



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #710

Increased Funding for Marketing (Wisconsin Economic Development Corporation)

[LFB 2013-15 Budget Summary: Page 500, #1]

CURRENT LAW

The fiscal year 2012-13 budget includes \$2,080,300 the Wisconsin Economic Development Corporation (WEDC) has allocated to fund the Corporation's marketing activities.

GOVERNOR

Provide \$3,750,000 GPR in 2013-14 and \$7,150,000 GPR in 2014-15 for increased marketing activities.

DISCUSSION POINTS

1. WEDC was created as an Authority under 2011 Wisconsin Act 7. Under the provisions of 2011 Wisconsin Act 32 (the 2011-13 biennial budget), the Department of Commerce was eliminated and statutory responsibility for creating and administering economic development programs, providing certain related technical assistance, and administering existing programs and several tax credits was transferred to WEDC. WEDC receives most of its funding from annual state appropriations provided to the Corporation. Base level funding for WEDC for fiscal year 2012-13 is \$32,790,600 GPR and \$24,189,200 SEG. The SEG includes \$23,189,200 economic development surtax revenues (formerly the recycling surtax) from the economic development fund, and \$1,000,000 SEG annually for brownfield site assessment grants, from the environmental management account of the segregated environmental fund. In addition, under the bill, \$1,429,100 GPR is deleted in each year of the biennium, similar to permanent base level reductions recommended for many state agencies.

**WEDC -- Statement of Revenues, Expenditures, and Changes in Fund Balance
March, 2013 -- FY 2013 Budget Projection**

	<u>Fiscal Year 2012-13</u>
Revenues	
State of Wisconsin Appropriations	
General Purpose Revenue	\$32,049,100
Segregated Revenue (Economic Development Fund)	23,189,200
Brownfield Site Assessments (Environmental Fund)	1,000,000
Federal Funding	
State Small Business Credit Initiative (SSBCI)	6,000,000
Other Federal Programs ^a	9,791,700
Projects and Grants ^b	555,600
Interest on Loans	1,085,100
Investment Income ^b	17,100
Other ^c	<u>1,059,000</u>
Total Revenues	\$74,746,800
Expenditures	
General and Administrative	\$1,329,800
Marketing and Advertising	2,080,300
Payroll and Related Expenses	8,583,000
Operating Expenses	6,236,900
Economic Development Grants	
State Small Business Credit Initiative (SSBCI)	3,000,000
Other Federally Funded Programs ^a	9,791,700
Brownfields Site Assessment Grants	143,600
State Grant Programs	5,469,800
Net Increase in Allowance for Doubtful Accounts ^d	<u>6,865,100</u>
Total Expenditures	\$43,500,200
Net Change to Fund Balance (Revenues - Expenditures)	\$31,246,600
Beginning Fund Balance	\$77,041,200
Ending Fund Balance	\$108,287,800
Fund Balance Components	
Loans Receivable	\$37,047,100
Interest Receivable	1,051,500
Prepaid Expenses	471,100
Restricted ^e --	
Economic Development Loans and Grants	26,053,600
Brownfields Site Assessment Grants	1,666,400
Reserved ^f --	
Economic Development Loans and Grants	25,698,500
Assigned for Administrative Expenses ^g	<u>9,200,000</u>
Total Assigned Fund Balance -- March, 2013	\$101,188,200
Unassigned Fund Balance -- March, 2013	\$7,099,600

- ^a. Reflects anticipated CDBG funds, which are instead administered by DOA. This amount is also included in expenditures as an offset.
- ^b. Funding from projects and grants are administrative cost reimbursements, while investment income is from certificates of deposit.
- ^c. Other income includes bond fees, loan origination fees, and other minor miscellaneous revenue.
- ^d. The net increase in allowance for doubtful accounts includes amounts for forgivable loans and an allowance for uncollectible loans.
- ^e. Funding restricted for grants and loans that have been awarded, but not drawn.
- ^f. Funding reserved by WEDC for economic development projects in the project pipeline, including projects that have a commitment, are in underwriting, or likely.
- ^g. Six months of operating costs and payroll for potential increased costs, operations changes, or funding delays.

Source: Wisconsin Economic Development Corporation

2. Table 1 provides a statement of revenues, expenditures, and changes in fund balance for WEDC for fiscal year 2012-13. (The statement was compiled by WEDC staff based on the corporations accounting system established for the 2012-13 budget.) The table shows that the primary source of annual revenue for WEDC is state GPR and SEG funding. The Wisconsin Housing and Economic Development Authority (WHEDA) provided WEDC \$6,000,000 in federal state small business credit initiative (SSBCI) monies from the Wisconsin Venture Debt fund. The SSBCI provides debt financing to entrepreneurs and high-growth small businesses. The amount shown for other federal revenue reflects anticipated federal small cities community development block grant (CDBG) funding. Commerce administered this program prior to the creation of WEDC. However, the Department of Administration (DOA) currently is the state's administrative agency. The amount is shown under expenditures as an offset so that there is no net effect on the budget. Revenues from projects and grants are administrative cost reimbursements, while investment income is from the Corporation's certificates of deposit. Other income is from bond fees, loan origination fees, and minimal miscellaneous receipts. Interest payments on economic development loans are included in revenues, while principal repayments are credited against loans received in the balance.

3. Expenditures are shown in general categories. General and administrative expenditures are corporate-wide, such as rent and utilities, that benefit the entire organization. Operating expenses are expenditures from economic activities performed by WEDC, such as consulting, travel, and conferences. Operating expenditures also include payments for contracted services from partner organizations and agencies, such as the Wisconsin Manufacturing Extension Partnership (WMEP), Wisconsin Entrepreneurs Network (WEN), and Wisconsin Women's Business Initiative Corporation (WWBIC), in support of the Corporation's economic development activities and/or programs. A significant portion of expenditures are for economic development grant programs administered by WEDC. The amounts shown for state grant programs and brownfields site assessment grants reflect only amounts that have been awarded and drawn. The net increase in allowance for doubtful accounts includes forgivable loans, and an allowance for uncollectible loans.

4. The fiscal year 2012-13 beginning balance was \$77,041,200. However, this balance includes amounts that are non-spendable, including loans receivable, interest receivable, and prepaid items. The balance also includes amounts that are restricted for economic development grants and loans that have been awarded but not drawn. Included in the balance carried over from 2011-12 to 2012-13 was \$32,659,400 for loans receivable, \$616,200 for interest receivable, and \$251,900 for prepaid items. In addition, the balance included \$15,249,900 restricted for economic development grants and loans, including brownfields site assessment grants. As a result, \$28,263,800 of the fund balance was unassigned, and could be used for WEDC economic development operations and programs. (WEDC may carry unassigned funds over from prior budget years to be used to fund its operations and economic development programs.)

5. The ending fund balance for 2012-13 includes \$37,047,100 for loans receivable, \$1,051,500 for interest receivable, and \$471,100 for prepaid items. The amount assigned for administrative expenses (\$9,200,000) represents six months of operating costs and payroll retained to offset potential increased expenditures, operations changes, and/or delays in state funding. The fund balance amount shown for economic development grants and loans has two components. A total of \$27,720,000 is restricted for economic development grants and loans (including brownfields site assessment grants) that have been awarded but not drawn. WEDC indicates that an additional \$25,698,500 should be reserved for economic development projects that are currently in the project pipeline, which includes projects that have received commitments, are in underwriting, or are likely to proceed. Consequently, according to WEDC, as of February, 2013, the unassigned fund balance would be \$7,099,500. However, it is possible that, before the end of fiscal year 2012-13, some projects or activities could require a lower level of funding, which could increase the year-end unassigned fund balance. Conversely, unexpected costs or new economic development projects could arise that the unassigned fund balance could be used to fund.

6. WEDC is organized into six divisions, including the Division of Marketing and Communication. The Division has seven positions, including the Division vice president, and is budgeted \$2,503,700 for fiscal 2012-13, for payroll and related costs, general and administrative expenses, operating expenses, and marketing and advertising. (Some of the corporation's marketing and advertising budget is allocated to other divisions. For example, funding for conferences and sponsorship is allocated to the Division of Entrepreneurship and Innovation.) The seven staff positions include: (a) a marketing production specialist that is responsible for designing and producing WEDC marketing strategies and materials, creating and managing a library of visual assets, and managing printer and other production vendor relationships; (b) two events manager positions responsible for planning, coordinating, and managing WEDC participation in trade shows, events, and meetings, creating and maintaining a schedule of WEDC-hosted events, and managing partner relationships; (c) a corporate communications manager responsible for producing content for WEDC publications, website and electronic messages related to WEDC programs, providing relevant and timely information to WEDC audiences, coordinating WEDC marketing activities with the external marketing agency to ensure maximum exposure, and applying WEDC core message strategies to all public engagements; (d) an electronic channel marketing specialist that is responsible for planning and executing new media communications strategies with the marketing team and agency, developing and executing media strategies to effectively reach WEDC target audiences, serving as primary administrator of the WEDC website, and advising and assisting

WEDC divisions on appropriate new media tools; (e) a public information officer responsible for responding to media inquiries, providing news about WEDC successes to appropriate media, working with legal staff on open records requests, identifying and managing speaking opportunities for WEDC executives, and coordinating and contributing to WEDC communications through traditional and social media; and (f) a customer experience specialist responsible for identifying customer needs and building processes to respond to customer requests, training WEDC staff on customer service standards and processes, and coordinating with other government agencies and outside organizations to provide customer services related to business start-ups, expansion, and relocations. In general, the Division administers the state branding campaign "In Wisconsin" which includes paid advertising, marketing, development of a new website (www.inwisconsin.com), videos, and related communications and materials to promote the benefits of starting, expanding, or locating a business in Wisconsin. The Division manages WEDC media relations, and produces marketing and informational materials. Division staff also manage a number of Corporation activities including trade shows, sales meetings, business meetings, and virtual events.

7. WEDC's marketing expenses for fiscal years 2011-12 and 2012-13 include research, planning, brand development, building a new website, producing new advertising units and collateral materials, introducing public relations and social media programs, and launching new marketing campaigns. In September, 2012, WEDC launched the "In Wisconsin" brand campaign promoting Wisconsin's business climate. The campaign features five companies (Rockwell Automation [formerly Allen-Bradley], Organic Valley, Schneider National, Trek, and Virent) that agreed to share their Wisconsin success stories. The "In Wisconsin" brand shows the benefits of doing business in the state due to the state's combination of assets, including world class educational and research institutions, an educated and dedicated workforce, and proximity to the Great Lakes and air and ground transportation hubs.

8. Table 2 shows the general categories of marketing expenses (exclusive of personnel costs, such as salaries and fringe benefits) budgeted in fiscal year 2012-13. The professional fee/marketing agency expenses include fees charged for concept development, design, copywriting, and other related activities. Collateral creation and development expenses are for materials created by WEDC, including brochures, folders, mailings, reports, videos and exhibit displays, to promote Wisconsin's business climate. Advertising expenditures include production of the materials, often with other parties, such as printers, video production shops, and exhibit construction companies. The Corporation's advertising to date has primarily been print and on-line.

2012-13 WEDC Marketing Expenditures

Professional Fees -- Marketing Agency Plan and Execution	\$250,000
Public Relations	100,000
Advertising	500,000
Collateral Creation and Development	750,000
Conference Sponsorship/Attendance	300,000
Other (Research, Travel, Professional Development)	<u>180,300</u>
Total	\$2,080,300

9. Research indicates that recent changes in communication, particularly the Internet, have altered how business communication takes place and influences how businesses engage in the process of site selection and interact with economic development organizations. (*Economic Development Marketing: Present & Future*. Anatalio Ubalde and Eric Simundza. GIS Planning, 2008). As part of their research, Ubalde and Simundza surveyed both economic developers and site selectors to identify the most and least effective marketing strategies for economic development. Table 3 shows the survey results. Both economic developers and site selectors indicated that an economic development organization's website provides the most effective marketing tool for economic development. However, face-to-face activities were also viewed as highly effective. Of the highest ranked marketing strategies in the table, three (internet/website, e-mail, and targeted lead development databases) involve information technology, and three (personal meetings, familiarization tours, and in-person events) involve interpersonal relations. This indicates that effective marketing involves both an online technology-driven presence, plus person-to-person services, a strategy often referred to as high-tech, high-touch marketing. Public relations, and trade shows and conferences also rank relatively high in the survey, indicating the benefit of including more traditional types of marketing in a comprehensive economic development marketing strategy. Economic developers who reported having effective marketing programs, also reported devoting more staff time to marketing and having significantly higher marketing budgets than economic developers with less effective marketing programs.

Marketing Strategy Perceived Effectiveness

<u>Marketing Strategy</u>	<u>Effectiveness Rating</u>
Internet/Website	79%
Personal Meetings with Businesses	72
Public Relations	64
Site Selection Consultants Familiarization Tours	64
In-Person Events	56
E-mail	48
Targeted Lead Development Databases	43
Slogans, Logos, and Identity	38
Trade Shows and Conferences	36
Direct Mail	26
Brochures	20
Print Advertising	16
Videos	14
Online Advertising	13
TV/Radio Advertising	10
Telemarketing	6

Source: *Economic Development Marketing: Present and Future*, Anatalio Ubalde & Eric Simundza, GIS Planning, 2008.

10. The most recent installment of the survey of corporate executives with site selection responsibilities conducted by Development Counsellors International (DCI) (*A View From*

Corporate America: Winning Strategies in Economic Development Marketing. Development Counsellors International, September, 2011) mirrors the Ubalde/Simundza survey. The DCI survey consists of a random sample of executives with direct site selection responsibilities from U.S. companies with annual revenues of \$25 million or more. The survey is augmented with an additional survey audience of 250 location advisors/consultants. The survey indicated that the leading sources of information that influenced executives' perceptions of a community's business climate were, in order, dialogue with industry peers, articles in newspapers and magazines, rankings and surveys, and meetings with economic development organizations. The most effective marketing techniques were planned visits to corporate executives, Internet/website, hosting special events, and trade shows.

11. In public testimony before the Joint Committee on Finance, the Chief Executive Officer (CEO) of WEDC testified that the Corporation, having developed the "In Wisconsin" brand, was now in a position to expand the campaign, and additional marketing funds would give WEDC the ability to expand the campaign across the state and nationally. The Corporation could use the additional funds to develop specific website and online tools for marketing Wisconsin, for increased broadcast marketing, focused industry outreach, to expand a more robust cooperative advertising program with the Corporation's regional partners, and for other marketing activities that are common for states that consistently rank in the top ten for doing business. Staff indicate that increased marketing funds would enable WEDC to engage in the effective high-tech, high-touch marketing activities identified in marketing research, including website development, tours with site selectors, in-person meetings with businesses, and implementing targeted lead development databases. WEDC indicates that the current marketing budget of approximately \$2 million limits their marketing activities to more traditional marketing activities like trade shows, direct mail, online and print advertising, and minimal investment in high-tech, high-touch activities, such as website and brand development.

12. WEDC's strategic plan includes establishing a world-class, integrated marketing capability to promote Wisconsin as a business-friendly state, marketing Wisconsin services and advantages to existing and out-of-state firms, and enabling easy customer access to the accelerate Wisconsin network of business support services. The strategy requires that WEDC market to, and communicate with, various target audiences, including entrepreneurs, business executives, site selection professionals, economic development practitioners, private investors, partner organizations, regional and local economic and community development agencies and organizations, educational institutions, and women and minority economic development entities.

13. WEDC develops each fiscal year budget through the Corporation's operations planning process, which is currently ongoing for the fiscal year 2013-14 budget. The process includes evaluation of the past year's programs and experiences, consulting with partners and stakeholders, and seeking input from customers to develop an operating plan that is approved by the WEDC Board. The Corporation can reallocate funds dedicated to operations or financial aids, if the reallocation is for uses that are in the Board-sanctioned Strategic and Operating Plans. The Corporation's marketing plan is being developed as part of the operations planning process for fiscal year 2013-14. The specific components of the plan are dependent upon the amount of additional funding for WEDC marketing that would be included in the 2013-15 budget act. Marketing

activities and the potential expenditures (in brackets) that are being considered for funding are: (a) extending the "In Wisconsin" media campaign from Minneapolis and Chicago to a nationwide campaign specifically targeting business executives and online search engines [\$5 million]; (b) direct marketing to site selectors [\$1 million]; (c) cooperative marketing strategies by developing and sharing marketing materials with members of the statewide economic development network [\$1 million]; and (d) targeting the "In Wisconsin Biennial Industry Strength Promotion" campaign to industries where Wisconsin has a competitive advantage including water technology, energy production and controls, food processing and production, medical equipment manufacturing, and bioscience [\$4 million].

14. WEDC recommends benchmarking Wisconsin's economic development marketing budget against the Wisconsin Department of Tourism's 2012-13 tourism promotion budget of \$12,325,900, which corporation staff believe has influenced perceptions of the state as more of a location for vacations than for work. These perceptions are believed to have been significantly influenced by the historic investments in tourism marketing, and the lack of investments in economic development marketing. A 2012 study (*The Economic Impact Of Tourism In Wisconsin, Tourism Economics*. Oxford Economics Company, April, 2012) found that visitor spending of \$10 billion generated \$16 billion in total business sales and sustained 181,000 jobs in Wisconsin. In addition, WEDC notes that, a number of states, such as Florida, Michigan, and Georgia, that rank in the top ten business climate rankings in such publications as the Forbes Best States for Business & Careers, CNBC's America's Top States for Business, and Chief Executive's CEO Survey of Best & Worst States for Business, have state economic development promotion budgets of approximately \$10 million or more. WEDC believes that an annual economic development promotion budget of \$12 million or more would enable the Corporation to deliver a full spectrum of effective marketing activities, particularly high-tech, high-touch programs.

15. Although public information about these state's marketing expenditures is limited, WEDC found that the economic development marketing budget for fiscal year 2012-13 for selected states that are included in the top ten rankings ranged between \$1.3 million and \$16.6 million. Specific marketing budgets for selected states were: (a) North Dakota -- \$1.3 million; (b) South Carolina -- \$1.5 million; (c) Iowa -- \$2.0 million; (d) Missouri -- \$3.4 million; (e) Indiana -- \$4 million; (f) North Carolina -- \$4.3 million; (g) Ohio -- \$5 million; (h) Utah -- \$6.5 million; (i) Georgia -- \$9.4 million; (j) Michigan -- \$9.4 million; and (k) Florida -- \$16.6 million.

16. Under the bill, WEDC could use the additional GPR funding to increase its economic development marketing budget to \$5.75 million in 2013-14, and \$9.15 million in 2014-15. Of the selected states, only Florida has a marketing budget that is significantly higher than \$9 million. The average budget for the selected states is approximately \$5.8 million. In their research, Umbalde and Simundza found that, consistent for public firms across all industries, 10% of the total budget was devoted to marketing. If this standard was applied to total, annual state funding of \$55,550,700 (\$31,361,500 GPR + \$24,189,200 SEG) provided to WEDC in the bill (exclusive of the increase for economic development marketing and grant programs), it would generate a marketing budget of about \$5.6 million. As an alternative, the Committee may wish to provide \$3,750,000 GPR annually to WEDC for economic development marketing (Alternative 2). WEDC could use this additional funding to establish an annual marketing budget of \$5.75 million.

17. WEDC has considerable flexibility in how it uses the annual state funding it is appropriated. The GPR appropriation is a continuing appropriation, and unused funds in one year can be carried over and used in succeeding years. The statutory appropriation language for the GPR appropriation requires that the funding be used for operations of WEDC, and for funding economic development programs. The economic development fund SEG appropriation is also continuing, and the statutory appropriation language requires that the funding be used for economic development programs administered by WEDC. As a result, WEDC can reallocate funds, within years or between years, for different purposes depending upon the Corporation's priorities. WEDC is projected to have a significant unrestricted fund balance at the end of 2012-13. The Corporation indicates that \$25,698,500 is required for economic development projects that are in the project pipeline. However, some of the funds are being held for projects that are likely, which may or may not be funded. In addition, the projected unassigned balance is approximately \$7.1 million. There is also \$9.2 million assigned for potential increases in administrative expenses, changes in operations, or delays in funding that may or may not occur. It would be possible for WEDC to reallocate funds from existing programs, or from the unassigned, unrestricted fund balance to fund increased economic development marketing expenses in the 2013-15 biennium (Alternative 4).

18. WEDC receives annual state funding of approximately \$55.6 million. Table 1 shows that for 2012-13, WEDC general and administrative, marketing and advertising, payroll, and operating expenditures are projected to be approximately \$18.2 million, including \$8.6 million budgeted for payroll costs, and another \$6.2 million budgeted for operating expenses, including contracted services with partner organizations. Most of this funding is used for ongoing operational expenses and would be difficult to reallocate for other purposes in future years. The remaining state funds (\$37.2 million in 2012-13) are used for direct financial assistance of economic development projects. Funds used for the Corporation's economic development projects could be reallocated during the biennium, but that would reduce the number of projects that could receive grants, loans or other investments. Currently, about \$32.8 million of the projected 2012-13 fund balance does not represent receivables, and is unrestricted and unassigned. However, WEDC believes that it must reserve another \$25.7 million for economic development projects, or risk not being able to provide assistance to projects that are likely to create jobs in the state. These are projects in the project pipeline which included projects which have received a commitment, projects in underwriting, or projects likely to be contracted. In addition, there may be other unanticipated projects or activities that would require using all or part of the remaining unassigned balance of \$7.1 million. WEDC believes that the additional GPR funding for economic development marketing activities is necessary, in order for the Corporation to maintain its current funding priorities. The additional GPR funds would provide the corporation with a permanent increase in state funding for marketing activities.

19. The increased GPR funding for marketing is not directly related to expenditures for specific marketing activities. Rather it is based on benchmarking the marketing budget to the state Department of Tourism, tourism promotion marketing budget, and on selected state's economic development promotion budgets. WEDC has identified some potential marketing activities, but indicates that the specific activities depend on the amount of additional GPR provided. As an alternative, the Committee may wish to place the GPR funding for economic development marketing in the Committee's supplemental GPR appropriation (Alternative 3). The funding would

be released after the Committee approved an expenditure plan submitted by WEDC that identified specific expenditure amounts for specific economic development marketing activities. However, the approval process could be viewed as introducing some uncertainty into the Corporation's operations planning process while WEDC develops a comprehensive marketing plan.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$3,750,000 GPR in 2013-14 and \$7,150,000 GPR in 2014-15 to WEDC for increased economic development marketing activities.

2. Modify the Governor's recommendation to provide \$3,750,000 in both years of the 2013-15 biennium to WEDC for increased economic development marketing activities.

ALT 2	Change to Bill Funding
GPR	- \$3,400,000

3. Adopt alternative 1 or alternative 2, but place the additional GPR funding in the Joint Committee on Finance's GPR supplemental appropriation. Require WEDC to submit a plan, for Committee approval, specifying the marketing expenses that would be financed with the GPR funding.

4. Delete provision. WEDC may reallocate existing funds for increased marketing activities.

ALT 4	Change to Bill Funding
GPR	- \$10,900,000

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