



Adam Neylon

State Representative • 98th Assembly District

DATE: January 27, 2016
FROM: State Representative Adam Neylon
TO: Assembly Committee on Jobs and the Economy
RE: Supporting AB 757 & AB 758

Dear Members of the Committee:

I would like to thank my fellow Members of the Assembly Committee on Jobs and the Economy for taking the time to hear about Assembly Bill 757 and Assembly Bill 758. I am a co-author, along with my colleague Senator Darling, of this Industrial Cluster Economic Development Package. These two bills go hand and hand to help strengthen cooperation on research and development here in Wisconsin.

AB 757 creates a 25% tax credit for research and development for research conducted in Wisconsin as part of a qualified industry cluster. AB 758 allows the Wisconsin Economic Development Corporation to an industry cluster partnership to create a non-profit organization to better assist in creating and supporting a regional industry cluster.

Industry clusters are an important part of the overall economy, because research has shown that businesses in the same industry that are located near one another spur more research, more innovation, and lead to more development within that industry. The most famous example in America may be Silicon Valley, where the intense concentration of technology companies, and the talent that they employ, helps make that part of the country a world leader in the software industry. Wisconsin is not without its own success when it comes to industry clusters. The Water Council in Milwaukee is one of the leading industry cluster support organizations in the country. AB's 757 and 758 are aimed at using The Water Council's model for success to help other industries around the state achieve similar joint partnerships for research and development and economic growth.

Thank you for your support.



Alberta Darling

Wisconsin State Senator

Co-Chair, Joint Committee on Finance

Industry Cluster Grant and Research and Development Tax Credit

Testimony on Assembly Bills 757 and 758

Assembly Committee on Jobs and the Economy

January 26, 2016

Thank you to Chair Neylon and fellow members of the Assembly Committee on Jobs and the Economy for hearing these bills. Wisconsin is on the right track for job growth and development. We see continued success by our job creators, despite the slow national recovery. Industry clusters have proven to be one of Wisconsin's success stories. Industry clusters are groups of interconnected companies and institutions in a particular geographic region that align for their benefit. We see such an example with the Water Council in Milwaukee and there are many more groups poised for success.

With the right policy incentives and supports, Wisconsin is uniquely positioned to strategically expand its natural industrial clusters to grow the economy and create jobs. These bills are the next step in leading targeted, strategic efforts to support and grow our state's economy.

Industrial clusters can be widespread and varied. They include but are not limited to the papermaking, water, food and beverage, agriculture, healthcare, energy, and information technology industries. They have proven their success here in Wisconsin and across the country. Employment in cluster-associated small businesses grew an average of 6.9%, more than 4 times faster than the regional benchmark. Revenues and payroll are also positively impacted by participating in an industry cluster.

SB 526 harnesses the power of cluster initiatives by providing them with matching funds to help get ideas from the lab bench to the market place. This bill supports these ideas while safeguarding taxpayer funds. In addition, we have designed the program to ensure that the clusters become self-sustaining over time.

SB 525 helps clusters by encouraging them to invest in research and development. The current general research tax credit in Wisconsin is 5.75% of the amount by which the claimant's research expenses exceed 50% of the claimant's average research expenses over the prior 3 years. This structure encourages companies to do R&D in Wisconsin in a 3 year on, 3 year off cycle. The credit for research and development under this bill would be 25% of expenditures for qualified industry clusters.

The jobs of tomorrow are created in the research and development labs of today. It is my hope that this bill spurs other industries to commit to the industry cluster model as a viable and effective means to improving our economy. The success of industry clusters has been proven and is seen by most as a powerful way to get resources where they are needed.

I would like to thank my colleague, Rep. Neylon, for his leadership on this issue. Thank you again to the committee for taking the time to hear these bills and I urge you to consider supporting both.

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Dean Amhaus
President & CEO
The Water Council



January 26, 2016

Assembly Committee on Jobs and the Economy
The Honorable Representative Adam Neylon, Chair
Room 125 West
State Capital
Madison, WI 53707

Dear Committee Members:

Thank you for the opportunity to testify in support of AB-757 and AB-758. These bills are an exciting next step for Wisconsin as it continues to expand the number of jobs within key industry clusters.

In the past five-years, various national and international authorities have recognized The Water Council as an example of a proven cluster initiative. Milwaukee is now considered one of the world's most significant hubs for water research AND industry because of its established and extensive 100+ year history engaged in the study, treatment, storage and movement of water.

Wisconsin's broad-based water technology cluster has evolved over the years to encompass 200+ true water technology companies that employ more than 35,000 people. The cluster boasts 19 academic partners, including the nation's only School of Freshwater Sciences (UW-Milwaukee), National Science Foundation Industry/University Cooperative Research Center (UW-Milwaukee & Marquette University) and the Institute for Water Business (UW-Whitewater).

AB-757 and AB 758 provide additional support and a framework for clusters to succeed in Wisconsin. As such, we support the passage of both bills.

The goal of the "Industrial Cluster Economic Development Package" is:

- to promote the advancement of Wisconsin's industrial strengths,
- to create high-paying jobs and
- to advance the commercialization of technology from Wisconsin's universities and businesses.

The goal will be achieved by creating a funding mechanism to bolster industrial clusters and their supporting cluster initiatives and to provide an incentive for industry support organizations like The Water Council to further develop and support their cluster.

The program will replicate success of industrial clusters like water technology and the success of industry-led cluster initiatives like The Water Council.

Cluster Definitions:

Researchers at Harvard University have identified that policy support for industrial clusters is a proven method for growing the economy. The U.S. Small Business Administration, which has successfully supported clusters in a number of ways, has adopted the following critical definitions:

Industrial Clusters are geographic concentrations of interconnected companies and institutions in a particular field:

- Cluster activities increase opportunities for businesses to participate in and promote innovation within a particular industry and enhance regional economic growth.
- Clusters form strong partnerships between universities and private industry, facilitating technology transfer and commercialization of new technology. Clusters can play a critical role in meeting innovation needs in sectors such as energy or defense faster and cheaper than traditional procurement processes.
- Clusters are not created; rather they reflect the organic growth of existing industry-specific focus and collaboration in a specific region.

Cluster initiatives serve as organizing entities for clusters:

- Cluster initiatives build off of organic clusters by purposely integrating small, medium, and large companies, non-profit organizations, and universities to identify research and new market opportunities that create jobs, attract capital and have long-term, positive economic impact.
- Cluster initiatives provide businesses in the cluster with matchmaking opportunities, business training, counseling and mentoring.
- Successful cluster initiatives include partnerships with and between business and industry groups, academic institutions, economic development organizations, entrepreneurial education programs, and training initiatives.

Economic Results of Cluster Initiatives:

According to the 2014 report "The Evaluation of the U.S. Small Business Administration's Regional Innovation Cluster Initiative":

- Employment in cluster-associated small businesses grew an average of 6.9%, more than 4 times faster than the regional benchmark.
- Revenues in cluster-associated small businesses increased an average of 6.9%, nearly twice as fast as comparable firms.
- Payrolls in cluster-associated small businesses increased an average of 14.1%, more than 4 times faster than related firms that did not participate in clusters.

Wisconsin's Clusters:

Wisconsin is blessed with a number of industrial clusters throughout the State. Examples include:

- Water Technology and Water Infrastructure,
- Papermaking and Packaging,
- Food and Beverage Manufacturing,
- Agriculture and Food Processing,
- Healthcare Technology,
- Energy, Power and Control,
- and Information Technology.

Each of these clusters is at various stages of development and not all have unifying cluster organizations like The Water Council to shepherd the cluster's development. AB-757 and ASB-758 offer a framework within which these clusters can more quickly grow and mature.

Reporting and Accountability

The Water Council supports the inclusion of a robust reporting and accountability mechanism with any contract between the Wisconsin Economic Development Corporation and an Industry Cluster Partnership as defined in AB-758. Cluster initiatives work best when the government, the private sector, and academia work together to the betterment of the entire industry, with the private sector leading, the government providing support and requiring accountability for the use of public resources, and research institutions providing access to faculty, researchers, and innovative thinking.

The Water Council's agreements with JPMorgan Chase & Co and the US Small Business Administration, as well as the Wisconsin Economic Development Corporation, provide an example of the robust accountability we support. As a recipient of funding from all of these organizations, The Water Council provides quarterly updates and an annual report that include details on the expenditure of funds and performance.

Included in those reports are metrics such as:

- Number of training sessions offered to cluster companies
- Number of participants in training sessions
- Number of capital introductions made to cluster companies
- Number of matchmaking or networking events
- Number of new businesses formed
- Number of new business lines and/or products by cluster companies
- Number of federal contracts secured by cluster companies
- Number of patents filed by cluster companies
- Amount of new capital raised by cluster companies
- Number of exits by cluster companies
- Number of cluster companies exporting for the first time

Summary

In summary, clusters are a proven economic development strategy – a strategy that allows States and regions to capitalize on their natural assets to build robust, growing companies and strong communities. The Water Council supports the Committee's efforts to do this and encourages you to support AB-757 and AB-758.

Sincerely,



Dean Amhaus
President and CEO