



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #143

Bio-Industry Grant Program (Agriculture, Trade and Consumer Protection)

[LFB 2005-07 Budget Summary: Page 61, #7]

CURRENT LAW

No provision.

GOVERNOR

Provide \$900,000 GPR in 2005-06 and \$1,100,000 GPR in 2006-07 and create a bio-industry grant program.

DISCUSSION POINTS

1. Under the bio-industry grant program, DATCP would make grants for: (a) research and development of technologies that use agricultural products or waste, including digesters, as energy sources; (b) encouraging the use of agricultural products or waste as energy sources; (c) reducing the generation of agricultural wastes or increasing their beneficial uses; and (d) encouraging the development of bio-chemicals from agricultural products. A grant would not be allowed to exceed \$300,000 for one project, of which up to \$150,000 could be for planning and \$150,000 for implementation.

2. Department officials believe the program holds the potential to fund innovative uses for a variety of agricultural wastes, among them manure. These innovations could range from the development of economical manure digesters, to developing more effective ways to get nutrients from manure into farmland. In addition, other purposes for which grants under the program could be made include grants relating to the process of converting corn and other agricultural products

into ethanol.

3. Funding for the program would be included in DATCP's existing agricultural investment aids biennial appropriation. This appropriation currently provides \$380,000 GPR annually for agricultural development and diversification (ADD) and sustainable agriculture grants. ADD grants are competitive grants made to projects that utilize new or alternative technologies that DATCP determines are likely to stimulate Wisconsin's agricultural economy.

4. Under the ADD program, DATCP provides grants for projects that it determines are likely to stimulate Wisconsin's agricultural economy. ADD grants are competitive and may be requested by individuals, associations, agribusinesses and industry groups. The statutes specify a maximum ADD grant of \$50,000 per project, and specify that DATCP may not make an ADD grant to a project that will last more than three years. ADD grants may be made for research and development purposes of new or alternative agricultural technologies, but may not fund start-up or operational costs.

5. DATCP is appropriated \$380,000 GPR annually to provide ADD grants to applicants, with a maximum grant amount of \$50,000. In 2003-04, of the 80 applicants for an ADD grant, 18 different projects were awarded a total of \$380,000, with grants ranging from \$10,000 to \$39,000. In 2003-04, DATCP made four grants worth \$88,500 under the ADD grant program that were related to the bio-industry.

6. In addition to agricultural development grants, the statutes also allow the Department to make sustainable agriculture grants. These grants support an agricultural method, practice or system that attempts to use and maintain renewable local physical, biological, social and other resources and minimize the need for energy inputs and other purchased, nonrenewable inputs. Sustainable agriculture grants are funded from the same GPR appropriation as ADD grants, or from the Department's program revenue gifts and grants appropriation. However, Department officials state that presently only ADD grants are being awarded, and that the Department has not made a sustainable agriculture grant from this appropriation for at least eight years. However, as discussed later, federal funds have been used for grazing grants.

7. While DATCP plans to continue to provide \$380,000 annually for ADD grants and provide \$900,000 in 2005-06 and \$1,100,000 in 2006-07 for bio-industry grants, there is no language in the bill or statutes that would require these amounts to be designated for each program. Instead, under the bill, DATCP could decide to divide the available funding from this appropriation however it sees fit. Therefore, the Committee could consider specifying that at least \$380,000 continue to be expended annually on ADD and sustainable agriculture grants, with a maximum of \$900,000 to be expended on bio-industry grants in 2005-06, and a maximum of \$1,100,000 in grants under the bio-industry grant program thereafter.

8. Department officials state that while the bio-industry grant program would be able to fund the research and development of bio-chemicals and the use of agricultural wastes (similar to ADD), the bio-industry grant program would also be used to fund planning and operational costs (of up to \$150,000 each) of bio-industry ventures, whereas the ADD grant program may only fund

research and the development of technologies. Thus, they argue that while the ADD and bio-industry grant programs may fund the same types of bio-industry technologies, the two programs would mostly fund different stages of the development and implementation of these technologies. For example, while the ADD grant program may fund the research and development costs related to the ethanol refining process, for instance, the bio-industry grant program would be able to fund a portion of the construction costs of a pilot plant or the initial operational costs of this plant, in order to implement a new ethanol refining process technology. DATCP officials argue that this program would fill a current gap for new technologies that have already been developed in the state, but that need funding for start-up and implementation.

9. DATCP officials state that there has been a long-term federal investment in research that relates to using biomass as fuels and energy substitutes for petroleum-based chemicals, known as the bio-refining industry. Given the area's agriculture and forestry sectors, Department officials state that there may be large growth potential for this industry in the Midwest, but argue that Wisconsin's limited focus on this issue has not positioned the state well to capture a substantial portion of this industry. While the state has had some ethanol and anaerobic digester development, Department officials argue that a new bio-industry grant program would aid the development of the bio-industry in the state and could potentially leverage additional federal funding.

10. For example, in 2004, 27 agricultural businesses in the state received a total of \$6.3 million in federal grants for renewable energy systems and energy efficiency improvements. These grants were awarded under the United State Department of Agriculture's (USDA) Renewable Energy Systems and Energy Efficiency Improvement program. The awards may be used by the recipients to pay up to 25% of eligible project costs. Projects funded under the program include 19 related to anaerobic digesters, two that derive energy from wind and three that extract usable energy from organic wastes. In addition to federal funds provided for the bio-industry, federal funds are also available to state businesses and groups for agricultural development in a variety of other areas.

11. Also, in 2004-05, DATCP began administering the grazing lands conservation initiative grant program, which offered \$795,000 in grants for technical service provider projects (a project that involves the services of a certified prescribed grazing planner to provide grazing land management assistance to producers and landowners), education and on-farm demonstrations of grazing practices and systems, and applied on-farm research on grazing management practices. Eligible applicants include: county, state and federal agricultural and natural resource agencies; colleges and universities; nonprofit organizations; and grazing networks. Technical service provider grants may be up to \$40,000 per year for two years, and had \$452,000 of funding earmarked for these grants. Education and demonstration grants may be up to \$20,000 per year for two years, with earmarked funding of \$200,000. On-farm research grants may be up to \$40,000 per year for three years, with earmarked funding of \$143,000. Projects must be started by September 1, 2005, and must end by either September 30, 2006 (technical and education), or September 30, 2007 (research).

12. In addition, the state has secured \$2 million in federal funding to use on modernization, growth of the specialty dairy products sector, and other opportunities to add value to

the state's milk supply. This state-federal project is known as the Value Added Dairy Initiative and consists of two aspects: (1) the dairy business innovation center; and (2) the grow Wisconsin dairy team.

13. The dairy business innovation center is a nonprofit organization dedicated to growing specialty and artisan cheese and dairy businesses in the state. Center staff members work with clients to provide product development, processing technology and equipment, business planning and finance, and market development.

14. The grow Wisconsin dairy team is a joint effort of DATCP, Commerce and its Dairy 2020 program, and the University of Wisconsin Center for Dairy Profitability. This team focuses on producer modernization, value enhancement to the supply chain, and attempts to act as a catalyst for reinvestment and innovation. The team provides grants for a variety of programs including: (a) the value chain development pilot grant program, which provides grants of up to \$50,000 for dairy businesses that introduce new products, enter new markets, or implement innovation or efficiencies in their supply chain; (b) the local dairy development pilot grant program, which offers grants of up to \$25,000 to local organizations for the increased modernization of dairy farming; (c) the dairy farm modernization pilot grant program, which offers grants of up to \$7,500 for professional services such as risk and financial management, engineering/siting advice and labor management for dairy farmers; and (d) the dairy farm grazing or organic transition pilot program, which offers grants of up to \$7,500 for the development of financial or management plans for new organic or intensively managed grazing operations or current farms transitioning to this sort of operation. Further, additional grant or loan funds may be available from Commerce.

15. The Department of Commerce currently administers a variety of programs under which Commerce staff provide technical assistance on economic development matters to individuals, businesses, organizations, and local governments in the state. One of these efforts is the Dairy 2020 initiative. The Dairy 2020 initiative was organized to identify opportunities for strengthening the dairy industry and to develop specific strategies to increase dairy farm profitability and dairy industry competitiveness. The initiative is designed to bring together representatives from dairy industry producers and processors, supporting industries, state government, and the University of Wisconsin (UW) System, to identify industry objectives and develop strategies for achieving them. Commerce, along with DATCP, and the UW are the lead state agencies in the initiative.

16. The Dairy 2020 Initiative consists of three components: (1) the Dairy 2020 Council; (2) the Dairy 2020 early planning grant program; and (3) the Milk Volume Production (MVP) program. The Dairy 2020 Council is comprised of 12 dairy producers, six industry representatives, two legislators and six public representatives. Council members work to better prepare Wisconsin's dairy industry for long-term vitality. The early planning grant program provides grants to dairy producers to pay for professional services, such as the preparation of a business plan. Awards made under this program can be for up to 75% of the cost of the services, with a maximum grant of \$3,000. The MVP program provides qualifying dairy producers with financing to fill gaps in equity financing that producers have, and partners with local communities to increase dairy production in Wisconsin. The programs are funded through Commerce's Community Development Block Grant

and Rural Economic Development programs. In addition, Commerce is currently implementing the new Dairy 2020 multiple-entity early planning grant program, which will attempt to encourage two or more independent entities to pool resources and start a new dairy business in the state, by offering grants of up to \$7,500 for professional services to develop a business plan.

17. The Dairy 2020 initiative focuses on improving three areas that are critical to the dairy industry: (1) business climate; (2) business management skills of dairy business owners; and (3) infrastructure supporting the industry (such as highways, and the dairy processing service and supply businesses).

18. Commerce received funding beginning in the 1995-97 biennial budget for a Dairy 2020 director and related activities. The Executive Director and Dairy 2020 Council have consulted with DATCP and assisted in marketing Commerce financial and technical assistance programs to the industry. As discussed previously, rural economic development funding has been directed toward agricultural projects as a result of Dairy 2020.

19. DATCP officials state that the bio-industry grant program would be an effective complement to other programs, such as ADD and Dairy 2020, available to farmers. Department officials state that while Dairy 2020 has proven effective at steering the agricultural industry and providing planning grants for agricultural innovation, the bio-industry grant program would fund the actual implementation of technological projects and advancements. They argue it would be an effective tool to fund the construction of potential agricultural innovations that are still on the drawing board. Further, they note that less than one in four ADD applicants received awards last year.

20. On the other hand, it could be argued that there are already a number of agricultural grant programs provided by the state and federal government. Further, given the state's current fiscal situation, it could be argued that new GPR expenditures should be limited and that alternative sources of funding to GPR should be used when available. As a result, the Committee could consider deleting the program, or providing a smaller amount (e.g., \$500,000) in 2006-07 to fund bio-industry grants.

21. One alternative source of funding to GPR for bio-industry grants could be the agrichemical management (ACM) fund. DATCP's ACM fund receives revenues from several feed, fertilizer and pesticide license and tonnage fees. These funds are used for DATCP administration of feed, fertilizer and pesticide regulation programs and for the administration of agricultural chemical cleanup grants. Despite a modest structural imbalance in 2006-07, this fund is expected to have a July 1, 2007, balance of approximately \$2 million. As a result, consideration could be given to providing ACM SEG as start-up funding for bio-industry grants. The Committee could consider providing \$1 million in 2005-06 in a biennial appropriation, which would allow the funding to be used in either year of the biennium. Under this alternative (#3c), any ongoing funding of the program would have to be considered in the 2007-09 biennial budget.

22. It should be noted, that neither the existing ADD/sustainable agriculture grant program, nor the bio-industry grant program under the bill would require the grant recipient to

match state dollars. While administrative rules specify that DATCP may give preference to projects that provide matching funds, a specific match requirement could be considered. For example, aquaculture grants in the 1993-95 biennium were limited to 50% of projects costs. A similar provision could be included for the new program or for all agricultural investment aid grants.

ALTERNATIVES

1. Approve the Governor's recommendation and provide \$900,000 GPR in 2005-06 and \$1,100,000 GPR in 2006-07 and create a bio-industry grant program.

2. Adopt the Governor's recommendations. In addition, specify that DATCP award at least \$380,000 in ADD and sustainable agriculture grants annually and up to \$900,000 in bio-industry grants in 2005-06 and \$1,100,000 thereafter.

3. Approve the Governor's recommendation to create a bio-industry grant program and provide one of the following for grants from the program:

a. \$500,000 GPR in 2006-07.

<u>Alternative 3a</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$1,500,000

b. \$380,000 GPR in 2006-07 (double the current appropriation).

<u>Alternative 3b</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$1,620,000

c. \$1,000,000 SEG in 2005-06 from a new biennial appropriation funded from the ACM fund.

<u>Alternative 3c</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$2,000,000	\$1,000,000	- \$1,000,000

d. \$1,000,000 SEG in 2005-06 from a new biennial appropriation funded from the ACM fund and \$500,000 GPR in 2006-07.

<u>Alternative 3d</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$1,500,000	\$1,000,000	- \$500,000

4. In addition, specify one of the following:

- a. A bio-industry grant may not exceed 50% of project costs.
 - b. Agricultural investment aid grants may not exceed 50% of project costs (this provision would apply to ADD, sustainable agriculture and bio-industry grants).
5. Maintain current law.

Alternative 5	GPR
2005-07 REVENUE (Change to Bill)	- \$2,000,000

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