



## **Legislative Fiscal Bureau**

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Joint Committee on Finance

Paper #280

### **Forest Product Marketing (Commerce -- Departmentwide and Economic Development)**

[LFB 2001-03 Budget Summary: Page 168, #4]

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#### **CURRENT LAW**

Commerce promotes its programs and activities and other aspects of economic development in the state through the Division of Marketing, Advocacy and Technology Development. The Division is provided \$120,000 GPR annually to fund general economic development promotion activities.

The Forestry Education Grant program was created by the 1997-99 biennial budget (1997 Wisconsin Act 27) to provide grants to nonprofit organizations for forestry education programs conducted in conjunction with the University of Wisconsin-Stevens Point, College of Natural Resources, Timber Management Program. Annual funding of \$100,000 SEG from the forestry account of the conservation fund is provided in a continuing appropriation.

#### **GOVERNOR**

Provide \$250,000 annually from the forestry account of the conservation fund to promote, advertise, publicize and otherwise market products that are made in Wisconsin from timber that is produced in Wisconsin. A separate SEG appropriation would be created to fund the program.

#### **DISCUSSION POINTS**

1. Data provided by the Department of Commerce indicates that forestry, forest products and related industries are significant components of the state's economy. Wood, paper, and

furniture and related product manufacturing establishments employ almost 15% of the state's manufacturing workforce and account for over 15% of the value of manufacturing shipments. The forestry and forest products industry account for 20% or more of the manufacturing employment in 24 of the state's 72 counties. The state has led the nation in paper production for the past four decades and is a national leader in recycling by converting an estimated 2.5 million tons of recycled paper into new products each year. The printing business in the state employs over 38,000 and generates over \$12.6 billion in economic activity. However, in recent months, consolidations, downsizing, and plant closing have occurred in the state paper industry. For example, Stora Enso, (Finland) purchased Consolidated Papers and announced that 750 employees would be laid off as part of a cost-reduction program. In November, Riverside Paper in Appleton announced the layoff of 66 workers while Georgia-Pacific announced it would sell plants in Neenah and Menasha that employ 1,200 workers.

2. The administration indicates that the new funding would be used to promote, advertise, publicize and otherwise market products that are made in Wisconsin from timber that is produced in Wisconsin. More specific uses for the funding have not yet been developed. However, the administration indicates that the funding was provided in response to a Commerce request for a position and related funding to establish a forestry and forest products specialist that would have worked with the industry to address current economic conditions and promote growth. The position's projected responsibilities included general activities that could be funded with the monies that are provided in the bill. The proposed activities are: (a) encouraging forestry and forest product businesses, including paper manufacturers, to relocate or expand in the state; (b) provide information on state and federal programs that are available to communities for business retention and expansion; and (c) provide industry-specific economic data, such as public utility rates, transportation infrastructure, land values, resource costs and availability, state and local tax structure, labor force quality, costs and availability, and number and location of potential competitors. Funding would be provided from the forestry account of the conservation fund because the monies would be used to promote economic development in the forestry, forest products and paper industries.

3. The Department currently promotes economic development through the Division of Marketing, Advocacy and Technology Development. The chief promotional activities of the Division are: (1) managing the Department's economic development promotion account; (2) producing departmental publications; and (3) conducting activities intended to disseminate information about economic development generally (Commerce activities specifically) to the public. Commerce has targeted certain industries and areas of the state for economic development promotion.

The following table indicates how the Department allocated its economic development promotion funds in 2000-01. As shown, these funds are used for several purposes, with 75% of the amount utilized for paid advertising. The goal of the advertising program is to inform as many people as possible about Commerce, its programs and the advantages of establishing or expanding a business in Wisconsin. Publications produced by the Division range from booklets providing general information about Wisconsin and its advantages as a place to start, own and operate a

business to brochures detailing specific economic development programs administered by Commerce. Other information activities include issuing press releases, maintaining an inventory of available industrial sites and buildings, developing community profiles, and answering inquiries from state residents and others.

**Economic Development Promotion -- 2000-01**

<u>Category</u>	<u>Amount</u>	<u>Percent</u>
Advertising	\$89,600	74.6%
Conferences	12,100	10.1
Administration	8,000	6.7
Other*	<u>10,300</u>	<u>8.6</u>
 Total	 \$120,000	 100.0%

\*Includes research, advertising production, direct mail and publication expenses.

4. The promotional, advertising and marketing aspects of the forest products marketing proposal may seem to be an appropriate activity to be included in the Department's current economic development promotion activities. Through its economic development promotion account, Commerce already has funding and supporting staff to market and promote Wisconsin's forestry and forest products, if those activities are determined to be a priority. The Department could devote a portion of its current promotional budget to focus on this industry. Conversely, all of Wisconsin's business sectors should benefit from Commerce's general promotional activities including the forestry and forest products industries. From this view, it could be argued that the additional forestry account funding is not necessary to promote economic development in the forestry and forest products industry.

5. However, the Department's economic development promotion budget is typically used to promote and market the state and Department programs to all industries. Advertising and related activities usually provide information about the state's business and tax climates, the quality of the workforce and Commerce programs that provide assistance to businesses in general. From this view, it could be argued that the current economic development promotion budget would be insufficient to target the forestry and forest products industry and, at the same time, continue the Department's general promotional activities. Moreover, if separate funding is provided for the forestry and forest products industry, other industries, such as banking or machinery manufacturing, may also request a separately funded promotional campaign.

6. The Forestry Education Grant program was established to stimulate the development of forestry-related educational services and products targeted towards Wisconsin school children.

The program enables organizations to supplement the state's standard K-12 curriculum with forestry-related educational materials and information. The program provides grants of \$20,000 to \$100,000 to nonprofit organizations. Grants can be used to fund costs associated with the following activities: (a) coordination of existing forestry education efforts; (b) marketing and dissemination of currently available forestry education materials and programs; (c) development of unique forestry education programs and materials suitable for grade and high school students; (d) development of educational materials, programs and activities that stimulate use by educators; (e) development of materials that are easy to use and easily accessible; (f) development of educational materials and programs that allow students and educators to formulate an unbiased understanding of the different aspects of woodland management; and (g) reimbursement for related out-of-pocket expenses. The projects must be easily transferable or accessible on a statewide basis. Grant funds cannot be used to pay salary and benefit costs, general overhead or physical improvements to a specific project.

7. Annual funding of \$100,000 SEG in forestry account funding is provided for the Forestry Education program in a continuing appropriation. As a result, unencumbered and unexpended amounts in the appropriation carry over to the next fiscal year. Through April 22, 2001, a total of \$288,000 in grants had been awarded. This was \$12,000 less than the \$300,000 appropriated for the first three years of the program. As a result, in 2000-01 the program has uncommitted funding of \$112,000 remaining. One application for a grant of \$35,000 is pending. The Department does not expect to make any other awards by the end of the fiscal year. Consequently, it is estimated that the year-end balance in the appropriation would be \$77,000. Commerce indicates that the lower grant total is the result of moving the application date for 2001 grants to a later date than in previous years. (The application date will be moved to an early date in future years.) Since base level funding of \$100,000 will be provided for grants in each year of the 2001-03 biennium, an alternative would be to provide the \$77,000 year-end balance in the Forestry Education grant program as a one-time supplement to the Department's economic development promotion budget. The funding could be specifically used for forest product marketing activities and ongoing funding from the forestry account could be deleted. This would allow Commerce to develop a campaign to promote the state's forestry and forest products industries while eliminating the ongoing commitment of forestry account funding that would be required under the bill's provisions. The \$77,000 would compare to the \$89,600 used for general economic development promotion advertising but would be substantially less than the \$250,000 provided annually under the bill. Another alternative would be to revert the June 30, 2001, balance in the Forestry Education Grant Program to the Conservation Fund.

8. Another alternative would be to require that \$50,000 of the annual funding for Forestry Education grants supplement economic development promotion funding and be used for forest products marketing activities. Again, the \$50,000 would compare to the \$89,600 used for general economic development promotion advertising but would be substantially less than the \$250,000 provided annually under the bill. It could be argued that this would be consistent with the program's focus on developing transferable and accessible forestry educational and informational materials. However, the amount of funding for school-related projects would be reduced. Until the current year, demand for grants has generally exceeded available funding.

**ALTERNATIVES TO BASE**

1. Approve the Governor’s recommendation to Provide \$250,000 annually from the forestry account of the conservation fund to promote, advertise, publicize and otherwise market products that are made in Wisconsin from timber that is produced in Wisconsin. Create a separate SEG appropriation to fund the program [20.143(1)(qn)].

<b>Alternative 1</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Base) <i>[Change to Bill]</i>	\$500,000 \$0]

2. Modify the Governor’s recommendation to delete the annual funding of \$250,000 SEG and instead provide \$50,000 annually from the Forestry Education Grant program as a supplement to economic development promotion funding. Require that the funds be used for forest products marketing activities.

<b>Alternative 2</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Base) <i>[Change to Bill]</i>	\$0 - \$500,000]

3. Modify the Governor’s recommendation to delete the annual funding of \$250,000 SEG and instead provide \$77,000 in 2001-02 as a one-time supplement to economic development promotion funding from the balance in the June 30, 2001, Forestry Education Grant program appropriation [20.143(1)(t)]. Require that the funds be used for forest products marketing activities.

<b>Alternative 3</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Base) <i>[Change to Bill]</i>	\$77,000 - \$433,000]

4. In addition to, or in lieu of, Alternative 1 or 2, revert the June 30, 2001, balance in the Forestry Education Grant Program appropriation [20.143(1)(t)] to the Forestry account of the Conservation Fund.

<b>Alternative 4</b>	<b>SEG</b>
<b>2001-03 REVENUE</b> (Change to Base) <i>[Change to Bill]</i>	\$77,000 \$77,000]

5. Maintain current law.

<b>Alternative 5</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$0
<i>[Change to Bill</i>	<i>- \$500,000]</i>

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