To view report 06-9

A Review:

State Economic Development Programs

August 2006

Report Highlights

The State spent an estimated $152.8 million on economic development programs in the 2003-05 biennium.

We identified 152 economic development programs administered by state agencies.

At least one project in every county was awarded economic development funds during the period we reviewed.

Efforts to measure and report program results have been limited.

Wisconsin's economic development programs are intended to create jobs, attract and retain businesses, or otherwise encourage economic growth. The Department of Commerce is the State's lead agency, but seven other state agencies also administer economic development programs to assist businesses, local governments, and organizations.

In the 2003-05 biennium, state spending on economic development was an estimated $152.8 million. That amount includes funding for grants and loans, as well as spending for direct program services and administrative costs. In addition, $109.3 million was provided in bonding authorization, as well as $36.0 million in loan guarantees and $27.9 million in tax credits claimed by businesses.

As both the number and types of economic development programs have grown, some policymakers have raised concerns about their scope, effectiveness, and coordination. Therefore, at the direction of the Joint Legislative Audit Committee, we:

- compiled a program inventory, including each program's purpose, award criteria, and sources of funding;
- analyzed the type and distribution of financial assistance and program services provided;
- reviewed information collected by state agencies to evaluate program effectiveness; and
- reviewed other states' efforts to enhance accountability in their economic development programs.

Key Facts and Findings

Projects in Milwaukee, Dane, and Rock counties received nearly one-third of all grants and loans awarded during our review period.

From FY 2001-02 through FY 2004-05, 109 businesses and local governments received $500,000 or more in financial assistance.

Projects in eight counties that met no criteria for economic distress were awarded 21.3 percent of grants and loans during our review period.

Every part of Wisconsin is currently designated as a development zone.

Accountability could be enhanced by verifying that those receiving assistance have met their commitments.

Scope of Efforts

We identified 152 economic development programs. From fiscal year (FY) 2001-02 through FY 2004-05, 78 of these programs primarily offered grants or loans; 58 primarily offered direct services such as consulting, regulatory assistance, and planning; and 16 offered loan guarantees, bonding authorization, and targeted tax credits. We estimate that as of June 30, 2005, state agencies were authorized at least 247.9 full-time equivalent staff for administering these economic development programs.

We identified a large number of programs that provide similar services. For example, 34 programs assist businesses in purchasing fixed assets such as land, buildings, or equipment, and 26 programs assist with business planning.

Some programs target specific types of businesses or encourage the growth of particular industries.

Targeted Programs

Type of Business	Number of Programs
Small Business	46
Early-Stage Business and Entrepreneurs	40
Agricultural Business	34
Technology-Based Business	21
Minority-Owned Business	18

For example, 46 programs target small businesses, including 35 that provide financial assistance and 11 that provide services such as business planning or technical assistance.

Some program duplication may be desirable to ensure that services are available statewide or that they can be provided locally. However, duplication increases administrative costs and may confuse those seeking assistance or hinder the Legislature's ability to assess program accomplishments and provide adequate oversight.

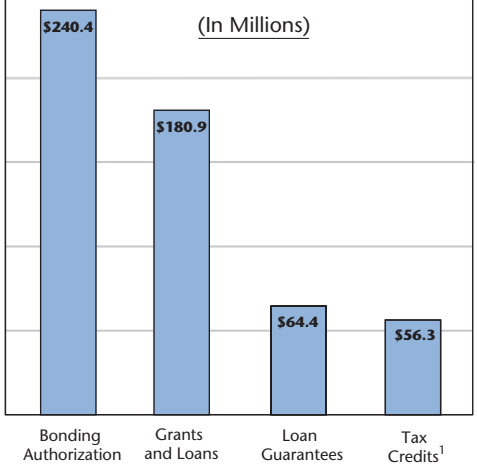
We identified 23 programs that were inactive during some or all of our audit period. Six have already been repealed, but the remaining 17 have not. Consolidation or elimination of some of these programs could simplify both program administration and oversight.

Distribution of Financial Assistance

We analyzed the $180.9 million in grants and loans for economic development that state agencies awarded to businesses, individuals, local governments, and other organizations from FY 2001-02 through FY 2004-05. Projects in Milwaukee, Dane, and Rock counties received nearly one-third of all funds awarded during that period, but at least one project in every county was awarded a grant or loan.

Although economic development projects in Milwaukee County received more funding than those in other counties, on a per capita basis Milwaukee County's grant and loan awards were $2.71 below the statewide average of $30.38. From FY 2001-02 through FY 2004-05, per capita grant and loan funding ranged from $1.63 in Menominee County to $120.09 in Green County.

Financial Assistance Awarded
FY 2001-02 through FY 2004-05



[1]Because tax credits are tracked on a calendar year basis, we reviewed the amounts awarded from 2001 through 2004.

Some economic development programs also assist Wisconsin businesses by facilitating access to capital. State agencies authorized $240.4 million in bonding for economic development during the past two biennia, including $239.6 million in industrial revenue bonds and $770,100 in bonds to raise capital for farm loans. In addition, six economic development programs guaranteed $64.4 million in loan principal payments if borrowers default.

Tax policies are also an important component of the State's economic development efforts. To encourage economic development in specific geographic areas, businesses located in designated development zones have been eligible for income tax credits since 1988. Statutes currently allow for the designation of as many as 135 development zones under five programs, and every part of the state is included in at least one development zone.

Through June 30, 2005, the Legislature authorized up to $406.6 million in development zone tax credits, and Commerce awarded $122.6 million in credits to eligible businesses. Businesses in Milwaukee County received 26.5 percent of the $56.3 million in income tax credits awarded during the four-year period we reviewed.

Improving Coordination and Accountability

To make informed decisions about economic development programs, policymakers need accurate and reliable information about their costs and effectiveness. However, agency responsibility for administering economic development programs is fragmented, efforts to measure and report results are limited, and no single entity is responsible for ensuring that the programs are working toward common policy goals. For example, we identified 26 councils, task forces, or other bodies that are responsible for overseeing and coordinating various aspects of the State's economic development programs.

We believe accountability could be enhanced by improving coordination, reducing the number of programs with similar purposes, consolidating agency reporting requirements, and disclosing project costs and benefits to the public.

Development Zone Tax Credits
Through June 30, 2005

	Available Credits (In Millions)	Amount Awarded (In Millions)
Community Development Zones	$ 38.2	$ 23.3
Development Opportunity Zones	29.4	11.5
Enterprise Development Zones	294.0	84.4
Agricultural Development Zones	5.0	0.9
Technology Zones	40.0	2.4
Total	**$406.6**	**$122.6**

Recommendations

We include recommendations for the Department of Commerce to report to the Joint Legislative Audit Committee by February 15, 2007, on its efforts to:

- ☑ identify duplicative and outdated programs (*p. 40*);
- ☑ improve procedures for tracking and reporting actual project results (*p. 77*);
- ☑ improve procedures for monitoring the long-term success of projects (*p. 79*);
- ☑ improve tracking and reporting of tax credits claimed by businesses located within development zones (*p. 96*); and
- ☑ provide additional information on the effectiveness of the Certified Capital Companies program (*p. 101*).

We also include a recommendation that the University of Wisconsin System and the Wisconsin Technical College System designate an economic development liaison at each campus, publish directories of their business assistance programs, and report to the Joint Legislative Audit Committee by February 15, 2007 (*p. 49*).

Finally, we include recommendations for the Legislature to consider:

- ☑ specifying criteria for designating future development zones (*p. 90*);
- ☑ encouraging the establishment of clear and measurable goals to ensure that programs are coordinated effectively (*p. 113*);
- ☑ reducing the number of programs by consolidating statutory requirements and standardizing eligibility criteria for similar programs (*p. 115*);
- ☑ consolidating reporting requirements for state agencies (*p. 116*); and
- ☑ enacting public disclosure requirements to improve the transparency in the use of state funds for economic development (*p. 117*).

Additional Information

Report 06-9 includes a response from the Department of Commerce, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

Paul Stuiber
(608) 266-2818

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.

Legislative Audit Bureau

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

Janice Mueller
State Auditor

To view report 06-9