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Joint Committee on Finance

Paper #665

Appropriation Structure and Overall Funding Level (Wisconsin Economic Development Corporation)

[LFB 2017-19 Budget Summary: Page 476, #1]

CURRENT LAW

The state appropriates to the Wisconsin Economic Development Corporation (WEDC) base funding of \$35,250,700 (all funds) from the following appropriations.

Economic development fund; operations and programs (SEG). WEDC is provided a sum certain, continuing SEG appropriation from the economic development fund equal to the amounts identified in the appropriation schedule (\$21,776,000 annually), which funds its operations and economic development programs. The revenue source for the economic development fund is the economic development surcharge imposed on C-corporations and tax-option corporations (S-corporations).

Operations and programs (GPR). WEDC is provided a continuing GPR appropriation with base funding of \$12,474,000. This appropriation is also used for WEDC operations and economic development programs.

Brownfield site assessment grants (SEG). WEDC is provided a biennial SEG appropriation from the environmental fund of \$1,000,000 annually for brownfield site assessment grants.

GOVERNOR

Provide total appropriated state funding of \$35,250,700 in 2017-18 and \$41,550,700 in 2018-19. Total state funding would be the same as the base amount in 2017-18 and \$6,300,000 higher in 2018-19. However, the Governor recommends making the following changes to WEDC's appropriation structure.

Economic development fund; operations and programs (SEG). Convert this appropriation from a sum certain appropriation to an all moneys received appropriation equal to deposits of economic development surcharge revenues, interest, and penalties collected in the economic development fund after (as under current law) deducting amounts appropriated to the Department of Revenue (DOR) for administration of the surcharge. WEDC could use all monies received from the economic development fund and would not be limited to the amounts provided in the appropriation schedule. The administration estimates that this appropriation would receive \$32,731,200 in 2017-18 and \$24,158,200 in 2018-19, including an estimated opening balance in the economic development fund on July 1, 2017 of \$9,949,900. These amounts are higher than the base funding level by \$10,955,200 in 2017-18 and \$2,382,200 in 2018-19.

Operations and programs (GPR). Convert this appropriation from a sum certain appropriation to a sum sufficient appropriation equal to the amount obtained by subtracting from \$35,250,700 in 2017-18 and \$41,550,700 in 2018-19 the amounts expended from WEDC's two SEG appropriations. However, this appropriation would also be limited to no more than \$12,747,000 in 2017-18 and \$18,774,000 in 2018-19 and annually thereafter. In addition, no monies could be expended from the GPR appropriation unless the balance in the SEG appropriation for operations and programs is zero. The administration estimates that the appropriation would expend \$1,519,500 in 2017-18 and \$16,392,500 in 2018-19. Compared to the base funding level, these amounts are \$10,955,200 lower in 2017-18 and \$3,917,800 higher in 2018-19.

Brownfield site assessment grants (SEG). WEDC's other SEG appropriation for brownfield site assessment grants would be maintained at \$1,000,000 annually.

DISCUSSION POINTS

1. WEDC was created as an authority under 2011 Wisconsin Act 7 and is a public-private entity created under state law as the state's lead agency in promoting economic development. WEDC offers a number of tax credits, loans, grants, and technical assistance programs to eligible Wisconsin companies. In 2015-16, WEDC entered into contracts to award tax credits of \$138.3 million, loans of \$16.5 million, and grants of \$21.4 million. In addition, WEDC allocated \$17.5 million of federally tax exempt industrial revenue bonds. The state pays for refundable tax credit awards under WEDC contracts through separate appropriations, and claims of nonrefundable WEDC-certified credits are recorded as revenue reductions under the state accounting system. WEDC's appropriations do not fund tax credits.

WEDC Appropriation Structure

2. State monies appropriated to WEDC have been provided through a relatively stable appropriation structure since its creation under Act 7. Table 1 shows the amount of state funding that has been appropriated to WEDC since 2011-12, as well as the Governor's proposed funding levels for 2017-18 and 2018-19. It should be noted that in 2011-12, \$6,500,000 PR-S was appropriated to WEDC as a one-time transfer of economic development program funding from the former Department of Commerce (this amount is not shown separately, but is included in the total).

TABLE 1**WEDC Appropriations: 2011-12 through 2018-19 under the Governor's Proposal**

<u>State Fiscal Year</u>	<u>Operations and Programs (GPR)</u>	<u>Economic Development Fund; Operations and Programs (SEG)</u>	<u>Brownfield Site Assessment Grants (SEG)</u>	<u>Total WEDC Appropriations</u>
2011-12	\$34,134,700	\$23,189,200	\$1,000,000	\$64,823,900*
2012-13	32,790,600	23,189,200	1,000,000	56,979,800
2013-14	6,124,400	33,776,300	1,000,000	40,900,700
2014-15	36,524,400	21,776,000	1,000,000	59,300,400
2015-16	6,974,700	21,776,000	1,000,000	29,750,700
2016-17	12,474,700	21,776,000	1,000,000	35,250,700
2017-18**	1,519,500	32,731,200	1,000,000	35,250,700
2018-19**	16,392,500	24,158,200	1,000,000	41,550,700

* Includes \$6.5 million transferred from the Department of Commerce.

** Appropriation levels recommended under the Governor's budget.

3. As shown in Table 1, the amount of SEG funding appropriated to WEDC has been relatively stable, with the exception of 2013-14. In that year, GPR funding was reduced and offset partly by SEG funds that had accumulated in the economic development fund. Similarly, under the Governor's proposal, an accumulated balance of SEG revenues in the economic development fund would be drawn down, and increased SEG funding (estimated at \$32.7 million) would offset lower GPR funding in 2017-18. However, the Governor recommends converting the SEG economic development fund operations and program appropriation to an all moneys received appropriation, rather than a sum certain continuing appropriation, and monies from this appropriation may be higher or lower than the estimates shown above.

4. Table 1 also shows that WEDC's GPR and overall appropriated funding level has been reduced in each biennium since WEDC was created as an authority: (a) \$66.9 million GPR and \$121.8 million all funds in 2011-13; (b) \$42.6 million GPR and \$100.2 million all funds in 2013-15; and (c) \$19.4 million GPR and \$65.0 million all funds in 2015-17. As proposed by the Governor, it is estimated that GPR funding over the 2017-19 biennium would decline to \$17.9 million, but total state funding appropriated to WEDC would increase to \$76.8 million in the biennium (\$11.8 million increase over 2015-17).

5. According to the administration, the proposal would reduce WEDC's reliance on GPR as economic development surcharge revenues increase in future years. Under the Governor's recommendation, GPR funding for WEDC's operations and programs appropriation would be converted to a sum sufficient appropriation of up to \$12,747,000 in 2017-18 and \$18,774,000 in 2018-19 and annually thereafter. It is possible that, if economic development surcharge revenues were to unexpectedly decline under the Governor's proposed appropriation structure, GPR expenditures over the 2017-19 biennium could be up to \$31.5 million in the 2017-19 biennium and

\$37.5 million per future biennium (62% and 93% higher, respectively, than the amount of GPR that was provided to WEDC in the 2015-17 biennium).

6. The Committee could choose to, instead, adopt the Governor's recommended funding level for WEDC's GPR appropriation without the potential for increased costs to the general fund in one of two ways. First, the Committee could adopt the Governor's recommended changes to the appropriation, but lower the maximum sum sufficient expenditures to match the estimated expenditure levels recommended by the Governor [Alternative 2]. Under this alternative, if economic development surcharge revenues were higher than expected over the biennium, GPR expenditures would be lower than estimated under the bill. However, WEDC would absorb the risk if surcharge revenues were lower than estimated. Second, the Committee could adopt the Governor's recommended funding level and, instead, maintain the current GPR appropriation structure [Alternative 3]. Under this alternative, if surcharge revenues were higher than estimated under the budget, WEDC would have additional funding for its economic development programs. However, similar to Alternative 2, WEDC's Board would absorb the risk of an overall lower funding level if surcharge revenues were lower than estimated.

7. The economic development fund is WEDC's primary source of funding. Revenues generated by the economic development surcharge are deposited into the fund. The surcharge is imposed on S-corporations, C-corporations, and insurers that are required to file a corporate income/franchise tax return, provided the entity has more than \$4 million in gross receipts from all activities. Pursuant to 2013 Wisconsin Act 20, partnerships and individuals became exempt from the surcharge, beginning in tax year 2013. The surcharge equals 3% of gross tax liability for C-corporations and insurers, or 0.2% of net business income for S-corporations. In general, the minimum economic development surcharge is \$25, and the maximum is \$9,800.

8. Table 2 shows information regarding the condition of the economic development fund from July 1, 2011, through June 30, 2016, as reported in annual fiscal reports produced by the Department of Administration. Also included in Table 2 are the administration's projections for the condition of the fund in 2016-17, 2017-18, and 2018-19.

TABLE 2

Economic Development Fund Activity (\$ in Millions)

<u>Fiscal Year</u>	<u>Opening Balance</u>	<u>Surcharge Revenues</u>	<u>Other Revenues*</u>	<u>WEDC Appropriations</u>	<u>Administrative Surcharge</u>	<u>Ending Balance</u>
2011-12	\$0.00	\$27.53	\$4.89	\$23.19	\$0.17	\$9.05
2012-13	9.05	30.37	0.01	23.20	0.20	16.04
2013-14	16.04	19.28	0.01	33.78	0.14	1.42
2014-15	1.42	27.49	0.00	21.78	0.20	6.93
2015-16	6.93	23.76	0.01	21.78	0.20	8.72
2016-17**	8.73	23.26	0.01	21.78	0.26	9.96
2017-18**	9.96	23.04	0.02	32.76	0.26	0.00
2018-19**	0.00	24.42	0.01	24.17	0.26	0.00

* Includes annual interest income to the fund and a one-time transfer of \$4.89 million from the former Department of Commerce.

** Estimates of economic development fund activity provided by the administration.

9. The reduction in surcharge revenues from 2012-13 to 2013-14 primarily reflects the exemption from the surcharge for partnerships and individuals enacted under Act 20. As noted previously, SEG revenue appropriated to WEDC from the economic development fund was increased on a one-time basis to lower the accumulated balance in the fund in 2013-14. As shown in Table 2, the fund balance had grown to \$8.7 million as of June 30, 2016, and is projected to grow to almost \$10 million by June 30, 2017.

10. The Committee could choose to adopt the Governor's recommended funding levels for WEDC while maintaining its current sum certain appropriation structure [Alternative 4]. Fluctuations in the amount of economic development surcharge revenue could be mitigated by maintaining the current SEG appropriation structure. Under this alternative, it is possible that a balance could accumulate in future years if revenues were in excess of the amounts appropriated. However, this alternative may provide more stability for budgeting purposes by WEDC's Board, such that an accumulated balance in the economic development fund could be used to offset unexpected revenue shortfalls in future years. Under this alternative, WEDC's overall funding level would remain at the same level recommended by the Governor, but the current appropriation structure would be maintained.

WEDC Funding Level

11. As noted previously, total state appropriated funding for WEDC would be \$6,300,000 higher than the base funding level in 2018-19 under the Governor's recommendation. Over a biennial basis, WEDC would be provided additional funding of \$11,800,000 in the 2017-19 biennium compared to the 2015-17 biennium.

12. Pursuant to 2015 Wisconsin Act 55, WEDC's GPR funding was reduced by

\$12,000,000 in 2015-16. WEDC was directed to reduce its unassigned balance from \$15.3 million to \$3.3 million (accumulated primarily from unencumbered monies appropriated by the state in prior years). The additional \$11,800,000 all funds increase in the appropriation level recommended by the Governor for the 2017-19 biennium would reflect a maintenance of current state funding levels for WEDC's economic development programs, as compared to 2015-17 biennial funding levels, after considering WEDC's utilization of its accumulated balance for economic development programs.

13. According to WEDC, the funding level proposed by the Governor would allow it to maintain its current level of economic development awards. Table 3 shows WEDC's budgeted revenues and expenditures for 2016-17, excluding revenues and expenditures associated with its loan programs (WEDC's loan programs are discussed under LFB Paper #666).

TABLE 3

Budgeted Revenues and Expenditures, 2016-17

Revenues	
State SEG	\$22,776,000
State GPR	12,474,700
Other Intergovernmental	2,357,600
Interest on Loans	1,000,000
Interest on Investments	350,000
Charges for Services	205,000
Other	<u>101,000</u>
Total Revenues	\$39,264,300
Expenditures	
Economic Development Grants	\$22,392,600
Loan loss reserves	4,075,000
Contracts with Partners	3,615,000
Marketing/Promotions	3,478,700
Pass-through Federal Grant	435,000
Administration	
Payroll and Benefits	10,671,200
Operations and General	5,173,400
Debt Service	117,000
Capital	<u>115,000</u>
Total Expenditures	\$50,072,900

14. As shown in Table 3, appropriated state revenues comprise nearly 90% of WEDC's total budgeted revenues for 2016-17. Under its budgeted expenditures, \$22.4 million (44.7%) is for economic development grants, \$16.1 million (32.1%) is for all of WEDC's administrative costs, \$4.1 million (8.1%) is set aside for loans that are forgiven or written-off, \$3.6 million (7.2%) is for contracts providing economic development partners funding to provide assistance to businesses, \$3.5 million (6.9%) is for WEDC's marketing and promotional efforts, and the remaining \$0.4

million (1.0%) is for nondiscretionary federal grant awards. Table 3 shows that WEDC has budgeted expenditures of \$10.8 million in excess of projected revenues for 2016-17. As noted previously, the Legislature directed WEDC under Act 55 to draw down its unassigned balance.

15. WEDC's revenues exceeded expenditures by \$2.7 million in 2013-14 and \$25.5 million in 2014-15 (\$28.2 million two-year total). Since then, expenditures have exceeded revenues by \$15.6 million in 2015-16, and are expected to exceed revenues by \$10.8 million in 2016-17 (\$26.4 million two-year total). Based on the Governor's recommended state appropriation levels for 2017-19, WEDC expects its fund balance to decline further by approximately \$7.2 million in 2017-18, but that revenues will equal expenditures by 2018-19. As noted, under this scenario, WEDC projects that its economic development programs could continue to be funded at 2016-17 levels in 2017-18 and 2018-19, subject to decisions made by WEDC's Board. WEDC states that the additional \$6.3 million of state appropriated funding for 2018-19, as well as the continued current law phase-down of its loan program (repayments of loan principal are projected to exceed new technology development loan originations) could accomplish a balanced budget by 2018-19.

16. The Committee could choose to maintain the base level of state appropriated funding through the 2017-19 biennium [Alternative 5]. Under this alternative, WEDC's appropriation structure would not be changed and the Committee would adopt the Governor's recommended funding level for: (a) each appropriation in 2017-18 to draw down the accumulated balance in the economic development fund; and (b) WEDC's SEG appropriations in 2018-19. However, the Committee would reduce WEDC's sum certain operations and programs GPR appropriation under this alternative by \$6,300,000 in 2018-19, compared to the Governor's recommendation, to use these monies for other legislative priorities. This alternative would require WEDC's Board to reduce its current expenditure levels, at its discretion, for its economic development grants, contracts with economic development partners, marketing and promotional activities, administrative costs, and/or loan originations for its technology development loan program.

ALTERNATIVES

1. Approve the Governor's request to: (a) convert WEDC's operations and programs GPR appropriation from a sum certain appropriation to a sum sufficient appropriation equal to the amount obtained by subtracting from \$35,250,700 GPR in 2017-18 and \$41,550,700 GPR in 2018-19 the amounts expended from WEDC's two SEG appropriations; (b) limit WEDC's sum sufficient GPR appropriation to no more than \$12,747,000 in 2017-18 and \$18,774,000 in 2018-19 and annually thereafter; (c) specify that no monies could be expended from the GPR appropriation unless the balance in WEDC's economic development fund; operations and programs SEG appropriation is zero; and (d) convert WEDC's economic development fund; operations and programs SEG appropriation from a sum certain continuing appropriation to an all moneys received appropriation equal to deposits of economic development surcharge revenues, interest, and penalties collected in the economic development fund after deducting amounts appropriated to DOR for administration of the surcharge. Estimate funding for WEDC's operations and programs GPR appropriation at \$1,519,500 in 2017-18 and \$16,392,500 in 2018-19 and estimate funding for WEDC's economic development fund; operations and programs SEG appropriation at \$32,731,200 in 2017-18 and \$24,158,200 in 2018-19.

ALT 1	Change to	
	Base	Bill
GPR	- \$7,037,400	\$0
SEG	<u>13,337,400</u>	<u>0</u>
Total	\$6,300,000	\$0

2. Approve the Governor's recommended changes described in Alternative 1 under "a," "c," and "d." However, modify "b" so that WEDC's sum sufficient GPR appropriation would be limited to no more than \$1,519,500 in 2017-18 and \$16,392,500 in 2018-19 and annually thereafter.

ALT 2	Change to	
	Base	Bill
GPR	- \$7,037,400	\$0
SEG	<u>13,337,400</u>	<u>0</u>
Total	\$6,300,000	\$0

3. Adopt the Governor's recommended change to WEDC's economic development fund; operations and programs SEG appropriation described in "d" under Alternative 1. Eliminate the provisions recommended by the Governor under "a" through "c." Provide in WEDC's sum certain operations and programs GPR appropriation, as it exists under current law, \$1,519,500 in 2017-18 and \$16,392,500 in 2018-19.

ALT 3	Change to	
	Base	Bill
GPR	- \$7,037,400	\$0
SEG	<u>13,337,400</u>	<u>0</u>
Total	\$6,300,000	\$0

4. Adopt the Governor's recommended funding levels, but eliminate the provisions modifying WEDC's appropriations that were recommended under "a" through "d" in Alternative 1. Provide \$1,519,500 in 2017-18 and \$16,392,500 in 2018-19 in WEDC's sum certain operations and programs GPR appropriation. Provide \$32,731,200 in 2017-18 and \$24,158,200 in 2018-19 in WEDC's economic development fund; operations and programs continuing SEG appropriation.

ALT 4	Change to	
	Base	Bill
GPR	- \$7,037,400	\$0
SEG	<u>13,337,400</u>	<u>0</u>
Total	\$6,300,000	\$0

5. Provide \$1,519,500 in 2017-18 and \$10,092,500 in 2018-19 in WEDC's sum certain operations and programs GPR appropriation. Provide \$32,731,200 in 2017-18 and \$24,158,200 in

2018-19 in WEDC's economic development fund; operations and programs continuing SEG appropriation. Compared to the bill, reduce the Governor's recommended funding level for WEDC's operations and programs GPR appropriation by \$6,300,000 in 2018-19, and eliminate the provisions modifying WEDC's appropriations that were recommended under "a" through "d" in Alternative 1.

ALT 5	Change to	
	Base	Bill
GPR	- \$13,337,400	- \$6,300,000
SEG	<u>13,337,400</u>	<u>0</u>
Total	\$0	- \$6,300,000

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