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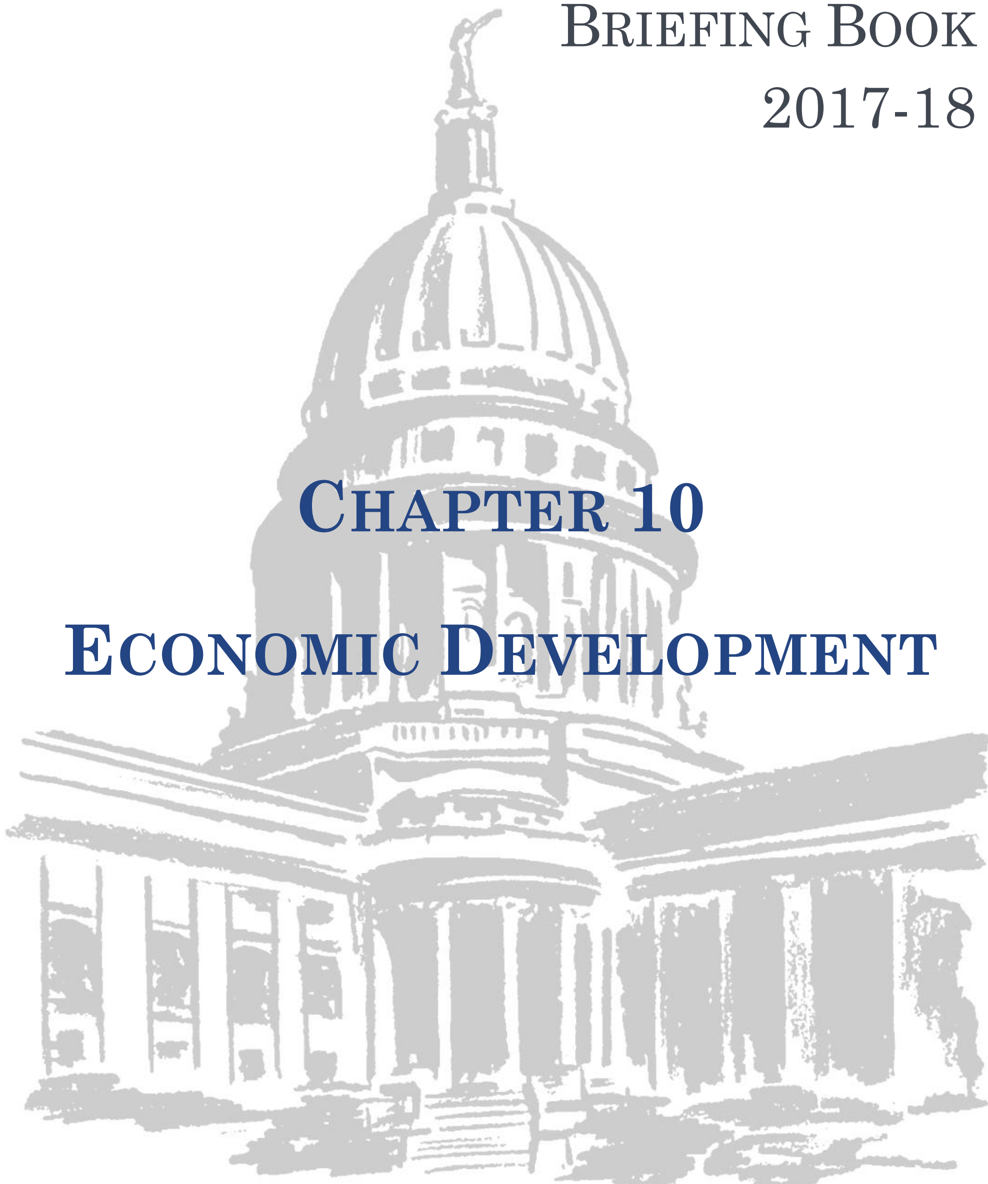

Chapter 10

Economic Development

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Table of Contents

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Introduction

Economic development was a key focus of legislative activity at the state level during the past several legislative sessions. Members of both major political parties have emphasized the importance of job creation, worker training, and access to capital.

The board concept of "economic development" encompasses myriad approaches to spurring economic growth. This chapter provides an overview of certain state and regional economic development programs, including various tax credit programs, grant and loan programs, and incentives designed to encourage investment in new and growing businesses. This discussion includes an overview of the role of the state agencies with primary responsibility for economic development, including the Wisconsin Economic Development Corporation (WEDC) and the Department of Workforce Development (DWD). In addition to the state tax incentives and programs discussed in this chapter, the federal government, local governments, and regional organizations contribute significant resources to economic development.

Wisconsin Economic Development Corporation

WEDC, a semi-public corporate entity, is the state entity primarily responsible for economic development in the state.

WEDC is the state entity with primary responsibility for economic development.

WEDC is governed by a 14-member board comprised of state officials and private sector representatives. State law directs the board to develop and implement economic programs to provide business support and expertise and financial assistance to companies that are investing and creating jobs in Wisconsin and to support new business start-ups and business expansion and growth in the state.

WEDC's website is:
http://www.inwisconsin.com

For each economic development program that it develops, the board must establish certain policies and benchmarks, establish methods for evaluating projected results, verify the accuracy of information submitted by grant and loan recipients, and report certain information to the Legislature. The board also has statutory responsibilities relating to the administration of certain tax credit and grant programs. [ss. 238.02 to 238.07, Stats.]

Tax Incentives for Businesses

Several state tax credit programs offer incentives to businesses for activities such as job creation, business relocation or expansion, capital investment, and production. Each of the tax credit programs is structured differently. For example, some tax credits are awarded based on a claimant's activity within a specified "zone," while others apply regardless of location.

For some tax credit programs, an individual or business must be certified as fulfilling specified criteria for eligibility to receive a tax credit before the Department of Revenue (DOR) will award the credit. WEDC is authorized to administer such certifications for many of the state's economic development-related tax credit programs.

Business Development Tax Credits

The business development tax credit program was created in 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act. Business development tax credits are refundable, meaning that if a credit exceeds a claimant's tax liability, the claimant may receive a check from the state. The program replaces two tax credit programs that expired at the end of 2015: the jobs tax credit program and the economic development tax credit program. Many provisions of the new business development tax credit program mirror similar provisions from the expiring jobs tax credit program. The statutes allow WEDC to allocate $22 million in tax benefits under this program each year.[1] Any unused allocation may be carried forward.

Business development tax credits are available to employers who increase net employment in Wisconsin.

Criteria for Certification

WEDC may certify a person to receive business development tax credits if the person: (1) operates or intends to operate a business in this state; and (2) enters into a contract with WEDC. A certification may remain in effect for no more than 10 cumulative years.

A person who has been certified may receive business development tax credits only for years in which the person increased net employment in Wisconsin, as compared to the net employment in this state in the year before the person was certified to receive tax credits, as determined by WEDC under WEDC's policies and procedures.

Available Credits

WEDC may award the following types and amounts of tax credits to a person certified under the program:

- **Wages.** Up to 10% of wages paid to full-time[2] employees.

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[1] The statutes allow WEDC to exceed this limit by up to $10 million if certain circumstances apply, including approval by the Joint Committee on Finance.

[2] In general, for purposes of the business development tax credit, a job is considered "full-time" if it requires an individual, as a condition of employment, to work at least 2,080 hours per year, including paid leave and holidays, and if the individual receives pay equal to at least 150% of the federal minimum wage and benefits by federal or state law. However, WEDC may grant exceptions to those requirements in certain situations in which annual pay exceeds 2,080 times 150% of the federal minimum wage and an individual is offered retirement, health, and other benefits that are equivalent to the retirement,

- **Wages paid in economically distressed areas.** An additional amount, up to 5%, of wages paid to full-time employees employed in an economically distressed area, as determined by WEDC.
- **Training costs.** Up to 50% of certain training costs incurred to undertake activities to enhance full-time employees' general knowledge, employability, and flexibility in the workplace; to develop skills unique to the person's workplace or equipment; or to develop skills that will increase the quality of the person's product.
- **Certain investments.** Up to 3% of a personal property investment, and up to 5% of a real property investment, in certain capital investment projects.[3]
- **Wages paid to employees at corporate headquarters.** An amount, determined by WEDC, equal to a percentage of the amount of wages paid to full-time employees in jobs that were created or retained as part of the location or retention of corporate headquarters in Wisconsin and that involve the performance of corporate headquarters functions.

[s. 238.308, Stats.]

Enterprise Zone Tax Credits

WEDC may designate up to 30 enterprise zones.

The Enterprise Zone Program was first authorized by 2005 Wisconsin Act 361 and has expanded over time. WEDC may designate no more than 30 enterprise zones, each of which may remain in effect for no more than 12 years. WEDC may designate a new enterprise zone if it cancels the designation of another enterprise zone or if a designation expires. Five enterprise zones must be in areas comprising political subdivisions with populations of less than 5,000 people, and two enterprise zones must be in areas comprising political subdivisions with populations of at least 5,000 but fewer than 30,000 people.

Designation of an Enterprise Zone

Except with respect to the five enterprise zones subject to population restrictions, WEDC must consider all of the following criteria when determining whether to designate an area as an enterprise zone:

- Indicators of the area's economic need, which may include data regarding household income, average wages, the condition of property, housing values, population decline, job losses, infrastructure and energy support, the rate of business development, and the existing resources available to the area.

health, and other benefits offered to an individual who is required to work at least 2,080 hours per year. [s. 238.30 (2m), Stats.]

[3] The capital investment must be either $1 million or more or equal to at least $10,000 per full-time employee employed on the project.

- The effect of designation on other initiatives and programs to promote economic and community development in the area, including job retention, job creation, job training, and creating high-paying jobs.

In addition, WEDC is generally required to give preference, to the extent possible, to the greatest economic need when making such designations. [s. 238.399 (3), Stats.]

Although they are named "zones," enterprise zones are typically designated for individual, large-scale business ventures. Examples of business enterprises that have been designated as enterprise zones include Mercury Marine in Fond du Lac, Bucyrus International, Inc., and Quad/Graphics in the Milwaukee area, and Fiserv in Brookfield.

Available Credits

Businesses located within an enterprise zone may be certified to receive enterprise zone tax credits if they take certain actions, such as beginning or expanding operations in the zone, relocating to an enterprise zone from outside the state, retaining jobs within the zone, purchasing specified products or services from Wisconsin vendors, or making a significant capital expenditure within the zone.

Several types of refundable tax credits are available to certified businesses. These include:

- **New jobs.** A credit for a percentage, determined by WEDC but no more than 7%, of certain wages paid to new, full-time employees hired to work within the enterprise zone.
- **Job retention.** A credit for a percentage, determined by WEDC but no more than 7%, of wages for full-time employees within the zone who earned certain minimum wages (depending on the county or municipal classification), if the number of employees within the zone is equal to or greater than the number of people employed within the zone during the previous taxable year.
- **Training.** A credit for a percentage, determined by WEDC but no more than 100%, of expenses related to training full-time employees within the zone on the use of job-related new technologies, or to provide job-related training to any full-time employee whose employment represents the employee's first full-time job.
- **Significant capital expenditures.** A credit for up to 10% of significant capital expenditures, as determined by WEDC.
- **Purchases from Wisconsin suppliers.** A credit for up to 1% of expenditures for qualified goods or services purchased from Wisconsin suppliers.

[ss. 71.07 (3w), 71.28 (3w), and 71.47 (3w), Stats.]

Development Opportunity Zone Tax Credits

Development opportunity zones are designated by statute. Three development opportunity zones – located in the Cities of Beloit, Janesville, and Kenosha—are in effect as of the publication of this chapter. Each of those zones was authorized for an initial five years and extended by WEDC for an additional five years.

Any person who conducts or intends to conduct economic activity in a development opportunity zone is entitled to receive specified tax benefits relating to environmental remediation, jobs, and capital investment. The tax credits can help reduce a person's state income tax liability to potentially enhance its cash flow. A person is entitled to receive benefits if the person submits a qualified project plan in conjunction with the local governing body of the city in which the development opportunity zone is located. Project plans must include various components, including the amount the person proposes to invest, the number of full-time jobs that will be created, and other information required by WEDC or DOR.

[s. 238.395, Stats.]

Electronics and Information Technology Manufacturing Zone Tax Credits

2017 Wisconsin Act 58 authorized WEDC to designate a new type of zone called an electronics and information technology manufacturing (EITM) zone. The statutes provide that only one such zone may be designated. The creation of an EITM zone implements an agreement negotiated between the Governor and the Foxconn company for the creation of a new fabrication facility in Wisconsin.

A business within the zone may be certified by WEDC to receive up to $2.85 billion in refundable tax credits, over a 15-year period, for qualified wages paid and for certain significant capital expenditures.[4] The statute also authorizes a sales tax exemption for certain purchases within the zone, including certain building materials, supplies, and equipment for the construction or development of facilities located in the EITM zone.

WEDC must revoke the general certification of a business to receive tax credits under certain circumstances, including if the business supplies false or misleading information or leaves the EITM zone to conduct substantially the same business outside of the zone.

[s. 238.396 (1m), (3m), and (4) (a), Stats.]

Manufacturing and Agriculture Tax Credits

2013 Wisconsin Act 32, the 2013-15 Biennial Budget Act, created a nonrefundable tax credit for qualified manufacturing and agricultural production activities. The credit effectively reduces manufacturers' and agricultural producers' state income tax liability to zero for income resulting from business operations.

Manufacturing and agricultural production tax credits effectively eliminate manufacturers' and agricultural producers' state income tax liability arising from business operations.

[4] The statutes require WEDC to adopt policies and procedures defining "significant capital expenditures." [s. 238.396 (4) (f), Stats.]

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, expanded the scope of eligible activities when calculating a tax credit. Eligible activities are qualified domestic production activities that are derived from property located in Wisconsin and assessed as agriculture, undeveloped, agricultural forest, productive forest land, or "other."

The amount of the credit was phased-in over a several-year period. For tax years beginning in 2016, and in subsequent years, the credit equals 7.5% of qualified production activities.

[ss. 71.07 (5n) and 71.28 (5n), Stats.]

Angel Investment and Early Stage Seed Investment Tax Credit Programs

Wisconsin's Angel Investment and Early Stage Seed Investment tax credit programs are intended to encourage venture capital investments in new and expanding businesses throughout the state. Through the programs, venture capital investors receive tax credits for investing capital, either individually or through a fund manager, in businesses that participate in the programs. To participate, among other statutory criteria, a business must show that it has the potential for increasing jobs in this state, increasing capital investment in the state, or both.

The Angel Investment and Early Stage Seed Investment programs are intended to encourage venture capital investments in Wisconsin business ventures.

Businesses first applying to participate in the programs must have fewer than 100 employees and have been in operation in Wisconsin for fewer than 10 years, among other qualifications. Angel investment tax credits equal 25% of an individual claimant's bona fide angel investment in a qualified new business venture. Early stage seed investment tax credits equal 25% of a claimant's investment paid to a fund manager that the fund manager, in turn, invests in a certified business. [s. 238.15, Stats.]

Grant and Loan Programs Administered by WEDC

As noted above, WEDC has a role in many of the tax credit programs discussed above since eligible businesses may require certification by WEDC in order to receive a tax credit. In addition to its role in tax credit programs, WEDC administers a number of additional economic development programs.

WEDC has established various grant and loan programs pursuant to its statutory directive to provide support to companies seeking to expand or increase operational efficiency in the state. For example, it offers loans to small businesses in certain sectors that may have limited access to standard types of debt or financing, particularly in rural areas of the state. Loan funds may be used for certain activities including the acquisition of real property and equipment, long-term leasehold improvements, and working capital.

Prior to 2017 Wisconsin Act 59, a number of loans administered by WEDC were forgivable under certain circumstances. However, Act 59 provides that the corporation may not originate any loan that is forgivable in whole or in part upon the loan recipient's achievement of one or more conditions or goals. In addition, Act 59 requires WEDC to adhere as closely as practicable to commonly accepted commercial lending practices in each new lending program that it implements or administers. [s. 238.124, Stats.]

WEDC also administers the Capital Catalyst program, a grant program through which WEDC provides seed funding to organizations and communities that are able to provide matching funds. To participate, organizations and communities must demonstrate that they have programs in place to spur the development of new high-growth businesses. Examples of grant recipients include regional economic development organizations, such as the Innovation Fund of Western Wisconsin, and community development organizations, such as the Whitewater Community Development Authority. More information about the Capital Catalyst program is available at: https://wedc.org/programs-and-resources/capital-catalyst/.

Venture Capital

Partly because of the geographic location of investors, that Wisconsin businesses generally receive a disproportionately small proportion of the venture capital funds invested nationally. Over the last few decades, the Legislature has debated the optimal role for the state in providing better access to venture capital in Wisconsin. The Legislature enacted the angel investment and early state seed investment tax credit programs, discussed above, in 2003. During the late 1990s and again during the 2013-14 Legislative Session, it also created programs that involve the investment of state funds.

For example, 2013 Wisconsin Act 41 created a fund-of-funds venture capital investment program ("Badger Fund of Funds I").

2013 Wisconsin Act 41 created a venture capital investment program with an initial investment of $25 million in state funds.

The Act required the Department of Administration (DOA) to form a committee to select an investment manager for the program and to provide an initial $25 million in state investment for the program. Sun Mountain Kegonsa Partnership, LLC was chosen. It must invest capital in at least four venture capital funds. Contracts with the selected venture capital funds must include specified requirements. For example, within four years, each participating venture capital fund must make new investments in an amount equal to the capital it receives through the program in one or more businesses headquartered in Wisconsin.

The investment manager must hold gross proceeds from such investments in an escrow account until it has repaid the state's original $25 million investment in the program. After that amount has been repaid, the investment manager must pay 90% of its gross proceeds from the program to the state for deposit into the state's general fund.

The Act required DOA to submit progress reports regarding the program to the Joint Committee on Finance in 2015 and 2018. The reports contain comprehensive assessments of the program's performance and certain recommendations for improving the program.

[s. 16.295, Stats.]

A report submitted to the Joint Committee on Finance on March 1, 2018 detailed progress in the creation of the "Badger Fund of Funds I" program, including information regarding funds that have received commitments or contingent commitments for capital investments from the Badger Fund of Funds I program.

Workforce Training

The Wisconsin Fast Forward program provides grants for employer-led training programs.

The need for a skilled, trained workforce has been a key focus of economic development efforts in recent years, particularly as employers report that job applicants lack the necessary skills for jobs in growing sectors such as advanced manufacturing. In response to that concern, 2013 Wisconsin Act 9 created a workforce development program, referred to as "Wisconsin Fast Forward," that provides grants for employer-led worker training, including training of unemployed and underemployed workers. DWD implements the program in consultation with WEDC and the Wisconsin Technical College System Board. [s. 106.27 (2m), Stats.]

Act 9 also requires DWD to develop and maintain a Labor Market Information System to collect, analyze, and disseminate information on employment opportunities in this state and other appropriate information relating to labor market dynamics. DWD must make that information available to educational institutions and the public. [s. 106.27 (1m), Stats.]

Other State Programs and Initiatives

For more information on WHEDA programs, see http://www.wheda.com

Several state agencies play a role in economic development in addition to WEDC and DWD. For example, the Wisconsin Housing and Economic Development Authority (WHEDA) provides loan guarantees for small business, agricultural, and multi-family housing financing products.

In addition, the University of Wisconsin (UW)-Extension's Division of Business and Entrepreneurship facilitates expert assistance for entrepreneurs, businesses, and economic development professionals. The division operates Small Business Development Centers, which are funded in part through the U.S. Small Business Administration and provide low- and no-cost assistance to entrepreneurs. Small Business Development Center experts can be reached via the Wisconsin Business Answer Line at 800-940-7232. More information is available at https://www.wisconsinbdc.org/.

Tax Incremental Financing

Tax incremental financing (TIF) is an important economic development tool for Wisconsin municipalities. A municipality may designate a tax incremental district to rehabilitate a particularly blighted area or to encourage economic development where it might not otherwise occur. That designation freezes the taxable value of the district at its current "base value." Public expenditures in the district are then financed by taxes on the "increment" of property value that exceeds the base value while the district is in effect.

Project costs for which a municipality may utilize TIF include, for example, costs for the construction of public works, costs for the removal of environmental contaminants, and costs for certain infrastructure improvements. Project costs generally may not include cash grants for developers, unless a cash grant is authorized by a development agreement.

[s. 66.1105, Stats.]

Regional Economic Development Organizations

A map and links for the regional organizations are available at:

http://www.forwardwi.com/map.php

Nine regional economic development organizations, each covering a multiple-county area, promote economic development and represent local economic development organizations throughout the state. The regional organizations are generally structured as nonprofit organizations, but some have formed through collaborations with public entities, such as technical colleges. In addition, the regional organizations often serve as partners in state or local government economic development initiatives. Among other activities, the organizations develop brand identities for their regions; provide information regarding available commercial sites and facilities located within their regions; and actively recruit businesses in certain industry clusters.

Evaluating State Economic Development Programs

Efforts to measure the effectiveness of economic development programs face an ongoing challenge: in some cases, it is difficult to determine whether a particular tax incentive or other government program **caused** a specific new job, business expansion, or investment. Nevertheless, detailed reports compiled by WEDC provide useful information regarding jobs created by recipients of state tax credits, grants, and loans.

Audits of Economic Development Programs

The Legislative Audit Bureau (LAB) completed audits of all state economic development programs in 2006 and 2012.

The LAB audited Wisconsin's economic development programs in 2006 and 2012.

For purposes of reporting and audits, Wisconsin law defines an "economic development program" as a program or activity having the primary purpose of encouraging the establishment and growth of business in the state, including the creation and retention of jobs, and that does both of the following:

- Receives funding from the state or federal government that is allocated through an appropriation under ch. 20, Stats.
- Provides financial assistance, tax benefits, or direct services to specific industries, businesses, local governments, or organizations.

Using that definition, the 2006 audit identified 152 economic development programs in the state. The 2012 audit identified 196 programs that had been authorized or operational at some point during the 2007-09 and 2010-11 biennia.[5] However, a number of the 196 programs were consolidated or eliminated during that period, and several other programs were sunsetted in the 2013-15 Biennial Budget Act.

The 2012 audit estimated that state expenditures on economic development programs totaled $226.5 million during the 2009-11 fiscal biennium. That amount does not include foregone revenue from economic development tax incentives.

Beginning in 2013, the LAB is required to conduct biennial audits of WEDC's financial management and the programs WEDC administers. LAB completed such biennial audits in September 2014, May 2015, and May 2017.

Reporting Requirements

The 2006 audit recommended improved coordination and accountability for the state's economic development programs. 2007 Wisconsin Act 125 ("Act 125") was the product of a working group established in response to the 2006 audit. In addition to eliminating and consolidating programs, the Act created new reporting requirements, which currently apply to WEDC and seven other state agencies.[6]

Under Act 125, as modified by subsequent legislation, each agency must establish clear and measurable goals tied to a program's statutory policy objectives and establish at least one quantifiable benchmark for each goal. The agencies also must establish a method for

[5] In some cases, the agencies disagreed with the characterization of particular programs as economic development programs.

[6] The agencies are the Department of Agriculture, Trade, and Consumer Protection; the Department of Natural Resources; the Department of Tourism; the Department of Transportation; the UW System; WHEDA; and the Wisconsin Technical College System.

evaluating the projected results of each program with actual outcomes. State agencies must consult with WEDC when developing goals and accountability measures for economic development programs.

The WEDC board must also submit annual reports to the Legislature. The reports must include all of the following information regarding each economic development program:

- A description of the program.
- An accounting of the location, by municipality, of each job created or retained in the state in the previous fiscal year as a result of the program.
- An accounting of the industry classification, by municipality, of each job created or retained in the state as a result of the program.
- A comparison of expected and actual program outcomes.
- The number of grants made under the program.
- The number of loans made under the program.
- The total amount of tax benefits allocated, and the total amount of tax benefits verified to DOR, under the program.
- The amount of each grant and loan made under the program.
- The recipient of each grant or loan made under the program.
- An identification of each recipient of a tax benefit allocated, and each recipient of a tax benefit that was verified to DOR, under the program.
- The sum total of all grants and loans awarded to and received by each recipient under the program.
- Any recommended changes to the program.

[s. 238.07 (2), Stats.]

Additional References

1. Legislative Audit Bureau audit reports, available at http://www.legis.wisconsin.gov/lab:
    - Audit Report 17-9, *Wisconsin Economic Development Corporation*.
    - Audit Report 15-3, *Wisconsin Economic Development Corporation*.
    - Audit Report 14-11, *Wisconsin Economic Development Corporation*.
    - Audit Report 13-7, *Wisconsin Economic Development Corporation*.
    - Audit Report 12-11, *State Economic Development Programs*.
    - Audit Report 06-9, *State Economic Development Programs*.
2. Wisconsin Economic Development Corporation, *Wisconsin's FY 17 Annual Report on Economic Development*, http://www.wedc.org/inside-wedc/program-outcomes/.

3. Wisconsin Department of Revenue:
   - *Fact Sheet: Business Development Tax Credit*, http://www.revenue.wi.gov/taxpro/fact/1120busdevcr.pdf.
   - *Fact Sheet: Wisconsin Manufacturing and Agriculture Credit*, http://www.revenue.wi.gov/taxpro/fact/manufandagr.pdf.

Glossary

Economic development: Efforts by government and private entities to promote business development and spur economic growth. For purposes of state auditing and reporting, a more specific definition of "economic development program" is set forth in the statutes.

Loan guarantees: Assurances that a debt obligation will be satisfied. Their purpose is to increase private lending activity by lowering the risk assumed by lenders.

Tax credit: Money deducted from a claimant's tax liability. Most tax credits are nonrefundable, meaning that they are not awarded as cash in the event that the credit exceeds tax liability in a given year.

Tax incremental financing: A tool by which local governments finance the cost of new infrastructure and other improvements related to economic development projects. In general, the costs are financed with increased tax revenues in a tax incremental financing district over a given time period.

Venture capital: Money invested in start-up companies or companies preparing for significant expansion. Venture capital investments are considered relatively high-risk but are perceived as vital to economic growth.

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