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Details: Audit Report 06-9, State Economic Development Programs

(FORM UPDATED: 08/11/2010)

## WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

### 2005-06

(session year)

### Joint

(Assembly, Senate or Joint)

### Committee on Audit...

### COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

### INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill)                      (**ar** = Assembly Resolution)                      (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill)                              (**sr** = Senate Resolution)                              (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

# Record of Committee Proceedings

## Joint Legislative Audit Committee

### Audit Report 06-9, State Economic Development Programs

August 29, 2006

#### **PUBLIC HEARING HELD**

Present: (10) Senators Roessler, Cowles, S. Fitzgerald, Miller and Lassa; Representatives Jeskewitz, Kaufert, Kerkman, Travis and Cullen.

Absent: (0) None.

#### Appearances For

- None.

#### Appearances Against

- None.

#### Appearances for Information Only

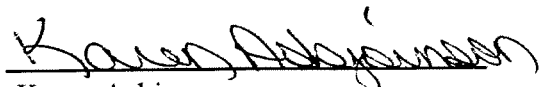
- Janice Mueller, Madison — State Auditor, Legislative Audit Bureau
- Jeff Ripp, Madison — Legislative Audit Bureau
- Mary Burke, Madison — Secretary, Department of Commerce
- Kevin Reilly, Madison — President, University of Wisconsin-System
- Dan Clancy, Madison — President, Wisconsin Technical College System Board
- Andy Lisak, Superior — Wisconsin Economic Development Association
- James Otterstein, Janesville — Wisconsin Economic Development Association
- Peter Thillman, Green Bay — Wisconsin Economic Development Association
- Anthony Fikes, Milwaukee

#### Registrations For

- None.

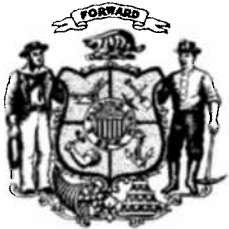
#### Registrations Against

- Lane Bostrom, Milwaukee

  
Karen Asbjornson  
Committee Clerk



# WISCONSIN STATE LEGISLATURE





STATE OF WISCONSIN

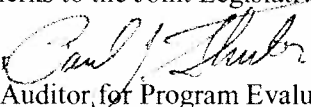
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

Janice Mueller  
State Auditor

DATE: August 7, 2006

TO: Karen Asbjornson and Pamela Matthews  
Committee Clerks to the Joint Legislative Audit Committee

FROM: Paul J. Stuibert   
Deputy State Auditor for Program Evaluation

SUBJECT: Report 06-9: A Review: State Economic Development Programs

Enclosed is our review of state Economic Development programs, as requested by the Joint Legislative Audit Committee. The Department of Commerce and seven other state agencies spent an estimated \$152.8 million on economic development during the 2003-05 biennium. Concerns have been raised about the scope of Wisconsin's programs, their effectiveness, and the degree of coordination among state agencies.

We identified 152 programs administered by these agencies from FY 2001-02 through FY 2004-05 that are intended to encourage the establishment and growth of businesses, including creating and retaining jobs. These programs provided financial assistance, tax incentives, and direct services to businesses, individuals, local governments, and nonprofit and other organizations from fiscal year (FY) 2001-02 through FY 2004-05. During the period we reviewed, these programs awarded \$180.9 million in grants and loans, as well as \$56.3 million in targeted tax credits, \$240.4 million in bonding authorization, and \$64.4 million in loan guarantees.

Wisconsin's programs provide assistance to businesses of every size and at every stage in their development. For example, we identified 46 programs targeted to small businesses, 34 programs targeted to agricultural businesses, and 18 programs targeted to minority businesses. However, many of these programs may offer duplicative services. We make recommendations to streamline the State's economic development programs by clarifying their purposes, consolidating statutory requirements, and standardizing eligibility criteria.

Because of the large number of programs and agencies involved, responsibility for administering economic development programs is fragmented. We identified at least 26 different boards, councils, or task forces responsible for overseeing the State's programs. We also make recommendations to improve coordination among state agencies.

Agency efforts to track and report results have been limited, and there is no single measure appropriate for evaluating whether these programs have effectively accomplished their public purposes. In many instances, agencies reported expected, rather than actual, results. We believe additional efforts are needed to measure and report actual project results and to disclose additional information about the costs and benefits of the State's programs to policymakers and the public.

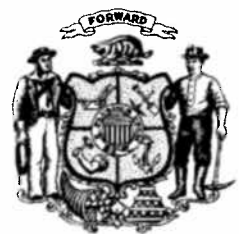
The report is scheduled to be released on Tuesday, August 8, at 9:00 a.m. Please contact me if you have any questions.

PS/JJR/km

Enclosures



# WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

**Joint Legislative Audit Committee**

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

For Immediate Release

August 8, 2006

For More Information Contact:

Senator Carol Roessler

(608) 266-5300

Representative Suzanne Jeskewitz

(608) 266-3796

**Audit Shows Need for Better Oversight of Economic Development Programs**

(Madison) Today, the nonpartisan Legislative Audit Bureau (LAB) released a comprehensive review of the State's economic development programs. LAB identified 152 programs that provided financial assistance and direct services to businesses, individuals, local governments, nonprofits, and other organizations from fiscal year (FY) 2001-02 through FY 2004-05. During this period, these programs awarded \$180.9 million in grants and loans, \$56.3 million in targeted tax credits, \$240.4 million in bonding authorization, and \$64.4 million in loan guarantees. As of June 30, 2005, LAB estimates that state agencies were authorized at least 247.9 full-time equivalent staff for the administration of these economic development programs.

"The critical need for accountability is the overriding message of this audit," stated Representative Suzanne Jeskewitz (R-Menomonee Falls). "We need to collaborate with state agencies, the University System, and the Wisconsin Technical College System to design consistent criteria for grant and loan eligibility in an effort to eliminate duplication and develop a more efficient and effective way of delivering these services."

LAB identified a large number of programs that provide similar services. While some program duplication may be desirable to ensure that services are available statewide, as the auditors note, duplication increases administrative costs and may hinder the efforts of the Legislature to provide adequate oversight. LAB found that agency responsibility for 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.

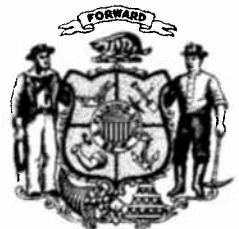
"This audit provides a blueprint for reform of economic development programs. LAB outlined numerous specific recommendations to increase accountability, improve coordination, and consolidate agency reporting requirements. My co-chair and I look forward to working with our colleagues on the Joint Legislative Audit Committee to advance legislation that addresses the concerns noted in the audit," stated Senator Carol Roessler (R-Oshkosh).

Co-chairs Jeskewitz and Roessler will hold a hearing on the audit report on Tuesday, August 29<sup>th</sup>, in Madison. Interested members of the public are invited to testify before the Joint Legislative Audit Committee at that time. Copies of the audit may be obtained from the Legislative Audit Bureau's Web site at [www.legis.state.wi.us/lab](http://www.legis.state.wi.us/lab) or by calling (608) 266-2818 to request a copy of report 06-9. A copy of the public hearing notice, which provides additional detail about the time and location of the August 29<sup>th</sup> hearing, will be available on the Web site at a future date.

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# WISCONSIN STATE LEGISLATURE



Jim Doyle, Governor

Jim Holperin, Secretary

Thursday, August 10, 2006

AUG 17 2006

Janice Mueller, State Auditor  
Legislative Audit Bureau  
22 E. Mifflin St., Ste. 500  
Madison, WI 53703

Dear Jan:

Thank you for providing a copy of Report 06-9, a Review of State Economic Development Programs.

Five programs are listed for the Department of Tourism, and for each it is noted that no results were tracked or reported. In fact, the Department does both track and report results for each program listed, and it is my fault that such information was not submitted. When the Department filled out your questionnaire, we mistakenly concluded that you were seeking the "economic impact" of each program rather than simply a numeric listing of organizations participating or communities served. Determining "economic impact" would be difficult if not impossible for all but one of our programs (JEM grants), but we do keep good track of how many are served.

Here are those numbers:

115 Co-op Advertising: 180 individual businesses, organizations or communities purchased advertising through the program. Advertising purchased by participants during the biennium totaled \$5,763,260. Participants saved an average 34% compared to non-co-op advertising rates.

116 Co-op Direct Marketing: 182 businesses, organizations or communities purchased a total of \$1,471,551 e-mail or regular mail addresses through the program.

117 Joint Effort Marketing Grants: 102 communities or organizations received grants totaling \$2,350,199 during the biennium. Applicants estimated an economic impact of \$42 million and reported an actual economic impact of \$63,687,887.

118 Tourism Development Specialists: 143 unduplicated Wisconsin communities were served by this program during the biennium.

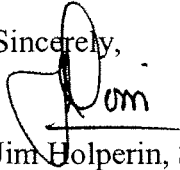
*Travelers spend \$12 billion in Wisconsin every year.*



119 Travel and Sport Show Partnership Program: The Department attended 38 separate events during the biennium. 37 unduplicated communities or organization participated in the program.

Thank you for giving us this opportunity to submit this information.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Holperin". The signature is written in a cursive style with a horizontal line underneath the name.

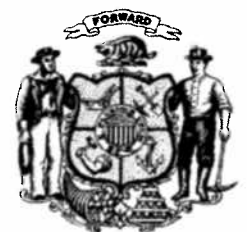
Jim Holperin, Secretary

JCH/md

c: Joint Legislative Audit Committee



# WISCONSIN STATE LEGISLATURE



**Matthews, Pam**

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**From:** John Neis [John@ventureinvestors.com]  
**Sent:** Friday, August 18, 2006 6:05 PM  
**To:** Sen.Roessler; Sen.Cowles; Sen.Fitzgerald; Sen.Lassa; Sen.Miller; Rep.Cullen; Rep.Jeskewitz;  
Rep.Kaufert; Rep.Travis  
**Cc:** Burke, Mary P. - Commerce  
**Subject:** Legislative Audit Bureau report on Economic Development Programs  
**Attachments:** VentureImpact2004.pdf

Dear Legislative Audit Bureau Committee Members,

I read with interest the Legislative Audit Bureau report issued last week titled "State Economic Development Programs". I am a Managing Director of Venture Investors LLC, one of Wisconsin's oldest and most respected venture capital firms which manages one of Wisconsin's three Certified Capital Companies (or CAPCO) for Advantage Capital. CAPCOs were singled out as being one of the most costly economic development programs for the results produced. Regrettably, the information is dated and incomplete and I am concerned that if the results are not fairly measured and we adopt an unreasonable standard for measurement, it will undermine all legitimate economic development efforts in the area of venture capital. News reports indicated that a hearing is going to be scheduled for August 29th, and I am unfortunately going to be out of town on that date. As a result, I am requesting that this e-mail be accepted as written testimony in the event that you are accepting unsolicited testimony.

We would all hope that a Legislative Audit Bureau (LAB) would apply a conservative methodology in evaluating a program. We do the same in business. However, if the business world applied the same methods used by the LAB, we would never invest in anything. Consider the following:

- The LAB considers only a couple pieces of data, loss of state revenue (the cost of the tax credits), revenue that will be lost in the future (tax credits promised in the future) and jobs created at a selected point in time. Conspicuously absent is any new tax revenue generated from the economic activity from the investments. What investment will look good if you ignore the returns already received and those that are expected to be received in the future? The revenue from the CAPCO investments is significant and from a variety of sources: income tax from the employees that have received high paying jobs, corporate income tax, property taxes on the real estate that was developed to meet the company's specialized needs, sales tax, and of course, tax on the income generated by the various in-state suppliers and service providers that do business with the companies. Eventually, the Wisconsin based shareholders of the successful companies will pay capital gains taxes. A complete and accurate assessment would also consider the tax revenue generated from the spending of employees in the state. If you examine the net cost (or gain) to the state by including the new revenue generated, you will arrive at a very different conclusion. Hopefully, the promised Department of Commerce audit of the program will take a more business-like approach and determine the true net impact on the State's budget.

- Counting jobs early in a venture capital program's life is going to produce disappointing results. As you know, venture capital investments are often made before there is any revenue, when there is a small team focused on research and development. Commonly, employment growth doesn't accelerate rapidly until after the company begins to ship products, often years later. Should those jobs be credited to the early venture capital investment? If the company otherwise doesn't have the resources to proceed down the development path and eventually reach the market, they certainly should.

TomoTherapy represents such an example. In September 2000, TomoTherapy had 23 employees trying to develop a revolutionary device for the treatment of cancer that was conceived by a UW-Madison professor. They were close to having a first prototype, but they had not yet obtained FDA clearance, they were nearly three years away from recording their first revenue, and they were down to \$189,000 and needed another \$8 million to reach the next major milestone (and \$16 million before their first sale). Coastal venture capitalists weren't showing enthusiasm for a company developing capital equipment and facing competitive giants. We manage the \$16.7 million CAPCO for Advantage Capital, and by promising a portion of the gains to investors in an affiliated fund, we were able to raise another \$37 million in Venture Investors Early Stage Fund III L.P. which also was primarily focused on investing in Wisconsin. In November of 2000, Advantage and Venture Investors committed to invest up to \$2.5 million out of a \$3.5 million in a bridge financing to allow the company to survive and proceed with their development while we looked for additional investors. In March of 2001, we were able to close on a \$8 million round of financing. The Midwestern

08/21/2006

syndicate (including Open Prairie Ventures, Baird Venture Partners, Mayo Medical Ventures) was willing to make the investment in part because of our presence as a strong local lead investor who was actively engaged with the company. By the date of the LAB report, TomoTherapy had grown to 175 employees. As of June 30 of this year, they were up to 424 employees. They expect to be over 500 employees by the end of the year, and believe that they are likely to exceed 1,000 employees in a few years. These are highly skilled positions, with a significant percentage of employees holding advanced degrees, and the average salary at the company is more than double the average statewide. They now occupy three buildings on the west side of Madison, two of which were specially constructed to meet their unique facility requirements for manufacturing and research and development. They are the fastest growing company competing internationally in a \$2 billion market, delivering systems to hospitals and clinics throughout North America, Europe, and Asia, and taking market share away from large companies like Varian Medical Systems and Siemens.

True, I am citing the biggest success story, but that is the nature of the venture capital game, swinging for the fences and hoping to poke a few out of the park. Will there be another TomoTherapy? That remains to be seen, but we made our first investment in Virent Energy Systems just over a year ago, and like TomoTherapy, it was a few years in advance of an expected commercial product. This UW-Madison spin-out has a novel means of converting agricultural products into fuel gases with far greater efficiency and versatility than ethanol or biodiesel. The market they are pursuing is an order of magnitude larger than that of TomoTherapy, and we expect explosive growth in employment when they begin to manufacture a commercial product. We have additional money to invest and will be backing additional companies. The funding helped them complete a working prototype and they have since raised another \$7.5 million, part from us and part from new investors. We can also point to other successes. For example, Gala Design needed CAPCO funding to survive and has since been acquired by Cardinal Health, the 19th largest company on the Fortune 500 list. Every state tries to get large companies to open a facility in their state. Sometimes the best way to do that is develop companies that they want to buy. Alflight was started with our CAPCO support and is Wisconsin's first manufacturer of semiconductors, a growing leader in the field of high powered lasers.

The Advantage Capital backed companies (Advantage manages one-third of the CAPCO pool) alone employ 663 people, a net increase of 512 jobs at these companies since the time of investment as of June 30, 2006. That means that from the time of investment, the growth in the number of jobs at these companies has averaged 29.7% per year (especially remarkable when you consider that many of these investments were first made in 2000 through 2002, a period of decline for our overall economy). Using that job figure and the \$11,666,667 in tax credits have been claimed by Advantage investors as of June 30, 2006, and while ignoring the corresponding revenue, the cost per job created by our firm is \$22,786 as of June 30 (less than one-quarter the figure in the LAB report), and will continue to drop as these companies continue to grow. (We believe that we have applied the best practices to the CAPCO under our management and produced the best results. Still, the cost per job for all three firms is overstated even if neither of the other two firms created a single job, which of course is not the case). These companies are expected to add at least 100 more employees before the end of the year alone. Additionally, as previously noted, Venture Investors Early Stage Fund III L.P. was successful in raising capital in part because of the CAPCO program. That fund backed additional Wisconsin companies not eligible for CAPCO investment, and those companies currently have an additional 273 employees.

- In a thorough objective analysis of the program, jobs created will be measured not only in quantity, but in quality, sustainability, and future growth potential. Prospects for continued employment and future tax revenue from past investments should be evaluated. Jobs at high growth, high tech venture capital backed companies are not subsidized short term, low paying positions that go away when a subsidy ends. They are long term, high paying jobs in companies that are successfully competing internationally. Bottom line, the best paying jobs in the highest growth industry sectors, which every state is eager to attract, can trace their roots to venture capital. This was highlighted in the 2004 study by Global Insights on the venture capital industry impact on the U.S. economy (executive summary attached and a full copy available on request). It has worked nationally and it is working here through the CAPCO program.

- A few additional comments are warranted on the LAB report: Page 100 of the report cites a 2003 report on Colorado's CAPCO program, saying "For example, a 2003 review found that over the ten-year life of Colorado's CAPCO program, only \$44.4 million of the original \$100.0 million that had been invested in CAPCOs was made available to qualified businesses." In saying "had" and "was", it implies that this was a ten year retrospective study. In reality, the Colorado program was only 18 months old at the time that report was issued (the Wisconsin program is two years older than the Colorado program), and the \$44.4 million figure was nothing more than speculation by CAPCO critics that were promoting an alternate agenda. The CAPCO operators disputed that assertion. There was a lag in the timing of the Colorado credits, and as of today, only \$20 million in tax credits have been claimed and \$45 million has been invested, and the firms are not even close to being done investing. Thus, those critics are being proven wrong (and as you may have figured out, there has been a highly charged debate in the press with a number of misrepresentations by promoters of competing programs). In Wisconsin, Advantage intends to invest the entire \$16.7 million they raised and with a pending investment, will have invested over \$10 million (\$9.6 million as of June

30). We have been lead investor in one or more rounds in seven out of the eight companies we backed thus far, raising a total of \$160 million in aggregate for these companies through syndication in simultaneous or subsequent rounds of private equity financing. Page 100 also cites a Louisiana report that \$600 million had been raised, but only \$184 million had been invested. The bulk of the \$600 million had been raised shortly before that report, and the CAPCO operators simply had had no reasonable opportunity to invest the newly raised dollars that quickly, nor had anyone expected them to have invested the dollars that quickly. Investments have been ahead of the statutory requirements in Louisiana, and that state reports that the tax revenue generated from the companies receiving the investments have exceeded the CAPCO tax credits claimed. The Louisiana report goes on to say that there would be no meaningful venture capital industry in Louisiana without the CAPCO program. Every State's program is a bit different, and even with the similarities, our citizens deserve a careful analysis of the program we implemented, not an out of context misrepresentation of another state's program report.

The CAPCO program was a relatively small experiment in Wisconsin, (the \$50 million program was the smallest CAPCO initiative in the nation, and the \$16.7 million that each of the groups managed is approximately one-tenth the size of the national average venture capital fund size of \$164.6 million reported by the National Venture Capital Association in their 2006 Yearbook, greatly limiting the scale of opportunity that the Wisconsin CAPCOs could pursue.) The CAPCO program is capable of evolving by examining the best practices employed here and elsewhere around the country and making that a part of any new CAPCO legislation in our state. When the final chapter is written on the existing CAPCO legislation in Wisconsin, I am confident that the evidence will show that it has been an enormous success and had a positive net impact on our state's budget, generating far more revenue than it cost. However, the last time I spoke with legislators about a modified program, it was clear that they needed to see more of the results before they were willing to believe the potential. We are delivering the results we predicted.

Even if the CAPCO program is not renewed, it deserves a fair performance assessment. Additionally, the methodology is likely to be similar to the eventual assessment of Act 255 and any proposed enhancements to that legislation, and an inaccurate negative assessment of the existing programs is likely to cast a shadow of doubt on any new initiatives proposed. This is only likely to lead to timidity on the part of our elected leaders when we need bold initiatives to propel our state's economy into the next century.

I have shared these concerns with Secretary Burke at the Department of Commerce, who responded to the LAB report by promising you an audit of the CAPCO program early next year. I have pledged to assist in obtaining any information that would contribute to a fair and full assessment of this program, and I make the same pledge to you. Please do not hesitate to call on me to respond to any of your questions, or to assist you in fully understanding the venture capital industry, the CAPCO program, or the State's return on its investment in that program.

Thanks for considering my input.

John Neis, CFA  
Managing Director

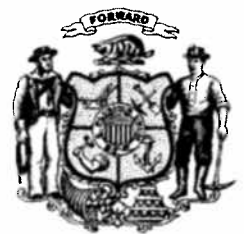
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<<VentureImpact2004.pdf>>



# WISCONSIN STATE LEGISLATURE



**REMARKS BY MARY BURKE  
JOINT COMMITTEE ON AUDITS  
AUGUST 29, 2006  
MADISON, WI**

Good morning. Thank you for inviting me to address this committee. I appreciate your interest in job creation and economic growth. Since coming to office, Governor Doyle has made job creation his top priority.

I would like to introduce our Commerce staff that is in the Business Development Division. Our 3 Bureau managers are John Stricker, Pam Christenson and Mary Gage. John and Pam have been with us since 1994 and Mary almost 10 years ago in 1996.

Wisconsin's economy is working and has recovered from where it was 3 years ago:

- Created 179,000 jobs since the Governor took office
- Only heavy Midwestern manufacturing state to create manufacturing jobs
- Growing bio-tech industry
- 12,000 entrepreneurs signing up on WEN in just one year
- Doubling of angel capital
- Honor roll by CED in Washington DC
- Attraction of companies like Abbott, expansions like Northwestern Mutual, corporate headquarter moves like Bemis
- Population increases that beats all our Midwest neighbors
- Exports up 40%

The audit is a valuable tool and we look forward to working with you to further enhance our processes.

I would like to take this chance to address a few audit comments that have been misconstrued since they are important to understanding some of the recommendations:

**Commerce does have a thorough, efficient process to make sure our programs are effective and responsible to taxpayers.**

I've brought a flow-chart to show you our process (see attached).

- We use area development managers to meet with businesses and help them navigate our process.
- We have a single application for all our programs so that businesses do not have to guess which programs best apply to their projects.
- We have underwriting criteria that take into account a multitude of factors conducted by nonpartisan, civil servants... many with finance backgrounds
- We enter into contracts that establish job creation or other targets and include accountability provisions such as clawbacks to recover taxpayer money if companies don't perform
- Our contracts often include aid from other agencies because we coordinate with these agencies on a case-by-case basis as needed

- We require regular reports from companies to help us monitor results
- We typically don't disburse funds until companies demonstrate progress toward meeting their targets.

**Commerce carefully tracks results of our projects to insure companies are held accountable**

- I brought examples of 4 projects with me so you can see just how much data we track.
- What we don't have is a massive database that contains all the information of all the files. In other words, while we track the results, it's hard to compile them because we have so much information.
- Although, we are looking into improving our electronic systems so that we can analyze the results more easily.
- But it's inaccurate to suggest we don't monitor or track the results.

**Consolidation of programs would be helpful as long as it does not limit our ability to meet needs**

- In the last budget, the Governor included a proposal to streamline and consolidate programs in the Wisconsin Development Fund. Unfortunately, the legislature took this proposal out of the budget
- Consolidating programs would give us more flexibility in working with companies, would simplify administration of programs, and would make it easier to maintain or build data systems.
- Keep in mind, origination of most programs comes from Legislature: 4 new programs last session (Film credits, Diesel Idling, Enterprise Zones, Airport Zones)
- But don't confuse number of programs and number of access points with duplication. What is important is having the programs and the flexibility to meet the needs of the market (e.g. St. Croix Rod).

**Commerce serves as the point agency on economic development and we work closely with other agencies and education.**

- Economic development is a broad subject that our administration has made a focus. Our efforts are coordinated through the cabinet and according to the Governor's Grow Wisconsin economic development plan.
- We coordinate efforts through committees and close working relationships with DWD, Forward, DATCP, DNR, UW, Tech College, DOT, etc.
- As Commerce Secretary, the more organizations and people involved in economic development, the better. That is what has been effective about the Governor's Grow Wisconsin plan...it is broad and involves multiple agencies, the UW, Tech Colleges. That is how we have been effective. Everyone working with the same goal in mind.



**We do measure the results of our programs to make sure they are working.**

I can only compare this to my experience at Trek Bicycles. Trek has a lot of programs that go into selling bikes in the areas of:

- Product design
- Customer service
- Advertising
- Shipping and Distribution
- Retail training and education
- Point of purchase materials
- Credit and financing
- Quality of products
- Inventory availability
- And the list goes on and on....

Does Trek try to measure each area in terms of its impact...NO...the measurement for Trek is overall **sales**. That is the only measurement that matters in evaluating different programs. Just like what matters to the state of Wisconsin for economic development is number of jobs and the quality of those jobs. That is how we measure and by these measures, are programs are effective.

- 179,000 new jobs in last 3 years
- Turnaround in manufacturing jobs
- Growing jobs in new areas like bio-tech
- Export growth of 40%

Thank you and we look forward to continuing to work with you to grow Wisconsin.

# Department of Commerce Project Approval Process

## (1) Information On Project

Area Development Manager  
Prospect Data Sheet  
Market Information

## (3) Internal Review Committee

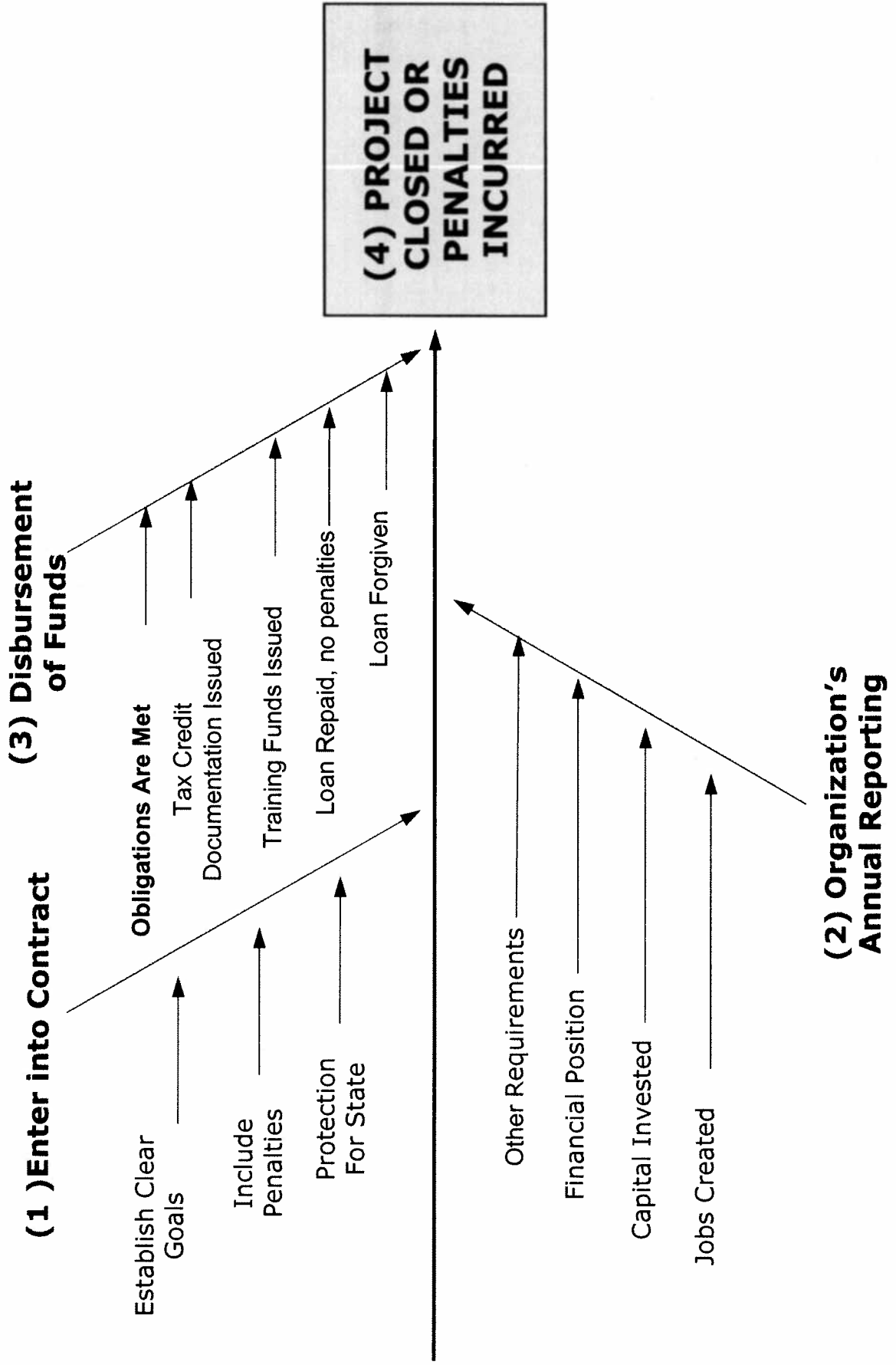
Number of Jobs  
Wages/Benefits  
Competition From other States  
Distress of Area  
Financial Need  
Industry/Cluster  
Regional Impact

(4) PROJECT APPROVAL:  
Or  
DENIAL

Commerce Programs  
Credit Risk  
Market Conditions  
Financial Criteria

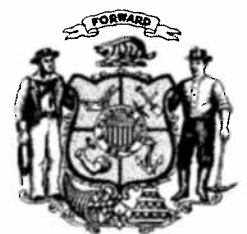
## (2) Commerce Underwriting

# Department of Commerce Contract & Follow-up Process





# WISCONSIN STATE LEGISLATURE





P. O. Box 7970  
Madison, Wisconsin 53707  
(608) 266-1018  
TDD #: (608) 264-8777

Jim Doyle, Governor  
Mary P. Burke, Secretary

August 29, 2006

State Senator Carol Roessler  
Joint Legislative Audit Committee  
P.O. Box 7882  
Madison, WI 53707-7882

AUG 31 2006

Dear Senator Roessler,

As a follow-up to the hearing today on the Legislative Audit Bureau's evaluation of State Economic Development Programs, I wanted to send you the enclosed materials you had requested. It is the 2006 Center For Economic Development Report Card showing Wisconsin as one of only 7 states named to its honor roll. If you are interested there is more information on the report card on their website at [www.cfed.org](http://www.cfed.org).

I would also like to say that the Department of Commerce looks forward to working with you and the Legislature on implementing the recommendations of the audit. In particular, I feel we can make significant progress in:

1. Consolidation of programs. The Governor proposed this in his last budget and we are eager to move ahead;
2. Updated database reporting on outcomes of Commerce funded projects (including tax credit programs). Currently most of our information is in paper form but I feel that we can make significant changes that puts relevant information in our database for easy access;
3. Reporting on effectiveness of CAPCO program
4. Consolidating reporting requirements

I appreciate your knowledge and interest in economic development.

Best regards,

Mary Burke

A handwritten signature in black ink, appearing to read "Mary Burke". The signature is written in a cursive style and is positioned to the right of the printed name "Mary Burke".

Cc: Janice Mueller

# 2006 development report card for the states

## honor roll

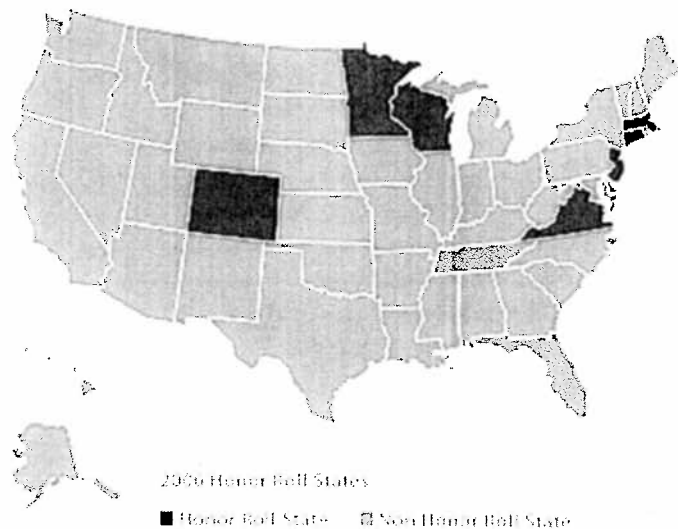
The Development Report Card (DRC) compares how states perform relative to each other, rather than to an absolute standard. The honor roll recognizes those states that earn all As and Bs in the report card's three graded indexes: performance, business vitality, and development capacity.

### Earning all As is:

- Massachusetts
- Minnesota

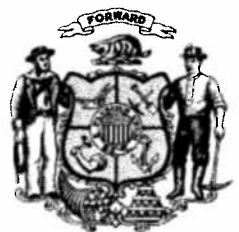
### Earning As and Bs are:

- Colorado
- Connecticut
- New Jersey
- Virginia
- Wisconsin





# WISCONSIN STATE LEGISLATURE





Daniel Clancy, President  
Wisconsin Technical College System  
Testimony before the Joint Legislative Audit Committee  
Regarding the Legislative Audit Bureau Report;  
*State Economic Development Programs*  
August 29, 2006

Senator Roessler, Representative Jeskewitz, and members of the Joint Legislative Audit Committee, thank you for your invitation to provide testimony regarding the Legislative Audit Bureau's review of state economic development programs. We appreciate the Audit Bureau's recognition of the important role the Wisconsin Technical College System plays in ensuring the availability of a well trained and knowledgeable workforce, including the \$3.9 billion in earnings and 130,000 jobs the System contributes annually to Wisconsin's economy.

Evidence of that important role can be found in a recent survey of Wisconsin employers, which found that 95 percent of employers would hire technical college graduates again and 92 percent believe that our graduates meet their expectations in terms of skills and occupational knowledge. Employers are excellent indicators of how the technical colleges are performing for their communities and the economy, and these extraordinary results speak volumes for how integral technical colleges are to developing Wisconsin's workforce.

In order to prepare a meaningful report, the Audit Bureau necessarily limited its definition of economic development. However, my discussion today will include some economic development initiatives that were not included in the Audit Bureau's inventory. Overall, the Wisconsin Technical College System provides training and education to more than 400,000 individuals annually. Foremost to our mission is the granting of two-year associate degrees, one-and two-year technical diplomas and short term certificates through programs offered at the System's 16 colleges. I am very pleased that over 87 percent of technical college graduates stay in Wisconsin and contribute to the ongoing success of the state's economy following graduation.

The Audit Bureau report described two economic development programs administered by the Wisconsin Technical College System. First, the Advanced Manufacturing Solutions program was created in 2003 to ensure a well-trained manufacturing workforce, encourage students to pursue a career in manufacturing, and increase manufacturing effectiveness through process improvements. This program has successfully conducted focus groups with manufacturers to identify core skills for manufacturing, has developed



curriculum that incorporates these core skills, and is integrating this curriculum into all existing manufacturing programs. In addition, the program has also formed regional collaborative networks and established a centralized web-portal for manufacturing customers.

The second program mentioned is the Workforce Advancement Training Grant program. This grant program was created as part of the 2005-07 biennial budget and provides \$2 million in funding that allows Wisconsin's workers to compete in the global economy. This program is a collaborative effort between the technical colleges and local businesses to help employees upgrade their skills and improve their productivity, and support regional workforce and economic development efforts. Over the biennium, 11,900 workers will be trained at companies throughout Wisconsin, including at such international companies as Harley-Davidson, Miller Brewing, and Mercury Marine to smaller companies such as Alto Dairy Cooperative and Bushman Equipment. This program, which can include any combination of academic, occupational and employability topics or courses, has been well received by business and industry. Projects that will increase employees' wages or expand their job and career opportunities, or that show a clear connection to regional development receive special consideration.

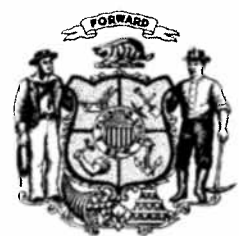
In addition to these programs, many Wisconsin companies of all sizes are taking advantage of customized training and technical assistance offered at each of the System's technical colleges. Each year, over 100,000 current employees upgrade their knowledge and skills in order to make their companies more productive and efficient. This customized training is provided in a number of flexible formats, including on-site training at a business, using distance learning technology, or at one of the System's many campuses around the state.

The Audit Bureau recommended that an economic development liaison be designated at each technical college and that the System publish a comprehensive directory of its economic development and business assistance programs on the Internet. I agree with these recommendations and will work with the colleges to ensure that they are implemented system-wide. I would also like to note that the colleges already have designated staff who serve as liaisons with business and industry. These individuals meet quarterly to identify common training needs, coordinate the provision of instructional services regionally, identify new and emerging trends, and share best practices across the System.

Finally, I would like to express my appreciation to State Auditor Mueller and her staff for their work to improve the coordination and accountability of Wisconsin's economic development programs. I would be happy to answer questions.



# WISCONSIN STATE LEGISLATURE





University of Wisconsin–Milwaukee  
*Consortium for Economic Opportunity*

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Testimony of Pamela Fendt  
Joint Legislative Audit Committee Hearing  
August 29, 2006

Hello. My name is Pamela Fendt. I am a policy analyst at the Center for Economic Development at UW Milwaukee. Our Center is part of the Consortium for Economic Opportunity established under the Milwaukee Idea in 2000. Since 2000, the Consortium has generated \$2.6 million in extramural support to provide nearly a 3 to 1 return on University investment in our activities, which include applied policy research and technical assistance to community-based organizations and units of government on issues related to economic development.

I am here today in collaboration with the Good Jobs and Livable Neighborhoods Coalition from Milwaukee. This Coalition is one of a growing number of coalitions of community, labor, and religious groups across the country that are seeking to support accountable economic development initiatives. We began with the establishment of standards that would ensure access to jobs, the provision of a proportion of affordable housing units, and environmentally responsible planning and methods in redevelopment of the Park East freeway corridor in Milwaukee.

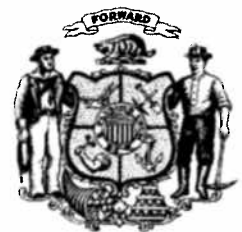
There are many excellent recommendations included in this audit of the state's economic development activities. The Coalition strongly supports the recommendations for more transparency in subsidy transactions, less duplication in service provision, and clear reporting of measurable outcomes tied to jobs and growth in all parts of our community.

A major part of the mission of the Center for Economic Development is supporting economic development efforts in predominantly minority neighborhoods, as a means to address the longstanding disparities in economic outcomes between whites and people of color in Milwaukee. It is unacceptable to have an unemployment rate that is 4 times higher for blacks than for whites, one of the highest disparities in the country. It is unacceptable to have a growing poverty rate -- a poverty level that is higher than New Orleans. To address these problems, we would draw policymakers attention to the differences in per capita spending by county, the fuzzy definition of "economically distressed counties" (in order to direct business development aid where it is truly needed), the fact that only \$1.9 million in grants and loans to minority-owned businesses was distributed over several biennial budgets, and the expenditure of 2.8% of government contracts to minority-owned businesses instead of the 5% goal, which seems modest and achievable.

We strongly support the counsel to connect the use of economic development supports to concrete goals for business development and job creation and echo the suggestions to use Minnesota and Illinois disclosure laws as models for Wisconsin's future.



# WISCONSIN STATE LEGISLATURE



Testimony of Robert Kraig, Ph.D., Policy Director, One Wisconsin Now,  
Public Hearing on “A Review of State Economic Development Programs,”  
Legislative Audit Bureau,  
Joint Legislative Audit Committee, August 29, 2006.

I want to thank the co-chairs and the members of the committee for directing the Audit Bureau to conduct this review. This review gives the Legislature, stakeholders, and the general public an important tool for creating a more effective and a more publicly accountable Wisconsin economic development strategy.

This review makes it clear that publicly subsidized economic development is big business in Wisconsin. The last biennial budget included for economic development \$152 million in spending, \$27.9 million in tax credits, \$109.3 million in bonding authority, and \$36 million in loan guarantees (3). In addition, there are 135 economic development zones that cover every part of the state. The Legislature has authorized \$406 million in tax credits within these development zones--\$122 million of which has been granted by the Commerce Department (6).



OWN Your Voice  
OWN Our Future

Fair minded observers would assume that given the importance of economic development to the citizens of the state, the tightness of public resources, and the large public subsidization of private business involved, that the Legislature would have established clear goals and standards for these programs, and a strong system of tracking and accountability. The review makes clear that this is decidedly not the case.

The authors of the review conclude: “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 limited, and no single entity is responsible for ensuring that the programs are working toward common policy goals” (7).

This very troubling situation has bipartisan origins. No one planned the state’s current economic development strategy. The large number of overlapping programs housed in multiple agencies and governed by dozens of councils that together make up the state’s economic development investment is a result not of any grand plan, but the piecemeal authorization and implementation of dozens and dozens of small and medium sized programs over several decades. Given the stakes involved, and the Legislature’s responsibility for stewardship over public resources, a comprehensive economic development strategy with clear goals, standards, and accountability is long overdue.

Reform should begin with a principle everyone can agree with: that Wisconsin’s economic development programs be transparent to policymakers, stakeholders, and the general public. Everyone on the ideological spectrum ought to be able to agree that the public has a right to know how economic development money is being spent, for what specific objectives, and whether it is achieving these objectives. Even the most pro-corporate policymakers ought to be able to agree that no private business has a right to

receive public resources unless they are using them to achieve clearly defined public purposes. Given the fragmented and unaccountable system revealed in the Legislative Audit Bureau Review, this ought to be a high priority during the next Legislative session.

Independent of any other reforms, basic transparency would allow policymakers to decide whether or not current development programs are actually targeted to those communities that are most in need. For example, the Legislative Audit Bureau Review found that Milwaukee, the area with by far the largest concentration of poverty in the state, receives \$2.71 below the state per capita average of \$30.38 in economic development revenue (5).

The next stage of reform will be to create an integrated economic development strategy that achieves the goal that the public really wants: using the power of government to help create an economic environment that maximizes real economic opportunity for the working families of the state.

*Good Jobs First* ([www.goodjobsfirst.org](http://www.goodjobsfirst.org)), a research organization that has done path-breaking policy work in this area, has developed a package of reforms which, taken together, would greatly enhance the accountability and public benefit of Wisconsin's substantial investment in economic development.

#### Reform #1: Require Disclosure of Subsidy Spending and Company Compliance

Disclosure laws require states to release company-specific information on the type and amount of subsidies they grant, the benefits companies have promised to create, and the track record of companies in complying with those obligations. The availability of complete, accurate, and timely information on the costs of subsidies and on compliance allows public officials and citizens to evaluate whether subsidies are a good investment of taxpayer dollars.

#### Reform #2: Enact and Enforce Money-Back Guarantees on Subsidies ("Clawbacks")

Clawbacks, also called recapture provisions, are clauses in subsidy laws that require a company to return all or part of the value of a subsidy if the company fails to meet the obligations agreed to as a condition of receiving the award.

#### Reform #3: Ensure that Subsidized Companies Create Quality Jobs

Job quality standards are requirements that subsidized companies create full-time positions paying livable wages and/or providing health insurance and other benefits. Wage and benefit requirements enable government to avoid what is in effect a double subsidy: the cost of direct economic development aid as well as the cost of social support programs such as Medicaid and food stamps needed by low-wage employees to make ends meet.

#### Reform #4: Protect Education from Tax Giveaways

Property tax abatements are among the largest and longest-lasting subsidies companies receive, and they can be devastating to the budgets of local schools. We can protect education from tax giveaways by giving school boards veto power over the use of tax-increment financing and other subsidy programs that impact their budgets.

#### Reform #5: Increase Accountability in the Subsidy Approval Process

Increased citizen input in the subsidy award process means that decisions are no longer made solely by corporate executives and development officials. Holding well-publicized public hearings (at reasonable times) on proposed subsidy deals allows citizens to weigh in before decisions are made. Requiring every subsidy deal to be voted on by elected bodies allows citizens to hold their representatives accountable for making wise choices that create real benefits with economic development dollars.

#### Reform #6: Keep State Tax Policy out of the Subsidy Debate

Companies have become adept at lobbying states for tax code changes that benefit their local business interests. They often use the threat of relocating or expanding elsewhere to pressure state governments to lower business taxes, thus forcing states into a disastrous tax-reduction competition. The result is a decline in public services, a shift in the tax burden to individuals, or some of both.

#### Reform #7: Negotiate Community Benefits Agreements with Developers

Community Benefits Agreements (CBAs) are legally binding contracts between two private parties -- developers and community-labor coalitions -- to ensure that major development projects benefit local residents. Benefits are negotiated individually for each deal to fit the needs of community groups, and often include first-source hiring, living wages, and affordable housing assistance. The agreements are then incorporated into the city or county development agreement, so that they are doubly enforceable by both citizen groups and local governments.

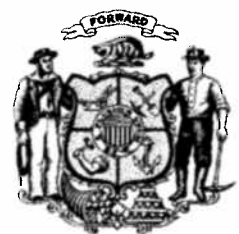
#### Reform #8: Target Subsidies in Ways that Promote Smart Growth

Subsidies often contribute to sprawl, which harms working families. There are a number of ways that subsidies can be used to promote smart growth, including tying subsidies to transit, denying subsidies to retail, and instituting affordable housing requirements.

One Wisconsin Now looks forward to participating in the reform process that this Legislative Audit Bureau review will initiate. Thank you for holding this important hearing.



# WISCONSIN STATE LEGISLATURE







WISCONSIN STATE LEGISLATURE

**Joint Audit Committee**

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

For Immediate Release

August 29, 2006

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**Audit Co-Chairs Recommend Economic Development Legislation**

(Madison)- Today, the Joint Legislative Audit Committee held a hearing on the State Economic Development Programs Audit, which was conducted by the non-partisan Legislative Audit Bureau (LAB). The audit catalogued 152 economic development programs in Wisconsin, spread over numerous state agencies. The audit identified some duplicative, outdated programs and an absence of measurable effectiveness. In response to the LAB's recommendations and concerns raised at today's hearing, the Committee Co-Chairs, Senator Carol Roessler (R- Oshkosh) and Representative Suzanne Jeskewitz (R-Menomonee Falls) announced that legislation is necessary for rectifying these issues.

"We must refine Wisconsin's economic development tools," stated Roessler. "It's clear that our economic development programs lack performance measurements, simplicity, coordination, and quick response."

LAB reports that from fiscal year (FY) 2001-2002 through FY 2004-2005, economic development programs were awarded \$240.4 million in bonding authorization, \$180.9 million in grants and loans, as well as \$64.4 million in loan guarantees and \$56.3 million in targeted tax credits.

"We need to streamline how the state of Wisconsin manages the taxpayer's investment in economic development," remarked Jeskewitz. "In addition to making common-sense changes to our statutes to consolidate or eliminate some programs, we in the Legislature must work with state agencies and the economic development community to develop and then implement practical accountability measures to assess our efforts."

The Department of Commerce is required to report to the Joint Legislative Audit Committee by February 15<sup>th</sup>, 2007, on its efforts to improve procedures for tracking program results, monitor long-term results, and identify duplicative programs, among other recommendations. Furthermore, the University of Wisconsin System and the Wisconsin Technical College System will report to the Committee on their progress toward designating an economic development liaison at each campus and publishing directories of their business assistance programs offered.

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