

MEMO



To: Joint Committee on Finance Members
From: Mark R. Hogan, CEO and Secretary
Wisconsin Economic Development Corporation
Date: June 9, 2016
Re: WEDC reallocation request

Background

The following information relates to the request made by the Wisconsin Economic Development Corporation (WEDC) to reallocate \$8,000,000 in tax credits from the Early Stage Business Investment program to the Business Development Tax Credit program, pursuant to §238.15. This \$8,000,000 reallocation request is comparable with previous requests that have been approved, taking into consideration the utilization rate for both programs and the transfer amount needed to continue fostering economic development efforts in Wisconsin.

Business Development Tax Credit

- The 2015-17 Biennial Budget created the Business Development Tax Credit (BTC) program as the main business incentive program used by the state to assist with business expansion efforts.
- As Wisconsin's economy continues to grow, we have seen an overwhelming demand from businesses seeking to expand or locate in Wisconsin. In order to continue driving economic growth, it is critical to maintain the ability to offer the business incentives available through the BTC program.
- In the program's first five months, WEDC has been able to assist a significant number of employers in their projects to spur investment and add jobs in Wisconsin.

Number of projects	26
Amount Contracted	\$2,490,000
Amount Committed	\$8,114,000
BTCs through May 2016	\$10,604,000

- Projected impacts of these projects include:

Jobs to be created	1,885
Jobs to be retained	2,729
Leveraged investments	\$314,040,188

- Once the new jobs are created, it is projected that Wisconsin will realize an increase in annual state income taxes of over \$5,000,000 based on projects approved to date.
- The Business Development Tax Credit (BTC) program received a \$17,000,000 allocation for CY 2016 and \$22,000,000 allocation for each calendar year thereafter. Tax credits are authorized on a calendar year vs. fiscal year basis. Subject to reallocation from the Early Stage Business Investment program, no more than \$17,000,000 in tax credits will be allocated in the current year.
- BTC is a performance based program. Awards are allocated in the current calendar year; however, businesses generally earn the tax credits over a three year period as the eligible activities occur.
- The current pipeline of opportunities shows at least an additional \$8,000,000 in projects. At the current utilization rate, the allocation amount will be depleted by the beginning of July with no new credits available until January 2017.

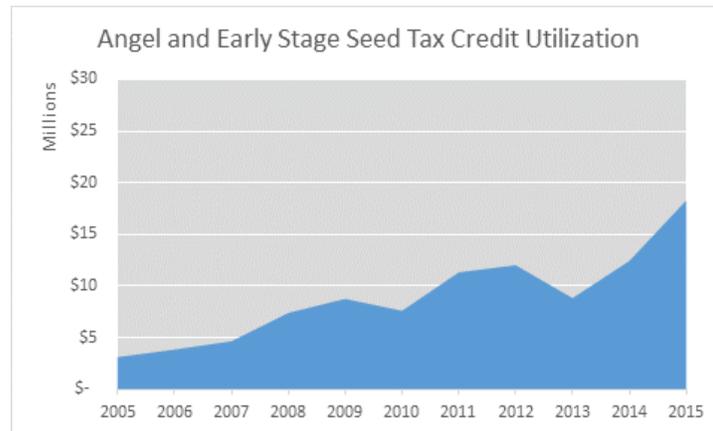
Examples of projects WEDC has approved under the new BTC program include:

- Brown County, De Pere: Belmark, Inc. - \$500,000 for a \$13,500,000 expansion project to expand their current facility, enhance their corporate headquarters and add R&D space. The company expects to create 34 new full-time jobs with an average wage of \$18.19/hour and retain 677 existing jobs in Wisconsin.
- Dane County, DeForest: The Little Potato Company - \$740,000 for a \$12,400,000 attraction project that will establish its U.S. headquarters in Wisconsin, a significant asset to Wisconsin's supply chain for potato growers. The company expects to create 129 new positions with an average starting wage of \$16.41/hour.
- Crawford County, Prairie du Chien: Solomon Transformers, LLC - \$100,000 for a \$1,300,000 attraction project to expand into the northern Midwest region to meet customer demand. The company expects to create 24 new full-time jobs with an average starting wage of \$14.04/hour.
- Rock County, Beloit: Comply365 Holdings, Inc. - \$500,000 for a \$3,300,000 retention project to expand its current facility to achieve growth potential. The software startup company expects to create 76 new full-time positions with an average starting wage of \$40.42/hour and retain 43 existing positions.

Request for reallocation

- The 2015-17 Biennial Budget maintained the statutory provision found in §238.15 that provides WEDC the authorization to request a reallocation of tax credits from the Early Stage Business Investment program for use in the BTC program.
- Other modifications made in the 2015-17 Biennial Budget include:
 - Eliminated the Economic Development Tax Credit and Jobs Tax Credit programs with a sunset date of December 31, 2015.
 - Phased-out WEDC's loan program by capping the loan origination amount to \$10,000,000 in FY 2016, \$5,000,000 in FY 2017 and \$0 thereafter.

- Changed the Early Stage Business Investment program by creating a single funding pool, reduced the annual allocation to \$30,000,000 (previously set at \$40,500,000) and eliminated the carry-forward provision.
- WEDC recently completed its analysis for the Early Stage Business Investment credits from CY 2015, which showed 86 startup businesses assisted and \$18,282,087 in credits issued.
- Based on historic trends of the program, WEDC anticipates Early Stage Business Investment credits that will be issued for CY 2016 will be in the range of \$16,000,000 - \$20,000,000.



- Both the Department of Commerce and WEDC have requested reallocations from the Early Stage Business Investment program to the Jobs Tax Credit program in the past.

Transfer Year	Reallocation Amount (Allocation Year)
2010	\$3,091,375 (2009)
2011	\$6,836,188 (2010)
2013	\$7,000,000 (2011)
2014	\$10,000,000 (2012)

- This \$8,000,000 reallocation request is comparable with previous requests that have been approved, and takes into consideration the utilization rate for both programs. It is intended to maintain the ability to serve the needs of both programs.

Other Agency Updates

- Continuous process improvement efforts are incorporated into all areas of WEDC's operations. As we discover issues that need to be addressed, we implement a thorough review to outline the scope of the problem and develop solutions.
- We are committed to communicating our process improvements in a transparent manner and providing on-going updates to our Board of Directors, the legislature and our stakeholders in a timely manner.
- At the June 23, 2016 Audit Committee meeting of the WEDC's Audit Committee, staff will present the report on the FY16 Compliance Plan as well as the proposed FY17 Compliance Plan.
 - The Board of Directors will review these plans for approval at the annual meeting on July 14.
- By August 1st, in compliance with the LAB recommendation, WEDC will provide updated reports to the Joint Legislative Audit Committee. The FY17 Compliance Plan will also be submitted, as approved by the Board. Copies will also be distributed to members of the Joint Committee on Finance.
- Consistent with what was reported to JFC members in December 2015, WEDC is meeting the timelines communicated as related to the implementation of all 25 of the LAB recommendations.
- One of the recommendations currently being implemented is a shift in our administration of awards from the original decision date to the contract execution date. This modification will be effective on July 1, 2016 and aligns with recommendations made both by LAB and CREC.
- Executing this shift in award administration has required numerous changes in all phases of WEDC's award administration policy. Staff have been working to implement changes to the award approval procedures as well as the financial and technology systems used to track awards.
- As part of our continuous process improvement and as a result of an internal review, inconsistencies were identified in our tax credit verification process for past awards. This was discussed at the April 16 Board meeting with an updated provided to the Budget & Finance Committee on May 26.
- We are currently implementing a three-step review process of affected awards and reporting these findings to our Board of Directors. Once the process is complete, a full report will be issued detailing the initial discovery, work done to correct and processes moving forward. As was communicated to the Board, it is anticipated this will be completed in late August.
- WEDC has also implemented a more robust process for tax credit verification reviews going forward to ensure accurate and effective administration of its tax credit programs.