



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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May 22, 2007

Joint Committee on Finance

Paper #211

### **Wisconsin Development Fund -- Increased Funding (Commerce -- Economic Development)**

#### *Base Agency*

[LFB 2007-09 Budget Summary: Page 84, #2]

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#### **CURRENT LAW**

Under current law, the Wisconsin development fund (WDF) provides financial assistance through the following programs: (a) technology development grants and loans and technology commercialization loans; (b) customized labor training grants and loans; (c) major economic development grants and loans; (d) urban early planning grants; (e) entrepreneurial training grants; (f) Wisconsin trade project; (g) employee ownership assistance grants; (h) revolving loan fund capitalization grants; and (i) the rapid response fund. The technology commercialization grant and loan program component programs were incorporated into the WDF by 2005 Wisconsin Act 25. The component programs include: (a) technology assistance grants; (b) matching grants and loans; (c) bridge grants and loans; (d) venture capital grants and loans; and (e) entrepreneurial and technology transfer center grants. Early planning grants, entrepreneurial training grants, and technical assistance grants are administered by the Wisconsin Entrepreneurs' Network (WEN), with funding and oversight from Commerce. Commerce also makes business employees skills training (BEST) grants through the WDF.

The WDF is funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. The program revenue repayments appropriation was established to operate similar to a revolving loan fund. Amounts received from WDF loan repayments are credited to the repayments appropriation and these monies can be used to fund WDF grants and loans. Base level funding for WDF grants and loans is \$7,098,400 GPR and \$4,050,000 PR.

## GOVERNOR

Provide \$1,250,000 in 2007-08 and \$2,000,000 in 2008-09 to increase GPR funding for the Wisconsin Development Fund. Total funding from the general fund and repayments for the WDF would be \$25.5 million for the biennium (\$8,348,400 GPR in 2007-08 and \$9,098,400 GPR in 2008-09, and \$4,050,000 PR annually).

## DISCUSSION POINTS

1. The bill would authorize Commerce to make manufacturing technology grants from the WDF of up to \$1.5 million in a biennium to technology-based non-profit organizations to provide funding to assist manufacturers in Wisconsin in adopting manufacturing process improvements that result in the efficient production of high quality goods. To receive a grant, the technology-based non-profit organization would be required to submit a plan detailing its proposed expenditures and performance measures related to the project to the Department, and the Secretary of Commerce would have to approve the plan. "Technology-based non-profit organization" would be defined as a nonprofit corporation or organization under state or federal law that is exempt from federal income tax and that has as a mission the transfer of technology to businesses in Wisconsin.

2. According to a study conducted by the Wisconsin Manufacturing Extension Partnership (*The Wisconsin Manufacturing Study: An Analysis of Manufacturing Statewide and in Wisconsin's Seven Economic Regions, Executive Summary, September 2005*) the average output per manufacturing employee in Wisconsin is 86% of the national average. The Department of Commerce reports that manufacturing is the largest industry in the state, with \$43.1 billion (21%) in state product. There are 10,500 manufacturers in the state that employ about 500,000 workers or 18% of the state workforce.

3. Commerce indicates that \$1.5 million in the additional WDF funding would be used to provide assistance to various organizations to assist medium and small manufacturers in Wisconsin in adopting "lean manufacturing" principles. Data indicate that as much as 60% of operations in small and midsize manufacturing plants do not add overall value to the final product and could be eliminated. "Lean manufacturing" is a systematic approach by which manufacturers analyze and change production activities to eliminate unnecessary and wasteful production processes. Actions taken by manufacturers in adopting lean manufacturing include reducing lead time, reworking and/or reducing inventory levels, reducing indirect labor costs, avoiding unnecessary equipment expenses, improving space utilization, and improving product quality. The Department notes that adoption of lean manufacturing principles by Wisconsin manufacturers would make them more competitive and more profitable, and thus benefit the state.

4. The Department intends to partner with the Wisconsin Manufacturing Extension Partnership (WMEP), the Northwest Wisconsin Manufacturing Outreach Center (NWMOC), local economic development corporations, technical colleges, and local chambers of Commerce to promote and assist companies in implementing lean manufacturing processes. Commerce would also recruit companies that successfully adopted lean manufacturing practices to be models and

mentors to other firms. However, the statutory provisions in the bill would require that if awards from the WDF are made for manufacturing extension grants, they be made to WMEP or NWMOC (or similarly organized nonprofits).

5. WMEP is operated by an organization, the Wisconsin Center for Manufacturing and Productivity, Inc. that includes the Department of Commerce, University of Wisconsin System and Extension, Wisconsin Technical College System (WTCS), 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. The organization (along with NWMOC) is also participating in an initiative to improve the operations of small and medium-sized manufacturing firms that are suppliers to larger manufacturers known as original equipment manufacturers (OEMs). WMEP is part of a nationwide system of manufacturing extension partnerships that receive federal funding from the National Institute of Standards and Technology (NIST).

6. 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 techniques.

7. NWMOC operates in the areas served by the five technical colleges and UW-Stout, while WMEP serves the rest of the state. Under current law, both organizations receive state funding through the manufacturing extension center grant program, which has annual funding of \$850,000 GPR. In addition, at various times, supplemental funding has been provided through the WDF. Most recently, 2005 Wisconsin Act 180 required Commerce to make annual grants of up to \$350,000 from the WDF to technology-based nonprofit organizations to provide support for a manufacturing extension center. Table 1 shows annual revenues, by source, for the WMEP budget for 2005-06 and 2006-07. Table 2 shows the annual revenues, by source, for the NWMOC budget for 2005-06 and 2006-07. The tables show that both organizations receive substantial support from state sources under current law.

**TABLE 1****WMEP Revenues**

	<u>2005-06</u>		<u>2006-07</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Partners/In-Kind Match*	\$692,173	8.6%	\$656,503	8.2%
Customer Fees	3,767,342	46.6	4,173,013	52.2
Commerce Grant	986,000	12.2	986,000	12.3
Federal Grants	<u>2,645,150</u>	<u>32.7</u>	<u>2,182,286</u>	<u>27.3</u>
Total	\$8,090,675	100.0%	\$7,997,802	100.0%

\*Mainly indirect match from WTCS and University of Wisconsin.

**TABLE 2****NWMOC Revenues**

	<u>2005-06</u>		<u>2006-07</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Partners/In-Kind Match*	\$1,003,559	54.0%	\$1,162,311	58.3%
Customer Fees	300,000	16.2	280,324	14.0
Commerce Grant	150,000	8.1	150,000	7.5
Federal Grants	<u>403,201</u>	<u>21.7</u>	<u>403,201</u>	<u>20.2</u>
Total	\$1,856,960	100.0%	\$1,995,836	100.0%

\* Includes match of \$713,564 in 2005-06, and \$412,678 in 2006-07 from UW-Stout; \$95,155 in 2005-06, and \$99,657 in 2006-07 from WMEP; and \$53,664 in 2005-06 and \$60,466 in 2006-07 from the Wisconsin Procurement Institute.

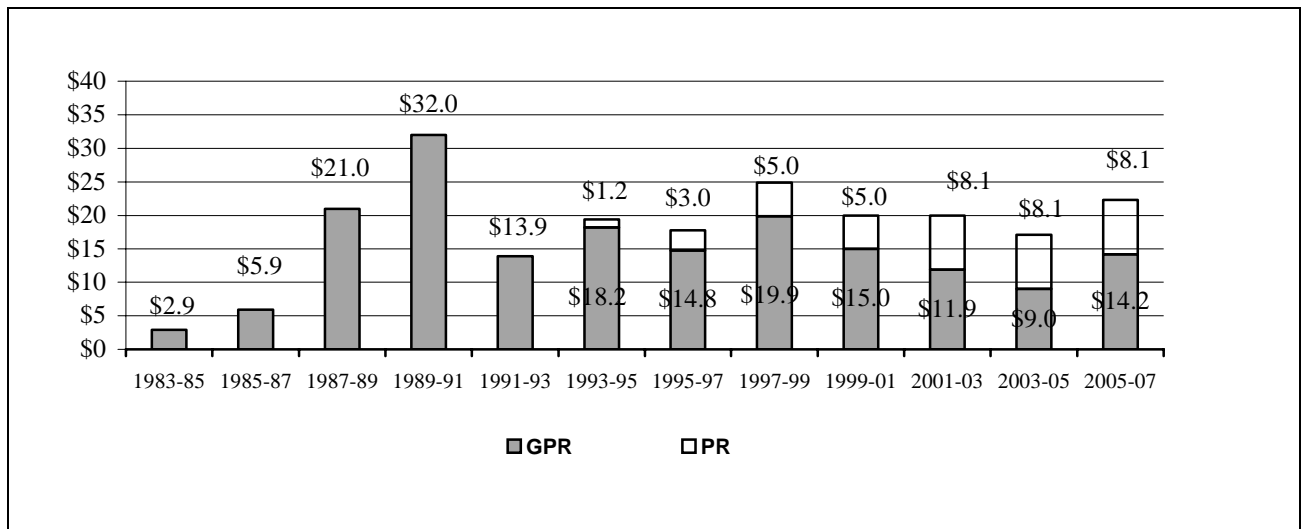
8. The bill would create a separate manufacturing technology grant program under the WDF, in addition to the separate manufacturing extension grant program. In the audit of state economic development programs (*A Review State Economic Development Programs, 2006*) the Legislative Audit Bureau (LAB) recommends that the Legislature consider reducing the number of programs by consolidating statutory requirements and standardizing eligibility criteria for economic development programs that have similar purposes or provide similar services. Since the provisions in the bill essentially require that WDF grants awarded through the program be made to WMEP and NWMOC, the Committee may wish to delete the Governor's recommendation, and instead provide an additional \$750,000 GPR in annual funding for the manufacturing extension center grant program (Alternative 3). Alternatively, the Committee could provide \$350,000 GPR in additional funding to match the amount specified under 2005 Act 180 (Alternative 4). However, the bill would not require that any of the additional funding for the WDF must be used for the manufacturing extension grant program.

9. The Department indicates that, since the lean manufacturing budget initiative involves regional benchmarking, mentoring, and awareness building, in addition to consulting and training, it exceeds the mandate of any manufacturing extension organization. While funds will be awarded to WMEP and NWMOC, Commerce intends to build other coalitions to assist in implementing lean manufacturing processes in Wisconsin businesses. Providing the additional funding for the WDF would give the Department flexibility, and allow other related WDF programs to be utilized.

10. The bill would provide total additional funding for the WDF of \$1,250,000 GPR in 2007-08 and \$2,000,000 GPR in 2008-09. These amounts would exceed the lean manufacturing funding by \$500,000 GPR in 2007-08 and \$1,250,000 GPR in 2008-09. Table 3 shows historical WDF biennial funding amounts. The table shows that GPR funding has decreased since the 1997-99 biennium. (The increase in the 2005-07 biennium reflects the incorporation of the separate technology commercialization grant and loan program and its \$2,600,000 GPR base level funding into the WDF.) The additional GPR funding provided in the bill would allow Commerce to fund more economic development projects through WDF programs. Further, neighboring states have substantial economic development funding available. For example, Iowa has the Iowa Values fund of \$35 million, and Michigan the 21<sup>st</sup> Century Jobs fund with \$1.0 billion to allocate over 10 years to provide financial assistance to businesses.

**TABLE 3**

**Wisconsin Development Fund Biennial Appropriation Amounts**



(In Millions)

11. The reduced level of GPR funding for the WDF, in part, reflects the Legislature's commitment to control GPR spending. Most agencies have had state operations funding reductions over past biennia, and the reduction in WDF, GPR funding has been part of Commerce's spending reductions. Moreover, when the program revenue repayments appropriation is also included, the total base level amount appropriated for WDF grants and loans, including the technology

commercialization program, was unchanged in the 2003-05 and 2005-07 biennia. As a result, the Committee may wish to delete the funding not used for the lean manufacturing initiative (\$500,000 GPR in 2007-08 and \$1,250,000 GPR in 2008-09, Alternative 2).

12. The WDF repayments appropriation is a program revenue, continuing appropriation. Dollar amounts shown in the schedule for such appropriations represent the most reliable estimates of the amounts that will be expended. Base level expenditure authority for the appropriation is \$4,050,000 PR. However, expenditures made from such appropriations are only limited by the amount of revenues that are available from the appropriation. Table 4 shows revenues, expenditures, and the appropriation balance for the WDF repayments appropriation from 2005-06 through 2008-09. Amounts shown for fiscal year 2005-06 are actuals, while amounts shown for the other years are Department of Commerce projections.

The table highlights a number of issues related to the repayments appropriation. In recent years, ongoing annual revenues for the appropriation have been less than annual expenditure authority. For 2005-06 through 2008-09, annual repayments are estimated to average about \$2.2 million compared to expenditure authority of about \$4.1 million. However, a large appropriation balance has allowed Commerce to expend amounts in excess of annual expenditure authority. The Department awarded \$5.2 million and encumbered \$6.4 million in WDF grants and loans in 2005-06, and expects to award \$6.1 million in 2006-07. Based on the estimates of repayments for the biennium, Commerce may not have sufficient revenue in the appropriation to make awards each year that would match the appropriation expenditure authority. Since the total amount of funds encumbered in 2005-06 are not likely to be expended by 2008-09, and repayments could be higher than estimates, revenue may be sufficient to fund the appropriation's expenditure authority through the biennium. However, during the 2009-11 biennium available revenue in the repayments appropriation may be less than current expenditure authority. As a result, the overall level of funding authorized for WDF grants and loans could, effectively, be reduced below base level in future biennia.

**TABLE 4**

**WDF Repayments Appropriation**

	Actual <u>2005-06</u>	Projected <u>2006-07</u>	Projected <u>2007-08</u>	Projected <u>2008-09</u>
Opening Balance	\$15,855,000	\$7,263,400	\$3,120,800	\$649,400
Revenue	<u>3,028,400</u>	<u>1,907,500</u>	<u>1,578,500</u>	<u>2,381,500</u>
Total Revenue	\$18,883,400	\$9,170,900	\$4,699,400	\$3,030,900
Expenditures				
(Expenditure Authority)	\$5,248,400	\$6,050,000	\$4,050,000	\$4,050,000
Encumbrances	<u>6,371,600</u>	<u>0</u>	<u>0</u>	<u>0</u>
Closing Balance	\$7,263,400	\$3,120,800	\$649,400	-\$1,019,100

13. Table 5 shows overall appropriations under the bill for business economic development grant and loan programs administered by Commerce. It should be noted that in prior action, the Committee deleted the renewable energy grants and loans program included in the bill. In addition to the grant and loan programs identified in the table, Commerce also has administrative duties related to a number of tax credit programs intended to spur economic development (such as for development zones and film production tax credits).

**TABLE 5**

**Commerce Financial Assistance Programs for Businesses (SB 40)**

	<u>2005-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2007-09</u>	<u>Biennial</u>
	<u>Biennium</u>			<u>Biennium</u>	<u>Change</u>
Wisconsin Development Fund	\$22,296,800	\$12,398,400	\$13,148,400	\$25,546,800	3,250,000
Gaming Economic Development	5,077,400	2,538,700	2,538,700	5,077,400	0
Renewable Energy	0	15,000,000	15,000,000	30,000,000	30,000,000
Wisconsin Venture Center	0	1,000,000	1,000,000	2,000,000	2,000,000
Minority Business Finance	1,142,800	571,400	571,400	1,142,800	0
Rural Economic Development	1,453,200	726,600	726,600	1,453,200	0
Brownfields Redevelopment	14,000,000	7,000,000	7,000,000	14,000,000	0
Manufacturing Extension Centers	1,700,000	850,000	850,000	1,700,000	0
Community Based Economic Development	1,424,200	712,100	712,100	1,424,200	0
Forward Wisconsin	640,000	320,000	320,000	640,000	0
Wisconsin Technology Council	<u>500,000</u>	<u>250,000</u>	<u>250,000</u>	<u>500,000</u>	<u>0</u>
Total	\$48,234,400	\$41,367,200	\$42,117,200	\$83,484,400	\$35,250,000

**ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to provide \$1,250,000 in 2007-08 and \$2,000,000 in 2008-09 to increase GPR funding for the Wisconsin Development Fund, and authorize Commerce to make manufacturing technology grants from the WDF of up to \$1.5 million in a biennium to technology-based non-profit organizations to provide funding to assist manufacturers in Wisconsin in adopting manufacturing process improvements.

<b>ALT 1</b>	<b>Change to Bill</b>	<b>Change to Base</b>
	<b>Funding</b>	<b>Funding</b>
GPR	\$0	\$3,125,000

2. Modify the Governor's recommendation to delete \$500,000 GPR in 2007-08, and \$1,250,000 GPR in 2008-09, to eliminate WDF funding not specified for manufacturing technology grants (\$750,000 annually would remain).

<b>ALT 2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	- \$1,750,000	\$1,500,000

3. Delete the Governor's recommendation, and instead, provide \$750,000 GPR annually to the manufacturing extension center grant program.

<b>ALT 3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	- \$1,750,000	\$1,500,000

4. Delete the Governor's recommendation and instead, provide \$350,000 GPR annually to the manufacturing extension center grant program.

<b>ALT 4</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	- \$2,550,000	\$700,000

5. Maintain current law.

<b>ALT 5</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	- \$3,250,000	\$0

Prepared by: Ron Shanovich