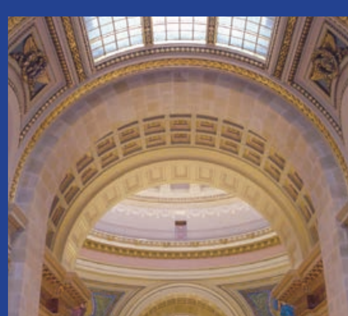
Report 19-6
May 2019

Wisconsin Economic Development Corporation

State of Wisconsin


Legislative Audit Bureau

Report 19-6
May 2019

Wisconsin Economic Development Corporation

Joint Legislative Audit Committee Members

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Joe Chrisman
State Auditor

May 10, 2019

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1) (dr), Wis. Stats., we have completed a biennial financial audit of the Wisconsin Economic Development Corporation (WEDC) and a program evaluation audit of WEDC's economic development programs. In fiscal year (FY) 2017-18, WEDC administered 30 economic development programs through which it allocated an estimated $3.1 billion in tax credits, awarded $25.6 million in grants and $4.5 million in loans, and authorized local governments to issue $65.7 million in bonds.

We found that WEDC complied with most recommendations from report 17-9. We also found that WEDC did not consistently comply with statutes and its contracts when awarding tax credits, including when it awarded tax credits to recipients that created or retained jobs filled by individuals who did not perform services in Wisconsin or were non-Wisconsin residents. WEDC also did not comply with statutes because it annually verified information in the performance reports submitted by a sample of award recipients in only one of the two years in our audit period.

WEDC's information indicated that recipients of 68 tax credit and loan awards that ended through FY 2017-18 created 2,084 of 5,970 contractually required jobs (34.9 percent) and that recipients of 60 such awards retained 7,806 of 13,272 contractually required jobs (58.8 percent). We include recommendations for WEDC to improve how it closes awards and assess the results of its programs.

We assessed how WEDC reported on its programs and the results of these programs in FY 2017-18. We found that WEDC removed from the online data information about the extent to which the recipients of awards that closed a year or more earlier had achieved contractually required results.

WEDC's cash and investment balance increased from $69.9 million as of June 30, 2016, to $77.0 million as of June 30, 2018, or by $7.1 million. We reviewed selected administrative expenditures during FY 2016-17 and FY 2017-18 and found that WEDC did not consistently maintain sufficient documentation to demonstrate compliance with its procurement policy.

We appreciate the courtesy and cooperation extended to us by WEDC. A response from WEDC's chief executive officer follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DS/ss

Report Highlights ▪

WEDC complied with most recommendations in our prior biennial audit.

WEDC awarded tax credits to recipients that created or retained jobs filled by individuals who did not perform services in Wisconsin or were non-Wisconsin residents.

WEDC cannot know how many jobs were actually created or retained as a result of its economic development awards that ended.

WEDC should assess the results of its programs.

2011 Wisconsin Act 7 created the Wisconsin Economic Development Corporation (WEDC) as the State's lead economic development organization. WEDC became fully operational in July 2011. Statutes require WEDC to develop and implement economic programs to provide support, expertise, and financial assistance to businesses that are investing and creating jobs in Wisconsin, as well as programs that support new business start-ups and business expansion and growth in the state. WEDC may also develop and implement any other programs related to economic development. Although WEDC is not a state agency, it is funded primarily with state funds.

In fiscal year (FY) 2017-18, WEDC administered 30 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, individuals, local governments, and other organizations.

Statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. To complete our fourth biennial audit, we analyzed:

- WEDC's administration and oversight of its programs in the first six months of FY 2018-19;
- the results achieved by WEDC's programs through FY 2017-18; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

In FY 2017-18, WEDC allocated an estimated $3.1 billion in tax credits to businesses and individuals. It awarded $25.6 million in grants and $4.5 million in loans to businesses, local governments, and other organizations, and it authorized local governments to issue $65.7 million in bonds to finance economic development projects.

We assessed WEDC's administration of its programs during the first six months of FY 2018-19. We found that WEDC had improved a number of aspects of its program administration since our last audit (report 17-9) and had complied with most of our recommendations related to program administration. For example, our file review found that WEDC complied with its policies when executing grant contracts.

WEDC collects repayments of the loans it administers. The potentially uncollectable balance of loans with repayments 90 days or more past due decreased from $11.0 million in December 2016 to $7.6 million in December 2018. This decrease occurred largely because WEDC wrote off and forgave loans, even though new loans became 90 days or more past due during this two-year period.

We found that WEDC awarded $462,000 in tax credits for creating jobs to one recipient that created no jobs but instead lost 17 jobs. As of February 2019, WEDC had not revoked these tax credits, even though the contract ended in October 2017.

We found that WEDC did not consistently comply with statutes and its contracts because it awarded tax credits to recipients that created or retained jobs filled by individuals who did not perform services in Wisconsin or were non-Wisconsin residents. For example, it relied on its written procedures to award one recipient $61,100 in Enterprise Zone tax credits for creating 261 jobs filled by individuals who lived in 36 states not contiguous with Wisconsin.

Statutes require WEDC to annually and independently verify information submitted by a sample of award recipients. Verifying this information is intended to allow WEDC to determine, for example, the extent to which recipients actually created or retained jobs. We found that WEDC did not comply with statutes because it completed only one verification effort over the two-year period from January 2017 through December 2018. In November 2018, WEDC completed a verification effort for FY 2016-17, and it paid a consultant $51,400 to help conduct this effort. The consultant reported to WEDC that it was unable to verify all of the information related to jobs that 14 of 125 award recipients claimed to have created or retained.

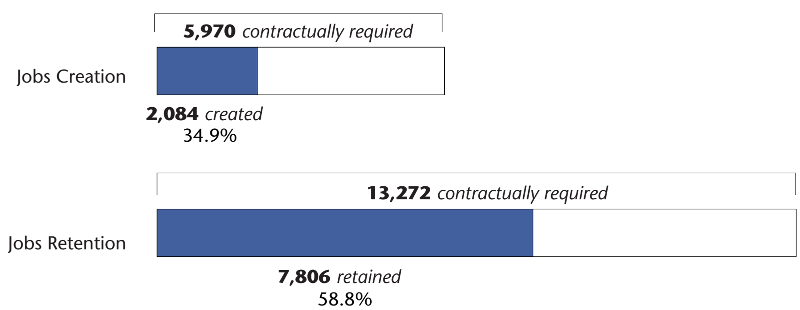
Program Results

WEDC indicated that 436 awards totaling $130.7 million ended from FY 2011-12 through FY 2017-18. WEDC cannot know how many jobs were actually created or retained as a result of the awards that ended, in part, because it did not collect sufficient jobs-related information from recipients.

As shown in Figure 1, WEDC's information indicated that recipients of 68 tax credit and loan awards that ended from FY 2011-12 through FY 2017-18 created 2,084 of 5,970 contractually required jobs (34.9 percent). Its information indicated that 60 such recipients retained 7,806 of 13,272 contractually required jobs (58.8 percent).

Figure 1

Estimated Job Creation and Retention Results of Ended Awards[1]
FY 2011-12 through FY 2017-18



[1] According to WEDC's information.

When WEDC closed awards that involved job creation or retention, it could have revoked $414,400 in previously awarded tax credits, and it could have required loan recipients to repay $4.0 million. These taxpayer funds could then have been used to support other projects.

WEDC should improve how it assesses the results of its programs, including by annually determining the extent to which recipients created or retained contractually required jobs for all awards that it made and that ended. WEDC should then use this information to consider changes to its program policies and make more-informed decisions about future awards.

Program Accountability

Statutes require WEDC's governing board to report to the Legislature annually by October 1 on each program administered in the prior fiscal year. We reviewed the October 2018 report and the online data that accompany the report and show the results of certain awards.

We found that WEDC removed from the online data information about the extent to which the recipients of awards that it closed a year or more earlier had achieved contractually required results, such as the numbers of jobs created or retained. At the time of our audit, the online data no longer included the results of 392 awards that WEDC had closed.

Financial Management

WEDC's cash and investment balance increased from $69.9 million as of June 30, 2016, to $77.0 million as of June 30, 2018. We reviewed selected administrative expenditures and found that WEDC did not consistently maintain sufficient documentation to demonstrate compliance with its procurement policy.

Recommendations

We include recommendations for WEDC or its governing board to report to the Joint Legislative Audit Committee by October 31, 2019, and February 3, 2020, on efforts to improve:

☑ administration of tax credit, grant, and loan programs (*pp. 37, 39, 41, 44, 47*, and *48*);

☑ assessment of program results and closure of awards (*pp. 59* and *60*);

☑ reporting of program results (*p. 64*); and

☑ financial management (*p. 76*).

Issues for Legislative Consideration

The Legislature could consider modifying statutes to:

- require WEDC to award tax credits through the Business Development Tax Credit program for jobs filled only by individuals performing services in Wisconsin (*p. 44*);

- allow WEDC to use the wages a recipient paid in a contract's base year when awarding tax credits through the Enterprise Zone program to recipients that retain jobs (*p. 45*);

- require the governing board to separately report on the extent to which award recipients created and retained contractually required jobs (*p. 65*);

- require the governing board to separately report on the results of awards that ended (*p. 65*);

- specify that funding be provided to WEDC based on WEDC's actual needs (*p. 69*); and

- specify that funds in the State's Economic Development Fund cannot be encumbered for purposes of paying WEDC (*p. 70*).

■ ■ ■ ■

Introduction ▪

Economic development assistance includes a variety of programs that provide financial and other support to businesses, individuals, local governments, and other organizations.

Economic development assistance includes a variety of programs that provide financial and other support to businesses, individuals, local governments, and other organizations. These activities are designed to:

- retain and expand existing in-state businesses;
- encourage out-of-state businesses to move into or locate new facilities in the state;
- increase opportunities for entrepreneurs and small businesses;
- assist under-represented businesses, such as those owned by women or members of minority groups;
- improve the competitiveness of industries important to the state; and
- promote regional economic growth.

Although public officials generally agree on the importance of economic development, there is disagreement about the appropriate role of government in providing economic development assistance and the effectiveness of various strategies. Some contend that public financial assistance encourages business expansion, is necessary to remain competitive with other states that offer similar assistance, and encourages economic activity in distressed areas of the state. In contrast, others believe that such assistance unnecessarily subsidizes business activities, shifts the cost of doing business to taxpayers, and reduces available funding for education, transportation, and other services necessary for economic growth.

Since July 2011, WEDC has been Wisconsin's lead organization for economic development. 2011 Wisconsin Act 7, which was enacted in February 2011 and created WEDC, authorized the Department of Administration (DOA) to transfer Department of Commerce funds used to support economic development programs to WEDC before July 1, 2011. Act 7 also authorized DOA to eliminate Commerce positions that were responsible for administering economic development programs. 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, abolished Commerce and transferred many of its responsibilities to other state agencies. The statutory responsibility for administering certain economic development programs was transferred to WEDC as of FY 2011-12.

WEDC is currently governed by a 20-member board.

2017 Wisconsin Act 369, which was enacted in December 2018, modified a number of statutory requirements pertaining to WEDC, including the membership of WEDC's governing board. Section 238.02 (1), Wis. Stats., provides that WEDC is governed until September 1, 2019, by a 20-member board, including:

- 6 members nominated by the Governor and appointed with the advice and consent of the Senate;
- 5 members appointed by the Assembly speaker;
- 5 members appointed by the Senate majority leader;
- 1 member appointed by the minority leader of the Assembly;
- 1 member appointed by the minority leader of the Senate; and
- the secretaries of DOA and the Department of Revenue (DOR), who serve as nonvoting members.

Each board member nominated by the Governor serves at the pleasure of the Governor, and each board member appointed by the Assembly speaker, Senate majority leader, and the minority leaders of the Assembly and the Senate serve for four-year terms. Beginning on September 1, 2019, the Assembly speaker and the Senate majority leader will each appoint four members, resulting in an 18-member board. Statutes require the governing board to elect a chairperson from among its voting members who are not legislators. The Governor's 2019-21 biennial budget proposal would reverse the changes that Act 369 made to the membership of the governing board.

WEDC's governing board is statutorily authorized to conduct a number of activities, including:

- adopting, amending, and repealing bylaws, policies, and procedures;
- establishing WEDC's annual budget and monitoring WEDC's fiscal management;
- employing any officers, agents, and employees that WEDC may require and determining their qualifications, duties, and compensation;
- accepting gifts, grants, loans, and other contributions from private or public sources;
- executing contracts and other instruments required for WEDC's operations;
- issuing notes, bonds, and any other obligations;
- incurring debt;
- making loans and providing grants; and
- entering into agreements regarding compensation, space, and other administrative matters as are necessary to operate offices in other states and foreign countries, subject to approval by the secretary of DOA.

The governing board appoints WEDC's chief executive officer until September 1, 2019.

2017 Wisconsin Act 369 requires the governing board to appoint WEDC's chief executive officer until September 1, 2019. Beginning on that date, the Governor will be statutorily required to appoint the chief executive officer, with the advice and consent of the Senate. WEDC's governing board is statutorily authorized to determine the chief executive officer's compensation and is statutorily permitted to delegate to the chief executive officer any powers and duties that it considers proper. Through WEDC's bylaws, the governing board has delegated to the chief executive officer the authority to establish

WEDC's budget and monitor WEDC's fiscal management; employ staff; accept grants from public and private sources; accept gifts for WEDC's benefit from public and private sources; and execute documents on WEDC's behalf. The bylaws include provisions that authorize the chief executive officer, with the governing board's approval, to create and manage for WEDC's benefit a corporation organized under ch. 181, Wis. Stats., which concerns non-stock corporations such as private foundations. Before creating such a corporation, statutes require WEDC to obtain the approval of the Joint Committee on Finance. In FY 2018-19, a chief operating officer served as the chief executive officer's deputy, and a chief financial officer managed WEDC's budget, finances, and underwriting efforts. In addition to two vice presidents for human resources and for technology and information systems, five vice presidents managed:

- the business and community development division, which worked to provide financial and technical assistance to businesses and communities;
- the entrepreneurship and innovation division, which worked to support the development of new and emerging entrepreneurial and high-growth businesses in the state;
- the international business development division, which worked to strengthen Wisconsin's export partnerships and increase the export skills of Wisconsin companies;
- the sector strategy development division, which worked to increase the growth and competitiveness of selected industry sectors; and
- the marketing and brand strategy division, which worked to promote Wisconsin's economic assets and business climate.

Audits and Other Reviews of WEDC

Section 13.94 (1) (dr), Wis. Stats., requires the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. Including our current report, we have conducted four biennial audits of WEDC. Combined, report 13-7 and report 14-11 fulfilled our statutory requirement to conduct the first biennial audit of WEDC, and report 15-3 fulfilled our statutory requirement to conduct the second biennial audit of WEDC.

In report 17-9, we noted improvements in WEDC's administration of its programs but had ongoing concerns with the accuracy of the job creation and retention information it reported.

In May 2017, we issued report 17-9, which fulfilled our statutory requirement to conduct the third biennial audit of WEDC. We found that WEDC improved how it administered its programs during the first six months of FY 2016-17, and that the governing board improved some aspects of its program oversight. However, we found that WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. As a result, WEDC could not be certain about the numbers of jobs created or retained as a result of its awards. We also found that WEDC's online data contained inaccuracies regarding the reported numbers of jobs created or retained as a result of the awards it made. In addition, we found that WEDC's cash and investment balance had increased because WEDC received state funding quarterly, and WEDC did not have an immediate need for most of these funds.

To complete this fourth biennial audit of WEDC, we interviewed WEDC staff, including 10 regional economic development directors employed by WEDC. We analyzed WEDC's administration of its programs in the first six months of FY 2018-19. We also analyzed the governing board's compliance with statutorily required oversight duties and the results of economic development awards that ended through FY 2017-18. We completed our analyses, in part, by reviewing available information for 128 awards WEDC made. We also analyzed WEDC's revenues and administrative expenditures in FY 2016-17 and FY 2017-18 and certain financial management issues. In addition, we contacted all nine municipalities that WEDC selected to participate in the Main Street technical assistance program from FY 2011-12 through FY 2017-18.

■ ■ ■ ■

Type and Amount of Assistance Provided
Tax Credit Programs
Grant and Loan Programs
Bonding Authorization Programs
Technical Assistance Programs
Economic Development Strategy

Economic Development Programs ▪

In FY 2017-18, WEDC administered 30 economic development programs.

In FY 2017-18, WEDC administered 30 economic development programs through which it allocated an estimated $3.1 billion in tax credits, awarded $25.6 million in grants and $4.5 million in loans, and authorized local governments to issue $65.7 million in bonds. These 30 economic development programs included 15 programs it was statutorily required to administer and 15 programs it administered based on its statutory authority to develop and implement programs. Municipalities participating in one technical assistance program indicated that they were satisfied with the program.

Type and Amount of Assistance Provided

The economic development programs that WEDC administered provided one or more types of assistance, including:

- grants and loans, which WEDC provided to businesses and other organizations to finance economic development projects;
- tax credits, which offset the income tax liability of businesses and individuals or provided funds to businesses and individuals;
- bonding authorization, which signified WEDC's approval for local governments to issue bonds on behalf of businesses and other organizations that finance economic development projects; and

- technical assistance, such as project-related training, marketing, and consultation, that WEDC provided to businesses, individuals, local governments, and other organizations.

WEDC administered 30 economic development programs in FY 2017-18.

WEDC's economic development programs can be categorized based on the primary type of assistance provided, as shown in Table 1. In FY 2017-18, WEDC administered 18 grant and loan programs, 8 tax credit programs, 3 technical assistance programs, and 1 bonding authorization program. Appendix 1 describes each of these 30 programs. In addition to these 30 programs, WEDC also continued to manage other programs through which it no longer made awards.

Table 1

Primary Type of Assistance Provided by WEDC's Economic Development Programs

	Number of Programs				
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Grants and Loans	17	18	20	17	18
Tax Credits	9	8	9	7	8
Technical Assistance	2	3	3	3	3
Bonding Authorization	1	1	2	1	1
Total	**29**	**30**	**34**	**28**	**30**

Table 2 shows the amount of assistance provided through WEDC's economic development programs from FY 2013-14 through FY 2017-18. Over this five-year period, the annual amount of tax credits increased significantly, in part, because of a $2.85 billion allocation made to one recipient, but the annual amount of loans decreased. The amounts in a given year may be actually provided to recipients in either that fiscal year or future fiscal years, depending on the extent to which recipients fulfill their contractual obligations, such as creating jobs or providing training to employees.

Table 2

Amount of Assistance Provided through WEDC's Economic Development Programs
(in millions)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Tax Credits	$88.7	$166.9	$133.9	$231.0	$3,061.8[1]
Bonding Authorization	28.4	40.5	17.4	43.3	65.7
Grants	17.2	22.0	21.5	27.2	25.6
Loans[2]	19.4	18.4	17.3	13.3	4.5

[1] Estimated as of April 2019 because final information was not yet available.

[2] Includes loan guarantees.

Tax Credit Programs

In FY 2017-18, WEDC administered eight programs that provided tax credits.

In FY 2017-18, WEDC administered eight programs that provided tax credits, including:

- three development zone programs intended to encourage economic development in specific geographic areas through targeted tax credits to businesses;
- three investment tax credit programs intended to increase funding for Wisconsin businesses; and
- two other tax credit programs intended to assist individuals and businesses throughout Wisconsin.

WEDC allocates tax credits to businesses and individuals. This allocation represents the maximum amount of tax credits that can be awarded during the term of a contract. The amount of awarded tax credits is based on a business or individual achieving contractually required economic development results, such as creating jobs. After awarding tax credits, WEDC informs DOR of the award, and businesses and individuals may claim the awarded tax credits against their Wisconsin income taxes. Tax credit payments to award recipients are made with general purpose revenue (GPR) through appropriations separate from WEDC's appropriations. Appendix 2 shows the 20 recipients allocated the largest amounts of tax credits in FY 2017-18.

Development Zone Programs

In November 2017, WEDC executed a $2.85 billion contract with three corporations known collectively as Foxconn.

The Electronics and Information Technology Manufacturing Zone program was created by 2017 Wisconsin Act 58, which was enacted in September 2017. Statutes allow WEDC to designate not more than one electronics and information technology manufacturing zone and stipulate that WEDC may award no more than $2.85 billion in program tax credits. These tax credits are refundable, meaning that if a recipient's tax credits exceed its Wisconsin income tax liability, a recipient receives a payment from DOR. In November 2017, WEDC executed a $2.85 billion contract with three corporations that agreed to build a facility to fabricate thin-film transistor liquid-crystal displays, which are used in electronic appliances such as televisions and computer monitors. If these three corporations, which are collectively referred to as "Foxconn," create contractually required jobs and make contractually required capital investments, WEDC will award them up to $2.85 billion in program tax credits over the 15-year period of the contract. In December 2018, we released a statutorily required evaluation (report 18-18) of WEDC's process for verifying information submitted by Foxconn.

Through the Enterprise Zone program, statutes authorized WEDC to designate in FY 2017-18 up to 30 zones, each of which may be effective for up to 12 years. 2017 Wisconsin Act 369, which was enacted in December 2018, modified statutes to allow WEDC to designate any number of zones, but under the 14-day passive approval process WEDC must notify the Joint Committee on Finance in writing of its intention to designate a new zone. Businesses in the zones were allocated tax credits based on employee wages, the number of jobs to be created or retained, employee training costs, significant capital expenditures, and purchases of goods and services from Wisconsin suppliers. Enterprise Zone tax credits are refundable, and statutes do not limit the amount of tax credits available through the program. The Governor's 2019-21 biennial budget proposal would allow WEDC to designate up to 35 zones and would eliminate the requirement for WEDC to notify the Joint Committee on Finance of its intention to designate a new zone.

Through the Development Opportunity Zone program, statutes authorized WEDC to allocate in FY 2017-18 tax credits to businesses operating in the cities of Beloit, Janesville, and Kenosha. Businesses could be allocated tax credits for agreeing to create or retain full-time jobs, make capital investments, or perform environmental remediation in the three zones. Program tax credits are nonrefundable, meaning that they can be claimed only up to the given amount of a business's Wisconsin income tax liability in a given year. Unclaimed credits can be carried forward to offset future tax liabilities for up to 15 years. As permitted by statutes, WEDC can allocate up to $10.0 million in program tax credits in each of the three zones over a 10-year period. WEDC allocated no program tax credits in FY 2016-17 or FY 2017-18.

In FY 2017-18, WEDC allocated $2.95 billion in tax credits through two development zone programs.

As shown in Table 3, WEDC allocated a total of $2.95 billion in tax credits through the Electronics and Information Technology Manufacturing Zone and Enterprise Zone programs in FY 2017-18. This total included the $2.85 billion WEDC allocated to Foxconn. WEDC did not allocate any tax credits through the Development Opportunity Zone program because it indicated that businesses typically preferred refundable tax credits, rather than the program's nonrefundable tax credits.

Table 3

Tax Credits Allocated through Development Zone Programs[1]

	FY 2016-17		FY 2017-18	
	Amount (in millions)	Awards	Amount (in millions)	Awards
Electronics and Information Technology Manufacturing Zone[2]	–	–	$2,850.0	1
Enterprise Zone	$76.5	5	104.5	5
Development Opportunity Zone	0.0	0	0.0	0
Total	**$76.5**	**5**	**$2,954.5**	**6**

[1] Tax credits are allocated on a fiscal year basis.

[2] Includes Foxconn.

Investment Tax Credit Programs

Through the Qualified New Business Venture program, WEDC in FY 2017-18 certified eligible new Wisconsin businesses to participate in two other WEDC programs that awarded nonrefundable tax credits to individuals and venture capital funds that invested in the certified businesses. To be certified, a business needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51.0 percent of its employees based in the state, having fewer than 100 employees, and having been in operation in Wisconsin for no more than 10 consecutive years. WEDC certified 54 businesses in FY 2017-18.

Through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs, statutes permitted WEDC in

FY 2017-18 to award tax credits in amounts equal to 25.0 percent of investments made in certified new business ventures and held for at least three years, up to a maximum amount specified by WEDC for individual businesses. Certain individuals and groups of individuals who provided start-up financing to certified businesses were awarded tax credits through the Angel Investment Tax Credit program, while venture capital funds that invested in certified businesses were awarded tax credits through the Early Stage Seed Investment Tax Credit program. Statutes permit up to $30.0 million in tax credits to be claimed per calendar year as a combined limit for both programs.

In 2018, investors were awarded an estimated $14.2 million in tax credits through two investment tax credit programs.

As shown in Table 4, investors in 66 businesses were awarded an estimated $14.2 million in tax credits through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in 2018. As of April 2019, final information for 2018 was not yet available.

Table 4

Tax Credits Awarded through Investment Tax Credit Programs[1]

	2017		2018[2]	
	Amount (in millions)	Businesses[3]	Amount (in millions)	Businesses[3]
Early Stage Seed Investment Tax Credit	$ 2.5	25	$ 7.2	33
Angel Investment Tax Credit	8.3	66	7.0	51
Total	**$10.8**	73	**$14.2**	66

[1] Tax credits are awarded on a calendar year basis.

[2] Estimated as of April 2019 because final information was not yet available.

[3] Some businesses had investors who were awarded tax credits through both programs.

Other Tax Credit Programs

Through the Business Development Tax Credit program, statutes authorized WEDC in FY 2017-18 to allocate refundable tax credits for up to 10 years if a business increased its net employment in Wisconsin above its net employment in the state in the year before it was allocated the tax credits. Statutes authorized WEDC to award tax credits based on wages paid to employees in existing and newly created full-time jobs, including additional credits if the full-time jobs were in economically distressed areas. WEDC could also award tax credits for projects involving capital investments, employee training, or either a business retaining a corporate headquarters in or relocating a corporate headquarters to Wisconsin.

Through the Historic Preservation Tax Credit program, statutes authorized WEDC in FY 2017-18 to allocate to businesses or individuals tax credits for preserving or rehabilitating properties certified as historic. DOR could provide nonrefundable tax credits in an amount equal to 20.0 percent of a recipient's qualified expenditures, and recipients could transfer tax credits to a third party in exchange for cash or other valuable consideration. 2017 Wisconsin Act 280, which was enacted in April 2018, provided that beginning in FY 2018-19 WEDC could award no more than $3.5 million in tax credits to projects undertaken on the same land parcel. Beginning in FY 2019-20, the Governor's 2019-21 biennial budget proposal would require WEDC to award no more than $3.5 million per project, regardless of the number of land parcels.

In FY 2017-18, WEDC allocated $93.2 million in tax credits through the Historic Preservation and Business Development tax credit programs.

As shown in Table 5, WEDC allocated a total of $93.2 million in tax credits through the Historic Preservation Tax Credit and Business Development Tax Credit programs in FY 2017-18. Appendix 3 lists each allocation made through the Historic Preservation Tax Credit program in FY 2017-18.

Table 5

Tax Credits Allocated through Other Programs[1]

	FY 2016-17		FY 2017-18	
	Amount (in millions)	Awards	Amount (in millions)	Awards
Historic Preservation Tax Credit	$114.4	67	$77.5	27
Business Development Tax Credit	29.3	62	15.6	38
Total	**$143.7**	**129**	**$93.2**	**65**

[1] Tax credits are allocated on a fiscal year basis.

Grant and Loan Programs

WEDC awarded grants and loans directly to businesses, as well as to economic development organizations and local governments that distributed WEDC's funding to minority-owned businesses, early-stage businesses, and other types of businesses that are typically underserved by commercial lenders. The grants and loans supported a variety of economic development projects, such as expanding factories, purchasing business equipment, and performing environmental remediation. If recipients do not achieve contractual obligations or meet loan repayment requirements, WEDC is contractually allowed to attempt to recoup the funds, such as by initiating collection proceedings.

In FY 2017-18, WEDC awarded 185 economic development grants totaling $25.6 million.

As shown in Table 6, WEDC awarded 185 economic development grants totaling $25.6 million in FY 2017-18. Appendix 4 shows the 20 recipients awarded the largest amounts of grants and loans in FY 2017-18.

Table 6

Economic Development Grants Awarded by WEDC

	FY 2016-17		FY 2017-18	
	Grants	Amount (in millions)	Grants	Amount (in millions)
Brownfields Grant	13	$ 4.4	14	$ 5.6
Community Development Investment Grant	21	4.6	26	5.6
Targeted Industry Projects	12	2.4	13	4.0
Idle Sites Redevelopment	9	4.3	5	2.4
Small Business Innovation Research/Small Business Technology Transfer Matching Grant	1	1.0	1	1.4
Site Assessment Grant	10	1.2	11	1.2
Global Business Development Grant	70	1.1	60	1.2
Seed Accelerator	10	1.8	5	1.0
Capacity Building Grant	25	1.1	21	0.9
Workforce Training Grant	2	0.9	2	0.8
Capital Catalyst	7	2.1	2	0.6
Fabrication Laboratories Grant	22	0.5	22	0.5
ExporTech	1	0.2	1	0.2
Entrepreneurial Micro-Grant	1	0.2	1	0.2
Marathon County Development Corporation[1]	–	–	1	0.1
Minority Business Development	10	1.3	–	–
Total	**214**	**$27.2**	**185**	**$25.6**

[1] 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, required WEDC to award a $100,000 grant to the Marathon County Development Corporation to establish a revolving loan program for minority-owned businesses in the county.

In FY 2017-18, WEDC awarded 14 economic development loans totaling $4.5 million.

As shown in Table 7, WEDC awarded 14 economic development loans totaling $4.5 million in FY 2017-18.

Table 7

Economic Development Loans Awarded by WEDC

	FY 2016-17		FY 2017-18	
	Loan	Amount (in millions)	Loan	Amount (in millions)
Technology Development Loan	22	$ 4.7	13	$4.0
Business Development Loan	–	–	1	0.5
Business Opportunity Loan Fund	9	8.4	–	–
Special Project Loan Fund	1	0.2	–	–
Total	**32**	**$13.3**	**14**	**$4.5**

Through FY 2016-17, WEDC awarded forgivable loans, which did not require recipients to repay some or all of the principal or interest if the recipients achieved contractually required results, such as creating or retaining a specified number of jobs. Under 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, WEDC is not allowed to award forgivable loans beginning in FY 2017-18. Act 59 also requires that any new loan program WEDC implements must adhere as closely as is practicable to commonly accepted lending practices.

Bonding Authorization Programs

Federal law authorizes state and local governments to issue tax-exempt bonds to finance economic development projects. Such bonds are an attractive source of capital for businesses because they typically have interest rates lower than for conventional corporate bonds. In addition, the bonds may be attractive to private investors because earned income is typically exempt from federal taxes.

Through the Industrial Revenue Bonding program, WEDC could authorize local governments to issue bonds on behalf of businesses that used the proceeds to fund equipment and capital improvements at manufacturing facilities. The businesses were responsible for debt service on the bonds. Earned income from this program's bonds is not federally taxable. WEDC authorized:

- seven municipalities (Cleveland, La Crosse, Menomonee Falls, Middleton, Milwaukee, Muscoda, and Plymouth) to issue a total of $43.3 million in bonds in FY 2016-17; and

- nine municipalities (De Pere, Janesville, Madison, Milwaukee, Mukwonago, Muskego, Oak Creek, Onalaska, and Twin Lakes) to issue a total of $65.7 million in bonds in FY 2017-18.

Technical Assistance Programs

In FY 2017-18, WEDC administered three technical assistance programs.

In FY 2017-18, WEDC administered three technical assistance programs: the Main Street, Certified Sites, and Global Trade Venture programs. We examined WEDC's administration of the Main Street program, including by contacting participating municipalities in order to learn their satisfaction with the program and the technical assistance WEDC provided them.

Statutes require WEDC to administer the Main Street program to help municipalities plan, manage, and implement projects for revitalizing downtown business areas. WEDC must annually select up to five municipalities that have applied to participate in the program, and municipalities must end their participation after five years. Statutes require WEDC to spend at least $250,000 annually on the program. 1987 Wisconsin Act 109, which was enacted in November 1987, created the program.

Statutes require WEDC to provide training, technical assistance, and information on revitalizing business areas to municipalities that do not participate in the program. WEDC fulfills this statutory requirement by administering the Connect Communities initiative, which supplements the Main Street program by expanding services to more municipalities in the state. WEDC indicated that Connect Communities helps municipalities meet the requirements of the Main Street program and eventually apply to join it.

As of February 2019, 34 municipalities that had been selected as long ago as 1988 were participating in the Main Street program. During the first five years of participation, municipalities take part in educational opportunities, such as workshops and webinars, and receive design assistance and other consulting services based on their particular needs. After five years, WEDC allows municipalities to continue to participate in the program's educational activities, but they receive consulting services on only an as-needed basis, which WEDC indicated was typically once every three years.

Municipalities were satisfied with the Main Street program.

We contacted all nine municipalities that WEDC selected to participate in the Main Street program from FY 2011-12 through FY 2017-18. Among the six responding municipalities:

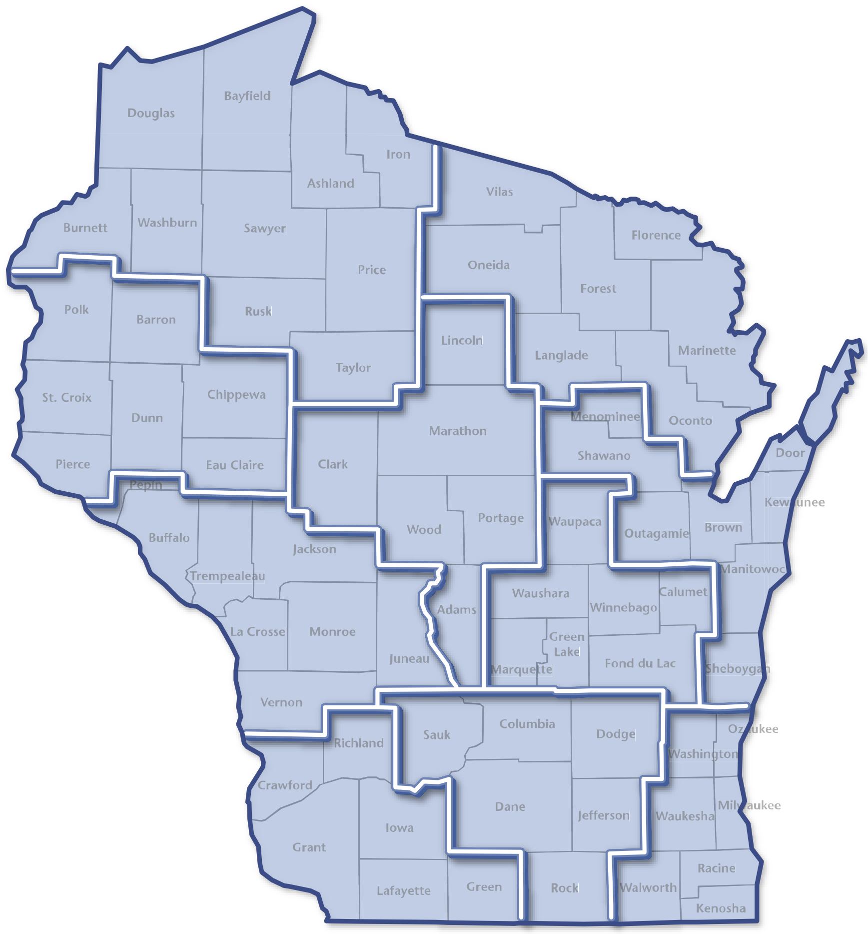
- all six were satisfied with the program and its consulting services;
- all six indicated that WEDC staff were knowledgeable, helpful, and engaged;
- all six indicated that the program provided information and other resources they would not otherwise have been able to access;
- all six indicated that the program services allowed them to accomplish economic development goals that they would not have otherwise been able to accomplish; and
- five of the six indicated that WEDC's workshops and advice for restoring historic buildings were among the most valuable types of program assistance they received.

Economic Development Strategy

WEDC administers tax credit programs based on statutory requirements, but statutes provide it with the authority to initiate grant and loan programs. We examined the processes WEDC used to initiate grant and loan programs and to determine the amounts to provide tax credit, grant, and loan recipients. To do so, we contacted WEDC staff in the central office and regional economic development directors employed by WEDC and located in all 10 economic development regions throughout Wisconsin, which are shown in Figure 2.

Figure 2

WEDC's Economic Development Regions



The governing board has the statutory authority to establish WEDC's annual budget and determine the amounts to allocate to each of WEDC's grant and loan programs. WEDC indicated that these amounts are determined, in part, based on the level of interest that businesses and other entities had previously shown for awards under each of its programs. In determining these amounts, WEDC does not compare the effectiveness of programs because it can be challenging to do so if programs have different goals, such as helping businesses expand their operations and helping businesses export products.

Although statutes prescribe the types of entities that are to be awarded funds under some programs, the governing board has broad statutory authority to determine which businesses and other entities will receive awards, as well as the amounts and terms of those awards. WEDC indicated that the process of making an award to a business typically begins when a business or other entity contacts a regional economic development director, who determines whether a proposed project is eligible for an award, based on statutes and WEDC's program policies. WEDC indicated that it seldom contacted businesses to ask whether the business may be interested in receiving awards.

WEDC indicated that it typically provided an award to each eligible business that sought assistance.

WEDC indicated that it typically provided an award to each eligible business that sought assistance. WEDC did not need to determine which businesses would receive awards because it indicated that the amounts allocated to its programs have been sufficient to provide an award to each eligible business. WEDC indicated that a business must attest in writing that it needs an award in order to complete its project. Although WEDC indicated that it attempts to ascertain the truthfulness of such attestations, including by examining financial information for a business, it noted that it can be challenging to determine whether a business would have undertaken a given project without having received an award.

To determine the amount to award a business for a given project, WEDC indicated that it considered factors such as the amount requested, the wages paid by the business, whether the project would occur in an economically distressed area of the state, and whether the business had been offered an economic development award from another state.

■ ■ ■ ■

Program Administration ▪

We assessed WEDC's administration of its economic development programs during the first six months of FY 2018-19.

We assessed WEDC's administration of its economic development programs during the first six months of FY 2018-19. We found that WEDC complied with most recommendations from report 17-9 related to program administration. We also found that WEDC did not consistently comply with statutes and its contracts when awarding tax credits, including when it awarded tax credits to recipients that created or retained jobs filled by individuals who either did not perform services in Wisconsin or were non-Wisconsin residents. WEDC also awarded tax credits for creating jobs to a recipient that, in fact, lost jobs, and it did not comply with statutes because it verified information in the performance reports submitted by a sample of award recipients in only one of the two years of our audit period. We make recommendations for improvements.

Based in part on statutory requirements, effective program administration of tax credit, grant, and loan programs requires WEDC to:

- establish sufficient policies for its programs;
- appropriately assess the eligibility of applicants for awards;
- comply with statutory and policy requirements when executing contracts;

- appropriately monitor the repayment of collectible loans;
- appropriately manage and oversee its contracts with award recipients;
- annually and independently verify information in the performance reports submitted by a sample of award recipients; and
- appropriately maintain confidential information submitted by award recipients.

To assess WEDC's administration of its programs, we reviewed information for 17 tax credit contracts totaling $113.9 million and 20 grant contracts totaling $5.5 million that WEDC executed in the first six months of FY 2018-19. WEDC did not execute any loan contracts during this six-month period. In addition, we assessed WEDC's management and oversight in the first six months of FY 2018-19 of 21 tax credit contracts totaling $122.1 million that WEDC executed from FY 2011-12 through FY 2017-18 and for which recipients submitted performance reports during the first six months of FY 2018-19. We selected these contracts based on factors such as whether the contracts were for larger award amounts or whether the recipients were required to create or retain jobs. Appendix 5 contains summary information about the contracts in each of our file reviews.

Establishing Program Policies

WEDC established policies for all of the tax credit, grant, and loan programs it administered in the first six months of FY 2018-19.

Statutes provide general criteria for making awards through WEDC's tax credit, grant, and loan programs, and they require WEDC to establish additional rules for its tax credit programs. Because WEDC is not a state agency, it cannot promulgate administrative rules. Instead, WEDC establishes program policies, which govern how it administers its programs and makes awards through these programs. We reviewed the program policies for the tax credit, grant, and loan programs WEDC administered in the first six months of FY 2018-19. We found that WEDC established program policies for all of these programs.

Assessing Eligibility

WEDC's underwriters review applications submitted by businesses and other organizations seeking tax credits, grants, and loans, and they then complete staff reviews. In a staff review, underwriters determine if an applicant's proposed project is eligible for an award, based on a program's statutory and policy requirements; recommend the amount, if any, to award; and specify the time period in which an applicant could receive funds for achieving contractually required results. Thorough and accurate staff reviews help to ensure that funds are awarded to eligible recipients, for eligible projects, and for amounts that do not exceed limits specified in statutes and policies. Depending on the amount of funds recommended in a staff review, a vice president, the chief executive officer, a governing board committee, or the full governing board considers the staff review and determines the amount, if any, to award. After this determination is made, WEDC finalizes a contract.

Our file review found that WEDC's staff reviews consistently complied with statutory requirements related to funding match requirements during the first six months of FY 2018-19.

In report 17-9, we found that WEDC's staff reviews did not consistently comply with statutory requirements related to funding match requirements that were in effect when the staff reviews were completed for grant and loan applications. Therefore, we recommended that WEDC consistently comply with these statutory and policy requirements. In our current audit, our file review found that WEDC's staff reviews consistently complied with statutory requirements related to funding match requirements during the first six months of FY 2018-19.

In report 17-9, we found that WEDC did not determine the extent to which the jobs-related information submitted by award applicants was accurate and complete. Therefore, we recommended that WEDC consistently collect information during the underwriting process from applicants about their existing employees and determine the extent to which that information is accurate and complete, such as by comparing it with unemployment insurance information from the Department of Workforce Development (DWD). In our current audit, we found that WEDC signed an agreement with DWD in January 2018 that allows it to receive unemployment insurance information that award applicants had submitted to DWD. Under this agreement, DWD agreed to provide summary information, rather than information pertaining to individual employees. If an applicant's jobs-related information differs significantly from the unemployment insurance information, WEDC may request additional information from an applicant. The Governor's 2019-21 biennial budget proposal would require WEDC to determine the number of full-time individuals that an award applicant employed before executing a grant, loan, or tax credit contract.

Executing Contracts

Our file review found that WEDC consistently complied with statutes when allocating tax credits during the first six months of FY 2018-19.

In report 17-9, we found that WEDC executed one tax credit contract that did not comply with statutes. We recommended that WEDC consistently comply with statutes when allocating tax credits. In our current audit, our file review found that WEDC consistently complied with statutes when allocating tax credits during the first six months of FY 2018-19.

Since July 2005, statutes have prohibited the awarding of grants or loans unless the contract "requires" the recipient to repay a grant or loan if, within five years after being awarded the funds, the recipient ceases to conduct the economic activity in Wisconsin for which it received the award and commences substantially the same economic activity outside Wisconsin. In report 17-9, we found that WEDC executed one contract that did not comply with this statutory provision. In our current audit, our file review found that WEDC consistently complied with this statutory provision when executing grant contracts during the first six months of FY 2018-19.

Our file review found that WEDC complied with its policies when executing grant contracts during the first six months of FY 2018-19.

In report 17-9, we found that WEDC generally complied with its policies when executing grant and loan contracts in the first six months of FY 2016-17, but that four loan contracts did not require the recipients to provide health insurance benefits throughout the duration of the contracts, as required by WEDC's policies. Therefore, we recommended that WEDC consistently comply with its policies when executing grant and loan contracts. In our current audit, our file review found that WEDC complied with its policies when executing grant contracts during the first six months of FY 2018-19.

In report 17-9, we found that WEDC executed four loan contracts that did not require the recipients to submit information sufficiently detailed to allow WEDC to determine the extent to which the jobs were actually created or retained. Therefore, we recommended that WEDC contractually require grant and loan recipients to submit sufficiently detailed information showing that each contractually required job was actually created or retained. In our current audit, our file review found that WEDC did not execute any grant or loan contracts in the first six months of FY 2018-19 that contractually required recipients to create or retain jobs. As a result, we could not assess whether WEDC had complied with our recommendation.

WEDC allocated tax credits to a recipient that had indicated it did not need them.

In our current audit, we found that WEDC in October 2018 allocated $100,000 in tax credits under the Business Development Tax Credit program to a recipient that had indicated to WEDC in August 2018 that it did not need these tax credits. WEDC's files did not contain any information explaining why it allocated these tax credits to a recipient that did not need them. As noted, WEDC indicated that a business must attest in writing that it needs an award in order to complete its project.

Timeliness of Contract Execution

Our file review found that WEDC executed all tax credit and grant contracts within six months after completing staff reviews.

It is important for WEDC to execute contracts in a timely manner because the circumstances of an applicant may change and, as a result, the applicant may decide not to undertake its project. WEDC's policies indicate that a staff review remains valid for a maximum of six months. In report 17-9, we found that WEDC executed one loan contract more than seven months after completing the staff review. Therefore, we recommended that WEDC consistently comply with its policies by executing grant and loan contracts based on staff reviews completed within the prior six months. In our current audit, our file review found that WEDC executed all tax credit and grant contracts within six months after completing staff reviews.

In report 17-9, we found that WEDC did not consistently comply with its policy that stipulated background checks of applicants are valid for up to six months after their completion, and WEDC must complete new background checks if it has not executed a contract within that six-month period. Therefore, we recommended that WEDC consistently comply with its policies by executing tax credit contracts based on background checks that were completed within the prior six months. In our current audit, our file review found that WEDC consistently complied with its policies when completing background checks of tax credit applicants.

Schedules of Expenditures

Our file review found that WEDC complied with statutes by contractually requiring certain grant recipients to submit schedules of expenditures.

Statutes require WEDC's governing board to contractually require each recipient of a grant or loan of $100,000 or more to submit a schedule of expenditures of the grant or loan funds, as well as the expenditure of any matching funds or in-kind match. Statutes require a schedule of expenditures to be submitted within 120 days after the end of a recipient's fiscal year in which any grant or loan funds were spent, and to be signed by the award recipient's director or principal officer to attest to its accuracy. We reviewed 15 grant contracts of at least $100,000 that WEDC executed in the first six months of FY 2018-19 and found that all 15 contracts required the recipients to submit schedules of expenditures.

Monitoring Loans

In its capacity as a lender, WEDC is responsible for collecting loan repayments, monitoring loans not fully repaid, pursuing collection of delinquent loans, and reporting loan portfolio information. Policies required WEDC to send notices to recipients of loans for which repayments were 30 days, 60 days, and 90 days past due and considers other actions when loan repayments were 120 days or more past due. WEDC also compiled information on loans, 90 days or more past due, including the remaining balance of these loans.

Loan delinquency rates can be calculated in different ways. A payment delinquency rate measures loan repayments 90 days or more past due as a percentage of the remaining balance for all loans. It helps monitor the success of WEDC's efforts to bring delinquent loans into current repayment status but does not consider the entire loan balance that is potentially uncollectible. A principal delinquency rate considers the entire loan balance that is potentially uncollectible. It measures the remaining balance for loans 90 days or more past due as a percentage of the remaining balance for all loans.

WEDC's loan delinquency rates increased from December 31, 2016, to December 31, 2018.

As shown in Table 8, both of WEDC's loan delinquency rates increased from December 31, 2016, to December 31, 2018. These increases occurred because even though fewer loans became 90 days or more past due during this two-year period, WEDC's remaining balance on all loans decreased during this time period. On December 31, 2018, the payment delinquency rate was based on $1.8 million of loan repayments that were 90 days or more past due, and the principal delinquency rate was based on a $7.6 million remaining balance on those loans. We included the amounts of interest owed by recipients when we calculated both types of delinquency rates.

Table 8

WEDC's Loan Delinquency Rates, by Year
As of December 31

	Payment Delinquency Rate	Principal Delinquency Rate
2013	2.7%	8.8%
2014	0.2	1.7
2015	0.4	5.0
2016	1.8	14.1
2017	3.3	13.2
2018	3.5	14.6

WEDC indicated that it has a goal of limiting the principal delinquency rate to no more than 7.5 percent. WEDC did not establish a goal for its payment delinquency rate because it believes the principal delinquency rate is a better measure of risk.

From December 31, 2016, to December 31, 2018, the potentially uncollectable loan balance decreased from $11.0 million to $7.6 million.

As shown in Table 9, the potentially uncollectible balance of loans 90 days or more past due decreased from $11.0 million on December 31, 2016, to $7.6 million on December 31, 2018. This decrease occurred largely because WEDC wrote off loans totaling $5.7 million and forgave loans totaling $2.0 million, even though new loans became 90 days or more past due during this two-year period.

Table 9

Change in the Potentially Uncollectible Balance of Loans 90 Days or More Past Due
(in millions)

	Loan Amount		Loan Amount
Loans Past Due on December 31, 2016	**$11.0**	**Loans Past Due on December 31, 2017**	**$ 9.3**
Reasons for the Change[1]		**Reasons for the Change**[1]	
Loan Contracts Amended to Defer Repayments	(1.0)	Loan Contracts Amended to Defer Repayments	(0.7)
Loans Written Off	(0.6)	Loans Written Off	(5.1)
Loans Forgiven	(2.0)	Loans Forgiven	(0.0)
Loans No Longer Past Due	(0.5)	Loans No Longer Past Due	(0.9)
Payments/Interest on Loans That Remain Past Due	(0.1)	Payments/Interest on Loans That Remain Past Due	0.1
New Loans Past Due	2.4	New Loans Past Due	4.9
Loans Past Due on December 31, 2017	**$ 9.3**	**Loans Past Due on December 31, 2018**	**$ 7.6**

[1] The amounts amended, written off, forgiven, and no longer past due reflect the potentially uncollectible balance of the loans on December 31, 2017, and December 31, 2018, excluding interest accrued after those dates.

Loan recipients may seek, and WEDC may approve, loan contract amendments for various reasons. For example, an amendment may defer the dates on which a recipient must make loan repayments. If the repayment dates are deferred, WEDC no longer considers the loan to be delinquent, and the balance of loans 90 days or more past due is reduced.

WEDC amended contracts to defer repayments on two loans that were 90 days or more past due on December 31, 2016, and five loans that were 90 days or more past due on December 31, 2017. We reviewed the repayment status of all seven of these amended loans. On December 31, 2018:

- six loan recipients were in compliance with their amended contracts; and

- one loan recipient was more than 90 days past due with loan repayments due under its amended contract.

WEDC wrote off three loans that were 90 days or more past due on December 31, 2016, and six loans that were 90 days or more past due on December 31, 2017. These nine loans had a total remaining balance of $5.7 million on the December 31 before the year in which they were written off. The nine loans included five loans totaling $811,400 that the former Department of Commerce had awarded and four loans totaling $5.0 million that WEDC had awarded. WEDC turns over loans awarded by Commerce that it considers uncollectible to DOA, which works with the Department of Justice to pursue collection. Because any amounts collected are retained by DOA, WEDC writes off the loans turned over to DOA. Before determining that a loan it had awarded is uncollectible, WEDC may hire outside legal counsel to pursue collection of a loan. Amounts collected are remitted to WEDC, and WEDC pays the outside legal counsel for its services.

WEDC forgave the total remaining balance of one loan and part of the remaining balances of two other loans that were 90 days or more past due on December 31, 2016. In total, WEDC forgave $2.0 million on these three loans, and it did so because the loan recipients had either fully or partially achieved their contractually required results. As noted, recipients are not required to repay some or all of the principal or interest on forgivable loans if they achieve contractually required results, such as creating or retaining a specified number of jobs.

We found concerns with information on past-due loans that WEDC had provided the Joint Legislative Audit Committee.

In report 17-9, we recommended that WEDC provide the Joint Legislative Audit Committee with semiannual information on past-due loans. In our current audit, we examined the information WEDC provided and found concerns, including:

- WEDC inaccurately reported that the total loan balance was $54.2 million on June 30, 2018, when, in fact, the total loan balance was $54.9 million; and

- WEDC did not include accrued interest in the amounts it reported for its delinquent loan balances or for the amounts of loans that were no longer past due because they were amended, forgiven, written off, or repaid, even though we had recommended that WEDC report the remaining balances of these loans.

To enable legislators to assess WEDC's management of its state-funded loan portfolio, WEDC should continue to provide the Joint Legislative Audit Committee with semiannual information on past-due loans. In doing so, it will be important that WEDC provides accurate and complete information. If it subsequently realizes that it had provided inaccurate or incomplete information, it will be important for WEDC to notify the Joint Legislative Audit Committee that it has done so and then provide accurate and complete information.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *beginning on July 1, 2019, and every six months thereafter, determine the remaining balance and the total amount of past-due repayments for all loans 90 days or more past due;*

- *determine the remaining balance for all of these loans that were amended to defer repayments, written off, or forgiven from July 2019 through December 2019, and then during each six-month period thereafter;*

- *determine the remaining balance for all of these loans that were no longer 90 days or more past due during each six-month period because the recipients made loan repayments;*

- *determine the payment delinquency rate and the principal delinquency rate on the first and last day of each six-month period; and*

- *report this information to the Joint Legislative Audit Committee by February 3, 2020, for the six-month period from July 2019 through December 2019, and then report this information every six months thereafter.*

Managing and Overseeing Contracts

Statutes provide that WEDC's governing board must require each recipient of a tax credit, grant, or loan to submit a report to WEDC, and that the contracts with recipients must specify the frequency and format of the report and the performance measures to be included in it. Statutes require each recipient to submit to WEDC a statement that attests to the accuracy of the information in the report and is signed by the recipient or the director or principal officer of the recipient. WEDC uses the information in these performance reports to help complete its statutorily required annual economic development program report and to compile the accompanying online data that show the results of each award.

Until December 2018, statutes required WEDC to annually verify information in all performance reports submitted by tax credit recipients on the extent to which contractually required results were achieved. In report 17-9, we found that WEDC did not annually verify jobs-related information submitted by tax credit recipients. In our current audit, we did not analyze WEDC's efforts to verify such information because 2017 Wisconsin Act 369 modified statutes to remove the requirement for WEDC to do so. Act 369 requires WEDC to annually and independently verify the accuracy of the information in a sample of performance reports submitted by tax credit, grant, and loan recipients. The Governor's 2019-21 biennial budget proposal would require WEDC to contractually require each grant, loan, and tax credit recipient to submit payroll or other information sufficient for WEDC to verify the number of full-time jobs a recipient created or retained, and it would require WEDC to adopt policies and procedures for verifying these jobs.

In report 17-9, we found that WEDC did not establish policies for verifying information submitted by tax credit recipients on the extent to which contractually required jobs were created or retained. Therefore, we recommended that WEDC establish such policies. In our current audit, we found that WEDC established such policies. We did not assess these policies because WEDC is no longer statutorily required to verify such information.

We conducted a separate file review of 21 tax credit contracts totaling $122.1 million that WEDC executed from FY 2011-12 through FY 2017-18.

In our current audit, we assessed WEDC's management and oversight of tax credits it had previously awarded. To do so, we conducted a file review of 21 tax credit contracts totaling $122.1 million that WEDC executed from FY 2011-12 through FY 2017-18 and for which recipients submitted performance reports during the first six months of FY 2018-19. Although each recipient had submitted a performance report to WEDC during the first six months of FY 2018-19, we found that WEDC had completed its reviews of 9 of the 21 performance reports as of February 2019.

Our file review found that WEDC awarded tax credits in a manner that did not comply with statutes.

Our file review found that WEDC awarded tax credits in a manner that did not comply with statutes. Statutes require WEDC to deduct the amount of Wisconsin Works (W-2) subsidies paid to recipients for employing individuals before awarding job creation or retention tax credits under the Development Opportunity Zone program, thereby ensuring that recipients are not awarded tax credits for wages the State paid. In August 2014, WEDC allocated one recipient $655,000 in program tax credits, in part, for creating jobs. The contract requires WEDC to award the same amount for each job created, regardless of the wages paid or whether any of the individuals in these jobs were W-2 participants. WEDC indicated to us that it does not deduct the W-2 wages when awarding program tax credits for creating jobs, and its files indicated that it did not deduct W-2 wages when it awarded this recipient program tax credits in prior years.

WEDC should consistently comply with statutes when awarding tax credits under the Development Opportunity Zone program. Failure to do so can result in WEDC awarding tax credits based, in part, on wages paid by the State rather than by businesses. To the extent this occurs, taxpayer funds are not used appropriately.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with statutes when awarding tax credits under the Development Opportunity Zone program; and*
- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to comply with this recommendation.*

Tax Credit Review

After discovering errors in how it had calculated the amounts of awarded tax credits, WEDC reviewed the amounts previously awarded to recipients.

A careful review of information submitted by tax credit recipients is important to ensure that WEDC awards accurate amounts of tax credits. In April 2016, WEDC informed the governing board that internal compliance procedures implemented as a result of report 15-3 had discovered errors in how it had previously calculated the amounts of awarded tax credits. As a result of this discovery, WEDC reviewed the amounts of tax credits previously awarded to recipients and found that it had awarded both higher and lower amounts than contractually required. In February 2017, WEDC reported to the governing board that it had spent hundreds of hours on the review and had spent approximately $160,000 on temporary staff to help complete the review. While completing work associated with report 17-9, we attempted to examine the results of this review but were informed by WEDC that it would not be finished until shortly before our audit was completed.

In May 2018, WEDC reported the results of its still ongoing review to the Joint Legislative Audit Committee. This report indicated that WEDC:

- had erroneously awarded $2.1 million in tax credits to recipients that had not completed the contractually required activities to earn these tax credits, and recipients still owed the State $738,800; and

- should have awarded an additional $1.0 million in tax credits to recipients that had completed contractually required activities, and that the State still owed recipients $340,100 in tax credits.

A May 2018 report that WEDC provided to the Joint Legislative Audit Committee contained errors about its tax credit review.

In October 2018, WEDC indicated to us that its May 2018 report to the Joint Legislative Audit Committee contained errors. WEDC determined that this report should have indicated that recipients still owed the State $861,000, and that the State still owed recipients $733,500 in tax credits. If a recipient owes the State funds but subsequently earns additional tax credits, WEDC does not intend to award those tax credits in the amount owed to the State. WEDC plans to award additional tax credits to those recipients that are owed them.

In our current audit, we examined WEDC's tax credit review, which included 194 contracts. However, we found that it excluded an additional 107 contracts, including contracts closed at the time of the review and contracts through which WEDC had awarded all contractually allowed tax credits. We attempted to determine the current status of all 194 tax credit contracts, including the 54 contracts involving recipients that either still owed the State funds or were still owed tax credits, but WEDC indicated that it did not centrally track the current status of all 194 contracts.

As a result, we examined information pertaining to 10 of the 54 contracts, including WEDC's contracts with the 5 recipients that still owed the highest amounts to the State as of May 2018 and WEDC's contracts with the 5 recipients that were still owed the highest amounts of tax credits as of May 2018. Appendix 5 contains summary information about these 10 contracts. We found that:

- although the initial review had determined that five recipients owed a total of $422,600 to the State, WEDC subsequently determined that they owed $213,100; and

- although the initial review had determined that five recipients were owed a total of $145,000 from the State, WEDC subsequently determined that they were owed $133,300.

WEDC made its subsequent determinations based, in part, on additional information provided by tax credit recipients. In addition, WEDC identified errors in its initial review.

WEDC awarded $462,000 in tax credits for creating jobs to one recipient that lost 17 jobs.

In reviewing the 10 contracts, we found that WEDC awarded $462,000 in tax credits for creating jobs to one recipient that created 66 jobs in the first two years of this contract but then lost 83 jobs in the third year, for a net loss of 17 jobs. The recipient was contractually required to maintain over the 60 consecutive months of the contract all existing and newly created jobs. As of February 2019, WEDC had not revoked the $462,000 in tax credits, even though the contract ended in October 2017.

WEDC should revoke any tax credits that it had previously awarded for job creation if those jobs are not retained in accordance with contractual requirements. WEDC should also update the Joint Legislative Audit Committee with accurate information on the results of its tax credit review. Doing so will allow the Joint Legislative Audit Committee to understand the extent to which WEDC had previously awarded incorrect amounts of tax credits.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *revoke any tax credits that it had previously awarded for job creation if those jobs are not retained in accordance with contractual requirements;*

- *provide the Joint Legislative Audit Committee with accurate information on the results of its tax credit review; and*

- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to comply with these recommendations.*

Residency and Other Requirements

In our statutorily required evaluation of WEDC's process for verifying information submitted by recipients of tax credits allocated under the Electronics and Information Technology Manufacturing Zone program (report 18-18), we found that WEDC established written procedures that were not approved by the governing board and that allowed it to award program tax credits for certain employees who do not perform services in Wisconsin, as long as these employees are paid in the zone. In this way, these written procedures did not comply with statutes. As a result of our recommendation, WEDC indicated that it modified these written procedures to comply with statutes.

WEDC awarded tax credits to recipients that created or retained jobs filled by individuals who either did not perform services in Wisconsin or were non-Wisconsin residents.

In our current audit, we examined WEDC's contracts and written procedures for other tax credit programs and the manner in which WEDC awarded tax credits under these other programs. We found that WEDC did not consistently comply with statutes and its contracts because it awarded tax credits to recipients that created or retained jobs filled by individuals who either did not perform services in Wisconsin or were non-Wisconsin residents.

Sections 71.07 (3w), 71.28 (3w), and 71.47 (3w), Wis. Stats., require WEDC to award Enterprise Zone program tax credits based on a tax credit recipient's zone payroll, which is statutorily defined to be the wages of employees who perform services in an enterprise zone. Statutes do not permit WEDC to award program tax credits for work performed outside of an enterprise zone. In this manner, the statutory provisions for awarding tax credits under the Enterprise Zone program are similar to the statutory provisions for awarding tax credits under the Electronics and Information Technology Manufacturing Zone program.

We found that WEDC's written procedures for the Enterprise Zone program allow WEDC to award program tax credits for "any employee that does not live in Wisconsin and is designated as 'remote,' 'working at home,' or 'sales'" as long as these employees are paid out of a location within an enterprise zone. These written procedures do not comply with statutes or WEDC's contracts because they allow WEDC to award program tax credits for the wages of employees who do not perform services within an enterprise zone.

In February 2015, WEDC allocated a recipient $9.0 million in Enterprise Zone program tax credits, in part, for creating jobs filled by individuals who perform services in the enterprise zone. In September 2018, WEDC determined that this recipient had created 967 jobs, including 261 jobs filled by individuals who lived in 36 states not contiguous with Wisconsin. Based on its written procedures, WEDC awarded this recipient $61,100 in job creation tax credits for these 261 jobs. We question whether these individuals actually performed services in the enterprise zone, as required by statutes and WEDC's contract.

We also found that WEDC awarded tax credits under other programs to recipients that created or retained jobs filled by individuals who were not Wisconsin residents. In this way, WEDC did not comply with statutes and its contracts. For example:

- Development Opportunity Zone program statutes require WEDC to award tax credits for creating or retaining jobs filled only by Wisconsin residents. In March 2014, WEDC allocated a recipient $130,000 in program tax credits. Since the contract's execution, this recipient provided WEDC with information indicating that it had created two jobs filled by non-Wisconsin residents, and WEDC determined that this recipient was eligible to be awarded $7,400 in tax credits for these two jobs.

- Some Economic Development Tax Credit program contracts require WEDC to award no more than 10.0 percent of tax credits in any given year based on a recipient creating jobs filled by non-Wisconsin residents. In June 2013, WEDC allocated a recipient $1.0 million in program tax credits. In March 2018, WEDC awarded this recipient tax credits for creating 24 jobs, including 17 jobs filled by Wisconsin residents and 7 jobs filled by non-Wisconsin residents. As a result, WEDC awarded this recipient $26,200 more than was contractually allowed. WEDC did so because its written procedures allow it to award more than 10.0 percent of program tax credits in a given year to a recipient that creates jobs filled by non-Wisconsin residents.

WEDC should consistently comply with statutes and its contracts when awarding tax credits to recipients that create or retain jobs filled by individuals who either do not perform services in Wisconsin or are non-Wisconsin residents. WEDC should modify its written Enterprise Zone program procedures and award tax credits to recipients that create or retain jobs filled only by individuals who perform services in an enterprise zone. WEDC should modify its written Economic Development Tax Credit program procedures and, when contractually required to do so, award no more than 10.0 percent of tax credits in a given year to recipients that create jobs filled by non-Wisconsin residents. Taking these actions will help ensure that taxpayer funds are spent appropriately.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with statutes and its contracts when awarding tax credits to recipients that create or retain jobs filled by individuals who do not perform services in Wisconsin or are non-Wisconsin residents;*
- *modify its written Enterprise Zone program procedures to require it to award tax credits only for the wages of employees who perform services in an enterprise zone, as is statutorily required;*
- *modify its written Economic Development Tax Credit program procedures to require it to award, when contractually required to do so, no more than 10.0 percent of tax credits in a given year to recipients that create jobs filled by non-Wisconsin residents; and*
- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to comply with these recommendations.*

Issues for Legislative Consideration

We found that the governing board approved Business Development Tax Credit program policies that allow WEDC to award program tax credits to recipients that create or retain jobs at contractually specified project locations. These policies do not require the individuals in these jobs to perform services in Wisconsin. In June 2017, WEDC allocated a recipient $596,000 in program tax credits. In April 2018, WEDC awarded this recipient a total of $5,500 in tax credits for one job filled by an individual in Texas and another job filled by an individual in Arizona. WEDC indicated that it awards program tax credits to recipients for creating or retaining jobs filled by individuals who perform services outside of Wisconsin, as is statutorily allowed.

The Legislature could consider modifying Business Development Tax Credit program statutes to require WEDC to award program tax credits for jobs filled only by individuals performing services in Wisconsin.

The Legislature could consider modifying Business Development Tax Credit program statutes to require WEDC to award program tax credits to recipients for creating or retaining jobs filled only by individuals performing services in Wisconsin. Currently, program statutes contain no requirements for services to be performed in Wisconsin in order to be awarded program tax credits.

The Legislature could consider modifying statutes to allow WEDC to use the wages a recipient paid in a contract's base year when awarding Enterprise Zone program tax credits to recipients that retain jobs.

The Legislature could also consider modifying statutes to allow WEDC to use the wages a recipient paid in a contract's "base year," rather than in the statutorily required "taxable year," to determine the amount of Enterprise Zone program tax credits to award recipients that retain jobs. For a given contract, the base year is typically the period before the enterprise zone first took effect, and a taxable year is a subsequent period for which WEDC may award tax credits, based on the wages a recipient paid. Statutes permit a recipient to claim up to 7.0 percent of the eligible wages paid in a taxable year to individuals in retained jobs and require this amount to exclude eligible wages paid in a taxable year to individuals in created jobs. Because retained jobs are not specific to the individuals filling them, a job may be retained even if one individual ceases employment and another subsequently begins employment. For example, if one individual ceases employment and two individuals are subsequently hired, it may be unclear which of these two individuals' wages are associated with the retained job and which are associated with the created job. In order to determine the appropriate amount of tax credits to award a recipient for retaining jobs, WEDC implemented written procedures that specify it will award them based on the eligible wages that a recipient had paid in the base year. These procedures are reasonable but do not comply with statutes.

Verification of Performance Measure Information

Statutes require WEDC's governing board to annually and independently verify information in the performance reports submitted by a sample of award recipients.

Until December 2018, statutes required WEDC's governing board to annually and independently verify information in the performance reports submitted by a sample of grant and loan recipients. 2017 Wisconsin Act 369, which was enacted in December 2018, requires WEDC to also annually and independently verify the information in the performance reports submitted by a sample of tax credit recipients. Verifying this information is intended to allow WEDC to determine, for example, the extent to which recipients actually created or retained jobs.

In report 17-9, we found concerns with the 2016 verification effort that covered the period from July 2015 through May 2016 and that WEDC paid a consultant $24,900 to complete. As a result, we recommended that the governing board establish written policies for completing the annual verification effort, verify information in a sample of performance reports submitted by grant and loan recipients, and ensure that a sufficient amount of expenditures reported by a given award recipient are reviewed in order to provide adequate assurances that WEDC's funds were spent appropriately. In our current audit, we found that WEDC had complied with these recommendations.

WEDC did not comply with statutes because it completed only one annual verification effort over the two-year period from January 2017 through December 2018.

In our current audit, we found that WEDC did not comply with statutes because it completed only one annual verification effort over the two-year period from January 2017 through December 2018. In November 2018, WEDC completed a verification effort for FY 2016-17, and it paid a consultant $51,400 to help conduct it. This verification effort included 125 performance reports, including 63 performance reports submitted by tax credit recipients, 37 performance reports submitted by grant recipients, and 25 performance reports submitted by loan recipients. These 125 performance reports represented approximately 10.0 percent of all such reports submitted to WEDC in FY 2016-17.

To complete the verification effort, the consultant requested that award recipients provide it with additional information, such as payroll documents, that it used to verify information in the performance reports. In some instances, the consultant attempted to verify information associated with a sample of jobs that a recipient claimed it had created or retained. The consultant reported to WEDC that it was unable to verify all of the information related to jobs that 14 of the 125 award recipients claimed to have created or retained.

In reviewing the consultant's work, we found that the recipient of a $5.5 million tax credit allocation, which WEDC made in August 2014 under the Enterprise Zone program, had claimed in the performance report it had previously provided to WEDC that all individuals in jobs pertaining to its contract were Wisconsin residents. As noted, statutes require WEDC to award program tax credits only for services performed in an enterprise zone. However, this recipient subsequently provided the consultant with information that indicated its performance report was inaccurate because, in fact, four of these individuals lived in states not contiguous with Wisconsin and five other individuals may or may not have lived in such states. If the consultant had not obtained this information, WEDC would not have known that the performance report was inaccurate.

Timely completion of the annual verification effort is particularly important because WEDC is no longer statutorily required to verify information in all performance reports submitted by tax credit recipients on the extent to which contractually required results were achieved. Therefore, the governing board should comply with statutes by completing a verification effort annually, which will help ensure that taxpayer funds are spent appropriately. At the time of our audit, WEDC indicated that it was in the process of assessing the results of the FY 2016-17 verification effort and determining actions to take, such as revoking tax credits already awarded. The governing board should also provide the Joint Legislative Audit Committee with information on the actions it took after WEDC completes its assessment.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation's governing board:

- *comply with statutes by annually completing a verification effort;*
- *provide the Joint Legislative Audit Committee with information on the actions it took after assessing the results of the FY 2016-17 verification effort; and*
- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement these recommendations.*

Confidential Information

WEDC maintains confidential information submitted to it by award recipients, including the Social Security numbers of the employees of these recipients. WEDC requires such information in order to determine, for example, the amounts of tax credits to award recipients for creating or retaining contractually required jobs. In May 2018, WEDC implemented written procedures that outline the process by which it maintains protected personally identifiable information that it receives during the award application process. WEDC indicated to us that it relies on these procedures to govern how it handles all such information from award recipients and that it had made efforts to secure such information that it possesses, including information that it had received since January 2016. According to these written procedures, only a small number of WEDC staff should be able to access such information.

A large number of WEDC staff were able to access documents containing protected personally identifiable information submitted by award recipients.

We found that a large number of WEDC staff were able to access documents containing protected personally identifiable information submitted by award recipients, including the Social Security numbers of the employees of award recipients. WEDC had received most of these documents before it implemented its written procedures in May 2018, but we found one document that WEDC received after May 2018. To help ensure that such information is accessible to only the small number of WEDC staff who need to be able to access it, WEDC should systematically review the information it has received from award recipients and secure those documents that contain protected personally identifiable information.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *systematically review the information it has received from award recipients and secure those documents that contain protected personally identifiable information; and*

- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement this recommendation.*

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Program Results ■

Statutes require WEDC's governing board to monitor the performance of its economic development programs.

Statutes require WEDC's governing board to monitor the performance of its economic development programs. WEDC's information indicated that 436 awards ended from FY 2011-12 through FY 2017-18, including 68 tax credit and loan awards that contractually required the recipients to create jobs and 60 tax credit and loan awards that contractually required the recipients to retain jobs. We assessed the extent to which the recipients of these tax credit and loan awards created or retained the contractually required jobs, the total and average costs of these created or retained jobs, and how WEDC closed awards that ended. We recommend that WEDC improve how it closes awards and assess the results of its programs.

Assessing Award Effectiveness

Assessing the effectiveness of WEDC's awards involves determining the extent to which award recipients met their contractual obligations, such as by creating or retaining jobs. An award ends at the conclusion of the contractually specified time period for the recipient to meet its obligations or if other circumstances occur, such as if a recipient withdraws from its contract or goes out of business. When an award ends, WEDC closes it by preparing a written summary that indicates the extent to which the recipient fulfilled its contractual obligations.

WEDC indicated that 436 awards totaling $130.7 million had ended from FY 2011-12 through FY 2017-18.

WEDC indicated that 436 awards totaling $130.7 million ended from FY 2011-12 through FY 2017-18, as shown in Table 10. Appendix 6 lists the programs through which WEDC made these 436 awards.

Table 10

Economic Development Awards That Ended, by Type[1]
FY 2011-12 through FY 2017-18

Type	Awards	Percentage of Total	Amount Total	Amount Average per Award
Grants	256	58.7%	$ 24,118,400	$ 94,200
Tax Credits[2]	109	25.0	70,939,000	650,800
Loans	71	16.3	35,608,000	501,500
Total	**436**	**100.0%**	**$130,665,400**	299,700

[1] Based on WEDC's information.

[2] Includes 48 awards made through the Qualified New Business Venture program, which certified businesses to participate in two other tax credit programs.

Some awards required the recipients to meet multiple contractual obligations and, as a result, achieve multiple results. For example, an award may have required a recipient to purchase manufacturing equipment and retain a specified number of jobs. We used WEDC's information to categorize the expected results of awards as follows:

- "increased export capacity" includes obtaining consulting or translation services, participating in trade missions, or attending conventions related to export activities;
- "capital investments" includes purchasing equipment or building, leasing, or renovating commercial space;
- "job creation or retention" includes creating new jobs, retaining existing jobs, or both;
- "community development" includes improving public infrastructure, rehabilitating buildings, or performing environmental remediation activities; and
- "third-party investments" includes using awarded funds to obtain additional capital investments in start-up recipients.

As shown in Table 11, an expected result of 157 awards that ended (36.0 percent) was increased export capacity, according to WEDC's information. An expected result of 104 awards that ended (23.9 percent) was job creation or retention.

Table 11

Expected Results of Economic Development Awards That Ended[1]
FY 2011-12 through FY 2017-18

Expected Result	Awards	Percentage of Total
Increased Export Capacity	157	36.0%
Capital Investments	118	27.1
Job Creation or Retention	104	23.9
Community Development	88	20.2
Third-Party Investments	80	18.3
Other[2]	15	3.4

[1] Based on WEDC's information. Some awards required the recipients to achieve multiple expected results.

[2] Includes requiring recipients to relocate to Wisconsin, providing employee training, and developing products.

We assessed the results of all 80 tax credit and loan awards that ended from FY 2011-12 through FY 2017-18 and contractually required the recipients to create jobs, retain jobs, or both. Recipients of 52 of these 80 awards were contractually required to both create and retain jobs. Appendix 5 contains summary information about these 80 awards, which had a total contract value of $49.0 million. We did not assess the results of grant awards, most of which required recipients to create or retain few, if any, jobs.

WEDC cannot know how many jobs were actually created or retained as a result of the awards that ended.

WEDC cannot know how many jobs were actually created or retained as a result of the awards that ended, in part, because it did not collect sufficient jobs-related information from award recipients. We found that WEDC did not consistently:

- collect sufficiently detailed information during the underwriting process, which typically occurred several years ago, about the number of individuals employed by award applicants at the time of contract execution;

- collect sufficiently detailed information when closing awards to determine whether award recipients had created or retained jobs that met the contractual specifications for wages paid and hours worked; or

- comply with statutes by annually verifying the information in a sample of performance reports. In addition, the consultant that completed the most-recent verification effort was unable to verify all of the information related to jobs that 14 award recipients claimed to have created or retained.

Job Creation

WEDC's information indicated that recipients of 68 tax credit and loan awards that ended through FY 2017-18 created 34.9 percent of contractually required jobs.

As shown in Table 12, WEDC's information indicated that recipients of 68 tax credit and loan awards that ended through FY 2017-18 created 34.9 percent of contractually required jobs. WEDC's information indicated that recipients of 39 awards that ended and were made under the Economic Development Tax Credit program created 28.1 percent of contractually required jobs. Through FY 2017-18, few awards made under other tax credit and loan programs ended. Because the tax credit recipients did not create all contractually required jobs, WEDC awarded $2.3 million of the $18.8 million in tax credits it had allocated (12.2 percent) for the 44 tax credit awards.

Table 12

Estimated Job Creation Results of Tax Credit and Loan Awards That Ended, by Program[1]
FY 2011-12 through FY 2017-18

		Number of Jobs		
	Awards	Created	Contractually Required[2]	Percentage Created
Tax Credit Programs				
Economic Development Tax Credit[3]	39	870	3,099	28.1%
Jobs Tax Credit[3]	3	0	567	0.0
Development Opportunity Zone	1	0	130	0.0
Business Development Tax Credit	1	0	63	0.0
Subtotal	44	870	3,859	22.5
Loan Programs				
Business Retention and Expansion Investment[3]	14	1,194	1,675	71.3
Business Opportunity Loan Fund[3]	8	20	401	5.0
State Energy Program[3]	2	0	35	0.0
Subtotal	24	1,214	2,111	57.5
Total	**68**	**2,084**	**5,970**	34.9

[1] According to WEDC's information. WEDC cannot be certain about the numbers of jobs created.

[2] A total of 35 of the 44 tax credit awards contractually required recipients to create up to specified numbers of jobs, rather than create all of these jobs.

[3] WEDC no longer makes new awards under this program.

A total of 37 of the 68 awards ended before the contractually specified completion dates.

We found that 37 of the 68 awards ended before the contractually specified completion dates. As a result, recipients of these 37 awards were no longer contractually required to create up to 3,280 jobs, and WEDC revoked the tax credits it had awarded these recipients and took action to obtain the amounts it had loaned them. These 37 awards included:

- 12 awards involving recipients that withdrew from their contracts;
- 7 awards involving recipients that did not comply with contractual requirements;
- 5 awards involving recipients that sold their operations in Wisconsin;
- 4 awards involving recipients that ceased their operations either in Wisconsin or at the project location; and
- 9 awards involving recipients that repaid their loans, after which WEDC closed these awards and ceased determining whether jobs were created or retained, even though the recipients had been contractually required to create or retain jobs for longer periods of time.

We estimated the cost to create jobs through tax credit and loan awards that ended through FY 2017-18, reached contractually specified completion dates, and resulted in recipients earning funds for creating jobs. As shown in Table 13, WEDC's information indicated that only 20 such awards had ended, which is too few to make meaningful conclusions.

Table 13

Estimated Total and Average Costs of Created Jobs, by Tax Credit and Loan Program[1, 2]
FY 2011-12 through FY 2017-18

	Awards	Total Cost of Created Jobs	Created Jobs	Average Cost per Created Job
Tax Credit Programs				
Economic Development Tax Credit[3]	11	$2,216,500	868	$ 2,600
Loan Programs				
Business Retention and Expansion Investment[3]	8	1,991,000	1,177	1,700
Business Opportunity Loan Fund[2]	1	218,800	20	10,900
Total	**20**	**$4,426,300**	**2,065**	2,100

[1] According to WEDC's information. WEDC cannot be certain about the numbers of jobs created.

[2] According to WEDC's information. Includes awards that reached contractually specified completion dates, and the award recipients earned funds for creating jobs.

[3] WEDC no longer makes new awards under this program.

Job Retention

WEDC's information indicated that recipients of 60 tax credit and loan awards that ended through FY 2017-18 retained 58.8 percent of contractually required jobs.

As shown in Table 14, WEDC's information indicated that recipients of 60 tax credit and loan awards that ended through FY 2017-18 retained 58.8 percent of contractually required jobs. WEDC's information indicated that recipients of 36 awards that ended and were made under the Economic Development Tax Credit program retained 48.1 percent of contractually required jobs. Through FY 2017-18, few awards made under other programs ended. Because the tax credit recipients did not retain all contractually required jobs, WEDC awarded $1.1 million of the $3.3 million in tax credits it had allocated (33.3 percent) for the 38 tax credit awards. We found that WEDC determined the numbers of existing jobs that recipients were contractually required to retain only after it had executed contracts for 36 of these 60 awards, and that WEDC amended 7 contracts to reduce the numbers of jobs that recipients were required to retain.

Table 14

Estimated Job Retention Results of Tax Credit and Loan Awards That Ended, by Program[1]
FY 2011-12 through FY 2017-18

	Awards	Number of Jobs: Retained	Number of Jobs: Contractually Required	Percentage Retained
Tax Credit Programs				
Economic Development Tax Credit[2]	36	2,416	5,018	48.1%
Development Opportunity Zone	1	808	1,169	69.1
Jobs Tax Credit[2]	1	0	554	0.0
Subtotal	38	3,224	6,741	47.8
Loan Programs				
Business Retention and Expansion Investment[2]	17	4,582	6,257	73.2
Business Opportunity Loan Fund[2]	4	0	240	0.0
Special Project Loan Fund[2]	1	0	34	0.0
Subtotal	22	4,582	6,531	70.2
Total	**60**	**7,806**	**13,272**	58.8

[1] According to WEDC's information. WEDC cannot be certain about the numbers of jobs retained.

[2] WEDC no longer makes new awards under this program.

We found that WEDC in November 2011 made awards under the Jobs Tax Credit program and the Business Retention and Expansion Investment program to a recipient for retaining the same jobs at the same project location. WEDC determined this recipient retained 488 jobs. To avoid double-counting these 488 jobs in our analysis, we included them only in the award made under the loan program.

A total of 25 of the 60 awards ended before the contractually specified completion dates.

We found that 25 of the 60 awards ended before the contractually specified completion dates. As a result, recipients of these awards were no longer contractually required to retain 4,319 jobs, and WEDC revoked the tax credits it had awarded these recipients and took action to obtain the amounts it had loaned them. These 25 awards included:

- 6 awards involving recipients that withdrew from their contracts;
- 6 awards involving recipients that did not comply with contractual requirements;

- 5 awards involving recipients that ceased their operations either in Wisconsin or at the project location;
- 4 awards involving recipients that sold their operations in Wisconsin; and
- 4 awards involving recipients that repaid their loans, after which WEDC closed these awards and ceased determining whether jobs were retained, even though the recipients had been contractually required to retain jobs for longer periods of time.

We estimated the cost to retain jobs through tax credit and loan awards that ended through FY 2017-18, reached the contractually specified completion dates, and resulted in recipients earning funds for retaining jobs. As shown in Table 15, WEDC's information indicated that only 14 such awards ended, which is too few to make meaningful conclusions. We could not estimate the costs for 36 of the 38 tax credit awards that ended because, for example, they did not reach the contractually specified completion dates or result in recipients earning funds for retaining jobs.

Table 15

Estimated Total and Average Costs of Retained Jobs, by Tax Credit and Loan Program[1, 2]
FY 2011-12 through FY 2017-18

	Awards	Total Cost of Retained Jobs	Retained Jobs	Average Cost per Retained Job
Tax Credit Programs				
Economic Development Tax Credit[3]	2	$ 663,500	189	$3,500
Loan Programs				
Business Retention and Expansion Investment[3]	12	7,701,600	4,210	1,800
Total	**14**	**$8,365,100**	**4,399**	1,900

[1] According to WEDC's information. WEDC cannot be certain about the numbers of jobs retained.

[2] According to WEDC's information. Includes awards that reached contractually specified completion dates, and the award recipients earned funds for retaining jobs.

[3] WEDC no longer makes new awards under this program.

Closing Awards

In report 17-9, we found concerns with decisions WEDC made regarding awards it closed through September 2016. As a result, we recommended that WEDC's governing board ensure its staff consistently follow contractual provisions when closing awards. In our current audit, we examined decisions WEDC made regarding all 60 tax credit and loan awards that contractually required recipients to create or retain jobs and that WEDC closed from October 2016 through June 2018. WEDC closed some awards appropriately, such as when it determined that three recipients were in default of their contracts and revoked tax credits it had previously awarded them.

WEDC could have revoked $414,400 in previously awarded tax credits.

However, we found that when WEDC closed awards involving job creation or retention, it could have revoked $414,400 in previously awarded tax credits, thereby saving the State up to that amount. For example:

- In February 2012, WEDC executed a $300,000 contract under the Economic Development Tax Credit program for job creation. WEDC determined that the recipient created 15 jobs in the first year of the contract but then lost 24 jobs by the end of the fourth year, for a net loss of 9 jobs. The recipient was contractually required to maintain over the 72 consecutive months of the contract all existing and newly created jobs. When WEDC closed this award in April 2018, it could have revoked $102,300 in tax credits, instead of the $34,100 that it did revoke.

- In April 2012, WEDC executed a $302,000 contract under the Economic Development Tax Credit program with a recipient that contractually agreed to retain 18 jobs. The contract allowed WEDC to award a portion of the tax credits if this recipient retained at least 80.0 percent of these 18 jobs. WEDC determined that this recipient actually retained no more than 14 jobs during each of the five years of the contract. When WEDC closed this award in January 2018, it could have revoked $93,000 in tax credits, instead of the $9,800 that it did revoke. In October 2018, WEDC created written procedures for determining the amount of program tax credits to revoke. If these procedures had existed when WEDC closed this award, they would have required WEDC to revoke $93,000 in tax credits.

WEDC could have required loan recipients to repay $4.0 million.

We also found that when WEDC closed awards involving job creation or retention, it could have required loan recipients to repay $4.0 million. These taxpayer funds could then have been used to support other projects. We found that:

- WEDC forgave a total of $3.3 million in loans to five recipients that had created or retained fewer jobs than contractually required. After WEDC determined that these five recipients had created a total of 372 jobs fewer than contractually required and retained a total of 513 jobs fewer than contractually required, it forgave amounts in ways that did not comply with its contracts.

- WEDC amended four contracts to allow the recipients to retain a total of 378 fewer jobs, and the available information indicates that it forgave $0.7 million in loans as a result of two of these amendments.

We found that WEDC did not collect sufficient information to allow it to determine the extent to which 16 loan recipients had complied with their contracts. For example, although these recipients were contractually required to create or retain jobs in which individuals worked a specified number of hours or received specified wages over multi-year periods, WEDC's files did not contain information indicating the hours worked by and wages paid to these individuals during these entire multi-year periods.

We also found that WEDC closed eight loans before the contractually specified completion dates because the recipients had repaid their loans. As a result, these recipients were no longer required to create a total of 795 jobs or retain a total of 1,002 jobs. WEDC's information did not specify why WEDC allowed these recipients to stop creating or retaining these jobs.

WEDC established written procedures for closing awards, but these written procedures were not sufficiently detailed to help ensure that WEDC consistently closes awards according to contractual provisions. For example, these written procedures did not require WEDC to determine whether an award recipient had created or retained jobs in which individuals worked a specified number of hours or received specified wages over multi-year periods. Such detailed procedures would require WEDC to determine the extent to which award recipients met their contractual obligations.

Consistently following such written procedures will help ensure that taxpayer funds are spent appropriately.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation:

- *establish detailed written procedures indicating that it should close awards according to contractual provisions;*
- *consistently follow these written procedures when closing awards; and*
- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement these recommendations.*

Assessing Program Results

Although relatively few awards involving job creation or retention ended through FY 2017-18, more of these awards will end in the future. As a result, it will become increasingly important for WEDC to assess the results of awards that ended and determine, for example, whether certain programs or types of awards were more successful or more cost effective than others at creating or retaining contractually required jobs. Similarly, it will be important for WEDC to track the extent to which awards ended early and then assess the reasons why those awards ended. In some instances, WEDC may no longer make new awards under a given program. However, it can still learn from the results of awards that ended under a given program and use that knowledge to improve how it makes future awards under other programs. For example, WEDC can modify its program policies in such a manner that increases the likelihood that award recipients create or retain contractually required jobs, and that the cost of these jobs is minimized to the extent possible. It is important for WEDC to manage its programs as effectively as possible, given the considerable amounts of taxpayer funds that it has awarded. As noted, the 80 tax credit and loan awards that required job creation or retention and that ended through FY 2017-18 had a total contract value of $49.0 million.

WEDC should improve how it assesses the results of its programs.

WEDC should improve how it assesses the results of its programs, including by annually determining the extent to which recipients had created or retained contractually required jobs for all awards that it made and that ended. WEDC should annually determine the total and average costs of the contractually required jobs created or retained under all awards that it made, that resulted in recipients earning funds for job creation or retention, and that reached their contractually specified completion dates. WEDC should also assess the extent to which, and the reasons why, awards that it made ended early. WEDC should then use this information to consider changes to its program policies and when making decisions about future awards.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation:

- *annually determine the extent to which recipients had created or retained contractually required jobs for all awards that it made and that ended;*
- *annually determine the total and average costs of the contractually required jobs created under all awards that it made, that resulted in recipients earning funds for creating jobs, and that reached their contractually specified completion dates;*
- *annually determine the total and average costs of the contractually required jobs retained under all awards that it made, that resulted in recipients earning funds for retaining jobs, and that reached their contractually specified completion dates;*
- *annually assess the awards it made and determine the extent to which and reasons why awards ended early;*
- *use this information to consider changes to its program policies and when making decisions about future awards; and*
- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement these recommendations.*

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Program Accountability ▪

Statutes require WEDC's governing board to report annually on each of its economic development programs.

Statutes require WEDC's governing board to report to the Legislature annually by October 1 on each economic development program that it administered in the prior fiscal year and make the reported information readily accessible to the public on the Internet. Statutes require this annual economic development program report to include the results of each such program. We assessed how WEDC reported on its programs and the results of these programs in FY 2017-18. We found that WEDC removed from the online data information about the extent to which the recipients of awards that closed a year or more earlier had achieved contractually required results. We make recommendations for improvements.

Reporting Program Results

For each program, the annual economic development program report must contain statutorily specified information pertaining to the prior fiscal year, including:

- a program description;
- a comparison of expected and actual program outcomes;
- the number of grants and loans made, the amount and recipient of each grant and loan, and the total amount of grants and loans awarded to each recipient;

- the location and industry classification, by municipality, of each job created or retained in the state as a result of the program;
- the total amount of tax benefits allocated and the total amount of tax benefits verified to DOR through the program;
- the recipient of each allocated tax benefit and each verified tax benefit through the program; and
- any recommended changes to the program.

We reviewed WEDC's October 2018 report, which includes information on the programs WEDC administered in FY 2017-18, and the accompanying online data that present information on certain awards WEDC made from FY 2011-12 through FY 2017-18. Appendix 7 summarizes the activities of each program in FY 2017-18.

In report 17-9, we found that WEDC had no policies requiring it to update the online data when closing an award and that the online data did not accurately reflect the numbers of jobs created or retained as a result of awards that ended. Therefore, we recommended that the governing board establish policies requiring WEDC to update the online data when closing awards, and that the governing board remove from the online data the numbers of jobs created or retained as a result of awards that ended before the contractually specified dates. In our current audit, we found that WEDC established policies for updating the online data when closing awards.

WEDC removed from the online data information about the extent to which recipients of awards that it closed had achieved contractually required results.

In our current audit, we found that WEDC removed from the online data information about the extent to which the recipients of awards that it closed a year or more earlier had achieved contractually required results, such as the numbers of jobs created or retained. At the time of our audit, the online data no longer included the results of 392 awards that WEDC had closed. WEDC indicated to us that it removed this information because the results of closed awards may no longer be relevant. However, removing the results of closed awards prevents legislators and the public from knowing the extent to which award recipients achieved contractually required results that were financed with taxpayer funds.

In report 17-9, we found that WEDC's online data double-counted the numbers of jobs created or retained by some award recipients. Therefore, we recommended that the governing board ensure the numbers of jobs created or retained are not double-counted.

In our current audit, we found that WEDC continued to double-count the numbers of jobs created or retained, including for:

- one recipient of two contracts, for which WEDC reported for both awards the same 274 jobs retained; and

- a second recipient of two contracts, for which WEDC reported for both awards the same 18 jobs created and the same 650 jobs retained.

WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate.

WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate. From FY 2011-12 through FY 2017-18, WEDC did not consistently collect sufficiently detailed information during the underwriting process from award applicants about their existing employees, it did not consistently comply with statutes by annually verifying the jobs-related information submitted by a sample of award recipients, and the online data contained jobs that were double-counted. In addition, WEDC removed from the online data information about the extent to which the recipients of awards that it closed a year or more earlier had created or retained jobs.

Table 16 summarizes the jobs-related information reported in the online data in October 2018. It should be noted that because the contract periods for many awards had not ended, award recipients had additional time to create or retain contractually required jobs. In addition, not all recipients of awards WEDC made in FY 2017-18 were contractually required to have submitted an initial performance report by the end of the fiscal year.

Table 16

Reported Jobs Created or Retained through FY 2017-18[1]
As a Result of Awards WEDC Made from FY 2011-12 through FY 2017-18

	Jobs Created		Jobs Retained	
Fiscal Year	Expected by Contract End	Actual through FY 2017-18	Expected by Contract End	Actual through FY 2017-18
2011-12	7,403	5,962	10,143	9,989
2012-13	8,716	6,096	22,380	20,502
2013-14	8,735	10,929	18,028	15,331
2014-15	6,537	5,099	16,055	16,291
2015-16	7,495	5,324	17,118	16,396
2016-17	6,698	1,663	11,738	4,646
2017-18	16,695	419	10,768	3,781
Total	**62,279**	**35,492**	**106,230**	**86,936**

[1] As reported in the online data in October 2018. WEDC removed from the online data the results of awards that ended, the online data contained inaccuracies, and WEDC cannot be certain about the extent to which the online data are accurate.

We continue to have concerns with the governing board's compliance with statutory reporting requirements because WEDC double-counted in the online data the numbers of some jobs created or retained. WEDC removed information about the extent to which the recipients of awards that it closed a year or more earlier had achieved contractually required results as is allowed by statutes. It is difficult for legislators and the public to assess program effectiveness unless the results of closed awards are presented.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board:

- *comply with statutes by ensuring that its annual economic development program report presents accurate information on each program's results;*

- *include in its annual economic development program report the results of all awards that closed under each program; and*

- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement this recommendation.*

Issues for Legislative Consideration

Section 238.07 (2), Wis. Stats., requires the governing board to annually report each job created or retained as a result of its programs for the prior fiscal year. WEDC's contracts typically stipulate that award recipients must create or retain jobs filled by individuals who are paid specified wages and work specified numbers of hours. We found that WEDC included in the online data not only those jobs created or retained in accordance with contractual provisions, but also in many instances jobs filled by individuals who were not paid the contractually specified wages or did not work the contractually specified numbers of hours. WEDC indicated that it did so because it believes all of these jobs were created or retained as a result of its awards. However, not separately identifying those jobs that did not comply with contractual provisions makes it challenging for legislators and the public to assess the effectiveness of individual awards and programs.

The Legislature could consider modifying statutes to require the governing board to separately report on the extent to which award recipients created or retained contractually required jobs.

The Legislature could consider modifying statutes to require the governing board to separately identify in the annual economic development program report the extent to which award recipients created or retained jobs according to contractual requirements. The governing board could separately report on all jobs that it believes were created or retained as a result of its awards, including those jobs that paid less than contractually required. The Governor's 2019-21 biennial budget proposal would require the governing board to report on the extent to which award recipients created or retained jobs according to contractual requirements.

As noted, we found that WEDC removed from the online data information about the extent to which the recipients of awards that it closed a year or more earlier had achieved contractually required results, including the numbers of jobs created or retained. Doing so makes it difficult for legislators and the public to assess program effectiveness.

The Legislature could consider modifying statutes to require the governing board to separately report on the results of awards that ended.

The Legislature could consider modifying statutes to require the governing board to separately include in the annual economic development program report information on the results of awards that ended. In doing so, it will be important for the governing board to identify those awards that ended before the contractually specified completion dates and, as a result, the recipients did not achieve the contractually required results.

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Financial Management ▪

WEDC's cash and investment balance increased from $69.9 million as of June 30, 2016, to $77.0 million as of June 30, 2018, or by $7.1 million. Cash and investments held by WEDC represent its total resources available to pay for its operations and programs. WEDC is funded primarily by GPR and segregated revenue and changes were made to these funding sources for FY 2017-18. Effective financial management requires WEDC to develop and consistently follow appropriate policies and procedures that include internal controls. In report 17-9, we recommended WEDC improve its management of its fund balance and credit cards. In response to our recommendations, we found WEDC modified its fund balance and credit card policies and implemented annual reviews of its credit cards. However, we found WEDC did not consistently maintain sufficient documentation to demonstrate compliance with its procurement policy.

Fund Balance

WEDC's unassigned fund balance represents remaining amounts held by WEDC that are not obligated or specifically set aside to be used for a particular purpose. WEDC maintains an unassigned fund balance in order to mitigate current and future risks, which is a best practice suggested by the Government Finance Officers Association. In report 17-9, we recommended WEDC modify its fund balance policy so that the reported unassigned fund balance represented the residual amount of total fund balance remaining after accounting for planned uses of the fund balance within other fund balance categories.

We found WEDC modified its fund balance policy effective for FY 2017-18 to address our prior recommendations.

In our current audit, we found WEDC modified its fund balance policy effective for FY 2017-18. The modifications address our recommendations from report 17-9, including discussing the steps WEDC will take if its unassigned fund balance is greater or lesser than the targeted amount. WEDC's unassigned fund balance increased from $3.3 million as of June 30, 2017, to $33.9 million as of June 30, 2018, which exceeded the $3.6 million we estimated to be WEDC's targeted unassigned fund balance as of June 30, 2018. This increase occurred, in part, because of the modifications made to the fund balance policy. However, $16.6 million of this increase resulted from funds provided by DOA that WEDC did not anticipate receiving for FY 2017-18. If DOA continues to provide funds to WEDC in this manner, it will be difficult for WEDC to effectively reduce its unassigned fund balance to the targeted amount. In future audits, we will consider WEDC's steps to reduce its unassigned fund balance.

Revenues

During FY 2016-17 and FY 2017-18, WEDC received revenue from the State, federal grants, loan interest and fees, and other sources. Through FY 2017-18, WEDC received state funding from DOA on a quarterly basis, consistent with an arrangement WEDC and DOA agreed to in July 2014. This funding was provided every quarter based on the amount in the budget schedule for the fiscal year and DOA did not take into consideration WEDC's existing available resources, commitments made, or expenditures incurred.

State funding represented more than 89 percent of WEDC's total revenue in both FY 2016-17 and FY 2017-18.

As shown in Table 17, state funding accounted for the majority of WEDC's revenues, representing 89.8 percent of total revenue in FY 2016-17 and 93.8 percent of total revenue in FY 2017-18. State funding was provided from GPR and from segregated revenue, primarily from the Economic Development Fund funded by a surcharge on Wisconsin businesses.

Table 17

WEDC Revenues
(in millions)

	FY 2016-17	Percentage of Total	FY 2017-18	Percentage of Total
State Funding				
Segregated Revenue[1]	$22.8	58.0%	$51.9	82.9%
General Purpose Revenue[2]	12.5	31.8	6.8	10.9
Subtotal	35.3	89.8	58.7	93.8
Federal Revenue	1.7	4.3	1.6	2.5
Loan Interest and Fees	1.8	4.6	1.7	2.7
Other[3]	0.5	1.3	0.6	1.0
Total	**$39.3**	**100.0%**	**$62.6**	**100.0%**

[1] Includes $21.8 million in FY 2016-17 and $50.9 million in FY 2017-18 from the Economic Development Fund, which is funded by a surcharge on Wisconsin businesses.

[2] For FY 2017-18, a sum sufficient GPR appropriation was available to WEDC, though no funds were provided to WEDC from this appropriation during FY 2017-18.

[3] Includes bond servicing fees, tax transfer fees, investment income, and fees paid by attendees of WEDC-sponsored conferences, trade missions, and other miscellaneous revenue.

2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, and 2017 Wisconsin Act 318 changed the state funding sources available to WEDC, beginning in FY 2017-18. First, Act 59 modified a segregated revenue appropriation to provide WEDC with access to all funds available in the Economic Development Fund. Prior to Act 59, WEDC was limited to the amount appropriated in the budget schedule from this Fund. Second, Act 59 repealed a continuing GPR appropriation and recreated it as a sum sufficient GPR appropriation. This change enabled WEDC, after depletion of funds available in the Economic Development Fund, to access additional state funding from the sum sufficient GPR appropriation up to an annual maximum potential amount of $16.5 million. Together, these two appropriations were the source for most of the state funding that WEDC received. Third, Act 318 created a new continuing GPR appropriation to fund initiatives for the attraction and retention of talent in the state.

Issues for Legislative Consideration

DOA provides WEDC with the actual amount available in the segregated revenue appropriation, which may be greater than the amount in the budget schedule. As a result, WEDC may receive more funding than it actually needs in order to cover the costs of its operations and fulfill its grant and loan commitments. If the amount in the budget schedule were to exceed the amount actually available in the segregated revenue appropriation for FY 2018-19, DOA indicated it would then provide WEDC with funds from the sum sufficient GPR appropriation, up to the calculated maximum, regardless of whether WEDC actually needs the funds. Although it is possible that such a situation could result in WEDC receiving less overall state funding than it is anticipating for FY 2018-19, DOA's projections indicate that is unlikely. Further, as noted, the manner of providing funding does not take into consideration WEDC's actual needs or the amount provided in FY 2017-18 in excess of the anticipated state funding. DOA indicated that because WEDC is not a state agency, DOA has no statutory authority to require WEDC to demonstrate its need for funding and, therefore, must provide WEDC with funding in this manner. The Governor's 2019-21 biennial budget proposal would provide a similar funding structure. The Legislature may wish to consider specifying that funding be provided based on WEDC demonstrating its actual need for funding to cover the costs of its operations and fulfill its grant and loan commitments.

The Governor's 2019-21 biennial budget proposal would make funding from the sum sufficient GPR appropriation available to WEDC if there are no unencumbered funds available in the segregated revenue appropriation. Since funds could potentially be encumbered in the segregated revenue appropriation for the purpose of paying WEDC, the sum sufficient GPR appropriation could become available to WEDC prematurely. The Legislature may wish to consider specifying that funds in the segregated revenue appropriation cannot be encumbered for the purpose of paying WEDC.

Cash and Investments

The cash and investments held by WEDC represent its total resources available. The total resources available at any point are the accumulated amount that WEDC has received but not yet paid out. WEDC received state funding during FY 2017-18 through quarterly payments from DOA that averaged $8.8 million each quarter. In total, WEDC received $41.9 million in state funding for the year, including an additional $6.8 million provided under 2017 Wisconsin Act 318 for a talent attraction and retention initiative. In addition, WEDC received other amounts, such as loan repayments, throughout the year. These other amounts averaged $16.0 million each quarter and totaled $63.9 million for FY 2017-18. Additionally, WEDC liquidated investments to increase cash when necessary.

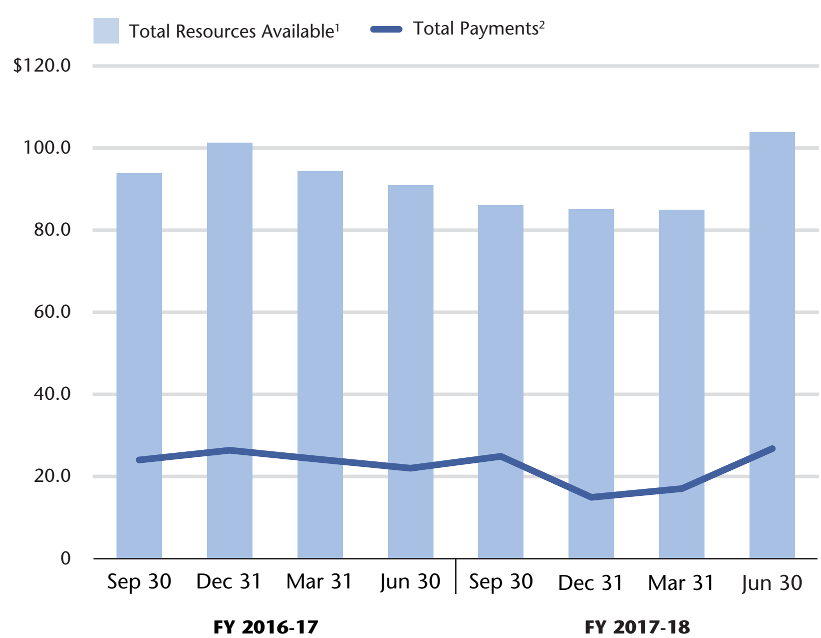
Payments WEDC makes for its operations and programs include its administrative costs and payments to grant and loan recipients. Payments averaged $20.9 million per quarter during FY 2017-18 and totaled $83.7 million for that year.

WEDC's cash and investments balance continued to increase and was $77.0 million as of June 30, 2018.

In report 17-9, we reported that total resources available to WEDC exceeded total payments made by WEDC for each quarter from July 1, 2011, when WEDC became fully operational, through June 30, 2016. As shown in Figure 3, total resources available to WEDC continued to exceed total payments made by WEDC for each quarter from July 1, 2016, through June 30, 2018. As a result, WEDC's cash and investments balance also increased from $69.9 million as of June 30, 2016, to $77.0 million as of June 30, 2018, or by $7.1 million (10.2 percent). This increase was, in part, due to the process through which state funding was provided to WEDC quarterly.

Figure 3

Total Resources Available Compared to Total Payments
Quarters Ended
(in millions)



[1] Includes the beginning cash and investments balance for that quarter plus amounts received during that quarter, such as state funding and loan repayments. Excludes less-accessible assets, such as loans receivable.

[2] Includes all payments made for administrative costs and payments to grant and loan recipients. Excludes tax credit payments, which are not paid by WEDC.

WEDC is the custodian of all of its cash and investments.

WEDC is the custodian of all of its cash and investments. As noted in report 17-9, this arrangement is similar to the Michigan Economic Development Corporation, which also holds its own cash and investments. Alternatively, other states hold most of the cash and investments for their economic development entity. For example, the State of Indiana holds most cash and investments for the Indiana Economic Development Corporation.

Administrative Expenditures

WEDC's administrative expenditures for operations increased 10.4 percent from FY 2016-17 to FY 2017-18.

As shown in Table 18, WEDC's administrative expenditures for operations increased from $18.3 million in FY 2016-17 to $20.2 million in FY 2017-18, or by 10.4 percent. This increase is largely attributable to a $1.1 million increase in marketing expenditures that, in part, related to the talent attraction and retention initiatives funding provided to WEDC in FY 2017-18 by 2017 Wisconsin Act 318.

Table 18

Administrative Expenditures
(in millions)

	FY 2016-17	Percentage of Total	FY 2017-18	Percentage of Total
Staff Salaries and Fringe Benefits	$ 10.4	56.9%	$10.5	52.0%
Marketing	3.0	16.6	4.1	20.3
Professional Services	1.2	6.6	1.5	7.4
Information Technology	1.3	7.1	1.4	6.9
Conferences and Professional Development	0.7	3.8	0.9	4.4
Travel[1]	0.7	3.8	0.8	4.0
Building, Maintenance, and Utilities	0.5	2.7	0.6	3.0
Other[2]	0.5	2.7	0.4	2.0
Total	**$18.3**	**100.0%**	**$20.2**	**100.0%**

[1] Includes some meals not related to travel for FY 2016-17.

[2] Includes business insurance, supplies, equipment, business meals, recruiting, and other expenditures.

Staff Salaries and Fringe Benefits

Because WEDC is not a state agency and its staff are not state employees, it is not authorized positions through the state budget. As shown in Table 19, WEDC had 104 full-time and part-time permanent staff on June 30, 2018. Of this total, 18 staff had been employed by WEDC since its inception, and 19 staff had been employed by WEDC for less than one year.

Table 19

Number of WEDC Staff[1]
June 30, 2018

Functional Area	Number
Business and Community Development	20
Credit and Risk	13
Legal and Compliance	9
Marketing and Brand Strategy	9
International Business Development	8
Sector Strategy Development	7
Technology and Information Systems	7
Executive Office	6
Budget and Finance	5
Office of Public Policy	5
Human Resources	5
Operations and Program Performance	4
Entrepreneurship and Innovation	3
Business and Investment Attraction	3
Total	**104**

[1] Includes full-time and part-time permanent staff. Excludes interns and one University of Wisconsin System Administration staff member who consulted part-time for WEDC.

Of the full-time and part-time permanent staff WEDC employed on July 1, 2017, 22 were no longer employed by WEDC on June 30, 2018.

We found that 22 of the full-time and part-time permanent staff WEDC employed on July 1, 2017, were no longer employed by WEDC on June 30, 2018. During FY 2017-18, WEDC hired 19 individuals to cover turnover and other vacancies. Of these 19 individuals, 1 individual was no longer employed by WEDC on June 30, 2018. In FY 2016-17 and FY 2017-18, one senior manager left WEDC employment in each year. Two individuals held one of these senior manager positions concurrently for a period of time during FY 2017-18 to provide a transition period for this position.

WEDC's expenditures for staff salaries and fringe benefits increased from $10.4 million in FY 2016-17 to $10.5 million in FY 2017-18, or by 1.0 percent. We examined WEDC's expenditures for salaries and fringe benefits, which represented 52.0 percent of its total administrative expenditures in FY 2017-18. We reviewed documentation for selected individuals and found the salary and fringe benefits expenditures were supported by information WEDC maintained. We also determined that, in FY 2017-18, WEDC paid amounts of more than $100,000 to staff in 11 positions, as shown in Table 20.

Table 20

Amounts Paid to Certain WEDC Staff in FY 2017-18

	Amounts Paid
Chief Executive Officer	$195,600
Chief Legal Counsel and Compliance Officer[1]	166,800
Chief Operating Officer	153,500
Chief Financial Officer	138,300
Vice President of Human Resources	134,100
Vice President of Business and Community Development	114,400
Vice President of International Business Development	111,800
Vice President of Entrepreneurship and Innovation	109,200
Vice President of Marketing and Brand Strategy	108,100
Vice President of Technology and Information Systems	103,800
Senior Staff Counsel	102,200

[1] Includes the combined amounts paid to the two individuals who held this position during FY 2017-18. Two individuals held this position concurrently for approximately the first three weeks of FY 2017-18.

In addition to their salaries, WEDC provided certain staff with merit and recognition awards. Merit awards acknowledge staff who exceed performance expectations for a project, and recognition awards acknowledge a special effort or accomplishment. Beginning with FY 2016-17, WEDC adjusted its budget for merit and recognition awards to equal 1.0 percent of total salaries. WEDC indicated this change was to create consistency with the amount available each year. As a result, merit and recognition awards distributed increased from $29,000 in FY 2015-16 to $52,000 in FY 2016-17, or by 79.3 percent. In FY 2017-18, $69,800 was distributed, which was a 34.2 percent increase from FY 2016-17.

Other Administrative Expenditures

Non-payroll administrative expenditures increased from $7.9 million in FY 2016-17 to $9.7 million in FY 2017-18, or by 22.8 percent. In FY 2017-18, non-payroll expenditures accounted for 48.0 percent of WEDC's administrative expenditures. We reviewed a selection of

FY 2016-17 and FY 2017-18 expenditures and followed up on steps WEDC took to improve its management of credit cards.

In April 2018, WEDC modified its credit card policy to address recommendations from report 17-9.

WEDC provides corporate credit cards to approved staff. In report 17-9, we recommended WEDC improve its management of corporate credit cards. In February 2018, WEDC implemented an annual process to review its credit cards. In April 2018, WEDC modified its credit card policy to include more criteria for shared corporate credit cards, credit card limits, and credit card limit reviews to address recommendations from report 17-9 and improvements identified during the initial annual review process. In January 2019, WEDC completed its second annual review process and we found that it implemented the identified improvements for this review. WEDC also provided appropriate authorization documentation for credit cards and credit card limit adjustments for the selected staff we reviewed.

We reviewed certain transactions that were expected to follow WEDC's procurement policy and found that 5 of 13 transactions reviewed for FY 2017-18 had authorized waivers. Of these 5 transactions, the provided documentation supported that 4 were consistent with circumstances when a waiver could be sought according to WEDC's policy. The remaining waiver indicated it was necessary because WEDC did not have sufficient time to complete the full procurement process. Although this is an acceptable circumstance for seeking a waiver according to WEDC's policy, the waiver request did not provide detailed information, such as the date that WEDC identified a procurement was necessary, the date by which a contract needed to be in place, and an explanation for why more time could not be used. Including this information in the waiver request would assist the approver in assessing the necessity of the request, particularly if the approver is not familiar with the circumstances.

WEDC should consistently maintain sufficient documentation to demonstrate compliance with its procurement policy.

Of the remaining eight transactions, which had not requested waivers, WEDC did not provide documentation to support one $12,500 transaction. As a result, WEDC could not demonstrate that its procurement policy was consistently followed. Therefore, WEDC should consistently maintain sufficient supporting documentation for purchases that are expected to follow the procurement policy, including for waiver requests.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently maintain sufficient documentation to demonstrate its compliance with its procurement policy;*

- *ensure that the detail of each request for a waiver from its procurement policy clearly explains the need for the waiver; and*

- *report to the Joint Legislative Audit Committee by October 31, 2019, on its efforts to implement this recommendation.*

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Appendices ■

Appendix 1

Descriptions of WEDC's Economic Development Programs

FY 2017-18

This appendix provides a brief description of the 30 economic development programs WEDC administered in FY 2017-18. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized in the order they appear in WEDC's FY 2017-18 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 5, 6, and 7. The numerical references differ from those used in report 17-9, report 15-3, report 13-7, or report 12-11.

Program provides the designated name for each economic development program.

Wisconsin Statutes cites statutory authority for the program. For programs without a specific statutory authorization, we have cited ch. 238, Wis. Stats., which authorizes WEDC's operations.

Description provides a brief description of the main features of the program in FY 2017-18.

Program Number	Program	Wis. Statutes	Description
1	Electronics and Information Technology Manufacturing Zone	238.396; 71.07(3wm); 71.28(3wm)	Provided refundable tax credits to businesses collectively referred to as "Foxconn" within a WEDC-designated zone. The businesses could claim income tax credits based on employee wages for jobs created and significant capital expenditures. Individuals in the jobs for which tax credits were awarded must perform services in Wisconsin. The zone is effective for 15 years. Statutes limited program tax credits to $2.85 billion and allowed WEDC to designate not more than one zone.
2	Enterprise Zone	238.399; 71.07(3w); 71.28(3w); 71.47(3w)	Provided refundable tax credits to businesses within WEDC-designated zones. Businesses that located, expanded, retained jobs, or made purchases from Wisconsin suppliers within a zone could claim income tax credits based on employee wages for jobs created or retained, employee training costs, significant capital expenditures, and purchases from Wisconsin suppliers. Individuals in the jobs for which tax credits were awarded must perform services in the zone. Zones are effective for up to 12 years. Statutes did not limit the amount of tax credits available or the number of zones.
3	Historic Preservation Tax Credit	71.07(9m); 71.28(6); 71.47(6); 238.17	Provided transferable tax credits equal to 20.0 percent of qualified rehabilitation expenses for projects with at least $50,000 in qualified expenditures. WEDC allocated businesses or individuals nonrefundable tax credits based on expenditures to preserve or rehabilitate properties certified as historic or, under limited circumstances, built before 1936. Allocations are limited to $3.5 million in tax credits for all projects that occur on the same parcel of land.
4	Business Development Tax Credit	238.308; 71.07(3y); 71.28(3y); 71.47(3y)	Provided refundable tax credits to businesses for creating jobs, purchasing significant capital assets, training employees, or establishing or retaining a corporate headquarters in Wisconsin. A business must annually increase net employment in the company's Wisconsin-based workforce to receive tax credits. Jobs must have paid at least 150.0 percent of the federal minimum wage.
5	Development Opportunity Zone	238.395; 71.07(2di), (2dm), or (2dx); 71.28(1di), (1dm), or (1dx); 71.47(1di), (1dm), or (1dx); 76.636	Provided nonrefundable tax credits to businesses that undertook economic activities in statutorily designated zones in Janesville, Kenosha, and Beloit. Credits were awarded based on the number of full-time jobs created or retained, capital investments made, and environmental remediation expenses incurred over the five-year period that each zone was effective. Credits could be carried forward for up to 15 years. Jobs must have been filled by Wisconsin residents, and have paid at least 150.0 percent of the federal minimum wage. Recipients were required to retain project-related operations in Wisconsin for at least five years.
6	Qualified New Business Venture	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Certified eligible new businesses, allowing investors to receive nonrefundable tax credits under the Angel Investment and Early Stage Seed Investment Tax Credit programs. The program stimulated the capital necessary for emerging growth businesses to develop new products and technologies and move products to market. To become certified, a business needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51.0 percent of its employees based in the state, having fewer than 100 employees, and having been in operation for no more than 10 consecutive years.

Program Number	Program	Wis. Statutes	Description
7	Early Stage Seed Investment Tax Credit	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Provided tax credits to eligible accredited investors or investment networks that invested for at least three years in businesses certified as qualified new business ventures. Accredited investors were awarded credits equal to 25.0 percent of their investments. Annually, a total of $30.0 million in credits was available between this program and the Angel Investment Tax Credit program.
8	Angel Investment Tax Credit	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Provided tax credits to investment fund managers who invested in businesses certified as qualified new business ventures. Investment fund managers were awarded credits equal to 25.0 percent of their investments. Annually, a total of $30.0 million in credits was available between this program and the Early Stage Seed Investment Tax Credit program.
9	Brownfields Grant	238.13	Provided grants to businesses, local governments, and nonprofit organizations to environmentally remediate contaminated commercial and industrial properties. WEDC policy generally limited awards to no more than $500,000. Statutes required a match of 50.0 percent of grant funds from the recipient.
10	Community Development Investment Grant	General Authority (ch. 238)	Provided grants for shovel-ready redevelopment projects to counties, cities, villages, and towns, with an emphasis on downtown sites. Recipients had to demonstrate potential for measurable benefits in job opportunities, property values, or leveraged investment by local or private partners and provide a 3:1 funding match.
11	Targeted Industry Projects	General Authority (ch. 238)	Provided targeted industry sector investment grants and technical support to non-profit and public entities with connections to target industries, including those that support workforce development. The program focused on opportunities with the potential to create jobs and to increase the competitiveness of industry sectors in the state.
12	Idle Sites Redevelopment	General Authority (ch. 238)	Provided grants of up to $500,000 to government entities to redevelop industrial sites larger than 5 acres or commercial sites larger than 10 acres that had been used for those purposes for at least 25 years. Grants could be used for demolition, environmental remediation, or site-specific improvements defined in a redevelopment plan. Grant funds could not exceed 30.0 percent of eligible project costs.
13	Small Business Innovation Research/Small Business Technology Transfer Matching Grant	General Authority (ch. 238)	Provided grants to technology-based businesses in or relocating to Wisconsin in the form of matching portions of Phase I and II awards under the federal Small Business Innovation Research and Small Business Technology Transfer programs. The Center for Technology Commercialization administers the Small Business Innovation Research/Small Business Technology Transfer Matching Grant program.

Program Number	Program	Wis. Statutes	Description
14	Site Assessment Grant	20.192(1)(s); 238.133	Provided grants to local governments to complete environmental assessments and remediate contaminated industrial and commercial properties with economic or community development potential. Eligible projects included abandoned, idle, or underused facilities that were unlikely to be redeveloped because of actual or perceived contamination.
15	Global Business Development Grant	238.15	Provided grants to support the specific export development and deployment strategy of businesses. The program had two components. First, the International Market Access Grant component reimbursed specific expenses associated with newly exporting to, or expanding in, international markets, up to $25,000 annually. Funding could be used for trade show exhibitions, trade missions, website and literature translation services, and consulting services. The Collaborative Market Access Grant component provided intermediaries up to $150,000 to deliver services available under the International Market Assistance Grant.
16	Seed Accelerator	General Authority (ch. 238)	Provided grants to local, non-profit seed accelerator programs designed to help start-up businesses, usually in the technology field. The accelerator programs contracted directly with WEDC to pass funds through to companies participating in the accelerator programs.
17	Capacity Building Grant	General Authority (ch. 238)	Provided grants to assist local and regional economic development groups with conducting assessments of the economic competitiveness of the area, developing economic development strategies, and supporting strategies to improve operational efficiencies and increase collaboration with other development organizations.
18	Workforce Training Grant	General Authority (ch. 238)	Provided grants to businesses locating a new facility in Wisconsin or expanding an existing facility that is developing a product, process, or service that requires training in new technology and industrial skills. Grants funded 50.0 percent of eligible training costs.
19	Capital Catalyst	General Authority (ch. 238)	Provided grants to seed funds managed by local communities to provide capital to high-growth startups and emerging growth companies. A grant recipient was to provide 1:1 matching funds.
20	Fabrication Laboratories Grant	238.145; General Authority (ch. 238)	Provided grants to Wisconsin school districts to purchase equipment used for instructional and educational purposes in fabrication laboratories. Awards were based on a school district's financial need. Recipients could receive grants of up to $25,000 annually.
21	ExporTech	General Authority (ch. 238)	Contracted with the Wisconsin Center for Manufacturing & Productivity to provide an array of services to companies looking for assistance with exporting their products or services. This program was designed to accelerate the process of taking products to international markets through planning and provide ongoing support for implementing a marketing plan.

Program Number	Program	Wis. Statutes	Description
22	Entrepreneurial Micro-Grant	General Authority (ch. 238)	Provided funds to a statewide entity that administered grants made to businesses using these funds. The grants, which ranged from $750 to $4,500, allowed businesses to receive professional assistance in applying for federal grant funds, receive business planning education, and develop commercialization plans. In FY 2017-18, the grants were administered by the Center for Technology Commercialization.
23	Marathon County Development Corporation	Nonstatutory provision of 2017 Act 59	Under a nonstatutory provision in 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, WEDC was directed to award a $100,000 grant to the Marathon County Development Corporation in FY 2017-18 to establish a revolving loan program for minority-owned businesses in Marathon County.
24	Minority Business Development	General Authority (ch. 238)	This program was not funded in FY 2017-18, but was funded in FY 2015-16 and FY 2018-19. This program previously provided grant funds to non-profit minority business associations that administer revolving minority loan funds and provide assistance to the minority business community. Funds were used for lending, technical assistance, and training. Eligible recipients included minority chambers of commerce, minority business alliances, consortia, and other minority organizations.
25	Technology Development Loan	General Authority (ch. 238)	Provided loans to start-up and emerging-growth businesses that developed and commercialized a technologically innovative process, product, or service. Funds could be used for working capital or equipment. Award amounts depended on the stage of growth. Product and process development businesses were limited to a $250,000 loan, commercialization loans were limited to a $500,000 loan, and loans for businesses in expansion mode were limited to $750,000.
26	Business Development Loan Program	General Authority (ch. 238)	Provided loans to small businesses with limited access to traditional financing opportunities, particularly in rural areas of the state. Eligible businesses must be engaged in one of the following industries: power and control, manufacturing, water technology, aerospace manufacturing, bioscience, food and beverage, energy, forest products, or transportation.
27	Industrial Revenue Bonding	66.1103; 238.10; 238.11; 238.125	Approved counties and municipalities to issue bonds on behalf of specific businesses to finance capital investment projects or to purchase land, real estate, or equipment. The businesses were responsible for debt service on the bonds.
28	Main Street and Connect Communities	238.127	Provided technical assistance to local governments participating in historic preservation and economic development of traditional business districts. This assistance is provided through training, facade renderings, small business consultations, and the hiring of outside consultants.

Program Number	Program	Wis. Statutes	Description
29	Certified Sites	General Authority (ch. 238)	Provided certification of building sites to streamline the permitting process for businesses seeking to expand operations. WEDC worked with Deloitte to create consistent standards for industrial site certification. Eligible sites consisted of a minimum of 20 contiguous, developable acres.
30	Global Trade Venture Program	General Authority (ch. 238)	Provided Wisconsin businesses access to international markets and assisted in the development of market entry and expansion strategy plans. WEDC's market development directors led Wisconsin companies on single- or multiple-country trips, and WEDC provided participating businesses with country-specific business services. WEDC paid a portion of the costs of these services.

Appendix 2

Recipients Allocated the Largest Amounts of Tax Credits in FY 2017-18

(in millions)

Recipient	Amount
FEWI Development Corporation (Foxconn)	$2,850.0
Green Bay Packaging Inc.—Mill Division	60.0
Kwik Trip, Inc.	21.0
Community Within The Corridor Limited Partnership	12.4
TNSH Landlord, LLC	11.1
Generac Power Systems Inc.	10.0
758 North Broadway, LLC	9.5
304 North Adams Green Bay, LLC	8.9
ATI Ladish, LLC	7.0
CB Teweles Redevelopment, LLC	6.7
Brakebush Brothers, Inc.	6.5
Badger State Lofts, LP	5.6
Kleuter Building, LLC	3.5
Zuelke Building, LLC	3.4
507 South 2nd Street Development, LLC	3.3
Gold Medal Lofts, LLC	3.1
Masters Gallery Foods, Inc.	2.6
Carroll University, Inc.	2.2
Candise Street Lofts, LLC	1.8
Midwest Recycling and Coated Containerboard Mill	1.8
Total	**$3,030.3**

Appendix 3

Allocations Made through the Historic Preservation Tax Credit Program in FY 2017-18

Recipient	Project Location	Amount
Community Within The Corridor Limited Partnership	Milwaukee	$12,400,000
TNSH Landlord, LLC	Milwaukee	11,085,600
758 North Broadway, LLC	Milwaukee	9,480,000
304 North Adams Green Bay, LLC	Green Bay	8,855,879
CB Teweles Redevelopment, LLC	Milwaukee	6,721,087
Badger State Lofts, LP	Sheboygan	5,638,570
Kleuter Building, LLC	Madison	3,480,000
Zuelke Building, LLC	Appleton	3,400,000
507 South 2nd Street Development, LLC	Milwaukee	3,298,000
Gold Medal Lofts, LLC	Racine	3,074,141
Carroll University, Inc.	Waukesha	2,240,278
Candise Street Lofts, LLC	Jefferson	1,800,000
Barton School Apartments, LLC	West Bend	1,100,000
405 Washington Ave, LLC	Oshkosh	944,703
331 South 3rd Street, LLC	Milwaukee	939,859
Friar House Flats, LLC	Green Bay	840,000
Platform II Wisconsin, LLC	Milwaukee	643,200
Dale Berg	La Crosse	460,981
Sheboygan County Economic Development Foundation	Plymouth	300,000
600 North Broadway, LLC	Milwaukee	287,151
Governors Mansion, LLC	Madison	256,674
Cedar Hill Multi-Family Properties, LLC	La Crosse	117,150
D&L Baumhardt, LLC	Fond du Lac	56,312
John M. Evans Hall, LLC	Evansville	53,240
Winston Holdings, LLC	Madison	34,060
Live Here, LLC	Madison	23,923
David V. and Leigh Mollenhoff (Joint Filers)	Madison	13,392
Total		**$77,544,200**

Appendix 4

Recipients Awarded the Largest Amounts of Grants and Loans in FY 2017-18

(in millions)

Recipient	Type	Amount
Center for Technology Commercialization	Grant	$ 1.4
UWM Foundation, Inc.	Grant	0.9
BioForward, Inc.	Grant	0.8
Pegex, Inc.	Loan	0.6
The Water Council, Inc.	Grant	0.6
131 S Fair Oaks, LLC	Grant	0.5
Basin Precision Machining, LLC	Loan	0.5
City of Hudson	Grant	0.5
City of Janesville	Grant	0.5
City of Madison	Grant	0.5
DDL Holdings, LLC	Grant	0.5
Great Lakes Cheese Company, Inc.	Grant	0.5
Impact Seven, Inc.	Grant	0.5
Madison Rimrock Lodging Investors I, LLC	Grant	0.5
Milwaukee Development Corporation	Grant	0.5
PerBlue Entertainment, Inc.	Loan	0.5
Town of Grand Chute	Grant	0.5
Understory, Inc.	Loan	0.5
Wellbe, Inc.	Loan	0.5
West Allis 84 Properties, Inc.	Grant	0.5
Total		**$11.8**

Appendix 5

Five File Reviews of Selected Contracts Made through WEDC's Economic Development Programs

Grant Contracts Executed in the First Six Months of FY 2018-19

Program Number	Program	Number of Contracts	Amount
9	Brownfields Grant	3	$1,092,900
10	Community Development Investment Grant	5	952,500
12	Idle Sites Redevelopment	2	1,000,000
14	Site Assessment Grant	1	150,000
16	Seed Accelerator	3	260,700
17	Capacity Building Grant	1	49,400
18	Workforce Training Grant	2	439,200
–	Disaster Recovery Microloan Grant[1]	3	1,515,000
	Total	**20**	**$5,459,700**

Tax Credit Contracts Executed in the First Six Months of FY 2018-19

Program Number	Program	Number of Contracts	Amount
2	Enterprise Zone	3	$106,000,000
4	Business Development Tax Credit	14	7,850,000
	Total	**17**	**$113,850,000**

Tax Credit Contracts Executed from FY 2011-12 through FY 2018-19

Program Number	Program	Number of Contracts	Amount
2	Enterprise Zone	6	$103,500,000
4	Business Development Tax Credit	4	1,546,800
5	Development Opportunity Zone	1	655,000
–	Economic Development Tax Credits[1]	7	8,556,600
–	Jobs Tax Credit[1]	3	7,840,000
	Total	**21**	**$122,098,400**

Tax Credit Review

Program Number	Program	Number of Contracts	Amount
–	Economic Development Tax Credits[1]	9	$5,475,500
–	Jobs Tax Credit[1]	1	3,275,000
	Total	**10**	**$8,750,500**

Tax Credit and Loan Awards Requiring Job Creation or Retention that Ended from FY 2011-12 through FY 2017-18[2]

Program Number	Program	Number of Contracts	Amount
4	Business Development Tax Credit	1	$ 195,000
5	Development Opportunity Zone	1	500,000
–	Business Opportunity Loan Fund[1]	8	3,278,500
–	Business Retention and Expansion Investment[1]	22	15,850,000
–	Economic Development Tax Credit[1]	40	16,517,500
–	Jobs Tax Credit[1]	5	7,035,700
–	Special Projects Loan Fund[1]	1	250,000
–	State Energy Program[1]	2	5,400,000
	Total	**80**	**$49,026,700**

[1] WEDC did not execute contracts under this program in FY 2017-18.

[2] Includes 60 awards that ended from October 2016 through June 2018 and 20 awards that ended from July 2011 through September 2016.

Appendix 6

Economic Development Awards that Ended, by Program

FY 2011-12 through FY 2017-18

Program Number	Program	Awards
3	Historic Preservation Tax Credit	3
4	Business Development Tax Credit	1
5	Development Opportunity Zone	1
6	Qualified New Business Venture	48
9	Brownfields Grant	21
10	Community Development Investment Grant	32
11	Targeted Industry Projects	6
12	Idle Sites Redevelopment	1
14	Site Assessment Grant	25
15	Global Business Development Grant	156
17	Capacity Building Grant	3
18	Workforce Training Grant	3
19	Capital Catalyst	4
21	ExporTech	1
25	Technology Development Loan	27
–	Business Opportunity Loan Fund[1]	9
–	Business Retention and Expansion Investment[1]	31
–	Economic Development Tax Credit[1]	49
–	Emergency Loan Guarantee for Certified Propane Dealers[1]	4
–	Jobs Tax Credit[1]	7
–	State Energy Program[1]	2
–	Special Projects Loan Fund[1]	2
	Total	**436**

[1] WEDC no longer makes awards under this program.

Appendix 7

Activity of WEDC's Economic Development Programs

FY 2017-18

This appendix provides information on the reported activity of WEDC's 30 economic development programs in FY 2017-18. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized in the order they appear in WEDC's FY 2017-18 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 1, 5, and 6. The numerical references differ from those used in report 17-9, report 15-3, report 13-7, or report 12-11.

Program provides the designated name for each economic development program.

Program Activity describes the activity of economic development programs, as reported by WEDC.

Program Number	Program	Program Activity in FY 2017-18
1	Electronics and Information Technology Manufacturing Zone	Allocated $2,850.0 million in 1 tax credit award.
2	Enterprise Zone	Allocated $104.5 million in 5 tax credit awards.
3	Historic Preservation Tax Credit	Allocated $77.5 million in 27 tax credit awards.
4	Business Development Tax Credit	Allocated $15.6 million in 38 tax credit awards.
5	Development Opportunity Zone	No contracts were executed in FY 2017-18.
6	Qualified New Business Venture	Certified 54 new businesses.
7	Early Stage Seed Investment Tax Credit	Awarded tax credits to investors in an estimated 33 businesses totaling an estimated $7.2 million in calendar year 2018.
8	Angel Investment Tax Credit	Awarded tax credits to investors in an estimated 51 businesses totaling an estimated $7.0 million in calendar year 2018.
9	Brownfields Grant	Provided 14 grants totaling $5.6 million.
10	Community Development Investment Grant	Provided 26 grants totaling $5.6 million.
11	Targeted Industry Projects	Provided 13 grants totaling $4.0 million.
12	Idle Sites Redevelopment	Provided 5 grants totaling $2.4 million.
13	Small Business Innovation Research/Small Business Technology Transfer Matching Grant	Assisted 14 businesses through the Center for Technology Commercialization.
14	Site Assessment Grant	Provided 11 grants totaling $1.2 million.
15	Global Business Development Grants	Provided 60 grants totaling $1.2 million.
16	Seed Accelerator	Provided 5 grants totaling $970,600.
17	Capacity Building Grant	Provided 21 grants totaling $917,000.
18	Workforce Training Grant	Provided 2 grants totaling $750,000.
19	Capital Catalyst	Provided 2 grants totaling $625,000.
20	Fabrication Laboratories Grant	Provided 22 grants totaling $504,900.
21	ExporTech	32 businesses completed the 12-week program.
22	Entrepreneurial Micro-Grant	Assisted 117 businesses through the Center for Technology Commercialization.
23	Marathon County Development Corporation	Provided 1 grant totaling $100,000.

Program Number	Program	Program Activity in FY 2017-18
24	Minority Business Development	No contracts were executed in FY 2017-18.
25	Technology Development Loan	Provided 13 loans totaling $4.0 million.
26	Business Development Loan Program	Provided 1 loan totaling $500,000.
27	Industrial Revenue Bonding	Authorized $65.7 million in bonding for 9 municipalities.
28	Main Street and Connect Communities	Provided assistance to 34 Main Street Communities and 67 Connect Communities; announced 1 new Main Street Community and 8 new Connect Communities; provided technical assistance to 142 businesses.
29	Certified Sites	3 new sites certified.
30	Global Trade Venture Program	Led 6 global trade ventures and assisted 26 businesses.

Response ■

Mark R. Hogan
Secretary and CEO

May 7, 2019

Mr. Joe Chrisman
State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) financial and program evaluation. We appreciate the professionalism and cooperation your staff has exhibited during its review. As was done in prior audits, management will formally discuss your report with our Audit Committee within the next 30-45 days. At that time, we will provide management's action plan for addressing each of the recommendations contained in this audit.

The Wisconsin Economic Development Corporation's (WEDC) Mission is: "To advance and maximize opportunities in Wisconsin for businesses, communities, and people to thrive in a globally competitive environment." WEDC's talented and committed staff lives out our Mission through our Core Values which include Integrity, Respect, Accountability, Transparency, and Collaboration.

WEDC administers a diverse set of programs including those focused on strategies for the development of our Business & Community, International, Sector Strategy, Entrepreneurship & Innovation, Business & Investment Attraction, and Marketing divisions. These areas are capably supported by WEDC's Finance, Credit & Risk, Technology, Legal & Compliance, Human Resources, Public Policy and Program Performance groups. In addition, the support WEDC receives from the executive branch, the state legislature, and our Board of Directors, as well as other state agencies, is greatly appreciated and is important to Wisconsin's ongoing economic development efforts.

Economic development is most effective when it is led at the local or regional level. As the lead economic development agency in Wisconsin, WEDC works closely with our more than 600 partners who represent academia, business, industry, and local and regional economic development groups. Many of WEDC's 30 programs address quality of life opportunities and our Main Street and Connect Communities programs are prime examples of how WEDC's expertise is providing value-added services to communities throughout Wisconsin. In fact, LAB's current report highlights municipalities who were contacted by LAB and who indicated WEDC's program and consulting services allowed them to accomplish economic development goals they would not have otherwise been able to accomplish.

WEDC is committed to providing the highest levels of transparency, accountability, and operational excellence. Our focus on continuous process improvement efforts in achieving these goals has increasingly defined who we are as an organization. This may best be represented by the trend of a declining number of LAB recommendations from 24 in the May 2015 report, to 19 in the May 2017 report, and now to 10 in the current report.

LAB's Comments Regarding Improvements from Report 17-9 (issued in May 2017)
Management appreciates LAB's acknowledgement of areas where WEDC followed and improved on LAB's recommendations from the May 2017 report. These changes included improvements where, during its review period, LAB indicated WEDC had:

- Established program policies for all of its tax credit, grant, and loan programs;
- Consistently complied with statutory requirements in its staff reviews relating to funding match requirements;
- Consistently complied with statutes when allocating tax credits;
- Complied with its policies when executing grant contracts;
- Executed all tax credit and grant contracts within six months after completing staff reviews;
- Consistently complied with its policies when completing background checks of tax credit applicants;
- Complied with statutes by contractually requiring certain grant recipients to submit schedules of expenditures;
- Established policies for verifying information submitted by tax credit recipients;
- Established policies for updating the online data when closing awards;
- Modified its fund balance policy effective for FY 2017-18;
- Modified its credit card policy.

WEDC's Quality Improvement Initiatives
As mentioned earlier, WEDC fosters an environment where finding ways to continually improve our processes and procedures is both encouraged and expected. In addition to addressing the recommendations from LAB's previous audits, WEDC has developed and implemented several internal improvements that were initiated due to recommendations made by WEDC staff, including:

- The Compliance & Ethics Committee is charged with advising on best means for execution of WEDC's Compliance Plan. The committee has representation from all divisions who are charged with developing internal controls and processes that support the organization. The committee identifies areas of improvement to create cross-divisional consistency across the organization. Since February 2018, the committee has reviewed over 75 new and updated procedures.
- In May 2018, the Underwriting and Servicing functions were split into two divisions. The goal for the segregation of duties and oversight was to have the respective team members focus on their specific job responsibilities, thereby allowing for more consistent results at both the beginning and end of the award process.
- In FY 2018, WEDC added IMPLAN, an industry-standard economic impact analysis model, to its research toolbox. IMPLAN estimates the short-term impacts of construction and other capital investments on jobs, labor income, and state tax revenue. The results are then considered when determining the taxpayer's return-on-investment on the project.
- WEDC and the Wisconsin Department of Workforce Development (DWD) signed an agreement in FY 2018 allowing WEDC to receive unemployment insurance information that award recipients had submitted to DWD. Effective July 1, 2018, WEDC bolstered its verification process by using this information to help validate the information received by both new applicants and existing award recipients.

WEDC's financial reporting continues to be strong. An independent audit of WEDC's FY 2018 financial statements conducted by Sikich LLP resulted in a clean audit opinion and found no internal control deficiencies in our financial reporting. For the fifth consecutive year, WEDC received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada. This certificate is the highest form of recognition in governmental accounting and financial reporting.

LAB's Current Recommendations

WEDC acknowledges the recommendations found in LAB's current audit and thanks LAB for its constructive approach. As mentioned earlier, management will formally discuss your report with our Audit Committee within the next 30-45 days. At that time, we will provide management's action plan for addressing each of your recommendations. The following comments provide management's current observations regarding some of LAB's primary recommendations:

Enterprise Zone Program Procedures

The Electronics & Information Technology Zone ("EITMZ", enacted in 2017) and Enterprise Zone ("EZ", enacted in 2006) are separate programs with different statutory requirements. WEDC and its predecessor, the Department of Commerce, have followed similar procedures when assessing tax credit eligibility for EZ recipients. Management believes LAB's current recommendation to align the administration of the EZ and EITMZ programs is not supported by current law.

LAB's report 18-18 (December 2018) reviewed WEDC's process for verifying information submitted under the EITMZ program which was authorized under 2017 Act 58 (aka the Foxconn legislation).

Due to the similarities of the two programs, WEDC initially attempted to align the administration of the EITMZ with the administration of the EZ. But as identified in the LAB Report 18-18, the EITMZ statute is different. Specifically, it prohibits WEDC from certifying a business for tax credits for services performed outside the state, a restriction that does not exist in the EZ statute. WEDC ultimately agreed with LAB's conclusion that the EITMZ would have to be administered differently than the EZ and has updated its EITMZ procedures as recommended.

In its current report, LAB indicates WEDC should change its longstanding administration of the EZ program to align with the EITMZ procedures. LAB has determined the "services performed in the enterprise zone" should now be considered the same as "services performed in the state." Management has identified and discussed with LAB two primary issues with its interpretation.

First, the legislature was aware of the EZ statutes and generally modeled the EITMZ after that program. But in Act 58, the legislature made deliberate changes to the EITMZ that imposed an additional restriction against providing credits for services performed outside the state.

Second, WEDC relied on the Wisconsin Department of Revenue's administrative guidance in developing the processes for the EZ and EITMZ programs.

Revocation of Tax Credits

LAB identified one award where WEDC had not yet revoked credits for a contract that ended in October 2017. Management agrees with this finding but notes that WEDC staff was aware that this award required revocation and was processing this award in accordance with WEDC procedures. Procedures are in place to continue to revoke any tax credits previously awarded if the recipient does not meet its contractual requirements. Management will, however, review its procedures for prioritizing award close outs to ensure they are completed on a timely basis.

Annually Completing a Verification Effort
In addition to WEDC's processes whereby we validate every award that has the potential to earn tax credits on an annual basis, WEDC also hires an independent auditor to conduct an independent review of a sample of awards. LAB identified that WEDC completed the annual verification effort for FY 2017, but had not yet completed one for FY 2018 during the timeframe tested by LAB. Management agrees with LAB's statement but identifies that the FY 2018 audit was in process during LAB's review. Management was aware of the testing backlog relating to its annual verification process prior to this report finding and an action plan was in place to address this delay. WEDC recently completed testing for the first six-month period for FY 2018 and has begun testing for the second six-month period.

Establish Written Procedures for Closing Out Awards According to Contractual Provisions
LAB feels WEDC could have revoked additional tax credits or could have required loan recipients to repay additional dollars. These findings do not identify any statutory issues and WEDC followed its procedures. However, we will continue to review and update our procedures for clarity and consistency.

Program Evaluation and Reporting
WEDC tracks and assesses progress towards goals for all awards, and uses that data to improve existing programs and create new programs. Additionally, we are now annually contracting with an outside consultant, most recently with the UW-Whitewater's Fiscal and Economic Research Center, to conduct independent program evaluations of existing WEDC programs where a sufficient body of work exists to provide valuable analyses.

Details of all WEDC awards, totaling over 3400 awards, are publicly available on wedc.org. Significant changes were made as a result of LAB's prior recommendation and we remain committed to providing the highest level of transparency regarding program outcomes.

Summary
As part of our culture to continue to find ways to improve on our existing high levels of transparency and accountability, WEDC is committed to addressing and reconciling all of LAB's current recommendations. We will work with the Audit Committee of our Board of Directors to establish responses and timelines for achieving the recommended changes, most of which management believes can be substantially implemented prior to December 31, 2019.

Again, we appreciate and thank LAB for its constructive approach in working with WEDC's team.

Respectfully,

Mark R. Hogan

Mark R. Hogan
Secretary and CEO