

### Fiscal Estimate - 2015 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>15-3225/2</b>	<b>Introduction Number</b> <b>SB-468</b>	
<b>Description</b> Creating the Department of Economic Opportunity and the Economic Development Policy Board, requiring the creation of a nonstock, nonprofit corporation to be known as the Badger Innovation Corporation, providing for the elimination of the Wisconsin Economic Development Corporation and the transfer its functions to the Department of Economic Opportunity and the Badger Innovation Corporation, granting rule-making authority, and making appropriations		
<b>Fiscal Effect</b>  <b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue      5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS		
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
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## Fiscal Estimate Narratives

WEDC 1/8/2016

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<b>Description</b> Creating the Department of Economic Opportunity and the Economic Development Policy Board, requiring the creation of a nonstock, nonprofit corporation to be known as the Badger Innovation Corporation, providing for the elimination of the Wisconsin Economic Development Corporation and the transfer its functions to the Department of Economic Opportunity and the Badger Innovation Corporation, granting rule-making authority, and making appropriations					

### Assumptions Used in Arriving at Fiscal Estimate

This legislation eliminates the Wisconsin Economic Development Corporation (WEDC) and creates two separate entities to assume the responsibilities currently executed by WEDC. The bill further requires the creation of an Economic Development Transition Council to plan for the creation of the two new entities.

For the purpose of this fiscal estimate, we have separated the proposed costs associated with each requirement.

#### Economic Development Transition Council

This portion of the legislation requires the creation of an Economic Development Transition Council that has the responsibility to develop a detailed plan for the transfer of WEDC's duties, powers and functions to the Department of Economic Opportunity and the Badger Innovation Corporation. It is required to submit the plan to the Governor within 12 months of the bill enactment unless the Joint Committee on Finance approves an extension.

The Economic Development Transition Council will be attached to the Department of Administration. The 14 member council includes 5 members appointed by the Governor, 4 legislative members, the secretary of administration, the secretary of revenue and the CEO, COO and CFO from WEDC. Further, WEDC is required to provide staffing and facilities for the council.

The legislation does not provide an appropriation for the costs that will be incurred for the development of the transition plan. Therefore, this portion of the bill will require WEDC to shift significant personnel and financial resources from existing operational and programmatic priorities in order to adhere to the deadline outlined in the legislation. In addition to the opportunity costs associated with diverting the attention of the senior management from existing day-to-day operations, the costs associated with staffing the council may redirect resources from existing priorities.

The legislation also calls for the Transition Council to draft articles of incorporation for the Badger Innovation Corporation. Once the articles are drafted, they would need to be reviewed by legal counsel and filed with the appropriate state and federal agencies.

#### Department of Economic Opportunity and Badger Innovation Corporation

The legislation divides current WEDC operations into two distinct entities with their own requirements. Costs to the state are anticipated to be higher due to the dual requirements of operating two separate organizations. Specific costs for each organization will be determined by the final plan created by the Transition Council and approved through the budget process. The following items should be considered as fiscal impacts for the state.

#### Governance

The Department of Economic Opportunity (DEO) will be structured as a state agency with the addition of an Economic Development Policy Board consisting of 12 members with staggered three-year terms. The Badger Innovation Corporation will be structured as a private nonstock, nonprofit corporation that includes a senior management team consisting of a CEO, COO, and CFO as well as a Board of Directors consisting of 14 members, with the secretary of the DEO as the chairperson and the secretaries of administration, revenue and workforce development as nonvoting members.

Because each organization will operate in cooperation yet independently of each other, costs associated

with the governance is anticipated to be twice the costs of current governance costs for WEDC. Administrative costs for each organization will include support roles in finance, underwriting, communications as well as public policy and government affairs. It is assumed that DEO will utilize the IT support services offered through the DET as well as the centralized human resources office while the Badger Innovation Corporation will employ staff in these positions to support its workforce.

Depending on the plan put forth by the Transition Council, costs will be incurred by the state for the transition of a portion of the staff back into the state personnel and benefits system while staff at the Badger Innovation Corporation will be managed through its articles of incorporation.

#### Operations

The bill prescribes which functions will be transferred to which entity. The DEO will receive authority for the grant and loan programs. In addition, the bill transfers the oversight of the Fund of Fund program currently administered by the Department of Administration (DOA) to the DEO and the costs associated with running the program will be added to the budget of DEO.

The Badger Innovation Corporation is tasked with implementing economic programs to provide business support and financial assistance to companies. However, it is unclear as to whether the Badger Innovation Corporation will have the authority to issue grants, loans and tax credits in support of these programs or if the project would be transferred to the DEO for contract execution.

Additional costs will be incurred with technology needs for each entity. It is assumed that the DEO will be required to use the systems employed by DOA for all state agencies. Furthermore, costs would be incurred to complete the testing needed to ensure that the systems used by DEO and the Badger Innovation Corporation is compatible.

Additionally, both entities will be required to have a financial and programmatic audit completed by the Legislative Audit Bureau every two years. Costs incurred by an agency for an audit range from \$100,000 - \$150,000.

#### Marketing

The proposed creation of two separate economic development arms of the state will require the creation of a new marketing strategy that would clearly identify the specific business and economic development services available from each organization. Because of confusion that will likely happen with two agencies providing similar yet distinct services, marketing funding will need to be refocused from promoting Wisconsin's business climate to develop new marketing materials.

### **Long-Range Fiscal Implications**

WEDC is slated to move from its current location in the Tommy G. Thompson WHEDA Commerce Center to the yet-to-be constructed Hill Farm site. Fiscal considerations that are not outlined in this estimate should include whether or not both entities would be housed at the new facility or if only the DEO would reside there. If only DEO is located at the new facility, it could have potential impacts on the communication and collaboration that is required by this bill. Additionally, this issue could have an impact on the facilities planning currently underway by DOA for the new site.