



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #207

Super Employment and Economic Development Zone Grant Program (Commerce)

[LFB 2005-07 Budget Summary: Page 105, #9]

CURRENT LAW

The Department of Commerce provides financial assistance to individuals, private businesses, governmental units, and nonprofit organizations for economic development projects. The Department administers a number of grant and loan programs that provide financing for capital assets, working capital, employee training, high-technology research and development, business incubators, product development, community-based economic development activities, research for federal high-technology grant winners, brownfields redevelopment, rural business expansions and start-ups, minority business expansions and start-ups, employee buy-out feasibility assessments, and business investment in economically distressed areas. Commerce also administers five different types of economic development zone programs that provide tax credits to businesses that expand or locate operations, increase employees, or increase investment in different areas of the state.

GOVERNOR

Provide \$5.0 million beginning in 2006-07 in a biennial appropriation and create a super employment and economic development zone grant program. Commerce would be authorized to designate areas of the state as extremely depressed areas, if it determined that the unemployment rate for the area equaled or exceeded 150% of the average unemployment rate for the state. Beginning on July 1, 2006, Commerce could award grants to reimburse the eligible costs of eligible businesses that located in areas designated as extremely depressed.

DISCUSSION POINTS

1. The bill would create a financial assistance program designed to provide grants to areas of the state that were determined to be extremely depressed, with a high unemployment rate. To award a grant, all of the following criteria would apply:

a. Commerce determines that the business would create not fewer than 100 qualifying jobs in the extremely depressed area.

b. The business enters into a written agreement with the Department that specifies the conditions for use of the grant proceeds and in which the business agrees to do all of the following: (1) compensate, at a family-supporting wage, at least 90% of the employees in qualifying jobs created in the extremely depressed area; (2) make every reasonable effort to hire individuals who reside in the area to fill at least 75% of the qualifying jobs created in the extremely depressed area; (3) after receiving a grant, submit a report to Commerce, by March 31 of the year following the year Commerce disbursed the grant, that details how the grant moneys received in that year were used.

2. The Department would be authorized to pay grant proceeds to an eligible business that is awarded a super employment and economic development zone (SEEDZ) grant for up to five years. Commerce would be required to promulgate administrative rules defining all of the following terms:

a. "Eligible costs" which may include property taxes, utilities, job training, employee transportation, a portion of wages paid by the business to employees who reside in the extremely depressed area, and a portion of the costs incurred by the business to provide child care at the business for employees.

b. "Extremely depressed area."

c. "Family-supporting wage."

d. "Qualifying jobs."

3. Commerce administers a number of grant and loan, and development zone programs that could provide financial assistance directly to businesses in "extremely depressed" areas of the state. A brief description of those programs and base level funding is included in the following listing:

Wisconsin Development Fund (WDF). Provides grants and loans through specified programs for entrepreneurial development, capital finance, training, technology development, and expenses related to participating in foreign trade shows. Annual base level funding is \$4,498,400 GPR and \$4,050,000 PR (\$8,548,400)

Minority Business Development Program (MBD). Provides grants and loans to minority individuals and businesses through programs for entrepreneurial development, capital financing,

business incubators, and revolving loan funds. Annual base level funding is \$571,400 (\$254,200 GPR and \$317,200 PR).

Rural Economic Development Program (RED). Provides grants and loans to individuals and businesses in rural areas of the state for entrepreneurial development and capital financing. Annual base level funding is \$726,600 (\$606,500 GPR and \$120,100 PR).

Brownfields Grant Program. Provides grants for brownfields redevelopment projects and related environmental remediation. Annual base level funding is \$7,000,000 environmental fund SEG.

Gaming Economic Development and Diversification Grant and Loan Program. Provides grants and loans for early planning projects and capital financing of projects negatively affected by Indian gaming and that will diversify the local economy. Annual base level funding is \$2,838,700 PR in tribal gaming revenues. Base level funding includes \$300,000 that is required to be transferred to WTCS to fund grants to tribal colleges.

Business Employee Skills Training Grant Program. Provides grants to small businesses to fund skills training or other education that is related to the needs of the business. No separate funding source is provided. Grant funding comes from the WDF, MBD, and RED programs.

Technology Commercialization Grant and Loan Program. Provides grants and loans to entrepreneurs and start-up businesses for capital financing during the early stages of business development. Annual base level funding is \$2,600,000 GPR beginning in 2004-05.

4. Commerce also administers five economic development zone programs that could include distressed areas within the zone boundaries. Firms that locate or expand business activities within the zones are eligible for financial assistance, in the form of tax credits. The programs are:

Development Zones. The program includes 22 zones, including zones that encompass 17 entire counties and two American Indian reservations. A total of \$38.155 million in tax credits can be claimed under the program, and \$34.2 million has been allocated to businesses in the zones. Eligible businesses in the zones can claim jobs and environmental remediation tax credits.

Enterprise Development Zones. The program is authorized 81 zones, including 10 zones for environmental remediation projects, to be designated in municipalities and counties. A total of \$3.0 million in tax credits can be claimed by businesses in each zone. Sixty-five zones have been created, and a total of \$122.8 million in tax credits has been allocated to businesses in the zones. Businesses in the zones can claim jobs and environmental remediation tax credits.

Development Opportunity Zones. Three development opportunity zones have been designated in the Cities of Kenosha, Milwaukee, and Beloit. A total of \$4.7 million in tax credits have been allocated to businesses in both the Milwaukee and Beloit zones, while \$7.0 million has been allocated to the Kenosha zone. Businesses in the zones can claim jobs, environmental remediation, and capital investment tax credits. Three other zones in Beloit, Eau Claire, and West

Allis have lapsed.

Technology Zones. A total of eight technology zones have been designated encompassing 54 counties. The maximum amount of tax credits that can be claimed in each zone is \$5.0 million. A total of \$10.9 million in tax credits have been allocated to businesses in the zones. Eligible businesses can claim tax credits for jobs created, capital investments, and property taxes paid.

Agricultural Development Zone Eighteen counties (not designated as technology zones) have been designated as an agricultural development zone. A total of \$5.0 million in tax credits can be claimed in the zone. A total of \$2.5 million in credits have been allocated to businesses in the zone. Businesses in the zone can claim jobs, environmental remediation, and capital investment tax credits.

5. Under the proposed super employment and economic development zone grant program provisions, Commerce could designate areas as extremely depressed if the unemployment rate in the area was at least 150% of the statewide average. The bill does not specify for what period of time the unemployment rate must apply, nor is there a definition of "extremely depressed", although Commerce would be required to promulgate rules specifying the definition of such areas.

6. The current development and enterprise development zone programs are designed to target the zones to areas of economic distress. In order to designate an area as a development or enterprise development zone Commerce must determine that the area meets at least three of the following criteria: (a) the unemployment rate in the area is higher than the state average for the 18 months immediately preceding the date on which the application for creating the zone was filed; (b) the percentage of persons residing in the area who are members of households with household income levels at or below 80% of the statewide median household income is higher than the state average; (c) the percentage of households in the area receiving unemployment insurance or participating in the W-2 program is higher than the state average; (d) in the 36 months immediately preceding the date on which an application for creating a zone was submitted to Commerce, a number of workers in the area were permanently laid off by their employer or became unemployed as a result of a business action subject to the state business closing law; (e) an employer in the vicinity of the area has given public notice under state law of either a business closing or reduction of the greater of 25 employees or 25% of the employees of a business that will result in a number of workers being laid off permanently; (f) property values in the area have been declining; (g) there has been a decline in population in the area.

7. In the funding distribution plan for the WDF, Commerce and the Development Finance Board indicate that a major objective in making awards is to focus business development in targeted (distressed) areas of the state. The criteria for determining targeted areas are similar to those used in the development and enterprise development zone programs. Specifically, distressed areas include counties that meet two or more of the following criteria: (a) high unemployment; (b) low median household income; (c) high percentage of the population eligible for W-2; (d) declining populations; (e) declining property values; (f) recent announcements concerning major work

displacements; and (g) designation as a development zone. Through April 2005, approximately \$3.2 million out of a total of \$11.5 million in WDF awards in the current biennium have been made to 47 businesses and individuals in targeted areas.

8. As an alternative, the Committee may wish to specify that the definition of "extremely depressed" area include the criteria used in defining distressed or targeted areas for development and enterprise development zones, and that the unemployment rate be at 150% of the statewide average for the previous 18 months. The attachment shows the annual unemployment rate (not seasonally adjusted) for 2004 for counties and selected cities in Wisconsin. Since the statewide annual unemployment rate was 4.9%, only counties and cities with unemployment rates of 7.35% or more could be designated as a super employment and economic development zone. Under this standard, seven counties and four cities would be eligible for designation (these locations are in bold type in the attachment). Consequently, the criterion could be modified to conform with the current development and enterprise development zone criterion of exceeding the average statewide unemployment rate.

9. The bill would require that a business pay a "family-supporting wage" to at least 90% of the employees in qualifying jobs created in the extremely depressed area. Commerce would be required to promulgate rules defining the required wage. An alternative could be the current development zones jobs tax credit requirement that the job that is created in the zone be a regular, nonseasonal, full-time position in which an individual as a condition of employment, is required to work at least 2080 hours per year, including leave and paid holidays, and receives pay equal to at least 150% of the federal minimum wage (\$7.73 per hour), and also receives benefits that are not required by state law. In practice, Commerce requires that the wage paid for jobs tax credit purposes is at least \$9.75 per hour.

10. In order to receive a grant, a business would be required to create a minimum of 100 qualifying jobs, which would imply a relatively large project. The Department's other programs that are designed to provide financial assistance to businesses in distressed areas do not have statutory minimum limits on the number of jobs that must be created. In practice, the Department attempts to ensure that the projects have significant economic impact on the area. According to Department statistics, the larger economic development projects create a substantial amount of jobs. In the 2001-03 biennium, a total of 12 WDF major economic development awards were made with total funding of \$6.3 million. A total of 1,494 new jobs were created, for an average of almost 125 for each project. Similarly, the 65 current enterprise development zone projects have created 17,300 jobs, for an average of 266 jobs per zone. Given this experience, a statutory minimum for job creation would not be necessary to ensure each super employment and economic development zone project would generate substantial job growth. Commerce would also have the flexibility to fund projects for smaller businesses that would have significant economic impact, but could not meet the minimum job requirement.

11. The administration indicates that the super employment and economic development program is designed to provide assistance to extremely depressed areas with high unemployment. The program is intended to create jobs in areas where other economic development programs have

been unsuccessful, in part because businesses require substantial financial assistance to overcome barriers to investment. Some evaluations of economic development incentives indicate that such incentives are more cost-effective when targeted to areas of high-unemployment. From this view, incentives are most cost-effective when they create high paying jobs for unemployed and underemployed residents of economically declining areas. The grants provided under the program could be viewed as incentives for businesses to locate in such areas and hire residents at relatively high-wage jobs. Conversely, some studies have identified significant locational disadvantages in distressed areas that may more than offset the effect of incentives. Moreover, a mismatch of skills between workers and the needs of businesses may also lead to unemployment in distressed areas.

12. The Committee could also consider not creating a new program at this time (Alternative 3 to maintain current law), or to consolidate the SEEDZ program with a revised Wisconsin Development Fund (discussed in a separate budget paper).

ALTERNATIVES

1. Adopt the Governor's recommendation to provide \$5.0 million GPR beginning in 2006-07 in a biennial appropriation and create a super employment and economic development zone (SEEDZ) grant program. Commerce would be authorized to designate areas of the state as extremely depressed areas, if it determined that the unemployment rate for the area equaled or exceeded 150% of the average unemployment rate for the state.

2. Adopt the Governor's recommendation. Further, include one or more of the following modifications:

a. Specify that the definition of "extremely depressed area" include the criteria used in designating development and enterprise development zones (discussion point #6).

b. Specify that the definition of "extremely depressed area" include criteria used by the development finance board in targeting WDF awards to distressed areas (discussion point #7).

c. Require that the unemployment rate used to designate zones be the unemployment rate in the area for the previous 18 months.

d. Require that the unemployment rate used to designate zones be above the statewide average, rather than 150% of the statewide average.

e. Eliminate the requirement that new employees be compensated at a family-supporting wage" and instead require that each job created in the zone be a regular, nonseasonal, full-time position in which an individual, as a condition of employment, is required to work at least 2080 hours per year, including leave and paid holidays, and receives pay equal to at least 150% of the federal minimum wage (\$7.73 per hour), and also receives benefits that are not required by state law.

f. Eliminate the requirement that a minimum of 100 qualifying jobs must be created in the extremely depressed area.

3. Maintain current law.

Alternative 3	GPR
2005-07 FUNDING (Change to Bill)	- \$5,000,000

Prepared by: Ron Shanovich
Attachment

ATTACHMENT

Wisconsin Unemployment Rates by County* (2004)

<u>County</u>	<u>Rate</u>	<u>County</u>	<u>Rate</u>	<u>County</u>	<u>Rate</u>
Adams	6.4%	Iowa	3.7%	Polk	6.0%
Ashland	7.0	Iron	7.9	Portage	5.0
Barron	6.0	Jackson	4.3	Price	5.1
Bayfield	6.8	Jefferson	5.0	Racine	7.0
Brown	4.4	Juneau	8.4	Richland	5.0
Buffalo	4.3	Kenosha	5.4	Rock	6.4
Burnett	5.5	Kewaunee	5.2	Rusk	7.4
Calumet	3.8	La Crosse	3.6	Sauk	4.1
Chippewa	5.6	Lafayette	5.3	Sawyer	5.6
Clark	6.3	Langlade	7.7	Shawano	5.1
Columbia	5.5	Lincoln	6.2	Sheboygan	4.1
Crawford	5.1	Manitowoc	6.9	St. Croix	5.6
Dane	2.6	Marathon	4.1	Taylor	5.8
Dodge	5.3	Marinette	6.4	Trempealeau	5.0
Door	6.5	Marquette	7.5	Vernon	4.7
Douglas	5.5	Menominee	10.1	Vilas	6.3
Dunn	4.3	Milwaukee	6.4	Walworth	3.8
Eau Claire	4.0	Monroe	4.3	Washburn	6.1
Florence	7.3	Oconto	8.9	Washington	4.4
Fond du Lac	4.6	Oneida	5.9	Waukesha	3.9
Forest	6.5	Outagamie	4.5	Waupaca	5.4
Grant	4.6	Ozaukee	3.3	Waushara	5.7
Green	4.7	Pepin	6.3	Winnebago	4.2
Green Lake	5.9	Pierce	4.8	Wood	5.9

Unemployment Rates for Certain Cities

<u>City</u>	<u>Rate</u>	<u>City</u>	<u>Rate</u>
Appleton	6.0%	Manitowoc	8.4%
Beloit	9.4	Milwaukee	8.6
Eau Claire	4.7	Oak Creek	5.0
Fond du Lac	5.7	Racine	11.5
Franklin	4.6	Sheboygan	5.3
Green Bay	7.1	State	4.5
Janesville	6.7	Superior	5.3
Kenosha	6.7	Waukesha	5.4
La Crosse	4.6	Wausau	5.5
Oshkosh	4.7	West Allis	5.6
		West Bend	6.6

*Not seasonally adjusted.

Locations in bold, exceeded the statewide average by more than 150%.

Source: Wisconsin Department of Workforce Development