



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1135

Business Development Initiative (Commerce)

[LFB Summary of the Governor's Budget Reform Bill: Page 28, #2]

CURRENT LAW

The Business Development Initiative (BDI) program is designed to create employment opportunities for persons with severe disabilities by starting or expanding for-profit businesses. The program has three components: (a) direct technical assistance provided by Commerce staff to individuals, small businesses, or nonprofit organizations; (b) technical assistance grants; and (c) management assistance, working capital and fixed asset financing grants and loans to individuals, small businesses or nonprofit organizations. BDI is funded by both a GPR and program revenue repayments appropriation. Annual funding for the program is \$150,000 GPR and \$60,000 PR.

GOVERNOR

Eliminate the Business Development Initiative program and delete \$133,800 GPR in 2001-02 (\$16,200 in GPR has been awarded in 2001-02), \$150,000 GPR in 2002-03 and expenditure authority of \$60,000 PR in each year. The balance in the BDI repayments appropriation and all interest and principal received in repayment of loans under the program would be deposited in the general fund. As a result, GPR-earned would increase by \$184,300 in 2001-02 and \$18,300 in 2002-03.

DISCUSSION POINTS

1. The bill would require most state agencies to reduce GPR appropriations by 3.5% in 2001-02 and 5.0% in 2002-03. Under the bill, Commerce would be required to reduce GPR expenditures by \$694,600 in 2001-02 and \$992,300 in 2002-03. As part of the Department's GPR expenditure reductions, the Governor has recommended eliminating the Business Development Initiative program and GPR funding of \$133,800 in 2001-02 and \$150,000 in 2002-03. (The amount of funding reduction

for 2001-02 is lower because awards have been made.) In addition, the balance in the repayments appropriation and all interest and principal received from previous loans would be placed in the general fund. As a result, an estimated additional \$184,300 in 2001-02 and \$18,300 in 2002-03 would be deposited in the general fund.

2. As noted, BDI awards technical assistance grants and working capital, fixed asset financing and management assistance grants and loans. Technical assistance grants provide funding for developing and planning, at the preliminary, start-up or expansion stages of a for-profit business or to help create employment opportunities for persons with severe disabilities. Grants may be awarded to individuals with disabilities, small businesses (for-profit businesses with less than 100 full-time employees), or nonprofit organizations. Grants are awarded on a competitive basis and the maximum technical assistance grant is \$15,000. Technical assistance grants may be used for all of the following: (a) preparation of feasibility studies or business and financial plans; (b) providing a financial package; (c) engineering studies, appraisals, or marketing assistance; and (d) legal, accounting, or managerial services. Working capital, fixed asset financing and management assistance grants and loans provide funding related to the start-up or expansion of a for-profit business involving persons with disabilities. Eligible applicants include individuals, small businesses or nonprofit organizations. The maximum award is \$30,000 in a fiscal biennium. A grant of up to 20% of the total award not to exceed \$5,000 is to be used for management assistance; the remaining balance of up to \$25,000 can only be used to provide working capital or fixed-asset financing. Management assistance grants may be used for engineering and legal services and professional assistance in establishing or improving management systems, policies or procedures related to financial planning, personnel, inventory control, production planning, purchasing, bookkeeping, record keeping and marketing. Working capital or fixed asset financing loans may be used to purchase, improve or rehabilitate equipment, land or buildings or for working capital.

3. The Table below shows BDI program funding and awards for fiscal years 1995-96 through 2000-01. The table shows that demand for program awards has decreased substantially since 1997-98. As noted, Commerce expects to award a total of \$16,200 in grants and loans in 2001-02.

<u>Appropriations</u>	<u>1995-96</u>		<u>1996-97</u>		<u>1997-98</u>		<u>1998-99</u>		<u>1999-00</u>		<u>2000-01</u>	
GPR	\$150,000		\$150,000		\$150,000		\$150,000		\$150,000		\$150,000	
PR-Repayments	30,000		12,700		60,000		60,000		60,000		60,000	
Total	\$180,000		\$162,700		\$210,000		\$210,000		\$210,000		\$210,000	

<u>Awards</u>	<u>Amount</u>		<u>No.</u>		<u>Amount</u>		<u>No.</u>		<u>Amount</u>		<u>No.</u>		<u>Amount</u>		<u>No.</u>	
Technical Assistance	\$77,000	7	\$75,000	8	\$78,000	8	\$17,000	3	\$9,000	3	\$24,700	8				
Working Capital, Fixed-Asset Financing & Mgmt. Assistance	47,800	4	43,500	4	30,000	1	22,000	2	62,500	3	52,400	3				
Other*	18,200	8	43,500	17	26,500	17	5,000	1	5,000	1	9,500	1				
Total	\$143,000	19	\$162,500	29	\$134,500	26	\$44,000	6	\$76,500	7	\$86,600	12				

*Includes state share of awards made under the self-employment and job creation programs operated in conjunction with DVR in DWD.

4. The Department indicates that, after BDI is eliminated, it can continue to meet the needs of BDI applicants through its other financial assistance programs. Both the rural economic development program (RED) and the minority business finance program (MBF) have early planning grant and working capital and fixed asset financing grant and loan programs that could provide financial assistance to applicants that would otherwise be eligible for BDI grants and loans. The early planning grant programs are similar to the BDI technical and management assistance programs. Total annual funding for the RED is \$656,600 GPR and \$120,100 PR (repayments). Total funding for MBF is \$279,200 GPR annually and \$477,200 PR in 2001-02 and \$317,200 PR in 2002-03. In addition, the Development Finance Board, which approves awards from the Wisconsin Development Fund (WDF), has indicated a willingness to work with disabled applicants to obtain fixed asset and working capital financing. The WDF also has an urban early planning grant program similar to those offered under RED and MBF. Total funding for the WDF is \$5,953,800 GPR and \$4,050,000 PR (repayments).

5. Demand for financial assistance through the WDF, MBF, and RED typically exceeds available annual funding. Eliminating the BDI would increase competition for WDF, MBF and RED grants and loans. As a result, it is possible that applicants that would otherwise receive grants or loans through BDI would not obtain financial assistance when forced to compete for that funding through other programs. (As noted, Commerce staff believe that existing programs would have sufficient funding to accommodate the additional applicants.) In order to ensure that eligible applicants receive priority consideration for financial assistance, the Committee may wish to retain the BDI program at some level of funding. One alternative would be to retain the BDI program and GPR funding at its current annual level of \$150,000. A second alternative would be to retain the program but provide annual funding of \$90,000. As shown in the Table above, this level of funding would be sufficient to meet the highest annual demand for grants and loans since fiscal year 1997-98.

6. However, if GPR funding were retained for BDI without some offsetting decrease in GPR expenditures, Commerce would not meet the 3.5% and 5.0% annual GPR expenditure reductions required under SS AB 1. As noted, Commerce has indicated it believes it could meet demand for BDI awards through its existing financial assistance programs, including WDF. Since WDF has substantially more GPR funding than the other programs, annual funding for WDF could be reduced by the amount needed to offset the GPR provided for BDI (\$150,000 or \$90,000). In addition, the bill would eliminate the BDI program revenue repayments appropriation and deposit in the general fund an estimated \$184,300 in 2001-02 and \$18,300 in 2002-03 from the appropriation balance and from interest and principal received from repayment of loans under the program. In order to retain this revenue, expenditure authority for the BDI repayments appropriation could be established at \$0 and the June 30, 2003, balance in the appropriation could be deposited in the general fund.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to eliminate the BDI program and delete \$133,800 GPR in 2001-02 and \$150,000 GPR in 2001-02 and expenditure authority of \$60,000 PR annually. In addition, deposit the balance in the repayments appropriation and all interest and principal received in repayment of loans in the general fund (estimated at \$202,600 for the biennium).

2. Delete the Governor's recommendation and retain BDI annual funding of \$150,000 GPR. Further, delete expenditure authority of \$60,000 PR annually for the repayments appropriation. Require the June 30, 2003, balance in the program revenue repayments appropriation to lapse to the general fund (estimated at \$202,600). Delete \$133,800 GPR in 2001-02 and \$150,000 GPR in 2002-03 from the Wisconsin Development Fund.

3. Delete the Governor's recommendation. Instead provide the BDI annual funding of \$90,000 GPR and expenditure authority of \$0 for the program revenue repayments appropriation. Require the June 30, 2003, balance in the program revenue repayments appropriation to lapse to the general fund (estimated at \$202,600). Delete \$90,000 GPR annually from the Wisconsin Development Fund

4. Delete the Governor's recommendation.

Alternative 4	GPR	PR	TOTAL
2001-03 REVENUE	- \$202,600	\$0	- \$202,600
2001-03 FUNDING	\$283,800	\$120,000	\$403,800

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