



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #216

### Rural Economic Development Program (Commerce)

[LFB 2003-05 Budget Summary: Page 100, #7]

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#### CURRENT LAW

The Rural Economic Development (RED) program was created in 1989 to provide financial assistance to businesses that start-up or locate in rural areas of the state. The program is funded through a biennial, general purpose revenue (GPR) appropriation and a continuing, program revenue (PR) appropriation. Annual base level funding for the RED is \$656,500 GPR and \$120,100 PR.

#### GOVERNOR

Delete \$50,000 GPR annually from the RED program.

#### DISCUSSION POINTS

1. The RED program provides grants and loans to businesses with fewer than 50 employees that are located in a rural municipality. A rural municipality is: (a) a city, town, or village with a population of 6,000 or less; or (b) a municipality located in a county with a population density less than 150 persons per square mile. The RED provides grants for professional services, entrepreneurial training, and for dairy farm and other agricultural business start-ups, modernizations, and expansions. The program also provides grants and loans for working capital and fixed asset financing in starting or expanding a business, and to pay certain employee relocation and certain retraining costs.

2. The RED is funded by a GPR and a program revenue repayments appropriation. Loan repayments are placed in the program revenue repayments appropriation and used to fund additional RED awards. The repayments appropriation was established to operate like a revolving

loan fund so that, over time, the amounts received from loan repayments could be used to finance additional loans and reduce the need for GPR funding. The following table shows the Commerce's estimate of revenues, base level expenditure authority, and the projected appropriation balance in each year of the 2003-05 biennium. The table indicates that, based on expenditure authority and the Commerce estimate of revenues, the 2004-05 year-end balance in the RED repayments appropriation would be at least \$237,900. Commerce revenue estimates are primarily based on scheduled repayments of outstanding loans, less 10% for potential defaults or late payments. However, in addition to scheduled repayments, Commerce often receives early payments of loans. Further, some businesses do not qualify for or utilize all monies that were previously awarded by Commerce. These remaining (or lapsed) amounts are then made available for additional economic development assistance. Therefore, available revenues often exceed the Commerce estimates (for example, Commerce estimated RED revenues of \$104,400 for 2001-02, while actual revenues were \$147,700).

3. However, even utilizing the Commerce revenue estimates, it would be possible to use some of the repayments as a one-time offset to GPR funding and still maintain ongoing program revenue funding at the established expenditure level of \$120,100. GPR funding for the RED could be reduced by \$237,700 in 2003-04 and PR expenditure authority could be increased by a corresponding amount. Since revenues would be at least sufficient to fund ongoing expenditure authority in the repayments appropriation, base level funding would be maintained in future years.

**RED Projected Program Revenues,  
Annual Expenditure Authority, and Projected Revenues  
2003-05**

	<u>2003-04</u>	<u>2004-05</u>
Opening Balance	\$228,100	\$237,700
Revenues	129,700	120,300
Expenditure Authority	<u>-120,100</u>	<u>-120,100</u>
Closing Balance	\$237,700	\$237,900

4. The RED repayments appropriation is a continuing, program revenue appropriation. 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 of revenues that are available from the appropriation. If program revenues were used to offset GPR funding, while the base level expenditure authority for the 2003-05 biennium would not be changed, the overall amount of funding available for RED awards would be reduced by the amount of the offset.

**ALTERNATIVES**

1. Approve the Governor's recommendation to delete \$50,000 GPR annually from the Rural Economic Development (RED) program.

2. Approve the Governor's recommendation. In addition, reduce GPR funding for the RED by \$237,700 in 2003-04 and increase expenditure authority for the RED repayments appropriation by \$237,700 PR in 2003-04.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$237,700	\$237,700	\$0

3. Delete provision.

<u>Alternative 3</u>	<u>GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$100,000

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