Be Bold Wisconsin
The Wisconsin Competitiveness Study

July 2010

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Foreword

Deloitte and Newmark Knight Frank (NKF) present this white paper on Wisconsin's economic development competitiveness. "Be Bold Wisconsin: The Wisconsin Competitiveness Study" has been developed through a collaborative effort between Deloitte and NKF over the past 6 months. This independent, non-partisan study was commissioned by the Wisconsin Economic Development Association (WEDA), Competitive Wisconsin, Inc. (CWI), and the Wisconsin Counties Association (WCA), and was administered by the Wisconsin Economic Development Institute (WEDI).

The paper aims to inform decision makers in government, academia, and industry of how Wisconsin compares to selected benchmark states and across specific industry clusters in terms of economic development strategy, capabilities, operating costs, and conditions. Deloitte and NKF leveraged both primary and secondary research sources, as well as our collective experience in guiding hundreds of organizations with expansion, location, and redeployment strategies.

The findings and recommendations contained in the study are meant to offer controllable, defensible, executable, and measurable strategies to improve Wisconsin's competitiveness as a place to do business and create jobs. To help stimulate the discussion around how to implement the recommendations, the paper includes suggested implementation tactics for many of the recommendations, including funding sources, governance, responsibilities, and other specifics.

The findings of this study are a starting point for key stakeholders across the state to consider in their efforts to develop meaningful and impactful policy that will enable a reinvigorated, targeted, decisive approach to make Wisconsin a leading state for growth, prosperity and sustainable success.

Please feel free to contact us with your comments, queries, and suggestions.

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Introduction

Wisconsin has long been a state that prides itself on growth and production. As a recognized national leader in dairy and agricultural products and a hub of industrial activity, Wisconsin continues to be a place where products are made. But this once fertile ground is no longer a flourishing environment for business growth and job creation. Over the past decades, Wisconsin has yielded its competitive advantage by neglecting to seed, nurture and cultivate new economic opportunities.

The signs of Wisconsin's failure to thrive are increasingly evident:

- Per capita personal income in Wisconsin has slipped in comparison to the national average. According to a ranking by the Bureau of Business and Economic Research, Wisconsin consistently ranked No. 19 or 20 out of the 50 states in the period from 1998 through 2003. By 2008, its income standing had fallen to No. 27, the state's lowest positioning since before 1990. Per capita income in Wisconsin was $37,770, nearly $2,400 less than the national average for 2008 and far below neighboring Minnesota's average of $42,953.
- Longer-term trends in Wisconsin's per capita income growth are similarly troubling. According to the US Bureau of Economic Analysis, Wisconsin ranks No. 44 in the nation in 10-year change in per capita income, No. 31 in 20-year change, and No. 42 in 30-year change.
- Average weekly earnings in Wisconsin were essentially flat in 2009, at roughly $680. Only 14 states had lower earnings for nonfarm payrolls, according to Bureau of Labor Statistics (BLS) data.
- Wisconsin's workforce has withered by more than 178,000 jobs from December 2007 to December 2009, according to BLS quarterly census data. Nearly 76,000, or 43 percent, of those were in manufacturing.
- While Wisconsin's unemployment rate in June 2010 dipped to 7.9 percent, the state's work force shrunk by 13,600 from the previous month, suggesting the unemployment rate decline was due to workers giving up finding a job. The March 2010 rate of 9.8 percent represented Wisconsin's highest level since 1983.
- Indeed, Wisconsin's 12-month change in non-farm employment was the worst of the Midwestern states and 40th overall, shrinking by 0.7 percent from June 2009 to June 2010. Over the same period, Illinois' employment shrunk by 0.6 percent while all other Midwestern states grew employment; Indiana added 38,200 jobs.
- Wisconsin repeatedly ranks in the lower half or among the bottom states in terms of business environment. *Forbes* magazine rated the state as No. 48 in 2009 (down from No. 43 in 2006) overall on six indicators: costs, labor supply, regulatory environment (including litigation atmosphere), current economic climate, growth prospects and quality of life. As recently as July 2010, CNBC ranked Wisconsin No. 29 overall based on 10 categories. Other business-focused entities have ranked Wisconsin among the lowest 10 or 15 states.
- Wisconsin has experienced significant turnover in the leadership position at the Department of Commerce, with no fewer than four Secretaries in the last three years. Further change is possible with an upcoming gubernatorial election in November.
- Over decades, among location strategy and site selection consultants, Wisconsin's outreach has been minimal. Forward Wisconsin, the state's public-private, non-profit entity tasked with marketing Wisconsin to businesses outside the state, has been undermined by inconsistent leadership, limited and declining budgetary support, and a mission that encompasses only one aspect of economic development.

Certainly, forces far beyond the control of policymakers in Madison have contributed to Wisconsin's sluggish environment for business. Recently, despite being hundreds of miles from the epicenters of the financial implosion and mortgage meltdown, Wisconsin has been buffeted and battered by the nation's worst economic crisis in 25 years. However, the damage is not limited to the recent past. Wisconsin is far removed from low-cost competitors in China and other parts of the world, but the unforgiving landscape of an increasingly global marketplace has threatened the vitality of even some of the state's most enduring manufacturers and has encouraged others to relocate to more fruitful sites. The rapid change that has defined the knowledge economy and the Internet era has punished those who have been slow to adapt and learn new skills. The dramatic upheaval of the recent decades has helped create a diminished landscape in Wisconsin for job growth and business expansion.

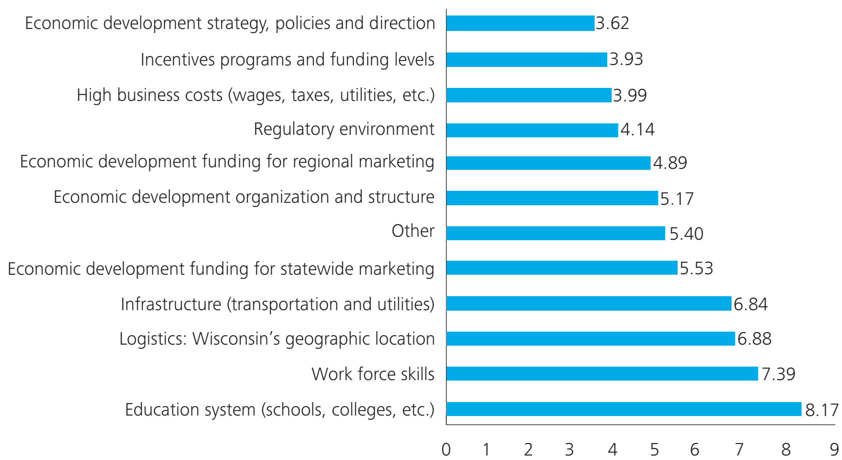
Other states have been hit by the same ravaging market forces. A few, because of good planning or good fortune, have been shielded from the worst of the damage. Some have suffered nothing short of economic catastrophe. Forward-looking states have seized on the current crisis to re-envision their competitive environment and seed new opportunities for growth. Wisconsin has surveyed its changing business climate repeatedly over the past two decades, but its efforts to stimulate growth have largely been a scattered broadcast of ideas and hopes instead of a well-rooted strategy for change. This report aims to provide analytical grounding and a viable vision for repositioning Wisconsin as a competitive environment for business.

Catalyst for Assessment

This project grew out of a recognized need for a more urgent, coordinated approach to economic development and job creation in the state. In November 2009, the Wisconsin Economic Development Association (WEDA), Competitive Wisconsin Inc. (CWI) and Wisconsin Counties Association (WCA) commissioned Deloitte and subcontractor Newmark Knight Frank (NKF), a global real estate solutions provider, to assess Wisconsin's regional, national and global economic development competitiveness. The study team brought a broad professional understanding of how business location choices are made and competitive advantages can be leveraged, as well as a deep personal interest in seeing Wisconsin thrive. Three team members grew up in the state and still have family there.

This report is not meant to reiterate the several thoughtful studies that have preceded it. Instead, it intends to focus attention squarely on producing a well-reasoned, executable economic development strategy for improving Wisconsin's competitiveness and positioning the state for targeted business growth. The three professional associations that commissioned the report — and the many companies and groups that came together to fund and support it — are not the only ones to recognize that Wisconsin must take action to sharpen its competitive edge or risk falling even further behind more proactive states. The Deloitte-NKF team began its analysis by surveying 100 Wisconsin economic development professionals, comprised of WEDA members and attendees of the February 2010 Governor's Conference on Economic Development. When asked their views on the largest obstacle the state faces in advancing economic development, respondents most frequently cited the need for an economic development strategy, policies, and direction. As the following figure shows, a more effective statewide strategy topped concerns that are typically seen as impediments to Wisconsin's competitiveness, such as taxes, wages and regulatory environment. Crafting a sound statewide strategy was also seen as much more of an obstacle to improving the business climate in Wisconsin than the skills of its workforce or quality of its educational system.

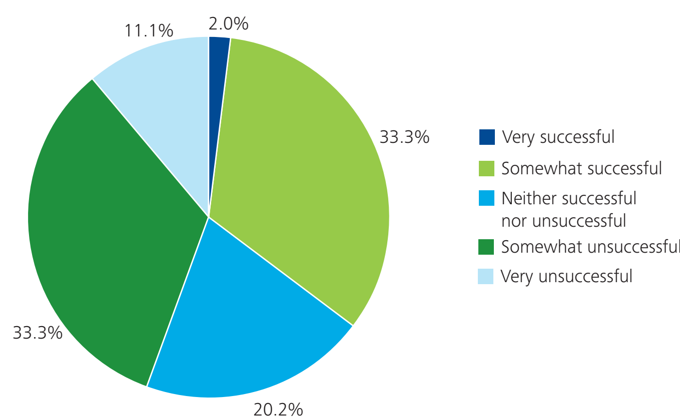
Figure 1. Largest Obstacles to Advancing Economic Development in Wisconsin



Note: The closer the indexed number is to 1, the higher the priority.

As the figure below illustrates, the economic development professionals who were surveyed take a dim view of the state's strategy for growing business and creating the kinds of well-paying jobs that will allow Wisconsin workers to maintain (or in many cases, regain) their favorable quality of life. When asked their views on how successful Wisconsin is as a state in terms of economic development, more than 44 percent labeled efforts as unsuccessful. Another 20 percent considered the state's economic development work as neutral — neither successful nor unsuccessful. Little more than a third of respondents considered the state's efforts to be effective.

Figure 2. How successful do you think Wisconsin is, as a state, in terms of economic development?



In particular, surveyed professionals and the funders and participants of this report suggest that the absence of a measurable, executable statewide economic development strategy for identifying and addressing controllable economic conditions has led companies and site selectors to cool to Wisconsin's business climate. The lack of a strong, consistent champion committed to focusing intently on game-changing tactics and economic development fundamentals is also seen as hindering Wisconsin's efforts to better position itself as a welcoming environment for business.

Despite the respondents' criticism of a lack of an effective, statewide strategy, this report is intended as a nonpartisan assessment of Wisconsin's comparative economic strengths and weaknesses. Indeed, many of the suboptimal policies and practices cover 2 decades and span political parties and governmental entities. However, upcoming statewide elections offer an opportune time for suggesting a new strategy for economic development that can form the basis for focused policy in a new administration.

A New Direction

As part of this study, the Deloitte-NKF team benchmarked Wisconsin's business environment against neighboring states and other competitors. It assessed the state's attractiveness and value as a business location in a number of key areas, from available incentives, branding efforts and technology use to market access, industry presence and workforce skills. Although a broad list of business costs and conditions were included in the analysis to better understand how Wisconsin stacks up against its competitors, the focus was on assessing "controllable" factors. In other words, there is no changing the weather or the geographic location of Wisconsin to offer the same attributes as warmer, more centrally located states. The study takes as a given that areas that are a drag on Wisconsin's business climate (taxes, regulatory, and litigation environment), although not the focus of the assessment, need to be addressed and improved. Instead, this analysis has zeroed in on changes that are grounded in "executable realities." In addition to considering a long list of business costs, business conditions, and economic development capabilities for six "general" benchmark states, the study team evaluated Wisconsin's attributes specific to five sample industries — food and agriculture-related production, renewable energy manufacturing, medical device manufacturing, software development, and financial services. A few consistent weaknesses in Wisconsin's competitive positioning were identified across these sample industries and serve as the underpinnings for recommended change.

Guiding any set of recommended changes should be an overarching yet attainable goal that will signal when Wisconsin can once again boast of its productive environment for business, and stimulate greater growth in per capita income. Currently, Wisconsin consistently ranks among the bottom half of states in terms of business climate. A game-changing, galvanizing goal would be to realize a dramatic turnaround in those rankings within five years of a new administration. Specifically, the state should set its sights on two primary objectives:

- **Wisconsin will rank among the top 10 states for starting a business by 2016.**
- **Wisconsin will rank among the top 10 states for expanding a business by 2016.**

Wisconsin ranked No. 28 in the Kauffman Foundation's May 2010 Index of Entrepreneurial Activity. As noted earlier, it was pegged at No. 29 on CNBC's America's Top States for Business in July 2010 and was No. 48 on *Forbes'* Best States for Business rankings in September 2009. *Site Selection* magazine's annual Governor's Cup rankings of economic development activity indicates that 9 of the 12 Midwestern and North Central states announced more corporate facilities and expansions between 2007-2009 than Wisconsin; only Nebraska and the Dakotas had fewer wins. These rankings should serve as a baseline for Wisconsin as it embarks upon challenging but achievable change in circumstances and perception.

To realize such transformation, the state will need to proactively address identified weaknesses and gaps by being both bold and basic, strategic and tactical. In essence, the state will need a new game plan for more effective economic development.

This report opened by deliberately drawing references to a historic and continuing driver of Wisconsin's economy — agriculture — to make a case for change in the state's economic development strategy. It looks to another activity central to Wisconsin's identity — football — as a model for achieving that change. The Deloitte-NKF team has identified nine controllable and executable recommendations for improving Wisconsin's economic competitiveness and positioning. These will be explained and discussed in greater detail later in this report. In essence, all nine fall within three basic tenets of football:

Change the Game Plan

- **Restructure the organization:** Create a quasi-public entity, referred to herein as Accelerate Wisconsin, charged with crafting, delivering and overseeing Wisconsin's economic development strategy.
- **"Confidence is contagious":** Reposition Wisconsin's brand through an aggressive and targeted marketing campaign.
- **Exploit favorable match-ups:** Align state economic development efforts, educational programs, and public- and private-sector leaders around select targeted industries.

Play Defense *and* Offense

- **"Defense wins championships":** Develop a structured, proactive approach to business retention.
- **Improve player development:** Create a statewide, not-for-profit entity to centralize and streamline the state's innovation programs.
- **"Offense sells tickets":** Reinvigorate and focus Wisconsin's business attraction capabilities.

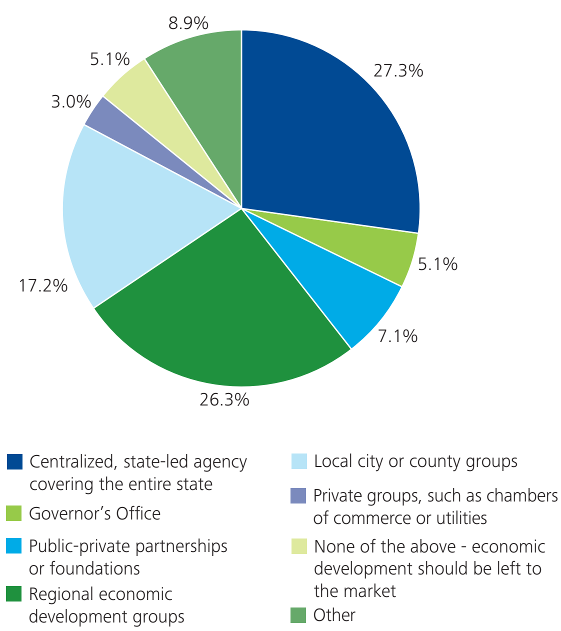
Win With Fundamentals

- **Every (square) yard counts:** Deploy a statewide "shovel-ready" sites program with expedited permitting procedures.
- **Master new plays:** Implement new incentives geared toward capital-intensive and startup projects.
- **Modernize the facilities:** Apply technology to enable and underpin Wisconsin's economic development strategy.

In the economic arena as well as on the football field, the first recommendation is potentially the most explosive — both in terms of controversy and opportunity. Restructuring an organization is an intentionally disruptive change, but such a bold move can result in tremendous gains. *Wisconsin needs to telegraph a new emphasis and urgency regarding economic development at the state level*. That begins by recognizing that there may be more nimble and effective options than mandating economic development as simply one of many responsibilities within the Department of Commerce. The Wisconsin Department of Commerce currently is charged with overseeing such varied activities as business development, housing, environmental regulations and building inspections. Carving economic development and related functions out of the Department of Commerce and charging this new entity with crafting and executing the statewide economic development strategy represent a dramatic structural realignment of government. Yet, such systemic change can position the state in a more effective leadership role.

As shown in the following figure, a third of economic development professionals surveyed called for state-level leadership in retaining, creating and attracting businesses and jobs. Although more than a quarter of respondents indicated that economic development should be handled at the regional level, and another 17 percent suggested a local focus, this report maintains that a strong state presence and high-level, consistent leadership will serve to drive and enhance effectiveness at the regional and local levels. Admittedly, the economic development needs of Wisconsin's diverse regions are varied. Milwaukee's economic environment and attributes differ from that of Madison's, and both of those cities operate in a vastly different climate — meteorological and business — than does Superior. Regional and local agencies are the most attuned to those differences and must play vital roles in any effective economic development strategy. However, a cohesive, coordinated statewide strategy, an elevated agency presence and a committed champion to lead the effort — bolstered by regional buy-in and collaboration — should ultimately benefit Wisconsin in its entirety. If this type of "One Wisconsin" approach were adopted, the state would be much more convincing in making a case to entrepreneurs, existing businesses and prospects that it was unified in its pursuit of economic development and growth.

Figure 3: Which entity should be the primary driver of economic development throughout the state?



Operating Framework

The findings and recommendations for this study have emerged from objective statistical analysis and "real world" understanding. They incorporate assessment tools, the filters of professional experience, and insight gleaned from interviews with economic development practitioners within Wisconsin and outside the state. All of these recommendations were developed within a framework for quick, quantifiable action, and are intended to be controllable, executable, defensible and measurable. The following figure lays out the criteria developed in an effort to achieve this objective.

The rest of this report provides background on the project, details the benchmarking of select state competitors, assesses Wisconsin's strengths and weaknesses in each of five sample industries, and concludes with a detailed presentation of recommendations and the rationale that supports them.

Figure 4: Framework for Recommendations Development

Controllable	Executable
• Does the recommendation address a controllable variable that can be impacted by strategic planning and policy development? • Does the recommendation focus on factors that are known influencers and considerations of business decision-making and global competitiveness?	• Can the recommendation be traced to leading practices in other states? • Has the recommendation been executed elsewhere with known results? • Can a roadmap for success be developed that will be discernable? • Can the tactics from inception to execution easily be developed and communicated?
Defensible	**Measurable**
• Is the recommendation supported by facts and objective evaluation? • Can it stand the test of varied interests and stakeholders throughout the state? • Does the recommendation represent a tangible and realistic change event that will impact the economic well-being of the State of Wisconsin? • Will the recommendation consider the unique economic geography of the state?	• Would there be organizational ownership of the recommendation? • Does the recommendation lend itself to measurable KPIs? • Can accountability and transparency be built into the recommendation with reasonable performance management methods? • Can the recommendation be appropriately resourced and affordable?

Background

The Wisconsin Economic Development Association (WEDA), Competitive Wisconsin Inc. (CWI) and Wisconsin Counties Association (WCA), organizations with a deep commitment from their constituents and partners across the state, have come together to move Wisconsin forward. This unique coalition of business- and economic-development-focused entities came together to drive a collaborative research project examining Wisconsin's overall regional, national and global competitiveness. WEDA, CWI, and WCA stakeholders were unanimous in their position that Wisconsin was losing ground in its capacity to expand and retain existing businesses, as well as attract new business investment across many industry types critical to the state's economic well-being, in this rapidly changing global economic climate. In addition, the parties agreed that the time had come to plan for the future and focus on "meaningful" change that would position Wisconsin to achieve business and economic development success, and ultimatley help increase per capita income levels throughout the state. The envisioned competitiveness report would analyze Wisconsin's business climate and economic development infrastructure at the state level across select and well-accepted benchmarks and criteria critical to measuring effectiveness and efficiency in business attraction, expansion, entrepreneurship and innovation. The state-level focus was not to marginalize the importance of regional and local economic development efforts, but to underscore the importance of a unified, "One Wisconsin" strategy for economic growth. The overall goal of the study was to develop actionable recommendations that would compel and support robust public policy discussion and decisions that would make Wisconsin a better place in which to work, live and prosper over the long term.

WEDA, CWI and WCA are not the only state entities to have recognized the need for change in how Wisconsin does business. Several other organizations and agencies have led recent efforts to explore Wisconsin's strategic economic development needs from many perspectives, including quality of life, local government alignment and resource sharing, venture capital capacity development and business retention incentives. Some of these studies outlined hundreds of tactical activities for improvement but, in our view, they lacked a bold strategy and a practical focus on doing "fewer things better" in state economic development. This competitiveness and positioning study was conceived as an effort to align "realistic and bold" solutions with Wisconsin's identified policy and programming weaknesses and elevate economic development strategy to a top priority statewide.

In summary, the primary objectives for the Wisconsin Competitiveness Study were to:

- Understand how Wisconsin compares against select regional, national, and global competitors on various business climate factors.
- Determine Wisconsin's competitiveness in selected target industries with regional competitors across the business life cycle.
- Recommend specific and executable economic development strategies to promote growth throughout the state.
- Promote consensus among stakeholders regarding Wisconsin's future economic development strategy.

Funders and Participants

Although WEDA, CWI and WCA spearheaded this effort, and the Wisconsin Economic Development Institute acted in an administrative role to oversee the process, this study has benefited from many participants. A diverse mix of business, legislative, political, academic, utility, organized labor, and community economic organizations and leaders signed on to this nonpartisan effort; many backed their support by contributing personal funding and significant personal time away from their daily responsibilities to guide the direction and "esprit de corps" necessary to make this report possible. These participants are listed here and acknowledged for their valuable insight. In addition, over 30 economic development entities throughout Wisconsin signed a resolution emphasizing the need for this study. A complete list of these organizations, as well as organizations and individuals who contributed financially to the study, is included at the end of the document.

Executive Committee Members:

Cory Nettles, Former Department of Commerce Secretary
Michael Knetter, Dean, Wisconsin School of Business
Tom Hefty, Retired Executive
Linda Salchenberger, Dean, Marquette Business School

Members of the Steering Committee:

Representative Peter Barca
Ron Becher, JPCullen
Laurie Benson, LB Unlimited
Eric Borgerding, Wisconsin Hospital Association
Mark Bugher, University Research Park
Senator Randy Hopper
Bruce Kepner, Alliant Energy
Kim Kindschi, University of Wisconsin System
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Scope of Work

The Deloitte-NKF team brought to this challenge passion, knowledge and experience regarding Wisconsin's past, present and future potential for economic development success. Team members were able to mine their individual insight into how the state has performed on recent expansion and retention projects for which Wisconsin has competed. Collectively, they bring a wealth of site selection, strategy and operations knowledge, skills and experience in advising corporate decision-makers across multiple industries, business functions, states, countries and special economic development projects. The team members selected for this assignment regularly conduct site selection projects and work with economic development agencies throughout the nation and abroad. The group leveraged this collective knowledge and network of relationships to research and corroborate leading practices across many variables that affect effective economic development.

Beyond this professional experience and insight, the project team deepened its understanding of the state's economic environment and competitiveness by reviewing numerous previous studies, including:

- Grow Wisconsin and Grow Wisconsin 2
- University of Wisconsin System's "Growth Agenda for Wisconsin"
- Competitive Mandate by Competitive Wisconsin
- Center on Wisconsin Strategy – 2008 Benchmark Report
- Wisconsin Manufacturers & Commerce – "Moving Wisconsin Forward"
- Wisconsin Technology Council's "Vision 20/20; A Model Wisconsin Economy"
- Wisconsin Taxpayers Alliance Benchmarks Survey
- Wisconsin Technology Council's "The Economic Value of Academic Research and Development in Wisconsin"
- 2006 Legislative Audit Bureau report of State Economic Development Programs
- Regional Economic Development studies conducted by Milwaukee 7, Thrive, Centergy, New North, Momentum West and other regional economic development reports
- Wisconsin Strategic Development Commission Report – 1985
- Wisconsin's Blue Ribbon Commission on 21st Century Jobs
- Wisconsin Manufacturing Extension Partnership's "Next Generation Manufacturing" study
- Review of national business climate rankings
- Wisconsin Policy Research Institute's "Falling Behind" report
- Wisconsin Way
- Research to Jobs – UW-System report

Deloitte-NKF’s review of the documents identified several common recommendations to improve Wisconsin’s economy:

- Raise the quality of the state's workforce and infrastructure.
- Build industry clusters in key sectors, including food processing, advanced manufacturing, medical products and services.
- Increase investment in research and development throughout the state, particularly leveraging innovation in traditional Wisconsin industries.
- Encourage a culture of entrepreneurship, venture capital and startup activity.
- Facilitate technology transfer and harness resources at Wisconsin colleges and universities.
- Reduce health-care costs and taxes on businesses and individuals in the state.

While these past and recent studies help portray the specific challenges to Wisconsin's economic competitiveness, the Deloitte-NKF team sought to enhance this body of work with an assessment that:

- Not only describes the problem and presents recommendations, but also concisely and logically presents the underlying evidence and analysis that leads to the recommendations.
- Offers a concise number of recommendations that state stakeholders can focus on and execute.
- Describes specific initiatives, potential operating models, funding strategies, and implementation considerations that would help advance the dialogue surrounding each recommendation towards execution.

With these specific goals and observations in mind, the study team set about assessing Wisconsin's economic strengths and weaknesses, identifying realizable opportunities for sharpening its competitive edge, and seeking consensus on what Wisconsin’s strategic bets should be for the future.

This report distills the team's approximately six months of analysis, which included a survey of current and former economic development officials in Wisconsin and other states in February 2010; an assessment of salient business climate constraints and competitive advantages; an evaluation of business-retention strategies, incubation programs and innovation supports; and a review of current state, regional and local incentives and potential policy opportunities. As was explained earlier, the overriding goal of WEDA, CWI and WCA in this nonpartisan process was to highlight "controllable" opportunities and "executable" options for Wisconsin's economic development practitioners and this coalition of public-and private-sector partners to rally around. The shared aim of the stakeholders was this:

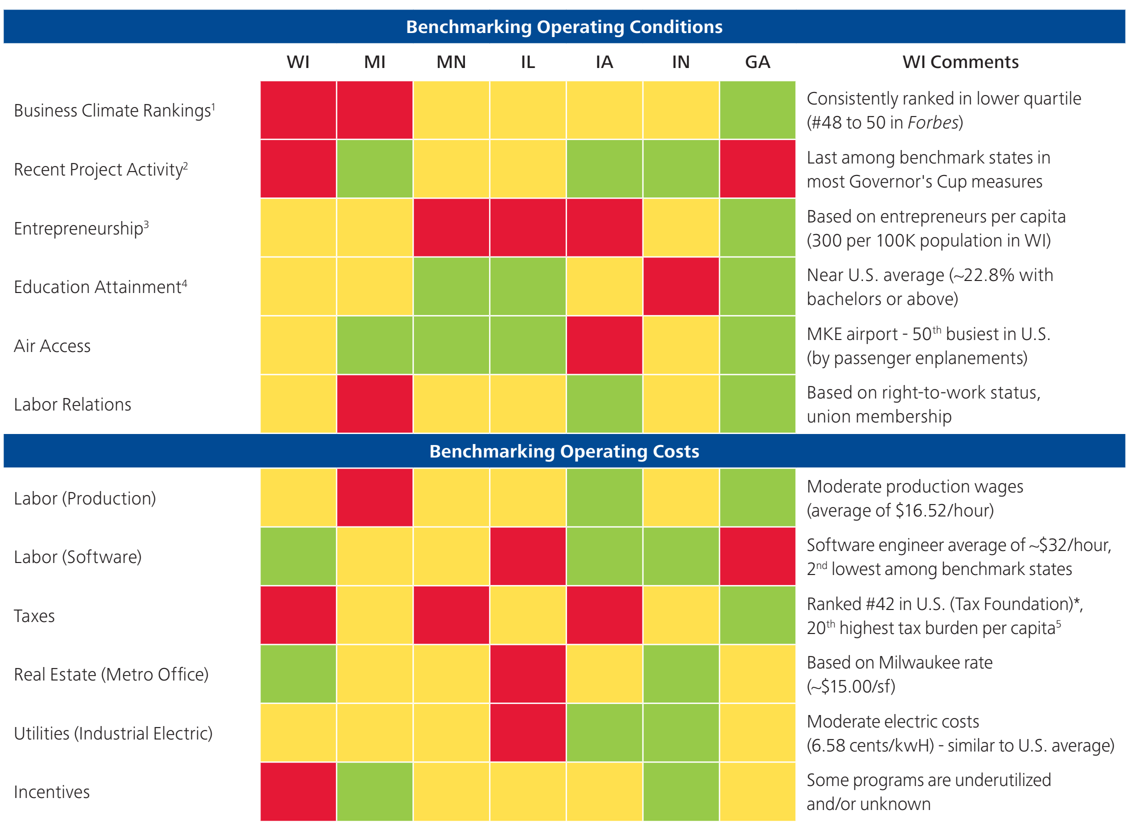
A cogent statewide economic development strategy targeted toward positioning Wisconsin for growth, with the ultimate goal of improving the lives of its people.

Benchmarking Wisconsin

The first step in repositioning Wisconsin's economic competitiveness entailed developing an understanding of how the state's business environment currently compares to key competitors. The study team assessed Wisconsin's business costs and conditions as compared to neighboring states and long-standing competitors Michigan, Minnesota, Illinois, Iowa and Indiana. Georgia was also selected as a benchmark state outside the Midwest as it is generally considered a leader in economic development practices. Factors such as entrepreneurship, project activity and business climate rankings were used to provide a snapshot of the benchmarked states' operating conditions, whereas operating costs included factors such as labor, taxes and utilities. Data for this benchmarking of states, as well as the analysis of select industries, were drawn from the U.S. Census, the Bureau of Labor Statistics, a number of different ranking entities and various business databases. Detailed findings are included in a separate appendix document.

As can be seen in the following figure, Wisconsin continues to have desirable business attributes, indicated by the green (more favorable) and yellow (moderately favorable). However, the state clearly has challenges, indicated by the red boxes. It is the only assessed state to be deemed a "less favorable" environment for incentives. It also received less than favorable marks for its consistently poor business climate rankings, its poor showing in *Site Selection* magazine's annual Governor's Cup rankings of economic development activity, and its ongoing perception as a high-tax state. As mentioned earlier, the mandate for this project is to focus on the business costs and conditions that are more readily "controllable." Conditions such as educational attainment and air access and costs such as utilities and labor do not fall within this mandate. However, these conditions and costs do factor into Wisconsin's overall business climate and must be understood in order to address gaps in competitiveness through more "controllable" attributes.

Figure 5: Comparing Costs and Conditions



*Primary source used for shading of heat maps

Most favorable | Moderately favorable | Less favorable

[1] *Forbes*, 2009
[2] *Site Selection Magazine*, 2010
[3] Kauffman Index, 2009
[4] Bachelor's or greater
[5] *Milwaukee Journal-Sentinel*, "The Tax Tale: 50-State Comparison", April 2010

A quick word about taxes: Wisconsin continues to be dogged by a reputation as a high-tax state. In reality, Wisconsin's tax environment is a mixed bag. The Tax Foundation's State Business Tax Climate Index suggests Wisconsin is the ninth-worst state for business taxes in 2010. That's actually an improvement from its perennial post among the worst five states throughout the 1980s and 1990s. A quick look beyond the negative overall ranking reveals that Wisconsin's business tax environment is relatively average in all categories except personal income tax. An extensive April 2010 article in the *Milwaukee Journal-Sentinel* pegged Wisconsin at a decidedly less-taxing ranking of No. 20 in terms of per capita tax burden. "The Tax Tale: 50-State Comparison" did acknowledge that personal income tax levels in Wisconsin are more onerous, comparatively, earning the state the No. 14 spot for highest burden. The comparatively higher personal income tax burden, and the associated perception, disproportionately impacts the higher-income knowledge workers Wisconsin strives to attract. The article also pointed out that the state's overall tax structure hits middle-income households particularly hard. However, corporate taxes were found to be considerably more favorable, by comparison. The article noted that, on several measures, business taxes ranked in the middle of the pack nationally. It cited a 2009 Council on State Taxation study that found that business' share of taxes accounted for only 39 percent of Wisconsin's state and local tax revenues, tying it for the 12th-lowest in the nation. Table 1 provides a more detailed picture of the Wisconsin tax environment.

One of the main drivers of this negative tax reputation is the perception that Wisconsin is a high-tax state for S Corporation filers, those business proprietors whose tax liabilities are structured on their personal returns, not corporate returns. To illustrate this issue, Deloitte Tax compared Wisconsin to several other states in terms of income tax burden for a hypothetical company, ABC, Inc. The scenario on the following page demonstrates how an S Corp.'s state location affects its overall tax liability. While the example is specific to an S Corp, it should be noted that many startup companies utilize alternate structures such as LLC's, which may have different tax implications.

Table 1. Benchmarking Wisconsin's Tax Environment

Category	WI	MI	MN	IL	IA	IN	GA
Taxes[1]							
Tax Rates (Corporate, top bracket)[1]	7.9%	4.95%[3]	9.8%	4.8%[2]	12.0%	8.5%	6.0%
Single Sales Factor Apportionment[2]	Yes	Yes	Yes, Phasing in	Yes, Phasing in	Yes	Yes	Yes
Combined Reporting in Place?[4]	Yes	Yes	Yes	Yes	No	No	No
Franchise Tax[1]	No	No	No	Yes, $1.00 per $1,000 of paid in capital	No	No	Yes, Max of $5,000
Tax Rate (Personal)[1]	7.75%	4.35%	7.85%	3.0%	8.98%	3.40%	6.0%
Tax Rate (Sales)[1]	5.0%	6.0%	6.875%	6.25%	6.0%	7.0%	4.0%
Inventory Taxes?[1]	No	No	No	No	Yes	No	Yes
Intangible Property Taxed?[1]	No	No	No	No	No	No	Yes
Business Personal Property Taxed?[1]	Not levied on manufacturing operations	Yes, but Renaissance zone can abate	No	No	Yes, but potentially abated at local level	Yes, but potentially abated at local level	Yes, but potentially abated at local level
Select Sales Tax Exemptions for Business-to-Business Transactions:							
Manufacturing Machinery Sales Tax[1]	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Utilities Sales Tax[1]	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Exempt
Farm Machinery Sales Tax[1]	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Taxable
Tax Rankings and Comparisons							
Tax Foundation Overall Tax Climate Ranking (1=best)[1]	42	17	43	30	46	29	12
Total State and Local Tax Burden (per capita, 2008)[1]	$4,194	$3,694	$4,688	$4,346	$3,589	$3,502	$3,735
State and Local Taxes as a % of Gross State Product, 2008[5]	4.6%	5.0%	4.3%	4.6%	4.6%	4.1%	4.1%
Property Tax Ranking (Tax Foundation)[1]	25	33	16	39	31	12	36

[1] All tax rates and tax exemption data from Tax Foundation, 2010 State Business Tax Climate Index and CCH Tax Database
[2] Does not include the 2.5% personal property replacement tax
[3] Does not include modified gross receipts tax of 0.8% on receipts over $350,000
[4] Center on Budget and Policy Priorities, http://www.cbpp.org/cms/index.cfm?fa=view&id=246
[5] Council on State Taxation Study, March 2010

Overview of S Corporation Taxation

The following example demonstrates how an S Corporation's state location impacts its overall tax liability:

ABC, Inc. is a medical device manufacturer. ABC, Inc. is an S Corporation owned solely by Mr. Jones. ABC, Inc. has revenue of $100 million, $10 million of taxable income, $10 million of property and $10 million of capital. Mr. Jones has taxable income of $250,000, which consists of wages he received from his employment at ABC, Inc. In 2009, assume that the following are also true:

- ABC, Inc. has no interest or dividend income.
- ABC, Inc. does not pay dividends.
- ABC, Inc. and Mr. Jones are not subject to AMT.
- ABC, Inc. only has nexus in its state of commercial domicile, and its income is sourced 100% to that state.
- For tax purposes, Mr. Jones resides in the same state where ABC, Inc. is located.
- Mr. Jones files as a single taxpayer.
- During 2009, Mr. Jones did not have any capital gains or losses, and did not participate in any installment sales. He also did not receive any dividends, interest, or other income from any source besides ABC, Inc.

Table 2. Benchmarking Expected Tax Liabilities of a Hypothetical S Corporation

	GA	IL	IN	IA	MI	MN	WI
Corporate Level State Tax Liability of ABC, Inc.	$1,750[1]	$150,000[2]	0	0	$1,295,000[3]	$2,000	0
Individual Level State Tax Liability of Mr. Jones on his Income	$14,810	$7,500	$8,500	$20,765	$10,875	$18,641	$16,512
Individual Level Tax Liability of Mr. Jones on ABC, Inc.'s Income	$600,000	$300,000	$340,000	$898,000	$435,000	$785,000	$775,000
Total Tax Liability[4,5]	$616,560	$457,500	$348,500	$918,765	$1,740,875	$805,641	$791,512

[1] Net worth tax
[2] Illinois requires S Corporations to pay a 1.5% Personal Property Tax Replacement Income Tax
[3] ($10,000,000 x .0495) = $495,000 Business tax; ($100,000,000 x .008) = $800,000 Gross receipts tax
[4] These amounts do not include any applicable surtaxes
[5] Total tax liability has not been reduced by applicable state tax credits

Let us now suppose that ABC, Inc. qualified for a $500,000 state research credit in 2009. All other facts remaining the same, the impact that this research credit would have on ABC, Inc. and Mr. Jones would be as follows:

Table 3. Benchmarking the Tax Effect of State Research Credit for Hypothetical ABC, Inc.

	GA	IL	IN	IA	MI	MN[4]	WI[4]
Corporate Level Tax Liability of ABC, Inc.	$1,750	$150,000	0	0	$1,295,000	$2,000	0
Corporate Level Tax Credit	*0*	*($150,000)*	*0*	*0*	*($500,000)*[2]		
Individual Level Tax Liability of Mr. Jones on his Income	$14,810	$7,500	$8,500	$20,765	$10,875	$18,641	$16,512
Individual Level Tax Liability of Mr. Jones on ABC, Inc.'s Income	$600,000	$300,000	$340,000	$898,000	$435,000	$785,000	$775,000
Shareholder Level Tax Credit	*($300,000)*[1]	*($300,000)*	*($340,000)*	*($500,000)*			
Total Tax Liability[3]	$116,560	$7,500	$8,500	$418,765	$1,240,875	$805,641	$791,512

[1] Georgia limits the total amount of research credits taken by the shareholder to 50% of the corporation's total tax liability during any tax year.
[2] Michigan limits the total amount of research credits taken by the corporation to 65% of the corporation's total tax liability (here, $500,000 is only 38.6% of ABC, Inc.'s total tax liability).
[3] These amounts do not include any applicable surtaxes.
[4] The credit does not pass out to the shareholder.

For purposes of this example, we have made the following assumptions:

- A research credit amount of $500,000 is attainable in each state (i.e. there is no cap on the total amount of the research credit).
- ABC, Inc. does not qualify for any other credits during 2009.
- ABC, Inc. does not participate in any programs that limit the amount of the research credit available to it.
- ABC, Inc. has submitted any and all filings required for S corporation recognition at the state level.
- Nonresident withholding requirements do not apply, and all tax is remitted at the individual level.

The hypothetical but not atypical scenario on Page 14 indicates that Wisconsin's taxing structure is more nuanced than a blunt instrument of rankings tends to suggest. However, perception is often reality. An ongoing reputation as a high-tax state does appear to make Wisconsin a less-favorable environment for growing, attracting or expanding businesses. This is a recurring finding in the benchmarking of business costs for selected industries, which is detailed later in this report. There are changes the state could explore to make itself a more attractive environment for business, especially compared to states that are succeeding in winning location and expansion projects. But any steps Wisconsin takes regarding taxes need to address perception as well as reality.

Wisconsin's Capabilities Maturity Model

Beyond benchmarking Wisconsin against comparison states in terms of fundamental business costs and conditions, the Deloitte-NKF study team specifically assessed the various states' economic development organizations based on multiple operating dimensions. This Capabilities Maturity Model (CMM) provides a more granular understanding of how Wisconsin's economic development structure and efforts compare to other states that are vying to retain, grow and attract businesses and jobs. The CMM represents a quantitative and qualitative look at 10 capability dimensions that are key to economic development success:

- Strategy
- Organization
- Partnerships
- Marketing and branding
- Attraction process
- Retention process
- Entrepreneurship and innovation economy
- Budgeting and funding
- Incentives
- Technology

The model draws on the study team's extensive professional experience and broad understanding of economic development processes and practices and of business site selection criteria. Information and insight regarding specific agencies and operations were gleaned from interviews with current high-ranking state economic development officials, past employees of state economic development organizations, and individuals who collaborated with the various state entities. Specifically, the CMM compiles the views of past and present representatives from the Wisconsin Department of Commerce, the Michigan Economic Development Corporation, the Minnesota Department of Employment and Economic Development, the Illinois Department of Commerce and Economic Opportunity, the Iowa Department of Economic Development, the Indiana Economic Development Corporation, the Georgia Department of Economic Development, Wisconsin Energy, M7, New North, THRIVE, Momentum West, Centergy, 7 Rivers Region, World Business Chicago and Electric Cities Georgia. In addition to the interviews, data to develop the CMM were gathered through state websites, annual reports and other third-party sources. This report only includes a CMM diagram and detailed capabilities discussion for Wisconsin. However, select details of the other benchmark states' economic development capabilities are included in the following section.

Findings from the interviews and other data were used to categorize the 10 dimensions into four classifications of capabilities development: leading, advanced, common and outdated. Broadly defined, the more desirable "Leading" and "Advanced" capabilities included characteristics such as:

- Focused, consistent delivery
- Simplicity of tools, programs and strategies
- Commitment to addressing weakness
- Skilled, tenured professionals
- Clear voice from the top
- Robust industry capability
- Exclusive agency focus on economic development
- Long-term view

Conversely, the characteristics of the "Common" and "Outdated" capabilities classifications included:

- Bureaucratic organizations and operations
- No clear voice from the top
- Multiple agency responsibilities beyond economic development
- Complex intake process
- High turnover
- Poor regional partnerships
- Budget fluctuations
- Changing strategies and poor record of implementation

The following table provides more detail on the specific criteria used to assess each state along the 10 capabilities dimensions. The bold, italized text indicates the characteristics of Wisconsin's state-level economic development efforts.

Table 4. Economic Development Capabilities Maturity Model Dimensions & Criteria

Capability	Leading IV	Advanced III	Common - II	Outdated I
Strategy	• Integrated industry-based strategy • Strategy impacts all primary procedures and tools • Measurement and external accountability (defined metrics)	• Integrated industry-based strategy • Strategy impacts all primary procedures and tools • For purposes of this example, the assumptions were: • A research credit amount of $500,000 was attainable in each state. (i.e., There is no cap on the total amount of the research credit.) • ABC, Inc. did not qualify for any other credits during 2009. • ABC, Inc. did not participate in any programs that limit the amount of the research credit available to it.	• ***General business attraction and retention focus**** • ***Mission statement defined for organization**** • Some metrics created to measure organization's performance	• ***Reactive strategies for attraction and retention**** • ***No (or outdated) mission statement**** • ***Limited metrics to define success****
Organization/ People	• Market-leading turnover and compensation levels • Will hire top-talent from industry • Defined career path • Top ED position filled by professional and survives gubernatorial cycle	• Relatively low turnover • Above-average compensation • Industry-specific training	• ***Average turnover**** • Average compensation • Economic development skills training, but no industry training • ***Defined roles and competencies****	• Above-average turnover • ***Below-average compensation**** • ***Training is not a focus**** • ***No established career path****
Partnerships	• ***State acts as funding resource for local stakeholders**** • Catalyst for strategic partnerships on an ongoing basis	• Structured relationships between state and local agencies • ***Regular interaction with local agencies**** • ***Regular contributions by additional stakeholders (utilities, community colleges, workforce development, etc.)****	• ***Periodic interaction with local partners**** • ***Proactive efforts with partners (e.g. marketing)****	• Limited interaction • Partnerships generated on reactive/ad-hoc basis • Partnership value is not leveraged
Marketing/ Branding	• Well-funded and responsive to market opportunities • Industry-focused outreach through multiple mediums • Leading brand in target industries	• Significant marketing budget • Use multiple mediums for general outreach (print, TV, online, social media, etc.)	• Moderate but consistent marketing budget • Sporadic participation in industry conferences/tradeshows • General outreach efforts, including visits to site consultants	• ***Limited marketing budget**** • ***Inconsistent messaging**** • ***Inconsistent delivery**** • ***Lack of outreach****
Business Attractions	• Leverage existing supply chains of companies in the state for attraction • Demonstrate industry expertise to incoming prospects • Develop customized offering (people, incentives, messaging, etc.) to individual prospects • Rapid and flexible response time	• Regional offices with single point of contact • Consistent quality of service to potential investors • Ability to respond to online RFI's	• Dedicated resources and tools to respond to RFI's • Regional offices with multiple points of contact	• ***No (or minimal) dedicated resources to respond to RFI's**** • ***Slow or inconsistent response time**** • ***Respond with outdated information/brochures****

**Indicates Wisconsin Characteristic*

Continued on next page

Table 4. Economic Development Capabilities Maturity Model Dimensions & Criteria, continued

Capability	Leading IV	Advanced III	Common - II	Outdated I
Business Retention	• Manage a regular, proactive, industry-based, state-wide calling program • ***Strategic focus on retention (ability to customize programs)**** • Provide CRM system for regional and local resources	• ***Active departmental capability and resources**** • CRM system in place for state use • ***Reliance on local economic development groups (with greater transparency)**** • Conduct analytics on retention needs and trends	• ***Regional retention capability**** • Periodic calling program on major companies • ***High reliance on local economic development groups for retention efforts (with limited transparency)****	• ***Reactive approach**** • Constrained by inflexible programs • Disconnected from existing industry base
Entrepreneurship	• State-level strategy that acts to change perception of the state • Provide capital and operating funds to start-ups • Provide funds to support acceleration of start-ups • Act as a catalyst to support technology transfer	• Provide capital to third parties to be invested in start-ups • ***Provide information and access to collaborative partners (e.g. universities)****	• ***Advocate start-ups and provide information regarding capital resources (low interest loans and incentives)**** • ***Several initiatives including SBA, MEP, SBIR network, WEN, and Technology Council****	• No program exists • Entrepreneurship is not a strategic focus in the state
Budget/ Funding	• High per capita spend (Consistent YOY) • Flexibility in spending decisions • Strategic priorities are well-funded consistently • Portion of budget able to support local and regional efforts	• Consistent budget • Above average per capita spend • Flexible incentives and marketing budget • Budget is tied to strategic focus of organization	• Consistent budget for economic development operations • Below average per capita spend	• ***Low per capita spend*** • ***Multiple priorities with limited budget*** • Highly variable budgets from year-to-year
Incentives	• Relevant to the market, fully aligned with state strategy/industry targets • Highly flexible and accessible • Substantial bottom-line value	• ***Incentives aligned with many state strategies/industry targets**** • Compliance requirements are streamlined • Above average bottom-line value	• ***Incentives are somewhat relevant to needs of today's companies**** • ***Rigid compliance procedures and acquisition process**** • ***Average bottom-line value****	• ***Incentives outdated based on company needs**** • Limited flexibility in use • Cumbersome compliance procedures • ***Inconsistent funding**** • ***Limited bottom line value****
Technology	• Enterprise-wide CRM systems (Siebel, Salesforce.com, etc.) • Conduct business analytics and project dashboards • Integrated social media presence across multiple platforms • Web-enabled GIS sites and buildings database	• Robust online presence with database of state information • Has GIS sites and buildings database (internal)[1] • ***Some social media presence (LinkedIn, Facebook, etc.)****	• ***Online presence includes relevant information (contacts, basic demographics, etc.)**** • ***Some internal relationship and project tracking tools (Excel, Access, etc.)****	• ***Limited online presence**** • Inaccessible and outdated data repository

****Indicates Wisconsin Characteristic***

[1] Currently under development, will be administered by WEDA and expected to be live in Fall 2010

As the bold, italized text in Table 4 highlights, Wisconsin's economic development capabilities are generally consistent with those of “Common” and “Outdated” state economic development programs. There are a few bright spots: Wisconsin appears to excel in the areas of partnership funding and customizable retention programs. Its alignment of incentive programs with overall strategies, its collaborative partnering for entrepreneurship, departmental resources and cooperation with local entities regarding business retention, social media presence, and strong collaboration with local agencies and community stakeholders are all comparative strengths. However, in many key areas, Wisconsin's economic development capabilities are unexceptional or obsolete. It should be noted that “Common” or even “Outdated” characteristics do not necessarily correlate with unsuccessful performance and practices. These less-desirable characteristics may be sufficient if they themselves are effective and efficient or they at least do not outweigh other, better state attributes and/or capabilities.

The following table maps Wisconsin's position along the top dimensions of the Capabilities Maturity Model. The good news is that Wisconsin's capabilities appear to be strong in some dimensions: partnerships, retention, and encouraging entrepreneurship. However, in two areas central to economic development success — marketing and attraction — Wisconsin's capabilities appear to be woefully outmatched.

Table 5. Wisconsin's Capabilities Maturity Model Positioning

CMM Observations for Wisconsin

Capabilities	Leading IV	Advanced III	Common - II	Outdated I	Rating Rationale
Strategy			■		• Focused strategy on manufacturing growth and entrepreneurship • Role as facilitator and enabler, especially for regional or local organizations
Organization/Staff			◆		• High turnover at Secretary level (inconsistent leadership) • Vast organizational responsibilities and mandate • Below average pay, particularly at entry level • 42.5 FTE's in Business Development; personnel in other entities also involved in this role
Partnerships		◆			• Strong focus on local or regional partnerships including M7, New North, and THRIVE • Also focused on partnerships with universities and MEP's • Unstructured relationships that tend to be primarily initiative driven
Marketing/Branding				◆	• No statewide marketing effort (previously done through Forward WI); marketing primarily driven through local / regional initiatives
Attraction				◆	• Reactive to client inquiries • Supportive of regional efforts
Retention		◆			• Highly focused on manufacturing innovation and broadening existing industry • Responsive and creative solutions to opportunities
Entrepreneurship			◆		• Focus on VC tax credits • Some acceleration capabilities through university partnerships/MEP
Budgeting/Funding				◆	• Business Development operating budget of $3.4 million + ~$43.2 million funding for partner entities
Incentives			◆		• Several new incentive programs recently passed • Complicated and poorly communicated to potential customers
Technology			◆		• Some utilization of social media; current Commerce website contains outdated information and is hard to navigate • Outdated CRM system based in MS Access

Key perceptions of Wisconsin's economic development capabilities and performance emerged out of the interviews with current and past economic development practitioners, current Department of Commerce personnel, and two former Secretaries of Commerce. Interviews revealed that Wisconsin was given good marks for its recent achievement in retaining several large employers, such as Mercury Marine, and supporting expansion. Respondents cited some of the state's new incentive programs as capable of having an impact. Regional and local economic development groups were praised for their effectiveness in providing a "face for the customer" in their areas. While counties in Wisconsin are not as empowered to provide local incentives as those in many other states, county involvement is often critical to retention efforts, again evidenced in the Mercury Marine project. Although the work of these closer-to-the-ground entities was viewed positively, there were negative corollaries to that observation. State-level economic development connections to businesses were viewed as reactive and fragmented. In particular, those interviewed described the Commerce Department's role as more of a facilitator or enabler than as a single-minded champion of Wisconsin's economic well-being. This was partially attributed to what was depicted as a vast organizational mandate for the Wisconsin Department of Commerce, with far-ranging duties beyond its economic and business development function that encompass community development, housing, trade, safety and buildings, and petroleum tank regulation. In addition, the state's efforts to seed and nurture entrepreneurship were seen as diffuse, facilitated through multiple organizations, lacking a single point of contact and yielding inconclusive results. Although some programs were cited as valuable, Wisconsin's incentive programs in general were viewed by interviewees as poorly communicated and feebly marketed to potential users. Given their observations on the state's limited marketing and communications, distributed focus and reactive leadership concerning economic development, it's not surprising that those interviewed maintained that Wisconsin's value proposition was little known in the corporate world.

How Other States Compare

The following table shows how Wisconsin stacked up in 2009 on a number of key performance indicators, ranging from investment and venture capital to personal income and employment. The table clearly telegraphs Wisconsin's economic performance as mediocre, at best. The following section looks at each state, distilling key measures of challenges and strengths.

Table 6. Key Performance Indicators, 2009

	KPI	WI	IL	MN	MI	IA	IN	GA
2009	Wins[1]	44	133	19	65	27	134	153
	Jobs[1]	2,053	967	218	5,158	2,010	8,874	7,938
	Investment[1]	$4,603 M[4]	$3,447 M	$50 M	$1,680 M	$72 M	$2,669 M	$772 M
	Patents[2]	1,887	3,615	2,972	3,516	730	1,246	1,666
	Patents per Capita	334.2	359.3	565.8	271.8	242.9	194.6	169.3
	Venture Capital $[3]	$23 M	$196 M	$262 M	$132 M	$84 M	$158 M	$294 M
	Venture Capital $ per Capita	4.1	19.5	49.9	10.2	27.9	24.7	29.9
	State per Capita Personal Income[5]	$36,822 (26)	$41,411 (14)	$41,552 (13)	$34,025 (37)	$36,751 (27)	$33,725 (40)	$33,786 (39)
	Personal Income Growth (Rank in U.S.)[5]	(2.5%) (32)	(2.7%) (33)	(3.3%) (38)	(2.7%) (34)	(2.0%) (24)	(2.4%) (30)	(3.1%) (37)
	Employment Growth (%)[6]	(4.5%)	(4.9%)	(4.1%)	(6.9%)	(3.0%)	(5.7%)	(5.5%)
	Unemployment Rate (Rank in U.S.)[7,8]	8.5% (30)	10.1% (37)	8.0% (21)	13.6% (51)	6.0% (4)	10.1% (37)	9.6% (35)

[1] From *Financial Times* FDImarkets.com database; based on media tracking of public, cross-border project announcements. Data may not be fully comprehensive, and does not include retention or in-state expansion projects
[2] U.S. Patent and Trademark Office, Patent Counts Report
[3] National Venture Capital Association, *MoneyTree* Report, 2010; data represents calendar year venture capital investments in 2009
[4] $4.4 Billion of this number is due to Enbridge Energy Pipeline investment in Superior; remaining investment is ~$200 M in 2009
[5] Bureau of Economic Analysis, Per Capita Personal Income, Personal Income, and Population, by State and Region 2008-2009
[6] Derived from U.S. Bureau of Labor Statistics, Employees on nonfarm payrolls in States and selected areas by major industry, 2006-2009
[7] As of December 2009, U.S. Bureau of Labor Statistics, Unemployment Rates for States Annual 2009 Table
[8] Rank out of 51 (includes District of Columbia)

Georgia

Georgia stacks up well against the other comparison states in terms of college graduates, with nearly 26 percent of adults holding a bachelor's degree or more. On the other end of the educational spectrum, however, it is far more challenged. Nearly 14 percent of its adult population has less than a high school education. Fewer than 5 percent of Georgia's workers are union members. Unemployment in Georgia, at 10.4 percent in April 2010, exceeded the national average. Median household income in Georgia in 2009 was a relatively healthy $50,228. However, per capita personal income in Georgia in 2009 was only $33,786. Only Indiana's was lower among the comparison states. Labor costs in Georgia for lower-skilled production, freight and customer service jobs were lower than in Wisconsin in 2009. Among general laborers in particular, Georgia workers earned $6 less per hour, on average, than did Wisconsin workers. However, higher-skilled workers in Georgia, such as engineers and computer programmers, saw higher average hourly pay than did their Wisconsin counterparts.

The Georgia Department of Economic Development is funded through public resources, with an annual operating budget of $15 million for economic development and $28 million overall. Similar to the multiple mandates of Wisconsin's Department of Commerce, the GDED is charged with global commerce (which combines business development and trade functions), tourism, film and entertainment. The GDED has 30 to 40 full-time employees engaged in economic development activities, particularly targeting opportunities in life sciences, renewable energy, automotive, defense, food and agribusiness, and advanced manufacturing. Georgia is flexing its economic development capabilities, with strong, leading efforts in partnerships and entrepreneurship. Georgia's strategy, organization, marketing and branding, attraction, retention, and budgeting and funding all merit advanced placement on the Capabilities Maturity Model.

Indiana

Median household income stood at $48,037 in Indiana in 2009. Only Iowa had a lower household income among the comparison states. Among the comparison states, Indiana has the lowest educational attainment, with only 20 percent of adults holding a bachelor's degree or more; 49 percent of adults age 25 or older have a high school education or less. Ten percent of Indiana's workforce was looking for work in April 2010. Little more than 10 percent of Indiana's workers are union members. Indiana ranked near the bottom in terms of worker's compensation. Clearly, Indiana's economic environment is challenging. There are indications, however, that actions the state has taken to cultivate its business landscape are bearing fruit. Indiana saw more than four times the number of new or expanded manufacturing projects in 2009 than did Wisconsin, according to *Site Selection* magazine's Governor's Cup rankings. CNBC ranked Indiana as the No. 21 State for Business in 2010, and *Forbes* listed it as No. 15.

The Indiana Economic Development Corporation is funded through both public and private resources, with an annual operating budget of about $40 million. The IEDC has approximately 65 full-time employees engaged in business and economic development activities, particularly targeting opportunities in life sciences, renewable energy, automotive and advanced manufacturing. Indiana's advancing economic development capabilities may help position the state to seize on opportunities for growth and expansion when the economy begins to improve. The IEDC has developed a focused, industry-targeting strategy and a flexible, simplified format for incentives. It seeds and nurtures entrepreneurship through its Fund 21 venture capital, and it has managed to maintain a consistent annual operating budget of private and state funding throughout the economic crisis.

Illinois

Illinois saw more than double the number of manufacturing projects from 2007 to 2009 that Wisconsin did, according to *Site Selection* magazine's Governor's Cup rankings. It saw 5.7 projects per 100,000 people, compared to only 3.6 in Wisconsin. Per capita personal income in Illinois was 12 percent higher than in Wisconsin, at $41,411. However, its unemployment rate stood at 11.2 percent in April 2010, among the nation's worst. Educational attainment in Illinois is significantly higher than in Wisconsin, with more than 26 percent of adults 25 or older having a bachelor's degree or more. Despite a higher percentage of the Illinois workforce being represented by unions, 18.3 percent compared to Wisconsin's 15.8 percent, average hourly wages for production, material handling and freight laborers were slightly lower in Illinois. However, labor costs for engineers and computer programmers were significantly higher in Illinois than in Wisconsin in 2009. Illinois was rated significantly better than Wisconsin in areas of worker's compensation and unemployment insurance. Real estate costs for large professional office space were nearly three times as high in Illinois as in Wisconsin, although rents on small office and industrial space were lower. Illinois saw nearly double the number of patents in 2009 as did Wisconsin — 3,615 compared to 1,887 — and Illinois far eclipsed its northern neighbor in terms of venture capital investment, attracting $196 million compared to Wisconsin's $23 million.

The Illinois Department of Commerce and Economic Opportunity is funded through public resources, with an annual operating budget of $42.4 million. Similar to the multiple mandates of Wisconsin's Department of Commerce, the IDCEO is charged with business development, workforce development, community development, tourism and film. The IDCEO has 50 full-time employees engaged in economic development activities, particularly targeting opportunities in life sciences, defense and advanced manufacturing. The Capabilities Maturity Model reveals the IDCEO to be outdated in all critical dimensions except for entrepreneurship and budgeting. Its strategy is primarily market-reactive. It lacks strong relations with regional and local economic development organizations. There is minimal marketing outside of Chicago, limited grants for incentives and low use of technology.

Iowa

Iowa's business environment features lower labor costs than Wisconsin in nearly all elements examined. General and construction laborers in Wisconsin, for example, earned nearly 30 percent more, on average, than did those in Iowa, with hourly wages of $19.43 and $14.99, respectively. Wage differences were less pronounced in areas of production, administration and computer programming, averaging less than $1 more per hour in Wisconsin than in Iowa. Only 11 percent of Iowa's workforce are union members, compared to 15 percent of Wisconsin workers. Educational attainment was similar in both states, with little more than 22 percent of adults 25 or over holding a bachelor's degree or higher and roughly a third of the adult population completing no education beyond high school. Wisconsin's median household income of $51,361 was higher in 2009 than was Iowa's $47,968. However, per capita personal income was more similar — $36,822 in Wisconsin, compared to $36,751 in Iowa. That represents a 44 percent increase in Iowa over 10 years. Unemployment in Iowa stood at 6.9 percent in April 2010. The Capabilities Maturity Model suggests one reason why Iowa's unemployment rate stands far below the national average: Iowa is outperforming other states in efforts to retain, expand and attract businesses and jobs. In particular, Iowa was rated as leading or advanced on the key dimensions of strategy, organization, partnerships, attraction and budgeting. Iowa was No. 6 in CNBC's 2010 ranking of Best States for Business and No. 5 in Gallup-Healthways' 2009 Wellbeing Index.

The Iowa Department of Economic Development is funded through public resources, with an annual operating budget of $8 million. Similar to the multiple mandates of Wisconsin's Department of Commerce, the IDED is charged with business development, community development, housing, workforce development, trade, regulatory, travel and tourism. The IDED has 140 full-time employees engaged in economic development activities, particularly targeting opportunities in life sciences, renewable energy and advanced manufacturing. Iowa has been succeeding in advancing its economic development capabilities. Its strategy has a clear focus on delivering information and services. The IDED has cultivated an organizational culture of innovation and is highly responsive to opportunities for attracting businesses into the state. It seeks industry expertise to assist in managing projects, and it leverages private dollars for marketing.

Michigan

It's no secret that Michigan is withering under the worst unemployment rate in the nation, with 14 percent of its workforce looking for jobs. It's also no secret that Michigan continues to have a strong union presence, with nearly 20 percent of workers represented by organized labor. Median household income in Michigan in 2009 was $48,621. A comparable share of Michigan's adult population is college-educated as in Wisconsin, but Michigan has a greater portion of adults — nearly 12 percent — with less than a high school education. In 2009, Michigan ranked in the bottom 10 states on *Forbes'* ranking of Best States to Do Business and on CNBC's rankings for business. Real estate costs for both office space and large metropolitan industrial space were significantly higher in Michigan than in Wisconsin.

Michigan's difficult economic environment could have been even worse if not for the efforts of the Michigan Economic Development Corporation(MEDC). The MEDC is building capacity and positioning the state to be more competitive as the economy begins to improve. The Capabilities Maturity Model rates the MEDC as leading in budgeting and incentives, and advanced in the other eight dimensions. In particular, the MEDC benefits from a clear focus on targeted industries and regional retention, aggressive and consistent marketing, a shared branding platform, a streamlined yet flexible process for incentives, and a brawny annual operating budget of roughly $200 million, funded through both public and private resources. The MEDC is responsible for business development and tourism, and has about 185 full-time employees engaged in economic development activities, particularly targeting opportunities in life sciences, renewable energy, defense and advanced manufacturing.

Minnesota

Minnesota has the highest level of educational attainment among all the comparison states. Nearly 28 percent of adults age 25 or older have completed a bachelor's degree or more; on the other end of the educational spectrum, only 6.9 percent of adults have less than a high school education. Among the comparison states, Minnesota enjoyed the highest household income in 2009; at $56,842, it is nearly 11 percent higher than median household income in Wisconsin. Minnesota's unemployment rate stood at 7.1 percent in April 2010, significantly better than Wisconsin's 8.5 percent and the national average of 9.9 percent. Minnesota has a comparable share of its workforce represented by unions — 15.7 percent — as does Wisconsin at 15.8 percent. Yet, in a sign that Minnesota is also a hub of emerging activity, the state attracted more than 10 times the amount of venture capital investment — $262 million — than Wisconsin did.

Although Minnesota's economic environment appears to be more inviting than Wisconsin's, the two states' economic development capabilities are comparable, adhering to common and outdated practices and positions. Similar to the multiple mandates of Wisconsin's Department of Commerce, the Minnesota Department of Employment and Economic Development is charged with business development, community development, trade, public infrastructure and workforce development. Under the Capabilities Maturity Model, the MDEED's broad, informational agenda represents a somewhat reactive economic development strategy. The MDEED is funded through public resources, with an annual operating budget of roughly $6 million. The MDEED has 72 full-time employees engaged in economic development activities, particularly targeting opportunities in life sciences and renewable energy.

Wisconsin's Competitiveness in Select Industry Sectors

Beyond a broad assessment of how Wisconsin's business environment and economic development activities compared to neighboring and other competitor states, the agencies that commissioned this report — WEDA, CWI and WCA — sought a better understanding of Wisconsin's competitiveness and positioning in sample industries. The five industries selected by committee for detailed analysis were: food and agriculture-related production, financial services (including insurance and real estate, known collectively as "FIRE"), medical device manufacturing, renewable energy manufacturing, and software development. As Table 7 indicates, these five industries largely overlap the state's nine established and emerging clusters, as previously identified by Forward Wisconsin.

The industries that were selected for detailed analysis were to serve as examples of Wisconsin's general competitiveness, not to suggest the industries that should be targeted as "strategic bets" for state economic development intervention. As will become clear in the comparison of each industry individually, these sample industries, with their varied workforce, location, capital and other needs, reveal similar gaps and weaknesses in Wisconsin's competitiveness and positioning.

The five benchmark industries represent a wide range of corporate functions, as well as various stages of the industry life cycle. For example, the FIRE industry is relatively mature, and comprised mainly of headquarters, back office, sales, or other office functions. By contrast, renewable energy manufacturing is an emerging/growth stage industry, and much of the investment lies in research and development or manufacturing functions. The varied functions of these industries, combined with the varied stages of their development suggest each have different criteria for a healthy business environment. Table 8 details many of the critical factors that drive site location choices for each of the benchmark industries. Presence of relevant talent and labor quality are critical to all of the selected industries and, therefore, were not listed individually in the table. Other issues, such as labor costs and taxes, cut across the industries, but each industry has its own mix of priorities. For example, sites and permitting are critical to the manufacturing-oriented functions of the food production, renewable energy, and medical device industries, but they are not key deployment drivers for software or FIRE operations. The remainder of this section of the report examines the critical needs of these benchmark industries individually and analyzes how Wisconsin currently meets those needs compared to other locations. As will be seen, the issue of sites and permitting, along with a perception of high taxes and limited access to incentives, arises as a recurring challenge across several of the benchmark industries.

Table 7. Industries Selected for Focused Analysis[1]

Industry or Cluster
Renewable Energy Manufacturing
Agriculture, Dairy, and Food Processing
Software Development
Medical Device Manufacturing
FIRE (Financial Services, Insurance & Real Estate)

[1] Selected during kickoff meeting on 4/1

Table 8. Critical Location Drivers for Benchmark Industries

Industry	Functional Focus	Life Cycle Applicability	Select Critical Location Drivers[1]
Agriculture, Dairy, and Food Processing	• Manufacturing	• Growth / Mature	• Operating costs (labor, utilities) • Utility capacity / quality • Sites/permitting • Market access
Medical Device	• Manufacturing • R&D	• Growth / Mature	• Operating costs (labor, taxes) • Sites / permitting • Quality of life • Research / scientific cluster
Software Development	• Development center / back office	• Emerging / Growth	• Quality of life • University presence and educational attainment • Perception as a software hub • Access to capital • Operating costs (labor, taxes)
Financial Services, Insurance, and Real Estate (FIRE)	• Headquarters • Back office / support center	• Mature	• Operating costs (labor, real estate, taxes) • Air access • Quality of life • Natural disaster risk • Regulatory environment
Renewable Energy	• Manufacturing • R&D	• Emerging / Growth	• Operating costs (labor, freight, taxes, utilities) • Supplier / market access • Renewable portfolio standards • Access to capital

[1] Presence of relevant talent (by industry and occupation), and labor quality, are key drivers for each benchmark industry, and therefore not listed individually. Critical location drivers derived from Deloitte / NKF location advisory experience.

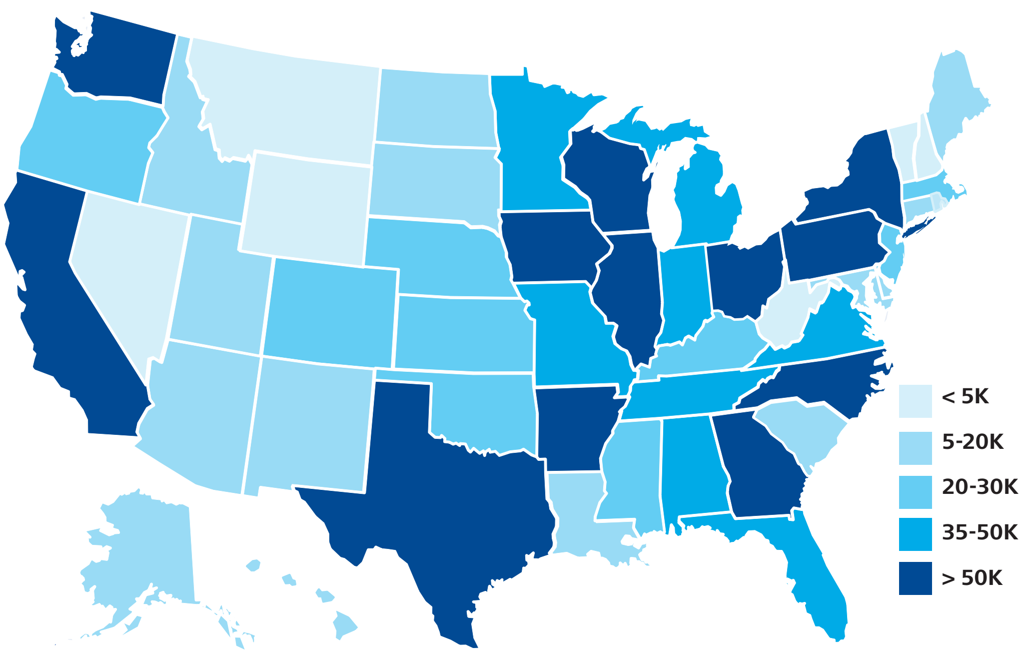
Agriculture, Dairy, and Food Processing

Food manufacturing continues to expand in the United States and is relatively "recession resistant" compared to most other industries. Despite the current economic contraction, the nation's population continues to grow, and all those people need to eat. So the national trend regarding food production — mirroring the nation's much-watched waistline — is growth. Wisconsin appears to have been comparatively effective in capitalizing on this expansion. In recent years, Wisconsin has outpaced most of the benchmark states in generating food-related investment, both in terms of jobs and per capita and capital expenditures, according to *Financial Times' fDi Markets* database. Several regional efforts across the state target food-related manufacturing. For the purposes of this report, agriculture, dairy and food processing focuses on two primary North American Industry Classification System (NAICS) codes:

- 311 – food manufacturing
- 312 – beverage manufacturing

The following map graphically illustrates that Wisconsin is one of the national leaders in food manufacturing employment. With roughly 63,000 workers employed in the industry, Wisconsin ranks No. 7 in the nation in terms of food, dairy and agriculture employment. Only 11 other states employ more than 50,000 workers in the industry.

Figure 6. Food Manufacturing Employees by State



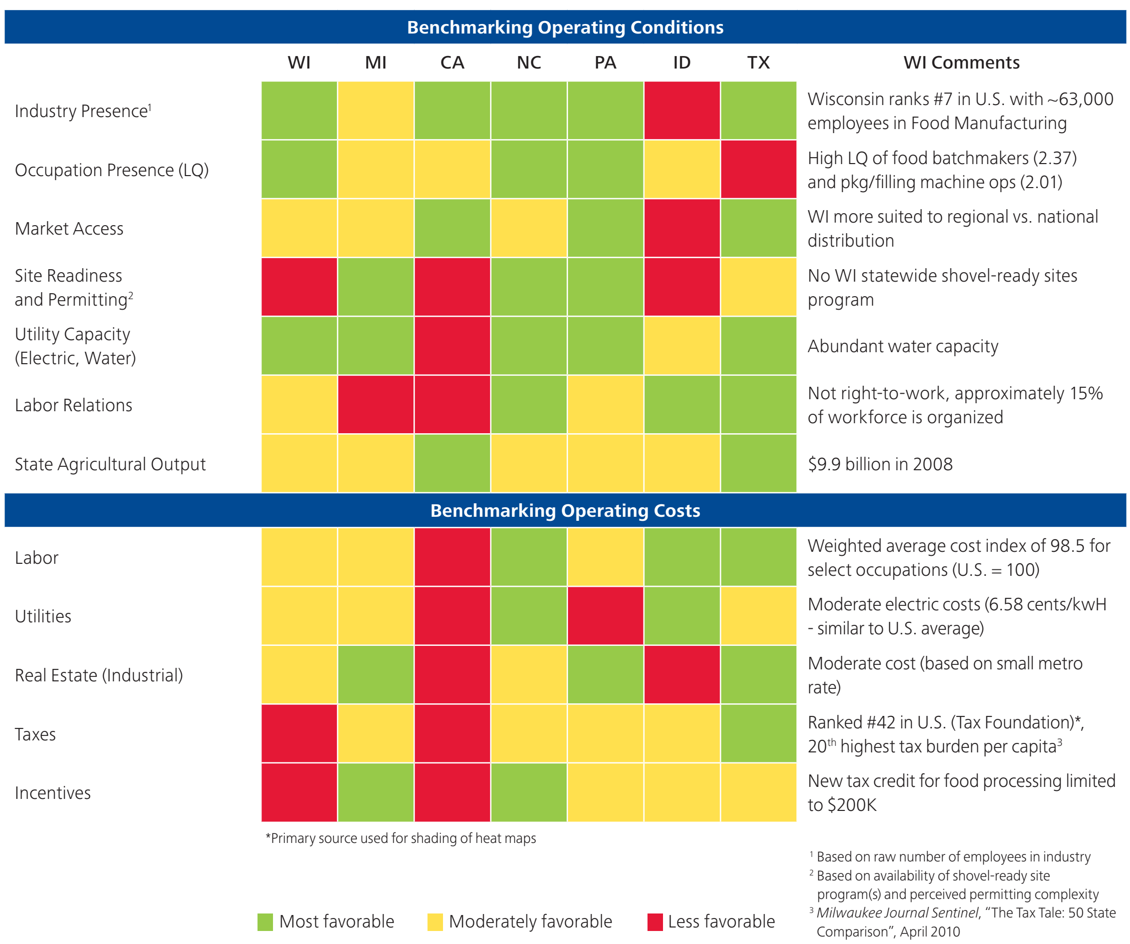
WI Ranks # 7 in the U.S. with ~63K Food Mfg. Employees

The following figure highlights how Wisconsin's environment for food production compares to benchmark competitor locations. In summary, Wisconsin continues to be fertile ground for attracting and growing food manufacturing. As Figure 7 shows, the state has many favorable characteristics to support a thriving food industry, including:

- Large existing food industry presence.
- High concentration of relevant occupations.
- Robust utility capacity (particularly water).
- Moderate real estate costs.

However, there are clear challenges to its competitiveness, as indicated by the red blocks. The state's lack of certified, shovel-ready industrial sites puts it at a disadvantage in terms of sites and permitting, which is a critical location driver for agriculture, dairy and food processing. The state's limited incentive programs — including a new tax credit for food processing that is capped at $200,000 — do little to encourage capital-intensive investment compared with the offerings of most benchmark states. Wisconsin's location at the nation's northern edge stands as a logistical obstacle for national food distribution. Wisconsin can do little to overcome this geographical challenge. However, the challenges it faces related to sites and permitting and incentives are controllable.

Figure 7. Benchmarking Agriculture, Dairy & Food Processing Conditions & Costs



[1] Based on raw number of employees in industry
[2] Based on availability of shovel-ready site program(s) and perceived permitting complexity
[3] *Milwaukee Journal Sentinel*, "The Tax Tale: 50 State Comparison", April 2010

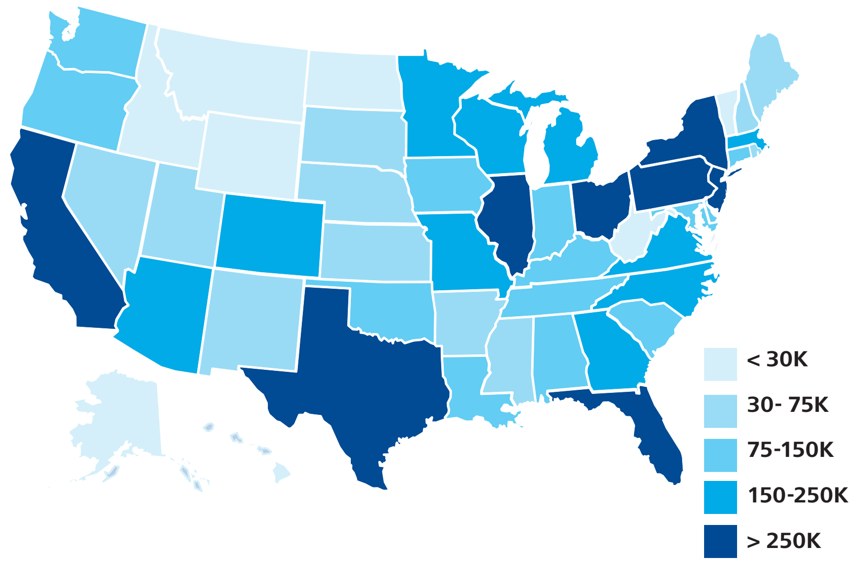
Financial Services, Insurance & Real Estate (FIRE)

Limited employment growth is projected over the next several years in the industry cluster of financial services, insurance and real estate. The lingering impact of the financial crisis on future employment trends is uncertain. Significant regulatory changes are currently under way at both the federal and state levels. Insurance companies specifically are cutting costs and "leaning" operations in an industry-wide downsizing. Labor quality and cost, as well as customer service, continue to be key drivers for the FIRE sectors. For the purposes of this report, FIRE is defined as two primary NAICS codes:

- 52 – finance and insurance
- 53 – real estate and rental and leasing

Figure 8 graphically illustrates Wisconsin's large presence in the FIRE industry sector. With nearly 160,000 workers employed in the industry, Wisconsin ranks No. 17 in the nation for FIRE employment.

Figure 8. FIRE Employees by State

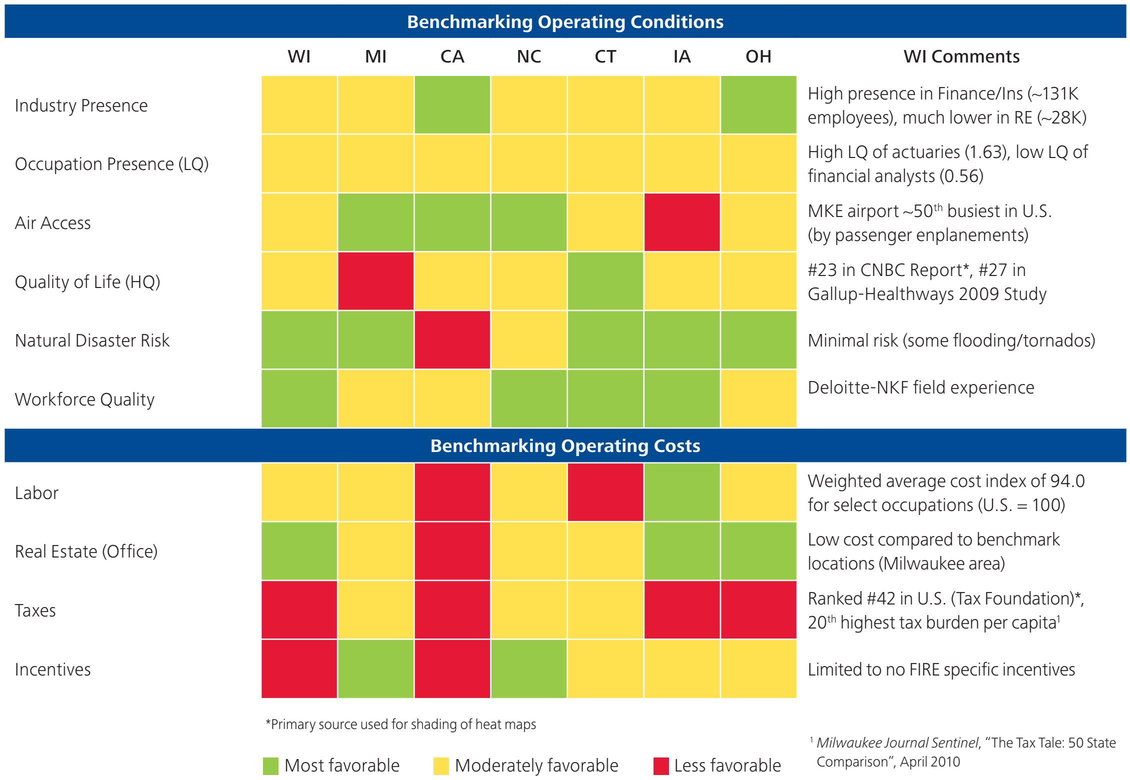


WI Ranks # 17 in the U.S. with ~159K Employees in selected NAICS codes

Wisconsin's FIRE strengths range from physical to intellectual assets. For example, low natural-disaster risk is an important factor when locating establishments that deal in sensitive information such as financial transactions. Far removed from areas of the country associated with earthquakes, hurricanes and other destructive forces, Wisconsin provides a relatively safe haven. Given the state's history as a leader and innovator in insurance and its respected educational system, Wisconsin stacks up well against competitors. It has a relatively well-educated, quality workforce in general and a deep bench of critical skills in the insurance industry. Other strengths include low real estate costs (for metropolitan area office space) and a relatively deep presence of select high-end occupations, such as actuaries.

The following figure highlights how Wisconsin's FIRE environment compares to benchmark competitor locations. As Figure 9 shows, Wisconsin has many favorable characteristics for a roaring FIRE industry. However, there are challenges to its competitiveness, as indicated by the red blocks. Even within a few of the categories that indicate favorable conditions overall, there are gaps. For example, although Wisconsin has a strong presence of actuaries and other workers with critical skills in insurance, it has a relatively low concentration of workers in other key FIRE occupations, such as financial analysts and office managers. Air access is important to an industry with such broad reach, but it is average at best in Wisconsin. Milwaukee's General Mitchell International Airport is roughly the 50th busiest airport in the United States, based on passenger enplanements. Wisconsin's two less-than-favorable FIRE-related characteristics, indicated in red, derive from a perception of high taxes and a policy of limited incentives. The broad view of Wisconsin as a state that, in particular, taxes personal income at a higher than average rate serves as an obstacle to luring highly-compensated FIRE employees to the area.

Figure 9. Benchmarking FIRE Conditions & Costs



[1] *Milwaukee Journal Sentinel*, "The Tax Tale: 50 State Comparison", April 2010

Medical Device Manufacturing

The first wave of baby boomers turns 65 in 2011. The aging of the U.S. population as a whole, as well as the aging of this sizable, forceful generation in particular, is expected to drive demand for increasingly sophisticated health-care solutions and products. However, U.S. manufacturers of such products will continue to face threats from low-cost competitors in Asia, Central America and elsewhere. Wisconsin benefits by close ties to life sciences clusters and its proximity to both the industry's upstream and downstream value chain. For the purposes of this report, the industry is defined as eight primary NAICS codes:

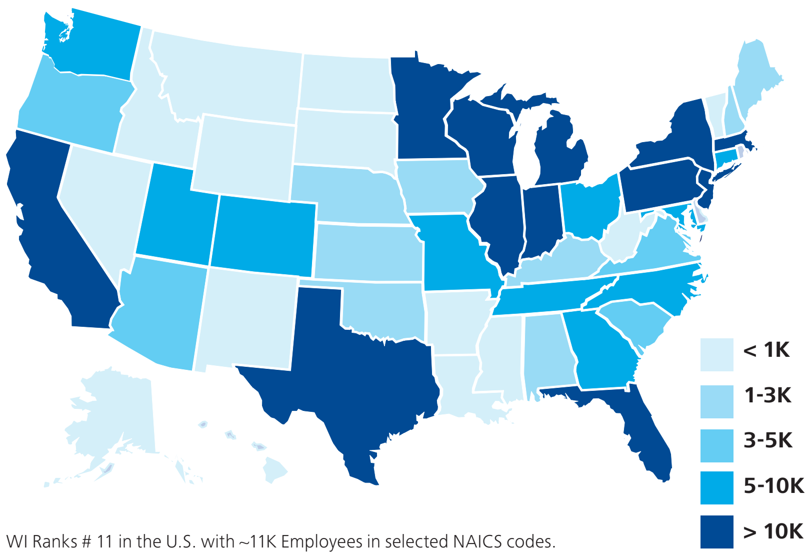
- 325413 – in vitro diagnostic substance manufacturing
- 334510 – electromedical and electrotherapeutic apparatus manufacturing
- 334517 – irradiation apparatus manufacturing
- 339112 – surgical and medical instruments manufacturing
- 339113 – surgical appliance and supplies manufacturing
- 339114 – dental equipment and supplies manufacturing
- 339115 – ophthalmic goods manufacturing
- 339116 – dental laboratories

The following map of medical device manufacturing employment in the United States graphically illustrates that Wisconsin has a high concentration of employment in the industry. With roughly 11,000 workers engaged in medical device manufacturing, Wisconsin ranks No. 11 in the nation for employment in the selected industry-related NAICS codes. It should be noted that some employers, such as GE Healthcare, may report under multiple NAICS codes.

Wisconsin's comparative strengths in medical device manufacturing primarily relate to the state's access to critical skills. Wisconsin boasts a high occupational presence for core manufacturing positions, benefits from its proximity to medical device clusters in Minneapolis and in Lake County, Illinois, and has its own concentration of major industry players, such as GE Medical Systems. Wisconsin's existing health-care infrastructure and its relatively low real estate costs enhance the attractiveness of its skills availability.

The following figure highlights how Wisconsin compares to benchmark competitor locations in the area of medical device manufacturing. As Figure 11 shows, Wisconsin faces considerable challenges. Despite its favorable concentration of manufacturing workers with relevant skills, the state has a comparatively low presence of key scientific and professional talent. For example, the state produces a particularly low number of biomedical engineers. As with the agricultural, dairy and food processing industry, Wisconsin's lack of certified shovel-ready sites and its ineffective use of incentives to encourage capital-intensive investment are challenges. However, both represent controllable opportunities for improving Wisconsin's competitiveness and positioning, which the state can strengthen through strategic changes in its economic development policies and practices.

Figure 10. Medical Device Manufacturing Employees by State



WI Ranks # 11 in the U.S. with ~11K Employees in selected NAICS codes.

Figure 11. Benchmarking Medical Device Manufacturing Conditions & Costs

	WI	MI	CA	NC	MN	MA	Ireland	WI Comments
Benchmarking Operating Conditions								
Industry Presence	Most favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	WI Ranks #11 in the U.S. with ~11K employees in selected NAICS codes. GE Medical is a major industry player.
Occupation Presence (LQ) of Mfg. Employees	Most favorable	Most favorable	Moderately favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	High LQ of many primary occupations (e.g. inspectors/testors, etc. = 1.66)
Occupation Presence (LQ) of Research/Scientific Talent	Less favorable	Less favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	Lower LQ of key scientific and professional talent (biomedical engineers = 0.66)
Site Readiness and Permitting[1]	Less favorable	Most favorable	Less favorable	Most favorable	Most favorable	Less favorable	Moderately favorable	No statewide certified sites program, ease of implementation important
Quality of Life (HQ)	Moderately favorable	Less favorable	Moderately favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	#23 in CNBC Report*, #27 in Gallup-Healthways 2009 Study
Labor Relations	Moderately favorable	Less favorable	Less favorable	Most favorable	Moderately favorable	Moderately favorable	Most favorable	Not right-to-work, approximately 15% of workforce is organized
Benchmarking Operating Costs								
Labor	Moderately favorable	Moderately favorable	Less favorable	Most favorable	Moderately favorable	Less favorable	Most favorable	Weighted average cost index of 96.9 for select occupations (U.S. = 100)
Real Estate (Industrial)	Most favorable	Moderately favorable	Less favorable	Most favorable	Moderately favorable	Moderately favorable	Less favorable	Low cost among benchmark locations (Milwaukee area)
Taxes	Less favorable	Moderately favorable	Less favorable	Moderately favorable	Less favorable	Moderately favorable	Most favorable	Ranked #42 in U.S. (Tax Foundation)*, 20th highest tax burden per capita[2]
Utilities	Moderately favorable	Moderately favorable	Less favorable	Most favorable	Moderately favorable	Less favorable	Less favorable	Moderate electric costs (6.58 cents/kwH - similar to U.S. average)
Incentives	Less favorable	Most favorable	Less favorable	Most favorable	Less favorable	Moderately favorable	Most favorable	Some programs are underutilized and/or unknown

*Primary source used for shading of heat maps

Most favorable   Moderately favorable   Less favorable

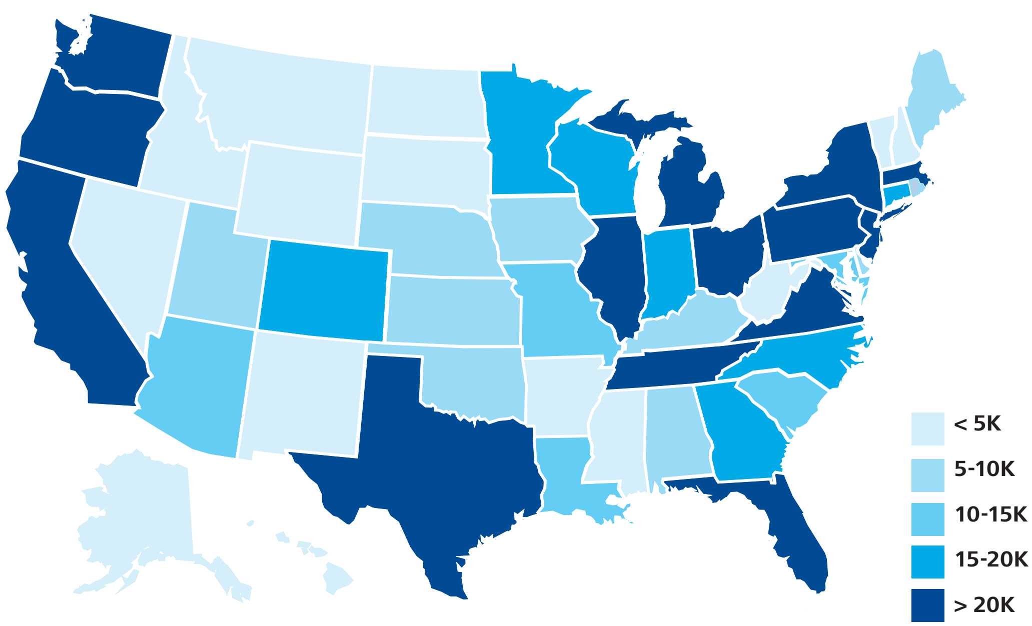
[1] Based on availability of shovel-ready site program(s) and perceived permitting complexity
[2] *Milwaukee Journal Sentinel*, "The Tax Tale: 50 State Comparison", April 2010

Renewable Energy Manufacturing

Renewable energy manufacturing continues to expand rapidly throughout the United States, largely because of tax credits at the federal level. Wisconsin is geographically located on the fringe of the wind corridor, but far removed from the primary solar markets in the western states. Wisconsin's advantageous biofuels feedstock, which stems from its wood and agriculture industries, offers reuse potential throughout the state's regions for various "clean" technologies. As such, attracting wind and biofuel projects has been, and continues to be, a focus of several regional economic development entities throughout the state. Renewable energy manufacturing jobs do not fit well under traditional industry classification systems (NAICS or SIC). Therefore, this report references a 2009 study conducted by the Pew Charitable Trusts for statistics on employment distribution by state. The Pew data were gathered and vetted through multiple sources, including renewable energy-related venture capital funding, industry associations, press coverage, third-party business databases and company-specific research. The Pew data extend beyond renewable energy manufacturers to include service providers, companies employing green production methods and other forms of "clean energy" jobs.

The following map graphically illustrates Wisconsin's relatively large presence of "clean" jobs. Wisconsin ranks No. 20 in the United States with about 15,000 employees in clean energy jobs, as defined by the Pew Charitable Trusts. However, the state ranks particularly high in concentrations of manufacturing industries and occupations that can transfer to the wind industry. An example is Engine, Turbine and Power Transmission Equipment Manufacturing (NAICS 3336), in which Wisconsin employs an estimated 8,500 workers, second-most among U.S. states and roughly 9 percent of the national total.

Figure 12. Renewable Energy Manufacturing Employees by State



WI Ranks # 20 in the U.S. with ~15K Employees in Clean Energy jobs as defined by The PEW Charitable Trusts

Wisconsin's strengths in renewable energy manufacturing primarily center around its relatively deep industry and occupational presence supporting the wind, biofuels and potentially biomass industry sectors. The state's recognized longtime vigor in advanced manufacturing contributes to its competitive advantage in renewable energy manufacturing because of the transferability of key skills. For example, Wisconsin has a relatively high concentration of machinists and inspectors; their more general skills could be augmented to meet specific industry needs. In addition to its workforce advantages, Wisconsin boasts other attributes that enhance its competitiveness for renewable energy manufacturing. These include its abundant electric capacity and its close proximity to the U.S. wind corridor.

The following figure highlights how Wisconsin compares to benchmark competitor locations in the area of renewable energy manufacturing. Despite its current above-average position in employment concentration, Figure 13 indicates that the state faces considerable challenges in growing this emerging industry. One big disadvantage is beyond the state's control to change: As a northern state, Wisconsin simply offers a poor value proposition for attracting solar manufacturing. Other disadvantages are within the state's power to address. As has already been demonstrated through analysis of other selected industries, Wisconsin's competitive advantage is weighed down by its lack of certified, shovel-ready industrial sites and its dearth of incentives for encouraging capital-intensive investment. The state is perceived as having an overly complex permitting process. What incentive programs are in place are little-known and underutilized. As with the other industries examined, Wisconsin's reputation as a high-tax state affects its competitiveness. Beyond these recurring weaknesses, the state also falls short in venture capital activity. Wisconsin was found to be last among its benchmark competitors in per capita venture capital funding, which can be an important factor for companies in this early-stage industry.

Figure 13. Benchmarking Renewable Energy Manufacturing Conditions & Costs

Benchmarking Operating Conditions								
	WI	MI	CA	NC	OR	TX	Singapore	WI Comments
Industry Presence	Moderately favorable	Moderately favorable	Most favorable	Most favorable	Less favorable	Most favorable	Moderately favorable	WI Ranks #20 in the U.S. with ~15K "clean energy jobs"[1]
Occupation Presence (LQ)	Most favorable	Moderately favorable	Less favorable	Most favorable	Less favorable	Moderately favorable	Most favorable	High LQ of many occupations which may benefit renewable energy manufacturers (Machinists = 1.91, Team assemblers = 1.57)
RPS/RES Standards	Moderately favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	Moderately favorable	Moderately favorable	10% by 2015
Site Readiness and Permitting[2]	Less favorable	Most favorable	Less favorable	Most favorable	Most favorable	Moderately favorable	Most favorable	No WI statewide shovel- ready sites program
Venture Capital Activity	Less favorable	Moderately favorable	Most favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Last among benchmark states in VC funding per capita
Utility Capacity (Electric)	Most favorable	Most favorable	Less favorable	Most favorable	Most favorable	Most favorable	Most favorable	Abundant capacity (though not a differentiator vs. most states)
Labor Relations	Moderately favorable	Less favorable	Less favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Not right-to-work, approximately 15% of workforce is organized
Benchmarking Operating Costs								
Labor	Moderately favorable	Moderately favorable	Less favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Weighted average cost index of 97.8 for select occupations (U.S. = 100)
Real Estate (Industrial)	Moderately favorable	Most favorable	Less favorable	Moderately favorable	Less favorable	Most favorable	Less favorable	Moderate cost (small metro rate)
Taxes	Less favorable	Moderately favorable	Less favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	Ranked #42 in U.S. (Tax Foundation)*, 20th highest tax burden per capita[3]
Utilities	Moderately favorable	Moderately favorable	Less favorable	Most favorable	Most favorable	Moderately favorable	Less favorable	Moderate electric costs (6.58 cents/kwH - similar to U.S. average)
Incentives	Less favorable	Most favorable	Less favorable	Most favorable	Most favorable	Moderately favorable	Most favorable	Some programs are underutilized and/or unknown

*Primary source used for shading of heat maps

Most favorable   Moderately favorable   Less favorable

[1] "The Clean Energy Economy" published by The PEW Charitable Trusts, 2009
[2] Based on availability of shovel-ready site program(s) and perceived permitting complexity
[3] *Milwaukee Journal Sentinel*, "The Tax Tale: 50 State Comparison", April 2010

Software Development

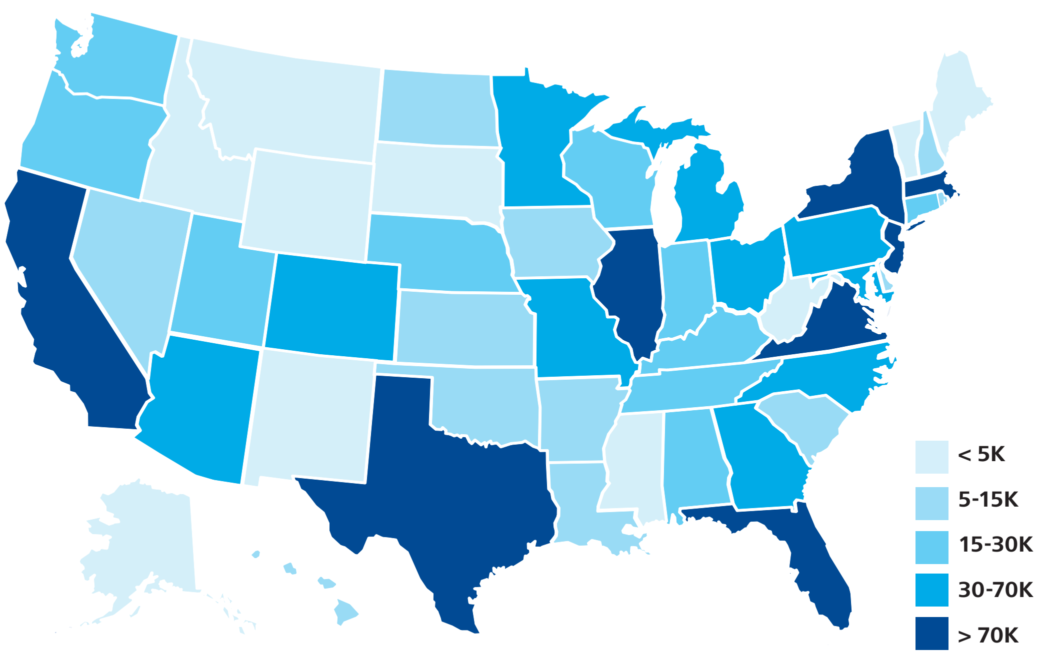
The software development industry nationwide continues to experience rapid employment and output growth. Among the industries selected for analysis, software development workers command the highest average salary. However, U.S. establishments face increasing competition from more low-cost countries of Asia, Latin America and Eastern Europe. Continued proliferation of mobile devices and other new technologies is expected to fuel further growth in applications software. Deployment decisions are primarily driven by talent, educational infrastructure and clustering considerations, although some cost sensitivity exists in the industry around skill levels. For the purposes of this report, the industry is defined as two primary NAICS codes:

- 5112 – software publishers
- 5415 – computer systems design and related services

The following map graphically illustrates that Wisconsin's employment in software development is above the national average. With about 29,000 workers, Wisconsin ranks No. 20 for employment in selected NAICS codes related to software development.

Wisconsin's relatively low-cost labor and real estate are competitive advantages for its software development industry. In fact, of the states benchmarked, Wisconsin had the lowest software-related labor and real estate costs. The state also boasts a favorable quality of life, with Madison, specifically, faring well in many national rankings. The presence of the University of Wisconsin in Madison is itself an advantage. UW is nationally and internationally renowned, ranking No. 83 in the world for information technology. This educational edge is further enhanced by the UW System and Marquette University.

Figure 14. Software Development Employees by State



WI Ranks # 20 in the US with ~29K Employees in selected NAICS codes

The following figure highlights how Wisconsin compares to benchmark competitor locations in the area of software development. Despite its advantageous costs environment, Figure 15 indicates that the state faces considerable challenges in growing its software development industry. Occupations central to software development exist in comparatively low numbers in Wisconsin. The state also suffers from perception: It is not viewed as a hub for software activity. (As with the other benchmark industries, it is also perceived to be a high-tax state.) In this case, perception very much shapes reality. As with renewable energy manufacturing, the other emerging and growing industry benchmarked, software development in Wisconsin fails to attract venture capital funding, again ranking last among the benchmark locations for per capita venture capital investment.

Figure 15. Benchmarking Wisconsin's Software Development Conditions & Costs

Benchmarking Operating Conditions								
	WI	MI	CA	NC	VA	TX	India	WI Comments
Industry Presence	Moderately favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	WI Ranks #20 in the U.S. with ~29K Employees in selected NAICS codes
Occupation Presence (LQ)	Less favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	Moderately favorable	Most favorable	Low LQ of many key occupations (e.g. software engineers = 0.38)
Quality of Life	Moderately favorable	Less favorable	Most favorable	Moderately favorable	Most favorable	Moderately favorable	Less favorable	#23 in CNBC Report*, #27 in Gallup-Healthways 2009 Study
University Presence	Moderately favorable	Moderately favorable	Most favorable	Most favorable	Moderately favorable	Moderately favorable	Most favorable	UW- Madison well regarded (#83 in world IT rankings); supported by UW system and Marquette
Venture Capital Activity	Less favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	Most favorable	Most favorable	Last among benchmark states in VC funding per capita
Perception as a Software Hub	Less favorable	Moderately favorable	Most favorable	Most favorable	Most favorable	Most favorable	Most favorable	WI has little identity as a software destination
Benchmarking Operating Costs								
Labor	Most favorable	Moderately favorable	Less favorable	Most favorable	Less favorable	Moderately favorable	Most favorable	Weighted average cost index of 92.8 for select occupations (U.S. = 100)
Real Estate (Office)	Most favorable	Moderately favorable	Less favorable	Moderately favorable	Moderately favorable	Most favorable	Most favorable	Low cost among benchmark locations (Milwaukee area)
Taxes	Less favorable	Moderately favorable	Less favorable	Moderately favorable	Most favorable	Most favorable	Less favorable	Ranked #42 in U.S. (Tax Foundation)*, 20^{th} highest tax burden per capita[1]
Incentives	Less favorable	Most favorable	Less favorable	Most favorable	Moderately favorable	Moderately favorable	Less favorable	Some programs are underutilized and/or unknown

*Primary source used for shading of heat maps

[1] *Milwaukee Journal Sentinel*, "The Tax Tale: 50 State Comparison", April 2010

Most favorable | Moderately favorable | Less favorable

Recommendations

This study was initiated in order to provide a balanced, in-depth and defensible analysis of Wisconsin's business climate and produce a well-reasoned, executable strategy for improving Wisconsin's competitiveness and positioning the state for business growth and job creation. Although a broad list of variables impacting business retention, attraction and growth were analyzed, the focus was on identifying "controllable" factors that could be addressed through a coordinated approach to economic development in the state. The recommendations that arose out of this charge are united by two overarching yet attainable goals:

- **Wisconsin will rank among the top 10 states for starting a business by 2016.**
- **Wisconsin will rank among the top 10 states for expanding a business by 2016.**

The results of the detailed data analysis and benchmarking assessment are nine recommendations that seek to address key controllable challenges that were identified throughout the report. The recommendations target issues of organizational capacity, alignment, perception and branding, retention, entrepreneurship and attraction. Together the nine recommendations will move the state toward a business environment that is nurturing of existing businesses and entrepreneurs, and able to compete nationally and globally for new and expanding business.

Recommendation 1: Create a quasi-public entity, Accelerate Wisconsin, charged with crafting, delivering and overseeing Wisconsin's economic development strategy.

Recommendation 2: Reposition Wisconsin's brand through an aggressive and targeted marketing campaign.

Recommendation 3: Align state economic development efforts, educational programs, and public- and private-sector leaders around select targeted industries.

Recommendation 4: Develop a structured, proactive approach to business retention.

Recommendation 5: Centralize and streamline the state's innovation programs.

Recommendation 6: Reinvigorate and focus Wisconsin's business attraction capabilities.

Recommendation 7: Deploy a statewide "shovel-ready" sites program with expedited permitting procedures.

Recommendation 8: Implement new incentives geared toward capital-intensive and startup projects and align incentives with target industry sectors.

Recommendation 9: Apply technology to enable and underpin Wisconsin's economic development strategy.

Rationale for Change

Recommendation 1: Create a quasi-public entity, Accelerate Wisconsin, charged with crafting, delivering and overseeing Wisconsin's economic development strategy.

Wisconsin needs a change agent, a high-profile economic development champion empowered to aggressively pursue business retention, growth, and attraction. Such an entity should be a nonpolitical advocate for the entire state and be insulated from leadership changes every time there is an election cycle. While there are many ways to structure, govern, fund, and transition responsibilities for this new entity, a quasi-public agency would allow for greater flexibility in hiring and firing employees, determining compensation and restructuring job duties. This type of structure would enable the entity to attract and retain economic development talent with compensation that is competitive with similar state organizations around the country. Employees would still be part of the Wisconsin Retirement System, but the agency would be better positioned to compete with the private sector for top talent.

This new economic development entity would be charged with helping Wisconsin meet its stated goals of being recognized and regarded as a top 10 state for starting or expanding a business. Additionally, Accelerate Wisconsin's mission would be to attract new jobs and businesses to Wisconsin using strategic innovative marketing and increase the state's competitiveness as a business destination. In pursuit of this mission, Accelerate Wisconsin would:

- Develop a comprehensive, statewide economic development and industry-targeting strategy. This new strategy would encompass retention and attraction efforts, incentive modifications, infrastructure needs and workforce development recommendations, as well as addressing other identified weaknesses in Wisconsin's competitive environment.

- Refresh the industry-targeting strategy every three years.
- Create a Jobs Council consisting of state, regional and local economic development entities to better coordinate job-growth and retention efforts at all levels. This Jobs Council would be chaired by the President (or Executive Director) of Accelerate Wisconsin.
- Market and brand Wisconsin as a leading business destination. As detailed in Recommendation 2 below, this marketing campaign would use traditional and electronic media to promote success stories among existing Wisconsin businesses and target core cluster companies in other states or countries.
- Manage, administer, disburse and monitor Wisconsin's state-level economic development incentives.
- Assist existing and new businesses throughout the expansion and location process, helping them navigate and interface with state, regional and local agencies.
- Provide statewide leadership in developing tools and technology related to economic development. These would include:
  - A website with information on statewide contacts, incentive programs, and links to regional and local partners.
  - A sites and buildings database.
  - Customer relationship management (CRM) technology to support retention efforts.
  - Online geographic information systems (GIS) capabilities.
- Commission an independent, biannual report on Accelerate Wisconsin's performance relative to metrics defined by its Board of Directors to ensure transparency and accountability.

Governance for Accelerate Wisconsin

- Board of Directors:
  - The Governor of Wisconsin would serve as Chairman of the Board.
  - The Accelerate Wisconsin Board of Directors would include representatives from Wisconsin's private sector (CEO-level), academia (select universities and colleges), and public/economic development sector (elected local officials and local and regional economic development representatives). The distribution of these three groups should be 60 percent private sector, 20 percent academia, and 20 percent public/economic development sector and should represent all areas of the state.
  - When positions are vacant, the Governor would select and appoint Board members from a qualified pool of candidates submitted by the Board of Directors. Board members would require Senate confirmation and would serve staggered terms. Meetings of the Board would be subject to open meeting laws and public records requests.
  - A Finance Committee would be maintained by the Board, consisting of five elected Board members. One member would serve as Finance Chairman. The Finance Committee would review and approve proposed incentive deals created by the Chief Financial Officer (position described below).
  - The Board of Directors would develop a set of performance metrics and indicators to be assessed annually by an independent authority (as described below).
- Management – Overseeing Accelerate Wisconsin's day-to-day operations would be a President (or Executive Director) and a Chief Financial Officer. Both would be hired by the Board of Directors under a long-term contract and would be paid a nationally-competitive compensation package, commensurate with similarly seasoned economic development professionals in comparable positions. The positions would not be bound by state procurement or personnel regulations, and both would be eligible for state retirement system benefits. The Chief Financial Officer would be responsible for budgeting, financial reporting, managing state incentives programs and preparing incentive offers to be approved by the Finance Committee.
- Staff – Staff members would be hired by the President (or Executive Director) and would be paid nationally-competitive compensation, commensurate with similar economic development organizations. Accelerate Wisconsin would have the ability to recruit industry-specific experts to align with driver industries identified in the statewide economic development strategy. Positions would not be bound by state procurement or personnel regulations, but employees would be eligible for state retirement system benefits.
- Independent Review – An annual assessment of Accelerate Wisconsin's performance and financial activities, including incentives disbursed, would be conducted by an independent authority. The independent authority would then submit an annual report to the Board of Directors.

Funding for Accelerate Wisconsin (operations and marketing, excludes incentives program funding)
Funding for Accelerate Wisconsin's startup and first year of operations would derive from directing a portion (up to $500 million) of the state's current $5.5 billion unallocated bonding authority to this new economic development agency. Ongoing operations would be funded by shifting general revenues already dedicated to the Department of Commerce into a state budgetary allocation for Accelerate Wisconsin. Accelerate Wisconsin would also have the ability to seek contributions from private-sector foundations or businesses interested in economic development. Other funding could stem from private-sector assessments of 1.5 percent of all project incentives offered by Accelerate Wisconsin. These assessments would be payable, up to a maximum of $100,000 per project, by the incentives recipient upon execution of an incentives agreement.

Transition of Department of Commerce Responsibilities
The Department of Commerce's current economic development activities would be restructured by the creation of Accelerate Wisconsin. Commerce's responsibilities for Business Development, Global Ventures, Community and Housing Development, and Export Development should be transitioned to Accelerate Wisconsin. Remaining Commerce activities and responsibilities, namely Environmental and Regulatory Services and Safety and Buildings, should be transitioned to other departments.

Recommendation 2: Reposition Wisconsin's brand through an aggressive and targeted marketing campaign.

Reinventing Wisconsin as a business destination will require brand development and sustained marketing to both in-state and out-of-state audiences. As noted previously in this report, Wisconsin suffers from an image problem. While Wisconsin's Department of Tourism markets the state as a travel destination, Wisconsin needs a separate and focused brand as a business destination. This rebranding must directly tackle the persistent perception that Wisconsin offers an uncompetitive value proposition for business. In particular, the campaign should highlight Wisconsin's demonstrable advantages as a place to do business across specific industry clusters. Engaging a proven branding consultant or marketing adviser may be the most prudent path for achieving this critical goal.

The challenge is to recast Wisconsin as a deep talent pool with competitive business taxes and a culture of innovation. The overall goal for this repositioning effort — and the entire retooled economic development strategy — is that Wisconsin will, within the next five years, consistently be considered a Top 10 state to start or expand a business. The branding campaign should include industry cluster materials that highlight current presence of a specific industry, success stories and testimonials, case studies of startup activity and growth, location advantages, and quantitative comparisons of Wisconsin versus select competitor states for the targeted industry.

External marketing channels should be oriented around industry cluster trade shows and conferences, publications, targeted company visits, and familiarization tours, which are events that invite executives from corporations outside Wisconsin to spend time in the state. In addition, the campaign should look to secure targeted and credible media pieces that highlight and support this new awareness of Wisconsin's competitive environment.

Recommendation 3: Align state economic development efforts, educational programs, and public- and private-sector leaders around select targeted industries.

Accelerate Wisconsin should define targeted industry clusters and aggressively support and pursue those current or emerging drivers of the state's economic engine. Milwaukee's cluster driver analysis provides a good starting point to leverage existing knowledge to expand the assessment across the state and examine the value chain of each industry cluster. Targeting industries for statewide support should not overlook the fact that particular industries may be critical to a regional economy without being an identified driver of the state's economy. Accelerate Wisconsin must understand the individual dynamics of the state's diverse regional economies and support each of Wisconsin's regional economic development entities in identifying target clusters of its own. These identified statewide and regional-level clusters should be interwoven into the overall Wisconsin economic development strategy to ensure that the state supports the portfolio of industries critical to its economic well-being. Finally, the identified target industries should include a mix of manufacturing as well as technology, services, or other sectors, to promote a balanced statewide economy.

Accelerate Wisconsin should develop a set of recommendations and actions to incorporate an industry focus into its marketing and branding campaign, as well as training programs, university programs, incentives, sites and buildings, infrastructure, permitting processes, and other potentially supportive interactions. A series of forums (at least one for each industry cluster) consisting of Wisconsin industry executives and university representatives would provide Accelerate Wisconsin with opportunities to solicit input, insight and advice about specific industry needs. These alignment forums could serve as a precursor to quarterly retention forums, which are discussed later.

Recommendation 4: Develop a structured, proactive approach to business retention.

Wisconsin has no choice but to deploy more resources and smarter practices at the state level to improve methods, processes, standards and leadership in the area of business retention and expansion. In particular, the state needs to be a more supportive and active partner for the regional and local economic development organizations. Even with a more intense and targeted statewide emphasis on economic development, these partnerships are vital to the state's overall effectiveness. These regional and local organizations serve — and will continue to serve — as the main customer interface with local businesses and decision-makers.

Business retention activities tend to garner high returns on investment. In fact, some 80 percent of new jobs have been shown to come from existing businesses, growing out of small, medium and large enterprises. Given such a good "bang for the buck," several Midwestern states have refocused their attention, resources, budgets and technology use (i.e., CRM Software such as Synchronist, ExecutivePulse, Salesforce.com) toward developing early-detection business intelligence systems. The purpose of these early-detection systems is to document and predict as best as possible potential closings, consolidations and flight risks of key companies and industries. Understanding the unique business environment of these individual industries and "deep diving" into how they make decisions on human and physical capital are essential first steps in retaining them.

Accelerate Wisconsin can learn from past retention wins and losses in the state, such as Mercury Marine and General Motors. It can also learn from the experiences of other states. In particular, New York's Rapid Response and Business Retention Plan should serve as a model of a state that has elevated business retention to an appropriate level of urgency. New York's program requires quarterly research reports for each target industry and cluster, which are issued to regional, local, academic and utility economic development partners. Accelerate Wisconsin should adopt its own Early Detection and Rapid Response Team, creating a database of lessons learned, best practices and retention specialists. In addition, each region should be required to develop an early detection protocol (similar to a business continuity plan) for its top 25 companies in terms of employment, capital investment and overall economic impact. This regional information would "roll up" to the state through coordinated online, web-based CRM tools.

The state must move beyond the WARN act and late-stage press announcements as triggers for action. Wisconsin must be more proactive — not simply reactive — in retaining its businesses, particularly those in targeted industry clusters and advanced manufacturing. Proactive retention requires industry-focused research and forecasting capabilities. The state should consider hiring three to five dedicated retention specialists to augment the current work of regional economic development representatives. Each new hire would be assigned up to two target industry clusters and consult directly with the regions. The goal would be for these dedicated retention specialists to pay special attention to the designated top 25 companies and visit up to 300 industries across the state each year. That compares to the current inadequate program, which calls on 100 companies statewide. Preferably, these retention specialists would have a private-sector background. They would be supported by resources from the regional and local economic development organizations, but Accelerate Wisconsin would provide funding for their positions through additional state bonding capacity and reallocation of resources. Despite Accelerate Wisconsin's quasi-public structure, this new category of workers would be part of Wisconsin's retirement benefits system.

Accelerate Wisconsin should develop industry-driven forums for each targeted cluster that provide opportunities for stakeholders to come together and share ideas on operating and performance issues, such as supplier networks, workforce skills, infrastructure needs, and import and export challenges. These quarterly "learning circles" could be modeled after Indiana's program in which each forum is individually shaped by its target industry — life sciences, technology and software, logistics and warehousing, and alternative energy, battery and fuel cells — and is led by executives of major companies within the target industry. These forums would complement existing programs, such as those offered by Competitive Wisconsin Inc., Wisconsin Manufacturing Extension Partnership and Wisconsin Manufacturers & Commerce, but they would be independent in their ability to raise complex and controversial issues. Where possible, the dedicated retention specialists, along with general staff of Accelerate Wisconsin, would facilitate and participate in these forums, ideally developing intimate relationships where appropriate and reporting back, in confidential sessions with Accelerate Wisconsin Board of Directors, key issues and concerns.

As part of its busy retention efforts, the state should also consider developing a "Buy Wisconsin" procurement program. Many states and regions have already successfully implemented such market-matching programs to ensure that local businesses have opportunities to cross-sell and penetrate supplier networks of existing industries that may source materials and services outside the state. Industries tend to be open to such efforts, and Accelerate Wisconsin could serve as the catalyst for developing a database of key suppliers and customers in the various regions as part of their outreach and visitation to industries both small and larger. Participation in Buy Wisconsin would in no way be mandatory; instead, the program would be a platform for matching products to needs within the state, with the ultimate goal of reducing costs, improving business performance and benefiting local companies and communities.

Recommendation 5: Centralize and streamline Wisconsin's innovation programs.

Innovation continues to be a critical priority of business executives around the world. A 2010 survey of over 400 CEOs by Deloitte Touche Tohmatsu and the U.S. Council on Competitiveness found that talent-driven innovation was the key component of manufacturing competitiveness worldwide, well ahead of "traditional" factors such as labor cost or material cost.

Wisconsin has made progress in the past 10 years developing baseline innovation and entrepreneurial frameworks and programs for the new economy, small businesses and knowledge-based industries. This improving landscape is largely due to the development of several public and private organizations and their shared goal of promoting innovation-oriented job creation and sustainability. These organizations include:

- Wisconsin Technology Council (WTC), which formed in 2001 to guide policy development through collaboration with public and private sectors (along with subunit Wisconsin Innovation Network, WIN).
- Wisconsin Entrepreneurs Network (WEN), which developed to facilitate statewide connections and direct entrepreneurs to appropriate resources and assistance.
- Wisconsin Angels Network (WAN), operated by WTC, which was launched to help develop early-stage capital availability in the state and increase successful investments in new ventures.
- Emerging Technology Centers (ETC), which were created in September 2009 by the UW Board of Regents to help foster technology development by regional companies at seven UW campuses around the state.
- BizStarts, the Milwaukee 7's latest program for regional economic development, which is focused on helping entrepreneurs in key target industries from first contact to connection with local professionals and university partners and ultimately through startup funding and investment.

In addition to the programs listed here, various regional private- and public-sector innovation programs and centers have developed, and more than 30 incubators across the state operate in close cooperation with UW-Extension resources.

Beyond these capacity-building efforts, Wisconsin has created a tax credit program for angel investors that has been well-received in the marketplace and has provided a new tool for business and investor attraction. This has been a significant accomplishment of the Department of Commerce, and further focus on how best to allocate all available unused credits should be a priority.

Despite the considerable efforts targeted toward nurturing innovation in the state and the progress made over the years, there is cause for concern. Benchmarking analysis showed Wisconsin's venture capital capacity and venture capital funding per capita to rank among the lowest in the nation and lag behind regional competitor states. Data compiled by the National Association of Seed and Venture Funds in 2008 show that many states over the past few years have placed big bets on seeding new business opportunities. Leading the way is Texas, which moved to nurture pre-seed and seed activity with a $290 million investment in its Emerging Technology Fund. The Ohio Capital Fund had $150 million in commitments from private resources to invest in early-stage ventures. (That's in addition to Ohio's $62 million state-supported Third Frontier Initiative.) The Iowa Fund of Funds had $100 million in investment capital for seed and later stages of development. All three funds were authorized in 2005.

The Deloitte-NKF team's analysis and research on leading practices across the country pointed to a need for detailed assessment of the overall effectiveness of these programs and greater emphasis on structured metrics and measurable results. In particular, the analysis highlighted the need to consolidate and streamline programs to better leverage the state's resources. Startup assistance organizations, entrepreneurial networking forums and advisory councils have proliferated over the past few years to the point of making it difficult for the intended customers to navigate and understand where the convergence of scalable capital, technology, intellectual capital, R&D, business services, and the overall "supply chain" of innovation can occur. States that were benchmarked for this report have already come to such a conclusion. They have moved to centralize programs, such as Cleveland's JumpStart, Ohio's Third Frontier and Kansas' K-Tech. These centralized programs have resulted in excellent return on investment and have fostered development of innovative initiatives to attract venture dollars and firms to their respective states.

To improve Wisconsin's environment for growing jobs and businesses by seeding and nurturing innovation, the state should create a statewide, not-for-profit organization focused on investment in and acceleration of early-stage and second-stage high-growth companies and oversight of regional innovation programs throughout the state.
This new entity, referred to herein as Wisconsin Pioneers, would be funded initially by $500 million in unallocated state bonding authority, which would place Wisconsin in the upper echelon of state innovation programs. The state could seek additional contributions from federal sources, private-sector corporations, pension funds, institutional investors, targeted foundations and individual investors, where appropriate.

Wisconsin Pioneers would be headed by an Executive Director with qualifications from the investment community or private sector and with the networking connections required for effectively navigating venture capital and investment communities. The Executive Director would be paid through Wisconsin Pioneers' general funds and would be employed "at will," per the direction of a Governing Managing Commission. This commission would consist of:

- Two Governor-appointed members.
- One member from each of the seven established economic development regions recognized by Accelerate Wisconsin and WEDA.
- Two at-large seats to be filled by industry leaders and academic institutions with demonstrated interest in advancing the mission of Wisconsin Pioneers, such as representatives from the Wisconsin Alumni Research Foundation (WARF) and the Wisconsin Retirement Fund.

  (Note: Governor-appointed positions and at-large seats could be filled by individuals from counties not currently partnered with regional economic development entities.)

In addition to the Executive Director and Managing Commission, an Advisory Board made up of experts in the capital markets arena should be created to review and make recommendations in regards to funding applications, the provision of training and continuing education, and leading practices across the country and globe. This voluntary board, which would ideally consist of experts from inside and outside the state, potentially would help provide the networking necessary to make the Wisconsin Pioneers fund sustainable.

Wisconsin Pioneers would employ an implementation team of former executives who have experience with startup companies. Members of this team would be embedded in startups that receive Wisconsin Pioneers investment. The goal would be to provide these firms a "jumpstart" in the experience needed to help accomplish their objectives.

Wisconsin Pioneers would engage in four primary functions:

- Fund companies directly.
- Provide funding to in-state venture firms seeking to invest in Wisconsin companies.
- Craft business attraction incentives for entities seeking to expand in or relocate to Wisconsin whose primary business objectives support established industry clusters or other companies working with Wisconsin Pioneers and the various Regional Innovation Centers (described below).
- Actively recruit venture and angel capital in the form of investments into established Wisconsin funds and the creation of new funds within the state.

To streamline the flow of information and access to funds, Wisconsin Pioneers would oversee the development and formation of Regional Innovation Centers (RICs). These centers would form a "hub and spoke" system for business venture development, furthering current outreach efforts in a consolidated and coordinated fashion and leveraging programs already existing at various universities around the state.

The RICs would serve as the "eyes and ears" of Wisconsin Pioneers to promote existing industry innovation (ideally tied to the state's identified clusters and targeted industries), as well as emerging industries and technologies through the vetting of local business startups. The RICs would receive no more than a third of their funding through Wisconsin Pioneers and would be required to cover remaining budget needs by generating local dollars from foundations, grants, federal programs and close connections with private companies.

Governance of the RICs should be structured around the particular potential and assets of each region, its target industries and its public-private partnerships. The result would be a regional node of innovation and entrepreneurship resembling the current business model of organizations such as BizStarts in Milwaukee and Innovation Foundation of Western Wisconsin (IFWW) in Eau Claire.

Recommendation 6: Reinvigorate and focus Wisconsin's business attraction capabilities.

With this recommendation, the Deloitte-NKF team is not suggesting that Wisconsin make business attraction its primary goal. However, business attraction deserves more attention than the state currently pays this core element of economic development. By choosing to ignore the impact of external communications and branding, the importance of relationship-building among decision-makers and investors, and the need to promote the business case of targeted industries and clusters, the state sends a signal to the marketplace that Wisconsin is not open for business. Wisconsin must get back to a basic level of business attraction marketing and outreach to support and enable its broader strategic goals. To achieve the stated goal of being consistently regarded as a Top 10 state for starting or expanding a business, the state needs to demonstrate creative solutions for complex job creation and investment expansion challenges. It needs to showcase the capacity to be a leading competitor for innovation and entrepreneurial activity throughout the nation and world.

States that are outpacing Wisconsin in attracting new business engage in some common but highly effective practices. Accelerate Wisconsin would do well to consider adopting the following elements:

- Periodic Newsletter – This would showcase success stories throughout the state, catalogued in a CRM module (by industry/geography/NAICS code). The newsletter could be targeted to a database of corporate decision-makers, site consultants, real estate firms and foreign direct investment entities, among others.
- Wealth Generator and Investors Outreach – The state needs to pay special attention to wealth generators and work to create awareness of its considerable strengths in innovation and technology sectors. In particular, this means focusing on reaching out to venture capital firms, private equity houses and holding companies, as well as those innovators involved with clean technology and emerging industries aligned with the state's competitive advantages.
- Special Events and Familiarization Tours – Accelerate Wisconsin should sponsor/have at least one event designed to raise awareness of its competitive advantages and core capacities every year. These promotional activities should feature specific regions of the state so that costs can be shared by local and regional partners. Where appropriate, they should align with notable tourism and quality-of-life events in the state. Accelerate Wisconsin should also consider sponsoring special events to demonstrate global appeal and

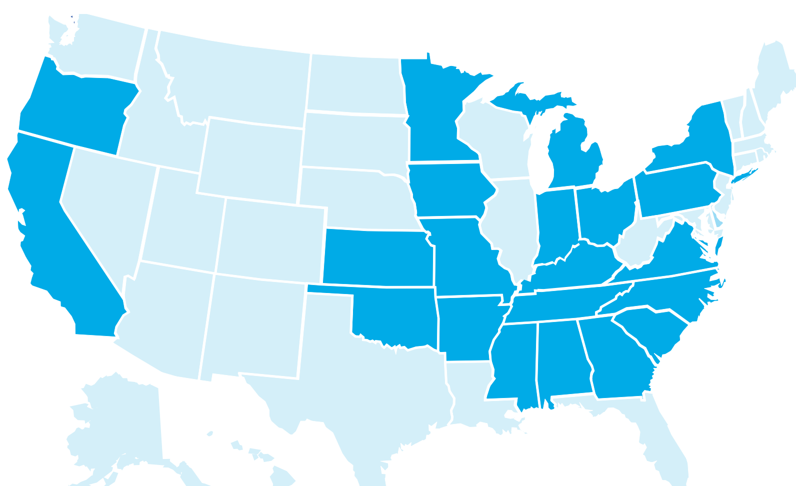
sophistication in target markets, such as New York, California, Atlanta, Toronto, Asia and Europe, Middle East and Africa. Examples of possible venues for such activities would include sports events and trade-show receptions.

- Trade Shows and Learning Forums – Accelerate Wisconsin representatives should attend key trade shows and annual meetings for the target industries it identifies. Representatives from the state and regional levels of Wisconsin's economic development activities should participate in these events, but it is important for the state to have consistent, visible presence at these events. As such, key private-sector and public-sector Board Members of Accelerate Wisconsin should attend these functions, as well as the Governor, when possible.
- Prospect Intake Facilitation – A persistent concern among stakeholders interviewed for this report was the state's delay in responding to requests for information. This was frequently attributed to limited resources. Accelerate Wisconsin should turn to technology to address this weakness. In particular, use of a web-based project management system could improve RFI responsiveness, allow submissions to be uploaded and directly accessible to state and regional representatives, and even clients. Information could also be periodically uploaded from regions and states into the CRM system so that the state could more quickly respond to specific requests, without needing to spend time tracking down information from local and regional economic development organizations. The current manual process of emailing Requests for Information to regions and communities and waiting for a reply before responding to prospects is a fragmented and resource-constrained process. It needs to be elevated to higher priority.
- International Networking – Current fiscal and budget constraints force the state to be selective in reaching out internationally. In the near term, Accelerate Wisconsin should target alumni and business owners who lived in Wisconsin but have left the state to establish an ambassadors program and hold events in various U.S. and global markets that align with the state's targeted industries and clusters. Accelerate Wisconsin could also work with its universities to track top talent and leverage the intellectual network of those with ties to Wisconsin. North Dakota and Ireland provide stellar examples of such efforts to raise global awareness through personal connections. In place of this personal touch, many states are outsourcing their international marketing efforts to third parties or sharing efforts with adjacent states and other business partners overseas.

Figure 16. State Comparison of Certified Site Programs

Many states offer certified/shovel-ready site programs, which are either widespread at the community level, or sponsored/administered at the state level:

Alabama - TVA
Arkansas
California
Georgia - TVA
Indiana
Iowa[1]
Kansas
Kentucky - TVA
Michigan
Minnesota
Missouri
Mississippi - TVA
New York
North Carolina - TVA
Ohio
Oklahoma
Oregon
Pennsylvania
South Carolina
Tennessee - TVA
Virginia - TVA



States with widespread "shovel-ready" sites programs[2]

TVA's Megasites Program was developed for the Tennessee Valley Authority and certifies large shovel-ready sites specifically for the automobile industry.

[1] Iowa's program is local, but is reportedly in the process of being expanded throughout the state
[2] Location Georgia, Indiana Economic Development Corporation, Iowa City Area Development, Michigan Economic Development Corporation, Minnesota Department of Employment and Economic Development, USCertifiedSites.com

Recommendation 7: Deploy a statewide "shovel-ready" sites program with expedited permitting procedures.

As demonstrated in the previous section, which benchmarked the state's competitiveness in select industries, Wisconsin's sites and permitting process consistently garners less-than-favorable ratings. This is a critical stumbling block for industries — particularly manufacturers — that are considering expanding or locating in the state. The above map shows that nearly all other Midwestern states have already taken steps to proactively initiate the permitting processes for select "shovel-ready" sites. Maintaining an unnecessarily complicated and cumbersome process without developing procedures for pre-certification will only continue to put Wisconsin at a disadvantage.

Accelerate Wisconsin should begin the process of catching up to its neighbors by determining the scope of its "shovel-ready" program. For example, the agency would need to establish factors such as:

- Minimum site size
- Preferred number of certifications throughout the state
- Mechanism and threshold by which certification costs will be reimbursed to local economic development officials
- Industry or function-specific parameters, if applicable

Accelerate Wisconsin should also establish a uniform set of policies and procedures required for a site to achieve "shovel-ready" designation. Key factors are likely to include:

- Support from local or regional government officials
- Clear title or development option
- Maps – site, ALTA, USGS topographical, aerial photograph
- Infrastructure in place, or an ability to construct and pay for construction (utilities, etc.) to property line
- Phase I Environmental Site Assessment (and Phase II, if necessary based on Phase I results)
- Wetland delineation and cultural artifact studies where appropriate

Effectively streamlining and expediting this process will also hinge on identifying and reaching out to state agencies that are anticipated to be critical partners. Accelerate Wisconsin should serve as the lead agency, responsible for championing and administering the new program. However, key partners may include the Department of Natural Resources, the Department of Transportation and other applicable agencies.

While the "shovel-ready" concept applies mainly to manufacturers, encouraging widespread broadband development throughout the state will promote a similar "infrastructure-ready" environment to support additional knowledge-based industries.

Recommendation 8: Implement new incentives geared toward capital-intensive and startup projects.

The benchmarking of select industries highlighted persistent gaps in Wisconsin's incentives package. Weakness was apparent in both structure and perception. Accelerate Wisconsin should begin to address these identified weaknesses by investigating various models of capital investment-related tax credits to determine which would be most viable for the state. Programs developed in other states that specifically reward capital investment include:

- **Hoosier Business Investment Tax Credit (HBITC) – Indiana:** The HBITC program encourages capital investment in Indiana by providing a credit against state tax liability. Based on a company's qualified capital investment, the credit amount is ultimately determined by the Indiana Economic Development Corporation (IEDC), based on its analysis of the economic benefits of the project.
- **Capital Investment Tax Credit – Alabama:** Alabama's program offers new and expanding companies a state income tax credit of up to 5 percent of initial capital costs for qualifying projects. Credit is available each year, for 20 years, beginning in the year the qualifying project is "placed in service." The capital credit can effectively eliminate the Alabama income tax liability that a qualifying project generates. Depending on the type of project, credit is available for ventures that meet various minimum thresholds for investment, employment and base wages. Alabama's tax credit has wide application. It is available to various sectors of the economy, including all manufacturers, data processing entities, renewable energy facilities, research and development centers, and certain utility projects.

Wisconsin Pioneers will need to determine the size and scope of the proposed equity fund for startup projects, as well as establish how the program will be administered. Here again, other states offer models of practices that

Wisconsin can incorporate and adapt to fit its needs and objectives. State-supported programs range from small to large pools of equity funding and from nascent to well-established. Examples include:

- Small Enterprise Growth Fund (SEGF) – Maine: Created by the Maine Legislature to provide in-state companies and entrepreneurs access to patient sources of venture capital, SEGF is a $9 million, professionally managed venture capital fund that invests exclusively in Maine companies demonstrating potential for high growth and public benefit. The current SEGF portfolio includes about 20 companies in a wide range of industries.

- 21st Century Investment Fund and Venture Michigan Fund – Michigan: These two separate but aligned funds were established to provide more than $200 million in venture capital, private equity, and mezzanine funding to attract entrepreneurs and new business projects to Michigan. The funds work jointly to create a continuum of capital — from seed and early stage venture investments to later-stage, buy-out and mezzanine funds. Both are managed by Credit Suisse's Customized Fund Investment Group.
- Ben Franklin Technology Partners (BFTP) – Pennsylvania: Founded in 1983, Pennsylvania's BFTP has won many awards for leadership in technology-based economic development. In 2009, BFTP invested $496 million. The programs tout a return of $3.50 for every state dollar invested since its inception. Its investments and interventions have boosted Pennsylvania's economy by more than $17 billion since 1989. BFTP has also been credited with generating a total of 125,827 additional job-years among its client firms and others. The program has adopted a relatively "industry agnostic" approach, funding companies in a wide range of industry sectors as long as technology is a key driver of their business. Specifically, BTFP consists of a network of four regional headquarters and 10 satellite offices throughout the state. The offices are integrated in offering several services to entrepreneurs, startup ventures and early-stage companies, including:
  – Business advice
  – Access to a wide-reaching network of experts
  – A financial bridge between the personal assets of the entrepreneur and funding from outside investors

Beyond looking to these state-supported models for examples of practices and policies to adopt, Wisconsin can quickly add vigor to its incentives program by removing the current $5 million cap on the state's refundable jobs tax credit. Additionally, Wisconsin should examine how its portfolio of incentives align with the industry targeting suggested by Recommendation 3.

Recommendation 9: Apply technology to enable and underpin Wisconsin's economic development strategy.

A new, more robust economic development entity will require better tools. Currently, the state's methods for communicating its economic development resources and tracking potential opportunities or problems are ineffective. This is telegraphed to potential investors in a lackluster website that fails to convey the state's commitment to economic development. A new Accelerate Wisconsin website should prominently feature items important to business retention, incubation and attraction. These include:

- Details of Accelerate Wisconsin's mission, strategy and target industries (if adopted).
- Wisconsin's value proposition to businesses.
- Details on all statewide economic development incentive programs. In particular, high-value programs should get high-traffic display.
- Links to economic development partner websites, such as regional and local agencies, utilities, and higher education resources.
- Contact information for business attraction and retention specialists.
- Links to additional economic development tools (including those highlighted below).

Accelerate Wisconsin should deploy a Customer Relationship Management (CRM) software system to assist with retention and attraction efforts. The state should adopt one system, which would be administered by Accelerate Wisconsin but accessible to economic development partners at various levels who may be involved in business retention or attraction efforts. Accelerate Wisconsin should also consider developing a secure, online project management tool to better coordinate retention, expansion and attraction projects.

Accelerate Wisconsin should adopt the WEDA-sponsored sites and buildings database. Regardless of whether WEDA or Accelerate Wisconsin administers the tool, it should be featured prominently on the Accelerate Wisconsin website. Accelerate Wisconsin also should consider developing online geographic information system (GIS) capabilities to enable companies to visually filter the state based on key location criteria.

Conclusion

The benchmark analysis of competitor states and select industries suggests that Wisconsin may have reached a tipping point. The state has faced such a precipice before. At the close of the 19th century, poor soil management practices and overcutting of its forests wreaked disastrous economic, as well as environmental, consequences. Yet Robert Nesbit in his 1973 *Wisconsin: A History* chronicled how the state recognized the threats to its economic well-being and relatively quickly repositioned its reliance on wheat production into a national preeminence in dairy products. The state adopted innovative practices in conservation to grow a competitive advantage in paper milling. Thriving dairy and paper industries have been cornerstones of Wisconsin's economy for much of the past century. Wisconsin's history of successfully retooling its economy should offer this current generation of private- and public-sector leaders hope of what is possible through unwavering commitment to structural change.

As the past illustrates, it takes time to reposition an economy. **But time is of the essence.** Other states have already recognized the need to re-envision and revitalize their economies and have taken proactive steps to address identified weaknesses. Efforts to improve economic competitiveness are increasingly driven by the demands of a rapidly changing global marketplace. Change and speed are two realities of today's competitive business environment and Wisconsin must learn to embrace them.

Over two decades, Wisconsin has studied, analyzed and assessed its traditional strengths and mounting weaknesses. The time has come to act. This report lays out the decisive economic development steps Wisconsin should take on its path to a brighter economic future. A clear strategy, aligned resources, effective tools and a dedicated champion are key components for helping Wisconsin to realize its goal of being one of the nation's top states for business and — ultimately — succeed in creating greater opportunities for its citizens.

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