



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #206

Transfer Manufacturing Extension Center Grant Program (Commerce)

[LFB 2005-07 Budget Summary: Page 104, #8 and Page 529, #9]

CURRENT LAW

Manufacturing extension center grants provide financial assistance to technology-based nonprofit organizations. Historically, funding has been provided to the Wisconsin Manufacturing Extension Partnership (WMEP). Beginning in 2003-04, funding was also provided to the Northwest Wisconsin Manufacturing Outreach Center (NWMOC). Annual funding of \$850,000 GPR is provided for manufacturing extension center grants.

GOVERNOR

Delete \$850,000 GPR annually from Commerce and transfer the manufacturing extension center grant program and related funding to the Wisconsin Technical College System Board (WTCS). In addition, provide increased funding of \$650,000 GPR annually for the grant program (a total of \$1.5 million GPR annually).

DISCUSSION POINTS

1. Historically, Commerce has provided financial assistance to technology-based nonprofit organizations (WMEP) in a number of ways, usually through the Wisconsin Development Fund (WDF). 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 was able to provide WMEP a manufacturing extension grant of \$1.575 million.

2. The 1997-99 budget adjustment bill (1997 Wisconsin Act 237) created the manufacturing assistance program under the WDF that included the manufacturing assessment, customized supplier training, and technology transfer subprograms. The total amount of grants that could be awarded through all three subprograms could not exceed \$750,000 in a biennium. The manufacturing assistance subprograms were designed, in part, to provide state funding to WMEP.

3. The manufacturing assistance programs and subprograms were eliminated in 1999 Wisconsin Act 9 and replaced by a manufacturing extension center grant program. Annual expenditure authority of \$1,000,000 was provided under the WDF program revenue repayments appropriation. However, Commerce was prohibited from encumbering any funds for manufacturing extension center grants after June 30, 2001.

4. The 2001-03 biennial budget created a separate program revenue appropriation and provided \$500,000 annually in tribal gaming revenue to fund the manufacturing extension center grant program. As a result, the primary source of funding for the program would no longer be the WDF. However, the bill also included a provision that required Commerce to make a grant of \$500,000 in 2001-02 and 2002-03 from the WDF program revenue repayments appropriation to a technology-based nonprofit organization to provide support for a manufacturing extension center.

5. The 2003-05 biennial budget eliminated tribal gaming revenues as a source of funding for the manufacturing extension grant program and, instead, provided \$100,000 GPR annually in a separate appropriation for the program. Most recently, 2003 Wisconsin Act 256 increased annual funding for the program by \$750,000, to a total of \$850,000 GPR annually. The bill also included a provision that authorizes Commerce to award up to \$1,500,000 in grants in a fiscal year.

6. Commerce has also provided support to WMEP through the Manufacturing Assessment Center (MAC) in the Department. The MAC assisted small and medium-sized manufacturing businesses (businesses with 500 or fewer employees) in adopting readily available and reasonably standardized new manufacturing processes and techniques. The Center performed assessments that helped companies define a basic course of action, recommend strategies and improvements, and identify resources to assist in the implementation of actions. MAC assessments covered topics such as overall business strategy, employee attitudes, industrial marketing, energy efficiency, and competitive benchmarking. The Department provided these services and assessment staff to WMEP through the MAC. However, the MAC was eliminated in the 2003-05 biennial budget.

7. WMEP is operated by an organization, the Wisconsin Center for Manufacturing and Productivity, Inc. (WCMP), that includes the Department of Commerce, University of Wisconsin System, Wisconsin Technical College System (WTCS), Marquette University, Milwaukee School of Engineering, labor, and business. WMEP 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, business practices, and specialized training. 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 the National Institute of Standards and Technology (NIST).

8. NWMOC is a direct partnership between the University of Wisconsin-Stout and five technical colleges: Chippewa Valley; Western Wisconsin; Wisconsin Indianhead; Nicolet Area; and Northcentral. NWMOC delivers an integrated manufacturing modernization service to small and medium-sized manufacturers in Northwest Wisconsin. Services provided by NWMOC include: free on-site assessments; on-site technical assistance; networking; technical training; seminars; and lean manufacturing. Manufacturing extension center grants were first awarded to NWMOC in each year of the 2003-05 biennium.

9. NWMOC operates in the areas served by the five technical colleges and UW-Stout, while WMEP serves the rest of the state. Following negotiations between Commerce and the two manufacturing assessment organizations, WMEP contracted with NWMOC to provide a portion of the Commerce manufacturing extension center grant to NWMOC. WMEP has also provided NWMOC with funding in addition to amounts transferred from the state manufacturing extension center grant. The total amounts that WMEP has allocated to NWMOC are as follows: \$152,000 in 2001-02; \$147,000 in 2002-03; \$98,700 in 2003-04; and \$50,800 in 2004-05. However, beginning in fiscal year 2004-05, Commerce provided separate annual grants to the two organizations. (In 2003-04, NWMOC received a direct grant of \$75,000 from Commerce and \$98,700 from WMEP. Because the Commerce grant was awarded in late June of 2004, NWMOC credited the \$75,000 Commerce grant to its 2004-05 budget.) Generally, the distribution of the grants to the organizations has been based on percentage of manufacturers in the two service areas. The NWMOC service area contains about 20% of manufacturers; the remaining 80% are in WMEP's service area. With base level funding of \$850,000 GPR, Commerce expects to make annual manufacturing extension grants of \$700,000 to WMEP and \$150,000 to NWMOC.

10. Currently WMEP has a staff of 42 full-time positions. In many cases, the person's salary provides an in-kind match for federal funds. Table 1 shows the annual revenues, by source, for the WMEP budget in 2003-04 and 2004-05. The table shows that customer fees and the federal NIST grant were the two largest sources of revenues. The grant from Commerce represented 10% of total revenues.

TABLE 1

WMEP Revenues

	<u>2003-04</u>		<u>2004-05</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Partners In-Kind/Cash Match*	\$1,172,800	15.1%	\$1,146,000	16.0%
Customer Fees	3,245,800	41.8	3,258,700	45.4
Commerce Grant	775,000	10.0	700,000	9.8
Federal (NIST) Grant	<u>2,569,500</u>	<u>33.1</u>	<u>2,060,300</u>	<u>28.8</u>
Total	\$7,763,100	100.0%	\$7,165,000	100.0%

* Mainly indirect match from WTCS and University of Wisconsin.

11. NWMOC has a staff of 14.55 full-time positions. Table 2 shows the annual revenues, by source, for NWMOC's budget in 2003-04 and 2004-05. The table shows that the main source of revenue for NWMOC is partner in-kind and cash match. The primary source of this revenue is a match of \$711,600 in 2003-04 and \$745,600 in 2004-05 from UW-Stout. Customer fees are a much less significant source of revenue for NWMOC than they are for WMEP. The state manufacturing extension grant amount in 2004-05 reflects \$75,000 that was credited from 2003-04.

TABLE 2

NWMOC Revenues

	<u>2003-04</u>		<u>2004-05</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Partners In-Kind/Cash Match*	\$1,071,700	58.0%	\$987,900	51.8%
Customer Fees	275,000	14.9	240,000	12.6
Commerce Grant**	98,700	5.3	275,800 ***	14.5
Federal (NIST) Grant	<u>403,200</u>	<u>21.8</u>	<u>403,200</u>	<u>21.1</u>
Total	\$1,848,600	100.0%	\$1,906,900	100.0%

* Includes match of \$711,600 in 2003-04, and \$745,600 in 2004-05 from UW-Stout.

** Includes amounts transferred from WMEP of \$98,700 in 2003-04 and \$50,800 in 2004-05.

*** Includes a \$75,000 grant from 2003-04 and \$150,000 in 2004-05.

12. Both WMEP and NWMOC work with WTCS in providing services to the same types of businesses. WTCS provides entry-level technical job training and advanced technology

training to incumbent workers. WTCS also provides customized training and technical assistance that can sometimes take the form of training and business assessments. WMEP and NWMOC provide individual consultations and formal assessments, technical training, workshops and seminars to assist small and medium-sized manufacturers to become more competitive and profitable. Consulting services include lean manufacturing for operational improvement, strategic repositioning to develop new products and services, ISO (international organization for standardization) certification, and supplier training. WTCS may work with the same clients as NWMOC and WMEP. In these cases, local manufacturing outreach or extension field agents work with WTCS staff to coordinate services. Generally, the field agents provide assessments and technical consultations, while WTCS staff provide training to develop technical competence and skills related to business improvements.

13. In certain cases individual technical colleges provide a cash match and/or contract employees to WMEP and NWMOC. WMEP reimburses area technical colleges for most of the cost of seven employees who perform assessments and implementation of strategies. In addition, WMEP has initiated a formal agreement with four technical colleges in the northeast part of the state to provide cash matching funds and office space. NWMOC subcontracts for one position from a local technical college.

14. The manufacturing extension grant program would be transferred to WTCS to promote closer coordination and cooperation between technical colleges and NWMOC and WMEP. As noted, NWMOC, WMEP and local technical colleges frequently provide related services to the same clients, with the technical colleges training employees to implement strategies recommended by the extension and outreach field agents. It is believed that placing the grant program under WTCS would allow for better coordination between the assessments and recommended strategies provided for manufacturers by WMEP and NWMOC, and the types of related employee training that could be provided local technical colleges.

15. However, an alternative view is that core functions of NWMOC and WMEP are much closer to those of the Department of Commerce. The economic development programs administered by Commerce provide financial and technical assistance to businesses to increase investment and create jobs in the state. In general, NWMOC and WMEP provide technical assistance to small and medium-sized manufacturers to improve the profitability of those businesses, so those businesses can create or retain jobs and invest in the state. On the other hand, the technical college system focuses on educating and training individuals. WTCS serves approximately 460,000 adults, offering a variety of educational options, primarily degree and certificate programs for career-minded students, but also customized training to meet the needs of business and industry.

16. According to NWOC, the organization performed 211 technical assistance activities for 90 companies, sponsored 22 public education events attended by 396 individuals, and conducted 71 on-site seminars to 2035 employees of 26 companies. NWOC achieved client-reported impacts in sales, investment and savings, of \$15.7 million and created or retained 135 jobs. Customer satisfaction rated 4.69 on a 5.0 point satisfaction rating scale. Since 1994, NWMOC has

achieved client-reported impacts of over \$132 million and created or retained 1,979 jobs. WMEP reports that it provided consulting and assessment services to 522 small and mid-sized manufacturers in 2003-04. Customer reported results included a total \$118.5 million as follows: (a) \$78 million in increased or retained sales; (b) \$25.4 million in capital investments; and (c) \$15.1 million in cost savings. WMEP services received a 90% satisfaction rating. A total of 1,468 jobs were reportedly created or retained as a result of its services.

17. WMEP and NWMOC target small- and medium-sized businesses because it is believed that those firms have limited budgets, lack in-house expertise, and lack access to new technologies. Such firms could use advise on plant layout, modernization, human resource requirements, and other related information to operate more efficiently. The growth of small and medium-sized businesses makes a significant contribution to economic growth though increased investment and job creation and retention. Supporters of the national Manufacturing Extension Partnership (MEP) program indicate that small and midsized companies produce more than half of total U.S. economic output, and employ two-thirds of manufacturing workers. Moreover, larger firms rely on small and midsized businesses for supplies and intermediate goods. Studies have shown that services provided by manufacturing extension organizations have improved business operations and improved the state's economic performance. In a study of the New York Manufacturing Extension Partnership, Oldsman & Heye, found that, on average, participating companies changed important business manufacturing processes, improved manufacturing performance, and increased value added. They estimated that an additional \$30 to \$110 million in income was generated in the state, and between 510 and 1,920 jobs were created.¹ Jarmin (1999) analyzed data from eight MEPs in two states and found that MEP clients experienced between 3.4% and 16% more growth in labor productivity than non-clients.²

18. Many of the services that WMEP and NWMOC provide are also available from private consulting firms that are located in Wisconsin and nationwide. In a recent national survey by the Modernization Forum, half of MEP clients noted that services they received were available from alternative sources, although at higher cost. WMEP indicates that the fees it charges are half to two-thirds of private sector charges. Based on interviews, private consultants in Wisconsin indicate that they frequently compete with WMEP and NWMOC for clients, and have lost business because of the lower prices charged by MEPs for similar services. Theoretically, the rationale for providing the state subsidized service would be to generate net benefits for the state. However, a firm generally makes investment decisions based on the relative profitability of the investment for the business. From this perspective, the business would hire a private consultant if the return on that spending was profitable to the firm, or the business would choose an alternate, more profitable use for that investment. From this perspective, a state subsidy is justified if the firm would not choose to improve its operations without the help of an MEP, and the resulting improvement in operations were beneficial to the state relative to the cost. In the February 2005 Budget Options report, which provides Congress with options for budget reductions, the Congressional Budget Office (CBO) in suggesting a potential cut in federal spending, argues that funding for the federal MEP program could be eliminated because the positive effect on productivity is questionable. Federal spending for the federal MEP program is viewed as a subsidy for the firms that the MEPs assist. CBO argues that in most cases, subsidies allow inefficient companies to remain in business, tying up capital, labor,

and resources that would otherwise be used more productively elsewhere. In addition, it is noted that, according to the Office of Management and Budget's evaluation, manufacturing extension centers were originally intended to become self-sufficient, supported by fees and, "perhaps" state contributions. In regard to this issue, some would note that WMEP is currently generating almost 50% of total funding from client fees.

19. AB 100 would provide total annual funding of \$1,500,000 GPR for manufacturing extension center grants, which represents an increase of \$650,000 GPR. The additional funding conforms with the statutory provision included in 2003 Wisconsin Act 256 that authorized annual funding at that level. The additional funding could be viewed as replacing approximately \$350,000 in annual funding formerly provided by WTCS to WMEP, but which was eliminated after fiscal year 2002-03. In addition, the President's fiscal year 2006 budget includes a reduction in national MEP grant funding of over 50% from \$110 million to \$47 million. The additional funding provided in the bill could mitigate potential future cuts in federal funding and replace the WTCS funding. However, historically, the most common level of annual funding provided manufacturing extension grants has been \$1,000,000, and the Committee could consider that level as an alternative. The current base level of funding was provided by the Legislature in Act 256, and WMEP and NWMOC maintained their operations with this level of state funding. Thus, current law could also be an alternative level of funding. Finally, the base funding level provided in the 2001-03 biennial budget for the separate manufacturing extension grant program was \$500,000. The Committee could consider this funding level as well. However, the 2001-03 budget also contained a separate designation of \$500,000 in annual funding for WMEP from the Wisconsin Development Fund.

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation to provide increased funding of \$650,000 GPR annually (a total of \$1.5 million each year) for the manufacturing extension center grant program.

2. Modify the Governor's recommendation to provide increased funding of \$150,000 annually (for a total of \$1 million each year) for the grant program.

<u>Alternative A2</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$1,000,000

3. Decrease annual funding by \$350,000 annually (for a total of \$500,000 each year) for the grant program.

<u>Alternative A3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$2,000,000

- Maintain current law (funding of \$850,000 annually).

<u>Alternative A4</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	- \$1,300,000

B. Program Administration

- Approve the Governor's recommendation to transfer the program to WTCS.
- Maintain current law (the program remains in Commerce)

¹Oldsman, E. S. & Heye, C.R. (n.d.) The Impact of the New York Manufacturing Extension Program: A Quasi-Experiment. Belmont, MA. Nexus Associates, Inc.

²Jarmin, R.S. (1999). Evaluating the impact of Manufacturing Extension on Productivity Growth. Journal of Policy Analysis and Management, 99-119.

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