



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #175

Tribal Gaming Revenue Allocations

Wisconsin Development Fund, Manufacturing Assessment Grants and Business Employees' Skills Training Program -- Funding (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 170, #6 and Page 173, #8]

CURRENT LAW

The Wisconsin Development Fund (WDF) consists of the following programs: (1) technology development grants and loans; (2) customized labor training grants and loans; (3) major economic development grants and loans; (4) urban early planning grants; (5) Wisconsin trade project; (6) employee ownership assistance grants; (7) manufacturing extension center grants; (8) revolving loan fund capitalization grants; and (9) the rapid response fund. The WDF is funded through both a general purpose revenue (GPR) and a program revenue (PR) appropriation. The GPR appropriation is the primary source of funding for the WDF. Annual base level funding for the program is \$7,503,800 GPR and \$2,500,000 PR.

Manufacturing extension grants provide financial assistance to technology-based nonprofit organizations. A technology-based nonprofit organization is defined as a nonprofit corporation or organization under state or federal law that is exempt from the federal income tax and that has as a mission the transfer of technology to businesses in the state. In order to obtain a manufacturing extension center grant, the technology-based nonprofit organization is required to submit a plan to Commerce that details its proposed expenditures and performance measures related to the project and the Secretary of Commerce must approve the plan. The maximum amount of grants that can be awarded is \$1 million in a fiscal year. Currently, the grants must be made from the WDF program revenue repayments appropriation. Grants can be used to provide financial support to the programs and operation of technology-based nonprofit organizations. Manufacturing extension center grants cannot be made after June 30, 2001.

The Business Employees' Skills Training Grant Program (BEST) was created by 1999 Wisconsin Act 177 to provide grants to certain small businesses to assist employees or prospective employees in acquiring work skills sought by the businesses. Eligible applicants are businesses located in Wisconsin with: (1) no more than 25 full-time employees; and (2) no more than \$2.5 million in gross annual income in the prior year. A business cannot receive more than \$10,000 in BEST grants. The maximum total amount of grants that can be awarded is \$500,000 in fiscal year 2000-01. Grants can be used to pay costs of providing skills training or other education for current or prospective employees that is related to the needs of the business but may not be used to pay wages or compensate for lost revenue that is connected to providing the training or other education. Grants cannot be used to pay more than 80% of the cost of any skills training or other education that is provided to the owner of the business, the owner's spouse or a child of the owner. No single funding source is specified for BEST grants under current law. Commerce makes BEST grants from the Wisconsin Development Fund (WDF), Rural Economic Development (RED) program or Minority Business Finance (MBF) programs depending on the type of applicant and project.

GOVERNOR

Create a separate program revenue appropriation for the manufacturing extension grant program and provide \$1,000,000 PR annually in tribal gaming revenues to fund the program. The program would no longer be funded through WDF appropriations. The program's sunset date of June 30, 2001, would be repealed.

Provide \$300,000 PR annually to fund the Business Employees' Skills Training (BEST) grant program. A separate program revenue appropriation would be created from tribal gaming revenue provided to the state under state-tribal gaming compact amendments.

DISCUSSION POINTS

Manufacturing Extension Center Grants

1. Manufacturing extension center grants will only be made to the Wisconsin Manufacturing Extension Partnership (WMEP). WMEP is operated by an organization that includes the Department of Commerce, University of Wisconsin System and Extension, Wisconsin Technical College System (WTCS), Marquette University, Milwaukee School of Engineering, labor and business. WMEP provides process improvement and technology transfer services to small and medium-sized manufacturers. WMEP personnel work directly with the manufacturers to address their needs in areas such as production techniques, technology applications, business practices and specialized training. Solutions are offered through a combination of direct assistance from staff and work with outside resources. WMEP is part of a nationwide system of manufacturing extension partnerships that receive federal funding from the National Institute of Standards and Technology (NIST).

2. Currently, WMEP has an operations staff of manufacturing specialists, environmental engineers, three regional managers and three training coordinators. In many cases the person's salary provides a cash or in-kind match for federal funds. The organization's budget for fiscal year 2000-01 is \$6,998,700. The table below shows the budget by source of funds. For fiscal year 2000-01, the federal funding requires a 50% cash match from WMEP.

TABLE 1

WMEP Budget

	<u>Amount</u>	<u>Percent</u>
Partner In-Kind/Cash match	\$1,119,800	16.0%
Customer Fees	1,851,000	26.4
WTCS GPR	375,800	5.4
Commerce Grant (PR)	1,000,000	14.3
Federal (NIST) Grant	2,309,800	33.00
Other	<u>342,300</u>	<u>4.9</u>
Total	\$6,998,700	100.0%

3. WMEP provides technical and business solutions customized to the needs of the company, through assessment and planning, identification of improvement opportunities, and assistance with implementation. According to WMEP, it had a direct impact of \$32.3 million on customers in fiscal year of 1999-00. In addition, WMEP provided assistance to 434 small manufacturers during the year. Table 2 shows the estimated benefits of WMEP activities.

TABLE 2

**Estimated Benefits from WMEP
Activities 1999-00**

Increased Sales	\$18,507,000
Savings in Labor and Materials	5,727,200
Expense Avoidance	3,435,000
Inventory Cost Reduction	4,012,000
Scrap and Rework Savings	<u>590,600</u>
Total	\$32,271,800

4. Since WMEP was established, Commerce has provided assistance in a number of ways. Under a provision of 1993 Wisconsin Act 232, the WDF, GPR appropriation was changed from a biennial to a continuing appropriation for 1993-94. This change allowed the Department to fund new projects with WDF monies that were previously encumbered but no longer necessary to

fund the projects for which they were awarded. Act 232 also created a manufacturing extension grant program for that year. The Department used prior year encumbrances and the new grant program to provide WMEP a manufacturing extension grant of \$1.575 million. The 1997 budget review bill (1997 Wisconsin Act 237) created the manufacturing assistance program that included the manufacturing assessment, customized supplier training and technology transfer subprograms. The total amount of grants that could be awarded through all three subprograms could not exceed \$750,000 in a biennium. The manufacturing assistance subprograms were designed, in part, to provide state funding to the Wisconsin Manufacturing Extension Partnership (WMEP).

5. The manufacturing assistance program and subprograms were eliminated in 1999 Wisconsin Act 9 (the 1999-01 biennial budget) and replaced by current manufacturing extension center grant program. Annual expenditure authority of \$1,000,000 was provided under the WDF repayments appropriation to fund the program. Commerce cannot encumber any funds for manufacturing extension center grants after June 30, 2001.

6. WMEP is relying on the Commerce grants as an important source of funding in its 2001-02 and 2002-03 budgets. Table 3 shows WMEP projected budgets for each fiscal year. The table shows that the \$1.0 million that would be provided from Commerce would represent 12.4% and 11.1%, respectively, of WMEP's budget. The funding provides a match for federal funds.

TABLE 3

**WMPE Projected Budgets
2001-03**

	2001-02		2002-03*	
	Amount	Percent	Amount	Percent
Partner In-Kind/Cash Match	\$1,139,000	14.1%	\$2,100,000 **	23.3%
Customer and Other Fees	2,920,000	36.2	2,200,000	24.4
Commerce	1,000,000	12.4	1,000,000	11.1
Federal Grant (NIST)	2,633,000	32.6	3,000,000	33.3
WTCS	\$376,000	4.7	---	---
Other	---	---	700,000	7.9
Total	\$8,068,000	100.0%	\$9,000,000	100.0%

*Projection based on strategic targets.

**Includes WTCS, GPR funding.

7. The bill establishes tribal gaming revenues as the source of annual funding for manufacturing extension center grants. Eight tribal gaming agreements contain government to government memoranda of understanding (MOU) that relate to the use of additional compact payments. 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 Native Americans 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. Several of the MOU add a fifth purpose relating to either law enforcement or public safety initiatives on the reservations. However, two of the amended compact agreements do not include MOU on government-to-government matters and are silent on the issue of how the state uses the tribal gaming revenue. It could be argued that these revenues are unrestricted and may be used for any purpose.

8. Use of tribal gaming revenues as a source of funding for manufacturing extension center grants is supported because the activities of WMEP promote economic development. WMEP services have increased sales, investment and employment in small businesses in the state that can benefit tribes and Native Americans. Many of WMEP's clients are located in rural communities and areas affected by Native American gaming operations.

9. However, WMEP does not generally target its services to businesses that are specifically impacted by Native American gaming or that are located in such areas. Thus, it could be argued, that it is not clear that WMEP services are of particular benefit to tribes or areas affected by Native American gaming operations. As an alternative, manufacturing extension center grants could continue to be funded by the WDF program revenue repayments appropriation. Base level expenditure authority for the appropriation includes \$1,000,000 designated for these grants in the 1999-01 biennium. However, this would reduce funding that would be available for other WDF grants and loans.

Business Employees' Skills Training Grants

1. The Business Employees' Skills Training Grant (BEST) program was established by the Legislature to assist small businesses that are facing severe labor shortages in upgrading the skill of their workforce. Commerce considers the following factors in awarding grants: (a) whether the business is in an industry with severe labor shortages; (b) wages and benefits paid to the trained employee compared to the cost of training; (c) impact of training on applicant's business operations; (d) viability of the applicant; (e) qualifications of trainer; (f) whether the business is in a development zone; and (g) availability of funds.

2. A version of the BEST program was included as a Senate amendment to the 1999-01 budget bill. Under the Senate amendment, \$1 million annually would have been provided from the WDF for BEST in grants and loans. However, the bill approved by the Conference Committee did not include the BEST program. In May, 2000, the Legislature established the current BEST program in 1999 Wisconsin Act 177. As passed by the Legislature, BEST grants would have been funded by the WDF. The Governor vetoed this provision. As a result, no specific funding source for the program was provided. Commerce determined that the program would be funded from the WDF, Rural Economic Development (RED), Minority Business Finance (MBF), and Business Development Initiative (BDI) programs, depending upon the applicant and training project.

3. Through April 5, 2001, a total of \$173,800 in BEST grants had been made to 39 applicants. Of the total, 32 awards totaling \$157,000 had been made from the RED and seven awards totaling \$16,800 had been made from the WDF. Grants have been used to fund training activities such as participation in vendor provided programs that teach individuals farm management skills and attendance at technical colleges in computer programming and related courses.

4. The argument for using tribal gaming monies to fund BEST grants is similar to that for manufacturing extension center grants. The BEST program also promotes job creation and economic development in some small businesses that are affected by tribal gaming operations and other business that are located in areas that would benefit Native Americans and tribes. Also, Commerce indicates that there is a relatively high level of demand for BEST grants. Through March of 2001, the Department had received 84 applications for BEST grants. Providing a separate source of funding allows the Department to evaluate and make awards to useful training projects without competition for the same funding from other potentially successful economic development projects that would occur if the BEST program was included in other Commerce economic development programs such as WDF or RED.

5. Again, similar to the manufacturing extension center grant funding issue, it could be argued that the BEST program does not specifically target training grants to businesses that benefit Native Americans, tribes or businesses that are affected by tribal gaming. Moreover, the BEST program passed by the Legislature would have been a subprogram funded by the WDF. An alternative would be to delete tribal gaming revenues as a source of funding and instead fund the BEST program from the WDF. Since most of the training grants to date have been made from the RED, a second alternative would be to fund the BEST program from the RED program. Finally, since the Governor item-vetoed Act 177 to eliminate a specific funding source for BEST and the program has functioned about a year without a separate funding source, an alternative would be to continue to operate the program as it is under current law.

WDF Funding Level

1. As noted, the WDF is funded by both a GPR and program revenue repayments appropriation. The repayments appropriation was 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. Table 4 shows the estimated revenues, expenditure authority and appropriation balances for the repayments appropriation in each year of the biennium. Base level expenditure authority for the appropriation includes \$1,000,000 annually that was used to make manufacturing extension center grants. If those grants are funding with tribal gaming revenues instead, one alternative would be to reduce the WDF, GPR appropriation by the \$1 million annually to reflect the additional \$1 million in program revenue that would be available for awards. Table 4 shows that with the base level expenditure authority and estimated revenues, the appropriation balance in the repayments appropriation would be \$6,610,600 in 2002-03. If the repayments appropriation is viewed as a revolving loan fund that should offset GPR funding over time, GPR funding could be reduced and offset with the additional program revenues. Specifically,

as a second alternative, GPR funding could be reduced \$5 million in 2001-02 and \$1 million in 2002-03. Ongoing program revenues would match ongoing expenditures in the repayments appropriation. As a third alternative, these changes could also be made in conjunction with a reduction in GPR funding to reflect the new funding source for manufacturing extension grants. Table 5 shows WDF funding under each alternative.

TABLE 4

**WDF Projected Revenues Annual Expenditure Authority
and Projected Repayments Appropriation Balances**

Opening Balance	\$5,834,000	\$5,741,500
Revenues	2,407,500	3,369,100
Expenditure Authority	<u>-2,500,000</u>	<u>-2,500,000</u>
Closing Balance	\$5,741,500	\$6,610,600

TABLE 5

Alternative WDF Total Funding Levels

	(Annual) Governor	(Annual) Offset GPR With WMEP Funding	Offset GPR With PR		Combined Alternatives	
			2001-02	2002-03	2001-02	2002-03
GPR	\$7,503,800	\$6,503,800	\$2,503,800	\$6,503,800	\$1,503,800	\$5,503,800
PR	<u>2,500,000</u>	<u>2,500,000</u>	<u>7,500,000</u>	<u>3,500,000</u>	<u>7,500,000</u>	<u>3,500,000</u>
Total	\$10,003,800	\$9,003,800	\$10,003,800	\$10,003,800	\$9,003,800	\$9,003,800

2. The WDF 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 revenues that are available from the appropriation. Consequently, if program revenues are used to offset GPR funding, while estimated WDF awards in the 2001-03 biennium would not be affected, overall funding available to the WDF would be reduced by the amount of offset. In this regard it should be noted that Commerce and DOA increased the budget authority for the repayments appropriation by \$4 million in 2000-01 and expects to award this additional amount by the end of the fiscal year. Using program revenues to offset GPR would reduce total WDF funding and limit the Department's ability to fund more economic development projects in the future.

ALTERNATIVES TO BASE

A. Manufacturing Extension Center Grants

1. Approve the Governor's recommendation to create a separate program revenue appropriation for the manufacturing extension center grant program [20.143(1)(ko)] and provide \$1,000,000 PR annually in tribal gaming revenues to fund the program. (The program would no longer be funded through WDF appropriations.) The grant program's sunset date of June 30, 2001, would be repealed.

<u>Alternative A1</u>	<u>PR</u>
2001-03 FUNDING (Change to Base) [Change to Bill]	\$2,000,000 \$0]

2. Delete the Governor's recommendation. Instead, eliminate the sunset of the manufacturing extension center grant program on June 30, 2001. (The grants would continue to be funded from the WDF repayments appropriation.)

<u>Alternative A2</u>	<u>PR</u>
2001-03 FUNDING (Change to Base) [Change to Bill]	\$0 - \$2,000,000]

B. Business Employees' Skills Training Program

1. Approve the Governor's recommendation to create a separate program revenue appropriation for the business employees' skills training grant program (BEST) [20.143(1)(kp)] and provide \$300,000 PR annually in tribal gaming revenues to fund the program.

<u>Alternative B1</u>	<u>PR</u>
2001-03 FUNDING (Change to Base) [Change to Bill]	\$600,000 \$0]

2. Delete the Governor's recommendation and, instead, require that the business employees' skills training program be funded from the WDF.

<u>Alternative B2</u>	<u>PR</u>
2001-03 FUNDING (Change to Base) [Change to Bill]	\$0 - \$600,000]

3. Delete the Governor's recommendation and, instead, require that the business employees' skills training program be funded from the RED.

Alternative B3	PR
2001-03 FUNDING (Change to Base)	\$0
<i>[Change to Bill]</i>	<i>- \$600,000]</i>

4. Maintain current law. (The business employees' skills training program would continue to be funded from various Commerce grant and loan programs.)

Alternative B4	PR
2001-03 FUNDING (Change to Base)	\$0
<i>[Change to Bill]</i>	<i>- \$600,000]</i>

C. WDF Funding Level

1. Reduce funding for the WDF by \$1,000,000 GPR annually to reflect the change in funding for manufacturing extension center grants.

Alternative C1	GPR
2001-03 FUNDING (Change to Base)	- \$2,000,000
<i>[Change to Bill]</i>	<i>- \$2,000,000]</i>

2. Reduce funding for the WDF by \$5,000,000 GPR in 2001-02 and \$1,000,000 GPR in 2002-03. Increase expenditure authority for the WDF repayments appropriation [20.143(1)(ie)] by \$5,000,000 PR in 2001-02 and \$1,000,000 PR in 2002-03. (This alternative could be adopted in addition to, in lieu of, Alternative C1.)

Alternative C2	GPR	PR	TOTAL
2001-03 FUNDING (Change to Base)	- \$6,000,000	\$6,000,000	\$0
<i>[Change to Bill]</i>	<i>- \$6,000,000</i>	<i>\$6,000,000</i>	<i>\$0]</i>

3. Maintain current funding levels for the WDF.

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