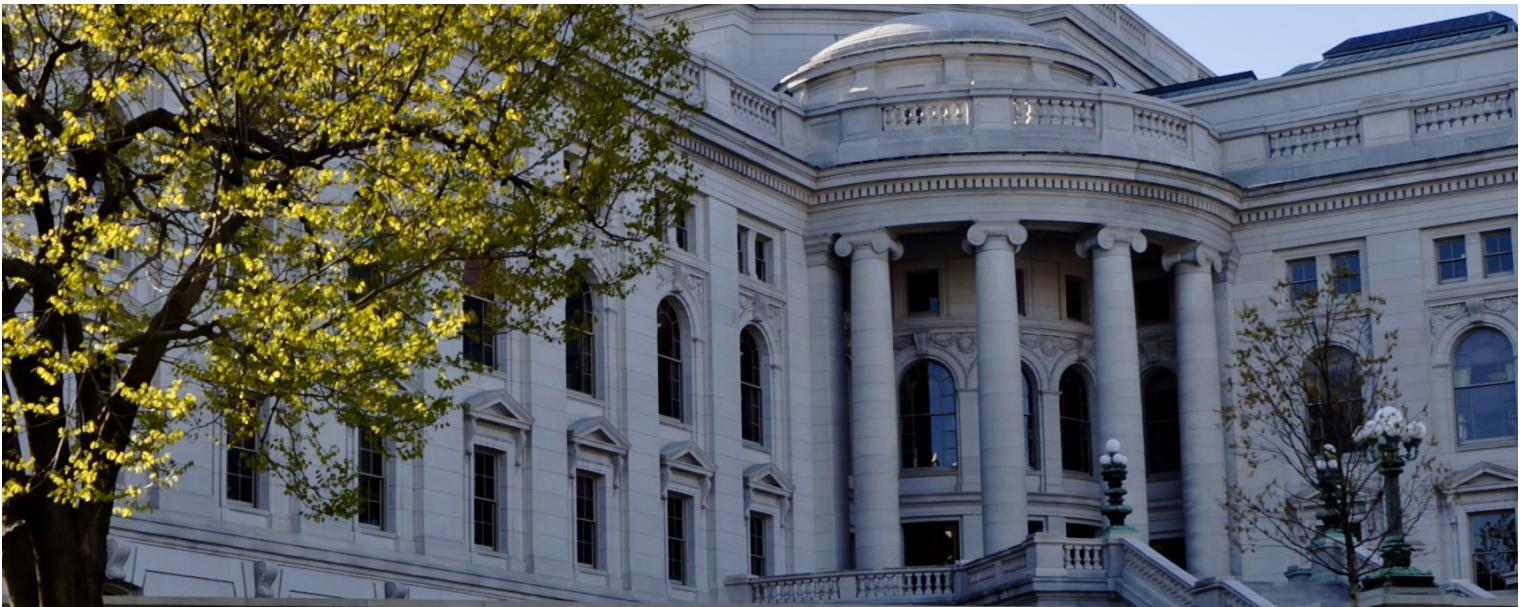




STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-7
April 2021

Wisconsin Economic Development Corporation



Wisconsin Economic Development Corporation



STATE OF WISCONSIN

Legislative Audit Bureau

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From WEDC’s Chief Executive Officer



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Main: (608) 266-2818
Hotline: 1-877-FRAUD-17

www.legis.wisconsin.gov/lab
AskLAB@legis.wisconsin.gov

April 21, 2021

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1) (dr), Wis. Stats., we have completed a biennial financial audit of the Wisconsin Economic Development Corporation (WEDC) and a program evaluation audit of WEDC's economic development programs.

In fiscal year (FY) 2019-20, WEDC administered 31 economic development programs under which it allocated an estimated \$56.5 million in tax credits, awarded \$27.5 million in grants and \$2.2 million in loans, and authorized local governments to issue \$170.2 million in bonds.

We found that WEDC largely complied with statutes and its contracts when administering its economic development programs in FY 2019-20. We make recommendations for WEDC to make further improvements, including by modifying its written procedures for the Enterprise Zone program to require it to award program tax credits only for the wages paid to employees for services provided in enterprise zones, as is statutorily required.

WEDC's information indicated that 681 economic development awards ended through FY 2019-20, including 151 tax credit and loan awards that contractually required the recipients to create jobs. These recipients created 36.2 percent of the planned number of jobs. We found that WEDC's online data, which indicate the results of its programs, contained inaccuracies and were incomplete. We make recommendations for WEDC to improve how it oversees its tax credit contracts and assesses program results.

In the quarter ending on June 30, 2020, WEDC's total available funding was \$67.2 million more than its total payments, excluding \$75.0 million in federal funding WEDC received in June 2020. The Legislature could consider directing WEDC to spend some of its available funding, such as on businesses affected by the public health emergency.

We also assessed a report made to our Fraud, Waste, and Mismanagement Hotline about WEDC's management of one of its programs. We found that WEDC administered this program in accordance with its policies.

We appreciate the courtesy and cooperation extended to us by WEDC. A response from WEDC's chief executive officer follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DS/ss

Introduction

WEDC has been Wisconsin's lead economic development organization since FY 2011-12.

The Wisconsin Economic Development Corporation (WEDC) has been Wisconsin's lead economic development organization since fiscal year (FY) 2011-12. Section 238.02 (1), Wis. Stats., provides that WEDC is governed by an 18-member board, including:

- 6 members nominated by the Governor and appointed with the advice and consent of the Senate;
- 4 members appointed by the Assembly speaker;
- 4 members appointed by the Senate majority leader;
- 1 member appointed by the minority leader of the Assembly;
- 1 member appointed by the minority leader of the Senate; and
- the secretaries of the Department of Administration (DOA) and the Department of Revenue (DOR), who serve as nonvoting members.

Each board member nominated by the Governor serves at the pleasure of the Governor, and each board member appointed by the Assembly speaker, Senate majority leader, and the minority leaders of the Assembly and the Senate serve for four-year terms. Statutes require the governing board to elect a chairperson from among its voting members who are not legislators.

WEDC's governing board is statutorily authorized to conduct a number of activities, including:

- adopting, amending, and repealing bylaws, policies, and procedures;
- establishing WEDC's annual budget and monitoring WEDC's fiscal management;
- employing any officers, agents, and employees that WEDC may require and determining their qualifications, duties, and compensation;
- accepting gifts, grants, loans, and other contributions from private or public sources;
- executing contracts and other instruments required for WEDC's operations;
- incurring debt and issuing notes, bonds, and any other obligations;
- making loans and providing grants; and
- entering into agreements regarding compensation, space, and other administrative matters as are necessary to operate offices in other states and foreign countries, subject to approval by the secretary of DOA.

The Governor is statutorily required to appoint WEDC's chief executive officer, with the advice and consent of the Senate.

The Governor is statutorily required to appoint WEDC's chief executive officer, with the advice and consent of the Senate. WEDC's governing board is statutorily authorized to determine the chief executive officer's compensation and is statutorily permitted to delegate to the chief executive officer any powers and duties that it considers proper. Through WEDC's bylaws, the governing board has delegated to the chief executive officer the authority to establish WEDC's budget and monitor WEDC's fiscal management, employ staff, and execute documents on WEDC's behalf.

In FY 2020-21, a chief operating officer served as the chief executive officer's deputy. Four vice presidents managed:

- the business and community development division, which provided financial and technical assistance to businesses and communities;
- the entrepreneurship and innovation division, which worked to develop new and emerging entrepreneurial and high-growth businesses in the state;

- the global trade and investment division, which worked to strengthen Wisconsin’s export partnerships and increase the export skills of Wisconsin companies; and
- the marketing and brand strategy division, which promoted Wisconsin’s economic assets and business climate.

Audits of WEDC

Section 13.94 (1) (dr), Wis. Stats., requires the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC’s economic development programs. Combined, reports 13-7 and 14-11 fulfilled our statutory requirement to conduct the first biennial audit of WEDC. Reports 15-3 and 17-9 fulfilled our statutory requirement to conduct the second and third biennial audits of WEDC.

In report 19-6, we found that WEDC had complied with most recommendations from our prior report, but we also found ongoing concerns.

In report 19-6, which we published in May 2019, we found that WEDC had complied with most recommendations from our prior report, but we also found ongoing concerns, including that:

- WEDC did not consistently comply with statutes and its contracts when awarding tax credits, including when it awarded tax credits to recipients that created or retained jobs filled by individuals who did not perform services in Wisconsin or were non-Wisconsin residents;
- WEDC did not comply with statutes because it annually verified information in the performance reports submitted by a sample of award recipients in only one of the two years in our audit period; and
- the total resources available to WEDC considerably exceeded the total payments that WEDC made for its ongoing administrative costs and its payments to grant and loan recipients.

To complete this fifth biennial audit of WEDC, we analyzed WEDC’s management of its programs in FY 2019-20, including new grant programs it created as a result of the public health emergency. We analyzed the governing board’s compliance with statutorily required oversight duties and the results of economic development awards that ended through FY 2019-20. We completed our analyses, in part, by reviewing available information for 213 awards WEDC had made. Appendix 1 provides summary information about these awards. We also analyzed WEDC’s revenues and administrative expenditures in FY 2018-19 and FY 2019-20 and certain financial management issues.



Economic Development Programs

In FY 2019-20, WEDC administered 31 economic development programs.

In FY 2019-20, WEDC administered 31 economic development programs under which it allocated an estimated \$56.5 million in tax credits, awarded \$27.5 million in grants and \$2.2 million in loans, and authorized local governments to issue \$170.2 million in bonds. We found that from March 2020 through September 2020, WEDC administered three grant programs that were intended to help small businesses negatively affected by the public health emergency.

Types and Amounts of Assistance Provided

The economic development programs that WEDC administered provided one or more types of assistance, including:

- grants and loans, which WEDC provided to businesses and other organizations to finance economic development projects;
- tax credits, which offset the income tax liability of businesses and individuals or provided funds to businesses and individuals;
- bonding authorization, which signified WEDC's approval for local governments to issue bonds on behalf of businesses and other organizations that financed economic development projects; and
- technical assistance, such as training, marketing, and consultation, that WEDC provided to businesses, individuals, local governments, and other organizations.

8 > ECONOMIC DEVELOPMENT PROGRAMS

We categorized WEDC’s economic development programs based on the primary type of assistance they provided, as shown in Table 1. In FY 2019-20, WEDC administered 20 grant and loan programs, 7 tax credit programs, 3 technical assistance programs, and 1 bonding authorization program. Appendix 2 describes each of these 31 programs. In addition, WEDC continued to manage other programs through which it no longer made awards.

Table 1

Primary Type of Assistance Provided by WEDC’s Economic Development Programs

Program Type	Number of Programs				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Grants and Loans	20	17	18	18	20
Tax Credits	9	7	8	7	7
Technical Assistance	3	3	3	3	3
Bonding Authorization	2	1	1	1	1
Total	34	28	30	29	31

Table 2 shows the amount of assistance provided through WEDC’s programs. The amounts in a given fiscal year may be actually provided to recipients in either that fiscal year or future fiscal years, depending on the extent to which recipients fulfill their contractual obligations, such as creating jobs. The amount of tax credits in FY 2017-18 includes \$2.85 billion provided to Foxconn, and the amount of bonding authorization in FY 2019-20 includes one bonding authorization for \$150.0 million in the City of Green Bay.

Table 2

Amount of Assistance Provided through WEDC's Economic Development Programs
(in millions)

Program Type	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Bonding Authorization	\$ 17.4	\$ 43.3	\$ 65.7	\$ 28.0	\$170.2
Tax Credits	133.9	231.0	3,061.8 ¹	164.2	56.5 ²
Grants	21.5	27.2	25.6	25.0	27.5
Loans ³	17.3	13.3	4.5	4.4	2.2

¹ Includes \$2.85 billion provided to Foxconn.

² Estimated as of March 2021 because final information was not yet available.

³ Includes loan guarantees.

Bonding Authorization Program

Federal law authorizes state and local governments to issue tax-exempt bonds to finance economic development projects. Such bonds are an attractive source of capital for businesses because they typically have interest rates lower than those for conventional corporate bonds. In addition, the bonds may be attractive to private investors because earned income is typically exempt from federal taxes.

Through the Industrial Revenue Bonding program, WEDC was allowed to authorize local governments to issue bonds on behalf of businesses that used the proceeds to fund equipment and capital improvements at manufacturing facilities. These businesses were responsible for debt service on the bonds. Earned income from the bonds is not federally taxable. WEDC authorized:

- five municipalities (Little Chute, Manitowoc, Mukwonago, Pulaski, and Slinger) to issue a total of \$28.0 million in bonds in FY 2018-19; and
- five municipalities (Green Bay, Hartland, Sussex, Watertown, and Waupaca) to issue a total of \$170.2 million in bonds in FY 2019-20.

Tax Credit Programs

In FY 2019-20, WEDC administered seven programs that provided tax credits.

In FY 2019-20, WEDC administered seven programs that provided tax credits, including:

- two development zone programs that were intended to encourage economic development in specific geographic areas;
- three investment tax credit programs that were intended to increase funding for Wisconsin businesses; and
- two other tax credit programs that were intended to assist individuals and businesses throughout Wisconsin.

WEDC allocates tax credits to recipients. This allocation represents the maximum amount of tax credits that can be awarded during a contract's term. The amount of awarded tax credits is based on a recipient achieving contractually required results, such as creating jobs. After awarding tax credits, WEDC informs DOR, and recipients may claim the awarded tax credits against their Wisconsin income taxes. Tax credit payments to award recipients are made with general purpose revenue (GPR) through appropriations separate from WEDC's appropriations. Appendix 3 lists the 20 recipients allocated the largest amounts of tax credits in FY 2019-20.

Development Zone Programs

Until December 2018, statutes authorized WEDC to designate up to 30 zones through the Enterprise Zone program. Each zone may be effective for up to 12 years. 2017 Wisconsin Act 369, which was enacted in December 2018, modified statutes to allow WEDC to designate any number of zones, but under the 14-day passive approval process WEDC must notify the Joint Committee on Finance in writing of its intention to designate a new zone. Businesses in the zones could be allocated tax credits based on employee wages, the number of jobs created or retained, employee training costs, significant capital expenditures, and purchases of goods and services from Wisconsin suppliers. Enterprise Zone tax credits are refundable, meaning that they can be claimed regardless of a business's Wisconsin income tax liability. Statutes do not limit the amount of tax credits available through the program.

Through the Development Opportunity Zone program, statutes authorized WEDC in FY 2019-20 to allocate tax credits to businesses operating in the cities of Beloit, Janesville, or Kenosha. Businesses could be allocated tax credits for agreeing to create or retain jobs, make capital investments, or perform environmental remediation. Program tax credits are nonrefundable, meaning that they can be claimed only up to the amount of a business's Wisconsin income tax liability in a

given year. Unclaimed credits can be carried forward to offset tax liabilities for up to 15 years. Statutes permit WEDC to allocate up to \$10.0 million in program tax credits in each of the three zones over a 10-year period.

In FY 2019-20, WEDC did not allocate any tax credits through its two development zone programs.

As shown in Table 3, WEDC did not allocate any tax credits through its two development zone programs in FY 2019-20. WEDC indicated that businesses had decreased interest in the programs because of the public health emergency and, therefore, it did not identify any businesses that could benefit from either program’s tax credits in that fiscal year.

Table 3

Tax Credits Allocated through Development Zone Programs¹

Program	FY 2018-19		FY 2019-20	
	Amount (in millions)	Awards	Amount (in millions)	Awards
Enterprise Zone	\$106.0	3	\$0.0	0
Development Opportunity Zone	0.0	0	0.0	0
Total	\$106.0	3	\$0.0	0

¹ Tax credits are allocated on a fiscal year basis.

Investment Tax Credit Programs

Through the Qualified New Business Venture program, WEDC certified eligible new Wisconsin businesses to participate in two other WEDC programs that awarded nonrefundable tax credits to individuals and venture capital funds that invested in the certified businesses. To be certified, a business needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51.0 percent of its employees based in the state, having fewer than 100 employees, and having been in operation in Wisconsin for no more than 10 consecutive years. WEDC certified 46 businesses in FY 2019-20.

Through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs, statutes permitted WEDC in FY 2019-20 to award tax credits in amounts equal to 25.0 percent of investments made in certified new business ventures and held for at least three years, up to a maximum amount specified by WEDC for individual businesses. Certain individuals and groups of individuals who provided start-up financing to certified businesses were awarded tax credits through the Angel Investment Tax Credit program, while venture capital funds that invested in certified businesses were awarded tax credits through the

Early Stage Seed Investment Tax Credit program. Statutes permitted up to \$30.0 million in tax credits to be claimed per calendar year as a combined limit for both programs.

In 2020, investors were awarded an estimated \$10.7 million in tax credits through two investment tax credit programs.

As shown in Table 4, investors in 57 businesses were awarded an estimated \$10.7 million in tax credits through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in 2020. As of March 2021, final information for 2020 was not yet available.

Table 4

Tax Credits Awarded through Investment Tax Credit Programs¹

Program	2019		2020 ²	
	Amount (in millions)	Businesses ³	Amount (in millions)	Businesses ³
Angel Investment Tax Credit	\$ 8.0	56	\$ 6.3	45
Early Stage Seed Investment Tax Credit	6.1	27	4.4	26
Total	\$14.1	70	\$10.7	57

¹ Tax credits are awarded on a calendar year basis.

² Estimated as of March 2021 because final information was not available.

³ Some businesses had investors who were awarded tax credits through both programs.

Other Tax Credit Programs

Through the Historic Preservation Tax Credit program, statutes authorized WEDC in FY 2019-20 to allocate to businesses or individuals tax credits for preserving or rehabilitating properties certified as historic. Recipients could receive nonrefundable tax credits in amounts equal to 20.0 percent of their qualified expenditures, and recipients could transfer tax credits to third parties in exchange for cash or other valuable considerations. 2017 Wisconsin Act 280, which was enacted in April 2018, provided that beginning in FY 2018-19 WEDC could award no more than \$3.5 million in tax credits to projects undertaken on the same land parcel.

Through the Business Development Tax Credit program, statutes authorized WEDC in FY 2019-20 to allocate refundable tax credits for up to 10 years if a business increased its net employment in Wisconsin above its net employment in the state in the year before it was allocated the tax credits. Statutes authorized WEDC to award tax credits based on wages paid to employees in existing and newly created full-time jobs, including additional credits if the jobs were in economically distressed areas. WEDC could also award tax credits for projects involving capital

investments, employee training, or either a business retaining a corporate headquarters in or relocating a corporate headquarters to Wisconsin.

In FY 2019-20, WEDC allocated a total of \$45.8 million in tax credits through the Historic Preservation Tax Credit and Business Development Tax Credit programs.

As shown in Table 5, WEDC allocated a total of \$45.8 million in tax credits through the Historic Preservation Tax Credit and Business Development Tax Credit programs in FY 2019-20. The amounts WEDC allocated through the Historic Preservation Tax Credit program in FY 2018-19 and FY 2019-20 were less than the \$114.4 million it allocated through this program in FY 2016-17 and the \$77.5 million it allocated in FY 2017-18. Appendix 4 lists each allocation made through the Historic Preservation Tax Credit program in FY 2019-20.

Table 5

Tax Credits Allocated through Other Programs¹

Program	FY 2018-19		FY 2019-20	
	Amount (in millions)	Awards	Amount (in millions)	Awards
Historic Preservation Tax Credit	\$10.4	13	\$36.1	24
Business Development Tax Credit	26.2	45	9.7	23
Total	\$36.6	58	\$45.8	47

¹ Tax credits are allocated on a fiscal year basis.

Grant and Loan Programs

WEDC awarded grants and loans directly to businesses, as well as to economic development organizations and local governments that distributed this funding to minority-owned businesses, early-stage businesses, and other types of businesses typically underserved by commercial lenders. The grants and loans supported a variety of projects, such as expanding factories, purchasing business equipment, and performing environmental remediation. If recipients do not achieve contractual obligations or meet loan repayment requirements, WEDC is contractually allowed to attempt to recoup the funds, such as by initiating collection proceedings.

In FY 2019-20, WEDC awarded 1,056 economic development grants totaling \$27.5 million.

As shown in Table 6, WEDC awarded 1,056 economic development grants totaling \$27.5 million in FY 2019-20. This total includes 890 grants of \$2,500 each that it awarded to minority-owned business in response to the public health emergency. Appendix 5 lists the 20 recipients awarded the largest amounts of grants and loans in FY 2019-20.

Table 6

Economic Development Grants Awarded by WEDC

Program	FY 2018-19		FY 2019-20	
	Grants	Amount (in millions)	Grants	Amount (in millions)
Brownfields Grant	8	\$ 3.0	14	\$ 5.9
Small Business 20/20	–	–	8	5.0
Community Development Investment Grant	30	6.0	20	4.1
Minority Business Development	3	0.1	894 ¹	2.4
Small Business Innovation Research/Small Business Technology Transfer Matching Grant	1	1.5	1	1.5
Idle Sites Redevelopment	5	1.8	3	1.5
Capital Catalyst	4	1.2	4	1.3
Site Assessment Grant	11	1.1	9	0.9
Global Business Development Grant	50	1.1	37	0.9
Seed Accelerator	8	1.0	6	0.8
Disaster Recovery Microloan	6	1.8	3	0.8
Fabrication Laboratories Grant	20	0.5	31	0.7
Capacity Building Grant	15	0.7	13	0.5
Targeted Industry Projects	13	3.9	3	0.5
Workforce Training Grant	3	0.7	1	0.3
Entrepreneurial Micro-Grant	1	0.2	1	0.2
ExporTech	1	0.2	1	0.2
We're All In	–	–	7	<0.1 ²
Total	179	\$25.0	1,056	\$27.5

¹ Includes 890 grants of \$2,500 each that WEDC awarded in response to the public health emergency.

² The seven grants totaled \$17,500.

In FY 2019-20, WEDC awarded 11 economic development loans totaling \$2.2 million.

As shown in Table 7, WEDC awarded 11 economic development loans totaling \$2.2 million in FY 2019-20.

Table 7

Economic Development Loans Awarded by WEDC

Program	FY 2018-19		FY 2019-20	
	Loans	Amount (in millions)	Loans	Amount (in millions)
Technology Development Loan	17	\$4.1	11	\$2.2
Business Development Loan	1	0.3	0	0.0
Total	18	\$4.4	11	\$2.2

Through FY 2016-17, WEDC administered programs that allowed it to award forgivable loans, which did not require recipients to repay some or all of the principal or interest if the recipients achieved contractually required results, such as creating or retaining specified numbers of jobs. Beginning in FY 2017-18, statutes have not allowed WEDC to award forgivable loans, as a result of provisions in 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act. Act 59 also requires new WEDC loan programs to adhere as closely as is practicable to commonly accepted lending practices.

Grant Programs Related to the Public Health Emergency

From March 2020 through September 2020, WEDC administered three grant programs related to the public health emergency in accordance with its policies.

To help small businesses negatively affected by the public health emergency, WEDC implemented two new grant programs and modified an existing grant program from March 2020 through September 2020. We found that WEDC administered the three grant programs over this seven-month period of time in accordance with its policies.

In March 2020, WEDC implemented the Small Business 20/20 program. Under this program, WEDC awarded grants to eight Community Development Financial Institutions, which provide affordable lending to disadvantaged people and communities. These eight institutions used their grants to award sub-grants of up to \$20,000 to eligible businesses, which could use the funds to cover payroll and rent expenses for up to two months. An eligible business was required to have no more than 20 employees and annual revenue of no more than \$2.0 million.

In April 2020, WEDC modified its existing Minority Business Development program to allow it to award \$2,500 grants to minority-owned businesses that had no more than five full-time equivalent (FTE) staff positions and were in the retail, service, or hospitality industries. Funding was intended to provide short-term

operations assistance. A business was required to attest that it had not received funding from the Small Business 20/20 program or the federal Payroll Protection Program.

In June 2020, WEDC implemented the We’re All In program to support eligible small businesses. An eligible business could receive a \$2,500 grant if it had no more than 20 FTE staff positions; was in business as of February 2020; was not part of a corporate chain, unless it was a third-party franchisee; and had annual revenue of no more than \$1.0 million. WEDC’s policies did not prohibit individuals who owned multiple businesses from receiving multiple grants.

From March 2020 through September 2020, WEDC awarded \$72.6 million in grants under three grant programs related to the public health emergency.

As shown in Table 8, WEDC awarded \$72.6 million in grants under these three grant programs from March 2020 through September 2020. WEDC indicated that it awarded a grant under the We’re All In program to each eligible business that applied for one.

Table 8

Economic Development Grants Awarded by WEDC through Programs Related to the Public Health Emergency
March 2020 through September 2020

Program	Grants	Amount (in millions)
We’re All In	26,122	\$65.3
Small Business 20/20	765 ¹	5.0
Minority Business Development	890 ²	2.2
Total	27,777	\$72.6

¹ Indicates the number of businesses awarded sub-grants, based on WEDC’s information.

² Indicates the number of businesses awarded grants through the Ethnic Minority Emergency Grant initiative within the Minority Business Development program.

We found that WEDC established sufficient policies for its two new grant programs. In addition, it modified policies for an existing grant program to reflect the grants made to minority-owned businesses on the basis of the public health emergency. We also examined information for the eight grants that WEDC awarded to Community Development Financial Institutions under the Small Business 20/20 program and found that WEDC awarded these eight grants in accordance with its policies.

We reviewed summary information for the 26,122 grants awarded under the We're All In program through September 2020 and found that WEDC awarded two businesses duplicate grants, even though the program was intended to award only 1 grant to a given business. WEDC awarded these two businesses a total of \$10,000. Because available program funds exceeded the total amount awarded, no business was denied a grant as a result of these two businesses having received duplicate grants. WEDC indicated it planned to contact these businesses to recoup the funds erroneously awarded.

From October 2020 through December 2020, WEDC's information indicated that WEDC awarded approximately \$177.7 million on the basis of the public health emergency. During this three-month period of time, WEDC collaborated with DOR to award \$174.7 million to an estimated 28,000 Wisconsin businesses under the We're All In program. Individual grants ranged from \$5,000 to \$20,000. In addition, WEDC collaborated with the Wisconsin Technology Council to administer a contest to support the efforts of small businesses and start-up businesses to develop innovative responses to the public health emergency. As a result of this contest, WEDC awarded grants totaling \$3.0 million to 231 businesses. As of mid-December 2020, WEDC had awarded public health emergency-related grants to recipients in every county.

Through December 2020, WEDC awarded a total of \$250.3 million on the basis of the public health emergency, and it may award additional such funds in the coming months, including funds it may receive as a result of the American Rescue Plan Act of 2021. To ensure transparency and accountability for the considerable amount of taxpayer funds spent to help mitigate the effects of the public health emergency, WEDC should separately report information on how it awarded all such funds through FY 2020-21. Such information should at a minimum include the number, amount, location, and industry classification of awards made under each public health emergency-related program.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *provide information on how it awarded all funds under each public health emergency-related program through FY 2020-21; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to comply with this recommendation.*

■ ■ ■ ■

Program Administration

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

We assessed WEDC's administration of its economic development programs. To do so, we reviewed WEDC's loan monitoring efforts in 2019 and 2020. We also reviewed WEDC's files for 37 tax credit awards totaling \$283.1 million. The recipients of these awards were required to submit reports on their performance to WEDC in FY 2019-20. We selected these awards based on factors such as whether the contracts were for larger amounts or the recipients were required to create or retain jobs. In addition, we reviewed the results of WEDC's most-recent statutorily required annual verification of performance information for a sample of award recipients. We found that WEDC largely complied with statutes and its contracts when administering its programs in FY 2019-20, but we make recommendations for further improvements.

Monitoring Loans

In its capacity as a lender, WEDC is responsible for collecting loan repayments, monitoring loans not fully repaid, and pursuing collection of delinquent loans. WEDC's policies required WEDC to send notices to recipients of loans for which repayments were 30 days, 60 days, and 90 days past due and consider other actions when loan repayments were 120 days or more past due. WEDC compiled information on loans 90 days or more past due, including the remaining balance of these loans.

Loan delinquency rates can be calculated in different ways. A payment delinquency rate measures loan repayments 90 days or more past due as a percentage of the remaining balance of all loans. It indicates the success of efforts to bring delinquent loans into current repayment status but does not consider the entire loan balance that is potentially

uncollectible. A principal delinquency rate considers the entire loan balance that is potentially uncollectible. It measures the remaining balance for loans 90 days or more past due as a percentage of the remaining balance of all loans.

WEDC's loan delinquency rates increased from December 31, 2018, to December 31, 2020.

As shown in Table 9, WEDC's loan delinquency rates increased from December 31, 2018, to December 31, 2020. These rates increased because the remaining balance for all loans decreased considerably over this two-year period, but the delinquent balances decreased to a lesser extent. We included the amounts of interest owed by recipients when we calculated the rates because doing so provides more-precise information about the extent of loan delinquencies. In contrast, WEDC does not include the amounts of interest owed when it calculates the rates.

Table 9

WEDC's Loan Delinquency Rates, by Year¹
As of December 31

Year	Payment Delinquency Rate	Principal Delinquency Rate
2016	1.8%	14.1%
2017	3.3	13.2
2018	3.5	14.6
2019	4.3	10.0
2020	11.0	19.4

¹ Includes the amounts of interest owed by recipients.

From December 31, 2018, to December 31, 2020, the potentially uncollectable loan balance decreased from \$7.6 million to \$6.6 million.

As shown in Table 10, the potentially uncollectible balance of loans 90 days or more past due decreased from \$7.6 million on December 31, 2018, to \$6.6 million on December 31, 2020. This decrease occurred largely because WEDC wrote off loans and amended loan contracts to defer repayments, even though new loans became 90 days or more past due during this two-year period.

Table 10

Change in the Potentially Uncollectible Balance of Loans 90 Days or More Past Due
(in millions)

	Loan Amount		Loan Amount
Loans Past Due on December 31, 2018	\$7.6	Loans Past Due on December 31, 2019	\$4.2
Reasons for the Change¹		Reasons for the Change¹	
Loan Contracts Amended to Defer Repayments	(1.4)	Loan Contracts Amended to Defer Repayments	(0.1)
Loans Written Off	(2.5)	Loans Written Off	(1.0)
Loans Forgiven	(0.0)	Loans Forgiven	(0.4)
Loans No Longer Past Due	(0.5)	Loans No Longer Past Due	<(0.1)
Payments/Interest on Loans That Remain Past Due	0.1	Payments/Interest on Loans That Remain Past Due	0.1
New Loans Past Due	1.0	New Loans Past Due	3.7
Loans Past Due on December 31, 2019	\$4.2	Loans Past Due on December 31, 2020	\$6.6

¹ The amounts amended, written off, forgiven, and no longer past due reflect the potentially uncollectible balance of the loans on December 31, 2019, and December 31, 2020, excluding interest accrued after those dates.

If WEDC amends a loan contract to defer the dates on which a recipient must make loan repayments, it no longer considers that loan to be delinquent. WEDC amended contracts to defer repayments on five loans that were 90 days or more past due on December 31, 2018. As of December 31, 2020, four of these five loan recipients were in compliance with their amended contracts, but one loan recipient was more than 90 days past due with its loan repayments.

WEDC wrote off eight loans that were 90 days or more past due on December 31, 2018, and three loans that were 90 days or more past due on December 31, 2019. These 11 loans had a total remaining balance of \$3.5 million on the December 31 before the year in which they were written off. The 11 loans included a \$50,000 loan that the former Department of Commerce had awarded and 10 loans totaling \$3.6 million that WEDC had awarded. WEDC turns over loans awarded by Commerce that it considers uncollectible to DOA, which works with the Department of Justice to pursue collection. Because any amounts collected are retained by DOA, WEDC writes off loans turned over to DOA. Before determining that a loan it had awarded is uncollectible, WEDC may hire a private collection agency. Amounts collected are remitted to WEDC, which pays the collection agency for its services.

WEDC forgave \$0.4 million of the remaining balance of one loan that was 90 days or more past due on December 31, 2019. WEDC did so because it determined that the loan recipient had partially achieved its contractually required results. Recipients are not required to repay

some or all of the principal or interest on forgivable loans if they achieve contractually required results, such as creating or retaining jobs.

***Technology Development
Loan program policies
allow WEDC to convert a
loan's outstanding
balance into equity in a
loan recipient.***

Technology Development Loan program policies allow WEDC to convert a loan's outstanding balance into equity in a loan recipient. These policies require WEDC to own less than 20.0 percent of a firm and not to help repay any additional debt a firm incurs. In February 2019, WEDC planned to exchange \$159,000 in accrued interest on a loan that was 90 days or more past due on December 31, 2018, for 31,299 shares. Because each share was valued at \$0.0001, WEDC's equity in the firm would have totaled approximately \$3. However, the firm ceased operations before WEDC obtained the shares. WEDC indicated that it had not converted any outstanding loan balances into equity as of January 2021, but that its contracts with 29 loan recipients allowed it to do so.

In report 19-6, we recommended that WEDC provide the Joint Legislative Audit Committee with semiannual information on past-due loans. WEDC provided such information for each six-month period through December 2020. WEDC should continue to provide the Joint Legislative Audit Committee with such information for each six-month period.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *beginning on July 1, 2021, and every six months thereafter, determine the remaining balance and the total amount of past-due repayments for all loans 90 days or more past due;*
- *determine the remaining balance for all of these loans that were amended to defer repayments, written off, or forgiven from July 2021 through December 2021, and then during each six-month period thereafter;*
- *determine the remaining balance for all of these loans that were no longer 90 days or more past due during each six-month period thereafter because the recipients made loan repayments;*
- *determine the payment delinquency rate and the principal delinquency rate on the first and last day of each six-month period; and*
- *report this information to the Joint Legislative Audit Committee by February 3, 2022, for the six-month period from July 2021 through December 2021, and then report this information every six months thereafter.*

Managing Contracts

Our file review found that WEDC largely complied with statutes and its contracts when administering its tax credit programs in FY 2019-20. However, our file review also found that WEDC did not:

- develop written procedures for the Enterprise Zone that require it to award program tax credits only for the wages paid to employees for services performed in enterprise zones; or
- consistently revoke tax credits in a timely manner.

Services Performed in Enterprise Zones

Statutes provide that WEDC's governing board must require each recipient of a tax credit, grant, or loan to submit a report to WEDC, and that the contracts with these recipients must specify the frequency and format of a report and the performance measures to be included in it. WEDC uses these performance reports to complete its statutorily required annual economic development program report and to compile the accompanying online data that show the results of each award, such as the number of jobs that were created.

Statutes require WEDC to award Enterprise Zone program tax credits for the wages paid to employees for services performed in an enterprise zone.

Sections 71.07 (3w), 71.28 (3w), and 71.47 (3w), Wis. Stats., require WEDC to award Enterprise Zone program tax credits based on a tax credit recipient's zone payroll, which is statutorily defined to be the wages paid to full-time employees for services performed in an enterprise zone. Statutes do not permit WEDC to award program tax credits for services performed outside of an enterprise zone. In report 19-6 and our current audit, we found that WEDC's contracts complied with statutes by requiring WEDC to award program tax credits for the wages of employees who performed services in an enterprise zone.

In report 19-6, we found that WEDC developed written procedures that allowed it to award Enterprise Zone program tax credits for the wages of employees who did not perform services in Wisconsin. As a result, we recommended that WEDC modify its written procedures to require it to award program tax credits only for the wages of employees who perform services in an enterprise zone, as is statutorily required.

In our current audit, we found that WEDC's written procedures still did not require WEDC to award Enterprise Zone program tax credits only for the wages paid to employees for services performed in an enterprise zone. In this way, these procedures did not comply with statutes or WEDC's contracts.

In the performance reports, WEDC required recipients of Enterprise Zone program tax credits to provide certain information, including each employee's residency, work site, and wages. However, WEDC did not require recipients to specify the wages paid to employees for

WEDC followed its statutorily noncompliant written procedures when it calculated the amounts of Enterprise Zone tax credits to award recipients.

services performed in an enterprise zone. Instead, WEDC awarded program tax credits for the wages of employees who were paid out of, and directed by, a location in an enterprise zone, regardless of where these employees performed services.

Our file review found that WEDC followed its statutorily noncompliant written procedures when it determined the amounts of Enterprise Zone tax credits to award recipients, including for the wages of employees who lived in states that are not contiguous to Wisconsin. We question whether such employees actually performed services in enterprise zones. For example:

- In August 2019, WEDC executed an amended \$9.0 million contract with a firm that agreed to create jobs. When WEDC determined the amount of tax credits to award the firm for the 12-month period ending on December 31, 2019, it included 18 individuals with residencies in states that are not contiguous to Wisconsin.
- In February 2018, WEDC executed a \$10.5 million contract with a firm that agreed to create and retain jobs. When WEDC determined the amount of tax credits to award the firm for the 12-month period ending on December 31, 2019, it included in its calculations two employees with residencies in Florida.
- In November 2018, WEDC executed an \$18.5 million contract with a firm that agreed to create and retain jobs. When WEDC determined the amount of tax credits to award the firm for the 12-month period ending on December 31, 2019, it included in its calculations six employees with residencies in states that are not contiguous to Wisconsin.

Because these three firms reported having created and retained more jobs than contractually required, WEDC may not have awarded them more tax credits than was statutorily allowed. However, WEDC's written procedures could result in WEDC awarding tax credits for the wages paid to employees for services not performed in an enterprise zone.

We again recommend that WEDC modify its Enterprise Zone written procedures to require it to award program tax credits only for the wages paid to employees for services performed in an enterprise zone, as is statutorily required. To allow it to comply with statutes, WEDC should require all recipients of program tax credits to provide information on the wages paid to employees for services performed in an enterprise zone.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *modify its Enterprise Zone program written procedures to require it to award program tax credits only for the wages paid to employees for services performed in an enterprise zone, as is statutorily required;*
- *require all recipients of Enterprise Zone program tax credits to provide information on the wages paid to employees for services performed in an enterprise zone; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to comply with these recommendations.*

Tax Credit Revocations

If a tax credit recipient does not meet its contractual obligations, WEDC's contracts specify the process by which WEDC may revoke previously awarded tax credits. WEDC did not develop written policies that specify the point in time when it should revoke tax credits.

DOR is statutorily required to charge 12.0 percent interest annually on the amount of unpaid taxes. It indicated that it charges interest in amounts based on the date a recipient claimed the tax credits and the date WEDC revoked the tax credits.

WEDC at times waited more than one year to revoke tax credits from firms that had not met their contractual obligations.

Our file review found that WEDC at times waited more than one year to revoke tax credits from firms that had not met their contractual obligations. For example:

- WEDC executed a contract under the Economic Development Tax Credit program with a firm. Although the firm's final contractually required performance report in March 2017 indicated that the firm had lost all of the contractually required jobs it had previously created, WEDC did not revoke approximately \$125,000 in tax credits until June 2020, which was more than three years later.
- WEDC executed a contract under the Jobs Tax Credit program with a firm. Although the firm's final contractually required performance report in December 2017 indicated that the firm had not maintained 19 jobs it had previously created, WEDC did not revoke approximately \$200,000 in tax credits until April 2020, which was more than two years later.

- WEDC executed a contract under the Business Development Tax Credit program with a firm. Although the firm requested in January 2020 that its contract be terminated, WEDC did not revoke approximately \$300,000 in tax credits until March 2021, which was more than one year later.

WEDC should develop written policies that require it to revoke tax credits in a timely manner if a recipient did not meet contractual obligations. Doing so will help to ensure that taxpayer funds are spent appropriately and that recipients do not unnecessarily pay interest.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *develop written policies that require it to revoke tax credits in a timely manner if a recipient did not meet contractual obligations; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to comply with this recommendation.*

Issue for Legislative Consideration

The tax credit programs through which WEDC is currently permitted to execute contracts typically require WEDC to award tax credits based on the wages paid to employees for services performed in Wisconsin or the number of jobs filled by Wisconsin residents. Statutes require WEDC to award tax credits under the:

- Enterprise Zone program only for the wages paid to employees for services performed in an enterprise zone;
- Electronics and Information Technology Manufacturing Zone program only for the wages paid to employees for services performed in Wisconsin; and
- Development Opportunity Zone program for creating or retaining jobs filled by Wisconsin residents.

The Legislature could consider modifying Business Development Tax Credit program statutes.

The Legislature could consider modifying Business Development Tax Credit program statutes to require WEDC to award program tax credits only for the wages paid to employees for services performed in Wisconsin. Currently, statutes do not require WEDC to award program tax credits in this manner. As a result, taxpayer funds could be awarded for the wages paid to employees for services performed in other states.

Verifying Performance Measure Information

Statutes require WEDC to annually and independently verify the accuracy of the information in the performance reports submitted by a sample of tax credit, grant, and loan recipients. In report 19-6, we found that WEDC did not comply with statutes because it completed only one annual verification over the two-year period from January 2017 through December 2018.

WEDC complied with statutes by completing an annual verification for FY 2018-19 and for the first six months of FY 2019-20.

In our current audit, we found that WEDC complied with statutes by completing an annual verification for FY 2018-19 and for the first six months of FY 2019-20. Combined, these verification efforts included consideration of information in 139 performance reports, which represented 10.2 percent of all performance reports submitted to WEDC over that 18-month period. At the time of our audit, WEDC had paid a consultant \$148,100 to help conduct these verification efforts.

To complete these verification efforts, the consultant requested that award recipients provide it with payroll and other documents to verify the accuracy of information in previously submitted performance reports. In some instances, the consultant attempted to verify information associated with a sample of jobs that recipients claimed they had created or retained. The consultant reported to WEDC that it was unable to verify all information related to jobs that 26 of the 139 award recipients (18.7 percent) claimed they had created or retained.

WEDC appropriately used the results of the annual verification efforts to take action regarding award recipients.

We found that WEDC appropriately used the results of the annual verification efforts to take action regarding the 26 award recipients. As of January 2021, WEDC:

- concluded that most of the issues pertaining to 19 recipients were minor and did not constitute contractual violations;
- was in the process of collecting and reviewing additional documentation pertaining to 5 recipients; and
- was in the process of terminating its contracts with 2 recipients that had not responded to its requests for documentation.

We found that WEDC's annual verification efforts did not assess the fringe benefits offered to the employees of award recipients. Statutes require a recipient that is awarded funds for creating and retaining jobs to offer the employees in those positions the same retirement, health, and other benefits that are offered to a recipient's other full-time employees. WEDC should ensure that its annual verification of performance measure information determines whether recipients complied with statutes by offering the same retirement, health, and other benefits to employees in jobs for which the recipients were awarded funds as were offered to other full-time employees.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *ensure that its annual verification of performance measure information determines whether award recipients complied with statutes by offering the same retirement, health, and other benefits to employees in jobs for which the recipients were awarded funds as were offered to other full-time employees; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to implement this recommendation.*

■ ■ ■ ■

Program Results

Statutes require WEDC's governing board to monitor the performance of its economic development programs.

Statutes require WEDC's governing board to monitor the performance of its economic development programs. WEDC's information indicated that 681 awards ended from FY 2011-12 through FY 2019-20, including 151 tax credit and loan awards that contractually required the recipients to create jobs and 131 tax credit and loan awards that contractually required the recipients to retain jobs. We assessed the extent to which the recipients of these tax credit and loan awards created or retained the contractually required jobs, the amounts it cost to create or retain these jobs, and how WEDC closed awards that ended. We make recommendations for WEDC to improve how it oversees tax credit contracts and assesses program results.

Assessing Award Effectiveness

Assessing the effectiveness of WEDC's awards involves determining the extent to which award recipients met their contractual obligations, such as by creating or retaining jobs. An award ends at the conclusion of the contractually specified time period for the recipient to meet its obligations or if other circumstances occur, such as if a recipient withdraws from its contract or goes out of business. When an award ends, WEDC closes it by preparing a written summary that indicates the extent to which the recipient fulfilled its contractual obligations.

WEDC's information indicated that 681 awards totaling \$286.2 million ended from FY 2011-12 through FY 2019-20.

As shown in Table 11, WEDC's information indicated that 681 awards totaling \$286.2 million ended from FY 2011-12 through FY 2019-20. Appendix 6 lists the programs through which WEDC made these 681 awards.

Table 11

Economic Development Awards That Ended, by Type¹
FY 2011-12 through FY 2019-20

Type	Awards	Percentage of Total	Amount Awarded	
			Total	Average per Award
Grants	313	46.0%	\$ 31,716,400	\$ 101,300
Tax Credits ²	258	37.9	196,610,900	762,100
Loans	110	16.1	57,888,000	526,300
Total	681	100.0%	\$286,215,300	420,300

¹ Based on WEDC's information.

² Includes 116 awards made through the Qualified New Business Venture program, which certified businesses to participate in two other tax credit programs.

Some awards required the recipients to meet multiple contractual obligations and achieve multiple results. For example, an award may have required a recipient to purchase manufacturing equipment and retain a specified number of jobs. We used WEDC's information to categorize the expected results of awards as follows:

- "capital investments" includes purchasing equipment or building, leasing, or renovating commercial space;
- "job creation or retention" includes creating new jobs, retaining existing jobs, or both;
- "increased export capacity" includes obtaining consulting or translation services, participating in trade missions, or attending conventions related to export activities;
- "third-party investments" includes using awarded funds to obtain additional capital investments in start-up recipients; and
- "community development" includes improving public infrastructure, rehabilitating buildings, or performing environmental remediation activities.

As shown in Table 12, WEDC's information indicated that an expected result of 226 of the 681 awards that ended (33.2 percent) was capital investment, and that an expected result of 211 awards that ended (31.0 percent) was job creation or retention.

Table 12

Expected Results of Economic Development Awards That Ended¹
 FY 2011-12 through FY 2019-20

Expected Result	Awards	Percentage of Total
Capital Investments	226	33.2%
Job Creation or Retention	211	31.0
Increased Export Capacity	180	26.4
Third-Party Investments	166	24.4
Community Development	107	15.7
Other ²	23	3.4

¹ Based on WEDC's information. Some awards required recipients to achieve multiple expected results.

² Includes requirements for recipients to relocate to Wisconsin, provide employee training, and develop products.

We assessed the results of all 168 tax credit and loan awards that ended from FY 2011-12 through FY 2019-20 and contractually required the recipients to create jobs, retain jobs, or both. Appendix 1 contains summary information about these 168 awards, which had a total contract value of \$119.2 million. We did not assess the results of grant awards, most of which required recipients to create or retain few, if any, jobs.

The numbers of jobs created or retained as a result of awards that ended cannot be known.

The numbers of jobs created or retained as a result of awards that ended cannot be known. In recent years, WEDC has collected more-complete information about the extent to which award recipients created or retained jobs. As noted, it also completed the most-recent statutorily required annual verification of performance measure information. However, in prior audits we found that WEDC did not consistently:

- collect sufficiently detailed information during the underwriting process about the numbers of individuals employed by award applicants at the time of contract execution;
- collect sufficiently detailed information when closing awards to determine whether award recipients created or retained jobs that met the contractual specifications; or
- comply with statutes by annually verifying the performance measure information.

Job Creation

Statutes required WEDC to award tax credits under certain programs based on each job a recipient created, up to a contractually specified maximum number of jobs. We considered this maximum number to be the planned number of jobs. Under other programs, statutes required WEDC to award tax credits based on the wages a recipient paid to employees. WEDC's contracts for these programs specified the planned numbers of jobs to be created.

Recipients of 151 tax credit and loan awards that ended through FY 2019-20 created 36.2 percent of the planned number of jobs.

As shown in Table 13, WEDC's information indicated that recipients of 151 tax credit and loan awards that ended through FY 2019-20 created 36.2 percent of the planned number of jobs. If WEDC determined that a given recipient did not create all contractually required jobs, WEDC did not award that recipient all of the tax credits that it had allocated to that recipient.

Table 13

Estimated Job Creation Results of Awards That Ended, by Program¹ FY 2011-12 through FY 2019-20

	Awards	Number of Jobs		Percentage Created
		Created	Planned	
Tax Credit Programs				
Economic Development Tax Credit ²	67	1,731	5,263	32.9%
Jobs Tax Credit ²	21	671	2,063	32.5
Business Development Tax Credit	20	32	1,445	2.2
Development Opportunity Zone	3	60	212	28.3
Enterprise Zone	1	0	665	0.0
Subtotal	112	2,494	9,648	25.8
Loan Programs				
Business Retention and Expansion Investment ²	22	1,806	2,185	82.7
Business Opportunity Loan Fund ²	14	282	808	34.9
State Energy Program ²	3	21	60	35.0
Subtotal	39	2,109	3,053	69.1
Total	151	4,603	12,701	36.2

¹ According to WEDC's information. The numbers of jobs created cannot be known.

² WEDC no longer makes new awards under this program.

A total of 72 of the 151 awards ended before the contractually specified completion dates.

We found that 72 of the 151 awards ended before the contractually specified completion dates. As a result, recipients of these 72 awards were no longer contractually required to create up to 6,319 jobs. These 72 awards included:

- 32 awards involving recipients that withdrew from their contracts;
- 11 awards involving recipients that did not comply with contractual requirements;
- 10 awards involving recipients that ceased operating in Wisconsin or at the project locations;
- 10 awards involving recipients that repaid their loans, after which WEDC closed these awards and ceased determining whether jobs were created or retained, even though the recipients were contractually required to create or retain jobs for longer periods of time in order to avoid paying penalties; and
- 9 awards involving recipients that sold their operations in Wisconsin.

We found that 28 of the 151 awards did not end early, but the recipients of these awards were not paid for creating any jobs. WEDC did not pay the recipients because either the contracts did not contain provisions for it to pay the recipients for creating jobs or the recipients did not create any contractually specified jobs.

We estimated the cost to create jobs through tax credit and loan awards that ended through FY 2019-20, reached contractually specified completion dates, and resulted in recipients being paid for creating jobs. As shown in Table 14, WEDC's information indicated that 51 such awards had ended. Under the terms of an \$18.0 million Enterprise Zone program contract that WEDC awarded in January 2012, the recipient received \$179,400 for creating jobs. This recipient created but subsequently lost all of the jobs that it had previously created. WEDC's contract prevented WEDC from revoking all of the tax credits it had previously awarded to this recipient for creating jobs.

Table 14

Estimated Total and Average Costs of Created Jobs, by Program^{1,2}
FY 2011-12 through FY 2019-20

	Awards	Total Cost of Created Jobs	Created Jobs	Average Cost per Created Job
Tax Credit Programs				
Economic Development Tax Credit ³	29	\$ 4,997,000	1,729	\$2,900
Jobs Tax Credit ³	4	3,995,400	671	6,000
Development Opportunity Zone Tax Credit	1	154,100	60	2,600
Enterprise Zone	1	179,400	0 ⁴	-
Loan Programs				
Business Retention and Expansion Investment ³	11	2,341,000	1,543	1,500
Business Opportunity Loan Fund ³	5	1,384,500	282	4,900
Total	51	\$13,051,400	4,285	3,000

¹ According to WEDC's information. The numbers of jobs created cannot be known.

² Includes awards that reached contractually specified completion dates, and the award recipients earned funds for creating jobs.

³ WEDC no longer makes new awards under this program.

⁴ The award recipient created but subsequently lost jobs. WEDC's contract prevented WEDC from revoking all previously awarded tax credits for job creation.

Job Retention

WEDC's information indicated that recipients of 131 tax credit and loan awards that ended through FY 2019-20 retained 59.3 percent of contractually required jobs.

As shown in Table 15, WEDC's information indicated that recipients of 131 tax credit and loan awards that ended through FY 2019-20 retained 59.3 percent of contractually required jobs. We found that WEDC determined the numbers of existing jobs that recipients were contractually required to retain only after it had executed contracts for 85 of these 131 awards. If WEDC determined that a given recipient did not retain all contractually required jobs associated with a tax credit allocation, WEDC did not award that recipient all of the tax credits that it had allocated to that recipient. We also found that WEDC amended eight contracts to reduce the numbers of jobs that recipients were required to retain. It did so after it obtained more-accurate information about the numbers of jobs that the recipients actually had at the time of contract execution.

Table 15

Estimated Job Retention Results of Awards That Ended, by Program¹
FY 2011-12 through FY 2019-20

	Awards	Number of Jobs		Percentage Retained
		Retained	Contractually Required	
Tax Credit Programs				
Economic Development Tax Credit ²	65	7,213	10,287	70.1%
Jobs Tax Credit ²	16	1,087	4,437	24.5
Business Development Tax Credit	16	0	1,606	0.0
Development Opportunity Zone	3	894	1,266	70.6
Subtotal	100	9,194	17,596	52.3
Loan Programs				
Business Retention and Expansion Investment ²	21	4,833	6,508	74.3
Business Opportunity Loan Fund ²	9	1,057	1,305	81.0
Special Project Loan Fund ²	1	0	34	0.0
Subtotal	31	5,890	7,847	75.1
Total	131	15,084	25,443	59.3

¹ According to WEDC's information. The numbers of jobs retained cannot be known.

² WEDC no longer makes new awards under this program.

A total of 53 of the 131 awards ended before the contractually specified completion dates.

We found that 53 of the 131 awards ended before the contractually specified completion dates. As a result, recipients of these awards were no longer contractually required to retain 8,404 jobs. These 53 awards included:

- 22 awards involving recipients that withdrew from their contracts;
- 11 awards involving recipients that ceased operating in Wisconsin or at the project locations;
- 8 awards involving recipients that did not comply with contractual requirements;
- 8 awards involving recipients that sold their operations in Wisconsin; and
- 4 awards involving recipients that repaid their loans, after which WEDC closed these awards and ceased determining whether jobs were retained, even though the recipients had been contractually

required to retain jobs for longer periods of time in order to avoid paying penalties.

We found that 58 of the 131 awards did not end early, but the recipients of these awards were not paid for retaining any jobs. WEDC did not pay the recipients because either the contracts did not contain provisions for it to pay the recipients for retaining jobs or the recipients did not retain any contractually specified jobs.

We estimated the cost to retain jobs through tax credit and loan awards that ended through FY 2019-20, reached the contractually specified completion dates, and resulted in recipients being paid for retaining jobs. As shown in Table 16, WEDC's information indicated that 20 such awards had ended.

Table 16

Estimated Total and Average Costs of Retained Jobs, by Program^{1,2}
FY 2011-12 through FY 2019-20

	Awards	Total Cost of Retained Jobs	Retained Jobs	Average Cost per Retained Job
Tax Credit Program				
Economic Development Tax Credit ³	5	\$ 3,037,400	1,816	\$1,700
Loan Programs				
Business Retention and Expansion Investment ³	12	7,701,600	4,210	1,800
Business Opportunity Loan Fund ³	3	1,460,400	858	1,700
Total	20	\$12,199,300	6,884	1,800

¹ According to WEDC's information. The numbers of jobs retained cannot be known.

² Includes awards that reached contractually specified completion dates, and the award recipients earned funds for retaining jobs.

³ WEDC no longer makes new awards under this program.

Closing Awards

WEDC's contracts typically specify that recipients may be awarded tax credits for creating jobs during only contractually specified time periods. For example, a five-year contract may indicate that a recipient will be awarded tax credits for creating jobs during the contract's first three years, and that a recipient must maintain these jobs for the contract's duration. When WEDC closes such an award, it determines the extent to which the recipient created and retained jobs.

In report 19-6, we found concerns with certain decisions WEDC made when it closed awards through FY 2017-18. As a result, we recommended that WEDC establish detailed written procedures that

require it to close awards according to contractual provisions and consistently follow these written procedures when closing awards.

WEDC established incomplete written procedures for closing awards.

In our current audit, we found that WEDC established written procedures for closing awards, but the procedures were incomplete. The procedures:

- allowed award recipients that had been awarded tax credits for creating jobs to keep all of those tax credits while contracts were ongoing, even if recipients did not retain all of those jobs; and
- did not require WEDC to ensure that recipients of tax credits under certain other programs provided information indicating whether employees were Wisconsin residents, which can be the statutorily or contractually prescribed basis for awarding job creation tax credits.

We examined decisions WEDC made when it closed awards in FY 2018-19 and FY 2019-20. To do so, we examined all 82 tax credit and loan awards that closed in that two-year period and contractually required recipients to create or retain jobs. Our file review found that WEDC could have reclaimed \$123,900 in tax credits because recipients created jobs after the contractually specified time periods for creating jobs had ended. Although WEDC's written procedures allowed it to not reclaim these tax credits, reclaiming them would have saved the State \$123,900.

Some Economic Development Tax Credit program contracts required WEDC to annually award no more than 10.0 percent of tax credits for a given contract based on a recipient creating jobs filled by non-Wisconsin residents. Our file review found that when WEDC closed five awards it had made under this program, it did not require the five recipients to submit complete information on whether employees in the created jobs were Wisconsin residents. We question whether WEDC should have awarded a total of \$160,600 to these five recipients.

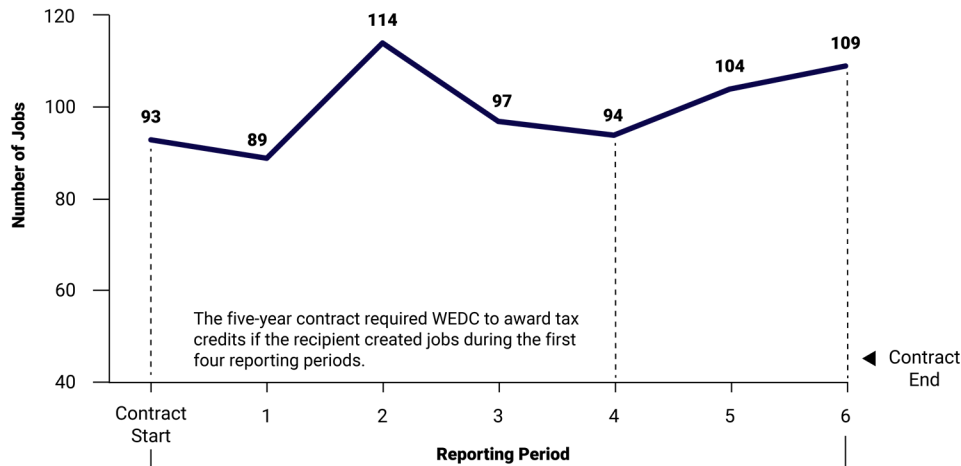
We also analyzed how WEDC oversees tax credit contracts. To illustrate the manner in which WEDC oversees tax credit contracts, we examined a typical contract. Figure 1 shows the job creation results of a \$94,700 contract that WEDC executed in May 2014 under the Economic Development Tax Credit program with a recipient that had 93 jobs when the contract started. The five-year contract required WEDC to award tax credits if the recipient created jobs during the first four reporting periods, each of which was up to one year in length. Although the contract required the recipient to maintain all existing and newly created jobs over the contract's duration, it allowed WEDC to decide whether to reclaim tax credits if the recipient did not comply with the contract. WEDC's information indicated that the recipient had:

- 89 jobs at the end of the contract's first reporting period, which was 4 jobs fewer than at the contract's start;

- 114 jobs at the end of the contract’s second reporting period, including 21 jobs for which WEDC awarded tax credits;
- 97 jobs at the end of the contract’s third reporting period and 94 jobs at the end of the contract’s fourth reporting period, but WEDC did not reclaim any tax credits even though the recipient had eliminated jobs; and
- 109 jobs at the contract’s end, which was 16 jobs more than the recipient had at the contract’s start. When WEDC closed this award in April 2020, it allowed the recipient to keep the tax credits for 16 of the 21 jobs it had previously awarded after the contract’s second reporting period, but it reclaimed the tax credits for the other 5 jobs.

Figure 1

Job Creation Results of a Tax Credit Award that WEDC Closed in April 2020¹



¹Based on WEDC’s information for a \$94,700 contract that WEDC executed under the Economic Development Tax Credit program in May 2014 and closed in April 2020.

WEDC’s method of awarding tax credits allows recipients to receive funds for creating jobs for only short periods of time. For example, if a recipient created jobs in a contract’s first year, eliminated them in the second year, and then did not create them again until a contract’s final year, WEDC’s written procedures would not prohibit a recipient from keeping the tax credits the recipient was awarded for creating jobs in the contract’s first year.

WEDC should improve how it oversees tax credit contracts.

WEDC should improve how it oversees tax credit contracts. It should award job creation tax credits only when recipients create jobs according to contractual provisions, such as those that require WEDC to award tax credits that are based, in part, on whether employees were Wisconsin residents. To prevent recipients from being awarded tax credits for creating jobs in a contract's first year, eliminating them in the second year, and then creating them again in a contract's final year, WEDC should work with DOR to implement a method for reclaiming after each contract year some or all previously awarded tax credits. For example, after the recipient shown in Figure 1 eliminated 17 jobs in the contract's third reporting period, such a method would have allowed WEDC to direct DOR at that point in time to reclaim the job creation tax credits that WEDC had previously awarded for those 17 jobs.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *award job creation tax credits only when recipients create jobs according to contractual provisions;*
- *work with the Department of Revenue to implement a method for reclaiming after each contract year some or all previously awarded tax credits if recipients do not retain all jobs for which they had been previously awarded job creation tax credits; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to implement these recommendations.*

Assessing Program Results

In report 19-6, we recommended that WEDC improve how it assesses the results of its programs, including by annually assessing the awards it made and using this information to consider changes to its program policies and when making decisions about future awards. In our current audit, we found that WEDC did not implement our recommendations. WEDC indicated that it did not consider assessing award results to be informative because too few awards have ended under any given program. It also noted that it no longer makes awards under some programs under which awards have ended.

We believe that a sufficient number of awards have ended to annually make a comprehensive assessment by WEDC useful. As noted, 168 tax credit and loan awards that required job creation or retention ended through FY 2019-20, and these awards had a total contract value of \$119.2 million. More awards will end in future years. Even if WEDC no longer makes awards under a given program, it can use the information learned to improve how it makes awards under other programs. For example, WEDC can modify its program policies to increase the

likelihood that recipients create or retain contractually required jobs at a reasonable cost to taxpayers.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *annually and comprehensively assess awards that ended and use this information to consider changes to its program policies and when making decisions about future awards; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to implement this recommendation.*

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Program Accountability

Statutes require WEDC's governing board to report annually on each of its economic development programs.

Statutes require WEDC's governing board to report to the Legislature annually by October 1 on each economic development program that it administered in the prior fiscal year and make the reported information readily accessible to the public on the internet. Statutes require this annual economic development program report to include the results of each such program. We assessed how WEDC reported on its programs and the results of these programs in FY 2019-20. We again found that WEDC's online data, which indicate program results, contained inaccuracies and were incomplete. We make a recommendation for improvements.

Reporting Program Results

For each program, the annual economic development program report must contain statutorily specified information pertaining to the prior fiscal year, including:

- a program description;
- a comparison of expected and actual program outcomes;
- the number of grants and loans made, the amount and recipient of each grant and loan, and the total amount of grants and loans awarded to each recipient;
- the location and industry classification, by municipality, of each job created or retained in the state as a result of the program;

- the total amount of tax benefits allocated and the total amount of tax benefits verified to DOR through the program;
- the recipient of each allocated tax benefit and each verified tax benefit through the program; and
- any recommended changes to the program.

In our current audit, we reviewed WEDC's October 2020 report, which includes information on the programs that WEDC administered in FY 2019-20, and the accompanying online data that present information on the results of certain awards that WEDC made from FY 2011-12 through FY 2019-20. Appendix 7 summarizes the activities of each program in FY 2019-20.

We found concerns with WEDC's online data, including:

- The online data did not accurately reflect the numbers of contractually required jobs created and retained as a result of awards that ended in FY 2018-19 or FY 2019-20. Although the online data indicated that 62 award recipients had created 2,868 jobs, WEDC's files indicated that these recipients actually had created 1,624 jobs that met contractual requirements. The online data included jobs created by recipients that had ceased operations in Wisconsin or otherwise terminated their awards before the contractually specified completion dates, as well as jobs that did not meet the contractual requirements necessary for recipients to be awarded tax credits for creating jobs.
- The online data double-counted the numbers of jobs retained as a result of certain awards. For example, WEDC executed two tax credit contracts with one recipient in December 2013. Each contract required this recipient to retain all existing jobs. Although this recipient reported the same employees over the same period for each of the two awards, WEDC double-counted the number of these employees in its online data.
- WEDC removed from its online data information about awards that closed a year or more earlier. As a result, the online data no longer included the job creation and retention results of 494 awards that had closed.

WEDC’s online data continued to contain inaccurate and incomplete information about the numbers of jobs that award recipients created and retained.

Table 17 summarizes the concerns we found in our current audit and similar concerns that we had found in our two most-recent audits of WEDC. WEDC’s online data continued to contain inaccurate and incomplete information about the numbers of jobs that award recipients created and retained.

Table 17

Concerns We Identified with WEDC’s Online Data

Type of Concern	Legislative Audit Bureau Report		
	17-9	19-6	21-7
Inaccurate numbers of jobs were reported	✓	✓	✓
Double-counted jobs were reported	✓	✓	✓
Jobs information was removed from the online data		✓	✓

In our current audit, we found that WEDC improved one aspect of how it reported jobs-related information in its online data. WEDC reported only those jobs that met contractual requirements for recipients to be awarded tax credits, but it did so only for programs under which it made new awards in FY 2019-20. For programs under which it no longer made awards, it continued to report all jobs that award recipients created and retained, regardless of whether these jobs met contractual requirements for the recipients to be awarded tax credits.

WEDC’s online data, which are part of its statutorily required annual economic development program report, continue to have inaccuracies and are incomplete. It is difficult for legislators and the public to assess program effectiveness unless the online data indicate accurate numbers of jobs created and retained as a result of WEDC’s awards.

Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *improve the accuracy and completeness of its statutorily required annual economic development program report; and*
- *report to the Joint Legislative Audit Committee by October 29, 2021, on its efforts to implement this recommendation.*

Issue for Legislative Consideration

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

The Legislature could consider modifying statutes to require WEDC to report additional information about the numbers of jobs created and retained as a result of WEDC's awards. As noted, we found that WEDC removed from its online data the results of certain awards that it closed a year or more earlier, and that WEDC included in its online data information about jobs that did not meet the contractual requirements necessary for recipients to be awarded tax credits for creating jobs. If WEDC were statutorily required to report on the results of all awards, including those that closed a year or more earlier, and to separately report on the numbers of jobs that were created and retained but that did not meet contractual requirements necessary for recipients to be awarded tax credits, it would be easier for legislators and the public to assess program effectiveness.

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Financial Management

We examined WEDC's financial management in FY 2018-19 and FY 2019-20. WEDC is funded primarily by state funding. WEDC's total revenues declined from \$47.8 million in FY 2018-19 to \$45.0 million in FY 2019-20, or by 5.9 percent. Over this two-year period, its administrative expenditures declined from \$24.0 million to \$23.1 million, or by 3.8 percent. We found that WEDC's total available funding considerably exceeded its total payments for each quarter from July 1, 2018, through June 30, 2020. Therefore, the Legislature could consider directing WEDC to spend some of its available funding, such as on businesses affected by the public health emergency.

Revenues

In FY 2019-20, state funding accounted for 90.4 percent of WEDC's \$45.0 million in total revenue.

In FY 2019-20, state funding accounted for 90.4 percent of WEDC's \$45.0 million in total revenue, as shown in Table 18. The Economic Development Fund, which was funded by a surcharge on Wisconsin businesses, provided most of WEDC's segregated revenue.

Table 18

WEDC's Revenues, by Type
(in millions)

Type	FY 2018-19	Percentage of Total	FY 2019-20 ¹	Percentage of Total
State Funding				
General Purpose Revenue	\$ 28.2	59.0%	\$35.7	79.3%
Segregated Revenue	13.3	27.8	4.9	10.9
Subtotal	41.6	87.0	40.7	90.4
Federal Revenue	2.0	4.2	0.4	0.9
Loan Interest and Fees	1.5	3.1	1.3	2.9
Other ²	2.8	5.9	2.6	5.8
Total	\$47.8	100.0%	\$45.0	100.0%

¹ Excludes \$75.0 million in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding that WEDC received in June 2020.

² Includes bond servicing fees, tax transfer fees, investment income, fees paid by attendees of WEDC-sponsored conferences and trade missions, and other miscellaneous revenue.

WEDC may receive more funding than it actually needs in order to cover the costs of its operations and fulfill its grant and loan commitments.

DOA provided WEDC with state funding on a quarterly basis, which was consistent with a July 2014 arrangement between WEDC and DOA. Each quarter, DOA provided WEDC with one-fourth of the total amount of state funding in the budget schedule for the given fiscal year. DOA provided this funding without taking into consideration WEDC's existing resources, commitments, or expenditures. DOA indicated that it did so because WEDC is not a state agency and, therefore, DOA had no statutory authority to require WEDC to demonstrate the need for funding. As a result, WEDC may receive more funding than it actually needs in order to cover the costs of its operations and fulfill its grant and loan commitments. WEDC's funding does not need to cover the cost of its tax credit awards, which are paid by DOR.

Cash and Investments

WEDC is the custodian of its cash and investments, which represent its total available funding. The total funding available at any point is the accumulated amount that WEDC has received but not paid out. In FY 2019-20, WEDC received state funding through payments that DOA provided and that totaled \$40.7 million. In June 2020, WEDC received \$75.0 million in federal CARES Act funding to provide grants to small businesses. WEDC received other amounts, such as loan repayments, throughout the year. These other amounts averaged \$14.8 million each quarter and totaled \$59.0 million for FY 2019-20. In addition, WEDC liquidated investments to increase cash when necessary.

On an ongoing basis, WEDC makes payments for its administrative costs and to grant and loan recipients. Such payments averaged \$14.2 million per quarter in FY 2019-20 and totaled \$56.7 million for that fiscal year.

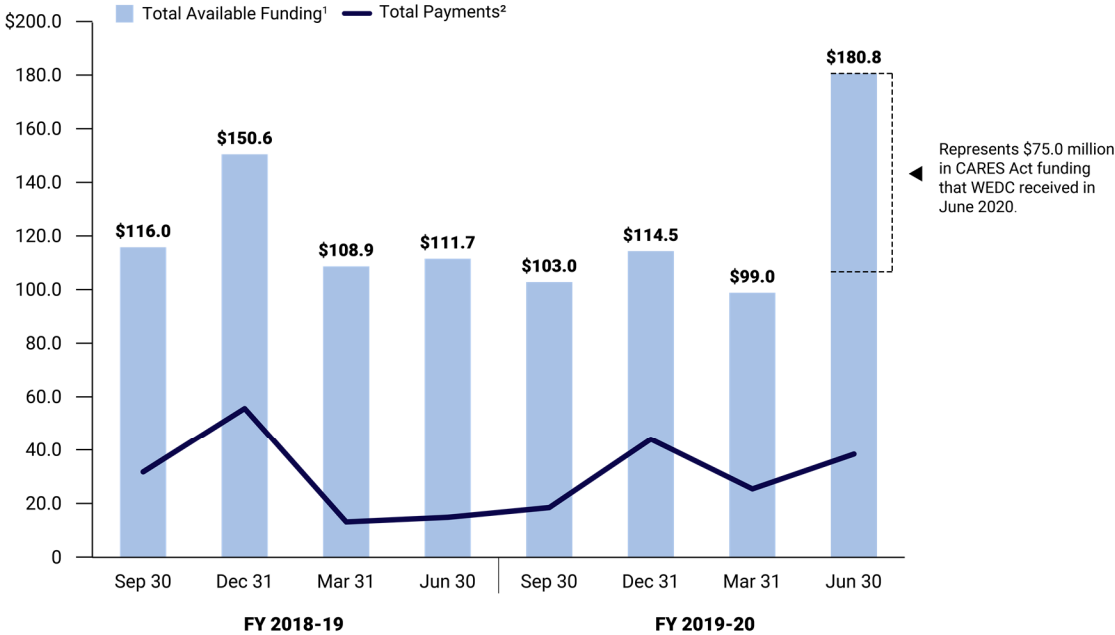
In report 19-6, we reported that WEDC’s total available funding exceeded its total payments each quarter from July 1, 2011, when WEDC became fully operational, through June 30, 2018. 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act, required WEDC no later than January 1, 2020, to pay DOA \$25.0 million for deposit into the General Fund. WEDC paid these funds in December 2019.

WEDC’s total available funding exceeded its total payments for each quarter from July 1, 2018, through June 30, 2020.

As shown in Figure 2, WEDC’s total available funding exceeded its total payments for each quarter from July 1, 2018, through June 30, 2020. Over each quarter of this two-year period, WEDC’s total available funding averaged \$113.7 million, excluding \$75.0 million in CARES Act funding that WEDC received in June 2020, and its total payments averaged \$30.4 million. In comparison, over each quarter during the seven-year period from FY 2011-12 through FY 2017-18, WEDC’s total available funding averaged \$82.0 million, and its total payments averaged \$17.6 million.

Figure 2

WEDC’s Total Payments and Total Available Funding, at Quarter End
(in millions)



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

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

Issue for Legislative Consideration

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

The Legislature could consider directing WEDC to spend some of its available funding, such as on businesses affected by the public health emergency. Currently, WEDC decides whether and how to spend its available funding. Instead, the Legislature could direct WEDC to spend some of this funding to provide additional support to Wisconsin businesses affected by the public health emergency. In the quarter ending on June 30, 2020, WEDC's available funding was \$67.2 million more than its total payments, excluding \$75.0 million in CARES Act funding that WEDC received in June 2020. WEDC provided information indicating that its unassigned fund balance, which represents the remaining amount held by WEDC that is not obligated or specifically set aside to be used for particular purposes, was \$6.2 million on June 30, 2020.

Administrative Expenditures

WEDC's administrative expenditures decreased by 3.8 percent from FY 2018-19 to FY 2019-20.

As shown in Table 19, WEDC's administrative expenditures for operations decreased from \$24.0 million in FY 2018-19 to \$23.1 million in FY 2019-20, or by 3.8 percent. Over this two-year period, expenditures for salaries and fringe benefits increased, but expenditures for marketing decreased.

Table 19

Administrative Expenditures, by Type (in millions)

Type	FY 2018-19	Percentage of Total	FY 2019-20	Percentage of Total
Salaries and Fringe Benefits	\$11.3	47.1%	\$12.3	53.2%
Marketing	7.3	30.4	5.8	25.1
Professional Services	1.3	5.4	1.7	7.4
Conferences and Professional Development	1.1	4.6	1.1	4.8
Information Technology	1.0	4.2	0.6	2.6
Building, Maintenance, and Utilities	0.7	2.9	0.6	2.6
Travel	0.7	2.9	0.6	2.6
Other ¹	0.5	2.1	0.4	1.7
Total	\$24.0	100.0%	\$23.1	100.0%

¹ Includes business insurance, supplies, equipment, business meals, recruiting, and other expenditures.

Salaries and Fringe Benefits

Because WEDC is not a state agency and its staff are not state employees, WEDC is not authorized positions through the state budget. As shown in Table 20, WEDC had 110 full-time and part-time permanent staff on June 30, 2020. Of this total, 17 staff had been employed by WEDC since its inception, and 12 staff had been employed by WEDC for less than one year.

Table 20

Number of WEDC Staff¹ June 30, 2020

Functional Area	Number
Business and Community Development	23
Credit and Risk	13
Marketing and Brand Strategy	9
Executive Office	9
Global Trade and Investment	9
Legal Services and Compliance	8
Entrepreneurship and Innovation	8
Technology and Information Systems	8
Budget and Finance	5
Human Resources	5
Office of Public Policy	5
Operations and Program Performance	4
Business and Investment Attraction	3
Sector Strategy Development	1
Total	110

¹ Includes full-time and part-time permanent staff.

We found that 13 permanent staff whom WEDC employed on July 1, 2019, were no longer employed by WEDC on June 30, 2020. In FY 2019-20, WEDC hired 12 individuals, all of whom were still employed by WEDC on June 30, 2020. One senior manager left employment at WEDC in FY 2018-19, and three more left employment in FY 2019-20.

We examined WEDC's expenditures for salaries and fringe benefits, which represented 53.2 percent of its total administrative expenditures

in FY 2019-20. As shown in Table 21, WEDC paid more than \$100,000 to staff in 14 positions in FY 2019-20.

Table 21

Amounts Paid to Certain WEDC Staff in FY 2019-20

	Amount Paid
Chief Legal Counsel and Compliance Officer ¹	\$226,300
Chief Executive Officer ²	210,300
Chief Operating Officer ³	166,200
Chief Financial Officer	145,100
Vice President of Human Resources	142,300
Vice President of Global Trade and Investment	118,700
Vice President of Entrepreneurship and Innovation	117,400
Vice President of Marketing and Brand Strategy	115,800
Vice President of Business and Community Development	115,800
Vice President of Technology and Information Systems	109,000
Senior Financial Services Director	106,500
Senior Financial Underwriting Director	103,000
Senior Director of Economic Development	101,333
Controller	100,900

¹ Includes the combined amounts paid to the two individuals who held this position in FY 2019-20, including \$86,000 in severance pay that WEDC provided to one individual.

² Includes the combined amounts paid to the two individuals who held this position in FY 2019-20.

³ Includes the combined amounts paid to the two individuals who held this position in FY 2019-20. Two individuals held this position concurrently for approximately two weeks of FY 2019-20.

In addition to their salaries, WEDC provided certain staff with merit and recognition awards. Merit awards acknowledged staff who exceeded performance expectations for a project, and recognition awards acknowledged special efforts or accomplishments. Merit and recognition awards increased from \$85,700 in FY 2018-19 to \$108,800 in FY 2019-20, or by 27.0 percent.



Appendices

Appendix 1

Three File Reviews Conducted of Selected WEDC Contracts

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program that WEDC administered in FY 2019-20 and is also used in other appendices.

Public Health Emergency-Related Grants

Program Number	Program	Number of Contracts	Amount
9	Small Business 20/20	8	\$5,030,000
Total		8	\$5,030,000

Tax Credit Contracts Executed from FY 2013-14 through FY 2019-20

Program Number	Program	Number of Contracts	Amount
3	Enterprise Zone ¹	10	\$237,800,000
-	Jobs Tax Credit ¹	6	19,575,000
2	Business Development Tax Credit	17	18,136,000
-	Economic Development Tax Credit ¹	3	5,792,000
4	Development Opportunity Zone ¹	1	1,800,000
Total		37	\$283,103,000

¹ WEDC did not execute contracts under this program in FY 2019-20.

Tax Credit and Loan Awards Requiring Job Creation or Retention That Ended from FY 2011-12 through FY 2019-20¹

Program Number	Program	Number of Contracts	Amount
-	Economic Development Tax Credit ²	72	\$ 33,680,000
-	Business Retention and Expansion Investment ²	31	21,580,000
-	Jobs Tax Credit ²	23	21,485,000
3	Enterprise Zone ²	1	18,000,000
-	Business Opportunity Loan Fund ²	14	9,296,000
2	Business Development Tax Credit	20	7,724,000
-	State Energy Program ²	3	6,149,000
4	Development Opportunity Zone ²	3	1,034,000
-	Special Projects Loan Fund ²	1	250,000
Total		168	\$119,196,000

¹ Includes 82 awards that ended from FY 2018-19 through FY 2019-20, and 86 awards that ended from FY 2011-12 through FY 2017-18.

² WEDC did not execute contracts under this program in FY 2019-20.

Appendix 2

Descriptions of WEDC's Economic Development Programs FY 2019-20

This appendix provides a brief description of the 31 economic development programs WEDC administered in FY 2019-20. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized by award type and the amount of economic development allocated. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program and is also used in other appendices.

Program provides the designated name for each economic development program.

Wisconsin Statutes cites statutory authority for the program. For programs without a specific statutory authorization, we cite ch. 238, Wis. Stats., which authorizes WEDC's operations.

Description provides a brief description of the main features of the program in FY 2019-20.

Program Number	Program	Wis. Statutes	Description
1	Historic Preservation Tax Credit	71.07(9m); 71.28(6); 71.47(6); 238.17	Provided transferable tax credits equal to 20.0 percent of qualified rehabilitation expenses for projects with at least \$50,000 in qualified expenditures. WEDC allocated businesses or individuals nonrefundable tax credits based on expenditures to preserve or rehabilitate certified historic structures. Allocations were limited to \$3.5 million in tax credits for all projects on the same parcel of land.
2	Business Development Tax Credit	238.308; 71.07(3y); 71.28(3y); 71.47(3y)	Provided refundable tax credits to businesses for creating jobs, purchasing significant capital assets, training employees, or establishing or retaining a corporate headquarters in Wisconsin. A business must annually increase net employment above the base year net employment in the company's Wisconsin-based workforce to receive tax credits. Jobs must have paid at least 150.0 percent of the federal minimum wage.
3	Enterprise Zone	238.399; 71.07(3w); 71.28(3w); 71.47(3w)	Provided refundable tax credits to businesses within WEDC-designated zones. Businesses that located, expanded, retained jobs, or made purchases from Wisconsin suppliers within a zone could claim income tax credits based on employee wages for jobs created or retained, employee training costs, significant capital expenditures, and purchases from Wisconsin suppliers. Tax credits must be awarded only for services performed in the zone. Zones are effective for up to 12 years. Statutes did not limit the amount of tax credits available or the number of zones.
4	Development Opportunity Zone	238.395; 71.07(2dm), 71.07(2dx); 71.28(1di), (1dm), or (1dx); 71.47(1di), (1dm); 76.636	Provided nonrefundable tax credits to businesses that undertook economic activities in statutorily designated zones in Janesville, Kenosha, and Beloit. Credits were awarded based on the number of full-time jobs created or retained, capital investments made, and environmental remediation expenses incurred over the five-year period that each zone was effective. Credits could be carried forward for up to 15 years. Jobs must have been filled by Wisconsin residents, and paid at least 150.0 percent of the federal minimum wage. Recipients were required to retain project-related operations in Wisconsin for at least five years.
5	Qualified New Business Venture	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Certified eligible new businesses, allowing investors to receive nonrefundable tax credits under the Angel Investment and Early Stage Seed Investment Tax Credit programs. The program stimulated the capital necessary for emerging growth businesses to develop new products and technologies and move products to market. To become certified, a business needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51.0 percent of its employees based in the state, having fewer than 100 employees, and having been in operation for no more than 10 consecutive years.
6	Early Stage Seed Investment Tax Credit	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Provided tax credits to eligible accredited investors or investment networks that invested for at least three years in businesses certified as qualified new business ventures. Accredited investors were awarded credits equal to 25.0 percent of their investments. Annually, a total of \$30.0 million in credits was available between this program and the Angel Investment Tax Credit program.
7	Angel Investment Tax Credit	238.15(1)-(3); 71.07(5b); 71.07(5d); 71.28(5b); 71.47(5b); 76.638	Provided tax credits to investment fund managers who invested in businesses certified as qualified new business ventures. Investment fund managers were awarded credits equal to 25.0 percent of their investments. Annually, a total of \$30.0 million in credits was available between this program and the Early Stage Seed Investment Tax Credit program.

Program Number	Program	Wis. Statutes	Description
8	Brownfields Grant	238.13	Provided grants to businesses, local governments, and nonprofit organizations to environmentally remediate contaminated commercial and industrial properties. WEDC policy generally limited awards to no more than \$500,000. Statutes required a match of 50.0 percent of grant funds from the recipient.
9	Small Business 20/20	General Authority (ch. 238)	Provided grants to Wisconsin Community Development Financial Institutions to be sub-granted to existing loan clients. Sub-grants of up to \$20,000 were to be used to mitigate short-term cash flow issues and protect jobs in response to the public health emergency.
10	Community Development Investment Grant	General Authority (ch. 238)	Provided grants for shovel-ready redevelopment projects to counties, cities, villages, and towns, with an emphasis on downtown sites. Recipients could use funding for community development projects such as historic preservation, development of significant destination attractions, infill, and mixed-use developments. Recipients were required to provide a 3:1 funding match.
11	Minority Business Development	General Authority (ch. 238)	Provided funds to nonprofits and businesses to support development of businesses owned by minorities, women, and veterans. Eligible nonprofits provided business financing, training or technical assistance to the minority and underserved business community. Under a public health emergency initiative, eligible minority-owned small businesses in the retail, service, and hospitality industries received one-time \$2,500 grants.
12	Small Business Innovation Research/Small Business Technology Transfer Matching Grant	General Authority (ch. 238)	Provided grants to technology-based businesses in or relocating to Wisconsin in the form of matching portions of Phase I and II awards under the federal Small Business Innovation Research and Small Business Technology Transfer programs. The Center for Technology Commercialization administered the Small Business Innovation Research/Small Business Technology Transfer Matching Grant program.
13	Idle Sites Redevelopment	General Authority (ch. 238)	Provided grants of up to \$500,000 to government entities to redevelop industrial sites larger than 5 acres or commercial sites larger than 10 acres that had been used for those purposes for at least 25 years. Grants could be used for demolition, environmental remediation, or site-specific improvements defined in a redevelopment plan. Grant funds could not exceed 30.0 percent of eligible project costs.
14	Capital Catalyst	General Authority (ch. 238)	Provided grants to seed funds managed by local communities to provide capital to high-growth startups and emerging growth companies. A grant recipient was required to provide 1:1 matching funds.
15	Site Assessment Grant	20.192(1)(s); 238.133	Provided grants to local governments to complete environmental assessments and remediate contaminated industrial and commercial properties with economic or community development potential. Eligible projects included abandoned, idle, or underused facilities that were unlikely to be redeveloped because of actual or perceived contamination.

Program Number	Program	Wis. Statutes	Description
16	Global Business Development Grant	238.15	Provided grants to support the specific export development and deployment strategy of businesses. The program had two components. The International Market Access Grant component reimbursed specific expenses associated with newly exporting to, or expanding in, international markets, up to \$25,000 annually. Funding could be used for trade show exhibitions, trade missions, website and literature translation services, and consulting services. The Collaborative Market Access Grant component provided intermediaries up to \$150,000 to deliver services available under the International Market Assistance Grant.
17	Seed Accelerator	General Authority (ch. 238)	Provided grants to local, non-profit business accelerator programs designed to help start-up businesses, usually in the technology field. The accelerator programs contracted directly with WEDC to pass funds through to companies participating in the accelerator programs.
18	Disaster Recovery Microloan	General Authority (ch. 238)	Provided grants to regional entities to provide rapid response micro-loans to businesses affected by disaster events.
19	Fabrication Laboratories Grant	General Authority (ch. 238)	Provided grants to Wisconsin school districts to purchase equipment used for instructional and educational purposes in fabrication laboratories. Awards were based on a school district's financial need. Recipients could receive grants of up to \$25,000 annually.
20	Capacity Building Grant	General Authority (ch. 238)	Provided grants to assist local and regional economic development groups with conducting assessments of the economic competitiveness of the area, developing economic development strategies, and supporting strategies to improve operational efficiencies and increase collaboration with other development organizations.
21	Targeted Industry Projects	General Authority (ch. 238)	Provided targeted industry sector investment grants and technical support to non-profit and public entities with connections to target industries, including those that support workforce development. The program focused on opportunities with the potential to create jobs and to increase the competitiveness of industry sectors in the state.
22	Workforce Training Grant	General Authority (ch. 238)	Provided grants to businesses locating a new facility in Wisconsin or expanding an existing facility that is developing a product, process, or service that requires training in new technology and industrial skills.
23	Entrepreneurial Micro-Grant	General Authority (ch. 238)	Provided funds to a statewide entity that administered grants made to businesses using these funds. The grants allowed businesses to receive professional assistance in applying for federal grant funds, receiving business planning education, and developing commercialization plans. The grants were administered by the Center for Technology Commercialization.
24	ExporTech	General Authority (ch. 238)	Contracted with the Wisconsin Center for Manufacturing & Productivity to provide an array of services to companies looking for assistance with exporting their products or services. This program was designed to accelerate the process of taking products to international markets through planning and to provide ongoing support for implementing a marketing plan.

Program Number	Program	Wis. Statutes	Description
25	We're All In	General Authority (ch. 238)	Provided one-time micro-grants of \$2,500 to small businesses most severely impacted by the public health emergency. Eligible businesses employed 20 or fewer full-time equivalent staff positions, including the owner, with revenues of less than \$1.0 million annually.
26	Technology Development Loan	General Authority (ch. 238)	Provided loans to start-up and emerging-growth businesses that developed and commercialized a technologically innovative process, product, or service. Funds could be used for working capital or equipment. Award amounts depended on the stage of growth. Product and process development businesses were limited to a \$250,000 loan, commercialization loans were limited to \$500,000, and loans for businesses in expansion mode were limited to \$750,000.
27	Business Development Loan	General Authority (ch. 238)	Provided loans to small businesses with limited access to traditional financing opportunities, particularly in rural areas of the state. Eligible businesses must have been engaged in one of the following industries: power and control, manufacturing, water technology, aerospace manufacturing, biohealth, food and beverage, energy, forest products, or transportation.
28	Industrial Revenue Bonding	66.1103; 238.10; 238.11; 238.125	Approved counties and municipalities to issue bonds on behalf of specific businesses to finance capital investment projects or to purchase land, real estate, or equipment. The businesses were responsible for debt service on the bonds.
29	Main Street and Connect Communities	238.127	Provided technical assistance to local governments participating in historic preservation and economic development of traditional business districts. This assistance was provided through training, facade renderings, small business consultations, and the hiring of outside consultants.
30	Certified Sites	General Authority (ch. 238)	Provided certification of building sites to streamline the permitting process for businesses seeking to expand operations. WEDC worked with Deloitte to create consistent standards for industrial site certification. Eligible sites consisted of a minimum of 20 contiguous, developable acres.
31	Global Trade Venture	General Authority (ch. 238)	Provided Wisconsin businesses access to international markets and assisted in the development of market entry and expansion strategy plans. WEDC's market development directors led Wisconsin companies on single- or multiple-country trips, and WEDC provided participating businesses with country-specific business services. WEDC paid a portion of the costs of these services.

Appendix 3

Recipients Allocated the Largest Amounts of Tax Credits in FY 2019-20 (in millions)

Recipient	Amount
2100 Northwestern Avenue, LLC	\$ 3.5
JS 1924, LLC	3.5
JS 1962, LLC	3.5
National Soldiers Home Residences III, LLC	3.3
Capio Biosciences, Inc.	3.0
The Main Attraction, LLC	2.9
GenCap Sheboygan Falls 63, LLC	2.7
1715 N 37th Street LLC	2.5
Phillis Wheatley School Redevelopment, LLC	2.0
Crescent-Lofts Appleton, LLC	1.9
Printery Row, LLC	1.9
Follicle, Inc	1.8
Horicon School Apartments, LLC	1.8
Plumb Pharmaceuticals, LLC	1.7
600 Broadway LLC	1.5
Kroger Fulfillment Network LLC	1.5
Warehouse 170, LLC	1.5
Cockpit Mobile, Inc.	1.4
SlingshotVR, Inc.	1.4
Catalent Pharma Solutions, LLC	1.3
Total	\$44.5

Appendix 4

Allocations Made through the Historic Preservation Tax Credit Program in FY 2019-20

Recipient	Project Location	Amount
2100 Northwestern Avenue, LLC	Racine	\$ 3,500,000
JS 1962, LLC	Milwaukee	3,500,000
JS 1924, LLC	Milwaukee	3,500,000
National Soldiers Home Residences III, LLC	Milwaukee	3,333,825
The Main Attraction, LLC	Racine	2,925,293
GenCap Sheboygan Falls 63, LLC	Milwaukee	2,667,477
1715 N 37th Street LLC	Milwaukee	2,502,619
Phillis Wheatley School Redevelopment, LLC	Milwaukee	1,984,628
Crescent-Lofts Appleton, LLC	Appleton	1,900,000
Printery Row, LLC	Pulaski	1,862,000
Horicon School Apartments, LLC	Horicon	1,780,000
600 Broadway LLC	Milwaukee	1,500,000
Warehouse 170, LLC	Milwaukee	1,500,000
Muskego School Apartments, LLC	Muskego	1,300,000
Historic Barden, LLC	Kenosha	993,831
230 Wells Street Commercial, LLC	Milwaukee	411,871
Dubbel Dutch LLC	Milwaukee	280,000
BD One, LLC	Sun Prairie	260,000
Ulrich Sielaff	Mineral Point	140,676
Jefferson St, LLC	Spring Green	140,000
GParcel LLC	Milwaukee	61,120
TGAAR LLC	La Crosse	51,400
B Squared Real Estate LLC	Port Washington	14,416
Victory Capital, LLC	Oshkosh	13,000
Total		\$36,122,156

Appendix 5

Recipients Awarded the Largest Amounts of Grants and Loans in FY 2019-20 (in millions)

Recipient	Type	Amount
Wisconsin Women's Business Initiative Corporation ¹	Grant	\$ 2.0
Center for Technology Commercialization	Grant	1.5
CoVantage Credit Union ¹	Grant	1.2
Admiral's Wharf, LLC	Grant	0.5
City of Green Bay	Grant	0.5
City of West Bend	Grant	0.5
DDL Holdings, LLC	Grant	0.5
KK H2O LLC	Grant	0.5
Milwaukee Economic Development Corporation ¹	Grant	0.5
Middleton Center Ph 3, LLC	Grant	0.5
SHD, Inc.	Grant	0.5
Thirteen31 Place Apartments LLC	Grant	0.5
West Quarter East, LLC	Grant	0.5
Wisconsin Women's Business Initiative Corporation ²	Grant	0.5
Village of Ashwaubenon	Grant	0.5
Village of Kimberly	Grant	0.5
Bay Bank ¹	Grant	0.4
C-Store Properties LLC	Grant	0.4
Conservancy Bend Residences, LLC	Grant	0.4
Midwest Energy Research Consortium, Inc.	Grant	0.4
Total		\$12.8

¹ Award from the Small Business 20/20 program.

² Award from the Capital Catalyst program.

Appendix 6

Economic Development Awards That Ended, by Program FY 2011-12 through FY 2019-20

Program Number	Program Name	Number of Awards
1	Historic Preservation Tax Credit	9
2	Business Development Tax Credit	21
3	Enterprise Zone	1
4	Development Opportunity Zone	3
5	Qualified New Business Venture	116
8	Brownfields Grant	26
10	Community Development Investment Grant	40
11	Minority Business Development	1
14	Capital Catalyst	4
15	Site Assessment Grant	27
16	Global Business Development Grant ¹	173
17	Seed Accelerator	8
20	Capacity Building Grant ¹	4
21	Targeted Industry Projects	8
22	Workforce Training Grant	5
23	Entrepreneurial Micro-Grant	3
24	ExporTech	3
26	Technology Development Loan	46

Programs Through Which WEDC No Longer Makes Awards

Economic Development Tax Credit	83
Business Retention and Expansion Investment	40
Jobs Tax Credit	25
Business Opportunity Loan Fund	17
Emergency Loan Guarantee for Certified Propane Dealers	4
State Energy Program	4
Export Development Grants	3
Special Project Loan Fund	3
Idle Sites Redevelopment Program	2
Export Education Grant	1
Manufacturing Clean Energy Revolving Loan Fund	1

Total **681**

¹ Includes International Market Access Grant and Collaborative Market Access Grant.

Appendix 7

Activity of WEDC's Economic Development Programs FY 2019-20

This appendix provides information on the reported activity of WEDC's 31 economic development programs in FY 2019-20. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized by award type. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program and is also used in other appendices.

Program provides the designated name for each economic development program.

Program Activity describes the activity of economic development programs, as reported by WEDC.

Program Number	Program	Program Activity in FY 2019-20
1	Historic Preservation Tax Credit	Allocated \$36.1 million in 24 tax credit awards.
2	Business Development Tax Credit	Allocated \$9.7 million in 23 tax credit awards.
3	Enterprise Zone	No contracts were executed in FY 2019-20.
4	Development Opportunity Zone	No contracts were executed in FY 2019-20.
5	Qualified New Business Venture	Certified 40 new businesses.
6	Early Stage Seed Investment Tax Credit	Awarded tax credits to investors in an estimated 27 businesses totaling an estimated \$6.1 million in calendar year 2019.
7	Angel Investment Tax Credit	Awarded tax credits to investors in an estimated 56 businesses totaling an estimated \$8.0 million in calendar year 2019.
8	Brownfields Grant	Provided 14 grants totaling \$5.9 million.
9	Small Business 20/20	Provided 8 grants totaling \$5.0 million.
10	Community Development Investment Grant	Provided 20 grants totaling \$4.1 million.
11	Minority Business Development	Provided 894 grants totaling \$2.4 million.
12	Small Business Innovation Research/Small Business Technology Transfer Matching Grant	Assisted 17 businesses through the Center for Technology Commercialization.
13	Idle Sites Redevelopment	Provided 3 grants totaling \$1.5 million.
14	Capital Catalyst	Provided 4 grants totaling \$1.2 million.
15	Site Assessment Grant	Provided 9 grants totaling \$881,800.
16	Global Business Development Grant	Provided 37 grants totaling \$878,288.
17	Seed Accelerator	Provided 6 grants totaling \$834,000.
18	Disaster Recovery Microloan	Provided 3 loans totaling \$815,000.
19	Fabrication Laboratories Grant	Provided 31 grants totaling \$693,200.
20	Capacity Building Grant	Provided 13 grants totaling \$544,500.
21	Targeted Industry Projects	Provided 3 grants totaling \$512,550.
22	Workforce Training Grant	Provided 1 grant totaling \$250,000.
23	Entrepreneurial Micro-Grant	Assisted 113 businesses through the Center for Technology Commercialization.

Program Number	Program	Program Activity in FY 2019-20
24	ExporTech	13 businesses completed the 12-week program.
25	We're All In	Provided 7 grants totaling \$17,500.
26	Technology Development Loan	Provided 11 loans totaling \$2.3 million.
27	Business Development Loan	No loans were executed in FY 2019-20.
28	Industrial Revenue Bonding	Authorized \$170,150,000 million in bonding for 5 municipalities.
29	Main Street and Connect Communities	Provided assistance to 34 Main Street Communities and 72 Connect Communities; provided technical assistance to 120 businesses.
30	Certified Sites	No new sites were certified in FY 2019-20.
31	Global Trade Venture	Led 4 global trade ventures and assisted 26 businesses.

Response



April 19, 2021

Mr. Joseph Chrisman
State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) financial and program evaluation of the Wisconsin Economic Development Corporation (WEDC). We appreciate the professionalism and cooperation your staff has exhibited during its review. As was done in prior audits, management will formally discuss your report with our Audit & Budget Committee within the next few months. At that time, we will provide our action plan for addressing the recommendations contained in this audit and reporting to the Joint Legislative Audit Committee.

WEDC strives to support businesses and communities in Wisconsin in a way that improves the economy for all Wisconsinites. The COVID-19 pandemic helped us to discover pieces of the economy that WEDC's long-standing programs were leaving out as well as the strength of our structure which allowed us to quickly and nimbly respond to the evolving challenges companies of all sizes and in all locations across the state were facing.

WEDC staff stepped up in an unprecedented way to deploy over \$250.3M in relief funding from March through December of 2020. LAB has found our procedures for administering those dollars were sufficient and we are proud of the work we were able to do to help businesses across Wisconsin.

Along with providing assistance to businesses and communities in our state, WEDC is committed to providing the highest levels of transparency, accountability, and operational excellence. Our focus on continuous process improvement efforts in achieving these goals has increasingly defined who we are as an organization.

WEDC's financial reporting and controls continue to be strong. An independent audit of WEDC's FY 2020 financial statements conducted by Sikich LLP resulted in a clean audit opinion and found no internal control deficiencies in our financial reporting. For the seventh consecutive year, WEDC received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada. This certificate is the highest form of recognition in governmental accounting and financial reporting.

WEDC thanks LAB for acknowledging these efforts as the report contained zero recommendations for improvement of WEDC's financial administration and controls, and LAB's recommendations focused on for improved outward

201 W. Washington Avenue
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reporting and program administration matters as we discuss in more detail below.

WEDC's Fund Balance and Availability of Funds:

WEDC uses its available funding to satisfy award commitments and contracts, fund operations, and balance future operating budgets. LAB has indicated that WEDC has significant funding that could be available to assist Wisconsin during the public health emergency; however, much of this funding is already committed to contracted awards.

Awards are encumbered as part of the fund balance when they are first approved (i.e., committed), even though the awardee may have several years to request disbursement of the award funds. Because of this significant time lag, it is important to understand the stages a grant and loan award progresses through, from a financial perspective.

A commitment represents an award that has been fully approved through WEDC's award process. At this stage, WEDC is in the process of contracting or negotiating final contract terms with the awardee. The majority of our commitments will become contracts in the very near term. Once a commitment has been made, WEDC sets funding aside in the assigned fund balance to satisfy that commitment.

The assigned fund balance for fiscal year 2020 of \$10.7 million includes \$7.4 million funds set aside for the following award commitments:

- \$1.3 million assigned to 2 technology development loans
- \$6.1 million assigned to COVID-19 relief program (to be contracted in FY21)

Once the contract has been fully executed, the awardee can begin requesting payment under the terms of the award. Often the entire award is not paid out all at one time. Only the amounts that have been paid on an award grant or loan are considered to be expended. The remaining balance of a contract is set aside in the restricted fund balance.

The restricted fund balance for fiscal year 2020 of \$41.0 million represents the following contractual obligations that WEDC has made under its economic development programs and awards.

- \$ 27.5 million contracted for 193 business and community development awards
- \$ 5.7 million contracted for 26 entrepreneurship and innovation awards
- \$ 7.8 million contracted for 76 international business development awards

The unassigned fund balance for fiscal year 2020 of \$6.2 million represents the remaining balance held by WEDC that is not restricted or set aside for any specific purpose. Amounts over the established target of one-sixth of WEDC's annual administrative costs are used to help fund future operating budgets or to increase program spending in the current fiscal year. For example, to achieve a balanced budget for FY20, WEDC used \$11.4 million of the unassigned fund balance at the end of FY19.

Tax Credit Administration:

LAB identified several recommendations for the improvement of WEDC's administration of tax credits including:

- Tracking and verifying wages paid for services performed in the zone under the Enterprise Zone Tax Credit program;
- Closing tax credit awards, and revoke certifications and reclaim amounts if necessary, shortly after the end of the performance period; and

- Working with the Department of Revenue to have recipients repay tax credits awarded if the exact number of jobs created and for which credits were earned are not maintained in each year of the contract.

WEDC has been diligently working on methods to administer and track wages related to services performed in the Zone for its Enterprise Zone program in a way that will be both statutorily compliant and practical for the recipients. We will update the Joint Legislative Audit Committee on that proposed solution when we report back to them in October. WEDC is also in the process of engaging an academic researcher experienced in the economic impact of tax credit incentives to review the Enterprise Zone program and analyze what types of investments provide the best return on investment to the State. This analysis will give us additional information to help advise the Legislature on whether a physical placement requirement makes the most sense, especially with the turn to remote work seen from the COVID-19 pandemic.

Additionally, WEDC plans to quickly implement the recommendation that tax credit awards are closed in a timely manner. We will review our current practice of waiting until the end of a contract performance period to assess whether any tax credits need to be reclaimed and discuss those with the Department of Revenue. The proposed recommendation of reclaiming tax credits after every year during a contract if there is a dip in employment would have had a devastating impact on businesses over the past year that suffered temporary shutdowns with the COVID-19 pandemic, and we want to be sure we are evaluating the recommendation in light of this and practical realities of businesses.

Transparency:

WEDC is committed to transparency. We appreciate LAB's acknowledgement of our continued improvement regarding the online data within our Annual Report on Economic Development. As WEDC evaluates the information we report out to the public, we continue to find ways to make our data more robust and digestible.

For example, when LAB talks about WEDC removing information about awards that closed a year or more earlier from its online data, the information is actually relocated to another location on the site. WEDC retires awards off the active records page and moves the information to the archive awards page when an award has been closed for a year or more. Moving forward, we look at ways to ensure this information is easily accessible and clear to the user.

WEDC will work with its Audit and Budget Committee of the Board of Directors to establish responses and timelines for working through LAB's recommended changes. We will report to the Joint Legislative Audit Committee by October 29, 2021, on our efforts to implement the recommendations of this audit report.

Again, we appreciate and thank LAB for its constructive approach in working with WEDC's team.

Sincerely,



Melissa L. Hughes
Secretary and CEO

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