



Mark R. Hogan
Secretary and CEO

Testimony of Wisconsin Economic Development Corporation

Secretary Mark R. Hogan
Joint Committee on Finance
March 29, 2017

Thank you, Senator Darling and Representative Nygren, and thanks to your committee for the opportunity to be here today. I am joined by Tricia Braun, our Deputy Secretary and Chief Operating Officer.

Since Governor Walker announced his budget in early February, I have had the opportunity to meet with each of you to discuss the provisions of his budget related to the Wisconsin Economic Development Corporation ("WEDC"). I appreciate and thank each of you for taking the time to meet with me.

After a few opening remarks, I would like to discuss two key provisions of the budget – those being the restoration of base-leveling funding and the reinstatement of a loan program.

Governor Walker's budget builds upon the significant investments and business friendly policies that have been enacted over the past six years. With a clear focus on workforce development, the Governor's budget complements the state's existing economic development efforts by providing WEDC the tools and resources necessary for the State of Wisconsin to fulfill our Mission to,

"Advance and maximize opportunities in Wisconsin for businesses, communities and people to thrive in a globally competitive environment."

I am very appreciative Governor Walker acknowledges the process improvements we have implemented in recent years. His budget is focused on proposals that ensure WEDC can continue to provide programs to help grow Wisconsin's economy.

As a public-private entity, we fully understand the importance of accountability and transparency, both of which I will touch on at the end of my remarks. But our unique structure also gives us the flexibility to address the changing economic development needs of Wisconsin's businesses and communities. Over the past 18 months that I have had the privilege to serve the citizens of Wisconsin, I have seen on numerous occasions the importance of being able to use that programmatic flexibility.

A prime example is that after the legislature appropriated \$500,000 for Fab Labs in the current budget cycle, WEDC saw the incredible demand for this program and we added another \$100,000 of our funds, thereby increasing from 20 to 24 the number of school districts receiving awards in the program's first year.



With the legislature's initial appropriation spent in the first year and the demand continuing for Fab Labs, WEDC again used the flexibility of our block grant funding model to re-allocate \$500,000 from other programs. This will result in an additional 20 school districts receiving awards which will be announced in April.

With his primary focus on workforce development, Governor Walker's budget also acknowledges the importance of the Fab Labs program by directing WEDC to continue to allocate \$500,000 from our appropriation in each of the next two fiscal years.

The WEDC team is very committed to serving our state as well as achieving our mission, and it is a privilege for me to lead and support their efforts. Whether it is our efforts in international, community and downtown development, targeted industries, entrepreneurs and innovation, business retention and attraction, or talent strategies, WEDC's programs are addressing the needs of our state's businesses and communities.

But we are also supported by the approximately 600 economic development partners throughout the state including those in academia, local and regional economic development organizations, and industry groups, just to name a few. These groups are also very talented and committed in their efforts. I will repeat here what I say every chance I get, and that is economic development is most effective when it is led from the local and regional levels. They know the needs of their communities and businesses best and WEDC's role is to provide them technical assistance and programs that can only be provided at the state level.

But as the lead economic development agency in the state, WEDC embraces the responsibility of providing leadership to leverage the efforts of all our partners. The results show the state's economic development partners work best, and are most effective, when we work together.

Increase the base funding \$6.3 million in FY18-19

The first WEDC-related provision in Governor Walker's budget I would like to discuss is the increase of WEDC's appropriation by \$6.3 million in the second year of the biennial budget.

As you are aware, WEDC's appropriation consists of two sources - the economic development surcharge ("SEG") and General Purpose Revenue ("GPR"). As you may recall, as part of the current biennial budget process in early 2015, WEDC was required to establish a new fund balance policy which, in effect, directed us to use our excess reserve funds to balance our budget.

The current biennial budget called for the SEG portion of the appropriation to remain at \$21.8 million, but GPR was reduced to \$7 million in FY16 and then increased to \$12.5 million in the current fiscal year.

As a result, in FY16 and again this year, WEDC has balanced our budget by drawing down our reserves to fund our programs and operations. There are sufficient funds to balance FY18's budget, but at that point, it would be fully depleted. With the proposed SEG and GPR combined increase of \$6.3 million in FY19, WEDC will be able to maintain our economic development efforts at the current level.

To provide some context for these efforts, our FY16 Annual Report on Economic Development ("ARED") reported WEDC program activity included more than 350 awards, with nearly \$200 million in state and WEDC resources invested, that created leverage of 11:1. This means the projects WEDC supported accounted for \$1.7 billion in capital investment in Wisconsin.

Specifically, the impact from the jobs-related awards showed there were 8,162 jobs expected to be created with another 18,585 jobs retained, resulting in a total jobs impact of 26,747.

Contracted awards are published on a quarterly basis on our website and you will also find attached an exhibit listing several of the awards issued by WEDC in FY16 and FY17.

Reinstating a loan program

The second provision of Governor Walker's proposed budget related to WEDC is the reinstatement of a loan program. In discussions with Governor Walker, as well as in my meetings with you, I have stressed the importance of having a loan program as a part of our tool kit because its flexibility is a critical component of our business retention and rural development strategies.

Due to the annual job creation requirements of the Business Development Tax Credit program ("BTC"), the loss of a loan program would severely hamper our competitiveness and our ability to retain Wisconsin companies where job creation is not a driving factor. Every state has some version of a loan program and its reinstatement will allow us to remain competitive in making sure Wisconsin-based companies stay in Wisconsin.

Many of you asked how much of a loan program is required. It is difficult to answer that question at this point other than to say just as is the case with the more than 25 programs at WEDC, the dollars allocated to a loan program will need to compete with the needs and priorities of other programs (e.g. brownfields, idle sites, community development investment grants, etc.).

As part of WEDC's own annual budget process, our board of directors reviews the guidelines for, and amounts allocated to, each of our programs. As part of this process, our board of directors will also review and approve the loan program's guidelines based on final legislative language.

I appreciate the Governor's willingness to include a revolving loan program in his budget. His proposal offers safeguards for our taxpayers' money and at the same time, ensures WEDC remains competitive in our efforts to help grow Wisconsin's economy.

Transparency and accountability

As I mentioned at the outset, I, along with all my WEDC associates, fully understand the significance of transparency and accountability. From my very first day at WEDC, we have talked about the importance of embracing a culture of continuous process improvement.

Regardless if a company is 5, 15 or 50 years old, the most successful companies are those who continually look for ways to improve on how they operate. That is a sign of a strong company, not a weak one. As such, we will continue to look for ways to improve what we do and I am very confident that my WEDC associates feel empowered to step forward and make suggestions when they see where things could be done better.

I have mentioned to each of you the Legislative Audit Bureau ("LAB") has been conducting its bi-annual audit since the end of October. As they finish up their work, I look forward to reviewing their report and as we did with their last audit, use their recommendations as an opportunity to continue to improve on how we operate.

Thank you again for the opportunity to be here today and we would be pleased to answer any questions you might have.



RECENT KEY WEDC INVESTMENTS

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Here are some of the key investments made in the last two years by the Wisconsin Economic Development Corporation (WEDC) as it continues to advance and maximize opportunities for businesses, communities and people to thrive in a globally competitive environment.

Business Development Investments

- **HARIBO of America Inc.:** WEDC along with its regional and local partners has been working with the German company for six months on its plans to establish its first North American manufacturing facility in Kenosha County.
- **Direct Supply Inc.:** Awarded up to \$22.5 million in tax credits for the expansion of its global headquarters on Milwaukee's north side, an \$81 million project expected to create 800 jobs and retain 1,084.
- **Dollar General Inc.:** Awarded up \$5.5 million in tax credits for a distribution center in Beloit, a \$75 million project expected to create 552 jobs.
- **Milwaukee Electric Tools:** Awarded up to \$18 million in tax credits to support the expansion of the company's headquarters in Brookfield, a project expected to create nearly 600 jobs and retain 820.
- **The Little Potato Company:** Awarded the Canadian company up to \$740,000 in tax credits to support the establishment of its U.S. headquarters in DeForest, a \$20 million facility expected to employ more than 100 people.
- **Menasha Corp.:** Awarded a \$3 million loan to support the \$59 million expansion of the company's Neenah headquarters and facilities in Menasha and DeForest, which is expected to result in 300 new jobs and the retention of more than 1,300.

Community Development Investments

- **St. Croix Falls:** \$500,000 Community Development Investment (CDI) Grant to help fund the restoration and expansion of the historic Civic Auditorium, which is expected to be a catalyst for commercial redevelopment.
- **Kimberly:** \$500,000 Idle Sites Redevelopment Grant to redevelop the former New Page Mill site into a mixed-use riverfront neighborhood that will ultimately include commercial development and 855 residential units.
- **Menomonee Falls:** \$250,000 CDI Grant to help redevelop a historic fire station into a rustic Italian bistro, a project that will be a key part of the village's downtown revitalization.
- **Milwaukee:** \$147,000 Brownfield Grant to the St. Ann Center for Intergenerational Care for the expansion of its facility on West North Avenue that will include an Alzheimer's/dementia unit and an overnight respite unit to serve the community.

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- **Waupaca:** \$225,739 CDI grant for the redevelopment of the vacant 1882 Pinkerton Building, located in the North Main Street Historic District.
- **Neenah:** \$250,000 CDI grant for the development of a five-story office building and parking improvements as part of a larger strategy to redevelop the former Glatfelter Mill in downtown.

Industry Cluster Investments

- **Maritime Center of Excellence (Marinette):** \$500,000 Brownfield Grant to help fund cleanup work for a site that will be home to a facility that will support and strengthen the state's maritime and shipbuilding industry.
- **Fab Labs:** WEDC administered the state's Fab Lab program in 2016 by providing grants of up to \$25,000 to 25 school districts throughout the state and will be expanding the program to approximately 20 more districts in 2017.
- **I-41 Corridor Initiative:** WEDC was awarded a \$3.1 million competitive Department of Defense grant to work with the East Central Wisconsin Planning Commission and more than 20 regional partners on a plan to help create greater economic diversity in the region.

Supporting Startups and Small Businesses

- **Entrepreneurship Support Grants:** In January 2017, WEDC awarded nearly \$500,000 in grants to 11 organizations statewide to help develop or expand innovative programs aimed at advancing the climate for entrepreneurship. The grants will help fund activities such as the promotion of entrepreneurship, entrepreneurial education, and mentorship and training.
- **Minority Business Development:** In FY16, more than 300 businesses across the state were assisted through WEDC's investment in the Hispanic Chamber of Commerce of Wisconsin, the African-American Chamber of Commerce of Wisconsin, the Hmong Wisconsin Chamber of Commerce and the American Indian Chamber of Commerce of Wisconsin. Since 2011, WEDC has invested \$2.05 million in the four minority chambers of commerce, including \$700,000 for the chambers' revolving loan fund programs that are expected to result more than 200 jobs at minority-owned small businesses.
- **International Business Development:** In FY16, 26 businesses completed WEDC's ExporTech Program, which provides training to companies on how to create and implement an exporting plan. While ExporTech is not unique to Wisconsin, the state is the national leader in this program. Wisconsin ExporTech graduates on average report a total positive impact on their business of more than \$600,000 within one year of completing the program, far surpassing the U.S. average impact of \$350,000.
- **Qualified New Business Venture Tax Credit:** This investor tax credit is an important tool in helping early-stage companies need gain access to the capital necessary for growth. In 2015, WEDC authorized a record \$18.3 million in QNBV tax credits, and since the program's inception in 2005, QNBV-certified companies have secured nearly \$2 billion in outside funding.

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