



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #210

### **Gaming Economic Development and Diversification Grants and Loans (Commerce)**

[LFB 2005-07 Budget Summary: Page 108, #13]

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#### **CURRENT LAW**

The gaming economic development and diversification grant and loan program was created by the 1999 Wisconsin Act 9, to provide financial assistance to businesses that are located in areas affected by Native American gaming operations. Funding for the program is provided from tribal gaming program revenues provided to the state under state-tribal gaming compact amendments. Under Act 9, funding was appropriated through separate biennial PR appropriations for economic development and economic diversification awards. A separate program revenue repayments appropriation was also created. The 2001-03 biennial budget combined the separate PR appropriations into a single PR appropriation to fund all gaming economic development and diversification grants and loans. Commerce may not make an award to a business that is tourism-related unless the Department of Tourism concurs in the award. To be eligible for financial assistance under the programs, the claimant must be an existing business, including an American Indian business, that is located or expanding in Wisconsin. Base level funding for the program is \$2,838,700 PR. Base level funding includes \$300,000 that is required to be transferred to WTCS to fund work-based learning grants to tribal colleges.

#### **GOVERNOR**

Provide \$400,000 annually in tribal gaming revenues for the gaming economic development and diversification grant and loan program. In addition, the amount required to be transferred to the Governor's Work-Based Learning Board (GWBLB) for work-based learning grants to tribal colleges would be increased by \$300,000 to a total of \$600,000 annually. As noted, base level funding for the program is \$2,838,700 PR. Consequently, total funding appropriated under the bill would be \$3,238,700 PR in each year of the 2005-07 biennium.

## DISCUSSION POINTS

1. Economic research generally finds that gambling operations have significantly improved the economic conditions of American Indian communities and resulted in more self-sufficiency. Investment, employment and earnings have increased substantially in tribal economies. Moreover, many studies have shown that the tribal communities and the areas around the gaming operations generally benefit in the aggregate. A 1995 study by Thompson, Gazel, and Rickman estimated that the local areas in Wisconsin surrounding 17 casinos experienced a net positive economic impact of between \$217.2 million and \$338.6 million. Another Wisconsin study by Murray (1993) found that casinos directly generated 10,239 full-time jobs (at the gaming operations and in other businesses), while a multiplier effect led to an additional 22,863 jobs. Outside the state, a 2003 analysis of the impact of tribal gaming operations in Oklahoma by the Harvard Project on American Indian Economic Development (Grant, Spilde, and Taylor, 2003) found that Indian gaming facilities had a net economic impact of \$129 million and created 5,258 net additional jobs. The 2004 study of the economic impact of Indian gaming for the National Indian Gaming Association estimated that, nationwide, Indian gaming created about 553,000 jobs in 2004.

2. However, other studies have found the economic development effects of gaming operations to be uneven. In some cases, the development that occurs is limited to the casino and related service sectors with minimal spillover. Because casinos are often full-service complexes that offer food service, retail marketing, lodging and other services, local enterprises are vulnerable to competition in these areas. Even though casino operations cater to a specific clientele, their effect on local businesses may be detrimental because they draw some local customers away from existing retail trade and service providers. Robert Goodman (director of the U. S. Gambling study ) found that, a year after legalizing video gaming in North Dakota, there were significant declines in spending for clothing, recreation services, businesses, auto dealers, and service stations. The National Gambling Impact Study Commission found that casinos were associated with a reduction in local unemployment rates, lower employment in local government and retail trade, and higher employment in construction, hotels and lodging, and the recreation and entertainment industries. The study found no association between gambling and overall per capita income, and concluded that there appeared to be more of a shift in the types and locations of work, rather than an increase in per capita earnings. In a Federal Reserve Bank of St. Louis study of district casinos, Garrett (2003) notes that casino gambling may reduce employment in other local industries by cannibalizing those industries. He also indicates that casinos result in a reallocation of consumer dollars from certain activities, such as movies and restaurants, and into casino gambling. However, it is important to recognize that, in a market economy, consumers often adjust their spending patterns. Resources are constantly reallocated to activities consumers value most.

3. Another concern with the effects of gaming on local economies is that the employment effects, both positively and negatively, often occur in the recreation, tourism and consumer service industries. In these cases, the jobs that are created or lost are mostly in restaurants, taverns, hotels and motels, food stores, and in similar businesses in the industry. These types of jobs are frequently lower paying and seasonal. Few of the research studies indicate a significant increase in employment for manufacturers, professional services, or high technology firms as a direct result

of gambling. These industries tend to have higher paying full-time jobs and tend to adjust better to long-term changes in economic growth. Thus, there is concern about the effect of gaming operations on the long-term stability and strength of the local economy.

4. The types of financial assistance provided through the gaming economic development grant and loan program includes:

*a. Early Planning Grants.* Grants to provide funding for professional services necessary to evaluate the feasibility of a proposed business start-up or expansion. Grants must be used to fund the costs of obtaining comprehensive business plans from independent third parties. Grants are limited to 75% of project costs up to a maximum of \$3,000. A match of at least 25% of project costs must be provided. Eligible uses of early planning grants are restricted to business planning activities. Project costs not eligible for early planning grants funding include: costs of applying for the grant; costs associated with establishing or incorporating the business; architectural, engineering and design costs; business valuation and/or appraisal fees; loan application and origination fees; plan implementation fees; website development costs; and software purchases, installation and training.

*b. Economic Impact Loans.* Loans to provide financial assistance to businesses that have been negatively impacted by gaming. Commerce may not make a loan unless it determines that the business has been negatively affected by the existence of a casino, and the business has a legitimate need for the loan to improve its profitability. Applicants must have a comprehensive business plan. The maximum award is 75% of project costs up to \$100,000. Applicants must provide matching funds of at least 25% of project costs. Awards may be used to provide fixed asset financing related to modernizing and improving business operations. Eligible project costs include expenditures associated with land, new construction, remodeling, furniture and fixtures, and equipment. Refinancing is not an eligible project cost.

*c. Economic Diversification Loans.* Loans that provide financial assistance to businesses that are starting up or expanding to help diversify a community's economy. Commerce must determine that the project will diversify the local economy so that it is less dependent upon the revenue derived from gaming. Applicants must have a business plan that fully describes the proposed business project. Awards are made as loans of up to 75% of project costs. Recipients must provide a match of at least 25% of project costs. Loans may be used to provide fixed asset financing for businesses to establish and expand operations. Eligible uses include funding the cost of land, new construction, remodeling, furniture, fixtures, and equipment. Refinancing is not an eligible project cost.

5. The early planning grants and economic impact and diversification loans are designed to address concerns about the potential impact of gaming operations on local businesses and the local economy. The economic impact loan program targets assistance to businesses whose profits are affected by gaming operations. The program can be used to provide assistance to firms that lose business and income to gaming-related enterprises. Economic diversification loans are targeted to businesses that make significant capital investments and that create and retain jobs. The

program can be used to assist businesses, such as manufacturing firms that would contribute to the long-term stability of the local community. The planning grants help ensure that projects funded with economic impact or diversification loans are successful.

6. Table 1 shows the total amounts appropriated and awarded under the gaming economic development and diversification grant and loan programs for fiscal years 1999-00 through 2002-03. Because the program's appropriation is biennial, annual awards may exceed expenditure authority. The table shows that a significant amount of awards have been made as a result of legislative provisions that required awards be made to specific recipients or projects.

**TABLE 1**

**Gaming Economic Development and Diversification Grants  
and Loans -- Appropriations and Amounts Awarded**

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
<b>Appropriations</b>				
Economic Development	\$3,894,300	\$2,514,600	\$0	\$0
Economic Diversification	0	2,500,000	0	0
Consolidated Economic Development and Diversification	<u>0</u>	<u>0</u>	<u>2,238,700</u>	<u>3,238,700</u>
Total Funding	\$3,894,300	\$5,014,600	\$2,238,700	\$3,238,700
<b>Awards</b>				
Economic Impact and Diversification				
Early Planning Grants	\$9,000	\$35,400	\$19,000	\$31,400
Economic Impact Loans	0	453,400	32,000	31,000
Economic Diversification Grants & Loans	0	1,524,000	409,200	772,500
Legislature/Other	<u>2,849,800</u>	<u>1,000,000</u>	<u>1,330,000</u>	<u>2,408,600</u>
Total Awards	\$2,858,800	\$3,012,800	\$1,790,200	\$3,243,500

7. The gaming economic development and diversification program was provided annual expenditure authority of \$2,238,700 PR in 2001-02 and \$3,238,700 PR in 2002-03. As a result, annual base level funding for the program for the 2003-05 biennium was \$3,238,700 PR. However, under the provisions of the 2003-05 biennial budget, \$400,000 PR in annual base level funding was deleted by the Legislature from the grant program. In addition, Commerce was required to annually transfer to WTCS the amount appropriated for work-based learning grants to tribal colleges. Currently, the amount of the transfer is \$300,000 annually. As a result, annual funding available for gaming economic development grants and loans was reduced by \$700,000.

8. AB 100 would provide \$400,000 PR annually to the gaming economic development

and diversification grant and loan program, to increase total funding to \$3,238,700 PR. However, the bill also increases the amount of tribal college grants from \$300,000 to \$600,000 annually. As a result, Commerce would be required to transfer \$600,000 annually to the tribal college grant program, reducing available annual funding to \$2,638,700 PR. In a previous action, the Joint Committee on Finance eliminated the required transfer and reduced base level funding for the gaming economic development grant and loan program to this amount. The \$600,000 PR for work-based learning grants to tribal colleges would be directly appropriated to that program.

9. According to Department of Administration staff, the additional \$400,000 PR was intended to replace the base level funding reduction included in Act 33, and not to fund the increase in the amount transferred for tribal college grants. It was intended that the bill provide \$2,938,700 PR in annual funding for grants and loans. Consequently, staff indicate that an additional \$300,000 PR in annual funding for the gaming economic development grant and loan program would conform the funding level with the intent of AB 100 provisions.

10. It is argued that additional funding is required to meet the demand for projects that would address the economic impact of gaming operations on communities in the state. Current law provisions require Commerce to provide annual grants of \$500,000 to Oneida Small Business, Inc. and Project 2000 to be used to provide grants and loans to small business. The Department is also required to make biennial grants of up to \$150,000 to the Northwest Regional Planning Commission to provide matching funds for a community-based venture fund. As noted, \$300,000 is required to be transferred annually for grants to tribal colleges. These required awards reduce biennial funding that would be available for individual business projects by \$1,750,000. Commerce staff indicate that there are more eligible economic development projects than can be funded in the current biennium, and they will expend all of the amount appropriated for gaming economic development grants and loans.

11. According to Commerce, in the current biennium, a total of \$3,501,950 PR in gaming economic development grants and loans have been awarded, including the required awards. There is \$2,175,500 PR remaining that will be awarded to at least 10 projects. Having that amount funding still available at this point in the biennium could be viewed as an indication of a lack of significant demand for gaming grants and loans. In addition, a total of \$433,500 lapsed from the appropriation at the end of the 2001-03 biennium. From this view, additional funding for the program is not needed. Consequently, the Committee may wish to delete the additional \$100,000 PR in annual funding that remains following the Committee's prior action. Effectively, this would still provide the program with base level funding of \$2,538,700 PR.

12. Under current law, state payments from the tribes are credited to: (a) a Department of Administration (DOA) appropriation for Indian gaming receipts in the amount necessary to make all the transfers specified under the appropriation to other state programs; (b) the Department of Justice (DOJ) Indian gaming law enforcement appropriation; and (c) the DOA general program operations appropriation relating to Indian gaming regulation under the compacts. These appropriations constitute a "first-draw" on tribal payments and Indian gaming receipts not otherwise credited to these appropriation accounts are deposited in the general fund. Therefore, increasing

tribal gaming allocations to agencies has the effect of decreasing revenue deposited in the general fund, and, conversely, decreasing or eliminating tribal gaming allocations to agencies has the effect of increasing general fund revenue.

**ALTERNATIVES**

1. Adopt the Governor's recommendation, as affected by prior Committee action, to provide an additional \$100,000 PR annually to the gaming economic development grant and loan program. Annual funding of \$2,638,700 PR would be provided.

2. Modify the Governor's recommendation, as affected by prior Committee action, to delete \$100,000 PR annually from the gaming economic development grant and loan program. Annual funding of \$2,538,700 PR would be provided (to maintain the base level of funding).

<u>Alternative 2</u>	<u>GPR-REV</u>	<u>PR</u>	<u>TOTAL</u>
<b>2005-07 REVENUE</b> (Change to Bill)	\$200,000		\$200,000
<b>2005-07 FUNDING</b> (Change to Bill)		- \$200,000	- \$200,000

3. Modify the Governor's recommendation, as modified by the Committee's action, to provide an additional \$300,000 PR annually to the gaming economic development grant and loan program. Annual funding of \$2,938,700 PR would be provided (equivalent to the 2002-03 level).

<u>Alternative 3</u>	<u>GPR-REV</u>	<u>PR</u>	<u>TOTAL</u>
<b>2005-07 REVENUE</b> (Change to Bill)	- \$600,000		- \$600,000
<b>2005-07 FUNDING</b> (Change to Bill)		\$600,000	\$600,000

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