



Legislative Fiscal Bureau

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May 22, 2007

Joint Committee on Finance

Paper #215

Gaming Economic Development and Diversification Grants and Loans -- Repayments Appropriation (Commerce -- Economic Development)

Base Agency

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 and to diversify local economies. 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. 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 grant and loan appropriation is \$2,538,700 PR. No base level expenditure authority is provided for the repayments appropriation.

GOVERNOR

Maintain annual base level funding of \$2,538,700 PR for the gaming economic development and diversification grants and loans appropriation.

DISCUSSION POINTS

1. 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. Early planning grants are administered by the Wisconsin Entrepreneurs' Network (WEN) with funding from Commerce.

b. *Economic Impact Loans.* Loans to provide financial assistance to businesses that have been 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 Grants and 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.

2. 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 grants and 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 grants or loans are successful.

3. 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 2005-06. Because the program's appropriation is biennial, annual awards may exceed expenditure authority. The table shows that, historically, 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>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Economic Development	\$3,894,300	\$2,514,600	\$0	\$0	\$0	\$0	\$0
Economic Diversification	0	2,500,000	0	0	0	0	0
Consolidated Economic Development and Diversification	<u>0</u>	<u>0</u>	<u>2,238,700</u>	<u>3,238,700</u>	<u>2,838,700</u>	<u>2,538,700</u>	<u>2,538,700</u>
Total Funding	\$3,894,300	\$5,014,600	\$2,238,700	\$3,238,700	\$2,838,700	\$2,538,700	\$2,538,700
Awards*							
Economic Impact and Diversification							
Early Planning Grants	\$9,000	\$35,400	\$19,000	\$31,400	\$46,300	\$16,000	\$0
Economic Impact Loans	0	453,400	32,000	31,000	0	0	0
Economic Diversification Grants & Loans	0	1,524,000	409,200	772,500	330,000	3,452,700	2,930,000
Legislature/Other	<u>2,849,800</u>	<u>1,000,000</u>	<u>1,330,000</u>	<u>2,408,600</u>	<u>28,000</u>	<u>1,200,000</u>	<u>150,000</u>
Total Awards	\$2,858,800	\$3,012,800	\$1,790,200	\$3,243,500	\$404,300	\$4,608,700	\$3,080,000

*Total encumbrances may exceed the total amount appropriated in a given year because the appropriation is biennial.

4. As noted, the gaming economic development and diversification grant and loan program is funded by a PR appropriation from tribal gaming revenues, while a biennial program revenue repayments appropriation was created for deposit of tribal gaming loan repayments. The repayments appropriation is intended to operate similar to a revolving loan fund so that over time, the amounts received from loan repayments could be used to finance additional loans and reduce the need for tribal gaming revenues to fund the program. Commerce began depositing loan repayments in the appropriation in fiscal year 2002-03. However, no base level expenditure authority has been established for the repayments appropriation.

5. In March, 2007, Commerce submitted a request under s. 16.515 for approval of expenditure authority of \$880,000 PR in the repayments appropriation [20.143 (1) (ig)] in 2006-07. The Department indicated that the funding in the tribal gaming revenue appropriation [20.143 (1) (kj)] had been distributed through awards or committed, and the expenditure authority for the repayments appropriation was necessary to fund additional projects. Revenue in the repayments appropriation was projected to be sufficient to fund the expenditure authority. The Joint Committee on Finance approved the increased expenditure authority of \$880,000 PR on a one-time basis, to be used in fiscal year 2006-07.

6. The following table shows the appropriation balance and estimated revenues at the end of the 2007-09 biennium. The table shows that, with estimated revenues, the 2008-09 balance in the appropriation in the gaming economic development and diversification repayments appropriation would be almost \$1.7 million. It would be possible to use the repayments appropriation to offset \$1,000,000 PR in 2007-08 and \$350,000 in 2008-09 from the tribal gaming

revenue appropriation, and still maintain total gaming economic development and diversification grant and loan funding at the established expenditure level for the 2007-09 biennium. This would also establish base level funding for the repayments appropriation in 2008-09 at \$350,000 PR. This level of funding would also leave a balance of about one year's revenue in the appropriation to give the Department some flexibility should future revenues decline. Further, since tribal gaming revenues not appropriated for other purposes are deposited in the general fund, reducing the tribal gaming PR appropriation by \$1.35 million would increase general fund revenues by \$1,000,000 in 2007-08 and \$350,000 in 2008-09 (Alternative 1).

TABLE 2

**Gaming Economic Development and Diversification Repayments Appropriation
2007-09**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Opening Balance	\$1,472,700	\$917,400	\$1,267,600
Revenues	<u>324,700</u>	<u>350,200</u>	<u>425,200</u>
Total Revenues	\$1,797,400	\$1,267,600	\$1,692,800
Expenditure Authority	<u>880,000</u>	<u>0</u>	<u>0</u>
Closing Balance	\$917,400	\$1,267,600	\$1,692,800

7. Alternatively, additional expenditure authority in the repayments appropriation could be provided for gaming economic development and diversification grants and loans to increase the total amount of funding available for the program. The additional funding could be used to fund more 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. Annual expenditure authority in the repayments appropriation could be increased by \$500,000 to offset this statutory grant (Alternative 2).

8. 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 TO BASE

1. Delete \$1,000,000 PR in 2007-08 and \$350,000 PR in 2008-09 in funding for the tribal gaming economic development and diversification grant and loan program appropriation [20.143 (1) (kj)], and provide \$1,000,000 PR in 2007-08 and \$350,000 PR in 2008-09 in expenditure authority from the gaming economic development and diversification repayments appropriation [20.143 (1) (ig)].

ALT 1	Change to Bill Revenue	Change to Base Revenue
GPR	\$1,350,000	\$1,350,000

2. Provide annual expenditure authority of \$500,000 PR in the gaming economic development and diversification repayments appropriation

ALT 2	Change to Bill Funding	Change to Base Funding
PR	\$1,000,000	\$1,000,000

3. Maintain current law.

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