



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 7, 2010

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 904/Senate Bill 651: Manufacturing Business Loan Program

Assembly Bill 904 and Senate Bill 651 (the bill) are companion bills that would create a manufacturing business loan program for energy efficiency projects or to create or expand clean energy manufacturing operations (often referred to as the "Green to Gold Fund"). The bills were introduced on March 26, 2010. The Assembly Committee on Energy and Utilities held a public hearing on March 30, 2010, and AB 904 was subsequently withdrawn from the Committee and referred to the Joint Committee on Finance.

### **CURRENT LAW**

The Department of Commerce administers a wide variety of separate economic development programs that provide financial assistance. However, the type of assistance provided can be categorized into five general areas: (a) entrepreneurial development; (b) capital financing; (c) technology development; (d) employee training; (e) trade shows; and (f) targeted businesses.

Entrepreneurial Development. Commerce provides early planning grants and entrepreneurial training grants to assist entrepreneurs and small businesses in developing business plans. A match of at least 25% of costs is required. The grants are provided through the Wisconsin Entrepreneurs' Network (WEN).

Capital Financing. Commerce provides three general sources for capital financing: (a) direct lending; (b) tax credits; and, (c) industrial revenue bonds. Direct lending is provided through the Department's grant and loan programs, such as the Wisconsin Development Fund (WDF). Eligible businesses receive tax credits through programs such as enterprise zones. Capital financing is also provided through industrial revenue bonds (IRB). Under the IRB program, Commerce grants bonding authority (total of \$248.3 million for 2009), called volume cap allocation to cities, villages,

and towns to issue tax-exempt bonds that are used to finance business facilities. (Under the American Recovery and Reinvestment Act of 2009, \$184.2 million in Recovery Zone Facility Bonds (RZFBs) was allocated to the state. RZFBs provide tax-exempt financing for projects which historically would not qualify, including large manufacturing plants, distribution centers, hotels, and retail businesses.)

Technology Development. Commerce provides financial assistance to technology-based businesses, entrepreneurs, and consortia for research, product development, process development, or commercialization through the following programs: (a) the technology commercialization grant and loan programs; and (b) the technology development fund (TDF) and technology development loan (TDL) program funded through the Wisconsin Development Fund.

Employee Training. Commerce provides financial assistance for employee training through two programs: (a) customized labor training (CLT); and (b) business employees' skills training (BEST). The programs fund labor training programs that provide employees with new, advanced, or upgraded job skills. Grants finance between 50% (CLT) and 75% (BEST) of project costs with a maximum of \$1,000 (BEST) or \$2,500 (CLT) per employee trained.

Trade Shows. The Wisconsin trade project program provides financial assistance to encourage small- to medium-sized businesses to become exporters and help existing exporters seek out new markets by attending international trade shows. Eligible businesses can be reimbursed up to \$5,000 for eligible expenses related to participation in a trade show or "matchmaker" trade delegation event.

Targeted Businesses. Commerce provides financial assistance to targeted industries, such as the dairy industry, and to targeted businesses, such as women- or minority-owned businesses, through many of the Department's business development programs.

The specific financial assistance programs that are the primary sources of financial assistance grants and loans are: (a) the Wisconsin Development Fund; (b) the Rural Economic Development Program (RED); (c) the gaming economic diversification grant and loan program; (d) the Wisconsin Energy Independence Fund--renewable energy grants and loans; and (e) the Forward Innovation Fund, grants and loan program, created under Act 28 by consolidating the minority business development (MBD) and community-based economic development programs.

Each of these grant and loan programs are funded both through a GPR, PR, or SEG primary funding appropriation and a program revenue (PR) repayments appropriation. The program revenue repayments appropriations were established to operate similar to a revolving loan fund. Amounts received from loan repayments are credited to the repayments appropriations and these monies can be used to fund other grants and loans. Because the repayments appropriations are continuing appropriations, un-appropriated and unexpended amounts remain in the appropriations and can be used for additional grants and loans. The expenditure authority for each repayments appropriation is an estimate of expenditures, but does not control the amount that actually may be expended.

2009 Act 28 provides the following funding and expenditure authority for these programs: (a) WDF--\$6,492,900 GPR, and \$3,801,500 PR, annually; (b) Forward Innovation Fund--\$884,600 GPR; (c) Gaming economic diversification grants and loans--\$1,079,400 tribal gaming revenue PR, and \$328,500 PR repayments, annually; and (d) RED--\$569,300 GPR annually, and \$163,900 PR in 2009-10 and \$113,900 PR repayments in 2010-11. In addition, the MBD repayments appropriation is provided expenditure authority of \$567,200 PR annually. As noted the MBD was consolidated into the Forward Innovation Fund. Base level funding for renewable energy grants and loans was \$15.0 million SEG. However, under Act 28, total funding for the program was deleted in 2009-10. In 2010-11 funding of \$14,850,000 SEG is provided, but required to be lapsed to the general fund.

## **SUMMARY OF BILL**

The bill would create a manufacturing business loan program that would be administered by the Department of Commerce. Under the program, Commerce would be authorized to provide loans to state manufacturing businesses that do any of the following: (a) implement energy efficiency or renewable energy measures in their facilities to enhance their competitiveness; (b) retool existing facilities to manufacture products that support the green economy; (c) expand or establish domestic clean energy manufacturing operations; or (d) create or retain jobs for workers engaged in these activities. Funding for program loans could be provided from the WDF GPR and program revenue appropriations, and the Department's federal aid local, assistance appropriation, through which federal program funds, such as Community Development Block Grant (CDBG) monies are appropriated. Administrative fees used to fund the cost of administering Commerce grant and loan programs, and the Department's federal aid, state operations appropriation, used to fund expenses associated with administering federal programs such as CDBG, could also be used to fund loans under the program. The bill would also create a separate program revenue repayments appropriation for the manufacturing business loan program.

The bill would also require that federal funds received by the state and that could be used to assist manufacturing businesses in Wisconsin retool for, or expand, production of clean energy to be deposited in a newly created appropriation for funding the manufacturing business loan program, unless the funds were otherwise appropriated by federal law, and subject to any applicable restrictions under federal law.

Commerce would be required to promulgate administrative rules establishing eligibility criteria that do all of the following:

- a. Set clear job-creation standards for loan recipients.
- b. Establish minimum energy savings that an eligible manufacturer must expect will result from the loan's utilization.
- c. Give priority to existing manufacturing businesses.

d. Ensure that loans under this section will be distributed to manufacturing businesses throughout the state.

e. Requires all work paid for with the proceeds of a loan under the program to be performed by a contractor or subcontractor that agrees to pay the prevailing wage to all employees performing work who would be entitled to receive the prevailing wage rate, if the improvement or application were a project of public works under current law.

Commerce would be authorized to promulgate emergency administrative rules for the period before the permanent rules took effect, without a finding of emergency.

The bill would also make changes to the FOCUS on Energy program, which is one of three programs authorized under state law (s. 196.374) as energy efficiency and renewable resource programs. Under FOCUS, state law requires the state's investor-owned electric or natural gas utilities to contract with one or more persons to administer a statewide program. That program must contain four components that address the energy needs of residential, commercial, agricultural, institutional, and industrial energy users and local governments, reduce the energy costs of local governments and agricultural producers by increasing the efficiency of their energy use, address barriers to the manufacture or sale of energy efficient products or services, and include initiatives for research and development regarding the environmental and economic impacts of energy use.

The bill would add a fifth component to the FOCUS program by requiring the implementation of energy efficiency or renewable energy measures in facilities of Wisconsin manufacturing businesses to enhance their competitiveness. These measures would be required to be consistent with the energy efficiency and renewable energy objectives under the loans to manufacturing businesses program created by the bill. Also, the bill would require each of the FOCUS program components that pertain to industrial and manufacturing customers to be coordinated with the newly-created Commerce loan program, and the FOCUS administrator would be required to submit an annual report to the Public Service Commission (PSC) and Commerce regarding the program components directed towards industrial and manufacturing customers. Currently, the investor-owned utilities contract with the Wisconsin Energy Conservation Corporation, a private nonprofit organization, to administer FOCUS.

Although FOCUS is a utility-administered program, as opposed to a state-administered program, state law confers certain oversight responsibilities to the PSC to ensure that the program complies with its statutory requirements. The bill would modify these oversight responsibilities by requiring the PSC to cooperate with Commerce to ensure that the FOCUS and the newly-created loan programs are coordinated.

## **FISCAL EFFECT**

The bill would create a manufacturing business loan program that would provide loans to businesses for projects related to energy efficiency and/or renewable energy. The loans would be

funded from existing WDF and federal funds and from any federal funds provided specifically for this purpose. As a result there would be no increase in state expenditures. However, to the extent loans were made from the Wisconsin Development Fund, fewer WDF funds would be available for projects that would otherwise be supported by the WDF. Loan repayments would be deposited to a program revenue appropriation account to make future loans under the program. No additional Commerce administrative staff or resources would be provided for the program.

Prepared by: Ron Shanovich