



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #284

Community-Based Economic Development Program Conversion To New Economy for Wisconsin Program (Commerce -- Departmentwide and Economic Development)

[LFB 2001-03 Budget Summary: Page 179, #17]

CURRENT LAW

The Community-Based Economic Development (CBED) program provides grants to community-based organizations for local development projects, management assistance and to establish revolving loan funds, grants to political subdivisions for economic development or diversification plans, business incubator grants, regional economic development grants, grants for entrepreneurship training, and grants to conduct venture capital development conferences. Base level funding for the program is \$762,100 GPR.

GOVERNOR

Eliminate the CBED program and replace it with the New Economy for Wisconsin (NEW) program that would provide grants to community-based business incubators and nonprofit organizations that promote entrepreneurship or provide services to high-tech businesses.

DISCUSSION POINTS

1. Under the NEW program, Commerce could award grants of up to \$100,000 to a community-based business incubator that focused on providing services to high-technology businesses or promoting entrepreneurship. The business incubator would be required to meet at least two of the following criteria: (a) charging below market space rental rates; (b) providing shared services; (c) offering management and technical assistance; and (d) providing access to

financial capital through a direct relationship with at least one financial institution. Grant proceeds could only be used for projects that did any of the following: (a) assisted small businesses in adopting new technologies in their operations; (b) assisted technology-based small businesses in activities that furthered the transfer of technology; or (c) assisted entrepreneurs in discovering business opportunities. A community-based business incubator would be defined as a person who was involved in local economic development who operated a facility that was designed to encourage the growth of new businesses by providing office or laboratory space. A small business would be a business with fewer than 100 full-time employees.

2. Under the CBED program, Commerce can make grants to community-based organizations to fund expenses of business or technology-based incubators as follows: (a) up to \$30,000 for operating an existing incubator; (b) up to \$10,000 for technical assistance in the process of starting an incubator, including a feasibility study of the need for and the initial design of the incubator; (c) up to \$100,000 for starting, expanding or rehabilitating an incubator; and (d) up to \$50,000 to create a revolving loan fund for tenants of an incubator. Eligible expenditures include salaries, fringe benefits and other personnel, administrative and operating costs of the community-based organization or incubator that are directly related to starting or operating an incubator. A "business incubator" is a person who operates an organization that is designed to encourage growth of new businesses and that provides at least two of the following services: (a) rental space that is below market rate; (b) shared business services; (c) management and technical assistance; and (d) direct access to capital for member businesses through at least one financial institution. A technology-based incubator is a facility that provides new or expanding technology oriented businesses with all of the following: (a) office and laboratory space; (b) shared clerical and other support service; and (c) managerial and technical assistance. A technology-based incubator must help tenants forge linkages with higher educational institutions and/or federal laboratories for the purpose of technology transfer. A small business is a business that has fewer than 100 full-time employees.

3. Incubator grants made through the NEW program would be used to provide direct services to tenants of the incubator. In addition, the type of tenants that could be assisted with grants would be limited to small high-tech businesses, entrepreneurial enterprises or small-businesses implementing new technologies. In contrast, the CBED incubator grants generally fund costs incurred by the incubator operator such as start-up, operating and expansion expenses, although revolving loan funds could be used to provide direct assistance to tenants. CBED does not specify services that must be provided or the types of tenants that must be served. However, community-based incubators can provide the services required under the NEW program and, specifically, technology-based incubators focus on high-technology businesses.

4. The NEW program would provide grants of up to \$100,000 to nonprofit organizations that provided services to high-technology businesses, promoted entrepreneurship, or provided services or opportunities linking entrepreneurs with potential investors. Similar to incubator grants, grant proceeds could only be used for projects that did any of the following: (a) assisted small businesses in adopting new technologies in their operations; (b) assisted technology-based small businesses in activities that furthered the transfer of technology; or (c) assisted entrepreneurs in discovering business opportunities.

5. CBED provides the following types of financial assistance:

(a) Grants of up to \$30,000 to community based organizations to provide assistance for economic development projects. Eligible local economic projects include: development of a project-specific plans for industrial parks, for downtown business districts or for public infrastructure projects that focus on water, sewer and/or transportation; implementation of training programs for local economic development professionals; and development or implementation of plans that support local economic development projects. (Community-based organizations are organizations involved in economic development that assist businesses likely to employ persons.)

b. Grants of up to \$30,000 to provide one or more of the following management services to small businesses that will create jobs: production of feasibility studies, financial plans, financial projections, or business plans; assistance with preparing loan applications or with reviewing in-house operating procedures; and entrepreneurship and management training.

c. Grants of up to \$30,000 to develop economic development plans for: diversifying the local or regional economy; attracting new businesses and jobs; or promoting development.

d. Grants to community-based organizations that join with political subdivisions to conduct regional economic development projects that are unique to the area and will stimulate the region's economy or create or retain jobs in the region.

e. Grants of up \$50,000 to community-based organizations to establish a local revolving loan fund to make loans to small businesses.

f. Grants of up to \$30,000 to provide funding to private, nonprofit organizations or private nonprofit foundations, including the National Foundation for Teaching Entrepreneurship to Handicapped and Disadvantaged Youth, to teach business skills to economically disadvantaged or socially at-risk children. Grant proceeds must be used for costs associated with teaching skills and developing knowledge necessary to start and maintain business enterprises.

g. Grants of up to \$75,000 to community-based organizations or private nonprofit organizations to conduct venture capital development conferences.

Commerce is also specifically authorized to make annual grants of up to \$125,000 to the Women's Business Initiative Corporation (WBIC) from CBED funding.

6. The grants authorized under the NEW program would be for more limited purposes than the grants to community-based organizations, political subdivisions and nonprofit organizations authorized under CBED. Again, the NEW grants would provide funding to nonprofit organizations that provide services, including linkages with investors, to small high-tech businesses, entrepreneurial enterprises and business that are adopting new technologies in their operations. CBED grants can be made for a wide array of purposes including economic development and diversification plans, management assistance and funding venture capital fairs. CBED programs, such as management assistance, revolving loan fund, entrepreneurship and, to

the extent links to investors could be established, venture capital development fair grant programs, can be used to fund projects similar to those targeted under the NEW program. However, the local economic development project, economic development and diversification plan, and regional economic development project grant programs would be unlikely to fund NEW type projects. The bill would continue to authorize annual grants to WBIC from NEW funding.

7. In awarding NEW grants, Commerce would be required to consider: (a) the quality of the applicant's proposal; (b) the applicant's commitment to the project; (c) the project's potential for economic growth; (d) the past performance of the applicant and of any proposed partners; (e) the qualifications of the individuals who would work on the project; (f) the need for the project by the applicant's clients; (g) the strength of the applicant's collaboration or partnership with other organizations; (h) the project's use of available resources from Wisconsin educational institutions; (i) the project's ability to produce sustainable and continuing benefits after it is completed; (j) the economic distress of the area served by the project; and (k) the readiness of the applicant to implement the project.

8. Under the CBED program, Commerce is directed to consider the following factors before making awards through community-based economic development programs: (a) the level of economic distress in the area, as measured by the unemployment rate; percentage of persons in the area with low to moderate income; the percentage of households participating in the Wisconsin Works (W-2) program; the number of persons permanently laid off due to a major business closing; declining property values and declining population; (b) the need and demand for the project; (c) the need for state financial assistance; (d) the qualifications of the persons who will be managing and operating the project; (e) the level of community support, including financial support, for the project; (f) the viability of the project; (g) the likelihood that the project will result in the creation or retention of jobs; (h) the likelihood the project will result in business development; and (i) whether the project is located in a development zone or an enterprise development zone.

In addition to these general criteria, for certain types of grants, the Department must consider specific criteria related to the project's likelihood of meeting objectives, financial integrity, effect on economic development, and in some cases, effect on certain distress factors, such as unemployment in the area. Specific criteria apply to incubator grants, grants for regional economic development projects, revolving loan fund grants, entrepreneurship training grants and grants for venture capital development conferences.

9. With a few exceptions, the general criteria used to award grants under NEW and CBED are similar, focusing on the need for the project, fiscal soundness of the project, availability of other support and its effect on economic development. NEW specifically requires consideration of the use of resources from Wisconsin educational institutions while CBED requires consideration of the number of jobs created. In addition, CBED has other specific criteria that apply to certain types of grants.

10. Table 1 shows CBED grants by type for fiscal years 1994-95 through fiscal year

2000-01. The table indicates that a substantial number projects that have been funded through CBED would not be eligible for grants under the NEW program. As is noted above, it is not likely that projects funded by economic development project, economic development and diversification plan, and regional economic development grants would receive funding under the NEW program. In addition, many of the incubator grants are used to fund various expenses incurred by operators and business assistance grants are not necessarily targeted to technology or entrepreneurial projects.

TABLE 1

**Community-Based Economic Development Grants
Awarded and Encumbered**

	<u>1994-95</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>
Business Assistance	\$153,600	\$268,700	\$258,000	\$190,500	189,000**	206,100+	N.A.
Economic Development Project	113,800	79,500	122,000	37,600	69,100	65,000	N.A.
Economic Diversification	73,400	38,000	59,200	142,000	25,000	36,000	N.A.
Business Incubator	464,800	310,900	257,900	182,000	215,000	210,000	N.A.
Regional Economic Development	0	100,000	100,000	100,000	100,000	25,000	N.A.
Revolving Loan Fund	0	0	0	0	0	0	N.A.
Entrepreneurship	0	0	0	0	33,000	45,000	N.A.
Venture Capital							
Development Conference	0	0	0	75,000	75,000	75,000	N.A.
Other	<u>80,000*</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>100,000++</u>	
N.A.							
Total Grants	\$885,600	\$797,100	\$797,100	\$727,100	\$762,100	\$762,100	N.A.
Total Grants and Set Asides	\$885,600	\$797,100	\$797,100	\$727,100	\$762,100	\$762,100	N.A.

*Grant to Women's Business Initiative Corp (WBIC).

**Includes a grant of \$95,000 to WBIC.

+Includes a grant of \$25,000 to CAP Services, Inc., and a grant of \$101,100 to WBIC.

++Grant to City of Menasha.

11. A December, 2000, report presented to the Wisconsin Economic Summit in Milwaukee indicated that two-thirds of the total differences in economic growth among metropolitan areas in the U.S. during the 1990's could be attributed to two factors: (a) an area's relative growth in high-tech output; and (b) an area's relative concentration of high-tech activity. This effect is not limited to the growth of companies that create technology, but also to companies that employ or apply high-technology. Regions with strong high-tech communities experience related economic growth in other sectors. Although the state's economy has performed well, according to the report, it has symptoms that are common to states that are not currently strong in developing high technology companies or jobs. The average technology worker's wage in Wisconsin is \$41,000, which is below the national average of \$58,000. Twenty-three percent of residents over 25 years old have college degrees which is slightly below

the national average of 24%, and below the averages of 31% and 26% for Minnesota and Illinois, respectively. Finally, Wisconsin ranked 32nd in a Progressive Policy Institute study that ranked states by their proficiency in the new economy. One cause for the low ranking was the state's poor performance in creating high-tech jobs. The state also ranked 27th in availability of venture capital. The study indicated that the most effective way to stimulate economic growth and creation of quality jobs regionally is to create an environment, such as that found in incubators, that facilitates the origination, growth, and success of high-tech businesses. Because the NEW program would direct investment to small new and developing high-tech businesses and fund technology development in businesses, some view the program as a means for the state to foster the growth of high-tech in Wisconsin. Moreover, no additional funding would be required.

12. On the other hand, many projects that also contribute to economic growth and that are funded under CBED could not be funded under the NEW program. Conversely, CBED does provide grants, such as business assistance and entrepreneurial training grants, that could be used to promote high-tech development in Wisconsin. In addition, the total annual funding of \$762,100 might not be sufficient to have a significant effect on the growth of the technology sector of the state's economy. From this view, a more efficient use of the monies would be to fund local projects that would have a significant effect on local economies, as is the case under CBED. However, it should be noted that, due to the high level of demand for awards, funding for many projects under CBED are prorated.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to eliminate the CBED program and replace it with the New Economy for Wisconsin (NEW) program that would provide grants to community-based business incubators and nonprofit organizations that promote entrepreneurship or provide services to high-tech businesses.

2. Maintain current law.

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