

(Base) Agency: Commerce - Dept-Wide & Econ Development
Wisconsin Development Fund

Recommendations:

*Clyde 2 or 3
Brian 4b*

Paper No. 286: Alternatives 2 & 4(b)

Comments: The gov's idea is fine and we should help fund the Wisconsin Manufacturing Extension Partnership (described in paragraph 1) out of the WDF.

Where I differ, however, is that I believe the WDF is a "revolving loan" fund, which means that monies received from loan repayments could be used to finance additional loans and reduce the need for GPR funding over time (see paragraphs 14 and 17). That's why I'm supporting Alternatives 2 & 4(b). I believe the GPR appropriation for the WDF should be reduced by the amount of increased PR. (FB can explain further if needed).

I would like an audit of the WDF (assuming one hasn't been done recently) before I agree to increase funding for it. Are we getting enough bang for our buck here?

prepared by: Barry



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May 6, 1999

Joint Committee on Finance

Paper #286

Wisconsin Development Fund -- Funding and Manufacturing Assessment Grants (Commerce -- Departmentwide and Economic Development)

[LFB 1999-01 Budget Summary: Pages 134, #8(a)&(b) and 136, #10]

CURRENT LAW

The Wisconsin Development Fund (WDF) consists of eight programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) Wisconsin trade project; (e) employe ownership assistance grants; (f) manufacturing assistance grants; (g) revolving loan fund capitalization grants; and (h) rapid response fund loans. The manufacturing assistance grants program consists of three subprograms--the manufacturing assessments, customized supplier training and technology transfer programs.

The WDF is funded through both a general purpose revenue (GPR) and program revenue appropriation. The GPR appropriation is biennial, and, as a result, any unencumbered, unexpended funds remaining at the end of the biennium lapse to the general fund. Annual base level funding for the program is \$7,503,800 GPR and \$1,500,000 PR.

GOVERNOR

Repeal the manufacturing assistance grant program, including the manufacturing assessments, customized supplier training and technology transfer subprograms, and create a manufacturing extension center grant program under the WDF. Annual expenditure authority of \$1,000,000 PR would be provided under the WDF repayments appropriation. Commerce could not award more than \$1,000,000 in manufacturing extension center grants in a fiscal year. A technology-based nonprofit organization that received a grant could not receive any other WDF grants or loans. The program would be sunset after June 30, 2001.

DISCUSSION POINTS

1. In the early 1990s, the Department of Commerce, University of Wisconsin System and Extension, Wisconsin Technical College System (WTCS), Marquette University, Milwaukee School of Engineering, labor and business joined to form the Wisconsin Center for Manufacturing and Productivity (WCMP). The WCMP is a nonprofit organization with a board of directors composed of individuals representing member institutions, groups, agencies and businesses. WCMP was formed to seek a grant from the National Institute of Technology and Standards (NIST). In January 1996, WCMP received a \$3 million grant from NIST and established the Wisconsin Manufacturing Extension Partnership (WMEP).

2. WMEP is the sole operating program of WCMP. The organization is commonly referred to as WMEP although the legal employing and contracting entity is WCMP. The partnership provides process improvement and technology-transfer services to small and medium sized manufacturers. WMEP personnel work directly with the manufacturers to address their needs in areas such as production techniques, technology applications and business practices. Solutions are offered through a combination of direct assistance from staff and work with outside resources. WMEP is part of a nationwide system of manufacturing extension partnerships that receive federal funding from NIST.

3. Currently, WMEP has an operations staff of 33 manufacturing specialists, three environmental engineers, three regional managers and three training coordinators. In many cases the person's salary provides a cash or in-kind match for federal funds. The organization's budget for 1998-99 is \$4,489,000. The table below shows the 1998-99 budget by source of funds. For fiscal year 1998-99, the federal funding requires a 50% cash match from WMEP.

TABLE 1

WMEP Budget

	<u>Amount</u>	<u>Percent</u>
WTCS	\$359,100	8%
Partner In-Kind Match	1,122,200	25
Customer Fees	538,700	12
Commerce	493,800	11
Federal Grant	<u>1,975,200</u>	<u>44</u>
	\$4,489,000	100%

4. From July, 1996, through December, 1998, WMEP helped 369 Wisconsin small manufacturers improve their productivity through 623 assistance projects. WMEP provides technical and business solutions customized to the needs of the company, through assessment and planning, identification of improvement opportunities, and assistance with implementation. According to WMEP, it has had a direct impact of almost \$12 million on customers in the first six months of fiscal year of 1998-99. Table 2 shows the estimated benefits of WMEP activities. The

organization also indicates that its activities during that period resulted in 129 jobs being created or retained, and in over \$1.0 million in capital investment.

TABLE 2

**Estimated Benefits from WMEP
Activities July - December 1998**

Increased Sales	\$8,732,000
Savings in Labor and Materials	1,830,200
Expense Avoidance	904,600
Inventory Cost Reduction	<u>145,000</u>
Total	\$11,611,800

5. Since WMEP was established Commerce has provided assistance in a number of ways. Under a provision of 1993 Wisconsin Act 232, the WDF, GPR appropriation was changed from a biennial to a continuing appropriation for 1993-94. This change allowed the Department to fund new projects with WDF monies that were previously encumbered but no longer necessary to fund the projects for which they were awarded. Act 232 also created a manufacturing extension grant program for that year. The Department used prior year encumbrances and the new grant program to provide WCMP a manufacturing extension grant of \$1.575 million

6. The 1997 budget review bill (1997 Wisconsin Act 237) created the current manufacturing assistance program that includes the manufacturing assessment, customized supplier training and technology transfer subprograms. The total amount of grants that can be awarded through all three subprograms cannot exceed \$750,000 in a biennium. The manufacturing assistance subprograms were designed, in part, to provide state funding to the Wisconsin Manufacturing Extension Partnership (WMEP).

7. The manufacturing assessment grant program was created under the WDF by 1997 Wisconsin Act 27 (the 1997-99 biennial budget). The manufacturing assessment grant program provides grants to private businesses with 500 or fewer employees to fund management assessments and plans. The assessment and plan must assist the business in adopting available standardized new manufacturing processes and technologies that make the business more competitive. The business must agree to implement the recommended manufacturing and technological changes. The maximum grant is \$2,500. The manufacturing assessment grant program provides grants to small businesses that can then use the grant monies to pay for assessments conducted by WMEP staff.

8. The supplier training program provides grants to fund customized training for employees of supplier businesses of companies that manufacture original equipment. Eligible applicants include businesses that manufacture original equipment or a consortium of such businesses. Businesses that receive grants can contract with any of their Wisconsin-based supplier businesses to have the suppliers' employees trained to meet the specific needs of the original

equipment manufacturers. The maximum grant that can be awarded to an original equipment manufacturer is \$100,000. The maximum amount of a grant that can be used to train employees of any single Wisconsin-based supplier is \$20,000. The total amount of grants that can be made through this subprogram cannot exceed \$500,000 in a fiscal biennium.

Because of WMEP's association with WTCS, other state educational institutions and private training businesses, original equipment manufacturers have contracted with WMEP to act as the administrative agency for supplier training grants. WMEP coordinates training by establishing locations, arranging for training, enrolling supplier employees and conducting evaluations and other follow-up activities. The supplier training grants are used to pay for training supplier employees; WMEP does not use any of the monies for administrative costs. However, the federal government counts the grants as part of WMEP's budget for matching purposes. In fiscal year 1998-99, a total of \$500,000 in supplier training grants were awarded to companies that contracted with WMEP to coordinate training programs for supplier businesses.

9. The technology transfer program provides grants to manufacturing extension centers that transfer state-of-the-art technological advances to small- and medium-sized Wisconsin businesses. Eligible applicants are technology-based nonprofit organizations. Prior to receiving a grant, the technology-based nonprofit organization must submit a budget detailing its proposed expenditures and the Secretary of Commerce must approve the plan. Grants can only fund up to 50% of the costs directly related to technology transfer activities between businesses and the organizations that receive the grants. A maximum of \$250,000 in total technology transfer grants can be made in a biennium. WCMP was awarded a \$250,000 manufacturing extension grant for WMEP in 1998-99.

10. Commerce also provides a match for federal funds through the services of three engineer positions in the Manufacturing Assessment Center (MAC). The engineers train field consultants, develop assessment tools and lead assessment teams. One engineer's time is provided as a cash match (\$96,900 GPR), according to federal rules, which generates an equivalent amount of funds from NIST. This money is used to fund a manufacturing engineer project position (\$74,700 PR). (This position is currently vacant.) The third engineer provides in-kind matching services equal to 0.50 position (\$51,600 GPR).

11. As noted, AB 133 would eliminate the current manufacturing assistance program, create a new manufacturing extension grant program and provide \$1.0 million in expenditure authority in the program revenue repayments appropriation for the new program. The manufacturing extension grant program is intended to supplant the current manufacturing assistance programs. Commerce would provide WMEP with \$1.0 million in each year instead of the \$750,000 that was provided in 1998-99 through the technology transfer and supplier training programs. WMEP would receive more funding and have more flexibility to use this funding for its activities than would be the case with current programs. WMEP could not receive funding through any other WDF program.

12. WMEP is relying on the WDF grants as an important source of funding in its 1999-

00 and 2000-01 budgets. Table 3 shows WMEP projected budgets for each fiscal year. The table shows that the \$1.0 million that would be provided through the WDF would represent about 15% of WMEP's annual budget. The funding is necessary to provide a match for federal funds.

TABLE 3

**WMPE Projected Budgets
1999-01**

	<u>1999-00</u>		<u>2000-01</u>	
	Amount	Percent	Amount	Percent
WTCS	\$388,500	6%	\$367,400	5%
Partner In-Kind Match	1,165,500	18	1,395,900	19
Customer Fees	1,489,200	23	1,983,700	27
Commerce (WDF)	971,300	15	1,028,600	14
Federal Grant (NIST)	<u>2,460,500</u>	<u>38</u>	<u>2,571,400</u>	<u>35</u>
	\$6,475,000	100%	\$7,347,000	100%

13. The total 1997-99 biennial GPR amount appropriated for the WDF is \$19,882,600, while \$5,300,000 PR is appropriated for the repayments appropriation. As of May 1, \$19,635,900 had been awarded. The Development Finance Board is scheduled to meet again to make awards and based on current applications, it is expected that the entire GPR and PR appropriations will be awarded or encumbered. Typically, the amounts appropriated in both WDF appropriations are awarded and encumbered. (An unappropriated balance of an estimated \$1.4 million in the repayments appropriation will carry over into the 1999-01 biennium.) The additional \$1 million in PR expenditure authority for the manufacturing extension grants would allow Commerce to provide additional funding for WMEP and, at the same time, provide base level funding for the other WDF programs.

14. The bill provides additional funding for the new manufacturing extension grant program by increasing annual expenditure authority in the program revenue repayments appropriation by \$1.0 million in each year and requires that the grants be funded through this appropriation. The repayments appropriation was established to operate similar to revolving loan funds so that, over time, the amounts received from loan repayments could be used to finance additional loans and reduce the need for GPR funding. Therefore, one alternative would be to reduce the WDF, GPR appropriation by the \$1 million annual increase in PR expenditure authority. This would maintain base level funding for the WDF in each year of the biennium and increase the amount of GPR available for other state purposes.

15. As noted, WMEP received the equivalent of \$750,000 in WDF awards in 1998-99. As a result, it could be argued that this level of commitment to WMEP is already included in total base level funding for the WDF. If the PR appropriation is viewed as a revolving loan fund, then

\$750,000 PR of the \$1 million annual increase in the PR appropriation could offset a \$750,000 decrease in the GPR appropriation. Again, this would increase GPR available for other state purposes. Further, it would increase overall WDF funding available by \$250,000 annually, or 3% over base levels.

16. Table 4 shows total GPR and PR expenditure authority for the WDF under AB 133 and the alternatives. The funding levels shown in the table would be for each year of the biennium.

TABLE 4

Alternative Total WDF Annual Funding Levels

	<u>Base Level</u>	<u>AB 133</u>	<u>Offset \$1 Million GPR with PR</u>	<u>Offset \$750,000 GPR with PR</u>
GPR	\$7,503,800	\$7,503,800	\$6,503,800	\$6,753,800
PR	<u>1,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Total	\$9,003,800	\$10,003,800	\$9,003,800	\$9,253,800

17. Table 5 shows estimated revenues and the expenditure authority under AB 133 for the repayments appropriation for both years of the biennium. The table shows that, even if the amounts appropriated are expended, the estimated appropriation balance would be \$725,300 in 2000-01. Therefore, one alternative would be to increase annual expenditure authority for the repayments appropriation by \$390,000. These amounts would increase expenditure authority to include all monies projected to be available for expenditures in the 1999-01 biennium. However, if the loan repayments appropriation is viewed as a revolving loan fund, the GPR appropriation could be reduced by these amounts each year and still provide the same total funding as AB 133.

TABLE 5

**Loan Repayment Appropriation
Estimated Revenues, Expenditure Authority and Appropriation Balances**

	<u>1999-00</u>	<u>2000-01</u>
Beginning Balance	\$2,043,300	\$1,478,300
Revenues	1,935,000	1,815,000
Expenditure Authority	<u>2,500,000</u>	<u>2,500,000</u>
Balance (Unexpended Amounts)	\$1,478,300	\$793,300

Table 6 shows the total annual expenditure authority for the WDF under each alternative.

TABLE 6

Alternative Total WDF Annual Funding Levels

	<u>AB 133</u>	<u>Increase PR Authority by \$390,000</u>	<u>Offset \$390,000 in GPR with PR</u>
GPR	\$7,503,800	\$7,503,800	\$7,113,800
PR	<u>2,500,000</u>	<u>2,890,000</u>	<u>2,890,000</u>
Total	\$10,003,800	\$10,393,800	\$10,003,800

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to repeal the manufacturing assistance grant program, including the manufacturing assessments, customized supplier training and technology transfer subprograms, and create a manufacturing extension center grant program under the WDF. Provide annual expenditure authority of \$1,000,000 PR for the program under the WDF repayments appropriation. Limit to \$1.0 million the total annual amount of manufacturing extension center grants that could be awarded in a fiscal year. Require that a technology-based nonprofit organization that received a grant could not receive any other WDF grants or loans and sunset the program after June 30, 2001.

<u>Alternative 1</u>	<u>PR</u>
1999-01 FUNDING (Change to Base) [Change to Bill]	\$2,000,000 \$0]

2. Approve the Governor's recommendation, but reduce funding for the WDF GPR appropriation by \$1.0 million annually.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 FUNDING (Change to Base) [Change to Bill]	-\$2,000,000 -\$2,000,000	\$2,000,000 \$0	\$0 -\$2,000,000]

3. Approve the Governor's recommendation, but reduce funding for the WDF, GPR appropriation by \$750,000 annually.

<u>Alternative 3</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 FUNDING (Change to Base) [Change to Bill]	-\$1,500,000 -\$1,500,000	\$2,000,000 \$0	\$500,000 -\$1,500,000]

4. In addition to 1, 2 or 3;

a. Increase expenditure authority for the WDF PR repayments appropriation by \$390,000 annually.

<u>Alternative 4a</u>	<u>PR</u>
1999-01 FUNDING (Change to Base)	\$780,000
[Change to Bill]	\$780,000]

b. Decrease the WDF, GPR appropriation by \$390,000 annually and increase PR by the same amount.

<u>Alternative 4b</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 FUNDING (Change to Base)	-\$780,000	\$780,000	\$0
[Change to Bill]	-\$780,000	\$780,000	\$0]

5. Maintain current law.

<u>Alternative 5</u>	<u>PR</u>
1999-01 FUNDING (Change to Bill)	-\$2,000,000

Prepared by: Ron Shanovich

COMMERCE -- DEPARTMENTWIDE AND ECONOMIC DEVELOPMENT

Wisconsin Development Fund
[Paper #286]

Motion:

Move to decrease annual funding for the Wisconsin Development Fund (WDF) by \$500,000 GPR and increase annual funding for the WDF by \$1,000,000 PR.

Note:

The Wisconsin Development Fund (WDF) consists of eight programs: (a) technology development grants and loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) Wisconsin trade project; (e) employe ownership assistance grants; (f) manufacturing assistance grants; (g) revolving loan fund capitalization grants; and (h) rapid response fund loans.

The WDF is funded through both a general purpose revenue (GPR) and program revenue appropriation. Annual base level funding for the program is \$9,003,800 (\$7,503,800 GPR and \$1,500,000 PR).

This motion would decrease annual funding for the WDF by \$500,000 GPR and increase annual funding by \$1,000,000 PR. As a result, total annual funding for the WDF would be \$9,503,800 (\$7,003,800 GPR and \$2,500,000 PR) a 5.6% increase over base.

[Change to Base: -\$1,000,000 GPR, \$2,000,000 PR]

[Change to Bill: -\$1,000,000 GPR]

MO# _____

BURKE	Y	<u>N</u>	A
DECKER	Y	<u>N</u>	A
JAUCH	Y	<u>N</u>	A
MOORE	Y	<u>N</u>	A
SHIBILSKI	Y	<u>N</u>	A
PLACHE	Y	<u>N</u>	A
COWLES	<u>Y</u>	N	A
PANZER	<u>Y</u>	N	A
GARD	<u>Y</u>	N	A
PORTER	<u>Y</u>	N	A
KAUFERT	<u>Y</u>	N	A
ALBERS	<u>Y</u>	N	A
DUFF	<u>Y</u>	N	A
WARD	<u>Y</u>	N	A
HUBER	Y	<u>N</u>	A
RILEY	Y	<u>N</u>	A

AYE 8 NO 8 ABS _____

MO# Alt. 1 _____

BURKE	<u>Y</u>	N	A
DECKER	<u>Y</u>	N	A
JAUCH	<u>Y</u>	N	A
MOORE	<u>Y</u>	N	A
SHIBILSKI	<u>Y</u>	N	A
PLACHE	<u>Y</u>	N	A
COWLES	<u>Y</u>	N	A
PANZER	<u>Y</u>	N	A
<u>2</u> GARD	<u>Y</u>	N	A
PORTER	<u>Y</u>	N	A
KAUFERT	<u>Y</u>	N	A
ALBERS	<u>Y</u>	N	A
DUFF	<u>Y</u>	N	A
WARD	<u>Y</u>	N	A
HUBER	<u>Y</u>	N	A
RILEY	<u>Y</u>	N	A

AYE _____ NO _____ ABS _____