

State Economic Development Programs

June 2012

Report Highlights ■

We identified 196 economic development programs administered by eight state agencies.

In the 2009-11 biennium, state spending on economic development was an estimated \$226.5 million.

State agencies did not track or publicly report complete information about program results.

WEDC can help seven state agencies to track and report program results.

The State's economic development programs are intended to retain and attract businesses, create jobs, or otherwise encourage economic growth. The Department of Commerce and the departments of Agriculture, Trade and Consumer Protection (DATCP), Natural Resources (DNR), Tourism, and Transportation (DOT); the University of Wisconsin (UW) System; the Wisconsin Housing and Economic Development Authority (WHEDA); and the Wisconsin Technical College System (WTCS) administered 196 economic development programs at some point during the 2007-09 and 2009-11 biennia.

In response to the findings and recommendations in our 2006 review of state economic development programs (report 06-9), 2007 Wisconsin Act 125 defined economic development programs, required agencies to report publicly on program results, and required us to complete another review of the State's economic development programs by July 1, 2012. Therefore, we:

- compiled a program inventory, including each program's purpose and sources of funding during the 2007-09 and 2009-11 biennia;
- analyzed the type and distribution of financial assistance and program services provided; and
- considered ways to improve effectiveness and accountability.

In July 2011, Commerce was abolished and the Wisconsin Economic Development Corporation (WEDC) became the State's lead economic development organization. Insufficient time has passed since WEDC's creation for us to assess its administration of economic development programs. However, as required by statutes, we will assess WEDC's financial management and evaluate its programs in 2013.

Key Facts and Findings

The number of state economic development programs increased from 152 in the 2001-03 and 2003-05 biennia to 196 during the 2007-09 and 2009-11 biennia.

State spending on economic development increased from an estimated \$152.8 million in the 2003-05 biennium to an estimated \$226.5 million in the 2009-11 biennium.

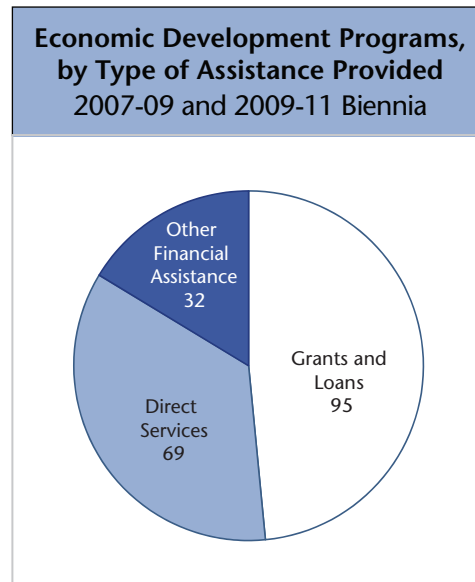
State agencies provided information on the results of 101 of the 123 programs that were active at some point during the 2009-11 biennium.

In October 2010, state agencies publicly reported information on slightly more than two-thirds of the economic development programs they administered in FY 2009-10.

We reviewed a sample of agency files and found that 65.2 percent of 89 grant and loan recipients achieved the contractually required results.

Economic Development Programs

At some point during the 2007-09 and 2009-11 biennia, eight state agencies administered 196 economic development programs that awarded grants and loans; provided direct services, such as regulatory assistance; and provided other financial assistance, such as tax credits and loan guarantees.



These 196 economic development programs typically assisted multiple types of recipients, including 171 programs that assisted businesses or individuals, 69 programs that assisted nonprofits or other organizations, and 48 programs that assisted local governments. As of June 2011, the last month of our review period, 139 economic development programs existed.

In the 2009-11 biennium, the State spent an estimated \$226.5 million on economic development. This

estimate includes grants and loans, agency staff salaries associated with providing direct services, and program administration. This estimate does not include tax credits, which typically represent foregone state revenue, and the value of bonds that the State authorizes local governments to issue.

Financial Assistance

During the 2007-09 and 2009-11 biennia, eight state agencies awarded several types of economic development financial assistance, including grants and loans, bonding authorization, loan guarantees, loan subsidies, and tax incentives.

Seven state agencies awarded \$245.3 million in grants and loans for economic development to businesses, local governments, and other organizations. Commerce awarded more than three-quarters of all grants and loans. From 2007 through 2010, it also authorized local governments to issue \$724.1 million in tax-exempt bonds to finance economic development projects.

During the 2007-09 and 2009-11 biennia, WHEDA and DOT provided \$74.9 million in loan guarantees, which guaranteed the principal payments on loans made by private financial institutions if the borrowers defaulted, and loan subsidies, which provided funds to private financial institutions that agreed to make loans to businesses at interest rates lower than would otherwise have been made.

Under tax incentive programs, Commerce and DATCP allocated tax credits to businesses and individuals who contractually agreed to complete projects. Development zone programs were intended to encourage economic development in specific geographic areas, while early-stage investment tax credit programs were intended to increase funding for new businesses. After an agency verified that projects were completed, businesses and individuals were given a specified number of years to claim the awarded tax credits against their income taxes. In 2007 and 2008, \$42.0 million in tax credits were claimed.

Program Results and Accountability

2007 Wisconsin Act 125 required the eight agencies to measure the effectiveness of economic development programs and report publicly on results. We evaluated agency compliance with the requirements of Act 125 and identified concerns with the completeness of information that the eight agencies tracked and reported.

Act 125 required the eight state agencies to develop goals and accountability measures for each economic development program. The eight agencies provided us with information on the results of 101 of the 123 programs that were active at some point during the 2009-11 biennium. Commerce provided information on less than 75.0 percent of its programs.

Act 125 required each of the eight state agencies to establish rules for overseeing recipients of grants and loans. As of May 2012, only Commerce and DOT had established the rules.

To obtain additional information on program effectiveness, we reviewed the files for 113 grants and loans totaling \$77.7 million awarded by six state agencies through 25 economic development programs. Recipients of the 113 awards submitted 66.9 percent of 489 contractually required reports on their progress toward meeting the terms of their contracts. At the time of our review, the contract periods for 89 of the 113 awards were completed. We found that 58 of the 89 award recipients achieved the contractually required results, and another 19 partially achieved them.

Act 125 also required Commerce to collaborate with the other seven agencies to report publicly by October 1 of each year on each economic development program they administered. The reports were to include such information as quantifiable performance measures and expected and actual program outcomes.

The October 2010 report included information on slightly more than two-thirds of the programs we identified as having been administered by the agencies in fiscal year (FY) 2009-10. Some agencies excluded programs that they believed did not meet the statutory definition of an economic development program. Agencies

reported quantified outcomes for less than half of the programs included in the report.

To improve accountability and achieve compliance with the requirements of Act 125, more complete information about program results is needed. Agency managers also need information about program effectiveness to better manage the programs they administer.

Statutes require seven state agencies to consult with WEDC when they develop goals and accountability measures for each of their economic development programs. As the State's lead economic development organization, WEDC should use its expertise to provide the seven state agencies with such guidance.

Recommendations

We include recommendations for WEDC to:

- ☑ work with DATCP, DNR, Tourism, DOT, UW System, WHEDA, and WTCS to determine the programs to include in the October 2012 economic development report and report to the Joint Legislative Audit Committee by October 15, 2012, on the reasons why any programs that we identified were excluded from that report (*p. 78*); and
- ☑ provide guidance to DATCP, DNR, Tourism, DOT, UW System, WHEDA, and WTCS on establishing goals and accountability measures for each program (*p. 83*).

We include a recommendation for WEDC, DATCP, DNR, Tourism, DOT, UW System, WHEDA, and WTCS to ensure that accurate and complete information on program outcomes is included in the annual economic development reports (p. 80).

We include a recommendation for each state agency administering an economic development program that awards grants or loans to comply with statutes and annually verify the performance measure information reported by the recipients of a sample of grants and loans (p. 70).

We include a recommendation for each state agency administering an economic development program that awards grants, loans, or tax benefits either to comply with statutes and establish rules that allow it to recoup payments, withhold payments, and impose forfeitures on award recipients, or report to the Joint Legislative Audit Committee by October 15, 2012, on the reasons it has not established rules (p. 70).

We include a recommendation for each state agency administering an economic development program that awards grants or loans either to comply with statutes and establish rules that require it to contractually require recipients of awards of at least \$100,000 to submit verified financial statements, or report to the Joint Legislative Audit Committee by October 15, 2012, on the reasons it has not established rules (p. 71).

We include a recommendation for the Legislature to consider modifying s. 238.07(2), Wis. Stats., to require the annual economic development reports to include additional information on the results of each economic development program (p. 81).

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 12-11, which includes a response from the Wisconsin Economic Development Corporation, call (608) 266-2818 or visit our website:



www.legis.wisconsin.gov/lab

Address questions regarding this report to:

Dean Swenson
(608) 266-2818

Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Toll-free hotline:
1-877-FRAUD-17

Joe Chrisman
State Auditor