



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #142

Agricultural Development and Diversification Program (Agriculture, Trade and Consumer Protection)

[LFB 2011-13 Budget Summary: Page 62, #21]

CURRENT LAW

The Department of Agriculture, Trade and Consumer Protection (DATCP) administers the agricultural development and diversification (ADD) program to assist projects that in general will improve the uses of state agricultural products or improve the competitive position of Wisconsin agriculture. Part of the ADD program includes grants for research, demonstration projects, and feasibility analyses that would develop new or alternative practices in production and processing of agricultural commodities. The statutes require ADD grants to serve one of the following purposes: (a) creation of jobs in the agricultural industry; (b) new capital investment and expansion in the agricultural industry; (c) agricultural product market development and expansion; (d) diversification and expansion of the production, processing and distribution of agricultural products, or forestry products that are used to produce alternative fuels, heat, or electricity; (e) commercial application of new technologies or practices related to agricultural products, or to the production of alternative fuels, heat, or electricity from forestry products; (f) increased use of surplus agricultural products; (g) improvement of the competitive position of this state's agricultural industry; or (h) efficient use of farmland and other agricultural resources. The ADD grant program has base funding of \$356,700 GPR. Projects receiving grants: (a) may not last longer than three years; (b) are limited to \$50,000 as a state grant; and (c) may not exceed 75% of total project costs, therefore requiring a recipient match of at least 25%.

GOVERNOR

Increase the maximum grant under the ADD grant program from \$50,000 to \$100,000. Further, delete a provision requiring DATCP, in conjunction with Commerce, to research and plan means to promote and establish deer farms. Also, delete obsolete statutory provisions directing DATCP to make grants in support of commercial aquaculture development during the 1993-95 biennium.

DISCUSSION POINTS

1. The increase in maximum grant is intended to allow DATCP to provide additional funding to projects determined to have unique potential for agricultural development. The Department also suggests that because the maximum grant has not changed since the program's creation in 1989, the \$50,000 adjusted for inflation would be equal to about \$88,000 in current dollars.

2. The ADD program has typically received requests that exceed amounts budgeted. Since 1994, the program has received 2,084 proposals with funding requests of \$63 million. Funded projects through 2010 total 353, with \$7.1 million, or 11% of requests fulfilled. This also equates to an historical average grant award of \$21,500. Table 1 shows the grant requests received and total awards for each grant year since 2006. Awards for 2011 have not been announced, and although DATCP is appropriated \$356,700 in 2010-11, the Department may reduce grant awards to meet general fund lapse requirements of 2009 Act 28.

TABLE 1
ADD Program Grant History, 2006 to 2011

<u>Year</u>	<u>Proposals Received</u>	<u>Funds Requested</u>	<u>Average Request</u>	<u>Projects Funded</u>	<u>Total Awards</u>	<u>Award Average</u>
2006	89	\$3,125,400	\$35,117	16	\$355,500	\$22,218
2007	105	3,630,500	34,576	16	449,700	28,106
2008	74	2,341,400	31,641	17	380,000	22,352
2009	89	3,037,700	34,131	11	225,500	20,500
2010	88	2,858,300	32,481	11	300,000	27,272
2011	52	1,575,200	30,292	N/A	N/A	N/A

3. It could be argued that because the average grant request since 2006 has been from about \$30,000 to \$35,000, an increase in the maximum grant is not necessary to increase recipients' benefit from the program. Table 2 shows the number of applicant requests for \$50,000 that the ADD program has received since 2006. The percentage of applicants seeking the maximum has been relatively flat in the last five years. This may suggest that the current maximum grant has been sufficient to accommodate most grant projects. DATCP, however, has also noted that grant programs over time may experience a tendency toward applicants reducing requests to match available funding.

TABLE 2
ADD Program Maximum Grant Requests

<u>Year</u>	<u>Proposals Received</u>	<u>\$50,000 Requests</u>	<u>Percent</u>
2006	89	29	32.6%
2007	105	25	23.8
2008	74	13	17.6
2009	89	20	22.5
2010	88	19	21.6
2011	52	10	19.2

4. The ADD program would be provided \$321,000 GPR each year under the bill. This would constitute a decrease of \$35,700 from the 2010-11 base. Reduced program funding, in combination with a higher maximum grant amount, could result in fewer ADD grants being awarded. However, DATCP reports it does not expect average requests to change significantly with a higher maximum. Rather, DATCP reports it would expect to award grants approaching \$100,000 infrequently, depending on the scope and nature of projects submitted for consideration.

5. Given the substantial historical ADD grant demand, which is equal to approximately \$9 for every dollar of state funding, the Committee could also consider increasing the program match. Increasing the match from 25% of project costs, or a 75% state cost share, could mitigate the effects of the larger maximum grant and lower program funding. The Committee could consider specifying the program may cover no greater than one of the following percentages of project funding: (a) 67% [Alternative 2a]; or (b) 50% [Alternative 2b]. Grant matches are intended to ensure a recipient has a substantial financial stake in a project, which helps to contain costs. A higher match also allows wider distribution of state funding to multiple project applicants, which may result in greater benefits to the state.

6. However, it could also be argued that the increased match requirement should only apply to any projects funded in excess of the current maximum. The Committee could consider specifying that the increased match apply to grants between \$50,000 and \$100,000 [Alternative 3]. As an example, a \$100,000 grant under this alternative would require the recipient to provide: (a) \$50,000 as one third of a \$150,000 project; or (b) \$100,000 as 50% of a \$200,000 project. Under the bill, a \$100,000 grant would require a recipient match of \$33,300 on a \$133,300 project.

7. The Committee could consider retaining the current ADD maximum grant of \$50,000, but deleting certain obsolete provisions relating to grants for aquaculture and deer farms [Alternative 4]. This would require the program to continue funding grants up to \$50,000.

ALTERNATIVES

1. Adopt the Governor's recommendation.
2. Adopt the Governor's recommendation. In addition, specify DATCP may provide up to one of the following percentages of project costs for ADD grants:
 - a. 67% (This would require a recipient to cover at least 33% of a project's total costs.);
or
 - b. 50% (This would be a dollar-for-dollar match.).
3. Specify the percentage under Alternative 2 applies only to grants in excess of \$50,000. (Grants of \$50,000 or less could still receive up to 75% funding.)
4. Delete the increased ADD maximum grant provisions, but include the item deleting the obsolete statutory provisions relating to grants for aquaculture and deer farms.

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