



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

---

May 15, 2013

Joint Committee on Finance

Paper #100

### **Capital Investment Program (DOA -- General Agency Provisions)**

[LFB 2013-15 Budget Summary: Page 22, #7]

---

#### **CURRENT LAW**

The Office of Business Development, which is attached to the Department of Administration (DOA), was created in statute under 2011 Act 32 to provide administrative support to the Small Business Regulatory Review Board and to perform other functions, as determined by the Secretary of DOA. Under Act 32, \$181,700 GPR in salaries and fringe benefits and 2.0 unclassified positions annually were provided to the Office. The Office employs a Director and Deputy Director.

#### **GOVERNOR**

Provide \$25,000,000 GPR in 2013-14 for a capital investment program, to make coinvestments in business startups and investment capital projects, in consultation with the Director of the Office of Business Development. Create an annual appropriation for the program.

#### **DISCUSSION POINTS**

1. Neither the Executive Budget Book nor budget bill provides information on the organization, structure, design, or implementation of the program. However, the Budget in Brief indicates: "As a first step toward making the state's venture capital investments more robust, this budget appropriates \$25 million GPR in fiscal year 2013-14 at the Department of Administration. The secretary, working with the director of the Office of Business Development, will establish a capital investment program aimed at supporting start-up companies in Wisconsin."

2. At the March 19, 2013, Department of Administration (DOA) agency briefing to the Committee, the Secretary of DOA stated that it is the Governor's intention that the implementation

of the capital investment program be defined by the Legislature with support from the Wisconsin Economic Development Corporation (WEDC). The Secretary of DOA encouraged the Committee to shape the program as it sees fit.

3. The bill language specifies that, "In consultation with the director of the office of business development, the secretary shall provide \$25,000,000 in fiscal year 2013-14 for a capital investment program to make coinvestments in business startups and investment capital projects." Approval of the Governor's recommendation would provide \$25.0 million GPR in 2013-14 for a capital investment program and permit DOA to establish procedures and guidelines for the program. Capital investment determinations would be made by the Secretary of DOA and the Director of DOA's Office of Business Development. [Alternative 1]

4. As noted, the Office of Business Development employs a Director and Deputy Director, and was allocated funding only for salaries and fringe benefits in the 2011-13 biennium. The Office provided administrative support to the Small Business Regulatory Review Board during that time.

5. The Wisconsin Economic Development Corporation is statutorily directed to develop and implement programs to provide business support and expertise, and financial assistance to companies that are investing and creating jobs in Wisconsin. Further, the Corporation is directed to promote new business start-ups and business expansion and growth in the state. Specifically, WEDC has experience operating early stage capital investment programs through its Division of Entrepreneurship and Innovation. The Division provides technical and financial assistance to a number of entrepreneurial business activities, including proof of concept, product development, regulatory compliance, initial production, purchasing critical infrastructure, raising investment capital, and raising other capital.

6. At the March 20, 2013, WEDC agency briefing to the Committee, the Secretary and Chief Executive Officer (CEO) of WEDC indicated that his agency could play a role in administering the capital investment funds, with the goal of creating new jobs.

7. Given the comments of the WEDC Secretary and CEO, the Committee could modify the Governor's recommendation to specify that coinvestments in business startups and investment capital projects be made in consultation with WEDC rather than the Office of Business Development. [Alternative 2]

8. The amount of funding provided in the bill is not directly associated with or based upon any specific programmatic goal other than providing increased state funding for capital investment. As such, differing funding levels could be provided to support capital investment. Lower levels of funding could require more leveraged investments.

9. Other concerns could be raised with regard to the implementation of the program. Notably, the bill language does not specify that the coinvestments must be made for startup businesses located in, or employing residents of, the state of Wisconsin. In addition, the terms of providing the funds, such as the private funding match for the coinvestment, the number of jobs to be created, or a minimum rate of return on the investment, are not specified. Further, at the March,

2013, agency briefing the Chief Operating Officer of WEDC noted that the funds should be managed "at arm's length by a professional manager who is not influenced by political considerations."

10. Given the concerns identified above, the Committee may wish to allow for additional time to deliberate the manner in which the capital investment program should be administered.

11. It should be noted that on April 29, 2013, Assembly Bill 181 was introduced in relation to the administration of the capital investment program. Under AB 181, WEDC would contract with an investment manager to administer a "funds of funds" investment program with funding of \$25.0 million. Assembly Bill 181, which has bi-partisan authorship, is scheduled for floor action by the Assembly on May 14. In order to facilitate the implementation of AB 181 or bills of a similar nature, the Committee could choose to provide a designated amount of GPR to the Committee's supplemental appropriation, to be used in the future for a capital investment program developed under separate legislation. Once a bill is enacted, the Committee could release funding. [Alternative 3]

12. Finally, the Committee could delete funding for the capital investment program and the appropriation created under the bill. [Alternative 4]

## ALTERNATIVES

1. Approve the Governor's recommendation to provide \$25,000,000 GPR in 2013-14 for a capital investment program.

2. Specify that coinvestments in business startups and investment capital projects be made in consultation with the Wisconsin Economic Development Corporation rather than the Office of Business Development.

3. Modify the Governor's recommendation and place the \$25.0 million funding in the Committee's supplemental appropriation, to be used for a capital investment program developed under separate legislation. Any amount not released by the Committee would lapse to the general fund.

4. Delete funding for the capital investment program and the appropriation created under the bill.

| ALT 4      Change to Bill |                |
|---------------------------|----------------|
| Funding                   |                |
| GPR                       | - \$25,000,000 |

Prepared by: Rachel Johnson