



## Wisconsin Economic Development Corporation

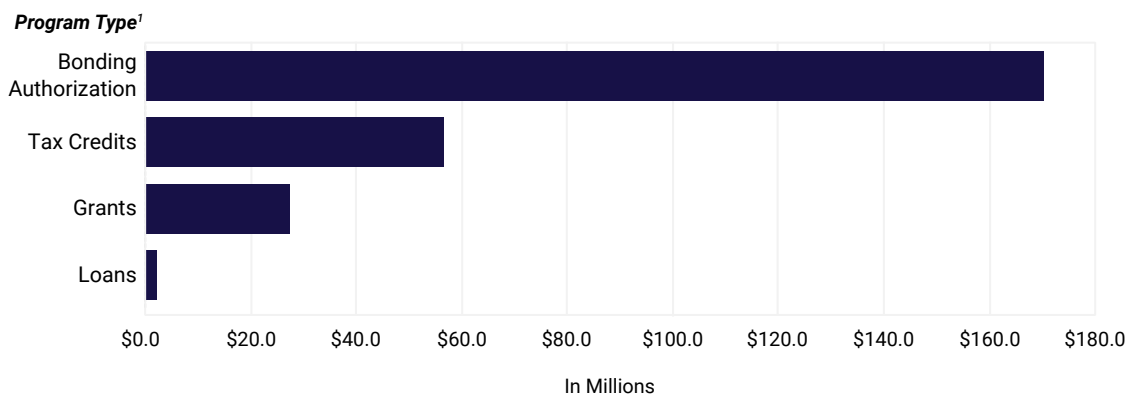
The Wisconsin Economic Development Corporation (WEDC) has been Wisconsin’s lead economic development organization since fiscal year (FY) 2011-12. Section 13.94 (1) (dr), Wis. Stats., requires us to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC’s economic development programs. This is our fifth biennial audit of WEDC.

We found that WEDC largely complied with statutes and its contracts when administering its programs in FY 2019-20, but it should improve how it oversees tax credit contracts and assesses program results. WEDC’s online data contained inaccuracies and were incomplete, and its total available funding for grants, loans, and administrative costs continued to exceed its total payments. We make recommendations for improvements and provide three issues for legislative consideration.

### WEDC administered 31 programs in FY 2019-20

WEDC allocated tax credits, awarded grants and loans, and authorized local governments to issue bonds through its 31 programs in FY 2019-20.

**Amount of Assistance Provided through WEDC’s Economic Development Programs**  
FY 2019-20



<sup>1</sup> WEDC’s three technical assistance programs did not provide financial assistance.

From March 2020 through September 2020, WEDC administered three grant programs that were intended to help small businesses affected by the public health emergency. During this period, we found that WEDC administered these three programs in accordance with its policies.

From December 31, 2018, to December 31, 2020, WEDC's potentially uncollectable balance of loans 90 days or more past due decreased from \$7.6 million to \$6.6 million. This decrease occurred largely because WEDC wrote off loans and amended loan contracts to defer repayments, even though new loans became 90 days or more past due during this two-year period. We recommend that WEDC continue to provide the Joint Legislative Audit Committee with semiannual information about past-due loans.

### **WEDC largely complied with statutes and its contracts when administering its programs in FY 2019-20, but we make recommendations for improvements**

We reviewed WEDC's files for 37 tax credit awards totaling \$283.1 million. Recipients of these awards were required to submit reports on their performance to WEDC in FY 2019-20. Our file review found that:

- WEDC's written procedures did not require WEDC to award Enterprise Zone program tax credits only for the wages paid to employees for services performed in an enterprise zone. In this way, these procedures did not comply with statutes. We recommend WEDC modify these procedures to require it to award program tax credits only for the wages paid to employees for services performed in an enterprise zone.
- WEDC at times waited for more than one year to revoke tax credits from firms that had not met their contractual obligations. The Department of Revenue is statutorily required to charge 12.0 percent interest annually on the amount of unpaid taxes, and it indicated that it charges interest in amounts based on the date a recipient claimed tax credits and the date WEDC revoked tax credits. We recommend WEDC develop written policies that require it to revoke tax credits in a timely manner.

The Legislature could consider modifying Business Development Tax Credit program statutes to require WEDC to award program tax credits only for the wages paid to employees for services performed in Wisconsin. Currently, statutes do not require WEDC to award program tax credits in this manner.

Statutes require WEDC to annually and independently verify the accuracy of the information in the performance reports submitted by a sample of tax credit, grant, and loan recipients. WEDC complied with statutes by completing an annual verification for FY 2018-19 and for the first six months of FY 2019-20. However, we found that WEDC did not assess the fringe benefits offered to the employees of award recipients. We recommend WEDC ensure its annual verification effort assesses these fringe benefits.

## From FY 2011-12 through FY 2019-20, award recipients created approximately one-third of the planned number of jobs

WEDC's information indicated that 681 awards closed from FY 2011-12 through FY 2019-20, including 151 tax credit and loan awards that contractually required the recipients to create jobs and 131 tax credit and loan awards that contractually required the recipients to retain jobs. We found that 72 of the 151 awards and 53 of the 131 awards ended before the contractually specified completion dates, including because the award recipients withdrew from their contracts, did not comply with contractual requirements, or ceased operating in Wisconsin.

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### Estimated Job Creation and Retention Results of Awards That Ended FY 2011-12 through FY 2019-20

#### Estimated Job Creation Results of 151 Awards That Ended



Planned Jobs: 12,701

- Jobs Created
- Difference between Jobs Created and Jobs Planned

#### Estimated Job Retention Results of 131 Awards That Ended



Contractually Required Jobs: 25,443

- Jobs Retained
  - Difference between Jobs Retained and Jobs Contractually Required
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## **WEDC should improve how it oversees tax credit contracts and assesses program results**

We found that WEDC established incomplete written procedures for closing awards. For example, the procedures did not require WEDC after each contract year to reclaim previously awarded tax credits if award recipients do not retain all previously created jobs for which they were awarded tax credits.

We recommend WEDC improve how it oversees tax credit contracts, including by:

- awarding job creation tax credits only when recipients create jobs according to contractual provisions; and
- working with the Department of Revenue to implement a method for reclaiming after each contract year some or all previously awarded tax credits if recipients do not retain all jobs for which they had been previously awarded job creation tax credits.

A sufficient number of awards have ended for WEDC to comprehensively assess the results of its programs. We recommend WEDC annually and comprehensively assess awards that ended and use this information to consider changes to its program policies and when making decisions about future awards.

## **WEDC's online data contained inaccuracies and were incomplete**

Statutes require WEDC to annually report on certain programmatic information. We assessed how WEDC reported on its programs in FY 2019-20, including in its online data that present information on program results. We found that:

- the online data did not accurately reflect the numbers of contractually required jobs created and retained as a result of awards that ended; and
- the online data double-counted the numbers of jobs retained as a result of certain awards.

WEDC removed from the online data information about awards that closed a year or more earlier.

We found similar concerns in our two most-recent audits of WEDC (report 19-6 and report 17-9). We recommend WEDC improve the accuracy and completeness of its statutorily required annual economic development program report.

The Legislature could consider modifying statutes to require WEDC to report additional information about the numbers of jobs created and retained as a result of WEDC's awards.

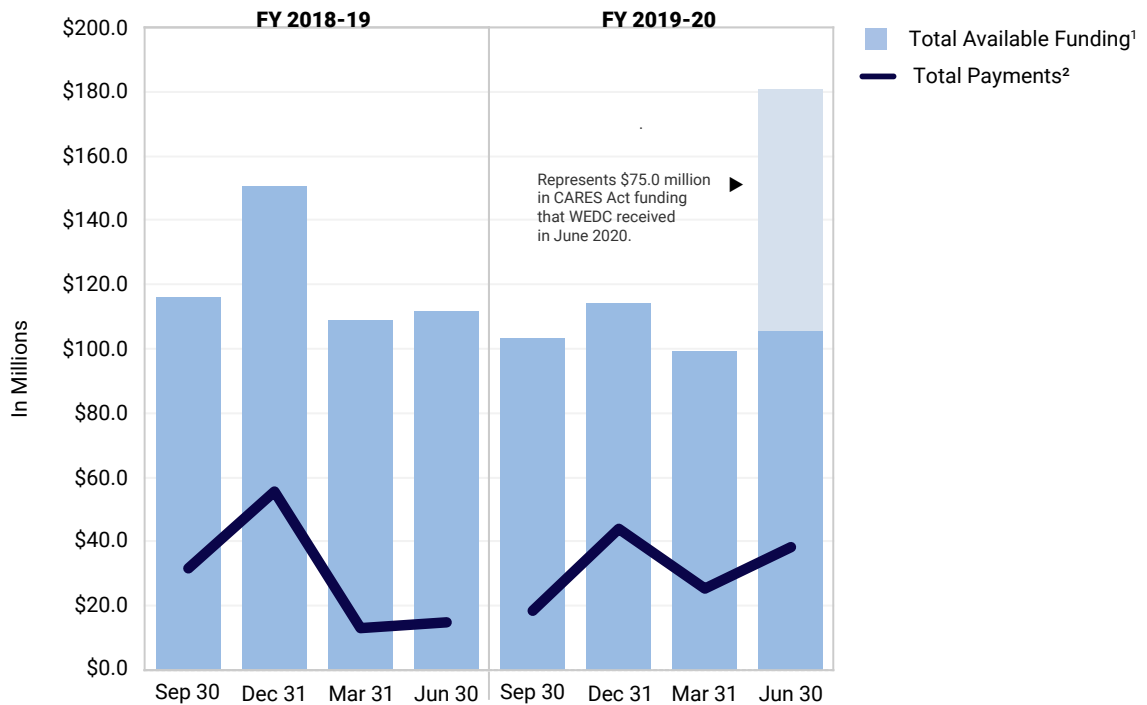
## WEDC's total available funding continued to exceed its total payments

In FY 2019-20, state funding accounted for 90.4 percent of WEDC's total revenue. The Department of Administration provided WEDC with state funding on a quarterly basis, without taking into consideration WEDC's existing resources, commitments, or expenditures. DOA indicated that it did so because WEDC is not a state agency and, therefore, DOA had no statutory authority to require WEDC to demonstrate the need for funding.

WEDC is the custodian of its cash and investments, which represent its total available funding. On an ongoing basis, WEDC makes payments for its administrative costs and to grant and loan recipients. In the quarter ending on June 30, 2020, WEDC's total available funding was \$67.2 million more than its total payments, excluding \$75.0 million in federal funding WEDC received in June 2020. WEDC provided information indicating that its unassigned fund balance, which represents the remaining amount held by WEDC that is not obligated or specifically set aside to be used for particular purposes, was \$6.2 million on June 30, 2020.

The Legislature could consider directing WEDC to spend some of its available funding, such as on businesses affected by the public health emergency.

**WEDC's Total Payments and Total Available Funding at Quarter End**



<sup>1</sup> Includes the cash and investments balance at the start of a given quarter as well as the amounts received during that quarter.

<sup>2</sup> Includes all payments made for administrative costs and payments to grant and loan recipients. Excludes tax credit payments, which WEDC does not pay.