



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #786

Agency Funding, Personnel, and Functions (Wisconsin Economic Development Corporation/Commerce)

[LFB 2011-13 Budget Summary: Pages 526 thru 528 , #1 thru 3, Page 122, Item #9]

CURRENT LAW

The Wisconsin Economic Development Corporation (WEDC) was created as an authority under 2011 Wisconsin Act 7. It is a public body corporate and politic and has a 13-member board of directors. The Board includes the Governor, who serves as chair, and six members nominated by the Governor, and appointed with the advice and consent of the Senate. The Board also includes three members appointed by the Speaker of the Assembly and three members appointed by the majority leader of the Senate, each consisting of one majority member, one minority member, and one person employed in the private sector. The Secretary of Administration and the Secretary of Revenue serve as nonvoting members of the Board. A majority of the voting members constitutes a quorum for the purpose of conducting its business and exercising its powers, and for all other purposes, despite the existence of vacancies. Action may be taken by the Board based on a vote of a majority of the voting members present.

The Board is required to develop and implement economic programs to provide business support, expertise, and financial assistance to companies that are investing and creating jobs in Wisconsin, and to support new business start-ups, and business expansion and growth in the state. The Board has the authority to develop and implement any other programs related to economic development in Wisconsin, and all the powers necessary and convenient to carry out its responsibilities. "Economic development program" is defined as a program or activity having the primary purpose of encouraging the establishment and growth of business in the state, including the creation and retention of jobs.

In addition, the Board is specifically authorized to: (a) adopt, amend, and repeal any bylaws, policies, and procedures for regulating its affairs and conducting its business; (b) have a seal and alter it; (c) maintain an office; (d) sue and be sued; (e) accept gifts, grants, loans, or other contributions from private and public sources; (f) establish the corporation's annual budget, and monitor the fiscal management of the corporation; (g) execute contracts and other instruments required for the operation of WEDC; (h) employ any officers, agents, and employees

that it may require, and determine their qualifications, duties, and compensation; (i) issue notes, bonds, and any other obligations; (j) make loans and provide grants; and (k) incur debt.

The Governor is required nominate a chief executive officer (CEO) for WEDC to be appointed with the advice and consent of the Senate, and serve at the pleasure of the Governor. The Board is authorized to delegate to the CEO any powers and duties that the Board considers proper, and to determine his or her compensation. The Code of Ethics for Public Officials and Employees applies to the CEO and to WEDC Board members. The CEO and Board members must file annual statements of economic interest. Beginning on January 1, 2012, WEDC will be subject to the general state prohibition on dual employment, which precludes full-time agency employees from holding any other position with a state agency or authority from which the individual receives more than \$12,000 in compensation. WEDC and the Board are subject to state open meetings and records provisions.

The state or any subdivision, or any officer, employee, or agent of the state or political subdivision, who is acting within the scope of employment or the agency, is not liable for any debt, obligation, act or omission of WEDC.

For each economic development program developed and implemented by the WEDC Board, the Board is required: (a) establish clear and measurable goals for the program that are tied to statutory or programmatic policy objectives; (b) establish at least one quantifiable benchmark for each program goal; (c) require that each recipient of a grant or loan under the program submit a report to the Corporation, and that each contract with a grant or loan recipient specify the frequency and format of, and the performance measures to be included in, the report; (d) establish a method for evaluating the projected results of the program with actual outcomes, as determined by evaluating the program's objectives and benchmarks; and (e) annually, independently verify, from a sample of grants and loans, the accuracy of the information submitted by recipients to WEDC.

In addition, for each economic development program developed and implemented by the WEDC Board, the Board must require:

a. That each recipient of an economic development program grant or loan of at least \$100,000 submit to WEDC a verified statement describing the recipient's expenditure of the grant or loan funds, signed by both an independent certified public accountant and the director or principal officer of the recipient, to attest to the accuracy of the verified statement. Also, a contract with a loan or grant recipient must include that the recipient of a grant or loan make documents supporting the verified statement available for inspection, and include this requirement in the contract with the grant or loan recipients.

b. That the Board, if a recipient of an economic development program grant or loan submits false or misleading information to WEDC, or fails to comply with the terms of the contract entered into with the Authority, and without the recipient providing satisfactory explanation for the noncompliance, do all of the following: (1) recoup payments made to the recipient; (2) withhold future payments to be made to the recipient; and (3) impose a financial penalty on the recipient.

The WEDC Board is required to submit, by January 1, to the Chief Clerk of each house for distribution to the Legislature, a report identifying the economic development projects that

the WEDC Board intends to develop and implement during the calendar year. In addition, by October 1 of each year, the WEDC Board is required to submit to the Joint Legislative Audit Committee and the Chief Clerk of each house, for distribution to the Legislature, a report for the previous fiscal year on each of the WEDC economic development programs that contains all of the following: (a) a description of each program; (b) a comparison of expected and actual program outcomes; (c) the number of grants made under the program; (d) the number of loans made under the program; (e) the amount of each grant and loan made under the program; (f) the recipient of each grant or loan made under the program; (g) the sum total of all grants and loans awarded to and received by each recipient under the program; and (h) any recommended changes to the program. The WEDC Board must make this information accessible to the public on an Internet-based system.

Act 7 created a statutory appropriations schedule (section 20.192) to fund WEDC activities, including a GPR, PR, and FED appropriation. The specific appropriations include: (a) a continuing GPR operations and programs appropriation for the operations of WEDC and for funding economic development programs developed and implemented by the Board [20.192 (1) (a)]; (b) a continuing PR appropriation for transferred general fund moneys from the Department of Commerce for the operations of WEDC and for funding economic development programs developed and implemented by the Board [20.192 (1) (k)]; and (c) a continuing federal aid (FED) programs appropriation for federal moneys allocated to fund programs administered by WEDC [20.192 (1) (m)]. No funding was directly appropriated for WEDC under 2011 Act 7.

GOVERNOR

Provide \$18,743,700 GPR in 2011-12, \$16,399,600 GPR in 2012-13, and \$36,390,600 FED and \$4,861,200 PR annually to establish a funding level for the Wisconsin Economic Development Corporation (WEDC). The bill would also create a segregated appropriation for economic development programs with \$38,850,000 SEG in 2011-12, and \$39,850,000 SEG in 2012-13. The funding would be provided from the newly-created economic development fund, which is currently the recycling and renewable energy fund, that would be renamed under the bill.

DISCUSSION POINTS

1. Under Act 7, the Secretary of Administration is authorized to transfer to WEDC, before the later of July 1, 2011, or the effective date of the 2011-2013 biennial budget, moneys from any Department of Commerce general fund appropriation under economic and community development or executive and administrative services that are used to fund economic development programs of Commerce. The Secretary of Administration is also authorized to abolish any Commerce full-time equivalent position or portion of a position that is funded from general fund revenues and is assigned duties relating to the Department's economic development programs.

In addition, Act 7 requires Commerce, if requested by the WEDC Board, to provide staff or other resources to WEDC to assist the Board in carrying out the corporation's economic development functions. Commerce and the Board are required to coordinate their economic development programs to the greatest extent possible. Although most Board members have been appointed and the Board recently met, to date, Commerce has continued to operate as the State's

primary economic development agency.

2. Under the bill, a number of economic and community development functions would be transferred from Commerce to WEDC. Attachment 1 provides a summary.

3. Table 1 shows the appropriations deleted from Commerce. The table includes the base funding in Commerce and the appropriation, related funding and positions that would be deleted to eliminate the Division of Business Development and certain economic and community development functions performed by the Department of Commerce. The amounts deleted are the amounts in each appropriation after adjustments for standard budget adjustments, budget reductions, removal of long-term vacant positions, and re-estimating woman-owned business certification fees.

TABLE 1

**Deleted Commerce Economic and Community Development
Appropriations and Funding**

<u>Appropriation Name</u>	<u>Commerce 2010-11 Base Funding</u>	<u>Base Positions</u>	<u>Annual Funding Eliminated</u>	<u>Annual Positions Eliminated</u>
Economic and Community Development				
<i>General Fund</i>				
General program operations	\$3,959,900	40.35	\$3,829,000	33.55
Economic development promotion; plans and studies	28,200		28,200	
Wisconsin venture fund	136,000		136,000	
Value supply chain grants	0		0	
Wisconsin development fund; grants, loans, reimbursements, and assistance	9,462,000		9,462,900	
Community-based, nonprofit organization grant for educational project	0		0	
Rural outsourcing grants	250,000		250,000	
High-technology business development corporation	534,700		534,700	
Main street program	383,100	4.50	434,000	4.50
Technology-based economic development	0		0	
Hazardous pollution prevention; contract	0		0	
Rural economic development program	569,300		569,300	
International trade; business and economic development grant	0		0	
Forward innovation fund; grants and loans	884,600		884,600	
Manufacturing extension center grants	1,126,400		1,126,400	
Woman's business incubator grant	0		0	
Total GPR	\$17,334,200	44.85	\$17,255,100	38.05
<i>Program Revenue</i>				
Gifts, grants, and proceeds	\$492,000	2.50	\$475,000	2.00
Office of regulatory assistance	0	0.00	0	0.00
Recycling and renewable energy fund; repayments	0		0	
Administration of grants and loans	216,100	2.50	225,500	2.50
Wisconsin development fund; entrepreneurial assistance grants	45,000		45,000	
Economic development operations	0		0	
Certified capital companies	\$0		\$0	
Loans to manufacturing businesses; repayments	0		0	
Wisconsin development fund; repayments	3,801,500		3,421,300	
Gaming economic development and diversification; repayments	328,500		295,600	

<u>Appropriation Name</u>	<u>Commerce 2010-11 Base Funding</u>	<u>Base Positions</u>	<u>Annual Funding Eliminated</u>	<u>Annual Positions Eliminated</u>
Grant and loan repayments; forward innovation fund	0		0	
Rural economic development loan repayments	113,900		102,500	
Manufactured housing rehabilitation and recycling; program revenue	65,700		59,100	
Sale of materials or services	0		0	
Sale of materials and services- local assistance	0		0	
Sale of materials and services - individuals and organizations	0		0	
Clean air act compliance assistance	232,500	2.00	237,200	2.00
American Indian economic development; technical assistance	88,300		79,500	
American Indian economic liaison and gaming grants specialist and program marketing	104,200	1.00	111,600	
American Indian economic development; liaison grants	0		0	
Gaming economic development and diversification; grants and loans	1,079,400		1,079,400	
Funds transferred from other state agencies	0		0	
Total PR	<u>\$6,567,100</u>	<u>8.00</u>	<u>\$6,131,700</u>	<u>6.50</u>
<i>Federal Funds</i>				
Federal aid, state operations	\$1,473,700	17.05	\$1,719,900	11.55
Loans to manufacturing businesses	0		0	
Federal aid, local assistance	34,400,000		34,400,000	
Federal aid, individuals and organizations	0		0	
Total FED	<u>\$35,873,700</u>	<u>17.05</u>	<u>\$36,119,900</u>	<u>11.55</u>
<i>Segregated Funds</i>				
Brownfields grant program and related grants; environmental fund	\$6,570,500		\$6,570,500	
Wisconsin development fund grants & loans; recycling & renewable energy fund	14,850,000		14,850,000	
Wisconsin development fund, administration; recycling & renewable energy fund	69,700	1.00	88,300	1.00
Total SEG	<u>\$21,490,200</u>	<u>1.00</u>	<u>\$21,508,800</u>	<u>1.00</u>
Total Economic and Community Development	\$81,265,200	70.90	\$81,015,500	57.10

4. The administration has developed a proposed organizational structure and budget for WEDC. Under the proposed structure the corporation would have four main operating divisions: (a) Entrepreneurship and Innovation; (b) Economic & Community Development; (c) Business and Industry Development; and (d) Business Climate and Marketing. Each division would be managed by a vice president. The President's (CEO) Office would include upper level management positions, such as legal counsel, the Chief Operating Officer (COO) and Chief Financial Officer (CFO). WEDC financial and administrative staff would operate under the CFO. Attachment 2 shows the current proposed organizational structure for WEDC. The numbers in parentheses indicate the number of positions that would be assigned to particular functions. The number of positions shown for the President's Office include legal counsel, strategic projects manager, COO, CFO, and assistants to the CEO. The position count shown in the division boxes include positions shown for each function plus the vice president. For example, the Division of Entrepreneurship and Innovation would have seven total positions including the vice president, two early stage investment positions, one entrepreneurship development position, and three venture capital authority positions. The total number of positions projected for WEDC would be 83.

5. Table 2 shows projected annual funding amounts allocated for WEDC expenditures, including salaries, fringe benefits, supplies and services, other agency expenses, and specified economic development grants and loans for each of the corporation's divisions or functions. The administration indicates that these expenses would primarily be funded with GPR and may change somewhat as decisions are finalized by the Board. However, certain administrative functions associated with the federal community development block grant (CDBG) program would be funded with federal funds. Federal guidelines allow the state to retain \$100,000 plus 2% of the total CDBG allocation for administration. Table 3 shows the amount of federal funding that would be used to fund salary and fringe benefits by division. A total of 16 WEDC positions would be at least partially funded with the CDBG administrative moneys. Fringe benefit expenses were estimated using the Commerce full fringe benefit rate (49.7%), and assumes participation in the Wisconsin State Retirement System (WRS) and state health insurance programs. The calculations assume WEDC staff would not be subject to increased state pension and health insurance contributions that would apply to state employees under 2011 Act 10. Further, the administration indicates Commerce appropriations were not reduced to reflect these increased employee contributions prior to their transfer to WEDC. This was done in order to provide WEDC additional operational flexibility. Incentive funding represents amounts budgeted for performance bonuses, pending approval of the personnel policy of the WEDC Board. Strategic planning funds are for contracted services. Sales force expenses are for a client support platform, and includes funding that would be used by corporation partners.

TABLE 2

Proposed WEDC Operating Expenses, GPR

<u>Staff</u>	<u>President's Office</u>	<u>Business Climate & Marketing</u>	<u>Business and Industry Dev.</u>	<u>Economic and Community Dev.</u>	<u>Finance and Admin.</u>	<u>Entrepreneurship & Innovation</u>	<u>Total</u>
Wage Compensation							
Salary	\$530,300	\$705,400	\$1,147,100	\$973,800	\$873,600	\$459,200	\$4,689,400
Incentive	<u>54,200</u>	<u>74,200</u>	<u>114,700</u>	<u>124,300</u>	<u>96,200</u>	<u>45,900</u>	<u>509,500</u>
Total Compensation	\$584,500	\$779,600	\$1,261,800	\$1,098,100	\$969,800	\$505,100	\$5,198,900
Fringe Benefits							
FICA	\$44,900	\$60,000	\$96,500	\$87,800	\$75,400	\$38,600	\$403,200
Retirement	35,200	47,100	75,700	68,800	59,200	30,300	316,300
Health	141,700	166,100	216,000	277,900	241,700	100,800	1,144,200
Life	1,200	1,300	1,800	2,300	2,100	800	9,500
Worker's Compensation	<u>64,000</u>	<u>85,500</u>	<u>137,600</u>	<u>125,200</u>	<u>107,600</u>	<u>55,100</u>	<u>575,000</u>
Total Fringe Benefits	\$287,000	\$360,000	\$527,600	\$562,000	\$486,000	\$225,600	\$2,448,200
Supplies & Services							
Rent	\$83,800	\$98,200	\$127,300	\$167,800	\$141,500	\$59,400	\$678,000
Travel	36,500	35,600	157,000	62,700	12,000	13,000	316,800
Telephone	6,000	7,200	9,000	13,800	10,800	4,200	51,000
Training	26,500	36,800	57,100	61,900	46,300	22,700	251,300
Information Technology Services	0	0	0	0	80,000	0	80,000
Legal Services	100,000	0	0	0	0	0	100,000
Audit	0	0	0	0	25,000	0	25,000
Supplies	30,000	36,000	45,000	69,000	54,000	21,000	255,000
Postage/Mailing	2,000	2,000	7,000	5,000	12,000	5,000	33,000
Conferences/Sponsorship	100,000	0	0	10,000	0	0	110,000
Insurance	<u>1,400</u>	<u>1,700</u>	<u>2,100</u>	<u>3,200</u>	<u>2,500</u>	<u>1,000</u>	<u>11,900</u>
Total Supplies & Services	\$386,200	\$217,500	\$404,500	\$393,400	\$384,100	\$126,300	\$1,912,000
Total Staff Expenses	\$1,257,700	\$1,357,100	\$2,193,900	\$2,053,500	\$1,839,900	\$857,000	\$9,559,100
Agency Expenses							
Contracts	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Strategic Planning	30,000	0	0	0	0	0	30,000
Marketing	0	1,500,000	0	0	0	0	1,500,000
Sales Force System	0	0	0	0	8,000	0	8,000
Accounting	0	0	0	0	80,000	0	80,000
Executive search	0	0	0	0	50,000	0	50,000
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>267,300</u>	<u>0</u>	<u>267,300</u>
Total	\$30,000	\$1,500,000	\$0	\$0	\$405,300	\$0	\$1,935,300
Total Operating Expenses	\$1,287,700	\$2,857,100	\$2,193,900	\$2,053,500	\$2,245,200	\$857,000	\$11,494,400
Economic Development							
Trade Offices	\$0	\$0	\$339,700	\$0	\$0	\$0	\$339,700
Women's Business Initiative Corp.	0	0	99,000	0	0	0	99,000
Wisconsin Angel Network	0	0	0	0	0	60,000	60,000
Wisconsin Entrepreneurs' Network	0	0	0	0	0	600,000	600,000
Wisconsin Technology Council	0	0	0	0	0	420,000	420,000
Angel	0	0	0	0	0	0	0
Regional Marketing Entities	0	0	0	700,000	0	0	700,000
WI Manufacturing Extension Partnership	0	0	1,200,000	0	0	0	1,200,000
Main Street	0	0	0	90,000	0	0	90,000
Great Lakes Intertribal Council	0	0	88,300	0	0	0	88,300
Grants & Loans	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$0	\$0	\$1,727,000	\$790,000	\$0	\$1,080,000	\$3,597,000
Grand Total	\$1,287,700	\$2,857,100	\$3,920,900	\$2,843,500	\$2,245,200	\$1,937,000	\$15,091,400

*Amounts budgeted for performance bonuses pending approval of personnel policy.

**Estimated using Department of Commerce fringe benefit rate. Assumes participation in state retirement system and health care plan.

+Funding for contracted services.

++Funding for a client support platform and partners.

The tables show that total annual expenses for salaries, fringe benefits, and related supplies and services funding would be approximately \$9.6 million GPR and \$0.6 million FED. Additional agency expenses, such as marketing costs, estimated at \$1.9 million GPR while specific economic development costs, such as the grant to the Wisconsin Manufacturing Extension Partnership (WMEP), would total \$3.6 million GPR. As a result, total of operating and specific economic development expenses would be \$15.7 million. Following is a brief description of each division and other Corporation functions.

TABLE 3

Proposed WEDC Operating Expenses, FED

<u>Staff</u>	<u>President's Office</u>	<u>Business Climate & Marketing</u>	<u>Business and Industry Dev.</u>	<u>Economic and Community Dev.</u>	<u>Finance and Admin.</u>	<u>Entrepreneurship & Innovation</u>	<u>Total</u>
Salary	\$11,600	\$36,400	\$0	\$269,400	\$87,900	\$0	\$405,300
Total Fringe Benefits*	4,700	14,600	0	107,800	35,200	0	162,300
Supplies & Services	<u>1,600</u>	<u>5,100</u>	<u>0</u>	<u>37,700</u>	<u>12,300</u>	<u>0</u>	<u>56,700</u>
Total Staff Expenses	\$17,900	\$56,100	\$0	\$414,900	\$135,400	\$0	\$624,300

*Estimated using Department of Commerce fringe benefit rate. Assumes participation in state retirement system and health care plan.

Division of Entrepreneurship & Innovation. Division functions include implementing early stage capital expansion programs; supporting technical assistance for new business start-ups, new product development, and R & D investment in Wisconsin; and managing a proposed venture capital authority. Staff would include the Division Vice President, the early stage investment team, an entrepreneurship development manager, and venture capital investment staff. The early stage investment team would consist of two positions that would consult with, and provide advice and assistance to early stage technology companies, entrepreneurs, and technology partners. The entrepreneurship development manager would work with Division partners including the Wisconsin Entrepreneurs Network (WEN), the Wisconsin Technology Council (WTC) and the Wisconsin Angel Network (WAN). Three positions could be used to manage a proposed Venture Capital Authority which would be created under a separate bill (2011 Senate Bill 94 and Assembly Bill 129), and include the Badger Jobs Fund, a fund of funds, and the Jobs Now Fund, which would be a Certified Capital Company (CAPCO) program. Total annual funding for staff salaries and fringe benefits, and related supplies and services would be \$857,000 GPR. The Division vice-president would be allocated an annual salary of \$98,800.

The Division would also be provided annual funding of \$600,000 GPR for grants to WEN, \$420,000 GPR for grants to WTC, and \$60,000 GPR for grants to WAN.

Division of Economic and Community Development. The Division would provide financial and technical support to improve the quality of state and local economic development organizations, coordinate a high performing state and local government economic development network, and

provide financial and technical assistance to communities and businesses for economic development projects. In addition to the vice president, Division staff would include seven regional development managers who would work with local development organizations to provide technical and financial assistance to business expansion or retention projects. A five-person business underwriting team would review, analyze, and approve business assistance projects, and provide support to regional revolving loan funds. The community infrastructure team would also be composed of five positions that would administer the federal CDBG programs, and the state and federal brownfields and blight elimination grants program. The downtown development team would consist of four positions that would provide technical and financial assistance to local governments, including administering the Main Street program, to revitalize downtown areas and commercial business districts. Total funding for Division staff salaries, fringe benefits, and supplies and services would be \$2,053,500 GPR and \$414,900 FED. The Division vice president's salary would be allocated at \$99,700.

The Division would be allocated annual funding of \$700,000 GPR for grants to regional marketing entities, and \$90,000 GPR to administer the Main Street program.

Division of Business and Industry Development. The Division would target key industry sectors and high potential business consortia opportunities for support, and provide customized financial assistance to significant business expansion or attraction projects. In addition, the Division would administer international and minority business economic development programs. Division personnel would include the vice president, three business development managers, a two person minority industry development team, five industry development managers, and a five person international development team. Business development managers would work directly with business clients to broker comprehensive assistance packages. The international development team would provide export assistance, international market development, and manage the corporation's international office contracts (Brazil, China, Canada, Mexico). The industry development managers would develop and provide support for business consortia projects, while the minority industry development team would provide technical and financial assistance to minority business projects. Total salary, fringe benefit, and supplies and services funding for Division personnel would be \$2,193,900 GPR. The vice president could receive a salary of \$99,800.

The Division would be allocated annual funding of \$339,700 GPR for international office contracts, \$99,000 GPR for a grant to the Women's Business Initiative Corporation, \$1,200,000 GPR for a grant to the Wisconsin Manufacturing Extension Partnership (WMEP), and \$88,300 GPR for a grant to the Great Lakes Intertribal Council (GLITC).

Division of Business Climate and Marketing. The Division would be responsible for developing and managing a marketing program to promote Wisconsin as a state to locate and operate a business in, streamline barriers to business and industry growth, conduct research and develop agency economic development policy, and act as an intergovernmental liaison. Similar to the other divisions, the Division would be headed by a vice president. Two positions would act as state and federal legislative liaisons with state and federal government agencies. A four member research and policy team would evaluate and recommend policies that affected the retention and growth of businesses, and research and perform statistical analyses of the local, state, national, and international business climate. The communications position would manage media relations, and produce marketing materials. There would also be a grants administrator for grants management,

program oversight, budgeting, evaluation and reporting. The events coordinator would manage a number of Corporation activities including trade shows, sales meetings, business meetings, and virtual events. Total compensation and supplies and services funding for the Division would be \$1,357,100 GPR and \$56,100 FED. The vice president's salary could be \$99,800.

The Division would also be allocated annual funding of \$1,500,000 to develop, implement and manage a state marketing program.

Corporation Finance and Administration. Corporation finance, information technology and other administrative activities would be administered by the agency's chief financial officer and would include the controllers office, a human resources director, and staff for information technology support, compliance, process improvement, and customer service. The Human Resources Director would be responsible for recruiting and hiring staff, administering benefits, and coordinating professional development. The Controllers Office would be staffed by five positions that worked on the corporation's financial planning, debt financing, and budget management functions, and that ensured corporation accounting procedures conformed to generally accepted accounting principles. Compliance personnel (two positions) would ensure conformity and adherence with applicable state and federal laws and regulations, and would assist in training and coordination of project management. Three process improvement positions would identify improvement opportunities, assist in executing benchmark projects, analyze data, and assess agency performance. Three positions would be provided for customer service. Total salary, fringe benefit, and supplies and services costs for these functions would be \$1,839,900 GPR and \$135,400 FED. The CFO's annual salary would be \$69,500.

Additional annual funding would be allocated for related activities as follows: (a) \$81,000 GPR for sales force system expenses; (b) \$80,000 GPR for accounting; and (c) \$50,000 GPR for executive search. As noted, sales force system expenses would be for a client support platform, and would include funding for corporate partners. In addition, annual depreciation costs for the agency's equipment and fixtures would be \$267,300.

President's Office. The President's Office would be responsible for general administration of the corporation and strategic planning. There would be nine positions assigned to the Office, including the CEO, executive assistant to the CEO, the COO, and the CFO. In addition, the Office would include the chief legal counsel and an assistant attorney. The strategic projects manager would act as a liaison and oversee major corporation projects. There would also be two administrative assistants and a clerical position. Total compensation and supplies and services funding for the Office of the President would be \$1,257,700 GPR and \$17,900 FED. The annual salary of the CEO would be \$120,000, and the COO would be allocated \$98,600. The Office would also be provided \$30,000 annually to contract for strategic planning.

WEDC would also incur one-time start-up costs in 2011-12 of \$1,137,800 GPR for transition payroll and benefits (\$200,700), buy-out of Commerce employee sick leave balances (\$547,100), transition marketing costs (\$250,000), installation of financial management systems, such as accounting and payroll (\$75,000), and development of a website (\$65,000).

6. Offer letters for employment at WEDC have been sent to the 54 Commerce

employees in economic and community development positions that would be eliminated under the bill. By function, the location of the personnel to whom offer letters were sent would be: (a) President's Office -- 7; (b) Entrepreneurship & Innovation -- 3; (c) Economic and Community Development -- 19; (d) Business and Industry Development -- 9; (e) Business Climate and Marketing -- 6; and (f) Corporation Finance and Administration -- 10.

7. Under the bill WEDC is appropriated \$18,743,700 GPR in 2011-12 and \$16,399,600 GPR in 2012-13 for WEDC operations and programs. Projected total annual GPR expenditures are \$15,091,400 GPR, plus one-time costs of \$1,137,800 GPR in 2011-12. When projected expenditures are subtracted from the annual GPR appropriations funding of \$2,514,500 GPR in 2011-12 (\$18,743,700 - \$15,091,400 - \$1,137,800) and \$1,308,200 GPR in 2012-13 (\$16,399,600 - \$15,091,400) remains. The administration indicates the WEDC would use these remaining funds to provide financial assistance to economic development projects.

8. WEDC would be provided annual expenditure authority of \$4,861,200 PR in the WEDC program revenue appropriation for transferred general fund moneys of the Department of Commerce [s. 20.192 (1) (k)]. The statutory appropriation language specifies that the appropriation includes moneys transferred under Act 7, and moneys that would be transferred under the biennial budget bill, for WEDC operations and economic development programs developed and implemented by the WEDC Board. No funds have yet been transferred from Commerce to WEDC under the provisions of Act 7. The bill would transfer all unencumbered appropriation account balances that would be deleted under Commerce economic and community development, including federal funds, to WEDC. The amount of unencumbered appropriation balances that is estimated to be transferred would be \$6,500,000. This would be the only source of program revenue in the appropriation under the bill. As a result, expenditure authority should be re-estimated to be \$6,500,000 GPR in 2011-12 and \$0 in 2012-13. However, Commerce estimates that loan repayments made to WEDC for Commerce loans under the Wisconsin Development Fund (WDF), minority business development (MBD), Forward Innovation Fund (FIF), and rural economic development program (RED) will be \$3,405,000 in 2011-12 and \$4,323,700 in 2012-13. The Committee may wish to modify the statutory language for the appropriation to require that WEDC economic development loan repayments be deposited in the appropriation [s. 20.192 (1) (k)] and be used for future grants and loans. This would provide parallel treatment for WEDC loan repayments to that provided for Commerce programs, and provide a means for the Legislature to monitor the use of loan payments. If the Committee, chooses to adopt this provision, expenditure authority in the appropriation should be re-estimated to be \$9,905,000 PR in 2011-12 and \$4,323,700 PR in 2012-13.

9. Under the bill, WEDC is provided \$36,390,600 FED, annually, in the WEDC federal aid, programs appropriation [s. 20.192 (1) (m)]. This reflects the transfer of responsibility for administering the small cities Community Development Block Grant (CDBG) program from Commerce to WEDC. This CDBG funding would be used for economic development, public facilities, public facilities for economic development, blight elimination and brownfield site redevelopment, emergency assistance, and planning grant programs. According to the administration, the expected annual CDBG allocation to WEDC will be \$20,000,000. As a result, the Committee could reduce annual expenditure authority in the federal aid, programs appropriation by \$16,390,600 FED, to total annual funding of \$20,000,000, to reflect the expected level of CDBG

funding.

10. AB 40 would provide WEDC with \$38,850,000 SEG in 2011-12 and \$39,850,000 SEG in 2012-13 in a newly-created economic development fund, programs appropriation. The appropriation would be a continuing appropriation for economic development programs administered by WEDC. The funding would be provided from the economic development fund which would be created from the current recycling and renewable energy fund under the bill.

11. Under current law, the WEDC Board is required to develop and implement WEDC economic development technical and financial assistance programs to businesses, including new business start-ups and businesses expansions, that will invest and create jobs in Wisconsin. In addition, the Board is specifically authorized to employ WEDC officers and staff, and determine their qualifications, duties, and compensation. On May 18th, 2011, the Board, which consisted of nine members, held its first meeting and adopted bylaws and approved organizational resolutions. However, the Board did not formally approve the proposed WEDC structure, personnel and funding allocation. In addition, specific economic development financial and technical assistance programs were not established. The next Board meeting is scheduled for June 13th, 2011. Attachment 3 provides a listing of WEDC Board members that have been appointed through May 18th, 2011.

12. WEDC is appropriated total state funding of \$98,845,500 in 2011-12 and \$97,501,400 in 2012-13, for operations and economic development programs. As noted, the structure and personnel for WEDC has not been formally approved, and specific economic development technical and financial assistance programs have not yet been established. The total includes annual funding of \$36,390,600 FED in federal CDBG funds. CDBG grants must conform with federal laws and regulations that govern the program. However, the Committee may wish to place non-federal funding of \$9,371,850 GPR, \$2,430,600 PR and \$19,425,000 SEG in 2011-12 and \$16,399,600 GPR, \$4,861,200 PR, and \$39,850,000 SEG in 2012-13 in the Committee's supplemental GPR [s. 20.865 (4) (a)], PR [s. 20.865 (4) (g)], and SEG [s. 20.865 (4) (u)] appropriations, and require WEDC to request release of the funding when the agency's structure, personnel and funding allocations are approved, and specific economic development programs are established. This would provide WEDC with 50% of first year funding for corporation activities. Placing the remaining funds in the Committee's supplemental appropriations would allow the Committee to review WEDC operations and economic development programs to ensure they conformed with legislative intent in creating the Authority, before releasing the remaining funding. However, the lack of permanent funding could hinder personnel recruitment, and limit the corporation's flexibility to support major business development projects. It should be noted that if the Committee chooses to adjust the Corporation's PR and FED expenditure authority (Alternatives 2b, c, and/or d) these amounts should be adjusted to reflect the new expenditure authority.

13. Under the provisions of 2011 Act 7, the WEDC Board is given the power and duty to carry out the purposes for which WEDC is created. However, the WEDC provisions in the biennial budget specifically provide the corporation with statutory authority to carry out certain duties. For example, the corporation is given authority to determine records that would not be subject to the state open records law to protect the competitive nature of a grant, loan, or project. A technical correction would be necessary to clarify that, whether the term "board" or "corporation" is used in the statutory provisions governing WEDC (Chapter 238), that it would be the Board that

exercises the power or duty. It would be necessary to specify that all powers and duties assigned to WEDC under the statutes shall be exercised by the WEDC Board of Directors, unless the Board delegates the power or duty to an employee of the WEDC.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$18,743,700 GPR in 2011-12, \$16,399,600 GPR in 2012-13, \$38,850,000 SEG in 2011-12 and \$39,850,000 SEG in 2012-13, and \$36,390,600 FED and \$4,861,200 PR annually to establish a funding level for the Wisconsin Economic Development Corporation (WEDC).

2. Approve the Governor's recommendation with the following modifications:

a. Transfer WEDC funding of \$9,371,800 GPR, \$2,430,600 PR, and \$19,425,000 SEG in 2011-12 and \$16,399,600 GPR, \$4,861,200 PR, and \$39,850,000 SEG in 2012-13 in the Committee's supplemental GPR, PR, and SEG appropriations, respectively. Require WEDC to request release of the funding when the agency's structure and personnel are approved and specific economic development programs are established.

ALT 2a	Change to Bill		
	WEDC	Finance	Net
GPR	- \$25,771,400	\$25,771,400	\$0
PR	- 7,291,800	7,291,800	0
SEG	- 59,275,000	59,275,000	0
Total	- \$92,338,200	\$92,338,200	\$0

b. Modify statutory provisions for the WEDC program revenue appropriation for transferred general fund moneys from Department of Commerce [s. 20.192 (1) (k)] to require that all repayments of WEDC economic development awards be placed in the state appropriation to be used for future economic development awards. Increase expenditure authority for the appropriation by \$5,043,800 PR in 2011-12 and decrease expenditure authority by \$437,500 PR in 2012-13, and establish expenditure authority of \$9,905,000 PR in 2011-12 and \$4,423,700 PR in 2012-13.

ALT 2b	Change to Bill Funding
PR	\$4,606,300

c. Increase expenditure authority for the WEDC program revenue appropriation for transferred general fund moneys from the Department of Commerce [s. 20.192(1)(k)] by \$1,638,800 PR in 2011-12 and decrease expenditure authority by \$4,861,200 in 2012-13, to provide expenditure authority of \$6,500,000 PR in 2011-12 and \$0 in 2012-13. (Repayments would not be deposited to the state appropriation.)

ALT 2c	Change to Bill Funding
PR	- \$3,222,400

d. Reduce annual expenditure authority in the WEDC appropriation for federal aid, programs [s. 20.192 (1) (m)] by \$16,390,600 FED, to provide annual expenditure authority of \$20,000,000 FED to reflect projected federal CDBG allocations.

ALT 3	Change to Bill Funding
FED	- \$32,781,200

e. Specify that all powers and duties assigned to WEDC under the statutes shall be exercised by the WEDC Board of Directors, unless the Board delegates the power or duty to an employee of WEDC.

Prepared by: Ron Shanovich
Attachments

ATTACHMENT 1

Functions Transferred from the Department of Commerce to the Wisconsin Economic Development Corporation

- a. Authority to enter into agreements, subject to approval by the Secretary of Administration, regarding compensation, space and other administrative matters necessary to operate offices in other states and foreign countries.
- b. Providing assistance to new and small businesses receiving economic loans or assistance from the Wisconsin Housing and Economic Development Authority (WHEDA) in locating venture capital and obtaining state licenses and permits.
- c. Allocating the federal volume cap on industrial revenue bonds. Industrial revenue bonds (IRBs) are primarily used to finance manufacturing projects. Commerce allocates IRB volume cap amounts to cities, villages, towns, and counties. The municipality or county sells the IRBs, and loans the proceeds to the business conducting the project.
- d. Administering employment impact estimates for IRB and WHEDA economic development projects.
- e. Requiring the repayment of grants, loans, and tax credits if persons receiving the tax benefits cease conducting the economic activity in the state for which the tax benefits were received.
- f. Preparing and submitting an annual report to the State of Wisconsin Investment Board (SWIB) describing the types of investments in businesses in Wisconsin that would enhance economic development in the state.
- g. Monitoring notification of position openings by recipients of IRBs or state grants or loans.
- h. Administration of the brownfields grant program and the annual report on brownfields redevelopment. The program provides financial assistance to individuals, trustees, municipalities, businesses, and nonprofit organizations that conduct brownfields redevelopment and related environmental remediation projects. Under the bill, no related funding would be transferred directly from Commerce to WEDC for program grants. The \$1.25 million grant limit and requirement that rules establishing program criteria be established would be deleted.
- i. Administration of the electronic medical records tax credit. The tax credit equals 50% of the amount paid by a health care provider in a tax year for information technology hardware or software that is used to maintain medical records in an electronic form. Commerce is required to implement a program to certify health care providers as eligible to claim the tax credit and to allocate tax credits to individual claimants.
- j. Administration of early stage business investment tax credits. The program includes the angel investment tax credit and the early stage seed investment tax credit. The angel investment tax credit equals 25% of the claimant's bona fide angel investment made directly in a

qualified new business venture (QNBV) for the tax year. The early stage seed investment tax credit is equal to 25% of the claimant's investment paid in the tax year to a certified fund manager that the fund manager invests in a QNBV certified by Commerce. Commerce must verify and certify angel and early stage seed investments before tax credits can be claimed. Commerce is also required to certify QNBVs and fund managers, and to perform other administrative functions related to revocation of certifications, transfer of credits, verification of investments and credits, and processing and compiling reports.

k. Administration of the jobs tax credit. The credit equals 10% of wages between \$20,000 or \$30,000, and \$100,000 depending upon location. However, under the bill, the jobs tax credit would be changed to equal the lesser of 10% of wages or \$10,000. (see General Fund Taxes, Income and Franchise Taxes - Jobs Tax Credit, Paper #319). A credit can also be claimed for expenses for improving the job-related skills of any eligible employee, training any eligible employee on the use of job-related new technologies, or providing job-related training to any eligible employee whose employment represents the employee's first full-time job. Commerce is required to allocate tax credits and certify claimants as eligible for the credits, and verify tax credit claims.

l. Administration of the food processing plant and food warehouse investment tax credit. The credit equals 10% of the amount paid in the tax year by the claimant for food processing or food warehousing modernization or expansion. Commerce is required to certify taxpayers, allocate tax credits, and verify tax credit claims.

m. Administration of the meat processing facility investment tax credit. A refundable tax credit may be claimed equal to 10% of the amount the claimant paid in the tax year for meat processing modernization or expansion. Commerce is required to certify claimants and allocate credits.

n. Administration of the woody biomass harvesting and processing tax credit. The credit is equal to 10% of the amount the claimant pays in the tax year for equipment that is used primarily to harvest or process woody biomass that is used for fuel or as a component of fuel. Commerce is required to certify taxpayers as eligible for tax credits and to allocate the credits.

o. Administration of the economic development tax credit. The credit can be claimed by businesses that conduct a job creation, capital investment, employee training, or corporate headquarters location or retention projects. In general, jobs credits ranging from \$3,000 to \$10,000 per job created or retained can be claimed, depending upon the type and location of the project, and the wages paid to the employee. In order to claim an economic development tax credit, a business must apply to Commerce for certification and allocation of tax credits.

p. Administration of statutory economic development zone programs. Provisions included in 2009 Act 2 discontinued the development zones, enterprise development zones, agricultural development zones, airport development zones, and technology zones programs and created the economic development tax credit (described above). The bill would provide WEDC with statutory authority to administer the zone programs. However, as noted, these programs were essentially discontinued under provisions in Act 2.

q. Administration of the enterprise zone tax credits. The program provides tax credits, which can be claimed for increased employment, retraining employees, capital investment, and

purchases from Wisconsin vendors, for businesses in a zone. The enterprise zone jobs tax credit equals up to 7% of the wages of new employees in excess of \$20,000 or \$30,000, depending on measures of economic distress in the county in which a project is located. A tax credit of up to 7% is provided for an increase in payroll for employees with wages in excess of \$20,000 or \$30,000, depending upon economic distress indicators, and only if the number of employees is the same or increased from the year in which the zone was created. A credit can also be claimed for retaining jobs, if the business makes a significant capital investment, and is an original equipment manufacturer, or has more than 500 full-time employees in an enterprise zone. A credit can also be claimed for up to 1% of the amount of certain purchases of goods and services from Wisconsin vendors. Twelve zones have been authorized. Commerce is required to designate zones and certify and allocate tax credits to a business if it meets certain criteria related to job creation, investment, wages, and benefits paid, and purchases from Wisconsin businesses.

r. Administration of development opportunity zones. Under 2009 Act 28 Commerce was required to designate an area in the City of Kenosha, and an area in the City of Janesville as development opportunity zones that exist for five years. Any business that locates and conducts activity in the zones is eligible to claim the development zone environmental remediation and jobs tax credit and the development zone capital investment tax credit, and the maximum amount of tax credits that can be claimed by businesses in each zone is \$5.0 million. In order to claim tax credits, a business that conducts economic activity in the Kenosha or Janesville development opportunity zone must submit a project plan to Commerce, and comply with other statutory provisions governing development opportunity zones. Commerce can extend the zone an additional five years, and provide an additional \$5.0 million in tax credits, if it supports economic development in the city.

WEDC would be authorized to adopt rules to administer the programs that would be transferred, though the Authority would not be subject to most administrative rule promulgation requirements applicable to state agencies.

Transfer of Assets, Records and Contracts. The bill would provide that the assets, liabilities, tangible personal property, and records of Commerce primarily related to the Department's transferred economic and community development functions, except for those functions transferred to the Departments of Administration (DOA) and Agriculture, Trade, and Consumer Protection (DATCP), as determined by the Secretary of Administration, would become the assets, liabilities, property and records of WEDC.

All contracts entered into by Commerce before the effective date of the bill that are primarily related to transferred Commerce economic and community development functions, except for contracts related to functions transferred to DOA or DATCP, as determined by the Secretary of Administration, remain in effect and would be transferred to WEDC. The Corporation would be required to carry out any obligations under a contract until the contract was modified or rescinded by WEDC, to the extent allowed under the contract.

Transfer of Unencumbered Appropriation Balances. The bill would transfer all unencumbered appropriation account balances that would be deleted under Commerce economic and community development, including federal funds, to WEDC.

Other Provisions Related to the Transfer to WEDC. Current law exceptions from disclosure requirements for officials and employees of Commerce for receiving anything of

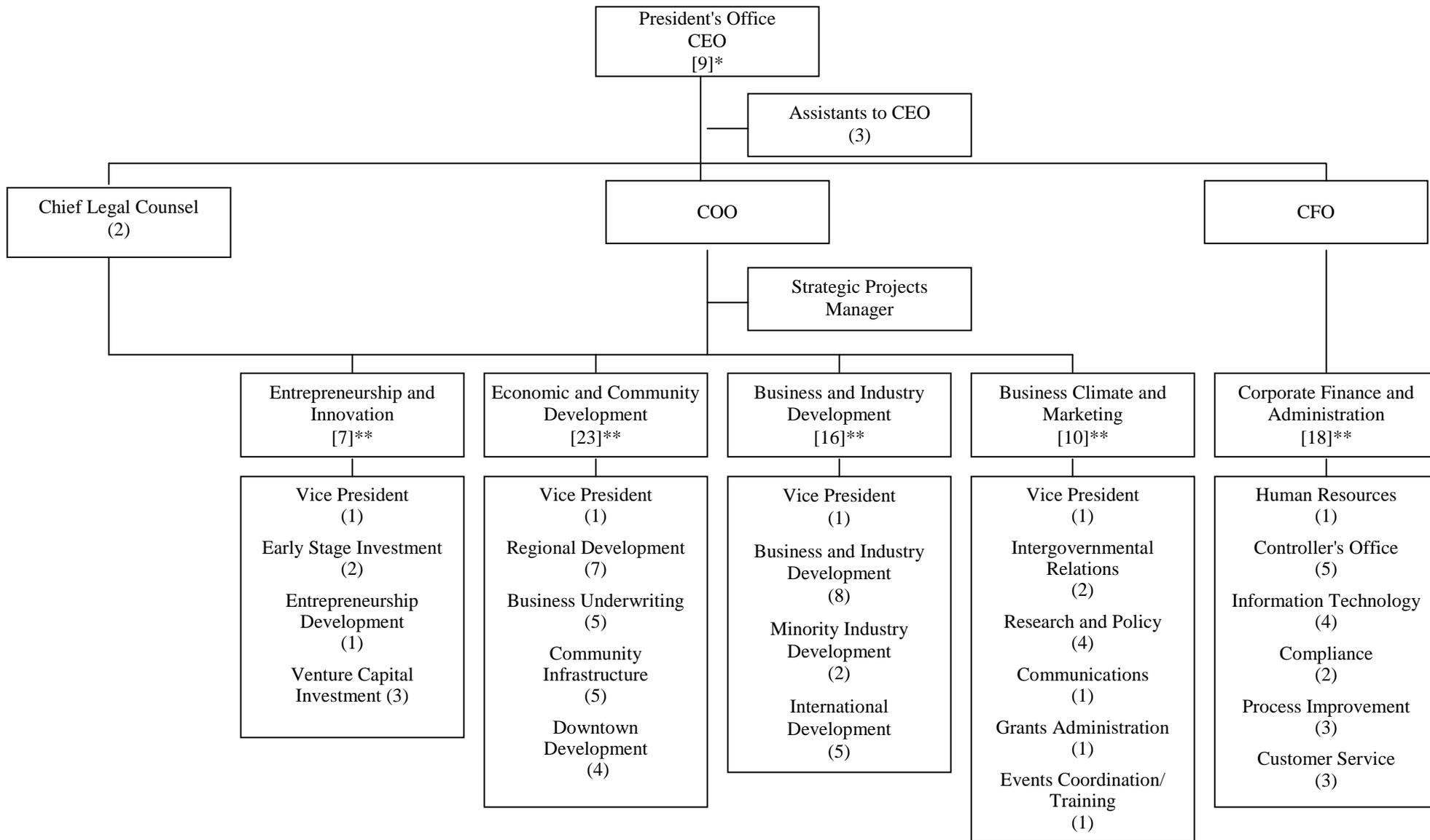
value for activities related to foreign trade trips and hosting individuals to promote tourism, and the related required Department report, would be transferred to WEDC. Statutory cross references to the Department of Commerce would be changed to reflect the transfer to WEDC including provisions related to: coordinating activities with county and town industrial agencies; Department of Transportation statement of determinations for acquisition of abandoned rail property; promotion with DATCP of agricultural products in the state; promotion of aeronautics in the state; providing information to state agencies for economic impact reports on proposed administrative rules; and functions related to WHEDA economic development programs. Statutory cross references to the definition of "qualified new business venture", "economic development program" and "brownfields" would be changed to reflect administrative transfer to WEDC. The statutory definitions of "business," "governing body," and "job" would be recreated under Department of Transportation facilities and economic assistance and development provisions.

Economic Development Audits and Accountability Measures. The financial and performance audit of state agency economic development programs prepared by the Legislative Audit Bureau and due on July 1, 2012, and the audit of the economic development tax credit due on July 2014, would include WEDC rather than Commerce. Current law provisions that require certain state agencies to consult with Commerce in developing accountability measures and goals for economic development programs and to provide comprehensive annual reports assessing economic development programs to Commerce would be modified to reflect the transfer of economic development functions to WEDC. In addition, the bill would specify that each Department would be required to coordinate any economic development assistance with WEDC. These provisions would apply to the following agencies: (a) the Department of Natural Resources; (b) the University of Wisconsin System; (c) Department of Tourism; (d) Department of Transportation; and (e) the Wisconsin Housing and Economic Development Authority.

Annual Comprehensive Report. The bill would repeal an annual comprehensive report on economic development programs required to be submitted by Commerce to the Joint Audit Committee and legislative standing committees by each October 1 and to be readily available on the Internet. A similar provision was created for WEDC under 2011 Act 7. However, the report repealed under Commerce requires items not currently included under the WEDC provision. These would include the following: (a) quantifiable performance measures directly relating to the purpose of the economic development program, including, when applicable, the location by municipality and the industry classification of each job created or retained; and, (b) the amount and recipient of each tax credit allocation made.

Transfer of Councils and Memberships. Membership on the following entities would be transferred from Commerce to WEDC: (a) WHEDA; (b) the Agricultural Education and Workforce Development Council; (c) Investment and Local Impact Fund Board; and (d) the World Dairy Authority. Department functions related to the Lake States Wood Utilization Consortium would be transferred to WEDC.

ATTACHMENT 2
WEDC Draft Organizational Chart



*Includes all upper level management positions including chief legal counsel, strategic manager, COO, CFO and Assistant to the CEO.

**Total staffing for division or function.

ATTACHMENT 3

Wisconsin Economic Development Corporation Board

Chair Governor Scott Walker

Governor Appointees (6 total; 3 pending)

Dan Ariens (Vice Chair), President and CEO of Ariens Company
Don Weber, CEO of Logistics Health Inc (LHI)
Lisa Mauer, Chair, President and Owner of Tool Service Corporation

Senate Appointees

Senator Randy Hopper, 18th Senate District
Senator Julie Lassa, 24th Senate District
C. Thomas Sylke, Owner and Principal of Sylke Law Offices LLC.

Assembly Appointees (Minority Leader recommendation pending)

Representative Mary Williams, 87th Assembly District
Scott Klug, Managing Director of Public Affairs at Foley and Lardner

Non-Voting Members

Secretary Mike Huebsch, Department of Administration
Secretary Richard Chandler, Department of Revenue