



## Legislative Fiscal Bureau

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May 22, 2007

Joint Committee on Finance

Paper #214

### **Restructure Wisconsin Development Fund (Commerce -- Economic Development)**

#### *Base Agency*

[LFB 2007-09 Budget Summary: Page 91, #9]

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#### **CURRENT LAW**

Under current statutory provisions, the Wisconsin Development Fund (WDF) can provide financial assistance through the following programs: (1) technology development grants and loans and technology development commercialization loans; (2) customized labor training grants and loans; (3) major economic development grants and loans; (4) urban early planning grants; (5) entrepreneurial training grants; (6) Wisconsin trade project; (7) employee ownership assistance grants; (8) revolving loan fund capitalization grants; and (9) the rapid response fund. The WDF also funds the technology commercialization grant and loan program, and is one source of funding (with the Minority Business Development and Rural Economic Development programs) for business employees' skills training grants.

The WDF is funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. The program revenue repayments appropriation was established to operate similar to a revolving loan fund. Amounts received from WDF loan repayments are credited to the repayments appropriation and these monies can be used to fund WDF grants and loans. Base level funding for WDF grants and loans is \$7,098,400 GPR and \$4,050,000 PR. The bill would provide an additional \$1,250,000 GPR in 2007-08 and \$2,000,000 GPR in 2008-09 for the WDF (a total of \$25.5 million for the biennium).

## **GOVERNOR**

Eliminate current Wisconsin Development Fund (WDF) grant and loan programs and related administrative processes, and establish more general program criteria and procedures for distributing financial assistance through the WDF. Under the restructured program, Commerce, at the request of the Development Finance Board (Board), would be authorized to make grants or loans to eligible recipients. Eligible recipients would include governing bodies or "persons" eligible to receive grants or loans. (The universal statutory definition of "person" includes all individuals, partnerships and bodies politic or corporate.)

## **DISCUSSION POINTS**

1. Under the bill, Commerce could make WDF grants or loans for the following eligible activities: (a) capital financing; (b) worker training; (c) entrepreneurial development; (d) providing assistance to technology-based businesses or to businesses at a foreign trade show or event; (e) promoting urban or regional economic development; (f) establishing revolving loan funds; (g) providing working capital; and (h) promoting employee ownership by conducting or implementing feasibility studies to investigate the reorganization or new incorporation of existing businesses as employee-owned businesses.

Commerce would be required to establish criteria for awarding WDF grants and loans, including the types of projects that would be eligible for funding and that would receive priority. The Department would determine conditions applicable to grants and loans awarded. An origination fee of not more than 2% of the amount of the award could be imposed on grants or loans of \$200,000 or more. Fees that were collected would continue to be placed in the program revenue, WDF administration appropriation. With Board approval, Commerce would be required to develop procedures, related to grants and loans for all of the following: (a) submitting applications for grants and loans; (b) evaluating applications; (c) monitoring project performance; and (d) auditing grants and loans. The current requirement that the Department, with Board approval, develop and implement procedures for monitoring grant use, economic growth, job creation, and new jobs would continue.

Provisions requiring Commerce and the Board to encourage and assist small businesses in applying for and obtaining financial assistance would be retained. However, a small business would be defined as a business with fewer than 100 employees, rather than the current definition of a business operating for profit with 250 or less employees. Similarly, the Department could continue to retain 1% of WDF, GPR funding for: (a) evaluations of proposed technical research projects; (b) grants to small businesses for preparing proposals for the federal small business innovative research program; and (c) costs associated with administering the WDF loan portfolio.

When an application for financial assistance was received, the Board would consider a number of factors in determining whether to award a grant or loan. Most of these factors must be

considered under current law. However, the Board could consider any, rather than all, of the factors. Specifically, in determining whether to make an award, the Board could consider any of the following:

- a. Whether the project serves a public purpose.
- b. Whether the project will retain or increase employment in the state.
- c. Whether the project "might not" (rather than "is not likely to" currently) occur without the grant or loan.
- d. Whether financing is available from another source on reasonably equivalent terms.
- e. The extent to which the project will be financed with funds not provided by the state.
- f. Whether funds from the grant or loan will be used to pay overhead costs or to replace funds from another source.
- g. Whether the project will displace any workers in the state.
- h. The extent to which the project will retain or increase employment in the state.
- i. The extent to which the project will contribute to the economic growth of the state and the well-being of residents of the state.
- j. Whether the project will be located in an area of high unemployment or low average income.
- k. The financial soundness of the eligible recipient.
- L. The intention of the eligible recipient to repay the grant or loan.
- m. Whether the project will be located in a targeted area.
- n. For an ethanol production facility on which construction begins after July 27, 2005, whether a competitive bidding process is used for the construction of the ethanol production facility.

When considering whether a project for which financial assistance was requested was located in a targeted area the Board could consider any of the following factors:

- a. Whether the area has high unemployment.
- b. Whether the area has a low median household income.

c. Whether a significant number of workers in the area have been permanently laid off by their employers, or whether public notice has been given by an employer of either a plant closing or a substantial reduction in work force that will result in a significant number of workers in the area being permanently laid off.

d. Whether the area is designated as a development or enterprise development zone.

e. Any other factor the board considers to be an appropriate indicator of a targeted area.

Factors related to declining population and property values, and families receiving AFDC would be deleted. The requirement that 35% of total grants and loans be made to businesses in distressed areas would be retained.

The Board would have to require that, as a condition of receiving a grant or loan, a recipient would have to contribute to a project an amount equal to at least 25% of the grant or loan (or 20% of project costs, rather than 25% of project costs currently). The Board would continue to be responsible for developing a policy related to the repayment of grants and loans awarded under the WDF. Specific provisions would be deleted that required that priority be given to recipients with techniques that reduce or eliminate ozone-depleting substances, hire AFDC assistance recipients, or that projects be located in targeted areas.

The current WDF programs that would be repealed include: (a) revolving loan fund capitalization grants; (b) the rapid response fund; (c) employee ownership assistance grants; (d) major economic development grants and loans; (e) urban early planning grants; (f) technology development grants and loans and commercialization loans; and (g) customized labor training grants. Two programs that have statutory provisions but are not funded, Wisconsin Procurement Institute grants and technology and pollution control and abatement grants and loans, would also be repealed. The Wisconsin trade project grant program would not be repealed, and the entrepreneurial training grant program does not have specific statutory provisions. In addition, the technology commercialization grant and loan programs that were incorporated into the WDF in 2005 Wisconsin Act 25 and related statutory provisions would not be affected by the restructuring.

WDF definitions of terms, including biotechnology, consortium, higher educational institution, major economic development project, technology, and technology-based nonprofit organization that are related to specific WDF programs, would be repealed. There would be cross-reference changes to reflect the repeal and modifications of statutory provisions.

2. These statutory provisions are further reflected in the criteria that are used in underwriting financial assistance provided through programs administered by the Bureau of Business Finance in the Department. The underwriting criteria include:

a. Project viability and risk;

- b. Number of full-time jobs created or retained;
- c. Number of part-time jobs created or retained;
- d. The amount of employee wages and benefits;
- e. Total company investment in the state;
- f. The type of business and ownership;
- g. The number of targeted employees hired;
- h. Location of the project;
- i. Economic impact on the community; and
- j. Effect on competing local businesses.

The relative importance attached to each of these criteria in making awards varies depending on the type and location of the project that is being reviewed.

3. A nine-member Development Finance Board, which is attached to Commerce, approves most WDF grants and loans. The Board consists of the Secretaries of the Departments of Commerce and Workforce Development (DWD) (or designees), the Director of the Wisconsin Technical College System (WTCS) (or designee), and six members appointed by the Governor for two-year terms representing the scientific, technical, labor, small business, minority business, and financial business communities in the state. The Board is statutorily responsible for approving most WDF awards. Commerce has authority to make certain technology commercialization grants and loans, urban early planning grants, entrepreneurial training grants, Wisconsin trade program reimbursements, loan fund capitalization grants, and rapid response fund loans. However, historically, final approval of all awards has rested with the Board.

4. Under current statutory provisions the WDF provides financial assistance through the following programs:

a. *Customized Labor Training Grants.* Customized labor training (CLT) grants fund labor training programs which provide employees with job training in new or more advanced technology, industrial and other employment-related skills, or job training in manufacturing processes to assist employers in maintaining a technologically advanced workforce. The Department can finance up to 50% of eligible project costs not to exceed \$2,500 per employee trained. Grant funds may be used to pay base wages of trainees and associated instructional costs.

b. *Technology Development and Commercialization Grants and Loans.* Technology development grants and loans and technology development commercialization loans fund technical research by a business or consortium to develop new, or improve existing, industrial

products or processes (technology development) and to assist businesses in infrastructure development and commercialization of a new, product or process. Awards can be granted for the following purposes: (1) a technology development grant or loan to a business or consortium to fund technical research to develop new or to improve existing industrial products or processes that have a high probability of commercial success within a relatively short time period (two to three years); or (2) a technology development loan to a business to provide working capital or fixed asset financing to develop the infrastructure of the business or for the initial commercialization of the new industrial product or process.

c. *Major Economic Development Grants and Loans.* Major economic development (MED) grants and loans fund projects that are not eligible for funding under criteria of any other WDF program, and that involve significant capital investment, or creation or retention of a significant number of jobs. The Board decides the amount of funding for a project and a determination as to whether the award is a grant or loan. Historically, awards have ranged between \$3,000 and \$10,000 per full-time job created. Allowable uses generally include expenditures for: construction and expansion; acquisition of existing businesses, land, buildings and equipment; and working capital.

d. *Employee Ownership Assistance Grants.* Employee ownership assistance grants fund the cost of an independent third party to provide professional services to evaluate the feasibility of an employee buy-out. The maximum grant is 75% of eligible project costs up to \$15,000. Grants can fund expenditures for feasibility studies to investigate the reorganization or new incorporation of an existing business as an employee-owned business, and for professional services to implement the study.

e. *Urban Early Planning Grants.* Urban early planning grants provide financial assistance to entrepreneurs and small businesses to fund professional services related to business start-ups or expansions. The urban early planning grant program is administered by the Wisconsin Entrepreneurs' Network (WEN) with funding from Commerce. Grants can be made for up to 75% of eligible project costs up to \$15,000 to a single business. Grants are generally limited to \$3,000 or less, unless it can be demonstrated that the project will have a statewide impact. The total amount of urban early planning grants that can be awarded is \$250,000 in a biennium. Grants must be used to fund early planning projects. An early planning project is the preliminary stages of considering and planning the expansion or start-up of a business that is or will be located in an urban area in the state.

f. *Entrepreneurial Training Grants.* Entrepreneurial training grants are awarded through a program developed in conjunction with the University of Wisconsin-Extension Small Business Development Center (SBDC) designed to help entrepreneurs by providing financial assistance to cover a portion of the cost of attending SBDC's Entrepreneurial Training Program. The urban entrepreneurial training grant program is administered by the Wisconsin Entrepreneurs' Network (WEN) with funding from Commerce. Grants can be made for up to 75% of eligible tuition costs. Eligible tuition costs are limited to the tuition charged by the SBDC

to attend the Entrepreneurial Training Program. Grants must be used to cover the cost of tuition charged for attending the course.

g. *Wisconsin Trade Project Program.* The Wisconsin trade project program provides reimbursement for attending international trade shows, U.S. trade shows (in certain circumstances), and U.S. Department of Commerce sanctioned "matchmaker" trade delegation events. Eligible applicants are businesses, including affiliates, with \$25,000,000 or less in gross annual sales that are operating in the state and manufacturing a product and/or performing a service with potential to be exported. The maximum reimbursement amount is \$5,000 a year, and not more than \$5,000 for participation in a single trade show or matchmaker trade delegation event. The following costs are eligible for reimbursement: (1) fees for participation in a trade show, a U.S. trade show, or a U.S. Department of Commerce sanctioned matchmaker trade delegation event; (2) costs associated with shipping displays, sample products, catalogs or advertising material to a trade show, a U.S. trade show, or matchmaker trade delegation event; (3) costs incurred at a trade show, a U.S. trade show, or matchmaker trade delegation event for utilities, booth construction or necessary modifications, repairs, or other reasonable expenses associated with displays; and (4) costs associated with foreign language translation of brochures, or product information, or with the use of translation services and interpreters at a trade show, a U.S. trade show, or matchmaker delegation event.

h. *Rapid Response Fund.* The rapid response fund provides financial assistance to businesses or local governments to prepare sites for businesses to locate or expand in communities that have experienced plant closings or substantial layoffs. Funding is provided in the form of loans. Loan recipients must provide matching funds equal to 25% of the cost of the project up to a maximum of \$250,000. The Department may not award more than \$2 million in total loans from the rapid response fund in a biennium. Loans can only be used for the following purposes: (1) the renovation or improvement of an existing building; (2) the purchase of land, an existing building, machinery or equipment; and (3) the construction of a new building. Commerce has not made any awards under this provision in recent years.

i. *Revolving Loan Fund Capitalization Grants.* Revolving loan fund capitalization grants provide funding for local revolving loan funds, which are used to promote local and regional economic development, primarily in areas that experience business closings or substantial layoffs. This program is, in part, intended to operate in conjunction with the rapid response fund. The maximum total amount of loan fund capitalization grants that can be made in a biennium is \$500,000. Grants must be used to establish or provide capital for local revolving loan funds. The revolving loan fund must be used to promote local or regional economic development. Commerce has also not made any awards under this provision in recent years.

WDF award recipients are currently required to provide a nonstate match of at least 25% of the eligible project costs. However, in practice, recipients typically must provide matching amounts that exceed the statutorily minimum requirement. In many cases, the match exceeds the amount of the award. Therefore, while the bill would reduce the minimum nonstate match to 20% of project costs, the Committee could consider retaining the current requirement.

Currently, Commerce is authorized to charge an origination fee of up to 2% on MED and 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. In addition, the Department is authorized to use up to 1% of amounts appropriated for GPR, WDF awards for evaluation costs, collection costs, foreclosure costs, and other costs associated with administering the WDF loan portfolio.

5. The technology commercialization grant and loan program was created by 2003 Wisconsin Act 255 to provide financial assistance to entrepreneurs. This program was incorporated into the WDF in 2005 Wisconsin Act 25. To be eligible for awards to individual projects, individual applicants must be: (1) a small business, or individual entrepreneur who intends to form a small business, that is completing a grant application to be submitted to the federal government for the purpose of obtaining early stage research and development funding; or (2) an individual who is starting or developing a business that has significant growth potential, as evidenced by the potential to attract and receive early stage financing from third parties, but who needs assistance with a specific facet of starting or developing the business. As a result, WDF funding is distributed through the following programs:

a. *Technology Assistance Grants.* Technology assistance grants provide financial assistance to entrepreneurs and to start-up and early stage businesses to fund research and development or professional services related to obtaining early stage funding. The technology assistance grant program is administered by the Wisconsin Entrepreneurs' Network (WEN) with funding from Commerce. The maximum grant or loan amount is 75% of eligible project costs up to a statutory maximum of \$15,000. However, in practice, the maximum award amount is \$3,000. Eligible project costs are professional services involved in: (1) preparation and review of a federal research and development (R&D) grant application; (2) obtaining industry information, data or market research needed to complete applications for R&D or early-stage funding; or (3) meeting specific requirements to obtain seed or early-stage financing from outside sources.

b. *Matching Grants and Loans.* Matching grants and loans provide funding to individuals, entrepreneurs, and small businesses for professional services related to developing or the accelerated commercialization of a technologically innovative product, process, or service. The maximum award is the lesser of 20% of the project costs or \$250,000. Grants or loans can be used to fund the following activities: (1) professional services related to developing a proposed technologically innovative product, process, or service, if the applicant has received a grant from the federal government for a substantially similar purpose; or (2) professional services related to the accelerated commercialization of a technologically innovative product, process, or service, if the federal government has notified the applicant that the applicant will receive a grant from the federal government for a substantially similar purpose.

c. *Bridge Grants and Loans.* Bridge grants and loans provide financial assistance to individuals, entrepreneurs and small businesses experiencing financial hardship to cover expenses between early-stage and later-stage financing. A bridge grant or loan may not exceed

the lesser of 75% of project costs or \$100,000. The Department may make a bridge grant or loan to a person who has received early stage financing from third parties or a grant from the federal government to fund early stage research and development, and who has sought additional early stage financing from third parties or applied for an additional grant from the federal government to fund early stage research and development. Commerce may also make a bridge grant or loan for the purpose of funding professional activities necessary to maintain the project research and management team, and funding basic operations until the applicant's additional third party financing request or federal grant application is approved or denied.

d. *Venture Capital Grants and Loans.* Venture capital grants and loans provide financial assistance to individuals, entrepreneurs, and small businesses for early stage financing. The maximum venture capital grant or loan is the lesser of \$250,000 or 50% of project costs. Venture capital grants or loans may be made to provide funding that enhances the applicant's ability to obtain early stage financing from third parties.

e. *Entrepreneurial and Technology Transfer Center Grants.* Entrepreneurial and technology transfer center grants provide financial assistance to support an entrepreneurial and technology transfer center. Organizations, companies, or consortia that support entrepreneurs through an entrepreneurial and technology transfer center are eligible for grants. The maximum amount of grants that can be awarded in a fiscal year is \$500,000. Grants may be used to fund center administrative costs and costs related to providing services including business planning, counseling, education, and technical assistance. Core center services should involve assessing client needs and capabilities, and determining follow-up activities. Grants under this category have been used to fund WEN.

6. Historically, provisions have been enacted that designate a certain portion of WDF funding for a specific purpose. Generally, the designated funding is for a particular activity or project that would not qualify for funding under the existing WDF programs. Initially, most funding was designated for grants for labor training and employment services programs for employees who were laid off from, or affected by, the closing of specific businesses. However, over time, the purposes for which funding was designated have become more varied. In the 2003-05 biennium, Commerce was required to make a grant of \$100,000 in each year to the Minority Business Opportunity Committee (MBOC), and grants during 2003-04 to eligible applicants in areas experiencing plant closings or high unemployment rates. In the 2005-07 biennium, Commerce is required to make: (a) a grant of \$500,000 in 2005-06 for a technology development and technology commercialization grant and loan program to the Board of Regents of the University of Wisconsin-Milwaukee to establish a biomedical technology alliance in southeastern Wisconsin; (b) a grant of \$100,000 in 2005-06 and 2006-07 to the Wisconsin Procurement Institute (WPI); and (c) a grant of \$1.4 million to the City of Green Bay for a downtown waterfront redevelopment project. Under the provisions of 2005 Wisconsin Act 180, Commerce is required to make a grant of up to \$350,000 in 2005-06 and in 2006-07 to the Wisconsin Center for Manufacturing and Productivity, Inc. to provide funding for the Wisconsin Manufacturing Extension Partnership (WMEP). In addition, statutory legislative designations require the Department to make annual awards of \$100,000 to the Center for Advanced Technology and Innovation (CATI) of Racine County and \$100,000 to Urban

Hope Corporation.

7. Under current law, the Board is required to provide more favorable terms on awards for projects located in distressed areas than for those that are located in non-distressed areas. In addition, 35% of total WDF funding must be awarded to projects in distressed areas. Distressed areas are areas which meet any two of the following criteria: (a) high level of unemployment; (b) low median household income; (c) high percentage of population eligible for Wisconsin Works (W-2); (d) a significant number of workers in the area have been permanently laid off; (e) declining populations; (f) an employer in the area has given notice of a plant closing or substantial reduction in force that will result in a significant number of workers in the area being permanently laid off; and (g) the area is designated as a development or enterprise development zone. The Board has authority to determine that the area is affected by another factor that would indicate that the area was a distressed area.

8. Commerce, in cooperation with the Development Finance Board, is required to encourage small businesses to apply for WDF grants and loans by ensuring that there are no undue impediments to their participation, and by assisting small businesses in preparing applications. A small business is a business with 100 or fewer employees or sales less than \$10 million. In the 2003-05 biennium, 150 awards totaling over \$4.3 million were made to small businesses. (These figures reflect the impact of three programs: Business Employee's Skills Training (BEST); Urban Early Planning Grants; and Entrepreneurial Training Grants.)

9. To address legislative concerns about the allocation of WDF funding, the Development Finance Board adopts a distribution plan for awarding WDF funds for each biennium. The plan presents recommendations for the amount of total funds that will be allocated to general categories of WDF programs: (a) entrepreneurial development -- employee ownership program, urban early planning grants, and entrepreneurial training grants; (b) capital finance -- major economic development grants and loans, Wisconsin trade project program, rapid response fund, and revolving loan fund capitalization grants; (c) training -- customized labor training grants, business employee skills training program; and (d) technology -- technology development grants and loans, technology commercialization loans, and technology commercialization grants and loans. For the 2005-07 biennium the WDF is appropriated \$22.3 million, with \$3.2 million of this set-aside for earmarked projects. Of the remaining \$19.1 million, the Board set goals for \$15.1 million in each program group as follows: (a) 3% for entrepreneurial development (\$400,000); (b) 43% for capital finance (\$6.5 million); (c) 26% for training (\$3.9 million); and (d) 28% for technology development (\$4.3 million).

10. Table 1 compares the amounts awarded and encumbered under each of the WDF program groups, starting in 1989-91. For the 2005-07 biennium, award amounts are only shown for fiscal year 2005-06. Fiscal 2006-07 awards have not been completed as of this writing. Note that technology development grants and loans, technology development commercialization loans, and technology commercialization grants and loans are included in the technology development group of WDF awards. Encumbered amounts are shown. However, in a limited number of cases awards are declined or withdrawn, or it is determined that an amount less than the total awarded amount is

sufficient to fund a project. The amounts include grants and loans from both the GPR and program revenue repayments appropriation. The table shows that, generally, the largest proportion of WDF funding is awarded for customized labor training grants and major economic development projects. However, the greatest number of awards are made to individuals through the urban early planning grant, technology assistance grant, and entrepreneurial training grant program. Appendix I contains a listing of the WDF awards approved by the Development Finance Board for fiscal year 2005-06. Amounts shown for 2005-06 in Table 1 differ from those shown in Appendix I because Table 1 shows amounts encumbered, while Appendix I shows amounts awarded by the Board.

11. In the spring of 2006, Commerce transferred the early planning grant and technology assistance grant programs to the Wisconsin Entrepreneurs' Network (WEN) for administration. WEN also administers the entrepreneurial training grant program. WEN is a network of organizations throughout Wisconsin, including the University of Wisconsin-Extension, the Wisconsin Technical College System, WiSys Technology Foundation, the Agricultural Innovation Center at the Department of Agriculture, Trade and Consumer Protection and other state and local nonprofit and educational organizations. WEN offers a variety of services such as business planning, access to capital, technology transfer assistance, and assists high growth businesses to move to the next level. Commerce has a contract with WEN that provides funding for grants and administrative expenses. The Department has access to the data processing system, and receives periodic reports on grant activities. A Commerce underwriter also attends WEN weekly review meetings.

**TABLE 1**

**Wisconsin Development Fund Financial Assistance by Programs -- Amounts Awarded and Encumbered**

	1989-91	1991-93	1993-95 <sup>a</sup>	1995-97 <sup>a</sup>	1997-99 <sup>a</sup>	1999-01 <sup>a</sup>	2001-03 <sup>a</sup>	2003-05	2005-06
Major Economic Development <sup>c</sup>	\$5,920,000	\$6,325,100	\$16,335,900	\$7,284,000	\$10,359,800	\$4,455,600	\$6,288,900	\$11,020,000	\$5,405,000 <sup>b</sup>
Customized Labor Training <sup>d</sup>	17,073,300	3,467,300	6,657,200	9,030,000	6,454,300	8,786,100	7,790,600	3,685,700	1,067,800
Technology Development <sup>e</sup>	1,585,800 <sup>e</sup>	1,894,800 <sup>f</sup>	1,746,100	525,800	3,053,600	7,088,000	3,935,200	1,728,000 <sup>t</sup>	3,829,700 <sup>t</sup>
Research Grants and Loans <sup>g</sup>	110,000	46,600	153,700	17,200	---	---	---	---	---
Employee Ownership	35,000	123,000	91,300	56,000	22,500	---	---	---	---
Export Development <sup>h</sup> / Wisconsin Trade Project <sup>i</sup>	179,400	---	---	63,000	108,100	86,200	155,000	112,300	35,500
Manufacturing Extension Grants <sup>j</sup> / Urban Early Planning and Entrepreneurial Training Grants <sup>k,L</sup>	---	---	---	---	---	2,000,000	1,000,000	---	---
Other	---	---	---	---	---	195,800	623,700	679,200	130,500
Total	<u>2,350,000<sup>m</sup></u> \$27,253,500	<u>1,401,000<sup>n</sup></u> \$13,257,800	<u>4,974,200<sup>o</sup></u> \$29,958,400	<u>100,000<sup>p</sup></u> \$17,076,000	<u>2,750,000<sup>q</sup></u> \$22,748,300	<u>1,700,000<sup>r</sup></u> \$24,311,700	<u>560,000<sup>r</sup></u> \$20,353,400	<u>600,000<sup>r</sup></u> \$17,825,200	<u>2,850,000<sup>u</sup></u> \$13,318,500

<sup>a</sup> Amounts shown for the biennium include program revenue payments and recaptured GPR funding for the 1993-95 through the 2001-03 biennium.

<sup>b</sup> Award amounts for fiscal year 2005-06 only; fiscal year 2006-07 awards are not included.

<sup>c</sup> Program created in 1987.

<sup>d</sup> Includes manufacturing assessment grants in 1991-93 and Business Employee Skills Training (BEST) grants beginning in 1999-01.

<sup>e</sup> Includes applied research in technology grants. The program was repealed by 1993 Wisconsin Act 16 (the 1993-95 biennial budget).

<sup>f</sup> Includes applied research in technology and technology based incubator grants.

<sup>g</sup> Program created in 1989. Repealed in 1997.

<sup>h</sup> Program created in 1985.

<sup>i</sup> The export development loan program was replaced by the Wisconsin trade project program beginning in fiscal year 1995-96.

<sup>j</sup> Program created in 1999. Separate funding source created in 2003-05 biennial budget.

<sup>k</sup> Urban Early Planning Grant program (UEPG) created in 1999; Entrepreneurial Training Grant program created in 2000.

<sup>L</sup> Early planning, technology assistance, and entrepreneurial training grants (ETG) are administered by the Wisconsin Entrepreneurs Network with funding from Commerce.

This funding is used to provide ETGs for the minority business development, Rural Economic Development, and Gaming Economic Development Grant and Loan programs.

<sup>m</sup> Specific legislative awards.

<sup>n</sup> Specific legislative awards and a hazardous pollution assessment grant.

<sup>o</sup> Manufacturing extension center grants awarded from unencumbering previously encumbered funds.

<sup>p</sup> Specific legislative awards, manufacturing assistance grants, revolving loan fund capitalization grants, and rapid response fund.

<sup>q</sup> Specific legislative awards, including grants to Wisconsin Procurement Institute.

<sup>r</sup> Specific legislative awards including grants to United Community Center, Gateway Technical College, and Urban Hope.

<sup>s</sup> Specific legislative award to Wisconsin Minority Business Opportunity Committee, Urban Hope, and Racine Center for Advanced Technology and Innovation.

<sup>t</sup> Includes technology assistance grants, technology development and commercialization grants and loans, bridge grants, matching grants, and venture fund loans.

<sup>u</sup> Specific legislative awards to the City of Green Bay, Biomedical Technology Alliance, Racine Center for Advanced Technology and Innovation, Wisconsin Procurement Institute, Wisconsin Manufacturing Extension Partnership, and Urban Hope.

12. Commerce requested the restructuring of WDF provisions to allow more flexibility in allocating state economic development resources. The Department indicates that the change would reduce the administrative burden on the Department and shorten response time in funding promising economic development projects. In addition, Commerce could be more creative in responding to a particular project proposal or economic issue. Under the bill's provisions, Commerce could continue to fund all the same type of projects as under current law, and focus on small business and distressed areas. Projects that require specific legislative designation under current provisions could be funded under the new guidelines

However, the current WDF programs were enacted by the Legislature for specific purposes and to address certain economic development goals. Program provisions ensure that funds are used for stated policy objectives. For example, CLT funds must be awarded for job training in new or advanced technology and skills to develop a technologically advanced workforce. From this view, changing specific program criteria could lead to a more inefficient use of funds in supporting economic development.

13. In August 2006, the Legislative Audit Bureau (LAB) completed its review of state economic development programs, State Economic Development Programs, Report 06-9. One issue addressed in the report is the number of economic development programs with similar purposes and assistance. Specifically, LAB indicates that, while most programs have been enacted to address a perceived need and with strong support from affected legislators and communities, over time this has resulted in an increasing number of programs having similar purposes and providing similar types of assistance. The LAB recommends that the Legislature consider reducing the number of programs by consolidating statutory requirements and standardizing eligibility criteria for economic development programs that have similar purposes or provide similar services.

14. As introduced by the Governor, the 2005-07 budget included essentially the same WDF restructuring proposal as is included in SB 40. The Legislature deleted this provision and, instead, made the following modifications: (a) incorporated the technology commercialization grant and loan program and associated funding (\$2.7 million GPR annually) into the WDF; (b) required that 35% of WDF funding be awarded to projects in distressed areas; and (c) required that 50% of total WDF funding be awarded to small businesses. As a result, total annual GPR funding for the WDF was increased by \$2.7 million from \$4,498,400 to \$7,098,400. Annual program revenue expenditure authority was maintained at \$4,050,000. The Governor partially vetoed the provisions related to distressed areas and small business, indicating the Department and Board targeted funds to such areas as part of normal award procedures.

15. Under SB 40, statutory provisions related to the technology commercialization grant and loan program would not be changed. As a result, the specific program provisions for: (a) technology assistance grants; (b) matching grants and loans; (c) bridge grants and loans; (d) venture capital grants and loans; and (d) entrepreneurial and technology transfer center grants would govern the distribution of WDF funds through these programs, while other awards would be governed by the more general program criteria and procedures. To provide a more comprehensive restructuring, the Committee may wish to incorporate the technology commercialization grant and loan programs

into more general program criteria under the WDF.

16. The Department administers the Business Employees' Skills Training (BEST) program separately, although a major portion of grant funding is distributed from the WDF. The program provides funds to small businesses to assist them in upgrading the skills of their workforce. Eligible applicants are businesses in specified industrial clusters with: (a) no more than 25 full-time employees; or (b) no more than \$2.5 million in gross annual income in the prior year. The business must be in one of the following industrial clusters; automation; agriculture/food products; biotechnology; information technology; manufacturing; medical devices; paper/forest products; printing; tourism; or childcare (not including in-home care). The maximum grant available is 75% of project costs up to \$1,000 per full-time employee that is trained. Grant recipients must provide a cash match of 25% of project costs. Statutorily, a business cannot receive more than \$10,000 in BEST grants; however, in practice, total grants to a business are limited to \$5,000. The maximum total amount of grants that can be awarded is \$500,000 annually. Grants must be used to pay tuition costs for courses that are directly related to the employee's work requirements. All training must be provided by a qualified independent third party that is acceptable to Commerce. Grants cannot be used to fund costs incurred to train part-time or seasonal employees or costs incurred prior to the Department's formal funding decision.

No single funding source is specified for BEST grants. Commerce makes BEST grants from the WDF, Rural Economic Development (RED), or Minority Business Development (MBD) programs, depending on the type of applicant and project. Total BEST awards were \$63,900 in 2005-06, of which \$59,100 were funded through the WDF. Since a significant portion BEST awards are funded from the WDF, and the restructured fund would have a training component, another alternative would be to incorporate the BEST program into the restructured WDF. However, this would preclude the Department from using other funding sources for program awards.

## **ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to eliminate current Wisconsin Development Fund (WDF) grant and loan programs and related administrative processes and establish more general program criteria and procedures for distributing financial assistance through the WDF.

2. Modify the Governor's recommendation by adopting any of the following modifications:

a. Incorporate the technology commercialization programs in the general WDF grant and loan criteria and procedures.

b. Incorporate the BEST program in the general WDF grant and loan criteria and procedures.

c. Maintain the minimum match amount at 25% of project costs (rather than 20% under the bill).

3. Maintain current law.

Prepared by: Ron Shanovich  
Attachment



**APPENDIX I**

**Wisconsin Development Fund Awards  
July 1, 2005 through June 30, 2006**

**Major Economic Development**

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Bucyrus International, Inc. (South Milwaukee)	Grant for capital improvements including building, equipment, remediation, roads and railways to retain 790 employees and create 190 new jobs.	\$1,000,000
Northwestern Mutual Life Insurance Company (Milwaukee)	Grant for construction of a facility as part of \$85 million business expansion to support 1,000 new positions.	1,000,000
Baldor Electric Company (Oshkosh)	Grant for consolidation of Mukwonago site with Oshkosh and for material handling equipment to retain 153 employees and create 15 jobs.	750,000
ERCO Worldwide, Inc. (Nekoosa)	Grant for mercury cell chlorine production technology with state of the art membrane cell technology to expand production capacity.	500,000
Regal-Beloit Corporation (Beloit)	Loan for constructing training facility onto existing building to retain 41 employees.	500,000
Tomo Therapy, Inc. (Madison)	Loan for expanding manufacturing capacity and building additional office space to retain 142 employees and create 323 new jobs.	500,000
Miller Breweries East, Inc. (Milwaukee)	Grant to upgrade brewery site and storage facility to retain 650 employees.	255,000
	Subtotal	\$4,505,000

**Customized Labor Training**

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Bucyros International, Inc. (South Milwaukee)	Grant to train 190 new positions as part of company expansion.	\$500,000
Pechiney Plastic Packaging, Inc. (Boscobel)	Grant to train 85 existing and 12 new employees for new company location.	122,698
Sweetheart Cup Company, Inc. (Oshkosh)	Grant to train 38 existing and 11 new employees on flexographic printing equipment as part of parent company consolidation.	122,500
ThermaSys Corporation (Franklin)	Grant to train 181 existing employees on new equipment and technology as part of upgrades in development of heat exchangers designed for heavy-duty applications.	119,000
Rock-Tenn Company (Milwaukee)	Grant to train 29 existing and 15 new employees to operate and maintain new Roland press.	110,000
MasterMold, LLC (Mauston)	Grant to train 24 existing and 56 new employees on a new state-of-the-art paint application system.	105,000
Wausaukee Composites (Wausaukee)	Grant to train 57 existing and 93 new employees as part of \$2.5 million expansion. Funds will also be used to acquire and improve a site and purchase equipment.	75,000
Tufco Technologies, Inc. (Green Bay)	Grant to train 59 existing and 68 new employees.	51,772
United Alloy, Inc. (Janesville)	Grant to train seven existing and 17 new employees.	50,580
Huntsinger Farms, Inc. (Eau Claire)	Grant to 135 existing and 28 new employees on new equipment as part of company new addition.	50,000
Beloit Box Company, Inc. (Beloit)	Grant to train 34 existing employees on new equipment. The equipment upgrade is to permit company to become more efficient and expand production opportunities.	43,755
Cascades Tissue Group - Wisconsin, Inc. (Eau Claire)	Grant to train 16 existing employees on new M&E, Winder, Raper and Case Packer equipment.	40,000
Muza Metal Products Corporation (Oshkosh)	Grant to train 32 existing and 38 new employees on new equipment and related software as part of expansion of manufacturing facility	39,710

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Coating Excellence International, LLC (Wrightstown)	Grant to train 59 new employees in new bag-making technology.	38,658
Arcways, Inc. (Neenah)	Grant to train 13 new employees for operation and maintenance of a new robotic machining cell and for 3-D modeling software used to program robot.	27,500
Jay Manufacturing Oshkosh, Inc. (Oshkosh)	Grant to train 5 existing and 5 new employees in laser operations, computer programming, and material handling in conjunction with a facility expansion.	12,500
	Subtotal	\$1,508,673

#### **Business Employees' Skills Training**

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Derby Molded Products (Neenah)	Grant to train 13 existing employees on new plastic injector molder equipment	\$10,000
K-Kom, Inc. (Lannon)	Grant to train 11 existing employees for ISO certification	10,000
Alliance Manufacturing (Fond du Lac)	Grant to train 25 existing employees as part of ISO 9001:2000 compliance	9,300
Midwest Thermal Vac, Inc. (Kenosha)	Grant to train seven existing employees for ISO accreditation for a commercial heat treating company.	7,000
Visonex, LLC (Green Bay)	Grant for web-based patient information management company to train nine existing employees on Microsoft NET.	6,000
Componex Corporation (Edgerton)	Grant to train seven existing employees in developing a lean manufacturing culture to increase production, reduce scrap, and improve on-time delivery.	5,000
K-Kolor, LLC (Lannon)	Grant to train four existing employees for ISO certification.	4,000
Service Container Company (Milwaukee)	Grant to train six existing employees as a cross-functional team in Value Stream Mapping and for a condensed workshop to improve production.	2,600
Quality Plus Printing, Inc. (Wisconsin Rapids)	Grant for two existing employees to participate in Fox Valley Technical College Basic Flexography (printing) seminar.	1,515
Welling Woodworks, Inc. (Stevens Point)	Grant to train nine existing employees in software to be used by cabinetry manufacturers.	1,462
W.J. Higgins and Associates, inc. (Wausau)	Grant to train eight existing employees on new drafting software.	850
Custom Metal Fabricating, Inc. (LaCrosse)	Grant to train an employee in supervisory management.	843
Hilmot Corporation (Waukesha)	Grant to train an employee in auto CAD inventor solid modeling.	547
	Subtotal	\$59,117

#### **Technology Development**

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
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##### **Bridge Grants**

Clonex Development, Inc. (Madison)	Grant for proprietary technology for increasing the production of therapeutic proteins from cells. Anticipate SBIR funding.	\$100,000
eMetagen Corporation (Madison)	Grant for continued development of potential antibiotic products during completed Phase I STTR project.	30,000
Invirosiences, LLC (McFarland)	Grant for bridge funding between Phase I and Phase II research grants.	20,000

##### **Development Loans**

Prolitec, Inc. (Milwaukee)	Loan to fund relocation and expansion in Wisconsin of a research and development team of a nanotechnology company founded in Europe.	\$500,000
Wisconsin Small Engine Consortium	Loan to develop tools and methodologies and advance small engine	200,000

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
(Madison)	design.	

#### Matching Grants

Prolitec, Inc. (Milwaukee)	Grant to provide match funding for multiple advanced federal grant applications related to chemical and biological contamination.	\$250,000
Lucigen Corporation (Middleton)	Grant to provide match funding for federal SBIR2 funding related to enzyme recovery.	50,000
Clonex Development, Inc. (Madison)	Grant to enhance federal research funding applications.	50,000
GenTel Biosciences, Inc. (Madison)	Grant to enhance federal research funding applications.	50,000
Lucigen Corporation (Middleton)	Grant to enhance federal research funding applications.	50,000
Platypus Technologies, LLC (Madison)	Grant to enhance federal research funding applications.	50,000
Scarab Genomics, LLC (Madison)	Grant to enhance federal research funding applications.	50,000

#### Venture Fund Loans

Functional Biosciences, Inc. (Madison)	Loan for working capital to commercialize the company's proprietary DNA sequencing services and develop further product lines.	\$250,000
Prolitec, Inc. (Milwaukee)	Loan for working capital and equipment.	250,000
Mithridion, Inc. (Madison)	Loan to purchase equipment used in developing drugs for neurodegenerative diseases.	200,000
Scarab Genomics, LLC (Madison)	Loan to purchase research equipment and hire marketing personnel.	191,000
PreventionGenetics, LLC (Marshfield)	Loan to expand business capacity through the purchase of new laboratory equipment and software.	100,000
SonoPlot, LLC (Madison)	Loan to provide working capital to prototype and beta test the company's nanotechnology tools that are under development.	100,000
Visonex, LLC (Green Bay)	Loan to expand company, which provides web-based patient information management.	100,000
AquaSensors, LLC (Brookfield)	Loan for manufacturing and production equipment used in commercializing an analytical sensor product.	100,000
Vector Surgial, LLC (Oconomowoc)	Loan to provide working capital used in finalizing development and testing of two surgical tools.	75,000
Lucigen Corporation (Middleton)	Loan to provide working capital used in developing enzymes needed for full plant trials.	50,000
NovaScan, LLC (Milwaukee)	Loan for the design, development, validation, and clinical testing of a prototype device for improved breast cancer detection.	50,000
Firesite, LLC (Madison)	Loan to start-up company for a prototype of navigational equipment for firefighters.	25,000
	Subtotal	\$2,891,000

#### Technology Assistance Grants

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Awards made to 23 individuals and businesses. Administered by Wisconsin Entrepreneur's Network (WEN), with funding from Commerce.	Grants used for professional services involved in preparation and review of federal research and development grant applications; for obtaining industry information, data or market research for applications for research and development or early-stage funding; or in meeting requirements to obtain seed or early-stage funding from outside sources.	Awards range from \$2,625 to \$15,000
	Subtotal	\$188,675

#### Early Planning Grants

Awards made to 50 individuals and businesses. Administered by	Grants used for professional services to develop feasibility studies and business plans. Businesses must be in specific industrial clusters.	Awards range from \$1,080 to
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<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
Wisconsin Entrepreneur's Network (WEN) with funding from Commerce.		\$3,000
	Subtotal	\$145,462

#### **Entrepreneurial Training Grant**

University of Wisconsin-Extension, Small Business Development Center (SBDC), Administered by Wisconsin Entrepreneur's Network (WEN), with funding from Commerce.	Grants are used to pay up to 75% of tuition costs of approved courses at a local SBDC that addresses business operation issues and provides instruction in preparing business plans and applications for financing.	Award amounts vary
	Subtotal	\$400,000

#### **Wisconsin Trade Program**

<b>Recipient (Location)</b>	<b>Use of Award</b>	<b>Award</b>
BellBrook Labs, LLC (Madison)	Grant to attend Society for Biomolecular Screening in Geneva, Switzerland.	\$5,000
Wisconsin Knife Works, Inc. (Beloit)	Grant to attend Expo Carma Show, in Concepcion, Chile.	5,000
GWC Technologies, Inc. (Madison)	Grant to attend BIO 2006 in Chicago.	5,000
Anteco Pharma, LLC (Lodi)	Grant to attend BIO 2006 in Chicago.	5,000
Continental Plastic Corporation (Delavan)	Grant to attend CIGAL in Guadalajara, Mexico.	5,000
Marchant-Schmidt, Inc. (Fond du Lac)	Grant to attend Anuga Food Tec in Cologne, Germany.	5,000
POINTONE Systems, LLC (Wauwatosa)	Grant to attend BioPartnering North America in Vancouver, Canada.	2,921
Prodesse, Inc. (Waukesha)	Grant to attend European Congress on Clinical Microbiology and Infectious Disease in Nice, France.	2,617
	Subtotal	\$35,538

#### **Legislative Designations**

City of Green Bay	Grant to provide funding for a waterfront development project.	\$1,400,000
Biomedical Technology Alliance (BTA) (Milwaukee)	Grant to provide funding to BTA to enhance collaboration between academic researchers and biomedical technology businesses, and to provide collaborative research grants.	500,000
Wisconsin Center for Manufacturing and Productivity, Inc. (Madison)	Grant to provide funding for the Wisconsin Manufacturing Extension Partnership (WMEP) operations. WMEP provides process improvement and technology transfer services, and supplier training to small- and medium-sized businesses.	350,000
Center for Advanced Technology and Innovation (CATI) of Racine County, Inc. (Sturtevant)	Grant to CATI to fund operations which involve technology transfer and regional economic development services, such as staff training and integrating technology.	200,000
The Wisconsin Procurement Institute Education and Training Services, Inc. (Milwaukee)	Grant to provide funding for Wisconsin Procurement Institute services which assist businesses with government contracting rules, laws and regulations, and in identifying and accessing government contracts, financial assistance and related services.	200,000

Urban Hope Corporation (Green Bay)	Grant to nonprofit organization (founded by Reggie White) that provides entrepreneurial assistance to individuals and organizations in urban areas.	100,000
	Subtotal	\$2,750,000
	GRAND TOTAL	\$12,483,465

Source: Biennial Department Reports to the Chairs of the Senate Committee on Economic Development, Job Creation and Housing, and the Assembly Committee on Economic Development.