2803

(Base) Agency: Commerce - Dept-Wide & Econ Development
WDF, Loan & Grant Fees

Recommendations:

Paper No. 287: Alternative 3 Alt. 4

Comments: The gov's recommendation seems reasonable, but FB makes a case for deleting 1 PR position in paragraph 12. Alternative 3 approves the gov's request plus deletes the position.

FB says this position would likely remain vacant for most of the biennium due to a lack of PR funds. If funding picks up, the agency could always come back to JFC under the passive review process.

prepared by: Barry

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

May 6, 1999 | Joint Committee on Finance | Paper #287

Wisconsin Development Fund -- Loan and Grant Origination Fee (Commerce -- Departmentwide and Economic Development)

[LFB 1999-01 Budget Summary: Page 135, #9(a)]

CURRENT LAW

The Wisconsin Development Fund (WDF) consists of eight programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) Wisconsin trade project; (e) employe ownership assistance grants; (f) manufacturing assistance grants; (g) revolving loan fund capitalization grants; and (h) rapid response fund loans. Commerce is authorized to charge an origination fee of up to 1.5% 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. Under AB 133, the appropriation would have annual expenditure authority of $107,900 PR and 2.0 PR authorized positions.

GOVERNOR

Authorize the Department to charge the 1.5% loan origination fee on most WDF awards of $100,000 or more. The fee would generate an estimated $23,500 in annual program revenues.

DISCUSSION POINTS

1. The 1.5% grant and loan origination fee on CLT and MED of $200,000 or more was established by 1997 Wisconsin Act 27 (the 1997-99 biennial budget). The Act created the related program revenue administrative appropriation for fee revenues and provided an auditor position and a grants specialist position funded by the appropriation.

2. The grants specialist position is located in the Bureau of Development Finance

which is responsible for underwriting many of the Department's economic development grant and loan programs. The Bureau underwrites grants and loans for the WDF, Minority Business Development Finance (MBDF), Rural Economic Development (RED), and the federal small cities Community Development Block Grant (CDBG) programs. The Bureau consists of 13.5 authorized positions.

3. The auditor position provided in Act 27 is in the Office of Loan and Grant Administration. 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 12.1 positions.

4. Commerce requested the auditor position, loan origination fee and related administrative appropriation in its 1997-99 biennial budget proposal to address an increased workload in administering financial assistance programs. 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 ($100 to $249 million). The Division of Economic Development has an active portfolio of over $158 million. 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.

5. The Governor included these provisions in the 1997-99 budget submitted to the Legislature. The Legislature approved the provisions and also converted an existing grants specialist position in the Bureau from GPR to PR funding. The position was transferred to the origination fee appropriation. It was estimated that the fee would generate $220,000 in program revenue in the biennium.

6. Due to the delayed enactment of Act 27 (October 11, 1997), the Department was unable to apply the loan origination fee on most 1997-98 WDF awards. In addition, the conversion of the grants specialist position was effective retroactively to July 1, 1997 and funding had to be provided for the entire fiscal year. The Department did not fill the auditor position authorized under the Act.

7. According to the final fiscal year 1997-98 appropriation status report, total expenditures from the WDF administration appropriation were $49,300. No program revenues were reported so the appropriation had a year-end balance of -$49,300. As of May 1, 1999, appropriation revenues were $49,015. Based on current information, fiscal year 1998-99 expenditures are expected to be $43,700 while revenues are projected to be $52,800. As a result, the year-end balance in the appropriation would be -$40,200. Table 2 shows the actual 1997-98 and estimated 1998-99 expenditures, revenues and ending balance for the WDF administration appropriation.

TABLE 1

Estimated WDF Administration Appropriation Revenues, Expenditures and Balances, 1997-98 and 1998-99

	1997-98	1998-99
Opening Balance	$0	-$49,300
Revenues	$0	52,800
Expenditures	49,300	43,700
Closing Balance	-$49,300	-$40,200

8. Under s. 16.513 (3) of the statutes, when there are insufficient monies projected for a program revenue appropriation to cover expenditures, the agency is required to submit a plan to DOA to assure that sufficient monies will be available to cover projected expenditures. If DOA approves the plan, it is subject to 14-day passive review by the Committee. In June, 1998, Commerce submitted a plan for the WDF program revenue administration appropriation that indicated that it would not fill the auditor position until revenues were available to fund the position.

9. The difference between projected fee revenues and actual collections is primarily due to the time required to collect the loan origination fee. Generally, entities interested in applying for WDF grants or loans must first talk to the Department's local Area Development Manager (ADM). The ADM discusses the project with the applicant, develops preliminary project information and submits the information to the Department for review. A finance specialist underwrites the project and makes a funding recommendation to the Secretary's Office. If the Secretary approves the project, a preliminary commitment letter is sent to the applicant detailing the terms and conditions of the Department's participation in the project. The applicant must then submit an application to the Development Finance Board. If the Board approves the project, a contract must be negotiated detailing the terms of the financing arrangement. In some cases, contract negotiations can take a period of months. Once a contract is signed the recipient can begin drawing funds from the grant or loan by documenting project expenditures to Commerce. Typically, the loan origination fee is not paid until funds are drawn.

10. A review of WDF awards for fiscal years 1995-96 through the present indicates that the current origination fee should generate revenues that are sufficient to fund expenditures from the appropriation for the grants specialist position during the 1999-2001 biennium. It is estimated that, under current law, origination fees would be $95,700 annually. However, in order to fully fund the two authorized positions, estimated expenditures from the appropriation would be $118,800 in 1999-2000 and $118,600 in 2000-01. Consequently, the current fee would not fund both positions. (These amounts exceed expenditure authority because additional funding will be required for compensation reserves and related expenses.)

11. Under the bill, the origination fee would be modified to apply to most WDF awards of $100,000 or more. (Specifically, the expanded fee would apply to customized labor training, technology development and major economic development grants and loans. Most WDF awards of $100,000 or more are made through these programs.) This would increase annual fee revenues by $21,900 to an estimated $117,600. Table 2 shows the estimated revenues, expenditures and appropriation balances for the WDF administration appropriation under AB 133, assuming both authorized positions are occupied in each year of the biennium. The table shows that even with the additional origination fee revenues, there would not be enough revenue generated to fully fund both authorized positions in each year of the biennium. However, although ongoing estimated revenues would be less than ongoing expenditures under the expanded origination fee, in the future, appropriation revenues could increase to fully fund the two positions. If this situation occurred the auditor position could be filled.

TABLE 2

Estimated WDF Administration Appropriation Revenues, Expenditures and Balances under AB 133

	1999-00	2000-01
Opening Balance	-$40,200	-$41,400
Revenues	$117,600	117,600
Expenditures	118,800	118,600
Closing Balance	-$41,400	-$42,400

12. In order to ensure that there is enough revenue to fully fund the grants specialist position, it is likely that Commerce will have to leave the auditor position vacant through most of the 1999-2001 biennium. Current staff will continue to administer the economic development loan and grant programs. As a result, the Committee may wish to delete $48,600 PR and 1.0 PR auditor position in 1999-2000 and $47,200 and 1.0 PR position in 2000-01. If revenues generated in the biennium proved to be sufficient to fund the auditor, Commerce could restore the position and funding under s. 16.515 of the statutes.

13. Table 3 shows projected biennial revenues and expenditures for the WDF administration appropriation under the current origination fee provisions and assuming only the grants specialist position is funded. The table shows that current loan origination fees would be sufficient to fund the position. If the expanded fee is viewed as a disincentive for some businesses with viable projects to apply for financial assistance, the Committee could delete the AB 133 fee expansion and still provide sufficient revenue to fund appropriation expenditures. However, given the current appropriation deficit, the expanded fee could be viewed as providing insurance that sufficient revenue would be provided to fund the existing position.

TABLE 3

Estimated WDF Administration Appropriation Revenues, Expenditures and Balances under Current Fee and Funding One Position

	1999-00	2000-01
Opening Balance	-$40,200	-$3,800
Revenues	$95,700	$95,700
Expenditures	59,300	60,700
Closing Balance	-$3,800	$31,200

14. Another alternative would be to increase the current origination fee (on CLT and MED awards over $200,000) from 1.5% to 2.0%. This would generate $128,200 or an increase of $32,500 in annual origination fee revenues. This should allow Commerce to fill the position in the second year and generate a level of ongoing revenues that would not result in a significant balance in the appropriation in future years.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to apply a 1.5% origination fee on most WDF grants and loans of $100,000 or more. Reestimate additional program revenue to be $21,900 annually.

Alternative 1	PR
1999-01 REVENUE (Change to Base)	$43,800
[Change to Bill	*- $3,200]*

2. Increase, from 1.5% to 2.0%, the current origination fee that applies to MED and CLT grants and loans in excess of $200,000. Estimate additional revenues at $32,500 annually.

Alternative 2	PR
1999-01 REVENUE (Change to Base)	$65,000
[Change to Bill	*$18,000]*

3. Approve the Governor's recommendation. Further, delete $48,600 PR in 1999-2000 and $47,200 in 2000-01 with 1.0 PR position.

Alternative 3	PR
1999-01 REVENUE (Change to Base)	$43,800
[Change to Bill	*- $3,200]*
1999-01 FUNDING (Change to Base)	- $95,800
[Change to Bill	*- $95,800]*
2000-01 POSITIONS (Change to Base)	- 1.00
[Change to Bill	*- 1.00]*

4. Delete $48,600 PR and 1.0 PR position in 1999-2000 and $47,200 PR and 1.0 PR position in 2000-01. (The expansion of the 1.5% origination fee would not be adopted.)

Alternative 4	PR
1999-01 REVENUE (Change to Base)	$0
[Change to Bill	*- $47,000]*
1999-01 FUNDING (Change to Base)	- $95,800
[Change to Bill	*$95,800]*
2000-01 POSITIONS (Change to Base)	- 1.00
[Change to Bill	*- 1.00]*

5. Maintain current law.

Alternative 5	PR
1999-01 REVENUE (Change to Base)	$0
[Change to Bill	*- $47,000]*

2 MO# Alt 1

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 4 NO 12 ABS ____

1 MO# Alt 4

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 8 NO 8 ABS ____

3 MO# Alt 2

BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
GARD	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUBER	Y	N	A
RILEY	Y	N	A

AYE 9 NO 7 ABS ____