be implemented. Rather, require DNR and DOA to implement a priority list upon determining clean water fund program authority is insufficient to fund all projects in the biennium.

5. Maintain current law. (If Alternative A1, A2 or A3 is also adopted, DNR would have to provide clean water fund program funding based on a priority list.)

Prepared by: Kendra Bonderud

MO# A-2

1 BURKE	Y	N	A
2 DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 13 NO 3 ABS 0

MO# B-4

1 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 15 NO 1 ABS ___

AGENCY: Environmental Improvement Fund

PAPER: #431

ISSUE: Fund Debt Service

RECOMMENDATION: Alternative A3 & B~~4~~ 3 (~~B4 is take no action~~)

SUMMARY:

My recommendation may be a bit shortsighted, but it frees up $4.2 million GPR for this budget (not an insignificant amount). We should still meet the federal requirements to receive clean water funds, and fund necessary municipal projects, and the issue of additional bonding authority can be more accurately addressed next session by DOA and JFC. (Note: however, I don't have strong feelings about this, so if Decker or someone else wants to offer a different alternative that's fine – but Gard will almost certainly want to free up the GPR)

BY: Barry

A3 - Gwen, Huber

B-3 (everyone thinks this goes w/ A-3)

Gard - A-3
B-3

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May 4, 2001 Joint Committee on Finance Paper #431

Environmental Improvement Fund Debt Service (Environmental Improvement Fund)

[LFB 2001-03 Budget Summary: Page 290, #2]

CURRENT LAW

The clean water fund program within the environmental improvement fund provides loans to municipalities for planning, design and construction of surface water and groundwater pollution abatement facilities, primarily for municipal wastewater treatment. Funding for a portion of subsidized low-interest loans is provided from the proceeds of general obligation bonds. Most of the general obligation bond debt service costs are paid by the general fund. In addition, the clean water fund expends $4,000,000 SEG annually for general obligation bond debt service. The SEG comes from 50% of the interest repayments received for loans which were originally provided from the proceeds of general obligation bonds issued to provide the 20% state match to federal capitalization grants for the state clean water fund revolving loan program.

GOVERNOR

Provide a decrease of $35,700 GPR in 2001-02 and an increase of $4,323,900 GPR in 2002-03 for estimated increases in general fund debt service costs of general obligation bonds. In addition, provide $2,000,000 SEG annually from the clean water fund program to increase from $4,000,000 to $6,000,000 annually the amount of general obligation bond debt service paid by loan repayments received from municipalities from loans that were originally provided from the proceeds of general obligation bonds. (The amount of GPR used for general obligation bond debt service is reduced by a corresponding $2,000,000 annually under the bill.)

DISCUSSION POINTS

1. Total clean water fund debt services costs under the bill increase from $34.0 million in 2000-01 to $35.2 million in 2001-02 and $39.0 million in 2002-03. Under current law, $4.0 million in each year would be paid from SEG loan repayments. Under the bill, the use of SEG loan repayments would increase to $6.0 million in each of 2001-02 and 2002-03.

2. One of the primary requirements states must meet to receive federal clean water fund capitalization grants is to manage a revolving loan program so that the amount received in the federal capitalization grants is available in perpetuity. This is accomplished through the requirement that all repayments of loans made from federal grants plus the state match be credited to the revolving fund for future loans. However, the state is authorized to use half of the interest repayments received for loans which were originally provided from the proceeds of general obligation bonds issued to provide the 20% state match to federal capitalization grants for general obligation bond debt service.

3. Use of SEG loan repayments for future loans reduces the future reliance of the program on general obligation bond issuance for loan financing. The use of SEG loan repayments to replace GPR debt service costs lengthens the time period that it would take for the revolving loan program to become a self-sustaining fund.

4. When the use of SEG loan repayments for debt service was authorized in 1993 Wisconsin Act 16, a corresponding amount of GPR was transferred to the clean water fund, and the provision was intended only to reduce state record-keeping requirements associated with federal arbitrage limitations for general obligation bond proceeds. In 1995 Act 27, the use of SEG loan repayments was increased to the current $4,000,000 annually, and the GPR reimbursement was eliminated. This provision reduced the long-term revolving component of the clean water fund.

5. The 2001-03 environmental improvement fund biennial finance plan prepared by DOA and DNR indicated that the clean water fund program would issue a cumulative total of approximately $844 million (in current dollars) of general obligation bonds and would become self-supporting in approximately 16 years. The Governor's recommendation would defer the end date for general obligation bond issuance by approximately four years, use an additional $40 million in SEG loan repayments for debt service over the 20-year period and require additional general obligation bonds of perhaps $90 million to be issued over that time. However, the exact change is difficult to quantify because of the uncertainty of forecasting long-term interest rates and wastewater project needs over the next 20 years.

6. The recommended $4,000,000 increase in the use of SEG loan repayments for general obligation bond debt service will increase the need for general obligation bonding authority by approximately $1,000,000 and for revenue obligation authority by approximately $4,200,000. The Governor's bill includes the additional general obligation bonding authority but not the revenue obligation authority. DOA officials indicate that the additional revenue obligation authority will probably not be needed in the 2001-03 biennium since loans are disbursed as project costs are

incurred over a few years.

7. In the 1999-01 biennium, the debt service costs funded by municipal loan repayments are approximately 12.2% of the total general obligation bond debt service costs. Under the bill, municipal loan repayments would fund approximately 16.2% of the total general obligation bond debt service costs in the 2001-03 biennium.

8. In order to comply with federal requirements, the amount of SEG repayments used for debt service may not exceed the amount of debt service on general obligation bonds issued to provide the 20% state match to the federal capitalization grants. The amounts available from SEG loan repayments might continue to increase after the 2001-03 biennium for four or five additional years. After that time they would likely level off or decline as loans made in the early 1990s mature and principal repayments exceed interest repayments.

9. DOA believes that an additional $2,000,000 in SEG loan repayments could have been transferred to pay GPR debt service costs in 2000-01 but the appropriation does not allow it. Thus, at least an additional $2,000,000 SEG beyond the amounts included in the bill is available to be used for GPR debt service on a one-time basis. The bill could be amended to allocate an additional $2,000,000 in SEG loan repayments for debt service on a one-time basis in 2001-02. Additional general obligation bonds of approximately $600,000 and revenue obligations of approximately $2,100,000 would have to be issued over several years to replace the use of $2,000,000 in loan repayments for loans. The bill provides approximately $1.3 million more in general obligation bonding authority than necessary for current estimates of need and interest rates; thus, it may not be necessary to provide additional authority under this alternative. The bill could be amended to provide the additional revenue obligation authority. However, it may not be needed until after the 2001-03 biennium, when loans are disbursed as project costs are incurred.

10. It appears that the cumulative amount of municipal loan repayments in the SEG loan repayments appropriation account that has not been used for GPR debt service and is within the amount of general obligation bond debt service on bonds issued for the state match is at least $4,200,000. Additional general obligation bonds of $1,300,000 and revenue obligations of approximately $4,400,000 would have to be issued over several years to replace the use of $4,200,000 in loan repayments for loans. The bill could be amended to allocate $4,200,000 in additional municipal loan repayments for GPR debt service on a one-time basis in 2001-02. In addition, the bill could also be amended to authorize $4,400,000 in additional revenue obligation authority to provide the same amount of funds for clean water fund projects in the 2001-03 biennium as under the bill. Alternatively, revenue obligation authority could be provided in a future biennium.

11. If the current use of $4,000,000 annually of SEG loan repayments for general obligation bond debt service is maintained, GPR costs under the bill would increase by $2,000,000 annually but over the long-term a greater amount of loan repayments would be used for new loans instead of using additional general obligation bond proceeds.

ALTERNATIVES TO BASE

A. Debt Service and Loan Repayments

1. Approve the Governor's recommendation to: (a) provide a decrease of $35,700 GPR in 2001-02 and an increase of $4,323,900 GPR in 2002-03 for estimated increases in general fund debt service costs of general obligation bonds; and (b) provide $2,000,000 SEG annually from the environmental improvement fund to increase from $4,000,000 to $6,000,000 annually the amount of general obligation bond debt service paid by loan repayments received from municipalities from clean water fund loans that were originally provided from the proceeds of general obligation bonds.

Alternative A1	GPR	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$4,288,200	$4,000,000	$8,288,200
[Change to Bill	*$0*	*$0*	*$0]*

2. Adopt Alternative A1 and, in addition: (a) provide $2,000,000 SEG clean water fund program loan repayments in 2001-02 to be used for clean water fund program general obligation bond debt service; and (b) provide a corresponding decrease of $2,000,000 GPR in 2001-02 for general obligation bond debt service.

Alternative A2	GPR	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$2,288,200	$6,000,000	$8,288,200
[Change to Bill	*- $2,000,000*	*$2,000,000*	*$0]*

3. Adopt Alternative A1 and, in addition: (a) provide $4,200,000 SEG clean water fund program loan repayments in 2001-02 to be used for clean water fund program general obligation bond debt service; and (b) provide a corresponding decrease of $4,200,000 GPR in 2001-02 for general obligation bond debt service.

Alternative A3	GPR	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$88,200	$8,200,000	$8,288,200
[Change to Bill	*- $4,200,000*	*$4,200,000*	*$0]*

4. Maintain current law.

Alternative A4	GPR	SEG	TOTAL
2001-03 FUNDING (Change to Base)	$8,288,200	$0	$0
[Change to Bill	*$4,000,000*	*- $4,000,000*	*$0]*

B. Revenue Bond Authority

1. Provide an additional $4,200,000 in revenue obligation bonding authority. (This

would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting the Governor's recommendation under Alternative A1.)

Alternative B1	BR
2001-03 BONDING (Change to Base)	$4,200,000
[Change to Bill	*$4,200,000]*

2. Provide an additional $6,300,000 in revenue obligation bonding authority. (This would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting Alternative A2.)

Alternative B2	BR
2001-03 BONDING (Change to Base)	$6,300,000
[Change to Bill	*$6,300,000]*

3. Provide an additional $8,600,000 in revenue obligation bonding authority. (This would provide authority in the 2001-03 biennium to fund the estimated need resulting from adopting Alternative A3.)

Alternative B3	BR
2001-03 BONDING (Change to Base)	$8,600,000
[Change to Bill	*$8,600,000]*

4. Take no action. (This would be consistent with the Governor's recommendation.)

MO# A-3, B-3

1 BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
2 GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS 0