



REPORT HIGHLIGHTS

Report 19-6
May 2019State Auditor
Joe Chrisman**Wisconsin Economic Development Corporation**

2011 Wisconsin Act 7 created the Wisconsin Economic Development Corporation (WEDC) as the State's lead economic development organization. WEDC became fully operational in July 2011. Statutes require WEDC to develop and implement economic programs to provide support, expertise, and financial assistance to businesses that are investing and creating jobs in Wisconsin, as well as programs that support new business start-ups and business expansion and growth in the state. WEDC may also develop and implement any other programs related to economic development. Although WEDC is not a state agency, it is funded primarily with state funds.

In fiscal year (FY) 2017-18, WEDC administered 30 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, individuals, local governments, and other organizations.

Statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. To complete our fourth biennial audit, we analyzed:

- WEDC's administration and oversight of its programs in the first six months of FY 2018-19;
- the results achieved by WEDC's programs through FY 2017-18; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

In FY 2017-18, WEDC allocated an estimated \$3.1 billion in tax credits to businesses and individuals. It awarded \$25.6 million in grants and \$4.5 million in loans to businesses, local governments, and other organizations, and it authorized local governments to issue \$65.7 million in bonds to finance economic development projects.

We assessed WEDC's administration of its programs during the first six months of FY 2018-19. We found that WEDC had improved a number of aspects of its program administration since our last audit (report 17-9) and had complied with most of our recommendations related to program administration. For example, our file review found that WEDC complied with its policies when executing grant contracts.

WEDC collects repayments of the loans it administers. The potentially uncollectable balance of loans with repayments 90 days or more past due decreased from \$11.0 million in December 2016 to \$7.6 million in December 2018. This decrease occurred largely because WEDC wrote off and forgave loans, even though new loans became 90 days or more past due during this two-year period.

We found that WEDC awarded \$462,000 in tax credits for creating jobs to one recipient that created no jobs but instead lost 17 jobs. As of February 2019, WEDC had not revoked these tax credits, even though the contract ended in October 2017.

We found that WEDC did not consistently comply with statutes and its contracts because 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. For example, it relied on its written procedures to award one recipient \$61,100 in Enterprise Zone tax credits for creating 261 jobs filled by individuals who lived in 36 states not contiguous with Wisconsin.

Statutes require WEDC to annually and independently verify information submitted by a sample of award recipients. Verifying this information is intended to allow WEDC to determine, for example, the extent to which recipients actually created or retained jobs. We found that WEDC did not comply with statutes because it completed only one verification effort over the two-year period from January 2017 through December 2018. In November 2018, WEDC completed a verification effort for FY 2016-17, and it paid a consultant \$51,400 to help conduct this effort. The consultant reported to WEDC that it was unable to verify all of the information related to jobs that 14 of 125 award recipients claimed to have created or retained.

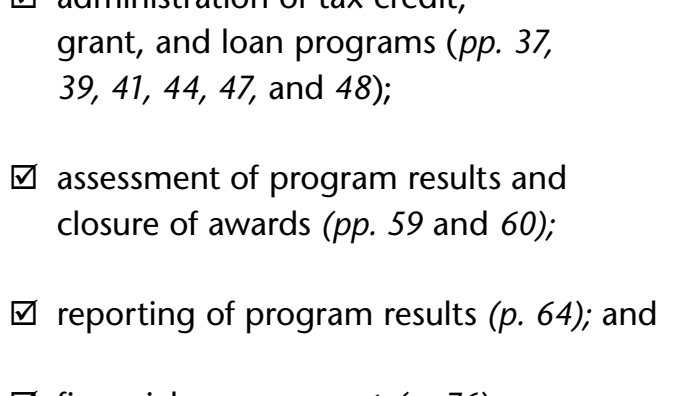
Program Results

WEDC indicated that 436 awards totaling \$130.7 million ended from FY 2011-12 through FY 2017-18. WEDC cannot know how many jobs were actually created or retained as a result of the awards that ended, in part, because it did not collect sufficient jobs-related information from recipients.

WEDC's information indicated that recipients of 68 tax credit and loan awards that ended from FY 2011-12 through FY 2017-18 created 2,084 of 5,970 contractually required jobs (34.9 percent). Its information indicated that 60 such recipients retained 7,806 of 13,272 contractually required jobs (58.8 percent).

Estimated Job Creation and Retention Results of Ended Awards¹

FY 2011-12 through FY 2017-18

¹According to WEDC's estimates.

When WEDC closed awards that involved job creation or retention, it could have revoked \$414,400 in previously awarded tax credits, and it could have required loan recipients to repay \$4.0 million. These taxpayer funds could then have been used to support other projects.

WEDC should improve how it assesses the results of its programs, including by annually determining the extent to which recipients created or retained contractually required jobs for all awards that it made and that ended. WEDC should then use this information to consider changes to its program policies and make more-informed decisions about future awards.

Program Accountability

Statutes require WEDC's governing board to report to the Legislature annually by October 1 on each program administered in the prior fiscal year. We reviewed the October 2018 report and the online data that accompany the report and show the results of certain awards.

We found that WEDC removed from the online data information about the extent to which the recipients of awards that it closed a year or more earlier had achieved contractually required results, such as the numbers of jobs created or retained. At the time of our audit, the online data no longer included the results of 392 awards that WEDC had closed.

Financial Management

WEDC's cash and investment balance increased from \$69.9 million as of June 30, 2016, to \$77.0 million as of June 30, 2018. We reviewed selected administrative expenditures and found that WEDC did not consistently maintain sufficient documentation to demonstrate compliance with its procurement policy.

Recommendations

We include recommendations for WEDC or its governing board to report to the Joint Legislative Audit Committee by October 31, 2019, and February 3, 2020, on efforts to improve:

- administration of tax credit, grant, and loan programs (*pp.* 37, 39, 41, 44, 47, and 48);
- assessment of program results and closure of awards (*pp.* 59 and 60);
- reporting of program results (*p.* 64); and
- financial management (*p.* 76).

Issues for Legislative Consideration

The Legislature could consider modifying statutes to:

- require WEDC to award tax credits through the Business Development Tax Credit program for jobs filled only by individuals performing services in Wisconsin (*p.* 44);
- allow WEDC to use the wages a recipient paid in a contract's base year when awarding tax credits through the Enterprise Zone program to recipients that retain jobs (*p.* 45);
- require the governing board to separately report on the extent to which award recipients created and retained contractually required jobs (*p.* 65);
- require the governing board to separately report on the results of awards that ended (*p.* 65);
- specify that funding be provided to WEDC based on WEDC's actual needs (*p.* 69); and
- specify that funds in the State's Economic Development Fund cannot be encumbered for purposes of paying WEDC (*p.* 70).

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