

Fiscal Estimate Narratives

UWS 11/1/2017

LRB Number	17-0361/2	Introduction Number	SB-460	Estimate Type	Original
Description providing loans, loan guarantees, tax benefits, and procurement preferences to employee-owned companies, establishing a center for employee ownership in the University of Wisconsin System, and granting rule-making authority					

Assumptions Used in Arriving at Fiscal Estimate

This proposed legislation would require the Board of Regents to create and maintain a center for employee ownership. The Center would be required to educate and inform business owners about the benefits of employee successions and to provide initial consultations to business owners exploring the possibility of transferring full or partial ownership to employees. The bill also includes a provision that would require the Wisconsin Economic Development Corporation to establish a program responsible for administering employee ownership loans or loan guarantees.

In order to provide this estimate, data and input were collected from UW-Madison, the UW System Budget Office, and the Division for Business and Entrepreneurship at UW-Extension. Additionally, some background research on national Centers was also done to provide a premise for the creation of such a center.

The UW System does not currently have a center solely dedicated to this purpose. However, UW System does have a couple of centers that exist and provide occasional programming on this topic including the Family Business Center at the Fluno Center of UW-Madison and the Wisconsin Family Business Forum as part of UW-Oshkosh. Resources include seminars and workshops on succession planning and access to expert networks of fellow business owners. These organizations are member-based, but are not solely dedicated to the purposes proposed in this bill.

As of 2015, the existing national employee ownership center landscape included six centers, two of which were initially funded by an investment from the state, and four of which were initially funded from endowments or concerned private individuals. Historically, there had been six states that provided funding for employee ownership programs; however, the four other state centers were eventually defunded and their programming was absorbed with other state agencies or discontinued. The two known existing state-funded programs are the Vermont Employee Ownership Center (VEOC) and the Ohio Employee Ownership Center (OEOC). Initial funding for the VEOC included a \$150,000 federal appropriation as well as matching private support. VEOC received annual state funding of \$25,000 that was increased to \$70,000 in the last few years. The state-funded centers traditionally have employed between 2-3 employees. It is important to note that the state-funded centers also provided loan assistance. One of the privately-funded centers that did not offer a loan assistance program had an annual operating budget of \$700,000. Each of these centers relied on a diverse source of funds.

To create a new center, this estimate assumes an initial investment of \$100,000-\$200,000. If the center were to employ 2-3 employees, at least one of those employees would probably have a legal background given the expertise needed to provide the necessary resources. The average salary of legal counsel in the UW System is \$134,400 and total costs for such an employee with a fringe rate of 38.69% would be \$186,400. Taking an average salary across the System, (\$60,100), with a fringe rate of 38.69%, the total cost of two additional FTE would be \$166,600. Taking into account these calculations, the total startup costs for this center would be between \$453,000 and \$553,000. This total does not include costs for ongoing support or costs for space rental as the example centers received free space within existing departments at universities. If UW System could expand programming and resources offered within existing centers such as those described at UW-Madison or UW-Oshkosh, the startup costs could be limited to additional funding for additional FTEs to provide the necessary consultation described in the bill. Given that existing centers are member-based, on-going funding might still be necessary but could also be potentially lower.

Long-Range Fiscal Implications

In order to maintain operations, ongoing support through a new appropriation for the Center would most likely be necessary depending on the scale of assistance the center would provide outlined in the bill.