

Fiscal Estimate Narratives

WEDC 11/14/2017

LRB Number	17-4608/1	Introduction Number	AB-0640	Estimate Type	Original
Description creating the innovation fund and economic development programs funded by that fund, establishing the Innovation Fund Council, authorizing the State of Wisconsin Investment Board to provide certain advice and services to state agencies and others, and making appropriations					

Assumptions Used in Arriving at Fiscal Estimate

Among other things, AB-640 creates the Wisconsin Innovation Fund and directs WEDC to establish an advisory council known as the Innovation Fund Council. The council will advise WEDC concerning the use of Innovation fund moneys and in the administration of the following economic development programs:

- Innovation through competition
- New product research and development
- Capacity building through industry cluster partnerships
- Accelerators and small business innovation

AB-640 does not provide a new allocation for WEDC to establish the Innovation Fund Council or to develop Innovation Fund programs. Instead, the proposal requires WEDC to cover its initial program operations and administrative expenses from its current appropriation under s. 20.192(1)(r). This will require WEDC to divert funding from existing programs and activities to support the additional staff resources required to meet statutory obligations. It is estimated additional staff salary, benefits and IT costs of \$680,800 per year beginning in FY19, and \$667,500 annually thereafter.

After July 1, 2019, the proposal authorizes WEDC to expend interest earnings from the Innovation Fund to provide Innovation Fund grants and other awards, and to cover general program operations and administrative expenses. DOR has estimated it would deposit the statutory maximum amount of \$50 million into the Innovation Fund beginning July 1, 2019 and each year thereafter until the \$500 million overall cap is reached on July 1, 2028.

According to a SWIB press release dated April 21, 2017, as of December 31, 2016, the five-year return for the Core Fund was 8.1 percent, which was ahead of its benchmark of 7.7 percent. WEDC assumes the Innovation Fund would perform on par with other SWIB investments such as the Core Fund. The 2016 Core Fund benchmark rate of 7.7 percent was used to estimate interest earnings from the Innovation Fund.

The following schedule shows the estimated Innovation Fund balance and associated interested earnings between July 1, 2019 and July 1, 2028 based upon the previously stated assumptions:

Fiscal Year Estimated Innovation Fund Balance Estimated Fund Earnings @ 7.7%

FY20	\$ 50,000,000	\$ 3,850,000
FY21	\$ 100,000,000	\$ 7,700,000
FY22	\$ 150,000,000	\$ 11,550,000
FY23	\$ 200,000,000	\$ 15,400,000
FY24	\$ 250,000,000	\$ 19,250,000
FY25	\$ 300,000,000	\$ 23,100,000
FY26	\$ 350,000,000	\$ 26,950,000
FY27	\$ 400,000,000	\$ 30,800,000
FY28	\$ 450,000,000	\$ 34,650,000
FY29	\$ 500,000,000	\$ 38,500,000

In total, using these parameters, the Innovation Fund could earn \$211,750,000 during this time, given the expected rate of return.

Long-Range Fiscal Implications