



## Wisconsin Economic Development Association Inc.

### **AUGUST 29, 2006 JOINT LEGISLATIVE AUDIT COMMITTEE**

**James Otterstein, Andy Lisak and Peter Thillman**

Co-Chairs, Sen. Roessler and Rep. Jeskewitz, members of the Joint Legislative Audit Committee, thank you for giving us this opportunity to address the Committee. The Wisconsin Economic Development Association (WEDA), established in 1975, is Wisconsin's premier Economic Development organization. WEDA represents 400 economic development professionals committed to making Wisconsin the recognized leader in economic development, through advocacy and the implementation of economic development programming. From its inception to the current day, WEDA continues to extend its outreach and relationships with the Legislature, the Administration and other interested partners.

Our remarks today are from two perspectives: as official representatives of WEDA – President, President-Elect and Immediate Past President – and as individuals who work daily in the economic development profession.

WEDA commends the Committee and the Legislative Audit Bureau (LAB) for its work. Examining the State's vast array of economic development programs was no easy task. The report and its recommendations certainly did not contain any real surprises, but the report does provide a road map to begin discussing process of streamlining Wisconsin's economic development programs. As an organization, WEDA is prepared to devote its effort and expertise towards developing workable solutions to the current economic development situation.

Since the public release of the LAB report, WEDA has reviewed and discussed the document. In addition to this review, the organization has also solicited responses from the entire membership concerning the report, as it relates to specific economic development programming. This work transpired during the two-weeks following the release of the report and WEDA recognizes that there is much more work yet to be done. Today's response is merely the first step in what is expected to be an arduous process.

To that extent, we offer the following remarks, which are categorized into the five related areas: Leadership, Metrics / Accountability, Consolidation, Flexibility, Simplicity and Process.

## **LEADERSHIP**

As noted within the report, there are eight agencies responsible for the administration of 152 economic development programs. The current fragmented system ensures that there are effectively eight leaders, eight methods of communication and eight different reporting requirements. Additionally the \$152.8 million in program expenditures is inflated by the fact that eight separate agencies perform relatively the same or similar administrative and program delivery functions. Thus, a large portion of program dollars (almost one-third according to the LAB report) is spent on administration rather than capital deployment and actual economic development programming.

Identifying the appropriate leadership structure or mechanism will be a difficult task, but it is a task that must be completed. Although WEDA does not have an immediate answer for this question, it does concur with the LAB findings that a lead or single contact point would be the preferred outcome. Based upon the recent WEDA survey results, as well as those provided by the LAB, the Wisconsin Department of Commerce is currently the logical leadership choice. Notwithstanding, the leadership entity's success hinges upon many variables; therefore, it's absolutely critical that this leadership entity maintain full control and accountability - both on the budget and on the disbursement sides, as well.

However, we must not confuse leadership with centralization. As with any effective leader, the state's leader for economic development must be open to delegating and empowering the various partners in economic development. Often times, decentralizing the decision-making process, encouraging local and regional economic development entities to develop and implement strategies for distributing financial and technical assistance, can lead to increased effectiveness and efficiency.

A recent example of this is found in the Northwest Wisconsin Regional Economic Development Fund (NWREDF). The Department of Commerce with the Northwest Regional Planning Commission and 7 northern counties formed the Fund to consolidate local revolving loan funds –loan funds that were initiated by Commerce's CDBG-Small Cities program- into a single, substantial fund controlled by a board and administrative committee comprised of local economic development professionals from the region. I serve as chair of the Administrative Committee. In the first 4 months of operation the NWREDF has awarded 13 loans totaling \$1,275,000 to businesses in 11 communities, from Mercer in Iron County to Grantsburg in Burnett County.

The regional economies of Wisconsin are diverse. The economy of Superior-Douglas County is very different than that of Madison and Dane County. Encouraging regional entities such as NWREDF allows for the ability to take into consideration the unique and complex factors and conditions present in regional and local economies. By continuing to encourage the development of regional strategies, Commerce can help economic development practitioners on the frontlines more effectively catalyze economic growth and vitality that will benefit all of Wisconsin.

## **METRICS /ACCOUNTABILITY**

Determining the proper balance between the public and private sector involvement in any type of economic development project requires careful thought. Each project has its own unique challenges and because of these unique circumstances, we need to develop consistent metrics. It's one thing to merely report, while it's vastly different to issue an evaluative report. Regardless of whether it's a quantitative and qualitative approach, the key questions remains constant: What are Wisconsin's metrics to measure its economic development successes?

The report, as well as the WEDA survey, demonstrates that consistent economic development definitions do not exist per se. For most, it's some variation of jobs, tax base or investment, while others emphasize such things as wealth or intangible quality of life indicators. To practitioners, this is not a revelation. Instead, it's a reflection of the practice where economic development projects are as eclectic and varied as the definition itself. Clearly, these reasons point to the necessity of establishing broad policy goals and objectives to accurately determine the state's investment on its overall economic development programming.

Within the context of establishing statewide standards, there should also be built-in flexibility considerations to accommodate existing or emerging local and/or regional standards or trends. In today's economy, not all regions of Wisconsin are equal. Thus, if a one-size-fits-all approach is developed, we will create winners and losers between the state's regions, and that is not an acceptable result. Local or regional factors weigh heavily into many business development decisions. Therefore, the economic development metrics must also incorporate local and regional factors.

Today's companies are becoming leaner, increasing efficiencies and productivities through technology applications and increased worker productivity. Companies are doing more with less – including fewer workers. That's precisely why it is counter-productive to create programs that are reliant or heavily weighted towards the “new” job creation metric: it's simply not consistent with contemporary business models. This point, in particular, surfaced as a leading response cited by practitioners as one of the main frustrations experienced when working with state economic development programs: too much emphasis on job creation. Although not nearly as glamorous as new attraction projects, existing business development projects certainly provides immediate returns within local communities. Thus, WEDA strongly recommends that job retention be a major focus in the state's overall economic development goals and objectives

In terms of accountability, it's difficult to imagine an economic development project that was not subject to certain standards. For example, an overwhelming majority of WEDA survey respondents stated that they were required to meet certain criteria and to report said performance as a condition of assistance. These types of responses indicate that accountability measurements do exist. Obviously, though, with 152 programs it's reasonable to conclude that tracking and reporting may be problematic.

In addition to aligning state and local economic development policies, through a system of standardized measurements, it's also prudent to consider how technology can assist this topic, too. Considering thinning staff levels, coupled with real time reporting demands, the utilization of technology – at both the local and state levels – should add yet another feature into the overall accountability aspect.

For example, the local economic development community often performs annual or semi-annual visits with its local employers. The information collected from these visits could easily be uploaded into a database that could be shared among state agencies. Additionally, this data-sharing feature would decrease reporting lags and improve communication among relevant parties. Appropriate security measurements could be added to ensure that only select individuals are provided access. Further access could also be afforded to the companies themselves.

Rather than merely relying upon paper compliance reports, designated company representatives could verify information electronically too—similar to what occurs with the state's Worker's Comp and/or Unemployment Insurance systems. Although this is a very simplistic example, one can immediately see how technology utilization could generate analyses, evaluations and/or results within a real time environment without adding excessive administrative costs.

### **CONSOLIDATION**

The report clearly illustrates that there are simply too many economic development programs. Overlapping programs, blurred distinctions, and gray boundaries are the net result of flavor-of-the-day program development. Technology, entrepreneurial activity, small business specific, targeted ownership, and/or industry specific, etc., are some examples of the niche programs that currently exist among Wisconsin's economic development programs. Consequently, economic development practitioners are constantly forced to play the "matching game" to see which square pegs fit into which round holes.

This "matching" exercise is inefficient, problematic and costly. A specialized program, available only under certain circumstances, likely results in program underutilization and heavy administrative expenses. Niche programs require "specialized" administration functions because the program is not aligned or measured in the same manner as any other program. Hence, more programs ultimately result in more staff, not necessarily in better economic development programming.

In the context of today's increasingly tight budgets, we must question the value of having dedicated staff for programs that are traditionally either unused or under subscribed. Quite honestly, assigning staff time to administer a \$50,000 program is simply not tax payer cost effective. Granted, certain programs require specific skill sets. Nonetheless, underwriting exercises are the same across the board, yet each of the eight agencies likely employs its own underwriters. Once standard metrics are established, this underwriting function could be consolidated into one agency. Currently, the 152 separate economic

development programs create 152 different underwriting criteria. If we standardize the metrics and streamline the process, we will automatically create administrative cost savings.

Program consolidation not only will increase overall program utilization, but also consolidation will lead to greater economic development accountability. Moreover, consolidation will simplify economic development programs. At times, even experienced practitioners are unable to determine the benefits between Program A or Program B. When an overwhelming majority of WEDA respondents (i.e. 90%) indicate that they could not use state economic development programs to facilitate a project, clearly program proliferation does not equate to functionality or utilization.

In terms of specific recommendations, WEDA proposes to consolidate the state's economic development program dollars into four broad categories and develop strategic goals and metrics for each category. Programs should be consolidated in the following areas: Tax Credits, GPR Funds, Segregated Funds and Federal Funds. Given the scope and complexity of the project, WEDA recommends that the consolidation of the tax credit programs be the first "pilot" consolidation.

Wisconsin's Tax Credit programs have become one of the prime funding sources (albeit clearly underutilized) when an incentive package is put together. Although each program contains subtle differences, they basically operate the same way. Consolidating the tax credits into one large statewide pool, re-examining creditable activities, and approving end-use flexibility (i.e. portability) will contribute positively towards Wisconsin's economy. Fiscal notes aside, the report has demonstrated that tax credits are budgeted yet woefully underutilized. Additionally, tracking the tax credits was highlighted as an area with lax accountability. WEDA believes that most, if not all, of the tax credit program shortcomings identified in the audit can be "fixed" through consolidation.

Practitioners and end users alike will no longer have to distinguish between the various types of zones because statewide policy outcomes will be covered by a single consolidated program. In the end, this creates a level playing field between urban and rural locations, thereby allowing specific market forces versus artificial geographic boundaries to act accordingly, which is the ultimate objective.

The removal of geographic barriers and the re-examination of creditable activities will allow the tax credit programs to have actual economic development value. For example, human capital development (i.e. workforce training) and capital investment are two critical needs that must be addressed for Wisconsin to remain competitive. Although not specifically addressed within the report, workforce development assistance is an extremely critical economic development programming need. Currently, Wisconsin does offer some limited workforce training assistance in programs administered by the Department of Commerce and the Department of Workforce Development. However, these programs are further examples of "niche" programs with outdated requirements and limited applicability. Expanding creditable activities to include on-the-job and/or

incumbent worker training, regardless of industry type or size, will most certainly increase the appeal and utilization of Wisconsin's tax credit program.

To date, workforce training is not eligible, while capital investments are addressed in two of the existing zone programs (i.e. Tech and Development Opportunity Zones). By excluding or limiting the impact of these private sector investments, Wisconsin's tax credit programs offer limited impact on the growth of our economy. These points were frequently cited by WEDA members as reasons why they were unable to utilize state economic development programs.

Additionally, devising a method for tax credit portability - such as refundability, secondary market sale, or pass-through provisions - will increase Wisconsin's income tax credit value and utilization. For example, technology or start-up companies need the most financial assistance on the front end; after all, they are cash-starved. Providing portability to assist these companies will contribute towards their financial health and profitability, thereby positioning these companies for sustainability and future growth. Allocating credits towards companies that cannot reasonably earn their established credit amount provides a disservice to both the private and public sectors.

In general, program consolidation will reduce the need for separate applications and separate annual reporting requirements. Easier reporting and project management will create efficiencies and response time when working through the economic development application process. Despite certain streamlining initiatives over the years, the entire application process remains cumbersome and time consuming. Time sensitive projects do not have the luxury of waiting up to six weeks or longer for a funding decision, let alone a formal announcement. First impressions count, and the lack of responsiveness will negatively impact a project's outcome.

Empowering program staff, mainly the Area Development Managers (ADMs) with formal approval authority (within agency thresholds), could greatly enhance the state's overall image within the business development community. Instead, ADMs are considered mere agency messengers and project shepherds. This situation is extremely problematic when working on attraction projects where Wisconsin has the unenviable reputation as a non-player. For instance, the state is known for its inability to respond to inquiries in a timely fashion, as well as being timid and unrealistic in offering business attraction incentives. Case in point, offering tax credits as an incentive to a prospective business with limited corporate tax liability sends a mixed message. Common themes that once again surfaced from WEDA's membership survey regarding frustrations expressed by practitioners concerning state economic development programs.

## **CONCLUSION**

Although the entire economic development arena is complex, Wisconsin's economic development programming should not be. Establishing clear leadership authority will enable Wisconsin to establish and revisit policy goals in real time to meet current marketplace conditions. Leadership will create continuity and consistency that will ultimately lead to simplicity. As noted within the report, regardless of how or what this

entity becomes, it will need the “carrot and stick” powers. The designated agency must have the ability to control the state’s overall economic development budget and to ensure compliance on the statewide goals from the other agencies.

Standardized metrics, coupled with local flexibility, will encourage nimble responses to economic development opportunities. Long-term perspectives should be considered, rather than merely relying upon the quick return. This standardization will increase communication, simplify reporting, and guide project evaluation. Enhanced by technology, real time data can provide answers or pose questions virtually on-demand.

Program consolidation has the ability to generate several tangible results, namely fewer overhead expenses and more program dollars. Since state agencies are already doing more with less and dollars are scarce, the merits of program consolidation could be immediately realized. Single or combined underwriting and reporting functions will significantly expedite not only application processing, but also enhance trend identification.

Program consolidation will put simplicity back into Wisconsin’s economic development system. The mix-and-match program game that currently causes confusion will be replaced. The sources and uses of funds will be easily understood and tracked accordingly through a seamless, integrated system.

Simplicity leads to efficiency which leads to time and cost savings. Removing targeted or specialized program criteria will allow underwriters to quickly determine eligibility. Application to decision time tables will be compressed. Time is always an issue. By encouraging simplicity overall, the decision-making process can be sped up. Furthermore, delegating “desk approval” responsibilities to appropriate staff will also convey a positive message within both the agency and also to the general business community.

WEDA sincerely appreciates the opportunity to share our remarks with this Committee. Although the report is a product of a two-year effort, we don’t believe that the state’s economic development climate can wait another two years to implement meaningful change. WEDA stands ready to roll up its sleeves to work with the Legislature and the Administration to address the report’s recommendations.

From 1975 to today, WEDA has been the leading voice for economic development throughout Wisconsin. As an organization that represents both public and private sector economic development interests, we relish this opportunity to move Wisconsin’s economic development climate forward. Thank you.