# Wisconsin Economic Development Corporation

(LFB Budget Summary Document: Page 685)

**LFB Summary Items for Which an Issue Paper Has Been Prepared**

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| 2 | Reestimate WEDC SEG Appropriation (Paper #840) |
| 5 | Talent Attraction and Retention Initiatives (Paper #841) |
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**LFB Summary Items Removed From Budget Consideration**

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| 1 | Venture Capital Fund of Funds Program |
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**LFB Summary Item Addressed in Sum Sufficient Estimates (Paper #106)**

| Item # | Title |
|---|---|
| 2 | Reestimate WEDC GPR and SEG Appropriations |

**LFB Summary Item to be Addressed in a Subsequent Paper**

| Item # | Title |
|---|---|
| 10 | Tax Credit Modifications (General Fund Taxes -- Refundable Tax Credits and Other Payments) |

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May 25, 2023 Joint Committee on Finance Paper #840

# Reestimate WEDC SEG Appropriation
# (Wisconsin Economic Development Corporation)

[LFB 2023-25 Budget Summary: Page 687, #2]

## CURRENT LAW

The Wisconsin Economic Development Corporation (WEDC) is a public-private entity created under state law as the state's lead agency in promoting economic development. The state appropriates to WEDC a combination of general purpose and segregated revenues for its economic development programs.

WEDC's primary source of funding is the economic development surcharge, which is imposed on tax-option (S) corporations, C corporations, and insurers that are required to file a corporate income/franchise tax return if they have more than $4,000,000 in gross receipts from all activities. Partnerships and individuals are exempt from the surcharge. The surcharge equals 3% of gross tax liability for C corporations and insurers, or 0.2% of net business income for S corporations. The minimum economic development surcharge is $25, and the maximum is $9,800. All collections are deposited in the economic development fund, which are then made available to WEDC (less certain costs for administration by the Department of Revenue) in an all monies received SEG appropriation.

WEDC is also provided a biennial SEG appropriation with base funding of $1,000,000 annually for brownfield site assessment grants from the environmental fund.

In addition to SEG revenues from the economic development and environmental funds, WEDC receives GPR funding for its operations and programs under a sum sufficient appropriation. GPR may be expended from WEDC's sum sufficient appropriation only if there are no unencumbered moneys available in the economic development fund. Thus, the first draws for programs and operations should come from the economic development fund until the available balance of the SEG appropriation is depleted. Specifically, the funding for operations and programs is provided in an amount of GPR equal to $41,550,700 minus the amounts expended from the economic development fund and the environmental fund. However, GPR programs and operations spending in any year is limited to no more than $16,512,500.

This appropriation structure serves two main purposes. First, requiring SEG expenditures before GPR expenditures prevents the economic development fund from accumulating a large, unused balance. Second, it functions as a floor of funding for planning WEDC operations and programs to protect against the risk of lower than anticipated SEG revenues. In the event SEG revenues are less than $41,550,700, GPR will be appropriated to meet that floor for WEDC funding, up to a maximum of $16,512,500. If SEG revenues exceed that floor, no GPR is provided.

## MODIFICATION

Reestimate WEDC's all monies received operations and programs SEG appropriation at $46,000,000 in 2023-24 and $45,000,000 in 2024-25 from the economic development fund. The following table shows WEDC's estimated funding level, relative to the base.

**Estimated State Appropriations for WEDC Operations and Programs**

| | | SEG | | |
|---|---|---|---|---|
| | GPR | Economic Dev. Surcharge | Environmental Fund | Total |
| Base | $4,550,700 | $36,000,000 | $1,000,000 | $41,550,700 |
| 2023-24 | $0 | $46,000,000 | $1,000,000 | $47,000,000 |
| Difference w/ Base | -$4,550,700 | $10,000,000 | $0 | $5,449,300 |
| 2024-25 | $0 | $45,000,000 | $1,000,000 | $46,000,000 |
| Difference w/ Base | -$4,550,700 | $9,000,000 | $0 | $4,449,300 |

**Explanation:** The estimates are higher than those used in preparing AB 43/SB 70 and are based on more recent collections data from the Department of Revenue regarding the economic development surcharge, which are now estimated at $46.0 million for 2022-23 ($7.5 million higher than estimated by the Administration). WEDC's sum sufficient GPR operations and programs appropriation is not included as part of this item, which the Committee already reduced to $0 GPR in 2023-24 and 2024-25 as part of its deliberations on sum sufficient reestimates adopted under Motion 12 (LFB Paper #106).

| | Change to Base |
|---|---|
| SEG | $19,000,000 |

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May 25, 2023 Joint Committee on Finance Paper #841

## Talent Attraction and Retention Initiatives (Wisconsin Economic Development Corporation)

[LFB 2023-25 Budget Summary: Page 688, #5]

### CURRENT LAW

Provisions of 2017 Act 318 created a continuing appropriation and provided $6.8 million GPR for the Wisconsin Economic Development Corporation (WEDC) to develop and implement initiatives for the attraction of talent to, and retention of talent in, Wisconsin. WEDC must use monies deposited in this appropriation to collaborate with state agencies to develop and implement initiatives for the attraction of talent in this state, including by leveraging the existing programs of state agencies for the purposes within the scopes of those existing programs. Table 1 shows the Act 318 expenditures reported by WEDC for 2017-18 through 2019-20.

**TABLE 1**

**2017 Act 318 Talent Attraction and Retention Initiatives, Expenditures**

| Talent Attraction and Retention Items | 2017-18 | 2018-19 | 2019-20 | Total |
|---|---|---|---|---|
| Market Strategy Development | $171,295 | $115,163 | -- | $286,458 |
| Marketing Production | 543,350 | 1,712,220 | $119,403 | 2,374,973 |
| Media Campaign | 29,650 | 3,000,262 | 362,418 | 3,392,330 |
| On-Site Recruitment Station | -- | 88,602 | 207,296 | 295,898 |
| Trade Shows and Veterans Events | 11,957 | 423,080 | 15,304 | 450,341 |
| Total | $756,252 | $5,339,327 | $704,421 | $6,800,000 |

The Act 318 expenditures promoted and marketed Wisconsin through online advertisements, media placements, newsletters, social media, and organized events. WEDC also collaborated with the Department of Workforce Development (DWD) and the Department of Veterans Affairs to help connect veterans to job opportunities in Wisconsin. The funding in the continuing appropriation was completely expended as of December, 2019.

Provisions of 2021 Act 58 required WEDC to assign at least $3.0 million for talent attraction initiatives from its existing appropriations for operations and programs during the 2021-23 biennium. However, no additional funding was provided to the continuing appropriation for talent attraction and retention initiatives. Table 2 shows the talent attraction and retention initiatives WEDC has budgeted expenditures for in 2022-23, which total $5.7 million ($2.7 million more than required under Act 58).

**TABLE 2**

**2021 Act 58 Talent Attraction and Retention Initiatives**

| | 2022-23 |
|---|---:|
| Nationwide Advertising | $1,518,840 |
| Public Relations | 148,500 |
| Partner Organization Matching Grants | 702,583 |
| Refugee Settlement Agencies | 485,000 |
| Talent Marketing Toolkit | 89,836 |
| Talent-Focused Social Media | 117,625 |
| Marketing Planning | 23,550 |
| Vibrant Spaces Grants | 1,500,000 |
| Fabrication Laboratories | 1,070,000 |
| Total | $5,655,934 |

As shown in Table 2, the funds supported various talent attraction and retention initiatives, such as: (a) creating a targeted media campaign for national and Midwestern talent; (b) national (out-of-state) public relations activities to secure earned/free media coverage that enhances the reputation of Wisconsin as an ideal place to live, raise a family, and grow a career; (c) matching funds to help businesses and economic development organizations increase their own workforce marketing investments; (d) supporting refugee resettlement agencies to provide job training and placement support; (e) creating a talent marketing toolkit for partners to use in their marketing; (f) development of social media channels with content that appeals to current and future Wisconsin workforce participants; and (g) initial marketing planning to support campaign program development. WEDC reports that other grant programs and partnerships acted as talent attraction and retention initiatives, including that it expended $1.5 million for vibrant space grants to communities to invest in public projects that will enhance the community as an attractive place to live. WEDC also issued $1.0 million in fabrication laboratory grants to outfit public schools with equipment for instructional and educational purposes to train students on in-demand manufacturing skills. WEDC indicates that it is entering into a partnership with the Department of Military Affairs to work with Wisconsin businesses in Army and National Guard personnel recruiting and retention efforts for post-military employment.

**DISCUSSION POINTS**

1. According to the Projections Unit of DWD's Office of Economic Advisors, Wisconsin is projected to add 191,222 jobs for all occupations from 2020 to 2030, a 6.3% growth rate, reaching 3,231,419 total jobs. They project 360,835 annual job openings due to 134,154 job exits, 207,559 job transfers, and 19,122 new jobs created. However, they warn that these projected job levels could be constrained by limited worker availability, which is limited by slow workforce growth and an aging population.

2. Slow workforce growth, an aging population of workers at or near retirement age, and limited in-migration have constrained the supply of labor in Wisconsin. According to the U.S. Bureau of Labor Service (BLS) Job Openings and Labor Turnover Survey, there were 0.4 unemployed persons per job opening in Wisconsin in January, 2023, with an estimated 233,000 open, unfilled positions. Open jobs were 7.2% of all filled and unfilled positions (compared to 6.4% nationally).

3. According to estimates from the BLS local area unemployment statistics program, in February, 2023, the seasonally-adjusted unemployment rate in Wisconsin was a record low of 2.7% and the seasonally-adjusted labor participation rate of civilians age 16 and older was 64.5%. For comparison, according to the U.S. Census Bureau's Current Population Survey, the national unemployment rate was 3.6% and the labor force participation rate was 62.5%. The Wisconsin labor market has fewer idle working age adults than the U.S. overall.

4. Prime age workers (defined as between ages 25 and 54 by BLS) are particularly important to the economy, as they comprise the bulk of the labor force and are most likely to be employed out of any demographic group. According to the 2022 Current Population Survey, almost 83% of persons aged 30 to 49 nationwide were in the civilian labor force. For comparison, only 57% of persons 60 to 64 and 19% of persons 65 and older were in the labor force.

5. According to the U.S. Census Bureau's Current Population Survey, as of July, 2022, 17.9% of Wisconsin residents were over the age of 65. According to birth certificate data from the Wisconsin Department of Health Services, birth rates have slowed significantly compared to previous generations, with the rate of births per 1,000 of population in Wisconsin declining steadily: 25.4 in 1960; 17.5 in 1970; 15.9 in 1980; 14.8 in 1990; 12.9 in 2000; 12.0 in 2010; and 10.4 in 2020. As a result, without in-migration, the generation entering the labor force will be smaller than the generation of workers retiring out of it. According to the BLS Local Area Unemployment Statistics, the all-time high for Wisconsin's labor participation rate in the data set (dating back to 1976) was 74.5% in December, 1997, when the baby boomer generation was fully within prime working age. As baby boomers continue to retire, the labor force participation rate will likely continue to decline absent in-migration from younger workers.

6. Unfortunately, Wisconsin has struggled to attract and retain younger workers and residents. Forward Analytics, a division of the Wisconsin Counties Association (WCA), estimates that 105,000 households headed by an individual under the age of 26 migrated out of the state between

2012 and 2020. Accounting for households migrating to the state, there was a net decline of 17,000 such households. Further, during the period starting from 2010 to 2018, out of the 626,000 16-year-olds in the millennial generation in Wisconsin in 2010, 132,000 (21%) lived in another state at age 26. Accounting for millennials moving to Wisconsin, the state lost a net total of 43,000 residents from this age group. Most of these outbound residents moved to a metro area larger than Milwaukee.

7. With little migration and births, Wisconsin's population has not grown as quickly as populations in other states. According to the U.S. Census Bureau's 2020 Census, between 2010 and 2020, Wisconsin's overall population grew only by 3.6% whereas the U.S. population grew by 7.4%. More recently, according to federal tax return data for 2018, 2019 and 2020, Wisconsin had a net migration of 626 outbound individuals. The largest destination states for outbound migration were Florida (6,409), Arizona (3,815), and Texas (2,984). Inbound migration was largest from Illinois (14,075) and Minnesota (3,205).

8. The foregoing demographic trends are likely to continue to suppress the growth of the labor force in Wisconsin. According to the WCA, due to the state's aging demographics, if migration trends during 2020-2030 are similar to those during the previous decade, Wisconsin's population between ages 25 to 64 will decline by nearly 130,000.

9. In the near term, employers may contend with labor constraints by increasing wages to induce residents to enter the workforce or workers to migrate to the state. However, absent continued productivity growth to make up for relatively fewer workers over time, the Wisconsin economy may suffer from rising inflation, slower production, reduced competitiveness, and lower profits and tax revenues.

10. To address the state's workforce issues, provisions of AB 43/SB 70 would provide funding during the 2023-25 biennium of $5,000,000 GPR annually to WEDC's continuing appropriation for talent attraction and retention initiatives. In addition to continuing the programs undertaken during the 2021-23 biennium (possibly at a lower funding level), WEDC indicates that the funding under the bill would support additional programs, as determined by the WEDC Board, such as the following: (a) collaborating with the Department of Tourism to attract high-profile events to Wisconsin; (b) creating pilot initiatives with Wisconsin's colleges and universities aimed at retaining graduates; (c) targeted marketing aimed at attracting alumni and other potential residents with ties to Wisconsin; (d) creating concierge programs that help new hires who move to a community develop connections and ties to their area; and (e) providing incentives to businesses and communities to invest in housing, childcare, and other assets that help communities effectively attract and retain workers.

11. Because WEDC's continued efforts to retain and attract workers could ameliorate state workforce shortages, the Committee could decide to provide WEDC with $5.0 million in 2023-24 and 2024-25 (Alternative 1).

12. The Committee could instead choose to approve some amount of funding in 2023-24 to WEDC on a one-time basis, so that the funding in the continuing appropriation would not be made part of the base for the next biennial budget. (Alternative 2). The matter of additional funding could be revisited in the deliberations on the 2025-27 biennial budget. WEDC would be free to supplement

this funding from its existing operations and programs funding if it chooses to do so.

13. Instead of providing additional funding for talent attraction and retention initiatives, the Committee could, similar to Act 58, require WEDC to assign at least $3,000,000 of funding for talent attraction initiatives from its existing appropriations for operations and programs during the 2023-25 biennium (Alternative 3). Under this alternative, WEDC would be free to maintain any of the initiatives it is currently undertaking, but it would not receive additional funding to support the new projects identified above. This may result in WEDC diverting funding from other economic development initiatives that otherwise might be funded. However, note that funding for WEDC's operations and programs are estimated to be higher than the base by $5.4 million in 2023-24 and $4.4 million in 2024-25 [see LFB Paper #840].

14. Finally, the Committee could take no action on the proposal (Alternative 4). Given the continuing workforce issues discussed above, it is difficult to ascertain the effect, if any, that WEDC's previous efforts have had in retaining and attracting workers. The Committee could conclude that the broader solution to the state's workforce issues lies outside marketing and public relations campaigns. Further, it should be noted that WEDC budgeted significantly more than the $3.0 million required under Act 58 on such initiatives during the 2021-23 biennium. Thus, the Committee could find that it is unnecessary to impose requirements on WEDC's spending that the Board may choose to undertake anyway.

## ALTERNATIVES

1. Provide $5,000,000 annually to WEDC's continuing GPR appropriation for talent attraction and retention initiatives.

| ALT 1 | Change to Base |
|---|---|
| GPR | $10,000,000 |

2. Provide one-time funding to WEDC's continuing GPR appropriation for talent attraction and retention initiatives in 2023-24 in one of the following annual amounts: (a) $2,000,000; (b) $4,000,000; (c) $6,000,000; (d) $8,000,000; or (e) $10,000,000.

| ALT 2 | Change to Base |
|---|---|
| a. GPR | $2,000,000 |
| b. GPR | $4,000,000 |
| c. GPR | $6,000,000 |
| d. GPR | $8,000,000 |
| e. GPR | $10,000,000 |

3. Require WEDC to expend at least $3,000,000 from its existing state appropriations for operations and programs during the 2023-25 biennium for talent attraction and retention initiatives under s. 238.155.

4. Take no action.

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May 25, 2023 Joint Committee on Finance Paper #842

# Repeal Obsolete Appropriation and Statutory Provisions (Wisconsin Economic Development Corporation)

## CURRENT LAW

The Wisconsin Economic Development Corporation (WEDC) was created to replace the former Department of Commerce (Commerce) as the state's lead agency in promoting economic development under 2011 Acts 7 and 32. All moneys from any general fund appropriation used to fund economic development programs of Commerce, and the unencumbered balance in certain appropriations administered by Commerce, were transferred to WEDC under Acts 7 and 32. These funds were deposited into a continuing all moneys received PR appropriation created under WEDC for the purposes of funding programs it administered. The transfer was completed in 2011-12 upon enactment of Act 32. Base funding of $0 is provided to this appropriation.

The 2015-17 biennial budget bill (2015 Act 55) created a statutory provision requiring WEDC to make a grant of $250,000 to the River Falls Economic Development Corporation to construct the St. Croix Valley Business Incubator, provided that federal moneys were secured for the same purpose. WEDC made this grant award in 2015-16.

## DISCUSSION POINTS

1. Funding provided to continuing appropriations can remain available in the appropriation until utilized in future years. However, all funding transferred from Commerce has been expended and no funding remains in the PR appropriation. Because the functions performed by Commerce have long since transferred to WEDC, no additional funding is needed nor will be provided.

This obsolete PR appropriation remains in the statutory schedule of appropriations even though it is no longer operative and has no programmatic effect. Repealing the appropriation would have no impact on WEDC's operations under current law and would reduce the number of state appropriations provided to WEDC from six to five.

2. During deliberation of the 2015-17 biennial budget, the Joint Committee on Finance provided $250,000 GPR in 2015-16 to WEDC for the purpose of making a grant to the River Falls Economic Development Corporation. The award was required in statute, and GPR funding was provided for the award to WEDC on a one-time basis in 2015-16. This obsolete provision remains in statute even though it is no longer operative and has no programmatic effect. Repealing it would have no impact on WEDC's operations under current law.

## ALTERNATIVES

1. Repeal the continuing PR appropriation for transferred general fund moneys from the Department of Commerce. Repeal the statute created under 2015 Act 55 requiring WEDC to make a $250,000 grant to the River Falls Economic Development Corporation.

2. Take no action.

Prepared by: John D. Gentry

# WISCONSIN ECONOMIC DEVELOPMENT CORPORATION

## LFB Summary Item for Which No Issue Paper Has Been Prepared

| Item # | Title |
|---|---|
| 7 | Funding For Cooperative Development |