



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #144

### **Dairy Processor Grant Program (Agriculture, Trade and Consumer Protection)**

[LFB 2013-15 Budget Summary: Page 59, #4]

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#### **CURRENT LAW**

The Department of Agriculture, Trade and Consumer Protection (DATCP) conducts several programs pertaining to the dairy industry. DATCP food safety programs include the licensing and oversight of dairy farms and food processing establishments, as well as inspection requirements to ensure the wholesomeness of food products. DATCP agricultural resource management programs establish standards for farm conservation practices, including several standards for animal waste management. Further, the statutes require DATCP generally to promote the interests, growth, and sound development of dairying in the state.

DATCP's agricultural development role includes the Grow Wisconsin Dairy Producer program, which was created under 2011 Act 32 with base funding of \$200,000 GPR annually. DATCP rules for the program, which take effect June 1, 2013, allow grants of up to \$50,000 or loans of up to \$200,000 per producer per state fiscal biennium for projects by licensed producers that would: (a) increase production, processing, profitability, marketing or distribution of Wisconsin dairy products; (b) provide for capital investment; (c) apply new technology to dairy production; (d) improve the competitiveness of the dairy industry; (e) more efficiently use farmland or other resources; or (f) increase or retain employment within the dairy industry. For the first awards made, using 2011-12 funding, DATCP provided grants totaling \$199,100 to 41 producers for either business development and expansion or identification of opportunities to improve profitability. The maximum individual grant is \$5,000, and a 20% recipient match is required, or \$1,000 on a \$5,000 grant. Under Act 32, DATCP also was assigned responsibility for certifying businesses' eligibility for several tax credits, including the dairy manufacturing facility investment tax credit.

DATCP reports for 2012-13 that Wisconsin has 429 licensed dairy plants. DATCP

estimates the state has approximately 10,900 milk cow herds, as of May 1, 2013, and approximately 1.27 million milk cows.

## **GOVERNOR**

Require DATCP to conduct a grant program to promote the growth of the dairy industry in Wisconsin by making grants to dairy processing plants, and provide \$200,000 GPR annually for the program.

## **DISCUSSION POINTS**

1. The administration and DATCP report the proposal is intended to assist dairy processors with plant expansions and upgrades. DATCP anticipates a focus of the program would be projects implementing and evaluating novel methods for increasing production of dairy products, better managing processing facility waste, or both. DATCP further expects most projects funded either would: (a) evaluate technologies and practices that could be implemented on a statewide basis to improve the general environmental and economic performance of the state dairy processing industry; or (b) assist with implementing practices that might allow facilities to respond to local or regional environmental and economic circumstances, such as devising means of using byproducts in proximity to processing plants.

2. Under current law, the dairy manufacturing facility investment credit, a refundable tax credit, allows claimants to offset tax liability by 10% of the amount of modernization or expansion in a taxable year, including the following projects: (a) building construction or addition, such as for storage or warehousing; (b) utilities upgrades; (c) milk intake and storage equipment; (d) processing and manufacturing equipment, including pipes, motors, pumps, valves, pasteurizers, homogenizers, vats, evaporators, dryers, concentrators, and churns; (e) packaging and handling equipment, including sealing, bagging, boxing, labeling, conveying, and product movement equipment; (f) warehouse equipment, including storage racks; (g) waste treatment and waste management equipment, including tanks, blowers, separators, dryers, digesters, and equipment that uses waste to produce energy, fuel, or industrial products; and (h) computer software and hardware used for managing the claimant's dairy manufacturing operation, including software and hardware related to logistics, inventory management, and production plant controls. Dairy manufacturing facility investment credits are capped at \$200,000 for each of a claimant's dairy manufacturing facilities, and at \$700,000 per state fiscal year among all claimants for each of the following categories of claimant: (a) those that are members of a dairy cooperative; and (b) persons that are not members of a dairy cooperative. The tax credit currently is set to expire for projects placed in service after the 2014 tax year for non-cooperative entities, and after the 2016 tax year for dairy cooperatives.

3. Since 2011 Act 32, DATCP reports it has certified the following investments: (a) for the 2011 tax year, 1 cooperative claimant with qualifying investments of \$4.6 million and \$6,800 in tax credits, and 50 non-cooperative claimant facilities with \$79.3 million in qualifying investments and \$657,100 in tax credits; and (b) for the 2012 tax year, 1 cooperative claimant with \$4.7 million in qualifying investments and tax credits of \$164,000, and 56 non-cooperative claimant facilities

with \$126.2 million in qualifying investments and tax credits of \$657,100.

4. The bill is mostly silent on parameters for a dairy processor grant program. It would be incumbent on DATCP, through the administrative rule process, to establish qualifications for applicants, eligible costs, and other program conditions such as maximum amounts of state assistance and a required recipient match. The Department expects it would convene an advisory group, which would include industry participants, to assist with structuring the program. The Department followed a similar process in establishing the Grow Wisconsin Dairy Producer grant program following that program's creation in Act 32. There are no estimates at this time for likely levels of participation, which would depend on future program provisions.

5. Although the bill does not specify program details, DATCP expects the preliminarily proposed focus of the program on regional or industry-wide matters of concern would complement, rather than duplicate, the dairy manufacturing facility investment tax credit. Specifically, the tax credit would be expected to encourage capital investments an individual processor may pursue, while projects funded under the grant program would be expected to generate information to guide both development of the industry and environmental or other regulatory entities affiliated with it.

6. In the first grant cycle for the Grow Wisconsin Dairy Producer program, which occurred in 2011-12, DATCP received 76 requests for a total of \$375,000. Awards were made to 41 grantees for a total of \$199,100. For the program's second grant cycle in 2012-13, DATCP reports 57 persons have requested a total of \$275,300. The Department expects total awards of approximately \$200,000, which would be the full 2012-13 appropriation, for 40-42 recipients.

7. Several arguments could be made for the Governor's recommendation. The program, as DATCP anticipates administering it, would be intended both to encourage the expansion of the dairy processing industry and to do so in ways that would allow processing plants to meet environmental standards, particularly for wastewater and other waste products. Further, one could argue the expiration of the dairy manufacturing facility investment tax credit would eliminate a current program providing assistance to an industry that is economically important to the state. The Committee could consider adopting the Governor's recommendation [Alternative 1].

8. One also could argue for alternative uses for the expenditures recommended under the bill. As the demand for the Grow Wisconsin Dairy Producer grant has surpassed funding in the first two years of the program, one could argue the program may merit additional funding. Further, DATCP officials have estimated Wisconsin dairy plants may require perhaps 10% more milk for processing into cheese and other dairy products than Wisconsin dairy farmers produce on an annual basis. Some may argue additional funding for the dairy industry, therefore, may be appropriate to allocate toward encouraging greater or more efficient milk production, as the Grow Wisconsin Dairy Producer grant is intended to do. The Committee could consider: (a) deleting the Governor's provision; (b) providing instead \$200,000 GPR to the existing DATCP annual appropriation for dairy producer grants and loans; and (c) modifying statutory language to specify DATCP is to administer the current grant program for both dairy producers and dairy processors [Alternative 2]. Such an alternative would provide DATCP flexibility to adjust awards in years in which grant submissions were particularly competitive in one sector. However, Grow Wisconsin Dairy Producer

grant demand, while still exceeding program appropriations, appeared to decline in the program's second grant period relative to the first grant period.

9. One could argue that the intention of the dairy processor grant program is similar to the purpose of the agricultural development and diversification (ADD) grant program. Projects under the ADD grant program must 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.

10. The Committee could consider deleting the provisions creating a dairy processor grant program, and instead provide \$200,000 GPR annually for ADD grants [Alternative 3]. Because the dairy processor and ADD grant programs appear to have similar aims, it could be argued that funds appropriated under the bill for dairy processor grants, rather than targeting technological and market development in one agricultural industry, may be appropriate to allocate to an existing program that is intended to develop Wisconsin agriculture more broadly. On the other hand, dairy production is often considered to be perhaps the most significant sector in Wisconsin's agricultural industry, and some may argue it is appropriate to allocate resources to encourage efficient development in the dairy industry.

11. As the bill would not specify program terms such as a maximum grant per recipient or a minimum recipient match, the Committee could consider adding such program requirements. Maximum grant amounts may ensure total program funding is distributed among multiple participants, while match requirements ensure participants have a substantial financial stake in a project to help contain costs, with higher match requirements also allowing for greater distribution of state funds. One could also argue such specifications may best be addressed in administrative rules as the program is further detailed by DATCP, any advisory panels convened, and public hearings during the administrative rule process.

12. The Committee could consider potential minimum recipient matches of: (a) one-sixth of eligible project costs, or equivalent to 20% of the grant amount, which would be consistent with the Grow Wisconsin Dairy Producer grant as administered [Alternative 4a]; (b) 20% of project costs, which would be equivalent to 25% of a grant [Alternative 4b]; (c) 25% of project costs, equivalent to 33% of a grant [Alternative 4c]; (d) 33% of project costs, which would equal 50% of a grant [Alternative 4d]; or (e) 50% of project costs, which would be equivalent to a dollar-for-dollar match on state funding [Alternative 4e]. Further, the Committee could consider a maximum grant amount of one of the following: (a) \$25,000 per fiscal year, or equivalent on an annual basis to the \$50,000 biennial maximum under the Grow Wisconsin Dairy Producer grant and the Buy Local, Buy Wisconsin grants (\$50,000 per recipient, per fiscal biennium) [Alternative 5a]; (b) \$50,000 per fiscal year, or twice the current maximum grant under the Grow Wisconsin Dairy Producer grant, but approximately equivalent to maximum grants under the ADD program (\$50,000 per project)

[Alternative 5b]; or (c) 20% of the fiscal year appropriation for the program, which would be \$40,000 under the recommended funding level of the bill, and which would allow the maximum grant amount to vary with program funding levels in future biennia [Alternative 5c].

13. The Committee also could consider deleting the Governor's recommendation [Alternative 6]. One could argue resources available for dairy processing plant upgrades already are in place for the industry for most of the biennium through the dairy manufacturing facility investment tax credit, and additional assistance for the industry, if any, could be assessed in subsequent budget legislation.

## **ALTERNATIVES**

1. Adopt the Governor's recommendation to create an appropriation in DATCP for a program for grants to dairy processors, and provide \$200,000 GPR annually for grants.

2. Delete the provision. Instead, provide \$200,000 GPR to the existing DATCP annual appropriation for grants to dairy producers. Modify the current appropriation and statutory authorization for dairy producer grants to specify grants may be made to dairy producers or dairy processing plants.

3. Delete the provision. Instead, provide \$200,000 GPR annually to DATCP for agricultural development and diversification (ADD) grants.

4. Specify one of the following minimum recipient matches for the dairy processor grant program:

- a. one-sixth of eligible project costs;
- b. 20% of project costs;
- c. 25% of project costs;
- d. 33% of project costs; or
- e. 50% of project costs (a dollar-for-dollar match).

5. Specify one of the following maximum grants under the dairy processor grant program:

- a. \$25,000 per fiscal year;
- b. \$50,000 per fiscal year; or
- c. 20% of the fiscal year appropriation for the program.

6. Delete the provision.

<b>ALT 6</b>	<b>Change to Bill Funding</b>
GPR	- \$400,000

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