



# JULIE LASSA

## STATE SENATOR

### Testimony on Senate Bill 205 Legislative Joint Committee on Audit June 5, 2013

Co-chairs Cowles and Kerkman and committee members, thank you for this opportunity to address Senate Bill 205 and its Assembly companion, and the important topic of reforming the Wisconsin Economic Development Corporation. I especially thank the co-chairs for your leadership on this issue, and for the urgency and diligence you have shown in addressing the serious problems revealed by the program audit of WEDC.

I support the provisions of SB 205, reflecting as they do several of the recommendations of the Audit Bureau as well as suggestions made at the public hearing on the audit by Senator Cullen and others. My fellow WEDC board member, Representative Barca, and I called for similar reforms last month in the wake of the Audit Bureau report.

However, as useful as these proposals will be, I do not believe they go far enough to address the fundamental problem at WEDC.

One of the findings of the WEDC audit was that the governing board has not always been informed about the agency's policies and practices, and that board members only learned about serious problems in the agency months after management became aware of them. I believe this problem, as with so many other issues at WEDC, stems from the fact that the agency was set up with a weak board structure that permits management to ignore the board with impunity. The WEDC Secretary/CEO is appointed by the Governor, and all the rest of the senior management is hired by the CEO. Other than approving plans and reports, the board has little power, and cannot hire and fire senior managers, as a private sector board can do. It stands to reason, then, that when internal problems occur, the staff's loyalty is to the governor, not the board.

Let me share an incident that illustrates this problem. In December, 2011, we were asked to approve a personnel policy manual for WEDC staff. One section of the manual specified circumstances under which staff could accept gifts from outside firms, including such items as tickets to sporting events. As you know, this kind of behavior would be strictly illegal for legislators and state employees. When I asked why we would ever allow WEDC employees to accept gifts, Governor Walker and then-Secretary Jadin agreed, and the board approved the manual without that paragraph. We were promised that, if revisions were made to the policy, it would once again be brought before the board for approval.

We never saw the personnel manual again. I was stunned, then, to read in the audit report last month that WEDC staff had been accepting gifts, and continued to receive them for over a year

after that December 2011 board meeting. WEDC management claimed to have a policy for disposing of such items, but that policy was never brought before the board, as we were promised.

And lest we blame such problems on managers who are no longer with the organization, you should know that as recently as two weeks ago, WEDC board members like myself were notified of the hiring of a new Chief Financial Officer a full hour after that information had already been shared with the news media. I believe that unless WEDC management comes to see its principal responsibility as being to its governing board, the board will continue to be unable to fulfill its oversight responsibilities.

Therefore, Representative Barca and I have introduced a bill, LRB 2394, that would restructure the WEDC board of directors to finally give it the power and independence it needs both to ensure the effective management of the organization and protect the interests of Wisconsin taxpayers.

- Under our proposal the Governor will no longer serve as board chairman. Instead, the chair of the board would be elected by the WEDC board, just as in any private corporation. The Governor has a state to run and should not be burdened with the intricacies of managing this agency. Wisconsin taxpayers, who are the shareholders of the corporation, deserve more than just a figurehead as the chairperson.
- The board will have the authority to hire and fire all top WEDC positions, including the Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer.
- As with your bill, we call for non-legislative board members to serve fixed, overlapping terms, to give them the same level of independence that the boards of other state authorities have.
- For obvious reasons, our bill requires the board to include members with financial management experience, municipal or regional economic development experience, as well as private sector business experience. At least one member of the board must be an expert in corporate ethics.
- Our bill also creates the position of "Lead Director" on the board, similar to most publicly traded companies, as does SB 205 and its Assembly companion.
- It requires that all WEDC policies to be approved by a majority of the board.
- Under our bill, a Finance Committee will be maintained by the board, which would review and approve both the corporation's financial management as well as offers of grants and loans made to businesses and corporations.
- WEDC's Audit Committee would be renamed the Audit and Compliance Committee, and charged with ensuring that WEDC is complying with state law and board directives, including policies on claw back provisions, loan forgiveness, and how out-of-compliance loans will be handled.
- The chairs of these committees, and not management, will set their agendas.
- In the event that WEDC establishes a non-profit foundation to solicit donations, no company can receive grants or loans from WEDC for two years after making the donation.

These are the commonsense controls that apply to any corporation in order to give shareholders the assurance that their investment is well managed. As the *Racine Journal Times* editorialized on May 21st, the reforms we have proposed “are such commonsense ideas . . . it’s remarkable that they weren’t in place from day one.”

If WEDC is a corporation, then the people of Wisconsin are its shareholders, and they deserve to have their interests defended. True reform must begin with the only entity that is in a position to provide real oversight to WEDC’s ongoing operations – its board of directors. I hope you will consider incorporating these proposals in your legislation so that we can quickly make the kind of real reforms that can restore the credibility of our state’s job creation agency in the eyes of the Legislature, and in the eyes of the people of Wisconsin.

Thank you for your time and your leadership. I will be happy to answer any questions you may have.

Peter W.  
**BARCA**

Minority Leader • Wisconsin State Assembly



June 5, 2013

**Joint Legislative Audit Committee  
Public Hearing on SB 205 relating to Wisconsin Economic Development  
Corporation**

Co-Chair Cowles, Co-Chair Kerkman, members of the Joint Legislative Audit Committee, thank you for holding a public hearing on Senate Bill 205 relating to the Wisconsin Economic Development Corporation.

While I applaud and appreciate your efforts to address many of the grave issues outlined in the recent WEDC audit, SB 205 is lacking a solution to the most important glaring deficiency and does not fix the core problem: weak board governance.

One of the key reasons why I supported the public-private agency outlined in the Be Bold report was to gain critical private sector input on economic development issues. WEDC was created for the private sector represented on the board to give input on critical decisions, yet as the audit shows, the board has been kept in the dark on almost every major issue faced by the agency.

Senator Lassa and I, who are WEDC board members, have gone back to the original Be Bold report, which envisioned a very different vision of the Board's role, to examine where the enabling legislation fell short.

We propose an alternative WEDC reform bill, LRB 2394, which restructures the board of directors to gain greater private sector expertise and provide the authority to the Board to properly control the direction of our flagship jobs agency.

While we support the provisions in SB 205, we respectfully ask you to also include these elements from our bill. By far, the most important of the provisions is the first.

- The board has the authority to hire and fire all top WEDC executive positions including the Chief Executive Officer, The Chief Operating Officer and the Chief Financial Officer. Be Bold recommended the Executive Director and CFO would be hired by the Board of Directors under a long-term contract. Be Bold envisioned WEDC would attract best of class, if not world class talent, to lead this agency, but the two top leaders do not have any professional economic development experience.
- The WEDC board elects its chairperson, as in private corporations, rather than it automatically being the Governor.
- The Governor must select board nominees from a candidate list prepared by the WEDC board. Be Bold recommended that when positions are vacant, the Governor would select and appoint Board members from a qualified pool of candidates submitted by the Board of Directors. SB 205 has a governance committee assisting the Governor in identifying qualified board candidates, but no requirement that he chooses from their list.
- This candidate list must include at least two candidates for each position and must have financial management experience, municipal or regional economic development experience, or private sector business experience. Additionally, some candidates must have expertise in corporate ethics. WEDC was created to have broad expertise in economic development policy and the Be Bold report envisioned a mixture of private sector, academia, local officials and regional economic development personnel as board members, yet this mix did not occur.
- The chairpersons of all committees established by the WEDC board must prepare agendas for committee meetings. Be Bold outlined a much stronger board with key responsibilities and major board directives in the report were ignored by the Governor and the Legislature when WEDC was established.

After reviewing this audit and the original Be Bold Report, it is clear that WEDC is not living up to its mission and if we can't get things right at our main economic development agency, we certainly aren't going to have much luck in turning around our state economy. Wisconsin ranks 44<sup>th</sup> in the nation in job growth, 45<sup>th</sup> in wage growth and dead last in short-term job growth.

Given the increasing frustration of WEDC Board members with both the performance on jobs and the current governance structure and the many serious issues facing the agency, we believe it is essential that we reform the board powers.

Whether from the original Be Bold report, other quasi-private agencies in Wisconsin, or economic development corporations in other states, we should continue to analyze additional alternate governance provisions for the WEDC Board. Thank you for your time today in reviewing these issues.

**Testimony of Reed E. Hall, Secretary and CEO  
Wisconsin Economic Development Corporation**

**Joint Legislative Audit Committee  
June 5, 2013**

Thank you co-chairs Cowles and Kerkman for the opportunity to testify today on Senate Bill 205. As with any new organization, the Wisconsin Economic Development Corporation is an evolving entity that is constantly striving to provide better transparency, accountability, and economic development results to Wisconsin taxpayers and we thank the Joint Legislative Audit Committee and members of the Legislature for helping us accomplish those goals.

In its entirety Senate Bill 205 contains some excellent ideas to improve the organization. Other provisions, however, are duplicative to efforts we're already enacting and some may be counterproductive to the mission of improving Wisconsin's business climate. While the bill's scope is considerable, I'd like to provide feedback on a few measures contained therein:

1. Additional Reporting Requirements – WEDC is committed to being a responsible steward of the taxpayer dollar, starting with transparent reporting requirements. Of the measures included in this bill, there are several that WEDC already voluntarily reports and several others that we are currently implementing. Through our Act 125 requirements, we already report on the tax allocations and verifications in the previous year for the Economic Development Tax Credits and have voluntarily identified each tax credit recipient for previous fiscal years. We have no objection to codifying this, as it is already part of our organizational practice, and WEDC will continue to improve when we begin implementing our anticipated new computer system in the Fall.
2. Creation of a "Lead Director" Board Position – The WEDC Board of Directors already has elected a Board Vice Chair. This position, currently occupied by Dan Ariens of Ariens Corporation, fulfills all the duties outlined in this provision of SB 205. In addition, the current WEDC bylaws already go beyond SB 205 by requiring election of the position annually, as opposed to every 2 years as is proposed.
3. Creation of a WEDC Board Governance Committee – WEDC's entire Board of Directors is its governing committee and the entire WEDC Board is responsible for all oversight functions outlined in this provision. We feel that governance is the proper role of the full Board which includes representatives of private business, the executive branch of government, and legislative members from both political parties. WEDC's 15 member Board already has established an Audit Committee and a Compensation and Benefits Committee and plans to create three more committees at the next Board meeting in July. These new committees will be a



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Policy Committee, a Credit Committee, and a Contracts Committee. Mandating an additional, and duplicative, committee with goals already charged to the full Board, will add an undue burden on the part-time members of the Board.

4. Annual Legislative Audit Bureau Fiscal Audit – The recent Legislative Audit Bureau (LAB) programmatic audit and its upcoming financial audit are important tools to ensuring that WEDC maintains proper controls and transparency of our operations. Following standard corporate practice, WEDC's Board additionally contracts with an independent private auditor to audit WEDC's finances on an annual basis and report to the WEDC Board. This independent auditor then provides advice and counsel on how to comply with any audit recommendations, just as our auditor did with our FY12 audit. This is a service we cannot not eliminate. The LAB, while excellent auditors, has made clear to WEDC's management that it is not their mandate to provide advice or recommendations to help WEDC comply with audit recommendations. To further the goals of maintaining accountability and transparency, we recommend adopting the language of Senate Bill 186 and Assembly Bill 220, authored by Sen. Harsdorf and Rep. Kaufert, requiring an independent financial audit of WEDC, rather than an annual financial audit from the LAB, the cost of which must be borne by WEDC in addition to the costs of our independent auditor.

5. Establishment of a Nonprofit Organization - One of the important objectives of WEDC is to leverage private funds for economic development projects. Creating a tax exempt entity will support this objective. That entity may fall within the scope of a charitable organization under section 501(c)(3) of the Internal Revenue Code. But it may be determined that an alternative tax exempt structure is more suitable. For example, one of the options we are considering is a governmental affiliate entity, contributions to which are tax deductible under section 170(c)(1) of the Internal Revenue Code. The proposed legislation could be amended to model WHEDA's statute at 234.03(26). In this vein, WEDC's statute should instead authorize WEDC "to establish and maintain a corporation organized under ch. 180 or 181 to effectuate the duties and powers of the board." Alternatively, the language could be limited to creation of a nonprofit entity but still allow necessary flexibility. The following is language that would accomplish this: "WEDC's board may organize and maintain a nonprofit entity or nonprofit corporation organized under Wis. Stat. Ch. 181 so that contributions to it are deductible from adjusted gross income under Section 170 of the Internal Revenue Code."

6. Adherence to State Procurement Policies – As with everything we do, WEDC strives to operate with accountability and transparency and our procured partners and services are no exception. However, adherence to state procurement statutes would dramatically alter the way WEDC is able to help move Wisconsin forward. Adherence to the state procurement policies would:

- Limit the corporation's ability to operate outside the state bureaucracy when an immediate market need presents itself.
- Potentially provide inconsistent economic development services by allowing for frequent rollover of services and tools.
- Limit our partners' ability to leverage federal resources.

(OVER)

As an alternative to the proposed language, WEDC recommends adopting language from an amendment to AB 181, relating to a venture capital investment program. The bipartisan amendment was approved by the Assembly Committee on Jobs, Economy and Mining on May 14, 2013. The amendment requires the WEDC Board to adopt a procurement policy that specifies all of the following:

- when WEDC is required to publicly solicit proposals from multiple vendors of goods or services;
- how WEDC is to evaluate proposals from multiple vendors;
- how the corporation is to assess any potential conflicts of interest a vendor may have if the vendor sells goods or services to the corporation;

WEDC respectfully requests that the Committee adopt this language instead of the language requiring WEDC to follow state procurement practices. WEDC has developed a procurement policy that will be reviewed by the Board's Policy Committee in July and the full Board of Directors will review at their next scheduled meeting on July 23, 2013. It adheres to the above requirements and ensures an accountable, competitive, and transparent process for procuring that largely mirrors the state procurement process while still ensuring necessary flexibility for organizations that receive funding from WEDC.

Again, we welcome the opportunity to continue working with the Legislature on this and other legislation to help improve WEDC and help move Wisconsin forward. Improving Wisconsin's business climate is a collaborative effort between all agencies in government and our elected officials. We welcome the opportunity to testify and provide dialogue on initiatives such as Senate Bill 205 and welcome any questions you may have.

Thank you for your consideration.

Reed E. Hall

Secretary/CEO



## Wisconsin Economic Development Association

**TO: Members, Joint Committee on Finance**  
**FROM: Carol Karls, President, Wisconsin Economic Development Association**  
**RE: WEDC Procurement**  
**DATE: May 28, 2013**

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The Wisconsin Economic Development Association (WEDA) is a statewide association consisting of over 450 economic development practitioners. WEDA supports state policies that competitively position Wisconsin for business development, investment and employment opportunities. The recent Legislative Audit Bureau report on the Wisconsin Economic Development Corporation (WEDC) included a host of interrelated process and operating policy recommendations. While WEDA agrees with the LAB's recommendations, the procurement portion of Motion 154 enacted by the Joint Finance Committee on May 9<sup>th</sup> in response to the audit is concerning.

Clearly, the intent of Motion 154 is understandable. However, by requiring that any WEDC contract greater than \$25,000 follow the Department of Administration's State Bureau of Procurement process, Motion 154 has added real economic and organizational hardships upon WEDC partners. WEDA is concerned the implementation of this provision will have unintended negative consequences with regard to WEDC's extended enterprise activities and other related collaborative arrangements.

Although it's a standard practice, submitting Requests for Proposal (RFP's) or Requests for Qualifications (RFQ's) is a time consuming and often expensive endeavor. While for-profit organizations have the staff and resources to effectively compete in this RFP/RFQ arena, most of the aforementioned WEDC partners do not. The lion's share of the extended enterprise and collaborative arrangements that WEDC currently maintains are with non-profit, economic development organizations.

More often than not, economic development organizations operate on razor thin budgets and have staff constraints. While equipped to fulfill the mission of their organization, these groups are increasingly challenged to address the mandatory compliance and reporting requirements attached to the receipt of public funding. Consequently, a higher percentage of resources are allocated toward generating reports than implementing the organization's work plan.

As Wisconsin continues to advance itself out of the aftermath of the Great Recession, its focus must be on creating policies and programming that help – rather than hinder – economic progress. Therefore, WEDA respectfully requests that JFC strike a balance between taxpayer protection/accountability expectations and fostering a robust development/investment environment. To assist with striking this balance, WEDA extends an open invitation to meet with JFC so WEDC and its economic development partners can focus their collective efforts toward moving Wisconsin's economy forward.

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**Amy Young**

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**Subject:** RE: WWBIC's decades of work with Wisconsin Department of Commerce and more recently WEDC - a few thoughts...

From: Wendy Baumann  
Sent: Thursday, May 23, 2013 3:08 PM  
To: '[rep.kooyenga@legis.wisconsin.gov](mailto:rep.kooyenga@legis.wisconsin.gov)'  
Cc: Wendy Baumann  
Subject: WWBIC's decades of work with Wisconsin Department of Commerce and more recently WEDC - a few thoughts...

Hope you are doing well!

As a key member of our Joint Finance Committee I did want to share the following view here related to possible changes in contracting with WEDC.

WWBIC has a long long history with the Wisconsin Department of Commerce and now has advanced continued support with WEDC. As you are aware, WWBIC celebrates over 25 years of putting dreams to work – providing that quality business and financial education coupled with access to fair capital to start, grow or diversify a micro or small business venture! We have trained many and lent to a lot and continue to secure and leverage federal support that in almost all cases needs a local match. We impact lives on an economic basis – we improve the economic wellbeing of citizens here – we care about all and do focus our work with women, minority and lower-wealth individuals. We have long provided acceptable and appropriate reports, audits, and general information to the then Department of Commerce and to the current WEDC. We are a strong partner.

To us (perhaps others) we have appreciated the ability of WEDC to provide support (via a wholesale model) to and with WWBIC and our services in the manner they have done so in the past two years. We have had meetings, proposals and discussions, resulting in approved budgets with clear goals and deliverables. Again we have provided the required reports and not only pay for performance information – we believe we have provided pay for success through the support of WEDC and our impact.

We strongly encourage you to allow WEDC to continue to have that flexibility to advance such support and in essence to not require that all such support from WEDC be subject to state statutory purchasing requirements. We believe checks and balances, review and audits should continue and remain – but the overall strategy of providing support for services does not need nor should be subject to a procurement process used for commodities.

I am happy to speak with you directly on this and thank you for your attention here!

All the best,

Wendy K. Baumann | President/CVO  
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June 3, 2013

Senator Alberta Darling  
Co-Chair, Joint Committee on Finance  
Room 317 East  
State Capitol  
PO Box 7882  
Madison, WI 53707-7882

Dear Senator Darling:

We are writing today regarding Motion 154 enacted by the Joint Committee on Finance in response to the Legislative Audit Bureau's (LAB) report on the Wisconsin Economic Development Corporation (WEDC). The Wisconsin Manufacturing Extension Partnership (WMEP) is a small, non-profit organization that assists small and medium manufacturers in the southeastern half of Wisconsin, and the procurement portion of Motion 154 is particularly concerning to our organization as a named strategic partner of the WEDC.

Manufacturing is vitally important to Wisconsin's economy. In 2011, the gross state product (GSP) of Wisconsin's manufacturing sector was \$51.3 billion, or 20 percent of the total GSP. That year, Wisconsin's manufacturers employed more than 400,000 people in the state and carried payrolls of more than \$21 billion. Of the 9,033 manufacturing establishments in Wisconsin, only 114 - 1.2 percent - are considered large manufacturers, employing more than 500 people.

The WMEP is a long-term partner of the State of Wisconsin; first with the Wisconsin Department of Commerce and now with the WEDC. This relationship has been positive for both parties. State support allows for the development of improvement assistance programs that small and medium manufacturers could not afford to develop on their own and the WMEP consistently provides independently-verified returns on investment of 12 to 1. The WMEP reports to the WEDC quarterly, at a minimum, on a number of metrics that are used to measure our impact. These metrics demonstrate the economic value of our collaboration and we hope that our mutually beneficial relationship can continue.

We agree with the LAB about the importance of financial controls and the recommended changes to WEDC operating procedures, however, we are very concerned with the procurement provisions of Motion 154. As enacted by the Committee, these provisions will require us to divert resources from directly assisting manufacturers to work within the rigid bidding process. One of the greatest benefits of our partnership is our ability to respond quickly to Wisconsin manufacturers' needs with flexible, dynamic programs. The bidding process could add significant time to our response, delaying manufacturers'

improvements and the resulting positive impacts on the involved companies, as well as the larger Wisconsin economy. We respectfully request that you reconsider this provision.

Thank you for your time. If you have any questions about the WMEP's work, please do not hesitate to contact Buckley Brinkman, WMEP Executive Director/CEO.

Sincerely,

WMEP Board of Directors Members

Kurt Bauer  
President  
Wisconsin Manufacturers & Commerce

Michael Farrell  
Chairman & CEO  
Sentry Equipment Corp  
Oconomowoc

Steve Copp  
President  
Trans-Coil International, LLC  
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John West  
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