Legislative Fiscal Bureau

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Increased Funding for Seed Capital
(Wisconsin Economic Development Corporation)

[LFB 2013-15 Budget Summary: Page 500, #1]

CURRENT LAW

The Wisconsin Economic Development Corporation (WEDC) is provided annual base level funding of $23,189,200 SEG from the Economic Development Fund (EDF) to fund economic development programs. The source of revenue for the EDF is the economic development surtax.

The Capital Catalyst Program provides grants to organizations and communities that have existing seed funds in place, or that have the ability to create such funds. Grant recipients are required to use WEDC funds for grants, and debt or equity investments in start-up, early stage, and innovative businesses. WEDC budgeted $1,000,000 for the program in fiscal year 2012-13.

The Seed Accelerator program provides grants to communities and organizations to start a pre-seed business model program (seed accelerator program) that incorporates training, mentoring, and financial assistance to entrepreneurs in Wisconsin. Grant funds may be used as seed capital for program participants, as well as for costs associated with initiating the program. In order to receive a grant, the organization or community must demonstrate that its program will be managed by an experienced entrepreneur with relevant industry knowledge. The corporation budgeted $900,000 for the seed accelerator program in fiscal year 2012-13.

GOVERNOR

Provide $2,000,000 SEG in 2013-14 and $4,000,000 SEG in 2014-15 for the seed accelerator and capital catalyst programs.

DISCUSSION POINTS

1. WEDC was created to replace the Department of Commerce as the state's lead agency in promoting economic development. Under 2011 Wisconsin Act 7, WEDC was created as a public body corporate and politic, with a governing Board of Directors. Under the provisions of 2011 Wisconsin Act 32 (the 2011-13 biennial budget), Commerce was eliminated and statutory responsibility for creating and administering economic development programs, providing certain related technical assistance, and administering existing programs and several tax credits was transferred to WEDC. Unlike most statutory state authorities, WEDC receives most of its funding from annual state appropriations provided to the Corporation. Under the bill, WEDC is provided $35,111,500 GPR in 2013-14 and $38,511,500 GPR in 2014-15, including $3,750,000 GPR in 2013-14 and $7,150,000 GPR in 2014-15 for economic development marketing. WEDC is appropriated $25,189,200 SEG in 2013-14 and $27,189,200 SEG, including the increased funding for the seed accelerator and capital catalyst programs from the economic development fund. WEDC is also appropriated $1,000,000 annually for brownfield site assessment grants from the environmental management account of the environmental fund.

2. As noted, the additional funding for the seed accelerator and capital catalyst programs is SEG funding from the economic development fund. Under provisions of Act 32, the recycling fund was renamed the economic development fund, and the recycling surcharge was renamed the economic development surcharge, and surcharge collections are deposited in the fund. Economic development fund revenues are used to fund economic development programs administered by WEDC, and the amount of funding provided to WEDC must be appropriated by the Legislature to the Corporation's SEG economic development fund, programs, appropriation. In addition, the Department of Revenue (DOR) is appropriated $252,100 SEG in 2013-14, and $252,400 SEG in 2014-15, and is provided 1.0 SEG position to administer the surcharge.

3. The economic development surcharge is imposed on farm and nonfarm businesses that have more than $4 million in "gross receipts from all activities" The surcharge equals 3% of gross tax liability for corporations (including insurance companies and limited liability companies [LLCs] taxed as corporations), or 0.2% of net business income for sole proprietorships, partnerships, LLCs taxed as partnerships, and tax-option (S) corporations. The minimum economic development surcharge is $25, and the maximum is $9,800. Sole proprietorships and partnerships engaged only in farming with more than $4 million in gross receipts pay the $25 minimum economic development surcharge. C corporations and S corporations solely engaged in farming determine surcharge liabilities in the same manner as other C and S corporations. In general "gross receipts from all activities" means gross receipts, gross sales, gross dividends, gross interest income, gross rents, gross royalties, the gross sales price from the disposition of capital assets and business assets, gross receipts passed through from other entities, and all other receipts that are included in gross income for Wisconsin income/franchise tax purposes.

4. Table 1 shows the projected condition of the economic development fund from fiscal year 2011-12 through 2014-15, under the bill. Approximately, $4.9 million in surcharge revenues was transferred from the remaining balance of the recycling fund to the EDF in 2011-12. The table shows that, including the funds appropriated under the bill in 2014-15, ongoing revenues

and expenditures would be about the same, and the fund would have a year-end balance of about $15.4 million.

TABLE 1

Economic Development Fund Estimates

	Actual 2011-12	2012-13	2013-14	2014-15
Opening Balance		9,053,500	13,181,900	15,269,000
Revenues				
Economic Development Surcharge	27,526,800	27,526,800	27,526,800	27,526,800
Recycling Fund Transfer*	4,887,000	0	0	0
Interest Earnings	0	1,600	1,600	1,600
Total Annual Revenues	32,413,800	27,528,400	27,528,400	27,528,400
Total Revenues	32,413,800	36,581,900	40,710,300	42,797,400
Expenditures				
WEDC Program Funding	23,189,200	23,189,200	25,189,200	27,189,200
DOR Administrative Funding	171,100	210,800	252,100	252,400
Total Expenditures	23,360,300	23,400,000	25,441,300	27,441,600
Net Closing Balance	9,053,500	13,181,900	15,269,000	15,355,800

*Ending balance transferred from the Recycling Fund.

5. Table 2 shows WEDC amounts budgeted for economic development direct financial assistance programs and contracted services from partner organizations for 2012-13. (The table shows the programs and partner services for 2012-13 identified by WEDC staff.) The table does not include economic development tax credit programs administered by the Corporation, including the enterprise zones, economic development, jobs, and early stage seed investment tax credits. It also excludes federal bonding programs in Wisconsin, under which WEDC is authorized to allocate bonding authority to cities and counties for certain economic development projects, including Industrial Revenue Bonds (IRBs), Midwestern Disaster Area Bonds, and Qualified Energy Conservation Bonds. In addition to economic development grant and loan programs, WEDC provides financial assistance to partners for contracted economic development services. For example, funding is provided to the Wisconsin Entrepreneurs Network (WEN) for services to entrepreneurs and small business, including technology assistance grants administered by the Network. A brief description of each program is provided in Attachment I. More detailed descriptions can be found in the Act 125 report that can be accessed from the WEDC website www.wedc.org and in LFB Informational Paper # 93 -- Wisconsin Economic Development Corporation. The table shows that $74.6 million was budgeted for these programs in 2012-13. WEDC can carry forward unused funds from prior years, and the amounts budgeted for economic development grants, loans, and technical assistance in 2012-13 includes funding from prior years.

TABLE 2

WEDC Economic Development Programs

	2012-13 Budget
Economic and Community Development -- Economic Development	
Business Retention and Expansion Grants and Loans	$38,500,000
Workforce Training Grants	1,000,000
Manufacturing Clean Energy Revolving Loan Fund	5,000,000
Industrial Site Certifications	54,000
Regional Revolving Loan Fund Expansion	1,500,000
Economic and Community Development -- Community Development	
Capacity Building Grants	500,000
Brownfields Site Assessment Grants	1,250,000
Brownfields Grant Program	3,500,000
Partners	
Grants to Regional Economic Development Organizations	800,000
Business and Industry Development	
Targeted Industry Projects	6,000,000
Opportunity Research Projects	200,000
State Research Projects	300,000
Minority Revolving Loan Funds	300,000
Partners	
Wisconsin Manufacturing Extension Partnership (WMEP)	1,000,000
Northwest Wisconsin Manufacturing Outreach Center (NWMOC)	250,000
Wisconsin Procurement Institute	145,000
International Business Development	
Global Business Development Program	270,000
Exportech	100,000
Partners	
Global Consulting Network	370,000
Entrepreneurship and Innovation	
Technology Business Development Grants and Loans	3,000,000
Capital Catalyst Grants	1,000,000
Seed Accelerator Grants	900,000
Wisconsin Venture Debt Fund (SSBCI)*	8,000,000
Partners	
Wisconsin Entrepreneurs Network (WEN)	300,000
Wisconsin Technology Council	310,000
Wisconsin Women's Business Initiative Corporation (WWBIC)	100,000
TOTAL	$74,649,000

*Included in this total budget amount is $2,000,000 to Kestrel Aircraft.

Source: Wisconsin Economic Development Corporation

6. WEDC has developed specific guidelines for both the capital catalyst and seed accelerator programs. These are described in Attachments 2 and 3.

7. The Division of Entrepreneurship and Innovation administers the capital catalyst and seed accelerator grant programs. The Division is budgeted $13,365,500 for 2012-13, excluding tax credits allocated through the early stage seed investment program. The Division has four positions, plus a vice president, which include: (a) an entrepreneurship program manager responsible for program development, dissemination of information, liaison with partner networks, maintenance and tracking of partner contracts, participating in program-related work groups and committees, and evaluating program applications; (b) a capital development director that is responsible for developing initiatives to increase R&D and early stage capital, managing WEDC early stage capital programs, and managing an investment team; and (c) two technology investment managers responsible for project management to develop large and complex funding packages for start-up of early-stage and technology-based businesses in Wisconsin, developing new funding and economic development initiatives, and addressing the investment needs of targeted industry groups and business consortia. In general, Division staff design, implement, and administer early stage capital investment programs, provide supporting technical assistance for new business start-ups, product development, and research and development, and, work with, and provide funding for, partners that offer entrepreneurship support services. Staff support activities include public outreach, dissemination of information, and account management. The Division provides technical and financial assistance to assist with a number of entrepreneurial business activities, including proof of concept, product development, regulatory compliance, initial production, purchasing critical infrastructure, raising investment capital, and raising other capital.

The Division of Entrepreneurship and Innovation contracts for services with the Wisconsin Entrepreneur's Network (WEN) [$300,000], the Wisconsin Technology Council (WTC)/Wisconsin Angel Network (WAN) [$310,000], and the Wisconsin Women's Business Initiative Corporation (WWBIC) [$100,000]. The Division also administers the Technology Development Grant Program ($3,000,000), including federal SSBCI program funding ($8,000,000), and as noted, the capital catalyst grant program ($1,000,000) and the seed accelerator grant program ($900,000). The Division is also budgeted $1,000,000 for workforce training grants. (A description of partner services and Division economic development programs is included in Attachment I.) In addition, the Division administers the early stage investment program, which includes the angel and early stage seed investment tax credits. Division responsibilities in administering the tax credits include certifying qualified businesses and fund managers, and allocating, verifying, and revoking tax credits.

8. Startup businesses have been supported through business incubators since the late 1950s, and, since the 1980s incubators have become a popular policy instrument to foster entrepreneurship, innovation, and regional development by providing tangible and intangible services to mostly technology based firms. Incubators provide a new firm with location, including shared office space, financial assistance, business and marketing advice, professional guidance and administrative support. A major benefit provided by incubators is office space and professional facilities rented with favorable conditions. Along with the physical space provided, are shared support services that lower costs, such as accounting and legal, tax, patent and financial planning,

information technology systems, pooled buying programs, insurance, employee benefits, public relations, and government contracting. Another characteristic of incubators is the knowledge provided, and learning created through coaching, management and marketing expertise, export development, and recruiting. Operating within an incubator can help startup founders build increased professionalism and business confidence, and engage in productive networking with peers. In addition to peers, incubators offer an opportunity to network with other incubators and government agencies. Incubators also offer access to funding, either directly from the incubator, or access to business angel networks and venture capital funds. An incubator, by drawing on its staff, external consultants, and existing entrepreneurial networks can provide participating firms with credibility through association. Incubators can be an effective means of supporting early stage firms and increasing their chances for survival. Yet, simply locating in an incubator does not guarantee success. As incubator practices have matured and multiplied, hundreds of variations of incubation processes have emerged. There are no fixed definitions of different types of incubators, and semantics used vary across countries and sectoral backgrounds. Consequently, it has become increasingly difficult to analyze and assess the effectiveness of incubators as a regional economic development policy tool.

9. Since Paul Graham founded Y Combinator (the most successful and copied accelerator) in Mountain View, California, in 2005, and David Cohen started TechStars in Boulder, Colorado, in 2006, accelerators have become popular as a means of supporting startup businesses. Target businesses for accelerators have generally been early stage startups that are technology-intensive, that are web-based, and where mobile product development costs for such firms have been significantly reduced by technological development. The costs of computer hardware and software have fallen substantially in recent years. High-quality, open-source software has replaced more expensive licensed software, and helped create a community for developers which provides assistance and feedback. Other trends in software include cloud computing and pay-as-you-go infrastructure, where lower monthly costs instead of large, up-front payments allow startups to test and try before making substantial investments. Project management tools that were previously available only for large companies, are affordable for small teams of people. Startups also have a wider range of specialized office providers that offer short contracts, high flexibility, and on occasion, introduction to investors. Other important factors have been a significant decrease in customer acquisition costs, the increased possibility of targeting specific customers, development of direct payments, application stores, and subscription models, all which allow easier routes to revenues.

10. Although there is some variation between programs, five main features distinguish accelerators from incubators and other approaches to investment:

a. *An open, but highly competitive application process.* The application processes are quick, often web-based, and focus on the team behind the startup as much as the idea itself. The programs are highly selective with low acceptance rates, and frequently reach out to potential applicants to keep the quality of applications high. For some accelerators, there is a limit to the number of startups that can be supported in each class because of limited office space and the number of mentors and operational staff that would be required for larger classes. Research indicates that most accelerators accept 10% of applicants, while the acceptance rate is fewer than

1% for high-profile programs.

b. Provision of pre-seed investment, usually in exchange for equity . Accelerators are based on a different business model than incubators. While incubators are typically operated as non-profit entities and charge startups for rent and services, accelerators are generally run as for-profit ventures and provide participating groups with startup funding. The investment provided by accelerator programs varies, but is usually based on an estimate on how much it costs a co-founder (participant) to live during the accelerator program, and for a short time after completing the program. The pre-seed funding can be an equity investment or a convertible note. Publicly-funded accelerators provide services to all startups accepted in the program, and generally do not make an investment and/or take an equity share in participating companies

c. Focus on small teams, rather than individual founders. Accelerator operators generally consider startups too much work for one person, and instead provide services to small groups. Most accelerators will not admit lone founders, unless there are exceptional circumstances. An important aspect of accelerator programs is the ability to identify the talent behind good ideas. Due to the costs of taking in teams, however, the number of team members is usually limited to four.

d. Time-limited support that includes intensive mentoring (coaching) and programmed events. Accelerator programs provide support to startup teams for a set period of time, usually three to six months. The limited time frame reflects the decreasing length of time it takes to launch a web startup, but, more importantly, the limited time creates a more high pressure environment to drive the progress of the teams. Frequent direct contact with experienced founders, investors, and other relevant professionals is one of the core services of accelerator programs. These can come in the form of thematic lessons where mentors present their ideas and experiences, and sessions where mentors spend time with teams on a one-on-one basis. The goal of such mentoring is to challenge the teams, provide them with feedback on what they are doing right and wrong, and to give them an opportunity to create longer-term relationships with mentors. It is essential for accelerator programs to develop an extensive network of high-quality mentors. The depth and quality of mentoring is very good at the best programs, due to the connections of the accelerator operator and the desire among successful founders in the community to contribute to the accelerator program. Accelerators provide structured programs from product pitching lessons to legal and tax advice. A consistent feature of accelerators is demo day, which is the culmination of the program, where the teams present their product or service to the public. The teams have an opportunity to get press coverage in industry publications and to present investors. The event also allows angel and venture capital investors to see what has been developed during the program.

e. Classes (or batches) of startups rather than individual companies. Accelerator programs differ from other early-stage investments since classes, or batches, of startups are invested in at the same time. Funding classes of startups has been compared to industrial processes where efficiencies are achieved by helping multiple teams at the same time. Teams within accelerator classes offer peer support, which can involve technical co-founders helping each other with problem solving, and early feedback on pitches to each other to prepare for vital presentations to investors and customers.

11. Accelerators provide startups with the following benefits: (a) financial assistance and initial funding that allows participants to live for the term of the program without any other job or assistance; (b) product support through advice from mentors, experienced entrepreneurs, and speakers, that are part of the education program, and feedback from peer groups; (c) business support, including assistance with creating and submitting company forming documents, legal and financial issues, hiring, public relations, marketing, and pricing strategy; (d) connection with the accelerator brand and the accelerator alumni network of companies; and (e) connections to future sources of capital through structured and unstructured contacts. Accelerator programs can develop a source of very high-quality deal flow for angel investing. Angel investors are able review a number of startup ideas and teams in fields they're interested in and, have an opportunity to work with promising young companies, most of whom have already reached important milestones in development through the accelerator. Accelerator programs are viewed as a mechanism for creating a more vibrant high-tech company regional ecosystem. Encouraging startups in the community could increase the overall number of successful companies, and potentially the region's long-term employment. Accelerator programs also provide financial returns to program investors.

12. Accelerator programs have been criticized for the following reasons:

a. *Only build small companies.* It is possible an accelerator program could help develop a company like Google or Facebook, but there is an incentive for the program to support startups that already have a revenue model, and that do not necessarily have global ambitions. Often accelerator startups develop a product or service that is designed to be part of a larger operation. These startups are looking to be acquired by larger companies, rather than become a large company itself.

b. *Divert talent from other high-growth startups.* Attracting talent has been a perennial concern for tech-based startups. Accelerators make entrepreneurship so accessible they may divert talent away from other technology-based startups, which makes it even more difficult to attract high level management and staff.

c. *Good companies still fail after graduation.* Good companies that graduate and enter the marketplace, are still a financially fragile young business, and require a substantial amount of nurturing to prove viability. Investors have expressed concern that the hype for some accelerator programs is distorting the view of how difficult building a successful business actually is.

d. *Exploiting startup founders.* The accelerator model has been criticized for taking equity in startups, especially in cases where the startup team itself lacks experience. In some cases entrepreneurs are forced to sign bad preferential terms that may make it difficult for subsequent investors to participate.

e. *Attract businesses that are already struggling.* One criticism of incubators is that a business that is attracted to an incubator, probably will not be as successful as a business that does not need such support. As the number of accelerators increases, programs could struggle to avoid making investments in unsuccessful businesses. Also, the quick application process makes it more likely that the program operators will lack relevant information about the applicant. This will contribute to the difficulty in projecting the future success of a startup firm at an early stage.

f. *Creating a bubble.* If the number of accelerator programs continues to increase, and programs start graduating thousands of small companies to be acquired by established technology companies, there is a risk that the overall quality of ideas will decline. As a result, a bottleneck could develop and confidence in the sector could diminish, which, in turn, could significantly reduce the value of the portfolios of companies supported by accelerators. There is also an issue concerning the best way to invest in firms -- the accelerator method of a large number of investments in different companies hoping that a few successful firms will survive, or a smaller number of highly targeted investments.

g. *Regional Focus.* One concern is that establishing an accelerator does not automatically stimulate local startup businesses. Local money and talent must also be available. Funding startups is not necessarily a regional business because the firms are very mobile and will move to areas with necessary resources. It may be necessary to fund those that won't leave the area. This could lead to funding some startups with low growth potential, or funding startups until they are established, which could be expensive. In addition, an accelerator program requires quality mentors with broad experience.

13. According to the U.S. Bureau of Labor Statistics (BLS), Quarterly Census of Employment and Wages, Wisconsin ranked 44th out 50 states in private sector job creation in the 12 months from September, 2011, to September, 2012. BLS data also showed that Wisconsin's rate of firm births (new firms as a percentage of all private firms) ranked 49th in 2011. (Nationally, business startups have been declining.) WEDC indicates that an important strategy for job growth in Wisconsin is increasing support for startup businesses through their stages of growth. The Corporation notes that a 2009 Kauffman Foundation report (*Where Will the Jobs Come From?* Dane Stangler and Robert E Litan, Ewing Marion Kauffman Foundation, 2009) found that approximately two-thirds of new jobs added to the economy in 2007 were generated by young firms one to five years old. In addition, high-growth, surviving young firms have contributed substantially to productivity growth. The seed accelerator grant program will be used to fund seed accelerators that will support and develop startups with high growth and job creation potential. The capital catalyst program will provide follow-on funding for the startups that graduate from the accelerator programs.

14. WEDC intends to identify communities, including small and medium sized cities, that are able to support an extended entrepreneurial ecosystem. The corporation will work to establish a network that includes UW System and Extension campuses, technical colleges, private institutions, established research parks, and the nine economic development regions in the state. Accelerator programs will be managed by one or more individuals with experience as an entrepreneur in a relevant industry or have background in Lean Startup methodology. (The basic ideas of Lean Startup are: [a] customer development before product development; [b] using metrics that allow iterations in product development based on feedback; and [c] having the ability to pivot if the idea isn't working out.) In addition, accelerators must demonstrate that the program will provide person-to-person assistance from mentors in the community, and opportunities for startup teams to present their product or service to potential angel or other investors from the region. Once accelerator programs are approved, WEDC will assist in implementation, including marketing the new accelerator through hack-a-thons (collaborative events for computer software developers), on-

campus presentations, networking, and social media. Following the marketing activities, an application period will be established for interested entrepreneurs, which includes individual interviews and the final selection of program participants. The entity operating the accelerator will be responsible for daily operations of the program, including providing funding, mentoring and other training, and contacts with potential customers and investors. Upon successful completion of an accelerator program, the startup can access follow-on funding through the capital catalyst program.

15. In 2011-12, WEDC made a pilot seed accelerator/capital catalyst grant of $150,000 to VETransfer for VictorySpark, a seed accelerator targeted to veteran-owned businesses. VETransfer received $50,000 for startup marketing costs, and $100,000 for grants of up to $10,000 in seed funding to entrepreneurs. VETransfer received an additional seed accelerator grant of $300,000 in 2012-13. WEDC has awarded a capital catalyst grant of $100,000 to the Innovation Foundation of Western Wisconsin, and a grant of $150,000 to the Whitewater Community Development Authority in 2012-13. WEDC has also awarded a seed accelerator grant to the Milwaukee Water Council for the Global Freshwater Seed Accelerator program, managed by the Council. The accelerator will provide grants of up to $50,000 each to six water technology startups with commercialization potential. The startups will participate in a six month program, beginning September 1, 2013, and will receive space in the Water Technology Building in Milwaukee, business model and operations training through the University of Wisconsin-Whitewater's Institute for Water Business, access to faculty and students with the University of Wisconsin-Milwaukee School for Freshwater sciences, mentorship from area water technology experts, and access to investment capital funding sources.

16. A recent report from the Congressional Research Service [CRS] (*Small Business Administration and Job Creation*, Robert Jay Dilger, Congressional Research Service, Report #41523, January 30, 2013) included a summary assessment of economic research on net job creation. According to the CRS report, the research suggests that startups have an important role in job creation, but have a more limited effect on net job creation over time, because about one-third of all startups close by the second year of their existence. Fewer than one-half of startups are still in business after five years. Research also indicates that the influence of startups on net job creation varies by firm size. Startups with fewer than 20 employees generally have a negligible long-term effect on net job creation, while startups with 20 to 499 employees have a positive employment effect that increases for five years after their formation. (For research purposes, firms with fewer than 500 employees are considered small businesses. Firms with fewer than 20 employees account for 95.76% of startup firms. The remaining 4.21% of startups are firms with between 20 and 499 employees.). The economic research also indicates that net job creation is concentrated among relatively small groups of surviving "high-impact" businesses that are younger and smaller than the typical business, yet have been operating for 25 years. ("High-impact" businesses are generally defined as firms with sales that have doubled over the most recent four year period and that have an employment growth quantifier [product of the absolute change and percent change in employment] of at least two over the same period.) The CRS report summarizes that startups, young smaller businesses (in operation between one and five years) and surviving high-impact businesses all contribute to net job creation. Other research indicates that wages and benefits are lower, and there is less job stability for employees of small businesses. (*The Role of Small and Large Businesses in*

Economic Development, Kelly Edmiston, Federal Reserve Bank of Kansas City, Economic Review, Second Quarter, 2007; *Job Creation, Worker Churning, and Wages at Young Businesses,* John Haltiwanger, Henry Hyatt, Erika McEntarfer, and Liliana Sousa, Marion Kauffman Foundation, November, 2012). This research raises questions about the effectiveness, in terms of net job creation, of funding a widespread expansion of the seed accelerator and capital catalyst programs, under which a large number of accelerators and small startups would be funded. The research indicates that most startups do not have a long-term effect on employment. It further raises the issues of funding only small companies and creating a bubble discussed previously. However, accelerator programs could be viewed as a method for creating and nurturing future high-impact businesses.

17. WEDC has flexibility in how it can use the annual state GPR and SEG funding it is appropriated. The GPR appropriation is a continuing appropriation that can be used to fund WEDC operations and economic development programs. The economic development fund SEG appropriation is also a continuing appropriation that can be used to fund economic development programs. Because the appropriations are continuing, unused amounts from one fiscal year can be carried over and used in the next fiscal year. WEDC develops its fiscal year budget through the Corporation's operations planning process, which is currently ongoing for the fiscal year 2013-14 budget. The corporation can reallocate funds for economic development programs, if the reallocation is for uses that are in Board-sanctioned Strategic Operating Plans. Under the WEDC Strategic Plan, the entrepreneurship and innovation strategy includes: (a) increasing the amount of seed/early stage capital investment in Wisconsin; (b) aggressively supporting the formation and development of high potential businesses; and (c) increasing and retaining the entrepreneurial talent base in the state. Included among strategic actions are developing seed/early stage capital investment programs, and initiating entrepreneur support services, mentoring, forums, and training.

18. WEDC could reallocate funding from its economic development programs to increase funding for the seed accelerator and capital catalyst programs. Table 2 shows a total of $74.7 million is budgeted by WEDC in 2012-13 for economic development programs and contracted services with partners. Amounts budgeted include unused funding carried over from prior years. In 2012-13, WEDC has budgeted $38.5 million for business retention and expansion grants and loans. As part of the budget process for 2013-14, WEDC could reallocate some of the business retention and expansion funding from 2012-13 for the seed accelerator and capital catalyst programs in the 2013-15 biennium. However, this would reduce funding that could otherwise be used for other economic development projects.

19. The economic development fund would have a projected year-end fund balance of $15,355,800 in 2014-15. Since ongoing revenues and expenditures are approximately the same in 2014-15, and revenues can fluctuate, the balance in the fund is likely to stabilize in future years. As noted, the economic development surcharge was converted from the recycling surcharge, and remaining recycling fund revenues were transferred to the economic development fund. Between fiscal years 1990-01 and 2000-01, a total of $182.7 million was transferred from the recycling fund to the general fund. As an alternative, the year-end balance in the economic development fund could be transferred to the general fund at the end of the 2013-15 biennium, or at the end of each biennium (Alternative 2).

20. Including the increased funding for the seed accelerator and capital catalyst programs, the bill provides WEDC with a total $25,189,200 in 2013-14 and $27,189,200 SEG in 2014-15 in economic development fund revenues. In addition, DOR is provided $252,100 in 2013-14 and $252,400 in 2014-15 to administer the surcharge, while estimated annual surcharge revenues (including interest) are projected to be $27,528,400. Projected revenues exceed projected expenditures by $2,087,100 in 2013-14 and $86,800 in 2014-15. Since economic development surcharge revenues are intended for WEDC economic development programs, the Governor's recommendation could be modified to appropriate these additional amounts to WEDC (Alternative 3). As a result, the total additional amount appropriated to the economic development programs appropriation would be $4,087,100 SEG in 2013-14, and $4,086,800 SEG in 2014-15. In addition, the year-end balance in the fund would be $13,181,900 in 2014-15. The balance could be appropriated to WEDC in 2013-14 on a one-time basis (Alternative 4), or lapsed to the general fund (Alternative 6). If provided to WEDC, the Corporation would have the discretion to use the increased SEG funds to expand the seed accelerator and capital catalyst grant programs, and for other programs.

21. However, increased SEG funding could also be used to offset GPR funding to the Corporation. Specifically, SEG funding could be increased by a total of $4,087,100, in 2013-14 and $4,086,800 in 2014-15 (an additional $2,087,100 SEG in 2013-14 and $86,800 SEG in 2014-15, compared to the bill). As an offset, GPR funding could be decreased by the same total amounts (Alternative 5). However, it could be argued that the economic development fund was intended to provide funding exclusively for economic development programs. The amount in the appropriation schedule for 2012-13 was expected to approximate surcharge collections for that fiscal year. In addition, since surcharge collections reflect economic conditions, it is very possible that, at some point, future revenues could be less than the appropriated amount. In such a case, the overall level of funding available for WEDC programs and operations could be reduced.

ALTERNATIVES

1. Adopt the Governor's recommendation.

2. Adopt the Governor's recommendation. In addition, transfer the end of biennium balance in the economic development fund to the general fund as follows.

a. On June 30, 2015 only.

b. At the end of each biennium.

ALT 2	**Change to Bill** Revenue
GPR-Earned	$15,355,800

3. Adopt the Governor's recommendation. Further, provide an additional $2,087,100 SEG in 2013-14 and $86,800 SEG in 2014-15 to the WEDC economic development programs

appropriation for the corporation to use to fund the seed accelerator, capital catalyst, and other economic development programs.

ALT 3	Change to Bill
	Funding
SEG	$2,173,900

4. Adopt the Governor's recommendation. Further, provide an additional $15,269,000 SEG in 2013-14 and $86,800 SEG in 2014-15 to the WEDC economic development programs appropriation for WEDC to use to fund the seed accelerator, capital catalyst and other economic development programs.

ALT 4	Change to Bill
	Funding
SEG	$15,355,800

5. Reduce GPR funding in the WEDC operations and programs appropriation by $4,087,100 in 2013-14 and $4,086,800 in 2014-15 and provide the same amount of economic development SEG (an increase to the bill of $2,087,100 in 2013-14 and $86,800 in 2014-15).

ALT 5	Change to Bill
	Funding
GPR	- $8,173,900
SEG	2,173,900
Total	- $6,000,000

6. Adopt Alternative 3 or 5. In addition, lapse the 2014-15 year-end balance in the economic development fund to the general fund, as follows:

a. On June 30, 2015 only.

b. At the end of each biennium.

ALT 6	Change to Bill
	Revenue
GPR-Earned	$13,181,900

Prepared by: Ron Shanovich
Attachments

ATTACHMENT 1

WEDC Grant, Loan, and Technical Assistance Programs

Economic and Community Development -- Economic Development

Business Retention and Expansion Grants and Loans. Grants, loans, or loan guarantees of leveraged private investment to provide gap funding to businesses that are making a capital investment to start a new operation, expanding its existing operation, or upgrading manufacturing capabilities or processes. The business must also be creating new full-time positions and/or retaining an existing employment base. Generally, loan or grant amounts range from $200,000 to $1.0 million, and a loan origination fee of 2% of the award amount applies to awards of $200,000 or more. Loan funds can be used for: (a) working capital; (b) equipment; (c) training; (d) building construction and improvements; (e) land acquisition; (f) private infrastructure improvements; (g) asset acquisition; and (h) lease payment reduction for property owners. Awards for job creation or retention projects are based on a tiered system. Awards range from $3,000 per job to $7,000 per job, if a qualified minimum wage range is met for each tier. WEDC budgeted $38.5 million in fiscal year 2012-13 for business retention and expansion grants and loans.

Workforce Training Grants. Grants to businesses that require training for employees on new equipment or technology, and industrial skills for: (a) upgrading or developing a new product, process, or service; (b) implementing new equipment or technology; or (c) entering a new market. Grant amounts fund 50% of eligible training costs, with a maximum per employee grant of $5,000, and a maximum total grant to the business of $200,000. Eligible training costs include training wages for production employees through first line supervisors, training materials, and trainer costs. Total funding of $1,000,000 is budgeted for 2012-13.

Manufacturing Clean Energy Revolving Loan Fund. Grants and low-interest loans to manufacturing firms in the clean energy sector to fund expansion projects that retain or create jobs. Grants and loans are awarded to the following type of projects: (a) clean energy advanced manufacturing; (b) clean energy supply chain development; or (c) reduction of fossil fuel use in industrial facilities. The manufacturing clean energy grant and loan program is administered by WEDC and the State Energy Office. Funding of $5 million was provided from State Energy Program repayments.

Industrial Site Certifications. Funding of $54,000 is budgeted in 2012-13 for development of consistent standards for industrial site certification. Certification means that required approvals, documents, and assessments are completed and in place.

Regional Revolving Loan Funds. Grants for the expenses incurred by local governments and regional and local economic development organizations in consolidating revolving loan funds (RLFs) into regional RLFs. Transition costs that will be funded include legal fees, filing fees, and related administrative costs. A total of $1,500,000 is budgeted for 2012-13.

Economic and Community Development -- Community Development

Brownfields Grant Program. The brownfields grant program provides financial assistance to individuals, businesses, and local governments to fund brownfields redevelopment or associated environmental remediation activities on eligible brownfield sites with demonstrated soil and/or groundwater contamination. Grants can be used to fund: (a) environmental investigation, beyond Phase I and Phase II studies, that is needed to define the degree of contamination; (b) environmental monitoring; (c) removal of underground storage tanks or hazardous waste containers; (d) soil removal, capping, barrier installation, and vapor intrusion systems; (e) asbestos abatement, if it is part of a demolition expenditure for a site with extensive soil and/or groundwater contamination; and (f) demolition work to determine the degree and extent of contamination. The maximum grant is $1.25 million and matching funds of 20% to 50% of project costs are required depending upon the type and size of award. A total of $3.5 million is budgeted for brownfields grants in 2012-13.

Brownfield Site Assessment Grants. Grants to local governments perform the initial investigation of contaminated properties, and other eligible activities. The following activities are eligible for a site assessment grant at an eligible site or facility: (a) phase I and II environmental assessments (initial and subsequent more detailed assessments); (b) site investigation of environmental contamination; (c) demolition of structures, buildings or other improvements; (d) asbestos abatement, if it is a necessary part of demolition activity; and (e) removal and proper disposal of abandoned containers, underground petroleum product storage tank systems, or underground hazardous substance storage tank systems. Under WEDC policy, the amount of an award depends upon documented eligible and matching costs, and cannot exceed $50,000. The program is budgeted $1,250,000 in 2012-13.

Capacity Building Grants. Grants to regional and local economic development organizations for: (a) assessments of the economic competitiveness of the area; (b) development of a comprehensive economic development strategy; and, (c) support of activities that will benefit the organizations or their members through operational efficiencies, strategy development, education and skills development, or increased collaboration with other organizations. A total of $500,000 is budgeted in 2012-13 for the grants.

Partners

Grants to Regional Economic Development Organizations. Grants to regional economic development organizations in the state for assisting in deploying WEDC economic development tools, such as site assessment methodology, including local editions of LocateInWisconsin, coordinating marketing activities, forming or expanding regional revolving loan funds, and enhancing international business development services. WEDC budgeted a total of $800,000 in 2012-13.

Business and Industry Development

Targeted Industry Projects. Funding for projects with the potential for high impact on employment and economic growth in targeted industries. The projects must be actively led by industry consortia and have potential for significant private sector investment and job creation, sustainable long-term economic impact, improved competitive advantage, and a high return on investment. Division staff identifies targeted industry sectors through criteria-based assessment, and funding is allocated to sector projects based on the criteria. WEDC budgeted $6,000,000 for this program in 2012-13.

Opportunity Research Projects. Planning grants of up to $25,000 to clients for research and facilitation of targeted economic development projects.

State Research Projects. Funding for research projects that will: (a) assess and improve the effectiveness of the statewide economic development network; (b) assess the impact of, and potential for developing supply chains in Wisconsin; and, (c) evaluate changes to the state's logistics infrastructure and the effect on economic development. WEDC budgeted $300,000 for these projects in 2012-13.

Minority Revolving Loan Funds (RLF). Funding and technical assistance is provided to minority organizations to support expansion of minority revolving loan funds. WEDC funding may be used as matching funds required for federal grants, required loan loss reserves, for start-up costs, or to leverage additional funding. Corporation grants are targeted to new business creation in minority businesses that are generally underserved by commercial lending institutions and federal Small Business Administration (SBA) financing. WEDC budgeted $300,000 in 2012-13, for minority RLFs.

<u>Partners</u>

*Wisconsin Manufacturing Extension Partnership (WMEP)***.** WEDC provides financial assistance to WMEP to support their business services. WMEP has developed a network of partners, including the University of Wisconsin System and Extension, Wisconsin Technical College System (WTCS), Milwaukee School of Engineering, and BT Squared, Inc., a civil and environmental engineering firm. WMEP provides expert and accessible services to small and midsize manufacturers in Wisconsin in the areas of growth and innovation, continuous improvement, training, export assistance, and supply chain management and sustainability. A total of $1,000,000 is budgeted for payments to WMEP in 2012-13.

Northwest Wisconsin Manufacturing Outreach Center (NWMOC). NWMOC is a partnership between the University of Wisconsin-Stout (UW-Stout), five technical colleges (Chippewa Valley, Nicolet Area, Northcentral, Western, and Wisconsin Indianhead), the UW-Eau Claire Small Business Development Center, the 7 Rivers Alliance, and WEDC. Services provided by NWMOC include: (a) strategic direction to improve business planning; (b) top-line growth to develop new markets and customer bases; (c) process improvement and (d) improving the business culture. A total of $250,000 is budgeted for NWMOC services in 2012-13.

Wisconsin Procurement Institute (WPI). Funding provided to WPI for services to businesses. The Institute is a nonprofit organization established in 1987 that assists Wisconsin businesses in obtaining federal contracts, especially defense contracts. A total of $145,000 is budgeted in 2012-13 for payments to WPI.

International Business Development

Global Business Development Grant Program. The global business development grant program provides funding to support export training, development, and promotion activities to eligible Wisconsin firms to initiate or expand exports. The program includes two grant components: (a) export development grants of up to $3,000 to small and midsize companies that are new to exporting, or demonstrate a specific export development need; and (b) international market access grants of up to $10,000 to eligible businesses for expenses related to executing a new, and/or expanding, an international market access strategy. Export development grants can be used for the costs of participating in WEDC-approved export seminars, educational events, and/or expenses associated with developing an export marketing strategy. Market access grants can fund the costs of company trade show exhibitions, business matchmaker services, certified/sanctioned overseas trade missions, website and company and product literature localization and translation for international markets, and/or consulting services required to meet certification standards to export a product. A total of $270,000 is budgeted for the program in 2012-13.

ExporTech. WEDC partners with WMEP and NWMOC to provide ExporTech, which is a program designed to accelerate a business' timeline for marketing products in foreign countries. The program helps develop a customized international growth plan for the company's product in key foreign markets. Participating companies receive targeted training focused on the company's specific needs, individual support provided by a team of export specialists, and guided development of an international growth plan. WEDC budgeted $100,000 for ExporTech in 2012-13.

Partners

Global Consulting Network. Contracts with business and market consultants with expertise in their international market. Consultants: (a) provide information about the foreign market, conditions, and industry opportunities, including government tenders, duties, trade agreements, legislation, and industry specific activities; (b) respond to questions about market viability, business registration, import regulations, licensing, certification, and distribution channels; (c) make presentations to Wisconsin executives on market specific projects; and (d) identify market opportunities including trade events and summits. Consultants also provide fee services such as market assessments, customer/agent/distributor searches, and customized projects. Information about markets in 36 countries is provided through the program. A total of $370,000 is budgeted in 2012-13.

Entrepreneurship and Innovation

Technology Business Development Grants and Loan. Direct financial assistance to start-up and emerging growth companies for developing and commercializing innovative products and services. The funds can be used for working capital, fixed asset financing, or leasehold improvements. Maximum awards depend on the type of project: (a) $250,000 for initial R&D, proof of concept, and prototype development, for companies with fewer than 100 employees; (b) $500,000 for companies raising follow-on equity for project launch after initial proof of concept; and (c) $750,000 for companies seeking funds to expand commercialization activities. Matching private investment funds of at least three times the amount of the award may be required. The program includes federal State Small Business Credit Initiative (SSBCI) funds from the Wisconsin Venture Debt Fund. The Fund is designed to provide debt financing to growth companies that create new, high-quality jobs in Wisconsin. Venture Fund SSBCI monies are designed to be complimentary to early stage equity. WEDC contracts with the Wisconsin Housing and Economic Development Authority (WHEDA) to administer a portion of the Wisconsin SSBCI allocation. A total of $8 million in federal (including $2 million awarded to Kestral Aircraft) and $3 million in state funds were budgeted in 2012-13 for this program.

Capital Catalyst Grants. Grants to organizations and communities that have existing seed funds in place, or that have the ability to create such funds. Grant recipients are required to use WEDC funds for grants, and debt or equity investments in start-up, early stage, and innovative businesses in the state. WEDC budgeted $1,000,000 for the program in fiscal year 2012-13. (A more detailed program description is included in Attachment 2.)

Seed Accelerator Grants. Grants to communities and organizations to start a pre-seed business model program (seed accelerator program) that incorporates training, mentoring, and financial assistance to entrepreneurs in Wisconsin. Grant funds may be used as seed capital for program participants, as well as for costs associated with initiating the program. In order to receive a grant, the organization or community must demonstrate that its programs will be managed by an experienced entrepreneur with relevant industry knowledge. The corporation budgeted $900,000 for the seed accelerator program in fiscal year 2012-13. (A more detailed program description is included in Attachment 3.)

Partners

Wisconsin Entrepreneurs Network (WEN). WEN includes the University of Wisconsin System, the Wisconsin Technical College System (WTCS), the WiSys Technology Foundation, and the Agricultural Innovation Center. The Network offers a variety of services to entrepreneurs in all industries and at all stages of development, including business planning, educational workshops, executive programs, peer learning, access to capital, technology transfer assistance, and assistance to high-growth businesses. WEN also administers technology assistance grants, which provide small Wisconsin high-technology businesses with funding for a portion of the expenses of hiring a for-profit, in-state, third party to develop a comprehensive business or commercialization plan, or to meet specific requirements to obtain seed or early-stage financing from outside sources. A total of $300,000 was budgeted for payments to WEN in 2012-13.

Wisconsin Technology Council/ Wisconsin Angel Network (WAN). WTC is a non-profit, non-partisan board that: (a) is a science and technology advisor to the Governor and Legislature; (b) serves an in-state networking role fostering innovation and entrepreneurship through the Wisconsin Innovation Network (WIN); and (c) serves as an economic development catalyst through WTC activities, such as the Wisconsin Early Stage Symposium. WAN is operated by WTC and is designed to build angel investor network capacity in Wisconsin in order to increase the number and amount of early stage investments in Wisconsin businesses. WAN membership is generally limited to investment funds and angel investors, and the network operates a deal flow pipeline Internet site with projects submitted by entrepreneurs for investment consideration. The network organizes educational programs and provides investment information for members. A total of $310,000 was budgeted for WTC in 2012-13.

Wisconsin Women's Business Initiative Corporation (WWBIC). WWBIC provides access to capital through direct lending, individualized business assistance, and business education focusing on women, minority, and low income individuals. A total of $100,000 was budgeted for WWBIC in 2012-13.

ATTACHMENT 2

Capital Catalyst Grants Program

The capital catalyst program provides matching grants, ranging from $50,000 to $250,000, to eligible communities, organizations, and other entities, that have established seed funds. Grant recipients are required to provide matching funds at least equal to the grant amount. WEDC capital catalyst grants must be used to make grants, and debt and/or equity investments in start-up, early stage, and innovative businesses that are located in, or will locate in Wisconsin. WEDC grant funds must be dispersed to eligible businesses within 18 months, and at least one-third of WEDC funds must be used to make grants of $1,000 to $15,000 to eligible businesses. Grants may exceed $15,000 if non-WEDC funds are the source of amounts in excess of $15,000. Seed fund investments are required to focus on (but are not limited to) businesses in the industry sectors of advanced manufacturing, agriculture or food processing, information systems and software, medical devices, biosciences, and renewable/green energy. WEDC funds cannot be used for grants, loans or investments in real estate, retail, or hospitality industry businesses, including restaurants. WEDC grant recipients must require businesses, as a condition of receiving a grant, loan or investment from a seed fund, to provide information periodically about employment, salaries and wages, and capital leverage, for five years after receiving a seed fund award.

Investment decisions of the seed fund are solely the responsibility of the seed fund operator's investment committee, but must be in accordance with investment criteria approved by WEDC, and the terms of the contract. Terms of agreements related to seed fund investments, including grants, loans, and equity positions are entered into by the seed fund operator, and not WEDC. WEDC may request that capital catalyst grant recipients provide occasional assistance to other communities receiving similar WEDC funding as part of a statewide initiative of entrepreneurial support.

Applicants for capital catalyst grants are required to submit an application to WEDC that includes an executive summary, general applicant information, seed fund administrative functions, and information about the application process for seed fund awards. The executive summary includes: (a) a brief description of the applicant; (b) name, title, and contact information, including email and phone number, for key personnel; and (c) the amount of capital catalyst funds requested. Applicant information includes: (a) the background and structure of the applicant organization; (b) a description of the applicant's available facilities; (c) the applicant's experience and capacity in providing entrepreneurial support through mentorship, education, and other services; (c) the entity's history of entrepreneurial support (d) descriptions of any partnerships and collaborative efforts with other entrepreneurial support organizations in the community. The application must also provide the following information about seed fund administrative functions: (a) identification of the seed fund manager, by name and/or title; (b) long-term fund strategies, including expected use of equity returns and loan repayments, if such investments are intended by the fund; (c) intended make-up of the investment committee, and a description of committee duties; (d) a description of any investment criteria, including underwriting guidelines, beyond those specified under the capital catalyst program; and (e) a description of other additional administrative functions, such as screening committees, and the boards of directors. The information about the seed fund application process includes: (a) a sample application or description of eligibility requirements for companies seeking funds, including eligible costs; (b) a description of the application process; and (c) a description of the criteria that will be used by the grant recipient to (1) approve funding, and (2) select the type and amount of seed fund monies awarded to applicants.

Approved applicants must enter into a contract with WEDC to receive capital catalyst grants. The contract requires the grant recipient to provide the Corporation with documentation and/or other financial statements that demonstrate the entity's ability to meet the equal matching fund requirement, prior to disbursement of WEDC funds. Capital catalyst grant recipients are required to provide WEDC with quarterly reports for the first 18 months following the date of disbursement of the grant funds, and then annual reports for the following three years. The reports must include the following information: (a) a balance statement of WEDC grant funds; (b) a balance statement of matching funds; (c) the number of seed fund awards made; (d) the recipient of each award, including company name and location, and company description and industry sector; (e) the type [grant/loan/equity], amount, and source [WEDC or matching funds] of each award, corresponding to the balance statements for the WEDC and matching funds; (f) the current level of full-time and part-time employment for each company that receives an award; (g) the amount of additional capital investments raised in the most recent year by the companies; (h) current monthly salaries and wages paid by each company [only reported in the aggregate by WEDC]; and (i) any changes in the investment committee, seed fund management, application criteria and process, or funding strategy and selection criteria made since the execution of the contract, or the previous reporting period. Contracts with WEDC include penalties for non-compliance.

A total $1,000,000 is budgeted for capital catalyst grants in 2012-13.

ATTACHMENT 3

Seed Accelerator Grant Program

The seed accelerator grant program provides funding to communities, organizations and other entities that operate a seed accelerator program in Wisconsin to support participating companies, and for seed accelerator operating costs. WEDC may award seed accelerator grants of up to $50,000 for accelerator start-up operational expenses that are pre-approved. Eligible operating costs include program manager training, curriculum development, and other expenses related to initiating accelerator operations. WEDC may award grants of up to $300,000 for seed accelerator operators to provide capital to companies participating in the accelerator program. WEDC considers the following factors in determining amounts awarded to seed accelerators for company capital: (a) the number of companies in an accelerator class [typically 10 to 12]; (b) the length of the accelerator program [typically three to six months]; (c) industry sector and local economic considerations; and (d) funding of $5,000 to $50,000 for each company in the accelerator class. Grant recipients must provide matching funds (in-kind or cash) at least equal to the grant amount, and grant funds must be disbursed following a periodic schedule that ensures that a company has completed the seed accelerator program prior to receiving the entire amount of funds intended for the company. All WEDC funds must be disbursed within six months after the accelerator program's end date. Seed accelerator grants must be primarily used to support companies in technology industry sectors that include, but are not limited to, advanced manufacturing, agriculture or food processing, information systems or software, medical devices, biosciences, and renewable/green energy. Seed accelerator grants may not be used for grants, loans or investments in real estate, retail or hospitality industry business. WEDC grant recipients must require participating businesses, as a condition of receiving a grant, loan or investment from a seed fund, to provide information periodically about employment, salaries, and wages, and capital leverage, for five years after receiving a seed fund award.

In limited circumstances, WEDC can allow a seed accelerator operator (community, organization, other eligible entity) to use seed accelerator grants to make debt and/or equity investments in participating companies, under conditions pre-approved by WEDC, if the seed accelerator operator demonstrates that its ability to implement its program is dependent upon making such investments. If approved, the seed accelerator operator is required to create an investment committee and establish criteria for making such investments, subject to WEDC approval. The investments are solely the responsibility of the investment committee in accordance with the investment criteria approved by WEDC, and the terms of the contract with the Corporation. Terms of agreements regarding investment decisions, including grants, loans and loan repayments, and equity positions, are entered into by the seed accelerator operator, not WEDC.

Applicants for seed accelerator grants are required to submit an application to WEDC that includes an executive summary, and information about the applicant, seed accelerator operations, and the application process for participating in the program. The executive summary includes: (a) a brief description of the applicant; (b) name, title, and contact information, including email and phone number, for key personnel; and (c) the amount of seed accelerator funds requested, including a description of any operating expenses for which funding is requested. Applicant information includes: (a) the background and structure of the applicant organization operating the seed accelerator; (b) a description of the accelerator facility; (c) the industry sector, demographic focus, or other target goal of the accelerator, if applicable; and (d) the duration of each class of the accelerator program, the number of companies per class, and the amount of funding per company being requested. Seed accelerator operations information must include: (a) information about the program manager and management team, including background descriptions that demonstrate entrepreneurial experience, relevant industry knowledge, or other qualifying experience; (b) a detailed plan for accelerator operations that includes a strategy for sustainable operations funding, and a marketing plan for attracting startups to the accelerator; (c) a description of the disbursement schedule for providing funds to participants that ensures the companies have completed the program prior to receiving the total amount of funding intended for the companies; (d) a description of the programming offered by the seed accelerator that uses either "Lean Start-Up" methodology, or a similar curriculum that reflects similar best practices in business model design; (e) a detailed description and background of mentorship resources provided to program participants; (f) a description of the seed accelerators strategy for giving founders an opportunity to meet with potential investors in their companies; and (g) a description of any additional relevant resources available to founders and/or assets of the seed accelerator. The information about the seed fund application process includes: (a) a sample application or description of eligibility requirements for companies applying to the program; (b) a description of the application process; and (c) a description of the criteria that will be used by the grant recipient to (1) approve funding, and (2) select the amount of funding awarded to approved applicants.

Communities, organizations, and other eligible entities that are approved for seed accelerator grants must enter into a contract with WEDC before disbursement of the grant monies. The contract requires documentation and or financial statements that demonstrate the grant recipient's ability to meet matching fund requirements. In addition, grant recipients must establish a segregated account to receive direct funding from WEDC. Contracts include penalties for noncompliance and reporting requirements. Seed accelerator grant recipients are required to provide WEDC with quarterly reports for the first year following the date of disbursement of the grant funds, and then annual reports for the following two years. The reports must include the following information: (a) the number of applications submitted to the accelerator; (b) the number of awards provided to companies; (c) the recipient of each award, including company name and location, CEO and owner name, description of the company, and industry sector; (d) the amount and source (seed accelerator grant or matching funds) of each award to companies; (e) current level of full-time and part-time employment for each company in the accelerator program; (f) amount of additional capital investments raised by source (grant, debt, equity) in the most recent year by each company; (g) current monthly salaries and wages paid by each company [only reported in the aggregate by WEDC]; and (i) any changes made in accelerator program management, operations, curriculum, application criteria and process, and selection criteria made since the execution of the contract or the previous reporting period.

WEDC budgeted $900,000 in 2012-13 for seed accelerator grants.