

2797

(Base) Agency: Tribal Gaming Revenue Allocations
Commerce - Gaming Economic Development Grants

Recommendations:

Paper No. 161: Alternative 2 (a)(i)(j)

Comments: Paragraphs 3-5 discuss the competing studies on the impact of tribal gaming on surrounding areas. There is no consensus, and it's unclear whether casinos create jobs and increase economic development, or whether they divert money and cannibalize other businesses. My gut feeling is people who gamble have less money to spend on other things.

The gov's proposed grant and loan program would provide \$\$ to businesses situated in counties where a casino is located. Commerce could offer a grant or loan to a business if it was negatively impacted by a casino, or "had a legitimate need for the \$\$" (pretty broad slush fund criteria). There's also a special, and rather large, earmark for Brown County to build a new arena.

The gov's proposal is really duplicative of other Commerce grant and loan programs (see paragraph 8). But, I suppose there are political reasons for supporting a distinct new grant program (see paragraphs 9 & 10), and practical reasons like economic diversity and stability (see paragraph 11). As proposed by the governor, this new grant program would be the 3rd largest administered by Commerce, behind minority business development, community-base economic development and rural economic development (see paragraph 13).

Alternative 2(a) reduces funding to make the new grant program more comparable to existing grant programs in terms of dollars expended annually (see end of paragraph 13). Alternative 2(i) makes Commerce come back to JFC under passive review when they have a more detailed plan of how many staff they will really need (see paragraph 14). Alternative 2(j) makes the appropriation annual rather than continuing so the legislative has more oversight of this new slush fund (see paragraph 16).

But, any combination of the sub-alternatives under Alternative 2 would be fine. So would the option of maintaining current law.

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Joint Committee on Finance

Paper #161

Tribal Gaming Revenue Allocations

Gaming Economic Development and Diversification Grants (Commerce-- Departmentwide & Economic Development)

[LFB 1999-01 Budget Summary: Page 130, #3]

CURRENT LAW

The Department of Commerce (Commerce) administers a variety of economic development programs designed to provide state financial assistance to businesses that are starting, expanding or locating in different areas of Wisconsin. The financial assistance programs include the Wisconsin Development Fund (WDF), Rural Economic Development (RED), Minority Business Development Finance (MBDF), Community-Based Economic Development (CBED), Brownfields Grant, Mining Economic Development, Forestry Education and federal small cities Community Development Block Grant (CDBG) programs. The Department also administers the state Development Zone and Enterprise Development Zone programs which provide tax credits to businesses that locate or expand in economically distressed areas.

GOVERNOR

Create a gaming economic development grant and loan program and a gaming economic diversification grant and loan program to provide financial assistance to businesses that are located in counties that are affected by Native American gaming operations. A total of \$2,500,000 PR in 1999-2000 and \$5,500,000 PR in 2000-01 and 1.0 PR position each year would be provided for grants and loans and to administer the programs. Of the amounts appropriated, not more than \$100,000 annually could be expended for marketing the programs. In addition, the Department would be required to make gaming economic development grants to Brown County of \$500,000 in 1999-2000 and \$1,000,000 in 2000-01. Funding would be provided from tribal gaming revenue provided to the state under recently completed state-tribal

gaming compacts. Of Wisconsin's 72 counties, 52 either have casinos or are adjacent to counties that do.

DISCUSSION POINTS

1. Eight tribal gaming agreements contain government to government MOU that relate to the use of additional compact payments including two agreements that propose an economic development fund. A common element in most agreements is a provision that the Governor undertake his best efforts within the scope of his authority to assure that monies paid to the state under the agreements are expended for specified purposes. With certain exceptions these purposes are: (a) economic development initiatives for benefit of tribes and/or American Indians within Wisconsin; (b) economic development initiatives in regions around casinos; (c) promotion of tourism within the state; and (d) support of programs and services of the county in which the tribe is located.

2. The two gaming related grant and loan programs are intended to promote economic development and to diversify the local economies of areas near Native American gaming operations. In addition, Native American businesses would be eligible for economic diversification grants and loans. These programs appear to meet the specific state-tribal agreement for uses of gaming compact monies.

3. Although there have been many studies analyzing the economic effects of Native American gaming operations, this research has not necessarily led to a consensus view. In part, this is because the studies were contracted by the industry or opponents and designed to focus on factors that would support a point of view. For example, most of the early research was conducted for Native American gaming associations and measured the increased wages, taxes and local purchases generated by Native American casinos. However, these studies usually did not attempt to identify the sources of the additional revenue, measure out-of-state purchases or quantify social costs. For example, in March, 1993, a study was published that measured the economic benefits of Native American gaming facilities in Wisconsin. The study was sponsored by the Wisconsin Indian Gaming Association and the UW Cooperative Extension Service and conducted by economist James Murray. Murray determined that the gaming operations directly generated \$275 million in gross revenues, had payrolls of \$68.4 million, employed 4,500 persons and purchased \$56.4 million in goods from Wisconsin suppliers. The report concluded that the casinos directly generated 10,239 full time jobs (at the gaming operations and in other businesses), while a multiplier effect led to an additional 22,863 jobs.

4. Other studies have had different conclusions. Robert Goodman's (director of the United States Gambling Study) study of legalized gambling as a strategy for economic development indicates that many studies omit the offsetting costs. Goodman notes that a study in South Dakota a year after legalizing video gambling showed significant declines in spending for clothing, recreation services, businesses, auto dealers and service stations. He concludes that gambling diverts money from other businesses to the gaming operations and, in effect, cannibalizes other state businesses.

An Illinois Business Review study determined that riverboat gambling did not have a significant effect on the overall level of employment. A 1995 study by the Wisconsin Policy Research Institute calculated that Native American Gaming operations cost the Wisconsin economy \$130 million when high social costs were assumed (such as costs related to compulsive gambling). Moreover, the study estimated that \$224 million was transferred to areas around the casinos from the rest of the state. In the areas distant from casinos, Native American gaming had a negative effect on the local economies. It should be noted, however, that the report indicated that Native American gaming was generally beneficial to Wisconsin when low or moderate social costs were assumed.

5. The conflicting information provided by these studies makes it difficult to draw conclusions about the economic and social effects of Native American Gaming operations on the state and local communities. However, in reviewing the literature, there are some recurring themes in many of the reports. First, the economies of the tribal communities and the areas around the gaming operations generally benefit in the aggregate. The Wisconsin Policy Research Institute determined that areas within 35 miles of the Native American casinos received a net economic gain of \$339 million even when high social costs were assumed. A March, 1999, study commissioned by the National Gambling Impact Study Commission and conducted by the University of Chicago and three consulting firms drew similar conclusions. The study determined that for communities within 50 miles of the casino, overall employment and earnings improved, crime and infant mortality were not affected and income-maintenance and other transfer payments decreased. In addition, gambling operations have significantly improved the economic conditions of Native American communities and resulted in more self-sufficiency. Investment, employment and earnings have increased significantly in tribal economies. For example, Murray found that 1,400 of 2,000 tribal jobs in Wisconsin were the result of casino gambling and gaming revenues constituted between 40% to 90% of tribal revenues.

Second, a significant shift in revenue occurs between state businesses as a result of gaming operations. People generally allocate a portion of their discretionary income for certain purchases. In the absence of a casino, this income would be used to purchase certain goods and services from local businesses. To the extent gambling operations attract discretionary expenditures from people, money is shifted from local non-casino businesses into casino-related activities. This occurs even in the areas that are proximate to the gaming operations. As noted, the Policy Research Institute estimated a transfer of \$224 million to gaming areas from the rest of the state. However, it is important to recognize that, in a market economy, individuals often adjust their spending patterns. For example, the opening of Miller Park in Milwaukee is expected to shift some consumer expenditures from local businesses to the ballpark area.

Third, the employment effects of Native American gaming operations, both positively and negatively, generally occur in the recreation, tourism and consumer service industries. The jobs that are created or lost are mostly in restaurants, taverns, hotels and motels, food stores and in similar businesses in the industry. These types of jobs are frequently low paying and seasonal. Few of the research studies indicate a significant increase in employment for manufacturers, professional services or high technology firms. These industries tend to have higher paying full-time jobs and tend to adjust better to long-term changes in economic growth. Thus, there is concern about the

effect of gaming operations on the long-term economic stability and strength of the local economy and tribal community.

Finally, the contribution of the gaming operations to the incidence of compulsive gambling is often not closely examined. The cost of compulsive gambling can be significant as is shown in the Policy Research Institute study. The study estimates that if high costs associated with gambling are assumed, the impact of Native American gaming operations on the state goes from a positive \$166 million (with low social costs) to a negative \$130 million.

6. *Gaming Economic Development Grants and Loans.* The gaming economic development grant and loan program would provide financial assistance to businesses located in Wisconsin counties in which a casino operated by a federally recognized American Indian tribe or band was located or to businesses located in adjacent counties. Commerce would be authorized to make a grant or loan to a qualified business if it is determined that: (a) the business has been negatively impacted by the existence of the casino; and (b) the business has a legitimate need for the grant or loan to improve the profitability of the business.

Two types of awards could be made under the program: (a) a grant of up to \$15,000 for professional services; and (b) a grant or loan of up to \$100,000 for fixed asset financing. Professional services would include: (a) preparation of preliminary feasibility studies, feasibility studies or business and financial plans; (b) providing a financial package; (c) engineering studies, appraisals or marketing assistance; and (d) related legal, accounting or managerial services. Award recipients would be required to provide a cash match of at least 25% of the cost of the project. Grants or loans could not be made for purposes related to tourism unless the Department of Tourism concurred in the award. Commerce could waive the matching requirement if it determined that the business was subject to extreme financial hardship. The Department would also be authorized to forgive all or any part of a loan made under the program.

The program would be provided \$2,500,000 in 1999-00 and \$3,000,000 in 2000-01 and 1.0 position in each year to fund grants and loans and to administer both of the gaming grant and loan programs. Of the total amount provided, \$114,000 in 1999-00 and \$125,900 in 2000-01 would fund the position and related administrative costs. In addition, the Department would be required to make grants to Brown County of \$500,000 in 1999-00 and \$1,000,000 in 2000-01. (These funds would be provided in the 1999-01 biennium only and would be used to support construction of a new arena.) Consequently, the total amount of funding available for gaming economic development grants and loans would be \$1,886,000 in 1999-00 and \$1,874,100 in 2000-01. In addition, gaming economic development loans that were repaid would be placed in a program revenue repayments continuing appropriation and could be used to make additional grants and loans.

7. *Gaming Economic Diversification Grants and Loans.* The gaming economic diversification grant and loan program would provide grants and loans beginning in July, 2000, to businesses located in counties in which a casino operated by a federally recognized American

Indian tribe was located or to businesses located in adjacent counties. Commerce would be authorized to make a grant or loan to an eligible business for the purpose of diversifying the economy of a community in proximity to a casino. In determining whether to make an award, the Department would be required to consider all of the following: (a) a project's potential to retain or increase the number of jobs; (b) a project's potential to provide for significant capital investment; and (c) a project's contribution to the economy of the community in proximity to the casino and of the state. Grant or loan recipients would be required to provide a cash match equal to 25% of the project's cost. Awards could not be made for tourism related projects unless the Department of Tourism concurred in the award. Funding of \$2,500,000 would be provided in 2000-01 for gaming economic diversification grants and loans. In addition, a separate, program revenue continuing appropriation would be created for loan repayments.

8. As noted, the economic development program would provide awards for early planning projects and fixed asset financing. Businesses can already apply for both types of assistance under the Rural Economic Development program. Businesses can also apply for fixed asset financing through the major economic development grants and loans from the WDF. In addition, AB 133 would establish a WDF early planning grant program. Thus, Wisconsin businesses can obtain funds through the WDF and RED programs for the same general purposes as those for which the gaming economic development program is created. Moreover, there is currently little information about the number of projects that would be eligible for financing through this program. From this view, it could be argued that current Commerce programs could provide assistance to businesses affected by gaming operations and the gaming compact revenue could be used for other purposes.

9. On the other hand, the gaming economic development program could be viewed as a means of providing assistance to businesses with different types of projects than those typically funded through existing programs. The program is designed to provide aid to businesses whose profitability is affected by Native American gaming operations and would fund projects that help the business adjust its operations to be more competitive in the marketplace. Since, to be eligible the county must be adjacent to a Wisconsin county with a casino, the provision would exclude persons from Crawford, Grant, Pepin and Pierce counties from obtaining gaming grants and loans even though these Wisconsin counties are adjacent to counties in neighboring states where American Indian casinos are operated.

10. By assisting businesses that may have lost revenues and customers to gaming operations, the program would help address the issue of the transfer of revenues from state businesses to Native American gaming operations. Since the Policy Research Institute report indicates the transfer of revenues is from businesses throughout Wisconsin, another option would be to expand eligibility to all businesses in the state not just those in counties adjacent to gaming operations.

11. The gaming economic diversification program would provide grants and loans to diversify the local economy. Eligible projects would be required to maintain or increase employment and expand capital investment in the local community. Again, these types of projects

could be eligible for WDF and RED grants. Further, the number of potential applicants cannot be specified. As a result, an option would be to reallocate these gaming compact revenue to other uses.

However, the economic diversification program is designed to provide assistance to businesses that would make permanent investments and employ local residents in industries that were not gaming-related, such as manufacturing. Consequently, this program would help address concerns about the long-term economic stability of communities in which gaming operations are significant components. The program would encourage the development of other industries that would contribute to long-term employment and economic growth.

Under the provisions of AB 133, while it appears that economic diversification grants and loans could be awarded to Native American businesses, eligibility of such businesses is not specified. As a result, the Committee could consider specifying that the Department place a priority on Native American businesses when awarding diversification grants and loans.

12. The bill requires Commerce to make grants to Brown County of \$500,000 in 1999-2000 and \$1,000,000 in 2000-01. The funds would be provided to support construction of a new arena and would only be provided in the biennium. Since there is a casino in Green Bay (Oneida) and building the arena is an economic development project, it could be argued that allocating gaming compact monies for its construction would generally conform to the compact provisions regarding use of the monies. On the other hand, it might be argued that building a county arena does not specifically address the effect of Native American Gaming operations on individual businesses in Brown County. From this view, it would be more appropriate to delete the allocation for the arena and use those funds to make grants and loans to individual businesses. Alternatively, the funding for Brown County could be deleted from the gaming economic development grant or loan program. If the Committee wishes to provide funding from another source, Commerce could be authorized to provide \$500,000 in 1999-2000 and \$1,000,000 in 2000-01 from the WDF.

13. AB 133 would provide total annual funding (GPR and PR repayments) for the RED, Minority Business Development Finance (MBDF) and the Community-Based Economic Development (CBED) programs as follows: RED--\$776,600; MBDF--\$596,400; and CBED--\$762,100. In comparison, the gaming economic development and diversification grants and loans programs would be provided \$2,500,000 in 1999-2000 and \$5,500,000 in 2000-01. Of the financial assistance programs administered by Commerce, only the WDF and Brownfields grant programs would be appropriated more funding under the bill. The RED, MBDF and CBED have been in existence for about ten years and have had consistent demand for awards over most of that period and the amounts appropriated for the programs in part reflect that demand. In contrast, the potential number of applicants or the amount of funding that will be needed for awards for the gaming economic development and diversification grants and loans have not been estimated. Moreover, because the programs would be new, it is likely that it would take a period of time for demand for the program to build. Consequently, the Committee could reduce the funding for each program to \$1,000,000 annually. As result funding for the gaming economic development program would be reduced by \$1,500,000 in 1999-2000 and \$2,000,000 in 2000-01. Funding for gaming economic diversification grants and loans would be reduced by \$1,500,000 in 2000-01. Under this alternative,

a total of \$3 million would be provided in the biennium. This would provide a level of funding more comparable to other Commerce programs. The funding level could be increased in the next biennium, if warranted by the level of demand.

14. The bill provides \$114,000 in 1999-2000 and \$125,900 in 2000-01 and 1.0 position to administer the grant and loan programs. This is similar to administrative support that was provided for the Brownfields grant program in the 1997-99 biennial budget (1997 Wisconsin Act 27). Act 27 provided 2.0 positions and \$266,700 for a brownfields ombudsman and to administer the program. However, since the potential number of sites and remediation costs were known, it was possible to project a range of potential demand for the program. As noted, the potential level of demand for the gaming programs is uncertain. Consequently, the Committee could delete the position and funding from the bill. Once more specific information concerning demand for the program is developed, Commerce could request to restore the position and related funding through legislation or under the s. 16.505/515 passive review process.

15. Under the gaming economic development program, Commerce can award a grant or loan if it determines that the business has been negatively impacted by Native American casinos and it has a legitimate need for financial assistance to improve profitability. In making diversification awards the Department must consider the project's potential to create jobs, provide for capital investment and improve the local economy. Because of the general nature of these provisions, concerns have been expressed that grants and loans could be awarded to businesses for projects that did not significantly improve employment and investment in the local economy. In this regard, it should be noted that the process by which Commerce awards, underwrites contracts and disburses grants and loans is designed to ensure that the projects that are funded are financially sound and make significant contributions to economic development of the state and local economies.

Applicants for financial assistance must first discuss the project with and submit preliminary information to the Department's local area managers. After consultation, the information is submitted to the Department for review by a finance specialist. This information is related to both the applicant business and the proposed project and includes: ownership interests; employment levels; union affiliation; financial statements; project proposal; project budget; project investment; and employment resulting from the project. The finance specialist also uses the following underwriting criteria: project viability; full-time job creation/retention; part-time job creation/retention; employe wages; employe benefits; total company investment in Wisconsin; involvement of targeted business, employes or location; community benefit; and effects on competing businesses. If a project is approved a contract is negotiated. The contract contains the terms of the grant or loan including obligations, contingencies and disbursement processes. Contracts typically require creation or retention of a certain number of jobs, as well as records, reports and audits. Documentation of expenditures and other financial statements are required before monies are disbursed. Failure to meet the terms of the contract can result in termination of the contract and subsequent collection activities.

Although current practices are designed to fund financially sound economic development projects, most other Commerce financial assistance programs also have statutory criteria which

must be considered before awards are made. The Appendix shows the criteria that the Rural Economic Development Board must consider in making RED early planning grants. If the Committee wishes to specify criteria that should be considered in awarding gaming economic development or diversification grants and loans, it could specify that these criteria (absent RED specific references) be applied with certain modifications. One modification could be to require that the business be starting or expanding. Also, an additional criterion could be included which required the Department to consider the effect of the project on the profitability of the business.

16. Under the bill, the program revenue repayment appropriations would be continuing appropriations to provide the Department with the flexibility to award grants and loans to viable projects when the demand for funding exceeds currently appropriated amounts. This would also allow the Department to carry funding over from years in which demand for grants and loans is relatively low and to expend it, without legislative review, in years in which demand would increase.

However, creating the appropriations as continuing could allow significant expenditures to occur in future years without direct legislative approval. These type of spending increases typically should be addressed through the biennial budget process. Providing the repayment appropriations as annual appropriations would retain a degree of legislative oversight. Amounts not expended at the end of the fiscal year would lapse to the appropriation balance. These funds would be available for appropriation by the Legislature in future years. If appropriation levels were insufficient to accomplish legislative objectives due to unforeseen circumstances, the Department could also submit a s. 16.515 passive review request for increased expenditure authority.

ALTERNATIVES TO BASE

1. Approve the Governor's request to create a gaming economic development grant and loan program and a gaming economic diversification grant and loan program to provide financial assistance to businesses that are located in counties that are affected by Native American gaming operations. Provide \$2,500,000 PR in 1999-2000 and \$5,500,000 PR in 2000-01 and 1.0 PR position each year for grants and loans and to administer the programs. Require that, of the amounts appropriated, not more than \$100,000 annually could be expended for marketing the programs. In addition, require the Department to make gaming economic development grants to Brown County of \$500,000 in 1999-2000 and \$1,000,000 in 2000-01. Funding would be provided from tribal gaming revenue provided to the state under recently completed state-tribal gaming compacts.

Alternative 1	PR
1999-01 FUNDING (Change to Base) [Change to Bill]	\$8,000,000 \$0
2000-01 POSITIONS (Change to Base) [Change to Bill]	1.00 0.00

2. Approve the Governor's request with the following modifications:

a. Reduce funding for the gaming economic development grant and loan program by \$1,500,000 PR in 1999-2000 and \$2,000,000 PR in 2000-01. As a result, annual funding of \$1,000,000 would be provided.

Alternative 2a	PR
1999-01 FUNDING (Change to Base)	\$4,500,000
<i>[Change to Bill]</i>	<i>- \$3,500,000]</i>
2000-01 POSITIONS (Change to Base)	1.00
<i>[Change to Bill]</i>	<i>0.00]</i>

b. Expand eligibility for both the economic development and diversification grants and loans to businesses located in Wisconsin counties that are adjacent to counties in neighboring states where American Indian casinos are operated.

c. Require that businesses in all counties in Wisconsin be eligible for gaming economic development grants and loans

d. Reduce funding for the gaming economic diversification grant and loan program by \$1,500,000 PR in 2000-01. Funding of \$1,000,000 would be provided in 2000-01.

Alternative 2d	PR
1999-01 FUNDING (Change to Base)	\$6,500,000
<i>[Change to Bill]</i>	<i>- \$1,500,000]</i>
2000-01 POSITIONS (Change to Base)	1.00
<i>[Change to Bill]</i>	<i>0.00]</i>

e. Require the Department to give priority to Native American businesses when awarding economic diversification grants and loans.

f. Eliminate the requirement that the Department make grants to Brown County and delete the amounts (\$500,000 in 1999-2000 and \$1,000,000 in 2000-01) that would be provided from the gaming economic development grant and loan program. Funding of \$2,000,000 in 1999-2000 and \$2,500,000 in 2000-01 would be provided.

Alternative 2f	PR
1999-01 FUNDING (Change to Base)	\$6,500,000
<i>[Change to Bill]</i>	<i>- \$1,500,000]</i>
2000-01 POSITIONS (Change to Base)	1.00
<i>[Change to Bill]</i>	<i>0.00]</i>

g. Eliminate the requirement that the Department provide grants from tribal gaming

revenues to Brown County and, instead, authorize it to make grants to Brown County of \$500,000 in 1999-2000 and \$1,000,000 in 2000-01 from the WDF.

h. Eliminate the requirement that the Department make grants to Brown County.

i. Delete \$114,000 PR in 1999-2000 and \$125,900 PR in 2000-01 and 1.0 PR position in each year from the appropriation for gaming economic development grants and loans. (Funding of \$2,386,000 PR in 1999-2000 and \$2,874,100 PR would remain for the program under the bill.)

<u>Alternative 2i</u>	<u>PR</u>
1999-01 FUNDING (Change to Base)	\$7,760,100
[Change to Bill]	- \$239,900]
2000-01 POSITIONS (Change to Base)	0.00
[Change to Bill]	- 1.00]

j. Create PR repayments appropriations as annual (rather than continuing).

k. Include statutory provisions that require the Department to consider the following criteria in awarding gaming economic development and diversification grants and loans: (a) the business is starting up or expanding; (b) the extent to which the start-up or expansion of the business will create new jobs; (c) the economic condition of the municipality; (d) the number of new jobs created by the business in relation to the amount of the grant or loan; (e) in relation to the amount of the grant or loan, the number of existing jobs that will be retained by the business if the grant or loan is awarded and that likely would not be retained if the grant or loan is not awarded; (f) the degree to which the new or expanded operations of the business will provide beneficial services to the municipality where it is located; (g) whether financing is available from other sources; (h) whether the business would be able to start or expand its operations without a grant or loan; and (i) the degree to which the grant or loan affect the profitability of the business.

3. Maintain current law.

<u>Alternative 3</u>	<u>PR</u>
1999-01 FUNDING (Change to Base)	\$0
[Change to Bill]	- \$8,000,000]
2000-01 POSITIONS (Change to Base)	0.00
[Change to Bill]	- 1.00]

Prepared by: Ron Shanovich

APPENDIX

Statutory Criteria, RED Early Planning Grants

Before awarding a grant, the RED board shall consider all of the following:

- a. The extent to which the start-up or expansion of the business will create new jobs.
- b. The economic condition of the rural municipality.
- c. The number of new jobs created by the business in relation to the amount of the grant.
- d. In relation to the amount of the grant, the number of existing jobs that will be retained by the business if the grant is awarded and that likely would not be retained if the grant is not awarded.
- e. The degree to which the new or expanded operations of the business will provide beneficial services to the rural municipality where it is located.
- f. Whether financing is available from other sources.
- g. Whether the business would be able to start or expand its operations without a grant.