Budget Memo

Agency: Commerce: Dept Wide & Econ Dev

Staff Recommendations:

((This agency presents a good opportunity for Dems to be budget-cutters. There are numerous opportunities to save GPR here, and it will be fun to make the Republicans vote against the cuts))

Paper No. 240: Alternative 2

Comments: (see paragraphs 4 & 5)

Paper No. 241: Alternatives 2 & 5 (together)

Comments: Ask FB to make sure you can do alternatives 2 & 5 together. Actually, any of the alternatives other than alt 1 (the gov's proposal) would probably be ok - separately or combined. We just think alts 2 & 5 together are the best combination overall to recoup some GPR dollars. (see paragraphs 13, 15 & 16)

Also, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Decker may also have two motions to decrease maximum employee threshold, and cap the dairy program grants at $15,000.

Paper No. 242: Alternative 3

Comments: Another chance to save GPR. There's no need for an additional $250,000 GPR for this program (see paragraphs 3, 7 & 8), and you might as well have the additional GPR go to the general fund rather than back to the WDF. We think alt 3 returns the $ to the general fund, but you may want to double-check with FB.

Again, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Also, ask FB if alternatives 3 & 6 are the same.

Paper No. 243: Alternatives 2(a) & 3 (together)

Comments: These alternatives are confusing. Ask FB to make sure you can do alt 2(a) & alt 3 together. Definitely do alt 3.

This new office building is really costly and pretty extravagant (see paragraph 3) and Commerce originally identified the cuts in alt 3 as ones they could afford to make (see paragraph 5). Also, it seems reasonable to delete some of the moving costs (see paragraph 6).

Paper No. 244: Alternative 3

Comments: All these so-called economic promotion programs seem pretty dubious to us. Why can't the private sector address these needs? And how do we prove that this spending really has any positive impact overall?

Again, you might as well transfer the $ to the general fund (see paragraphs 9 & 10). But, actually, any alternative other than alt 1 would probably be ok. Jauch & Linton want alt 5 (i.e. gives them half).

Paper No. 245: Alternative 3

Comments: We think the position is justified (see paragraphs 4 & 5), but should be funded with PR rather than GPR (hence, alt 3). But, this is a new fee, and some folks might not like that. (see paragraph 11)

Burke Motion: *For your "budget buddy" Rep. Johnsrud. Require the Dept of Commerce to give notice to local legislators before the Dept gives out a Wisconsin Development Fund grant or loan in the legislator's district. Apparently, the governor shows up at the check presentation ceremony and takes all the credit, and the local legislators are left in the lurch.* Motion #1100

Paper No. 246: Alternative 3

Comments: We think this whole program sound like a sham, and private interests should be doing the assessments, etc. But, rather than eliminating the program altogether (i.e. alt 2(e)&(g)), you could compromise and do nothing (i.e. alt 3, which does not provide additional funds gov wants). (see paragraphs 15 & 17)

However, any combination of the alternatives under alt 2 would probably be ok too.

Paper No. 247: Part A - Alternative 2
Part B - Alternative 1 (no action needed)

Comments: For Part A (venture capital), there isn't enough money available to make a difference, it's doubtful this program would help much, and a similar idea has been shot down twice in the last 5 years. (see paragraphs 8, 9, 10, & 12)

(continued on next page)

For Part B (CBED funding), the gov's recommendation seems fine. There's no need to make additional cuts, because this is a pretty good program and we think many Milwaukee businesses benefit from this. (see paragraph 2 under CBED section) Jauch wants to maintain current law here (which isn't listed as a FB alternative).

Paper No. 248: Alternatives 1 & 4 (together)
(but no action is needed on alt 1, so just move alt 4)

Comments: No need to cause trouble here - plus most of this $ goes back to Milwaukee. So, just approve the gov's proposal (i.e. alt 1), plus create a nonprofit corporation and business incubator program and help out MEC, etc. (i.e. alt 4).

(see paragraphs 9 & 10, and work with Rep. Coggs on this)

Paper No. 249: <u>Badger Fund & Board</u> - Alternative 2
(this should be labeled Part A, but isn't)

Comments: The gov's recommendation is a bad idea (see paragraph 6)

<u>Mining Grant & Loans</u> - Alternative 3
(this should be labeled Part B, but isn't)

Comments: The $ provided isn't enough to make a difference, and other funds provide similar support for communities. So there's no need to start this new fund. (see paragraphs 9 & 14)

Also, may want to talk gratuitously about the mining net proceeds tax, and indicate that the tax brackets should really be increased (see page 13 of attachment)

Decker may have a motion here, to give Ladysmith $.

Paper No. 250: <u>Transfer PLAP</u> - Alternative 2
(This should be labeled Part A, but isn't)

Comments: It would probably be better to combine this program with the U.W.'s Rural Health Development Council (see paragraph 8). Jauch prefers alt 1.

<u>Technical Modifications</u> - Alternative 1
(This should be labeled Part B, but isn't)

Comments: This just allows these programs to get federal funds, and is a late request from the Department. (see full paragraph under technical modifications section)

Paper No. 251: Part A -- Alternative 1 (no action needed) MOTION #1104

Burke Motion under Part A (i.e. address parts A & B separately): ~~Requested by City of Mi~~lwaukee & Rep Bock (original author of development zone law - increase total credit allocation by another $5 million above the gov's $5 million increase. — DON'T OFFER THIS UNLESS OURADA AGREES TO SUPPORT IT.

***Rationale**: this is a good program that works. Lets make sure there are enough credits to go around.*

In 1995, the legislature increased the total amount of statewide credits by $7 million. Milwaukee, like a number of other development zone communities, ran out of credits recently.

If we are serious about economic development we need to provide credits at a significant level, so communities aren't put in the position of running out of credits in the middle of a major development initiative.

If we don't expand the program at a significant level, we may inhibit job growth and economic activity in distressed areas of the state. Privately, it's my understanding Sec. McCoshen supports this.

Part B -- Alternative 1 (no action needed)

Comments: There are some brownfield cleanup ramifications here (see paragraph 10), and the gov's recommendation is sound (i.e. alt 1).

Paper No. 252: Part A - Alternative 1 (no action needed)
Part B - Alternative B(a), (b), (c), (d) & (e)

Comments: It's ok to go along with the gov's recommendation here as long as all the Part B stuff is passed. Plus, you have a motion that the City of Milwaukee and Rep Bock want.

MOTION #1105

***Burke Motion** - Reinstate the day care tax credit.*
Reinstate the investment credit.
Reduce the nontargeted population job credit from $4,000 to $2,000.

— if more info is needed ask FB to explain.

***Rationale**: The day care credit ($1,200 per dependent for first 2 years of employment for a targeted worker) creates an incentive for businesses to hire W-2 workers and targeted workers with families.*

Continuing the investment credit will encourage businesses to continue investing in business-related equipment, which is crucial to remaining competitive (the credit is 2.5% of personal property located in the zone).

Reducing the non-targeted population job credit would help maximize the limited amount of credit $, and encourage businesses to hire targeted workers (i.e. development zone residents, W-2 workers, etc.)

ask FB to discuss this issue (i.e. are we giving out credit to re-employ white collar workers?)

****

*For items which no FB issue papers were prepared, **no action is necessary**, because you are working off the gov's bill.*

(continued on next page)

(just FYI, item #10 includes funding for Reggie White's Urban Hope Initiative included here. Item #32 relates to giving priority to brownfields in the CDBG program.) ***Also, Item #16 eliminates JFC authority to approve awards in excess of $25,000 under 13.10. Ask Lang if you should do a motion to retain JFC authority to approve "grants" over "$15,000".*** ?

Note #2*: Ron Shanovich at FB indicates that Item #33 (establishing a Business Development Assistance Center) is wrongly placed in this section and needs to be removed. It will be taken up as a separate issue paper under DNR - brownfields.* ***You need to let people know that Item #33 is not being approved today*** *(plus, you have a motion for Sen. Moore on this issue)*

Note #3*: Sen. Plache supports a motion that Jensen is supposed to make, to retain $1.9 million in the WDF - this money is scheduled to lapse into the general fund. Sec. McCoshen apparently supports this, and that's why Jensen is doing it. Plache wants it because she thinks it will help Golden Books in Racine. I said you'd support it, but you might want to ask Lang if it impacts any of our recommendations on the FB Papers. Also, Brett was unsure if Jensen was really offering the motion - I let John Anderson know this.*

Note #4: Linton may have motion to restore state tribal liaison position. - I THINK BRIAN SHOULD OFFER IT.

NO NEW $ NEEDED

MOTION

Note #5: Burke motion for Journey House *(earmarks $15,000 on a one-time basis for Journey House in Milwaukee; Barry has more details and talking points in a separate paper.)* see notes on blue paper #1146

Note #6: Burke motion to ask Commerce to determine if they can create a "Downtown Wisconsin" development fund. *(This won't help Milwaukee, but it is part of your land use agenda: i.e. keep small town downtown commercial districts strong. It will tie into the Heritage Tourism Main Street Program. You aren't actually creating the fund today, just asking Commerce to study the idea and report back to JFC. Barry has more info in a separate paper).* #1108

see notes on blue paper

Budget Memo

Agency: Commerce: Dept Wide & Econ Dev

Staff Recommendations:

((This agency presents a good opportunity for Dems to be budget-cutters. There are numerous opportunities to save GPR here, and it will be fun to make the Republicans vote against the cuts))

Paper No. 240: Alternative 2

Comments: (see paragraphs 4 & 5)

Paper No. 241: Alternatives 2 & 5 (together)

Comments: Ask FB to make sure you can do alternatives 2 & 5 together. Actually, any of the alternatives other than alt 1 (the gov's proposal) would probably be ok - separately or combined. We just think alts 2 & 5 together are the best combination overall to recoup some GPR dollars. (see paragraphs 13, 15 & 16)

Also, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Decker may also have two motions to decrease maximum employee threshold, and cap the dairy program grants at $15,000.

Paper No. 242: Alternative 3

Comments: Another chance to save GPR. There's no need for an additional $250,000 GPR for this program (see paragraphs 3, 7 & 8), and you might as well have the additional GPR go to the general fund rather than back to the WDF. We think alt 3 returns the $ to the general fund, but you may want to double-check with FB.

Again, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Also, ask FB if alternatives 3 & 6 are the same.

Paper No. 243: Alternatives 2(a) & 3 (together)

Comments: These alternatives are confusing. Ask FB to make sure you can do alt 2(a) & alt 3 together. Definitely do alt 3.

This new office building is really costly and pretty extravagant (see paragraph 3) and Commerce originally identified the cuts in alt 3 as ones they could afford to make (see paragraph 5). Also, it seems reasonable to delete some of the moving costs (see paragraph 6).

Paper No. 244: Alternative 3

Comments: All these so-called economic promotion programs seem pretty dubious to us. Why can't the private sector address these needs? And how do we prove that this spending really has any positive impact overall?

Again, you might as well transfer the $ to the general fund (see paragraphs 9 & 10). But, actually, any alternative other than alt 1 would probably be ok. Jauch & Linton want alt 5 (i.e. gives them half).

Paper No. 245: Alternative 3

Comments: We think the position is justified (see paragraphs 4 & 5), but should be funded with PR rather than GPR (hence, alt 3). But, this is a new fee, and some folks might not like that. (see paragraph 11)

Burke Motion: *For your "budget buddy" Rep. Johnsrud. Require the Dept of Commerce to give notice to local legislators before the Dept gives out a Wisconsin Development Fund grant or loan in the legislator's district. Apparently, the governor shows up at the check presentation ceremony and takes all the credit, and the local legislators are left in the lurch.*

Paper No. 246: Alternative 3

Comments: We think this whole program sound like a sham, and private interests should be doing the assessments, etc. But, rather than eliminating the program altogether (i.e. alt 2(e)&(g)), you could compromise and do nothing (i.e. alt 3, which does not provide additional funds gov wants). (see paragraphs 15 & 17)

However, any combination of the alternatives under alt 2 would probably be ok too.

Paper No. 247: Part A - Alternative 2
Part B - Alternative 1 (no action needed)

Comments: For Part A (venture capital), there isn't enough money available to make a difference, it's doubtful this program would help much, and a similar idea has been shot down twice in the last 5 years. (see paragraphs 8, 9, 10, & 12)

(continued on next page)

For Part B (CBED funding), the gov's recommendation seems fine. There's no need to make additional cuts, because this is a pretty good program and we think many Milwaukee businesses benefit from this. (see paragraph 2 under CBED section) Jauch wants to maintain current law here (which isn't listed as a FB alternative).

Paper No. 248: Alternatives 1 & 4 (together)
(but no action is needed on alt 1, so just move alt 4)

Comments: No need to cause trouble here - plus most of this $ goes back to Milwaukee. So, just approve the gov's proposal (i.e. alt 1), plus create a nonprofit corporation and business incubator program and help out MEC, etc. (i.e. alt 4).

(see paragraphs 9 & 10, and work with Rep. Coggs on this)

Paper No. 249: <u>Badger Fund & Board</u> - Alternative 2
(this should be labeled Part A, but isn't)

Comments: The gov's recommendation is a bad idea (see paragraph 6)

<u>Mining Grant & Loans</u> - Alternative 3
(this should be labeled Part B, but isn't)

Comments: The $ provided isn't enough to make a difference, and other funds provide similar support for communities. So there's no need to start this new fund. (see paragraphs 9 & 14)

Also, may want to talk gratuitously about the mining net proceeds tax, and indicate that the tax brackets should really be increased (see page 13 of attachment)

Decker may have a motion here, to give Ladysmith $.

Paper No. 250: <u>Transfer PLAP</u> - Alternative 2
(This should be labeled Part A, but isn't)

Comments: It would probably be better to combine this program with the U.W.'s Rural Health Development Council (see paragraph 8). Jauch prefers alt 1.

<u>Technical Modifications</u> - Alternative 1
(This should be labeled Part B, but isn't)

Comments: This just allows these programs to get federal funds, and is a late request from the Department. (see full paragraph under technical modifications section)

Paper No. 251: Part A -- Alternative 1 (no action needed)

Burke Motion under Part A *(i.e. address parts A & B separately): Requested by City of Milwaukee & Rep Bock (original author of development zone law - increase total credit allocation by another $5 million above the gov's $5 million increase.*

Rationale*: this is a good program that works. Lets make sure there are enough credits to go around.*

In 1995, the legislature increased the total amount of statewide credits by $7 million. Milwaukee, like a number of other development zone communities, ran out of credits recently.

If we are serious about economic development we need to provide credits at a significant level, so communities aren't put in the position of running out of credits in the middle of a major development initiative.

If we don't expand the program at a significant level, we may inhibit job growth and economic activity in distressed areas of the state.

Part B -- Alternative 1 (no action needed)

Comments: There are some brownfield cleanup ramifications here (see paragraph 10), and the gov's recommendation is sound (i.e. alt 1).

Paper No. 252: Part A - Alternative 1 (no action needed)
Part B - Alternative B(a),(b),(c),(d)&(e)

Comments: It's ok to go along with the gov's recommendation here as long as all the Part B stuff is passed. Plus, you have a motion that the City of Milwaukee and Rep Bock want.

Burke Motion - *Reinstate the day care tax credit.*
Reinstate the investment credit.
Reduce the nontargeted population job credit from $4,000 to $2,000.

Rationale*: The day care credit ($1,200 per dependent for first 2 years of employment for a targeted worker) creates an incentive for businesses to hire W-2 workers and targeted workers with families.*

Continuing the investment credit will encourage businesses to continue investing in business-related equipment, which is crucial to remaining competitive (the credit is 2.5% of personal property located in the zone).

Reducing the non-targeted population job credit would help maximize the limited amount of credit $, and encourage businesses to hire targeted workers (i.e. development zone residents, W-2 workers, etc.)

****

For items which no FB issue papers were prepared, ***no action is necessary****, because you are working off the gov's bill.*

(continued on next page)

(just FYI, item #10 includes funding for Reggie White's Urban Hope Initiative included here. Item #32 relates to giving priority to brownfields in the CDBG program.) Also, Item #16 eliminates JFC authority to approve awards in excess of $25,000 under 13.10. Ask Lang if you should do a motion to retain JFC authority to approve "grants" over "$15,000".

Note #2: *Ron Shanovich at FB indicates that Item #33 (establishing a Business Development Assistance Center) is wrongly placed in this section and needs to be removed. It will be taken up as a separate issue paper under DNR - brownfields.* ***You need to let people know that Item #33 is not being approved today*** *(plus, you have a motion for Sen. Moore on this issue)*

Note #3: *Sen. Plache supports a motion that Jensen is supposed to make, to retain $1.9 million in the WDF - this money is scheduled to lapse into the general fund. Sec. McCoshen apparently supports this, and that's why Jensen is doing it. Plache wants it because she thinks it will help Golden Books in Racine. I said you'd support it, but you might want to ask Lang if it impacts any of our recommendations on the FB Papers. Also, Brett was unsure if Jensen was really offering the motion - I let John Anderson know this.*

Note #4: Linton may have motion to restore state tribal liaison position.

Budget Memo

Agency: Commerce: Dept Wide & Econ Dev

Staff Recommendations:

((This agency presents a good opportunity for Dems to be budget-cutters. There are numerous opportunities to save GPR here, and it will be fun to make the Republicans vote against the cuts))

Paper No. 240: Alternative 2 5 1

Comments: (see paragraphs 4 & 5) 2 / (3 cdf) —

Paper No. 241: Alternatives 2 & 5 (together)

Comments: Ask FB to make sure you can do alternatives 2 & 5 together. Actually, any of the alternatives other than alt 1 (the gov's proposal) would probably be ok - separately or combined. We just think alts 2 & 5 together are the best combination overall to recoup some GPR dollars. (see paragraphs 13, 15 & 16)

Also, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Decker may also have two motions to decrease maximum employee threshold, and cap the dairy program grants at $15,000.

Paper No. 242: Alternative 3

Comments: Another chance to save GPR. There's no need for an additional $250,000 GPR for this program (see paragraphs 3, 7 & 8), and you might as well have the additional GPR go to the general fund rather than back to the WDF. We think alt 3 returns the $ to the general fund, but you may want to double-check with FB.

Again, you may want to point out that GPR savings are needed here to pay for the $7 increase in square footage rent for the new WHEDA/Commerce fortress just off the Capitol Square (i.e. in Paper No. 243)

Also, ask FB if alternatives 3 & 6 are the same.

Paper No. 243: Alternatives 2(a) & 3 (together)

Comments: These alternatives are confusing. Ask FB to make sure you can do alt 2(a) & alt 3 together. Definitely do alt 3.

This new office building is really costly and pretty extravagant (see paragraph 3) and Commerce originally identified the cuts in alt 3 as ones they could afford to make (see paragraph 5). Also, it seems reasonable to delete some of the moving costs (see paragraph 6).

Paper No. 244: Alternative 3 [illegible] + 4

Comments: All these so-called economic promotion programs seem pretty dubious to us. Why can't the private sector address these needs? And how do we prove that this spending really has any positive impact overall?

Again, you might as well transfer the $ to the general fund (see paragraphs 9 & 10). But, actually, any alternative other than alt 1 would probably be ok. Jauch & Linton want alt 5 (i.e. gives them half).

Paper No. 245: Alternative ~~1~~ 4 – Scott

Comments: We think the position is justified (see paragraphs 4 & 5), but should be funded with PR rather than GPR (hence, alt 3). But, this is a new fee, and some folks might not like that. (see paragraph 11)

Burke Motion: *For your "budget buddy" Rep. Johnsrud. Require the Dept of Commerce to give notice to local legislators before the Dept gives out a Wisconsin Development Fund grant or loan in the legislator's district. Apparently, the governor shows up at the check presentation ceremony and takes all the credit, and the local legislators are left in the lurch. Also note that you and your "budget buddy" have a few things going on Friday (i.e. nonpoint pollution).*

Paper No. 246: Alternative 3

Comments: We think this whole program sound like a sham, and private interests should be doing the assessments, etc. But, rather than eliminating the program altogether (i.e. alt 2(e)&(g)), you could compromise and do nothing (i.e. alt 3, which does not provide additional funds gov wants). (see paragraphs 15 & 17)

However, any combination of the alternatives under alt 2 would probably be ok too.

Paper No. 247: Part A – Alternative 2
Part B – Alternative ~~1~~ 2 (no action needed)

Comments: For Part A (venture capital), there isn't enough money available to make a difference, it's doubtful this program would help much, and a similar idea has been shot down twice in the last 5 years. (see paragraphs 8, 9, 10, & 12)

(continued on next page)

For Part B (CBED funding), the gov's recommendation seems fine. There's no need to make additional cuts, because this is a pretty good program and we think many Milwaukee businesses benefit from this. (see paragraph 2 under CBED section) Jauch wants to maintain current law here (which isn't listed as a FB alternative).

Paper No. 248: Alternatives 1 & 4 (together)
(but no action is needed on alt 1, so just move alt 4)

Comments: No need to cause trouble here - plus most of this $ goes back to Milwaukee. So, just approve the gov's proposal (i.e. alt 1), plus create a nonprofit corporation and business incubator program and help out MEC, etc. (i.e. alt 4).

(see paragraphs 9 & 10, and work with Rep. Coggs on this)

motion - Scott

Paper No. 249: Badger Fund & Board - Alternative 2
(this should be labeled Part A, but isn't)

Comments: The gov's recommendation is a bad idea (see paragraph 6)

Mining Grant & Loans - Alternative 3 Decker/Ourada B-2
(this should be labeled Part B, but isn't)

Comments: The $ provided isn't enough to make a difference, and other funds provide similar support for communities. So there's no need to start this new fund. (see paragraphs 9 & 14)

Also, may want to talk gratuitously about the mining net proceeds tax, and indicate that the tax brackets should really be increased (see page 13 of attachment)

Decker may have a motion here, to give Ladysmith $.

Paper No. 250: Transfer PLAP - Alternative ~~2~~ 1
(This should be labeled Part A, but isn't)

Comments: It would probably be better to combine this program with the U.W.'s Rural Health Development Council (see paragraph 8). Jauch prefers alt 1.

Technical Modifications - Alternative 1
(This should be labeled Part B, but isn't)

Comments: This just allows these programs to get federal funds, and is a late request from the Department. (see full paragraph under technical modifications section)

Paper No. 251: Part A -- Alternative 1 (no action needed)

Burke Motion under Part A *(i.e. address parts A & B separately):*
Requested by City of Milwaukee & Rep Bock (original author of development zone law - increase total credit allocation by another $5 million above the gov's $5 million increase.

Rationale: *this is a good program that works. Lets make sure there are enough credits to go around.*
In 1995, the legislature increased the total amount of statewide credits by $7 million. Milwaukee, like a number of other development zone communities, ran out of credits recently.
If we are serious about economic development we need to provide credits at a significant level, so communities aren't put in the position of running out of credits in the middle of a major development initiative.
If we don't expand the program at a significant level, we may inhibit job growth and economic activity in distressed areas of the state. Privately, it's my understanding Sec. McCoshen supports this.

Part B -- Alternative 1 (no action needed)

Comments: There are some brownfield cleanup ramifications here (see paragraph 10), and the gov's recommendation is sound (i.e. alt 1).

Paper No. 252: Part A - Alternative 1 (no action needed)
Part B - Alternative B(a),(b),(c),(d)&(e)

Comments: It's ok to go along with the gov's recommendation here as long as all the Part B stuff is passed. Plus, you have a motion that the City of Milwaukee and Rep Bock want.

Burke Motion - *Reinstate the day care tax credit.*
Reinstate the investment credit.
Reduce the nontargeted population job credit from $4,000 to $2,000.

Rationale: *The day care credit ($1,200 per dependent for first 2 years of employment for a targeted worker) creates an incentive for businesses to hire W-2 workers and targeted workers with families.*

Continuing the investment credit will encourage businesses to continue investing in business-related equipment, which is crucial to remaining competitive (the credit is 2.5% of personal property located in the zone).

Reducing the non-targeted population job credit would help maximize the limited amount of credit $, and encourage businesses to hire targeted workers (i.e. development zone residents, W-2 workers, etc.)

****

For items which no FB issue papers were prepared, ***no action is necessary****, because you are working off the gov's bill.*

(continued on next page)

(just FYI, item #10 includes funding for Reggie White's Urban Hope Initiative included here. Item #32 relates to giving priority to brownfields in the CDBG program.) ~~**Also, Item #16 eliminates JFC authority to approve awards in excess of $25,000 under 13.1b. Ask Lang if you should do a motion to retain JFC authority to approve "grants" over "$15,000".**~~

Note #2: *Ron Shanovich at FB indicates that Item #33 (establishing a Business Development Assistance Center) is wrongly placed in this section and needs to be removed. It will be taken up as a separate issue paper under DNR - brownfields.* ***You need to let people know that Item #33 is not being approved today*** *(plus, you have a motion for Sen. Moore on this issue)*

Note #3: *Sen. Plache supports a motion that Jensen is supposed to make, to retain $1.9 million in the WDF - this money is scheduled to lapse into the general fund. Sec. McCoshen apparently supports this, and that's why Jensen is doing it. Plache wants it because she thinks it will help Golden Books in Racine. I said you'd support it, but you might want to ask Lang if it impacts any of our recommendations on the FB Papers. Also, Brett was unsure if Jensen was really offering the motion - I let John Anderson know this.*

Note #4: Linton may have motion to restore state tribal liaison position.

~~***Note #5: Burke motion for Journey House*** *(earmarks $15,000 on a one-time basis for Journey House in Milwaukee; Barry has more details and talking points in a separate paper.)*~~

Note #6: Burke motion to ask Commerce to determine if they can create a "Downtown Wisconsin" development fund. *(This won't help Milwaukee, but it is part of your land use agenda: i.e. keep small town downtown commercial districts strong. It will tie into the Heritage Tourism Main Street Program. You aren't actually creating the fund today, just asking Commerce to study the idea and report back to JFC. Barry has more info in a separate paper).*

Budget Memo

Agency: Commerce: Dept Wide & Econ Dev

Staff Recommendations:

((This agency presents a good opportunity for Dems to be budget-cutters. There are numerous opportunities to save GPR here, and it will be fun to make the Republicans vote against the cuts))

Paper No. 240: Alternative 2 Jensen 1

Comments: (see paragraphs 4 & 5)

Paper No. 241: Alternatives 2 & 5 (together)

Comments: Ask FB to make sure you can do alternatives 2 & 5 together. Actually, any of the alternatives other than alt 1 (the gov's proposal) would probably be ok - separately or combined. We just think alts 2 & 5 together are the best combination overall to recoup some GPR dollars. (see paragraphs 13, 15 & 16)

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Decker may also have two motions to decrease maximum employee threshold, and cap the dairy program grants at $15,000.

Paper No. 242: Alternative 3 Jensen 1 or 4

Comments: Another chance to save GPR. There's no need for an additional $250,000 GPR for this program (see paragraphs 3, 7 & 8), and you might as well have the additional GPR go to the general fund rather than back to the WDF. We think alt 3 returns the $ to the general fund, but you may want to double-check with FB.

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Paper No. 244: Alternative 3 Jensen 1 or 4

Comments: All these so-called economic promotion programs seem pretty dubious to us. Why can't the private sector address these needs? And how do we prove that this spending really has any positive impact overall?

Again, you might as well transfer the $ to the general fund (see paragraphs 9 & 10). But, actually, any alternative other than alt 1 would probably be ok. Jauch & Linton want alt 5 (i.e. gives them half).

Paper No. 245: Alternative ~~3~~ 4

Comments: We think the position is justified (see paragraphs 4 & 5), but should be funded with PR rather than GPR (hence, alt 3). But, this is a new fee, and some folks might not like that. (see paragraph 11)

Burke Motion: *For your "budget buddy" Rep. Johnsrud. Require the Dept of Commerce to give notice to local legislators before the Dept gives out a Wisconsin Development Fund grant or loan in the legislator's district. Apparently, the governor shows up at the check presentation ceremony and takes all the credit, and the local legislators are left in the lurch.*

Paper No. 246: Alternative 3 Jensen 2g

Comments: We think this whole program sound like a sham, and private interests should be doing the assessments, etc. But, rather than eliminating the program altogether (i.e. alt 2(e)&(g)), you could compromise and do nothing (i.e. alt 3, which does not provide additional funds gov wants). (see paragraphs 15 & 17)

However, any combination of the alternatives under alt 2 would probably be ok too.

Paper No. 247: Part A - Alternative 2
Part B - Alternative 1 (no action needed)

Comments: For Part A (venture capital), there isn't enough money available to make a difference, it's doubtful this program would help much, and a similar idea has been shot down twice in the last 5 years. (see paragraphs 8, 9, 10, & 12)

(continued on next page)

For Part B (CBED funding), the gov's recommendation seems fine. There's no need to make additional cuts, because this is a pretty good program and we think many Milwaukee businesses benefit from this. (see paragraph 2 under CBED section) Jauch wants to maintain current law here (which isn't listed as a FB alternative).

Paper No. 248: Alternatives 1 & 4 (together)
(but no action is needed on alt 1, so just move alt 4)

Comments: No need to cause trouble here - plus most of this $ goes back to Milwaukee. So, just approve the gov's proposal (i.e. alt 1), plus create a nonprofit corporation and business incubator program and help out MEC, etc. (i.e. alt 4).

(see paragraphs 9 & 10, and work with Rep. Coggs on this)

Jensen motions

Paper No. 249: <u>Badger Fund & Board</u> - Alternative 2
(this should be labeled Part A, but isn't)

Comments: The gov's recommendation is a bad idea (see paragraph 6)

<u>Mining Grant & Loans</u> - Alternative ~~1~~ 2
(this should be labeled Part B, but isn't)

Comments: The $ provided isn't enough to make a difference, and other funds provide similar support for communities. So there's no need to start this new fund. (see paragraphs 9 & 14)

Also, may want to talk gratuitously about the mining net proceeds tax, and indicate that the tax brackets should really be increased (see page 13 of attachment)

Decker may have a motion here, to give Ladysmith $.

Paper No. 250: <u>Transfer PLAP</u> - Alternative ~~2~~ 1
(This should be labeled Part A, but isn't)

Comments: It would probably be better to combine this program with the U.W.'s Rural Health Development Council (see paragraph 8). Jauch prefers alt 1.

<u>Technical Modifications</u> - Alternative 1
(This should be labeled Part B, but isn't)

Comments: This just allows these programs to get federal funds, and is a late request from the Department. (see full paragraph under technical modifications section)

Paper No. 251: <u>Part A</u> -- Alternative 1 (no action needed)

Burke Motion under Part A *(i.e. address parts A & B separately): Requested by City of Milwaukee & Rep Bock (original author of development zone law - increase total credit allocation by another $5 million above the gov's $5 million increase.*

Rationale: *this is a good program that works. Lets make sure there are enough credits to go around.*

In 1995, the legislature increased the total amount of statewide credits by $7 million. Milwaukee, like a number of other development zone communities, ran out of credits recently.

If we are serious about economic development we need to provide credits at a significant level, so communities aren't put in the position of running out of credits in the middle of a major development initiative.

If we don't expand the program at a significant level, we may inhibit job growth and economic activity in distressed areas of the state. Privately, it's my understanding Sec. McCoshen supports this.

<u>Part B</u> -- Alternative 1 (no action needed)

Comments: There are some brownfield cleanup ramifications here (see paragraph 10), and the gov's recommendation is sound (i.e. alt 1).

Paper No. 252: Part A - Alternative 1 (no action needed)
Part B - Alternative B(a), (b), (c), (d) & (e)

Comments: It's ok to go along with the gov's recommendation here as long as all the Part B stuff is passed. Plus, you have a motion that the City of Milwaukee and Rep Bock want.

Burke Motion - *Reinstate the day care tax credit.*
Reinstate the investment credit.
Reduce the nontargeted population job credit from $4,000 to $2,000.

Rationale: *The day care credit ($1,200 per dependent for first 2 years of employment for a targeted worker) creates an incentive for businesses to hire W-2 workers and targeted workers with families.*

Continuing the investment credit will encourage businesses to continue investing in business-related equipment, which is crucial to remaining competitive (the credit is 2.5% of personal property located in the zone).

Reducing the non-targeted population job credit would help maximize the limited amount of credit $, and encourage businesses to hire targeted workers (i.e. development zone residents, W-2 workers, etc.)

****

For items which no FB issue papers were prepared, ***no action is necessary****, because you are working off the gov's bill.*

(continued on next page)

(just FYI, item #10 includes funding for Reggie White's Urban Hope Initiative included here. Item #32 relates to giving priority to brownfields in the CDBG program.) ***Also, Item #16 eliminates JFC authority to approve awards in excess of $25,000 under 13.10. Ask Lang if you should do a motion to retain JFC authority to approve "grants" over "$15,000".***

Note #2: *Ron Shanovich at FB indicates that Item #33 (establishing a Business Development Assistance Center) is wrongly placed in this section and needs to be removed. It will be taken up as a separate issue paper under DNR - brownfields.* ***You need to let people know that Item #33 is not being approved today*** *(plus, you have a motion for Sen. Moore on this issue)*

Note #3: *Sen. Plache supports a motion that Jensen is supposed to make, to retain $1.9 million in the WDF - this money is scheduled to lapse into the general fund. Sec. McCoshen apparently supports this, and that's why Jensen is doing it. Plache wants it because she thinks it will help Golden Books in Racine. I said you'd support it, but you might want to ask Lang if it impacts any of our recommendations on the FB Papers. Also, Brett was unsure if Jensen was really offering the motion - I let John Anderson know this.*

Note #4: Linton may have motion to restore state tribal liaison position.

Note #5: Burke motion for Journey House *(earmarks $15,000 on a one-time basis for Journey House in Milwaukee; Barry has more details and talking points in a separate paper.)*

Note #6: Burke motion to ask Commerce to determine if they can create a "Downtown Wisconsin" development fund. *(This won't help Milwaukee, but it is part of your land use agenda: i.e. keep small town downtown commercial districts strong. It will tie into the Heritage Tourism Main Street Program. You aren't actually creating the fund today, just asking Commerce to study the idea and report back to JFC. Barry has more info in a separate paper).*

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

GPR Appropriation Structure for Rural Economic Development Program, Wisconsin Development Fund and Community-Based Economic Development Program (Commerce)

[LFB Summary: Page 114, #2; Page 120, #10; and Page 130, #23]

CURRENT LAW

The Wisconsin Development Fund (WDF) and the Rural Economic Development (RED) Program are funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. The GPR appropriations are biennial. The program revenue appropriations are continuing appropriations; amounts received from loan repayments are credited to the repayments appropriation and these monies can be used to fund grants and loans. The Community-Based Economic Development (CBED) Program is funded by a GPR annual appropriation.

GOVERNOR

Convert the Wisconsin Development Fund, Rural Economic Development and Community-Based Economic Development program GPR appropriations to continuing appropriations.

DISCUSSION POINTS

1. Funding for GPR biennial appropriations is expendable only for the biennium for which it is appropriated. Unexpended amounts remaining in the appropriation lapse to the

general fund. Similarly, funding for GPR annual appropriations can only be expended in the year for which the funds are appropriated; unexpended amounts remaining in the appropriation at the end of the fiscal year lapse to the general fund.

2. Funding for continuing appropriations is available until it is fully expended or repealed by a subsequent action of the Legislature. Authorized funding amounts carry over from year to year until they are completely spent.

3. Under the bill, the appropriations would be converted to continuing appropriations to provide the Department with more flexibility to award grants and loans to viable projects when the demand for funding exceeds currently appropriated amounts. The change would allow the Department to carry funding over from years in which demand for grants and loans is relatively low to years in which demand would increase. It is argued that without the carryover of funding to these years to provide additional grants and loans, economic development projects and the associated benefits, such as job creation and capital investment, might not occur or businesses may locate in other states.

4. However, the conversion of the appropriations to continuing could be questioned. The Department is experienced in budgeting for the WDF, RED and CBED programs and should be able to anticipate demand for program funding. Moreover, the WDF and RED have continuing program revenue appropriations which provide flexibility as additional funding sources. In 1995-96, the total amount of funds expended from these appropriations was substantially below the authorized expenditure amounts.

5. Changing the appropriations to continuing could allow significant appropriation balances to develop and be carried over into future years to fund increased expenditures. The presence of carry-over balances in these appropriations would allow the Department to expend funds without direct legislative approval. These type of spending increases typically should be addressed through the biennial budget process. Keeping the biennial and annual GPR appropriations would retain a degree of legislative oversight. Balances at the end of the biennium or fiscal year would lapse to the general fund, rather than accumulating. If appropriation levels were insufficient to accomplish legislative objectives due to unforeseen circumstances, the Department could submit a s. 13.10 request for an appropriation supplement.

6. It is estimated that at the end of 1996-97, the WDF, RED and CBED programs will each lapse GPR funding that was encumbered in previous biennia. The estimated 1996-97 lapses from these program is expected to exceed $1.5 million as follows: (a) WDF, $1,100,000; (b) CBED, $219,400; and (c) RED, $205,600. If the GPR appropriations for each program are changed to continuing appropriations, such lapses will not occur in future years.

ALTERNATIVES TO BILL

1. Approve the Governor's request to convert the WDF, RED and CBED, GPR appropriations to continuing appropriations. (Future lapses would not occur.)

2. Maintain current law. (Unexpended GPR funds would continue to lapse to the general fund.)

Prepared by: Ron Shanovich

MO# 4142

2	BURKE	Y	N	A
1	DECKER	Y	N	A
	GEORGE	Y	N	A
	JAUCH	Y	N	A
	WINEKE	Y	N	A
	SHIBILSKI	Y	N	A
	COWLES	Y	N	A
	PANZER	Y	N	A
	JENSEN	Y	N	A
	OURADA	Y	N	A
	HARSDORF	Y	N	A
	ALBERS	Y	N	A
	GARD	Y	N	A
	KAUFERT	Y	N	A
	LINTON	Y	N	A
	COGGS	Y	N	A

AYE 8 NO 7 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Rural Economic Development (RED) Program (Commerce)

[LFB Summary: Pages 114-118, #s 2 thru 6]

CURRENT LAW

The Rural Economic Development Program (RED) provides grants and loans for professional services and loans for working capital, fixed asset financing and employe relocation costs incurred in starting or expanding an eligible business in a rural municipality. The RED is funded through both a GPR biennial appropriation and a program revenue repayments appropriation. Amounts received from RED loan repayments are credited to the repayments appropriation and these monies are used to fund RED grants and loans. Base level funding for the RED program is $271,500 GPR and $79,500 PR.

GOVERNOR

The bill would make the following modifications to the RED:

a. The GPR appropriation for the program would be increased by $478,500 annually to reflect funding transferred from the WDF. Expenditure authority of $200,000 annually would be provided for the Department's gifts and grants program revenue appropriation to reflect anticipated private sector donations related to agribusiness development. Expenditure authority for the repayments appropriation would be increased by $82,900 PR in 1997-98 and decreased by $9,400 in 1998-99. Total GPR funding for the RED would be $750,000 each year. Expenditure authority for the repayments appropriation would be $162,400 in 1997-98 and $70,100 in 1998-99. (The GPR appropriation would also be changed to a continuing appropriation. This modification is addressed in a separate budget paper.)

b. The definition of a rural municipality would be expanded to include a city, town or village with a population of up to 6,000, rather than the current maximum population of 4,000. Also, an eligible business would be a business with fewer than 100 employees, instead of the current limit of 25 employes.

c. The RED Board would be required to award from 25% to 50% of the total amount of RED funds awarded in a fiscal biennium for purposes related to an agricultural business. The Board would be required to give priority to grants and loans that would be used for purposes related to a dairy farm. Commerce and the Department of Agriculture, Trade and Consumer Protection (DATCP) would be required to designate staff to evaluate applications for grants and loans related to agricultural businesses and to make recommendations and assist in reviewing applications.

d. The maximum award for professional services and management assistance (early planning grants) would be reduced from $30,000 to $15,000 and awards could only be made as grants.

e. The maximum award that could be provided for working capital, fixed asset financing and employee relocation costs would be increased from $25,000 to $100,000 and awards could be made as grants as well as loans. The requirement that, in order to receive an award, a business must have received a RED early planning grant would be eliminated. Instead, the business would be required to demonstrate the feasibility of the project. The bill would also eliminate the requirement that a maximum of 20% of total RED funding in the biennium be used for these loans.

f. The bill would create a new grant program under the RED that would provide grants to a person or business that proposes to start-up, modernize or expand a dairy farm (as defined in the statutes) or other agricultural business in the state. Grant proceeds could be used to pay for services related to the start-up, modernization or expansion of the dairy farm or other agricultural business or for management assistance which would continue after completion of the start-up, modernization or expansion. The maximum grant that could be awarded under the program would be $50,000. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

DISCUSSION POINTS

1. Under current law, eligible applicants for RED grants and loans are businesses that meet the following criteria: (a) employe fewer than 25 persons; (b) are located in a rural municipality (a city, village or town with a population of 4,000 or less or a municipality located in a county with a population density less than 150 persons per square mile); and (c) are starting or expanding operations.

The RED program has two subprograms. The early planning grant program provides grants or loans of up to $30,000 to fund professional services related to starting or expanding a business or for management assistance continuing after the start-up or expansion. Professional services include: preparation of feasibility studies or business and financial plans; providing a financial package; engineering studies, appraisals or marketing assistance; or related legal, accounting or managerial services.

The micro-loan program provides loans of up to $25,000 for a business for: (a) working capital; (b) fixed asset financing; and (c) employe relocation costs. However, in order to be eligible for a micro-loan, a business must have previously received a rural economic development early planning grant, successfully demonstrate the feasibility of the business and be unable to obtain financing from other sources in reasonably equivalent terms.

2. In the 1993-95 biennium, a total of $592,000 GPR ($296,000 annually) was appropriated for the RED program. Expenditure authority of $87,100 PR ($39,000 in 1993-94 and $48,100 PR in 1994-95) was granted. The total amount of grants and loans that were awarded and encumbered during the biennium was about $322,300; while a total of $269,700 GPR of biennial funding lapsed to the general fund at the end of fiscal year 1994-95. For the current biennium, a total of $480,700 GPR ($209,200 in 1995-96 and $271,500 in 1996-97) and expenditure authority of $211,300 PR ($131,800 in 1995-96 and $79,500 in 1996-97) is provided. Through March, 1997 a total of $403,100 had been awarded. An estimated $205,600 GPR will lapse at the end of fiscal year 1996-97.

3. A primary goal of the RED modifications is to expand economic development activities to areas of the state which have not been the focus of such activities in the past. A substantial amount of WDF awards are made to businesses that locate and expand in the more urban and populated areas of the state. Through March of 1997, over 73% of all WDF awards were made to businesses in 12 counties with at least 70% of the population living in cities or villages. Conversely, 38 counties with over half of the population residing in towns received about 7.7% of total WDF awards. In part, this reflects the pattern of economic activity. More businesses and people reside in urban areas and, therefore, it is likely that a substantial proportion of economic development awards would be directed to these areas. Commerce argues that the disparity also reflects the nature of WDF programs, which focus on substantial investment and job growth. They would note that in fiscal year 1995-96 the average major economic development award was almost $300,000. Similarly, the average customized labor training award was $236,000 and the average technology development award was over $100,000. These amounts would indicate that the projects that receive funding require a substantial financial commitment from the business. From this view, the current WDF programs are not designed to provide a large number of small awards to small rural businesses.

However, others would point out that Commerce, along with the Development Finance Board, is required to actively encourage small businesses to apply for WDF grants and loans by ensuring that there are no impediments to their participation and by assisting small businesses in preparing applications. From July 1, 1995, through March, 1997, 13 small businesses (businesses employing less than 250 employees) received awards totalling $1.4 million from the WDF.

4. To the extent expansion of the RED would direct relatively more financial aid to rural businesses, economic growth would be promoted in areas of the state that tend to have a higher level of unemployment. Thirty-two of the thirty-eight counties with over 50% of the population in towns had unemployment rates over 6% in 1996. Conversely, only one of the 12 urban counties had an unemployment rate that high.

5. Increasing the population of eligible communities from 4,000 to 6,000 would increase the number of eligible communities by 58 from 1,695 to 1,753. The size of eligible businesses would increase from those with 25 to those with 100 employees. Based on information on employers covered by unemployment compensation, it is estimated this change would increase eligible employers by 12%.

6. The increase in the maximum micro-loan amount from $25,000 to $100,000 is designed to make the RED program comparable to other Department general business finance programs and is also expected to generate increased demand for RED financing. Currently, there is a gap between the $25,000 that can be provided to rural businesses under the RED and the amounts that are provided through other financing programs. The maximum working capital and fixed asset financing grant or loan under the minority business development finance (MBDF) program is $100,000. WDF major economic development grants and loans have no statutory limit and are typically well over $100,000.

Financing between $25,000 and $100,000 is available through the federal Community Development Block Grant (CDBG)--economic development program. However, the business must go through a federal application process, obtain agreement from its community to apply for the funding and usually hire a consultant for approximately $2,000 to prepare the application. Commerce indicates that it had to channel six rural business applications through the CDBG program because there was no other program to provide financing of between $25,000 and $100,000.

7. The bill would eliminate the requirement that a business must first receive a RED early planning grant to be eligible for a micro-loan. The eligibility requirement prevents the Department from providing awards to viable projects that would otherwise be eligible for micro-loans. Eliminating the requirement that applicants must have received an early planning grant would make more projects eligible for micro-loans.

8. The micro-loan program would be modified to allow grants as well as loans while the early planning grant program would be modified to require grants. Grants would also increase program participation. It is argued that small businesses are reluctant to apply for loans

because of the additional paperwork and interest costs. On the other hand, loan repayments are a source of additional internal funding for the program.

9. The bill includes a number of provisions that are designed to direct RED financial assistance specifically to farmers and other agribusinesses. These changes include requiring that a significant portion of total RED funding be awarded to agribusinesses, giving award priority to dairy farms and directing Commerce and DATCP staff to cooperate in certain activities. In addition, a new subprogram would provide grants of up to $50,000 each to dairy farms and other agribusinesses for services related to start-up, modernization, expansion or management assistance services. The changes are designed to promote employment and economic growth in the agricultural sector of the state's economy. In addition, small and mid-sized farm businesses would have access to financial assistance. The grant program is a Dairy 2020 initiative.

10. The bill would increase expenditure authority for the Department's gifts and grants appropriation by $200,000 annually to reflect anticipated private sector donations related to agribusiness development. According to DOA, this funding was intended to be the only revenue source for the new grant program. The potential for private sector donations is unclear. However, under the provisions in the bill, awards for this program could be made from any RED appropriation (not to exceed a total of $200,000 annually).

11. Commerce believes that these modifications will significantly increase demand for RED funding. They argue that, under current base level GPR funding, only two micro-loans and four early planning grants of the maximum amount could be made each year. However, if GPR funding increased by $478,500, a total of six micro-loans and 10 early planning grants could be funded. Moreover, since its likely that the maximum amount would not be awarded to all applicants, the number of grants and loans that could be awarded with the additional funding would be substantially higher.

12. There are a number of state-funded programs that provide assistance to farm, agricultural and rural businesses. An argument for not providing or for limiting funding for the RED is that current state assistance services to farm, agricultural and rural businesses are adequate. The Wisconsin Housing and Economic Development Authority (WHEDA) administers the Business Development Bond Program which provides loans to eligible small and medium-sized manufacturing firms. WHEDA also administers the Beginning Farmer Loan program, Credit Relief Outreach program (CROP), Farm Asset Reinvestment Loan Guarantee program and the Agribusiness Loan Guarantee program which provide financial assistance to farmers and agribusinesses to fund certain business expenses.

The University of Wisconsin-Extension provides educational and applied research programs to provide assistance to small businesses and communities for assessment of business development, recruitment and retention. These programs include small business development centers, community and labor force analyses. The extension also provides specialized educational and business services such as the Wisconsin Technology Access program to support business and community economic development.

Similarly, the UW-Extension provides agricultural business management programs and services for farm owners, operators and managers through its campus-based specialists and statewide network of county agents. The Extension also offers educational programming for businesses providing services to farmers. The Extension Center for Cooperatives and Small Business Development Centers provide financial and business programming to the agricultural service sector.

The Department of Agriculture and Consumer Protection (DATCP) also administers a number of programs which provide financial and management assistance to agribusinesses. The Farmers Assistance Program helps farm families address financial, legal and associated personal problems. The Entry-Exit farmer Program assists farmers in transferring operations from individuals exiting the dairy industry to those entering the industry. DATCP also administers an agriculture development and diversification grant program that provides grants to fund demonstration projects, feasibility analyses and applied research toward new or alternative technologies and practices to stimulate agricultural development and economic activity.

13. The biennial funding level of $1.5 million included in the bill for the GPR appropriation represents a 212% increase in GPR funding over the amount provided in 1995-97 ($480,700). If expenditure authority for the program revenue repayments appropriation is included, the $1.7 million appropriated for RED for the 1997-99 biennium would be a 150% increase in funding over the current biennium. When the micro-loan program was originally created in the 1993-95 biennial budget (1993 Wisconsin Act 16) no additional funding was provided. Moreover, at the end of 1994-95, the RED lapsed $368,40. It is estimated that, at the end of fiscal year 1996-97, $205,600 will be lapsed. Current year awards have not been funded from the program revenue repayments appropriation. As noted, expenditure authority of $162,400 PR in 1997-98 and $70,100 PR in 1998-99 would be provided for RED awards. The fact that the GPR appropriation is expected to lapse funds and the repayments funding is available would seem to indicate that the current level of demand for RED financing is restrained and there is some flexibility to absorb increases in demand out of the base funding level. From this view, it is argued that the additional funding is not necessary since demand for RED awards could be absorbed by base level GPR and PR funding. If Commerce found that demand exceeded available RED funding, it could request the transfer of additional WDF funds from the Joint Committee on Finance under s. 13.10 of the statutes.

14. If the Committee decides to deny the increased funding for the RED, it may wish to delete the funding from the Department's budget rather than returning the expenditure authority to the WDF. It is argued that reducing state GPR expenditures would contribute more to economic development than allocating the monies to a few specific businesses. It is noted that many economic studies indicate that the overall level of state spending affects the state business climate. Lower state spending could limit the level of taxation and studies have shown that

relatively low taxes contribute to economic growth. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. Frequently, the cost of incentives of businesses that are unaffected exceeds the benefits generated by the businesses that receive the incentives. Finally, if the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. The significant decrease in school property taxes in the state should act as an incentive for business locations and expansion. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF.

Others would argue that not replacing the WDF expenditure authority would be detrimental to economic development in the state. They point to a number of economic research studies which indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. Increasing an area's level of employment raises the average real earnings of local residents. Moreover, growth in local employment has greater benefits for disadvantaged groups; the earnings of the less-educated have been shown to increase by a greater percentage than those of the more-educated. The same relationship exists for the comparative earnings of African-Americans and whites. Supporters would note that over 1,100 jobs were retained and 1,045 new jobs were created as a result of WDF awards through the customized labor training (CLT) and major economic development (MED) grant and loan subprograms in fiscal year 1995-96. In addition, CLT awards improve the quality of the workforce which is also a factor affecting location and expansion decisions. Technology development grants and loans encourage research and development and capital investment by Wisconsin firms. Some would argue that replacing the WDF funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

15. As an alternative, the Committee may wish to limit the amount of the transfer from the WDF to $200,000 annually. At the minimum, this amount would allow the Department to make two additional micro-loans each year. If Commerce found that demand for RED financing exceeded available funding, transfer of additional WDF funds from the Joint Committee on Finance under s. 13.10 of the statutes could be requested.

16. In its 1997-99 budget reduction plan, the Department indicates that RED funding could be reduced by $35,200 GPR in 1997-98 and $15,000 GPR in 1998-99. The reduction would result in less funding for RED projects. However, the Department indicates that if the initiatives recommended in the budget are adopted, it would still allow Commerce to increase and improve its level and type of activities over the current level of activities. Another alternative would be to delete these amounts from RED funding for 1997-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to: (a) increase the GPR appropriation by $478,500 GPR annually to reflect funding transferred from the WDF, provide expenditure authority of $200,000 PR annually for the Department's gifts and grants program revenue appropriation to reflect anticipated private sector donations related to agribusiness development and provide expenditure authority for the repayments appropriation of $82,900 PR in 1997-98 and decrease expenditure authority by $9,400 in 1998-99; (b) modify the definition of a rural municipality to include a city, town or village with a population of up to 6,000 and an eligible business to be a business with fewer than 100 employees; (c) require the RED Board to award from 25% to 50% of the total amount of funds for an agricultural business and give priority to a dairy farm; (d) reduce the maximum award for professional services and management assistance (early planning grants) from $30,000 to $15,000 and awards could only be made as grants; (e) increase the maximum award that could be provided for working capital, fixed asset financing and employee relocation costs to $100,000 and awards could be made as grants as well as loans; (f) eliminate the requirement that, in order to receive an award, a business must have received a RED early planning grant; and (g) create a new grant program that would provide grants of up to $50,000 to a person or business that proposes to start-up, modernize or expand a dairy farm or other agricultural business in the state. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

2. Modify the Governor's recommendations to delete RED funding of $35,200 GPR in 1997-98 and $15,000 GPR in 1998-99.

Alternative 2	GPR
1997-99 FUNDING (Change to Bill)	- $50,200

3. Make one or more of the following modifications to the Governor's recommendations:

   a. Limit the maximum micro-loan to $25,000 rather than $100,000.

   b. Require that working capital, fixed asset financing and employe relocation awards continue to be made as loans rather than grants. Also, continue to allow early planning grant awards to be made as loans.

   c. Delete the requirement that between 25% to 50% of the total amount of RED biennial awards be for purposes related to an agricultural business.

   d. Eliminate the requirement that the RED Board give priority to grants and loans for dairy farms.

e. Delete the new grant program for farm start-ups, expansions and modernization and delete the related $200,000 PR annual expenditure authority.

Alternative 3e	PR
1997-99 FUNDING (Change to Bill)	- $200,000

f. Specify that the $200,000 PR in annual expenditure authority to reflect anticipated private sector donations related to agribusiness development be the sole source of funding for the new grant program for farm start-ups, modernization and expansions.

4. Modify the Governor's recommendation to transfer $200,000 GPR annually (rather than $478,500) from the WDF to the RED.

5. Modify the Governor's recommendation to transfer $200,000 GPR annually from the WDF to the RED and delete $278,500 GPR annually from the WDF.

Alternative 5	GPR
1997-99 FUNDING (Change to Bill)	- $557,000

6. Modify the Governor's recommendation to delete the transfer of $478,500 GPR annually from the WDF to the RED.

7. Modify the Governor's recommendation to delete $478,500 GPR in annual funding from the WDF but not to increase the RED.

Alternative 7	GPR
1997-99 FUNDING (Change to Bill)	- $957,000

8. Maintain current law.

Alternative 8	PR
1997-99 FUNDING (Change to Bill)	- $473,500

Prepared by: Ron Shanovich

MO# 3f

BURKE Y N A
DECKER Y N A
GEORGE Y N A
JAUCH Y N A
WINEKE Y N A
SHIBILSKI Y N A
COWLES Y N A
PANZER Y N A

JENSEN Y N A
OURADA Y N A
HARSDORF Y N A
ALBERS Y N A
GARD Y N A
KAUFERT Y N A
LINTON Y N A
COGGS Y N A

AYE 15 NO 0 ABS 1

MO# Alt 2

2 BURKE Y N A
1 DECKER Y N A
GEORGE Y N A
JAUCH Y N A
WINEKE Y N A
SHIBILSKI Y N A
COWLES Y N A
PANZER Y N A

JENSEN Y N A
OURADA Y N A
HARSDORF Y N A
ALBERS Y N A
GARD Y N A
KAUFERT Y N A
LINTON Y N A
COGGS Y N A

AYE 15 NO 0 ABS 1

MO# Alt 5

2 BURKE Y N A
1 DECKER Y N A
GEORGE Y N A
JAUCH Y N A
WINEKE Y N A
SHIBILSKI Y N A
COWLES Y N A
PANZER Y N A

JENSEN Y N A
OURADA Y N A
HARSDORF Y N A
ALBERS Y N A
GARD Y N A
KAUFERT Y N A
LINTON Y N A
COGGS Y N A

AYE 9 NO 6 ABS 1

Senator Decker

COMMERCE

Rural Economic Development Program

Motion:

Move to modify the definition of eligible business under the Rural Economic Development program to be a business that, together with any affiliate, subsidiary or parent entity, has fewer than 50, rather than 25 employes.

Note:

Currently, eligible applicants for RED grants and loans are businesses that meet the following criteria: (a) employ fewer than 25 persons; (2) are located in a rural municipality (a city, village or town with a population of 4,000 or less or a municipality located in a county with a population density less than 150 persons per square mile); and (3) are starting or expanding operations. This motion would modify the definition of eligible business to include businesses with fewer than 50 employes. SB 77 would increase the figure to 100 employes.

MO# 1113

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 14 NO 1 ABS 1

Motion #1113

Senator Decker

COMMERCE

Rural Economic Development Program--Farm and Agribusiness Grant Program

Motion:

Move to modify provisions of Senate Bill 77 to decrease, from $50,000 to $15,000, the maximum grant that could be awarded under the new Rural Economic Development program for dairy farm or agribusiness start-ups, expansions or modernizations.

Note:

Senate Bill 77 would create a new grant program under the RED that would provide grants to a person or business that proposes to start-up, modernize or expand a dairy farm (as defined in the statutes) or other agricultural business in the state. In order to receive a grant, the person or business would have to own, either currently or in the future, the dairy farm or other agricultural business. Also, it would have to be likely that the grant would result in the start-up, modernization or expansion of the dairy farm or other agricultural business. Grant proceeds could be used to pay for services related to the start-up, modernization or expansion of the dairy farm or other agricultural business or for management assistance which would continue after completion of the start-up, modernization or expansion. Management assistance would include engineering and legal services and professional assistance in establishing or improving management systems, policies or procedures in such management concerns as financial planning, personnel, inventory control, production planning, purchasing, bookkeeping, record keeping and marketing. The maximum grant that could be awarded under the program would be $50,000. The total amount of grants awarded under the program could not exceed $200,000 for a fiscal year.

This motion would reduce the maximum grant that could be awarded under the program from $50,000 to $15,000.

Motion #2010

MO# 2010

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 8 NO 7 ABS 1

Senator Wineke

COMMERCE

Grant and Loan Programs

Motion:

Move to delete $11,180,800 GPR and 30.0 GPR positions annually to eliminate GPR funding for the Wisconsin Development Fund, Minority Business Development Finance program, Business Development Initiative program, Rural Economic Development program, and Community-Based Economic Development program and for administration of those programs. Reduce the state corporate income and franchise tax rate from 7.9% to 7.78%, beginning with tax year 1997.

Note:

Commerce administers a number of grant and loan programs that provide financial assistance to state businesses. GPR funding is provided through the Wisconsin Development Fund, Minority Business Development Finance program, Business Development Initiative program, Rural Economic Development program and Community-Based Economic Development program. This motion would delete funding for those programs and the associated administrative funding and positions provided under SB 77.

Based on current revenue estimates, corporate income and franchise tax collections are projected to be $650 million in 1996-97, $642 million in 1997-98 and $655 million in 1998-99. The current corporate tax rate is 7.9%. This motion would reduce the rate to 7.78% beginning with tax year 1997. As a result, there would be an estimated decrease in corporate income tax collections of $11 million in 1997-98 and 1998-99. In addition, there would be a one-time revenue reduction of $3 million to reflect the reconciliation of tax year and calendar year tax payments.

[Change to Base: -$25,000,000 GPR-Rev, -$22,360,000 GPR]
[Change to Bill: -$25,000,000 GPR-Rev, -$22,360,000 GPR]

Motion #1587

MO# 1587

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
1 WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 2 NO 13 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Funding for Forward Wisconsin (Commerce)

[LFB Summary: Page 119, #7]

CURRENT LAW

The Department of Commerce provides funding to Forward Wisconsin to establish and implement a nationwide business development campaign. State funds may be used for advertising, marketing and promotional activities within the U.S. and for salary, travel and other expenses directly incurred by the organization in its economic development promotion activities. The base funding level for aid to Forward Wisconsin is $250,000 GPR.

GOVERNOR

Provide an additional $250,000 annually in funding for Forward Wisconsin.

DISCUSSION POINTS

1. Forward Wisconsin is a nonprofit organization created in 1984 to promote economic development in Wisconsin. More recently, the organization has focused on marketing Wisconsin to out-of-state companies interested in relocating or expanding their operations. Forward Wisconsin has a staff of 12 people and offices in Madison, Chicago and Eau Claire. The organization is funded primarily through private contributions and state aid provided through Commerce.

2. Forward Wisconsin uses the following marketing programs to promote the state:

a. **Direct Mail.** The direct mail campaign includes personalized letters, most sent with the Governor's signature, to business executives. The items sent include a variety of presentations, offers and enclosures which attempt to encourage responses from companies with definite expansion or relocation plans. In 1995-96, personalized letters were sent to 28,387 business executives.

b. **Telemarketing.** The agency makes phone contact with executives who receive direct mail letters. Most calls are made to schedule appointments with prospects in conjunction with the agency's prospecting trips. The agency made direct contact with 15,256 executives in 1995-96.

c. **Prospecting Trips.** Following direct mail and telephone contacts, companies that express an interest in a Wisconsin business location are visited by Forward Wisconsin representatives. In 1995-96, Forward Wisconsin representatives scheduled 155 appointments in two different cities.

d. **Trade Shows.** The agency maintains exhibits at trade shows in different cities. Forward Wisconsin staff and volunteers distribute information from booths and call on exhibitors and targeted firms in the cities that host the shows. In 1995-96, Forward Wisconsin participated in three trade shows in different cities across the U.S.

e. **Advertising.** The organization places advertisements in major economic development magazines and in annual directories used by corporate planners. The agency estimates that print advertisements generated 119 requests for additional information.

In addition, Forward Wisconsin publishes certain promotional materials including a newsletter and cosponsors, coordinates or hosts a number of special events, such as the Greater Milwaukee Open. Also, during 1995-96, Forward Wisconsin conducted specialized campaigns for wood industries, metal working industries and a Milwaukee project focused on financial institutions and telemarketers.

3. It is difficult to quantitatively measure the success of an economic development program since many factors are usually involved in a decision to relocate or expand a business in Wisconsin. Many of Forward Wisconsin's efforts that the organization has identified as successful were accomplished jointly with local and regional economic development organizations, state businesses and the Department of Commerce.

Historically, some have criticized Forward Wisconsin for duplicating the economic development activities that are performed by other state and local agencies. During the 1980's and early 1990's there was concern that Forward Wisconsin and Commerce (then the Department of Development) were performing similar functions for promoting and facilitating in-state marketing and economic development and international trade.

4. There are a number of arguments that can be made for continued state funding for Forward Wisconsin:

- Forward Wisconsin makes a significant contribution to economic growth and job creation in Wisconsin. The organization uses two measures in evaluating the success of its efforts: the number of leads and the number of prospects generated. Prospects are defined as out-of-state companies that have definite expansion or relocation plans and will consider Wisconsin as a possible site. Leads are out-of-state companies that are experiencing strong growth but whose management is less certain about their short-term expansion plans. During Forward Wisconsin's 1995-96 fiscal year, it generated 201 new leads and 107 new prospects, out of over 15,000 calls and requests for additional information. The organization estimates that the prospects generated during 1995-96 will result in 881 jobs for Wisconsin workers.

- Commerce and Forward Wisconsin have developed separate defined roles in the state's overall economic development strategy. In recent years, Forward Wisconsin has been focussing its activities primarily on out-of-state marketing. Moreover, Forward Wisconsin is relocating its Madison office with Commerce in the WHEDA building. This will allow for closer coordination of both organizations economic development activities.

- Forward Wisconsin is a public/private cooperative venture. Businesses contribute to the organization, in part, because of the state's financial commitment. In 1995-96, private businesses contributed over $500,000 to Forward Wisconsin. Reducing the state commitment could also have the effect of reducing private contributions.

5. Forward Wisconsin's projected revenue for 1996-97 is $1,153,700. Seventy-eight percent ($902,500) is expected to come from private contributions. The remaining funding is aid from the state through Commerce ($250,000), interest and other miscellaneous revenue. In 1995-96, the organization received $755,230 with $505,230 (66%) in private contributions and $250,000 from the state.

6. Forward Wisconsin received $500,000 in state funding each fiscal year from 1984-85 through 1991-92. The organization received $400,000 in 1991-92 and in 1992-93. For fiscal years 1993-94 and 1994-95, $500,000 in state funding was again provided. However, in the 1995-97 budget bill, the Governor recommended deleting $250,000 in 1995-96 and all $500,000 of state funding for Forward Wisconsin in 1996-97. As a result, under the bill, state funding for Forward Wisconsin would have been eliminated, beginning in 1996-97. It was believed that Forward Wisconsin was performing activities related to site selection that were similar to Commerce. If Forward Wisconsin stopped performing such a function, its lower operating costs would not require state support. Moreover, it was also believed that, if the elimination of state support caused Forward Wisconsin to reduce its operations, Commerce could expand its activities, such as its advertising campaign, to replace Forward Wisconsin. However, the administration subsequently requested and the Legislature approved, the transfer of $250,000 from the WDF repayments appropriation to provide funding for Forward Wisconsin in 1996-97.

7. Some would argue that the level of state funding for Forward Wisconsin should not be increased. Forward Wisconsin received total revenue of $1.2 million in 1994-95, when it received $500,000 in state funding, and is projecting approximately the same amount ($1.15 million) for 1996-97, with state funding of $250,000. Arguably, private contributions have offset the reduction in state funding. It is also argued that economic development strategies have shifted away from business recruitment and focused more on business retention, technology transfer and export markets. As noted, Forward Wisconsin has historically focussed on recruiting out-of-state businesses. In the past, Forward Wisconsin duplicated certain activities that were performed by Commerce, such as attempting to act as a liaison for business relocations and developing financing packages. The changing emphasis in economic development activities and elimination of duplicated activities reduce the need for an increased level of state funding.

8. The Governor identifies the $250,000 annually provided to Forward Wisconsin with an equivalent reduction in the WDF. If the Committee decides to not provide increased funding for Forward Wisconsin, it may wish to delete the funding from Commerce's budget rather than returning the expenditure authority to the WDF. It could be argued that reducing state GPR expenditures would contribute more to economic development than allocating the monies to a limited number of businesses. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. Finally, if the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF.

9. Commerce and DOA argue that not replacing the WDF expenditure authority would be detrimental to economic development in the state. They point to a number of economic research studies which indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state economic development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. Proponents note that over 1,100 jobs were retained and 1,045 new jobs were created as a result of WDF awards through the customized labor training (CLT) and major economic development (MED) grant and loan subprograms in fiscal year 1995-96. Therefore, it is argued that replacing the WDF funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

10. In its 1997-99 base reduction plan the Department proposes transferring $150,000 annually from the WDF to Forward Wisconsin. The Department indicates that the additional $100,000 reduction under SB 77 from the suggested amount would limit the increase and improvement in services and marketing that could be provided by Commerce. However, the additional $150,000 in annual funding (rather than $250,000 under the bill) would still allow Forward Wisconsin to increase its services and marketing level and to continue to cover the cost of its operations.

In a separate provision, the Department also proposes reducing the funding for the WDF by $235,500 annually. The Department indicates that this proposal would reduce funding that would be available for financing projects and as a result, would reduce the number of jobs that could be created or retained. However, Commerce would work to offset the reduction by leveraging more private funding for projects. In part, the proposed reduction in WDF funding reflects the additional funding in the WDF that would remain ($100,000 annually) because the amount transferred to Forward Wisconsin ($150,000 annually) would be reduced. As an alternative the Committee could adopt the Commerce proposals to transfer $150,000 annually from the WDF to Forward Wisconsin. In addition, $100,000 annually could be deleted from the WDF.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $250,000 annually for Forward Wisconsin.

2. Delete the Governor's recommendation to provide $250,000 annually for Forward Wisconsin and restore an equal amount to the WDF.

3. Delete the Governor's recommendation to provide $250,000 annually for Forward Wisconsin.

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- $500,000

4. Modify the Governor's recommendation to provide $150,000 annually in funding to Forward Wisconsin.

Alternative 4	GPR
1997-99 FUNDING (Change to Bill)	- $200,000

5. Modify the Governor's recommendation to provide $150,000 annually in funding to Forward Wisconsin and restore $100,000 annually to the WDF.

6. Maintain current law.

Prepared by: Ron Shanovich

MO# Alt 3

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 5 NO 10 ABS 1

MO# Alt 1

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
1 PANZER	Y	N	A
2 JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 9 NO 6 ABS 1

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Moving Costs (Commerce)

[LFB Summary: Page 119, #8]

CURRENT LAW

The Department of Commerce is provided $801,100 ($431,500 GPR, $277,200 PR and $92,400 SEG) in base funding for rent costs.

GOVERNOR

Provide increased funding of $148,800 GPR, $598,300 PR and $395,000 SEG in 1997-98 and $168,400 GPR, $698,500 PR and $453,300 SEG in 1998-99 to fund costs related to the Department's move into the new Wisconsin Housing and Economic Development Authority (WHEDA) building.

DISCUSSION POINTS

1. On February 22, 1996, the State Building Commission approved a 20-year lease agreement for approximately 88,900 square feet for the Departments of Tourism and Commerce. The lease agreement authorized annual lease costs not to exceed $1,954,750 (or $22 per square foot for the maximum authorized square footage).

2. The Commission approved the lease because the new WHEDA building would create a single location that would be the focus of all state economic development activities. By having close proximity to each other, and through the sharing of common facilities, it is believed

that WHEDA, Commerce, Tourism and Forward Wisconsin would be better able to cooperatively address the state's business development needs. Moreover, Commerce has assumed functions previously performed by other departments, such as administration of PECFA, and has outgrown its space in the Lorraine building. The Division of Safety and Buildings will be moving out of its current space in GEF 1, which will be used for programs and functions, such as administration of the Division of Economic Support, which have been transferred to DWD.

3. The Department currently rents 53,966 square feet (29,109 square feet at the Lorraine building and 24,857 square feet at GEF 1) at the average rate of $15.10 per square foot. The Department will rent 78,660 square feet (46% increase) in the new WHEDA building at about $22 per square foot (46% more) for total rent of $1,764,800 annually.

4. Table 1 shows the funding for the different costs associated with the move. It should be noted that the Department of Administration will purchase furniture for Commerce through a five-year masterlease of $200,000 annually. Those amounts are not included in the table.

TABLE 1

Department of Commerce Moving Costs
1997-99

Expense	1997-98	1998-99
Rent		
GPR	$90,500	$165,000
PRO	310,600	471,800
SEG	234,500	326,900
Total	$635,600	$963,700
Furniture		
GPR	$3,400	$3,400
PRO	226,700	226,700
SEG	126,400	126,400
Total	$356,500	$356,500
Move		
GPR	54,900	
PRO	61,000	
SEG	34,100	
Total	$150,000	
Subtotals		
GPR	$148,800	$168,400
PR	598,300	698,500
SEG	395,000	453,300
TOTAL	**$1,142,100**	**$1,320,200**

5. Based on the Building Commission action, Commerce would be allowed up to 75,900 square feet (with 13,000 square feet budgeted for Tourism) at a cost not to exceed $1,669,800 annually. Therefore, Commerce rent costs associated with the new building could be reduced by $62,700 in 1997-98 and $95,000 in 1998-99. (If Tourism occupies less than the 13,000 square feet budgeted and Commerce occupies more than budgeted, an adjustment between the agencies could be requested under s. 13.10.) Funding under the bill could be reduced either: (a) all from GPR, consistent with the Governor's budget efficiency measures; or (b) proportionally from the three funding sources. While the current lease exceeds the figures approved by the Building Commission, Commerce and DOA argue that actual lease costs typically differ from estimates approved by the Commission. Further, DOA states that approval of increased costs are not typically sought, nor are area increases unless they exceed 10,000 square feet.

6. In its budget reduction measures provided to the Governor as part of its 1997-99 budget submission, the Department identified the following GPR funding that could be deleted: (a) $75,500 in 1997-98 and $67,600 GPR in 1998-99 in supplies and services funding in the Division of International and Export Development; and (b) $25,000 annually from the hazardous pollution prevention contract appropriation. The bill did not include these potential reductions identified by the Department. Therefore, the Committee could delete $100,500 GPR in 1997-98 and $92,600 GPR in 1998-99 in funding for the moving costs to reflect these potential base funding reductions. Alternatively, the Committee could delete all funding for moving costs and require the Department to fund the costs out of base level funding. When the agency was reorganized during the 1995-97 budget, DOA indicated that all costs associated with agency reorganizations would be funded from base level appropriations.

7. The Department indicates that, to achieve the base level reductions identified, it would have to substantially reduce its staff and, as a result, its economic development and regulatory activities. SB 77 includes a provision which would convert $496,900 GPR and 7.56 GPR positions to the Department's program revenue services appropriation. The conversion reflects reorganization of the Department. The reduction in GPR expenditures is intended to be a method for internally funding the moving costs. In order to fund the PR moving costs from its base, the Department would be required to eliminate 9.5 positions that staff programs that are required by statute or rule. Similarly, to fund the SEG costs from the base, the Department would have to eliminate 7.5 positions. Some of these would be from PECFA review and claims processing.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation, based on Building Commission estimates, and delete $62,700 GPR in 1997-98 and $95,000 GPR in 1998-99 for rent under one of the following methods:

a. All from GPR.

Alternative 2a	GPR
1997-99 FUNDING (Change to Bill)	- $157,700

b. Delete $8,000 GPR, $33,200 PR and $21,500 SEG in 1997-98 and $12,100 GPR, $50,300 PR and $32,600 SEG in 1998-99.

Alternative 2b	GPR	PR	SEG	TOTAL
1997-99 FUNDING (Change to Bill)	- $20,100	- $83,500	- $54,100	- $157,700

3. Modify the Governor's recommendation to delete an additional $100,500 GPR in 1997-98 and $92,600 GPR in 1998-99 related to moving costs.

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- $193,100

4. Maintain current law.

Alternative 4	GPR		]TAL
1997-99 FUNI	]00	- $1	],300

MO# Alt 2a and 3

2 BURKE	Y	N	A
1 DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 6 NO 9 ABS 1

MO# 2b

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
1 JENSEN	Y	N	A
2 OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 12 NO 3 ABS 1

Prepared by: Ron

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Economic Development Promotion Funding (Commerce)

[LFB Summary: Page 119, #9]

CURRENT LAW

The economic development promotion appropriation has base level funding of $120,000 GPR.

GOVERNOR

Provide $40,000 GPR annually to the economic development promotion appropriation to reflect the transfer of funding from the Wisconsin Development Fund ($15,000), Community-Based Economic development program ($20,000) and economic and community development general program operations ($5,000) GPR appropriations. The bill would also modify the economic development promotion appropriation to provide that it could be used to fund plans and studies. The plans and studies would include reports associated with the Department's responsibilities related to: business and industrial development; economic development promotion, planning and research; cooperation with other entities; and technology-based economic development.

DISCUSSION POINTS

1. Economic development promotion funds are generally used for a number of purposes including advertising, printing various publications and promotion and public relations activities. The following table shows amounts projected to be expended for the different

activities funded through the economic development promotion appropriation in fiscal year 1996-97.

Economic Development Promotion -- 1996-97

Category	Amount	Percent
Paid Advertising	$34,600	28.9%
Public Relations	30,400	25.3
Printing & Publications	19,000	15.8
Special Major Projects	36,000	30.0
Total	$120,000	100.0%

2. The state's marketing plans consists of the following four elements:

Paid Advertising. Advertising which disseminates information about state economic development programs and services through special sections on economic development in magazines and newspapers;

Public Relations. Activities which develop press releases and work directly with media outlets to enhance the image of Wisconsin as a partner with business. Public relations activities also involve sponsoring special events, undertaking joint projects with entities such as Forward Wisconsin, and making collateral materials available such as award certificates, advertising specialty items or display booths at events;

Printing and Publications. Publications which provide staff with materials, such as fact sheets, state and local profiles and program brochures, to distribute to businesses. The Department also produces special publications such as "Starting a Business," "Wisconsin Financing Alternatives," and "Business Help Directory" for staff to use and distribute as they work with business prospects;

Special Major Projects. Projects which involve developing major prospect proposals and sponsoring major special events such as the Governor's Economic Development Conference and the Venture Capital Fair.

3. The Department's economic development advertising appropriation was changed in the 1981-83 biennial budget to the current economic development promotion appropriation to permit the funds to be used for promotional activities besides advertising. Since then, the amounts appropriated have ranged from $81,100 in 1983-84 to $235,200 in 1990-91. Since 1989-90, Commerce has been appropriated at least $120,000 annually for economic development promotion.

4. Commerce has recently developed and is currently implementing a strategic plan. During the planning process, focus groups indicated the importance of initiating a broader look at Wisconsin's economic development needs. In response, the Governor's Blue Ribbon Commission was established in July, 1996. The Commission has recommended that the state's economic development agencies and educational institutions work together to examine and address the state's economic development efforts and needs.

5. The Department has identified a number of current economic trends which could affect the effectiveness of its existing programs and policies. These trends include: continued reductions in federal funding; increased labor shortages; deregulation of the telecommunications and electric utility industries; regional disparities in economic growth; globalization of the world economy; pending retirements in the automobile industry; pressure for compliance with environmental standards; redevelopment of contaminated lands; and promotion of employment opportunities for minorities. It is argued that these factors require systematic and in-depth research and analysis to assess their scope and magnitude, identify options, and to formulate recommendations to address them.

6. The Department indicates that the $40,000 annual transfer to economic development promotion would be used to contract with state colleges and universities to conduct research projects that would focus on economic development issues and to integrate the findings into the state's economic development promotion efforts. The number of research projects that could be contracted would vary depending on the scope of the project. It is anticipated that two to three studies estimated to cost between $12,000 and $20,000 would be funded each year.

7. As noted, funding is transferred from three different sources--$20,000 from CBED; $15,000 from WDF; $5,000 from economic and community development general program operations. It is argued that CBED is an appropriate source because the program currently provides localities with grants of up to $10,000 to develop economic diversification plans. The transferred funding will be used to fund research that could be used by local governments in their economic development plans. The transfer from the WDF would be appropriate because the research would be used to promote job creation and economic development that would be consistent with WDF program goals. Finally, it is argued that transferring funding from the economic and community development general program operations appropriation is warranted because the research that would be funded would be used to determine the types of programs and activities these divisions will be promoting and implementing.

8. In the 1995-97 budget bill the Governor recommended deleting all funding and the separate appropriation for economic development promotion. The appropriation was recommended for elimination as part of the effort to generate agency budget efficiencies and to provide funds for increased state support of general school aids. It was believed that Commerce could fund its economic development promotion activities by reallocating supplies and services funding and/or by reallocating salaries funding for vacant positions. Subsequently, the administration requested that $150,000 annually be transferred from the WDF. The

administration indicated that the business publications and proposals for business prospects that were funded through the appropriation were critical for attracting and retaining business. In 1995 Wisconsin Act 27 (the 1995-97 biennial budget), $120,000 annually was appropriated to fund economic development promotion.

9. It could be argued that additional funding is not necessary, but, instead, the existing funding for economic development promotion should be used to fund the research studies. For example, in 1996-97, $36,000 will be used to fund special projects. If the appropriation language is modified, some of this amount could be used to fund the studies. Moreover, the economic and community development general program operations appropriation would be provided supplies and services funding of $1,986,700 in 1997-98 and $1,961,600 in 1998-99. Some of this funding could be reallocated to supplement economic development expenditures. However, reallocating the current level of funding to additional uses would reduce the amount available for current activities.

10. All states promote themselves as good places to do business. States commonly advertise their most attractive attributes and economic development programs through newspapers, videos and trade shows. In addition, state economic development departments frequently help businesses comply with government regulations. The agencies also provide information on possible sites for business location in the state.

The fact that all the states engage in economic development promotion could be viewed as an indication that such activities contribute to economic growth. In recent years, empirical studies and economic development strategies have identified new small business start-ups and expansions of existing businesses as primary sources of employment growth for states. Since Commerce's promotional activities focus on in-state businesses, the Department's economic development promotion funding could be justified as a factor in the state's efforts to create jobs. The promotional material and services would be a source of information about different sources of financing and technical assistance available to small and expanding businesses, which would not typically have expertise or resources in these areas.

On the other hand, it could be argued that it is difficult to quantify a direct, cause and effect relationship between economic development promotion and a specific number of jobs that are created or a specific amount of economic growth that occurs as a result. Those holding this view would point to the economic studies and surveys which indicate that specific economic development programs have little effect on growth. Moreover, it is further argued, that even if it is accepted that promotional activities are necessary, one cannot precisely determine the most efficient level of support for such activities. From this view, it not clear that Commerce requires the additional support to ensure its economic development activities are effective.

11. If the Committee decides to deny the increased funding for economic development promotion, returning the expenditure authority to CBED, the WDF and the economic and community development general operations appropriation could be considered. It is argued that

reducing state GPR expenditures would contribute more to economic development than allocating the monies to a few specific businesses. In addition, research suggests that economic development incentives have a modest effect on business location and expansion decisions. If the reduction in GPR expenditures is used to provide funding for increased state support for public schools, the funding would contribute to a reduction in property taxes for all state businesses. As it indicates in its 1997-99 base reduction plan, the Department could work to leverage additional funding to offset the amount deleted from the WDF and CBED. Finally, it is argued that the general program operations appropriation has sufficient supplies and services funding to absorb a $5,000 reduction.

Others would argue that not replacing the expenditure authority would be detrimental to economic development in the state. A number of economic research studies indicate that incentives contribute to job growth and economic development. Studies have shown a positive relationship between the per capita level of state economic development expenditures and the growth of a state's manufacturing sector. In addition, increased local employment has significant labor market benefits for local residents. From this view, replacing the funding would have a greater effect on state economic development than would lapsing the amount to the general fund.

12. As an alternative, the Committee may wish to provide the $40,000 only in 1997-98. It could be argued that it is not necessary to provide an annual increase in funding to contract for research studies. Most of the analyses conducted should have application beyond the current year. Department staff also have access to professional journals and other economic development personnel that would be a source of information about current economic trends and methods for addressing them. If the Department found that it needed additional funding for research studies, it could request approval of additional transfers from the Joint Committee on Finance under s. 13.10 of the statutes. However, under this alternative, the Department would not have a base level funding increase to finance studies that might be necessary to adapt economic development promotion activities to future changes in economic trends. Again, if the Committee wished $40,000 could be deleted from the Department's budget in 1998-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $40,000 GPR annually to the economic development promotion appropriation to transfer funding from the WDF ($15,000 annually), CBED ($20,000 annually) and economic and community development general program operations ($5,000 annually) PR appropriations. Modify the economic development promotion appropriation to provide that it could be used for plans and studies that related to the Department's responsibilities concerning: business and industrial development; economic development promotion, planning and research; cooperation with other entities; and technology-based economic development.

2. Modify the Governor's recommendation to eliminate the transfer of $40,000 GPR annually to the economic development promotion appropriation.

3. Modify the Governor's recommendation to eliminate the transfer of $40,000 annually to the economic development promotion appropriation. Rather, delete $40,000 GPR annually as follows: WDF ($15,000 annually); CBED ($20,000 annually); and economic and community development general operations appropriation ($5,000 annually).

Alternative 3	GPR
1997-99 FUNDING (Change to Bill)	- $80,000

4. Modify the Governor's recommendation to transfer $40,000 GPR in 1997-98 only to the economic development promotion appropriation.

5. Modify the Governor's recommendation to transfer $40,000 GPR in 1997-98 to the economic development promotion appropriation. Delete $40,000 in 1998-99 as follows: WDF ($15,000); CBED ($20,000); and economic and community development general operations ($5,000).

Alternative 5	GPR
1997-99 FUNDING (Change to Bill)	- $40,000

6. Maintain current law.

MO# Alt 4

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

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