CENTER FOR REGIONAL ECONOMIC COMPETITIVENESS

Wisconsin Economic Development Corporation Management Review and Recommendations

February 2016

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About the Report

The Board of Directors of the Wisconsin Economic Development Corporation (WEDC) asked the Center for Regional Economic Competitiveness (CREC) to conduct a detailed internal review of the agency's operations and processes. WEDC made this request because 1) the economic and competitive landscape has changed since the vision for WEDC was developed and 2) work remains to be done to achieve the ideals demanded of a public-private economic development agency. The objective is to offer guidance on how best to balance the provision of economic development programs in response to a hyper-competitive business environment while also meeting the highest standards of public accountability. This executive report presents an overview of CREC's analysis, detailed in the full report, with its findings and recommendations.

This review identifies critical issues and offers guidance to ensure WEDC makes progress in aligning changing priorities, improving its operations, and implementing adequate systems to effectively manage public funds.

In taking on this task, the CREC team had three primary goals:

- Assessing whether WEDC's existing efforts align with its strategic mission;
- Examining management and operations to identify areas for continuous improvement;
- Identifying ways to build and maintain confidence in WEDC's capabilities to deliver results AND serve as trusted stewards of taxpayer dollars.

To understand WEDC's current (real and perceived) situation, CREC conducted a series of external assessments, engaged stakeholders, and analyzed internal policies and procedures using focus groups, one-on-one interviews, and process reviews. CREC talked with each of the board members individually. In addition to small group discussions with more than 90 percent of the current staff, CREC conducted a number of follow up meetings with the senior and mid-management staff. CREC also interviewed more than 50 external stakeholders, including the Governor's policy staff, key legislative leaders (and their staff) from both chambers and both parties, as well as state, regional, and local stakeholders representing WEDC partner groups.

We supplemented our findings from these interviews with our team's experience working with other state economic development programs—in particular our work with 30 states during the last two years focused on refining management and evaluation practices for state incentive programs—to identify promising areas for improvement in WEDC's internal operations. We also conducted in-depth interviews with senior management executives at eight similarly-structured statewide economic development agencies to understand how other states manage the difficult tasks associated with incentive program management and the evolving context of economic development.

The report is organized in four sections. The first provides a brief overview of our analytic work (detailed in later sections) combined with our findings and recommendations. Section II provides a background overview of the overall economic context facing state and local economic development practice in the U.S. that drives WEDC's mission, vision, and values. Section III draws on the experiences of other states with quasi-public economic development agencies in considering how well WEDC is positioned to align its strategic mission with its structure and management. Section IV assesses WEDC's operations, management, and administration in detail, including issues of funding, spending, programs, data management, oversight, evaluation, and performance monitoring.

Findings and Recommendations

Findings

CREC identified a number of findings related to WEDC's efforts to build a responsive, effective, and transparent organization. Those findings, which inform our recommendations outlined in the next section, focus around four key areas:

I. Reframing and Articulating WEDC's Mission, Vision and Goals

Most stakeholders – especially businesses and economic development partners around the state – do not wish to return to the pre-2011 economic development structure. The economic and organizational challenges that prompted the 2010 ***Be Bold*** report and the subsequent passage of Act 7 continue to drive a preference for a customer-oriented state economic development organization that offers the flexibility to meet the needs of businesses in a dynamic environment. Accordingly, we have taken it as our charge to focus on issues that impede WEDC from working as effectively as possible rather than advising a wholesale organizational change.

That said, as WEDC reviews its mission and vision to ensure it remains relevant to current challenges, it will want to do so by helping its stakeholders recognize that economic development involves much more than individual transactions driven by the provision of tax and non-tax incentives. Furthermore, leaders are interested in shifting focus while also improving WEDC's compliance and evaluation systems so that it can provide the most credible evidence possible of its economic development accomplishments and learn from those investments.

The following summarizes our findings that guide the development of WEDC's mission, vision, and goals going forward:

- State economic developers nationally are increasingly leading their states in facilitating a more nuanced discussion among policy makers about what constitutes economic development and growth, beyond job creation. WEDC is well positioned to take this role in Wisconsin.
- This changing leadership role requires helping policy makers and citizens better understand what is possible so as to manage expectations and guide decisions in a way that identifies and implements a new paradigm for using incentives to address short-term needs as well as prepare for long-term prosperity. WEDC has the capacity to fill this role and it has the confidence of many of its partners and stakeholders.
- Critical strategic elements that stakeholders expect WEDC to address going forward include: innovation, network building, industry sector strategies, accessing global markets, community investment, and workforce development. WEDC has a strong program portfolio to address those challenges.
- Existing plans describe WEDC's mission, vision, and objectives, but they are not frequently referenced. Consequently, WEDC allies and new staff do not always have a clearly articulated understanding of that mission and vision.
- For states in 2015, economic development often focuses less on solving the problems of individual businesses and more on creating opportunities for clusters of clients, companies, and communities. WEDC has a number of initiatives approaching the state's economic development challenges in this way, but they garner modest attention relative to the agency's incentive investments.

II. Aligning Efforts with New Priorities

WEDC's diverse portfolio of 28 programs is structured with great flexibility to adapt to changing market needs. These programs carry over some of the state's economic development priorities from the recession. As the economy continues to recover, priorities will likely shift, and WEDC will want to use its flexibility to re-examine its program mix. WEDC's flexibility is highly valued among its allies and stakeholders. In addition, those stakeholders seek a continued focus on collaboration in shaping and implementing strategy going forward.

Currently, WEDC is organized into five outward facing divisions to manage those programs and a number of inward facing units to support WEDC investments. Reviews of the agency's programs have focused largely on the investment decision-making process rather than on program impacts. WEDC has responded to the last two Legislative Audit Bureau reports by making organizational as well as process changes, but along with a review of its investment priorities, WEDC also needs to re-examine the organization of its operational units to ensure clarity of leadership, roles, and responsibilities. Many of the process challenges identified in the LAB report stem from review requirements that have been subsequently added. These changes have contributed to process bottlenecks that need attention. Many of LAB's concerns have already been addressed; some remain as noted later in a few of the recommendations. As WEDC's refines its approach to making more transparent, better documented decisions, the agencies strategic priorities are also likely to shift in response to the economic recovery. These changes will require WEDC to examine its organizational structure and its roles and responsibilities.

A summary of findings related to aligning to new priorities include:

- The most common activities among the state quasi-public agencies include efforts to encourage business finance and assistance, domestic recruitment, entrepreneurial development, and international trade and investment. In comparison to other states, WEDC's administers a more diverse program portfolio, with a greater emphasis on community and entrepreneurial development programs than other states with quasi-public agencies.
- WEDC has re-examined its mission, vision, and 'strategic pillars' as a way to frame the agency's priorities in meeting new challenges and creating new opportunities. This clarity of purpose and focus should inform the agency's organizational structure.
- WEDC has developed a strong network of advocates among regional and local stakeholders, building on its investment in its local account manager network, its investments in community projects, and the local impact of its investments.
- Within a broader economic development eco-system, state economic development agencies can play a critical role as strategic leader, coordinator, facilitator, convener, and capacity builder. WEDC's regional network and many other divisions already have the skills to play this role. This function is becoming critical to determining whether state investments in economic development are actually fulfilling public policy goals and meeting client business needs.
- WEDC's current partners already turn to WEDC for leadership and are seeking collaboration opportunities. This particular type of collaboration requires stakeholders to have clearer models for information sharing, joint advising, and feedback loops as well as joint marketing and training initiatives.
- Stakeholders are becoming increasingly concerned about economic equity issues as the economy continues its recovery, including embracing strategies that will:
    - Improve rural areas (to counteract population declines and brain drain),

  - Support small, disadvantaged business (reflecting demographic shifts),
  - Foster start-ups and innovation (reflecting the need for economic diversification), and
  - Promote quality job creation and retention (reflecting goals tied to improving worker incomes and household wealth).

- Stakeholder communication is a key element for future success, including efforts to increase awareness among stakeholders about positive WEDC impacts, improve transparency efforts, and demonstrate a more aggressive approach to respond to incomplete information being shared in the media.

III. Improving Governance and Management

WEDC, like several other states, turned to a quasi-public agency as its preferred approach to economic development. CREC benchmarked WEDC to several states (Arizona, Iowa, Rhode Island, Virginia, Michigan, Indiana, Wyoming, and Wisconsin) that have developed quasi-public models and the two states (Florida and Ohio) that embraced nonprofit models. From our review of the academic literature, there is little research that suggests whether public sector line agencies, quasi-public agencies, or nonprofit economic development organizations deliver superior performance. It is evident, however, from the staying power of these alternative agency models that state leaders remain committed to making them work.

State leaders often see quasi-public and alternative organizational models as helping to streamline the focus of their economic development efforts (through a more limited menu of programs) and engage businesses (through participation in governance) in ways that state leaders value. Furthermore, states that make significant organizational changes have found that the change itself creates uncertainty among stakeholders and business clients, delays in implementing policies, and distractions to agency leaders. The result is often a lapse in performance and service delivery in a hyper-competitive economic development climate.

A summary of findings related to organization and management:

WEDC **mirrors** other states with quasi-public agency models in several ways:

- Annual legislative appropriations are the primary source of funds. Frequently, a portion of the funds are provided as a block grant to the agency with a requirement to report back impacts. This provides the agency with greater flexibility to make program-specific decisions and to deploy staff as required to implement those decisions.
- Because all the state quasi-public economic development agencies receive a substantial proportion of their funding through annual legislative appropriations or state revenue funding streams, securing consistent funding is a common issue. Some states have used special funding streams and encouraged the agencies to use fee income or

contributions to balance their budget. However, unless they have a sizable investment portfolio, these non-appropriated public funds remain a small portion of the budget.

- Relatedly, private funding accounts for an even smaller portion (or often none) of the agency budget. Nonprofit models are exploring with alternative funding streams, including private sector contributions, but they typically must be "selling" something to those contributors. In the case of Florida, it is board seats (with limited decision-making authority), but this may not be an appropriate model for a quasi-public agency.
- Demands for transparency and accountability among quasi-public agencies are often higher than for typical line agencies. The uniqueness of the organizational structure, the predominance of taxpayer funds, and the flexibility of those resources all combine to invite greater attention from legislators and the media.
- Media coverage of public-private partnerships often highlight process shortcomings. Often quasi-public agencies are in the spotlight as they define their programs rather than as they report their results. In the short run in particular, critics presume that decisions are being made without the same level of public input as a public agency. Positive impacts are often documented in an annual report form well after decisions have been made. Calls for transparency about investments also can create opportunities for spotlighting investment decision as they happen.

WEDC **differs** from other state quasi-public agencies in several ways:

- WEDC has state legislators as voting board members. Arizona and Iowa have ex officio nonvoting legislative board members and most states allow legislative appointments of private sector board members.
- WEDC bylaws do not specify board member terms. Other states have staggered terms for board members to create opportunities for change in leadership that is purposely not aligned with electoral cycles to buffer the agency from politics and maintain institutional board knowledge.
- The Governor no longer serves as chair or co-chair of WEDC, but he remains involved in appointing several board members and the CEO. In other states, the Governor frequently chairs the board, but it is not unusual for most board activities to be managed by a private sector co-chair.
- WEDC board meetings have involved more discussions about oversight and less about strategic direction than most other state economic development boards which tend to have a more even balance.
- In other states, the Attorney General views debts to the quasi-public agency as debts to the state and is available to the agency to help enforce state contract provisions, including incentive performance agreements. This appears not to be the case in Wisconsin, based on our understanding of how staff are interpreting WEDC's enacting legislation.

IV. *Achieving Operational Excellence through Continuous Improvement*

WEDC began as a new enterprise in 2011 focused on achieving job creation impacts. The Legislative Audit Bureau has since conducted two audits of WEDC and found numerous processes and procedures lacking. WEDC has responded by adopting a number of new policies and procedures, focusing significant resources during the past two years to improving process documentation and compliance efforts.

An important lesson for WEDC is that, while the agency may be a public-private partnership, the responsibilities associated with using public funds demands that it pay special care to documenting *how* decisions are made, not simply monitoring how well the investments perform. Furthermore, WEDC and LAB initially had some legitimate differences in how they interpret statute. Two were particularly important: 1) how best to “verify” that companies receiving awards have indeed performed as required and 2) when to begin counting company performance, i.e., on the date a letter of intent is issued or the contract execution date.

A summary of findings related to continuous improvement include the following:

- WEDC experiences bottlenecks in certain aspects of the application review and award management process.
- Many other states have implemented standardized applications for multiple programs that request similar data, enabling more consistent data collection. With consistent data fields, states can more easily assess project feasibility while also compiling baseline data for performance monitoring.
- Most economic development agencies standardize the contract process as much as possible and add project specifics as appendices to ensure that data collected is easily identified and can be tallied and measured against other deals.
- Consistent with practices observed in other states, WEDC collects performance data from companies, conducts sample reviews and some site visits. Economic development organizations often seek additional means for conducting third-party validation of customer-reported performance, including access to state administrative data. Several state agencies have created data sharing agreements for this purpose.
- Many states have centralized or are in the process of linking their contract management, performance reporting, and disbursement information systems.
- The program metrics for WEDC’s 28 programs represent a mixture of types of measures, including a report on activities or milestones, outputs or program impacts, and outcomes or economic benchmarks. A lack of consistency in framing the metrics can make aggregation and reporting difficult.

- Staff seek management and Board support in the face of ongoing external criticism as well as professional development and career pathway options. Resources and staff are critical to managing programs and executing WEDC's strategy effectively.

Recommendations

CREC developed a number of recommendations designed to help WEDC become a best-in-class state quasi-public economic development agency. These are divided into four broad categories: (1) strengthening the foundation for statewide economic development, (2) aligning efforts with new priorities, (3) improving governance and management in comparison to benchmark states, and (4) achieving operational excellence through continuous improvement.

I. Strengthen the Foundation for Statewide Economic Development

Among CREC's recommendations, seven stand out as being among the highest priority for focus. Highlighted in Figure 1, CREC considers the implementation of these 7 recommendations as fundamental to the organization's success and to effective economic development investment in Wisconsin. While these recommendations are directed to the WEDC Board and its senior management team, they must also be embraced by the Governor's office, the legislature, and other WEDC stakeholders. These recommendations aim to ensure WEDC is prepared to accomplish its primary purpose in an efficient manner and in ways designed to instill confidence in WEDC going forward. **The additional suggestions cited later in this section are designed to help accomplish many of these foundational recommendations.**

Figure 1: Foundational Recommendations

Align Efforts with Mission	Improve Operations	Build Trust & Confidence
Clarify WEDC's mission for statewide economic development (2)	Emphasize operational excellence as a core organizational value and a budget priority (4)	Focus on making WEDC work in its current structure (1)
Realign WEDC and budget around mission and strategy using the strategic pillars as a framework (3)	Improve the process to verify and report on company accomplishments (7)	Promote WEDC's mission, strategy and programs more actively among allies, media/public, elected leaders and businesses (5)
Communicate intentionally with partners within WEDC's extended network (6)		

1. Focus on making WEDC work in its current structure.

WEDC should work to develop greater consensus among stakeholders that Wisconsin's best option is to **help WEDC function effectively as the state's lead economic development organization**. WEDC has made significant progress in addressing operational issues previously identified, but it has further to go. Some critics maintain that WEDC's brand is diminished and it has been unable to respond to previous calls for reform. Our interviews found that the majority of stakeholders continue to have faith in WEDC's ability to deliver, but process improvements and a reduction in negative media coverage would greatly improve the functioning of the state's entire network of economic development organizations.

We definitely endorse some changes at WEDC as later recommendations highlight. We take seriously the need to clarify mission, enhance accountability, and improve operations. We believe that these changes address the concerns raised by legislators and stakeholders. Furthermore, a wholesale reorganization at this stage could be counter-productive to the significant operational improvements made during the past three years and impede Wisconsin's efforts to compete globally in today's economic environment.

2. Clarify WEDC's mission for statewide economic development

WEDC should **adopt the new mission, vision and strategic pillars** as articulated by WEDC executive leadership and summarized in Chapter 2. This statement describes WEDC's role for all to understand, and perhaps more importantly, this new statement broadens the state's approach to economic development beyond the exclusive focus on job creation that has dominated past conversations. The new mission and vision statement recognizes WEDC's role not only as a source of funding for incentives but also as a catalyst for developing an emerging new economy for Wisconsin. The mission as articulated is:

> *To advance and maximize opportunities in Wisconsin for businesses, communities and people to thrive in a globally competitive economy.*

This mission and the accompanying strategic pillars provide a framework for WEDC to focus its attention squarely on efforts to facilitate a more nuanced discussion among policy makers about what constitutes economic development and growth. Specifically, it acknowledges that WEDC's core role should emphasize work that creates opportunities for clusters of clients, companies, and communities – not just solving individual business problems, leveraging firm-specific transactions, or administering small scale assistance programs. Furthermore, this re-articulated mission reflects the important work that Wisconsin (and other states) is doing that supports economic development in the form of fostering innovation, networks, cluster or sector strategies, workforce development, and community investment.

3. Realign and budget around mission and strategy

To clarify how WEDC intends to operate in order to serve its mission, WEDC should **reorganize its internal program and operational activities**, recalibrate its budget and management plan to reflect these activities, and shift its external messaging to align with the strategic pillars as detailed in Chapter 2 and highlighted below.

Strategic Pillars:

Business Development: Building a Foundation for Economic Competitiveness

Community & Economic Opportunity: Improving Quality of Life across Wisconsin

Strategic Economic Competitiveness: Building Programs and Policies for Future Growth

Brand Development and Management & Promotion: Shaping the Narrative about Wisconsin

Operational & Fiscal Excellence: Building and Maintaining Confidence in our Stewardship & Effectiveness

While WEDC administers a relatively diverse set of programs, it needs to re-examine those programs within the context of this new strategic focus, ensuring that each contributes and adjusting resource allocation to reflect new areas of emphasis. The proposed strategic pillars highlight the fact that transactional incentives are only a portion of the work WEDC does.

4. Emphasize operational excellence as a core organizational value and a budget priority

Stakeholders consistently cited inadequate program execution – especially during the early days of the organization -- as one of WEDC's main challenges. Fledgling and constantly evolving internal processes at WEDC's outset were largely responsible for past operational weaknesses. Our examination found that WEDC has made tremendous strides in improving these processes (and in turn the agency's operations) by placing greater emphasis on due diligence and managing risk. Any organization that adopts a philosophy of continuous process improvement will always find areas in which to improve. As such, WEDC should always be working toward a goal of operational excellence and embracing the progress necessary to achieve that goal.

To support this journey, the WEDC Board, its stakeholders, and the executive leadership need to continue pursuing improvements in the way WEDC collects information from prospects, makes decisions about investments, engages in on-going client relationships, monitors the outcomes of their investments, and reports these activities to taxpayers. Substantial portions of this management review are devoted to identifying the challenges and supplying ideas that can help WEDC fine tune its internal operations. As such, we anticipate that WEDC may need to increase staff, technical resources, and budget to implement some of these recommendations. We encourage WEDC to highlight the additional resources that are being dedicated to make short-run and/or one-time improvements that will support the organization's efforts to achieve operational excellence.

Critical to success, however, will be **creating an organizational culture** beginning at the board level and a supportive work environment focused on process improvement. This culture should focus on problem-solving rather than penalizing. To institutionalize this new culture, staff will require support from the Board, senior management and the legislature to provide WEDC with the flexibility to pursue operational changes, recognizing that each effort may not work perfectly beginning on day one and that identifying–and then managing—potential problems openly is a vital part of the process (not a sign of ineffectiveness).

Finally, these improvements will take time to generate the desired data being identified as crucial for the projects and programs currently in place. If there is a sense that these efforts will only be met with derision or provide fuel for critics seeking to highlight organizational failures, it is unlikely that WEDC will be able to instill this culture and accomplish the improvements that everyone seeks.

5. Promote WEDC's mission, strategy and programs more actively among allies, media/public, elected leaders and businesses.

Based on our interviews with stakeholders and allies, WEDC can do more to promote and explain its mission, vision, strategy and programs to external audiences in the state. Stakeholders are eager to see an active, engaged state economic development organization and wish to be included in its work. WEDC has improved its outreach efforts in the recent past but cannot sit on these laurels. WEDC must continue to engage broadly and consistently. This engagement should be done with a strategy in place to manage WEDC's investment of time and resources. Strategy elements include industry council and association memberships, speaking engagements, workshops, cross-board memberships, presentations, as well as traditional and online media (blogs, press releases, etc.). These are all avenues for exchanging information and strengthening the statewide economic development effort.

The **messages delivered should also be done so with a strategy in mind**, but they need to focus on WEDC achievements in accomplishing the mission as laid out as well as making the operational improvements demanded, including clear and forceful comments about efforts designed to address shortcomings that critics have been highlighting during the past few years.

6. Communicate intentionally with partners within WEDC's extended network.

WEDC is the hub for Wisconsin's statewide economic development effort, but one organization cannot accomplish the mission on its own. As the state's lead agency, WEDC – like in others states – must work closely with partners throughout Wisconsin to bring the resources and expertise to the table that can move the needle "for businesses, communities and people to thrive in a globally competitive economy."

In Wisconsin, the extended network includes strategic partners that work with each other and WEDC to implement key economic development activities. A few examples include the University of Wisconsin System, Department of Workforce Development, Wisconsin Center for Manufacturing and Productivity, local and regional economic development offices, industry and cluster organizations, utilities, associations, and many more. WEDC should continue to expand communication channels in a structured way across the extended network via training workshops, presentations, newsletters, advisory committees, data and modeling system sharing and other means to encourage an *exchange* of information in support of the economic development mission.

The key is to develop a **systematic interactive communication system** that helps ensure that WEDC, its key strategic partners, and its local or statewide allies are all part of the same team, presenting a common message about doing business in Wisconsin, and sharing tools and insights as much as possible.

7. Improve the process to verify and report on company accomplishments

WEDC has substantially expanded its due diligence processes to improve up-front decision-making for incentives and financing programs for businesses. However, like many other state economic development agencies, WEDC can **improve its data collection, data management and reporting systems** for monitoring compliance and program effectiveness in the post-award phases. This will take a combined effort from the legislature clarifying important definitions (e.g., about what it expected for WEDC "verify" data), the Board adopting best-in-class practices, and staff designing appropriate internal procedures for meeting these expectations.

Later recommendations will provide more detail on "how" to implement this, and it will require significant effort on Wisconsin's part to design a workable solution. Quite frankly, many other states are struggling with similar concerns. As CREC learned during two years of work with The Pew Charitable Trusts and 30 state economic development agencies, standards and recommended practices are only now being developed by leaders in the economic development field to strengthen this aspect of incentive program management in response to calls for greater transparency and accountability. As part of its efforts to strive for operational excellence, WEDC should continue to pursue internal initiatives that streamline and standardize data collection and that align project compliance reporting with WEDC's external program reporting requirements.

This report also provides the following suggestions to support the foundational recommendations and to address the findings summarized in earlier.

II. Align efforts with new priorities

- **Increase WEDC focus on industry cluster and community development programs in support of business development**

Consistent with earlier recommendations as well as the proposed mission and vision for WEDC, the WEDC Board and leadership should clearly state that economic development in Wisconsin is about more than incentive use and job creation. In fact, many of WEDC's programs already emphasize developing industry clusters and creating economic opportunities for rural communities, in addition to efforts that support business development and attraction. The cluster development activity would focus on developing emerging new industries and building Wisconsin's competitive advantage. The rural development efforts should focus on initiatives that develop quality of place directly tied to attracting, retaining, growing, and creating businesses and the talent those enterprises require.

- **Expand collaboration with REDOs, LEDOs and other state agencies**

As noted later in the report, state economic development organizations often function best when they act as the hub or lead convener for statewide economic development activity. Consistent with this role, WEDC's current partners – including regional and local economic development organizations (REDOs, LEDOs) plus other state agencies such as the Department of Workforce Development – have indicated how much they would welcome more opportunities for collaboration on strategy as well as working together on business development activities.

At its heart, this recommendation seeks to encourage WEDC to explore options for tapping external partners to help implement its programs or undertake some of the recommendations in this report. To this end, other states have expanded their work with partners who are identified to help implement specific activities. This collaboration can take the form of data and system sharing, guidance provided by advisory committees of stakeholders who can help with improving program implementation, joint initiatives to implement specific programs aimed at leveraging partner resources, and more extensive and structured communication with partners about WEDC efforts and progress. For WEDC, expanded work with key strategic partners represent an existing understanding of the value of the WEDC "extended enterprise," but WEDC may find other ways to tap external partners that might be tied to efforts such as expanded marketing, external loan origination and servicing activities, and more in-depth technical expertise to support the agency's due diligence or return on investment analysis.

- **Provide "sales" training to WEDC's extended network on how its programs and processes work**

Given the critical importance of collaborating with REDOs, LEDOs and other state agencies as well as other members of the extended network, WEDC's partners must have an expert understanding of WEDC's programs and how they work. Using program guidelines and documented frequently asked questions ("FAQs"), WEDC should provide a regular training to enhance the skills not only of its internal staff but also of members of its extended enterprise about how WEDC programs operate. Furthermore, this training (as well as complementary communication) can provide updates on changes in WEDC's programs and financing activities that could be shared with partners. Such training would not only help WEDC improve its working relationship with key partners but it would also help improve the quality of applications to the agency's programs.

- **Clarify strategic purpose for lending programs to determine whether loans achieve WEDC goals to incentivize business investment**

In practice, the goals of financing programs are distinct from incentive programs. Financing programs are designed to provide up-front cash to a business that may need the infusion but ultimately is expected to repay the investment. These debt and equity programs are designed to help businesses that are otherwise unable to access private markets without some form of credit enhancement, collateral support, or subsidy. By comparison, incentives provide a public subsidy designed to encourage a company or project considering (1) competing options that include the potential to locate or expand in a Wisconsin community or (2) an investment that the company might not otherwise make. These subsidies are provided not so much because the company "needs" it, but because the community receiving the investment is expected to benefit from the company's investment locally.

Based on this framework for thinking about loan programs, it is unclear whether WEDC's past loans served the policy goals associated with "financing" or with "incentives." Our understanding is that small business capital access is an important challenge, but the recent decision to cease all loan origination activity (other than the Technology Development Loan program) gives WEDC and its stakeholders the opportunity to review precisely what role lending plays in the state's program portfolio as well as whether a loan program represents the optimal tool for achieving the intended goals as well as how such a program might best be structured and staffed.

- **Identify a strategic partner to implement lending programs if the legislature decides WEDC should offer loan programs**

Based on decisions taken as a result of earlier recommendations designed to clarify the strategic purpose for lending programs, WEDC may need to expand its loan staff capacity or may wish to partner with an external entity to manage and service its loan portfolio. If the focus is on providing conditional loans or performance grants as subsidies, then WEDC is well prepared to make those investments. If the goal is to develop financial products to help firms in accessing capital, then WEDC and WHEDA may wish to explore a collaboration building on WHEDA's existing capabilities.

- **Support other community opportunity programs that complement WEDC's economic development mission**

WEDC has a broad mix of programs. The only area in which CREC heard any concerns about WEDC's program mix is the extent to which WEDC supports community development and, in particular, the inability to operate CDBG through WEDC. CDBG is a federal grant program that provides funds to the State of Wisconsin to help communities with populations under 50,000 for community development, housing, and economic development. Funded through the U.S. Department of Housing and Urban Development, the Department of Administration was designated as the state recipient of CDBG funds, in part, because WEDC was not deemed eligible by HUD but also because CDBG's focus is broader than WEDC's mission.

Given WEDC's intended sharp focus on economic development (to the exclusion of housing and community facilities development), WEDC has helped to market the program, but has not been otherwise involved. However, as community opportunity issues continue to arise in WEDC's dealings with its rural partners, the agency should continue its engagement with CDBG in addition to supporting other agencies' community opportunity programs (e.g., DWD's Fast Forward and the Department of Transportation's Transportation Economic Assistance programs). The caveat, however, is that WEDC should engage with these efforts only to the extent that the programs can help advance WEDC's core mission. To do otherwise, risks WEDC engaging in mission creep, a challenge that bedevils many state economic development agencies. In particular, the agency should work with the DOA's CDBG administrators to determine if there are specific business development priorities being implemented through CDBG program which WEDC could help DOA market or implement more effectively.

III. Improve governance and management in comparison to benchmark states

- **Restructure Board agendas to balance the agenda to focus more on strategic issues**

Our review of the minutes of several quasi-public state economic development boards of directors revealed that they focused their meetings on a balanced set of topics related to the organization's strategic direction as well as operational oversight. Recent WEDC Board meetings allocated significantly more time to oversight and engaged in fewer conversations (relative to other state boards) about the organization's strategic direction. We recognize this reflected concerns about operational issues. Those issues have been raised and the Board should expect a report on progress, but going forward, the Board should leverage the private and public sector talent on the Board to look ahead and strive to balance its agendas with greater focus on strategic economic issues facing WEDC and the state of Wisconsin.

- **Clarify Board member responsibilities vis-à-vis staff**

The WEDC Board has delegated fewer duties and powers to WEDC staff over decision-making and internal policymaking than similar Boards in other states. While Act 7 charges the Board with monitoring and evaluating WEDC programs, including establishing program goals and setting reporting requirements, most Boards delegate substantial responsibility to staff for tasks related to program implementation and reporting, while the Board focuses its attention on strategic priorities, review and oversight. It may be useful to clarify Board responsibilities (including the Committee members) by developing a guideline for Board roles and responsibilities as well as guidance to staff on Board expectations in program development, management, and review. Many of these roles and responsibilities have been articulated in informally, but the process of documenting them may help to clarify expectations and any potential misunderstanding.

- **Introduce staggered terms for Board members**

Act 7 does not specify terms for WEDC Board members. As such, it is unclear when the Board member terms expire and when new board members will be recruited to provide fresh perspectives. This situation means that a new Governor would likely terminate all board member terms simultaneously and stand up an entirely new board. Such a situation means that an important advantage of the quasi-public enterprise may be lost: that board members can operate somewhat independently of the political system and that they can learn and apply lessons from past experiences in their strategic decision making. Other states specify terms and term limits to provide greater stability across gubernatorial terms and provide board members with an opportunity to develop institutional knowledge in a way that would help the organization while not necessarily becoming entrenched in their board role. Consistent with practices in other states, WEDC should pursue changes to statute that would allow the Board to specify terms and term limits for members. With staggered terms, the goal would be to provide the Board and staff with a greater buffer from the politics of the appointment process.

- **Continue to conduct the annual WEDC board orientation and strategy session**

With so many new policies and continuous shifts in the economic climate, WEDC Board members should continue to engage in at least one strategic session in which the agency shares information about its strategic priorities and its operations. WEDC undertakes this meeting early each year. During this process, WEDC Board members should have an opportunity to learn more about the specific challenges tied to implementing programs. Furthermore, the Board would have an opportunity to review its own functions, reviewing the role of board members and committees in support of the organization. At this meeting, Board members would receive updates on legal changes to ensure they remain in compliance with state law and on legislative issues to ensure that they are informed advisors to the legislature. Documentation of the board's role, its relationship with staff, and its priorities for the coming year's management planning should result from these annual orientation sessions.

- **Clarify WEDC's capabilities as an instrumentality of the state**

WEDC is modeled very much like that of quasi-public agencies in other states. WEDC has some of the same flexibility but not some of the same authority. Like other Wisconsin state agencies, members of the Board of Directors and all staff are considered state public officials and subject to state ethics laws. Like other states, the Board is subject to open meeting laws. WEDC also retains many of the same responsibilities as a state agency, including legislative audits and performance reporting. Defining WEDC as a quasi-public agency–rather than as a private sector corporation–typically offers the agency several benefits, such as the ability to receive direct state appropriations, manage federal funds (for certain programs), and incur debts. However, it is not clear whether WEDC has appropriate authority to manage certain federal programs nor whether it is authorized to work with the Wisconsin Department of Justice to enforce WEDC contracts and rules. These issues have been cleared up in most other states with the quasi-public agency have the full rights and responsibilities of a public agency in regards to managing federal contracts and retaining legal representation by the state's Attorney General.

Similar to how other state quasi-public agencies have managed this issue, WEDC may wish first to seek an Attorney General opinion regarding its ability to manage federal funds. This is one route to clarifying some of these points, but a more direct one would involve the legislature making clear their intention for WEDC to act as a state agency with regard to managing federal programs and enforcing contracts. The intent of this recommendation is not to advocate for managing any particular federal program, but to provide WEDC with the flexibility to pursue strategic federal funding opportunities that become available (e.g., SSBCI). Before legislative language can be crafted on this point, however, we advise that formal legal counsel be sought regarding appropriate language that ensures WEDC (1) retains its flexibility as a quasi-public to develop and manage programs, (2) maintains its flexible staff and procurement rules, as well as (3) retains its exemptions from other administrative laws and rules governing public agencies that may impede its success.

IV. Achieve operational excellence through continuous improvement

- **Streamline and clarify the project review process**

Staff and stakeholders agree that internal reviews of projects can be cumbersome and contains bottlenecks, many of which are related to a lack of standardization of other processes. In addition, Wisconsin should emulate steps other states have taken to streamline the process while maintaining rigorous underwriting and review standards. For example, WEDC should designate a project team and a team leader responsible for shepherding the best applications, clients, and/or projects through the entire application, due diligence and approval process. WEDC leadership would assign team members at the outset, and the entire project team would receive the same information throughout. This scenario differs from the current process of handing off applications and projects from one staff member to another as the client moves from one point in the process to another. Team leaders would also take on responsibilities related to monitoring and enforcing deadlines throughout the process related to application submissions, award offers, and contract execution.

In addition, WEDC should consider formalizing the roles and responsibilities of the Management Review Committee. The MRC would continue to make final incentive award decisions under a pre-specified threshold allowed for staff approvals and would make recommendations to the Board for all other projects (or provide briefings on staff decisions). The primary difference from the current process is that the MRC would have a pre-specified membership with required meeting attendance and documented internal guidelines used to guide the project review process. Other process improvements made elsewhere may also result in the MRC reviewing and approving applications at a more mature stage in the project negotiation process.

- **Expand underwriting (due diligence) to focus on return on investment (ROI) in addition to compliance**

Understandably, WEDC’s current underwriting procedures focus on background checks and compliance with program guidelines and mandatory criteria. An economic impact analysis using EMSI is also conducted for its business development programs. In other states, the review process also includes alignment with overall strategy (which may also be part of WEDC’s program guidelines and eligibility standards) as well as economic impact and fiscal impact analysis. Fiscal impact analysis models the tax implications of the project, including the cost of the proposed incentive when compared with an estimated “return on investment” to state taxpayers. We recommend that WEDC add a more rigorous form of fiscal impact analysis to its business incentive review process. The goal is to understand what the anticipated net cost-benefit for the State of Wisconsin in making each major investment. Of course, while a positive return on investment would be viewed favorably, there may be instances in which the fiscal return on investment is negative, but the project may still be expected to generate substantial net economic and social benefits worthy of investment despite the negative fiscal ROI calculation.

- **Develop a more comprehensive "frequently asked questions" (FAQs) for each program that explains guidelines to potential applicants.**

One of the most common suggestions from WEDC staff was to create program FAQs for companies and stakeholders who are not experts in incentive programs. WEDC publishes a "Doing Business with WEDC," but this may need to be expanded. Most states offer incentive guidebooks or sets of FAQs to steer companies through the often complicated process of applying for incentives. FAQs are invaluable in sharing lessons from past applicants, helping to improve the quality of applications, and enhancing the data provided. With better information up front, we anticipate that higher quality applications will result, ultimately requiring less staff time to correct errors or obtain missing information.

- **Clarify that awards should be administered based on contract execution date**

The LAB audit recommended that WEDC execute a grant or loan contract only after a full staff review has been completed for the program through which the award is made. While our understanding is that WEDC does currently execute contracts after a full staff review, the concern appears to focus on potentially extensive negotiation that occurs after a letter of intent has been issued. From LAB's perspective, continued underwriting and reviews of re-negotiated projects reflect potentially substantial changes in the negotiated terms. That means that performance requirements could change even after a letter of intent has been issued. From WEDC's perspective, it is continuing the Department of Commerce practice of administering awards based on a decision date that reflects when awards are approved by management. The letter of intent date (rather than the contract date) reflects the timing of that decision. After review of other state practices, WEDC brought forward a change in this practice to align its award administration with the contract award date rather than the letter of intent to be effective July 1, 2016. The award agreement could be effective on the date that all terms have been fully negotiated and signed by WEDC and the company.

- **Continue efforts to standardize applications, contracts, drawdown forms and performance reports**

Most state economic development agencies are grappling with developing more effective ways to collect and manage data to monitor the performance of their business incentive programs. We recommend that WEDC review its activities to strike a slightly different balance between being customer friendly in their applications and ensuring that the agency has the data required to meet its reporting needs. Specifically, WEDC should standardize the data and documentation elements of their financing and incentive programs as much as possible and report to the Board on these activities. If done in a reasonable way, the standardization will actually make WEDC's processes more customer-friendly. Creating consistent data fields across multiple (and often very different programs) can help reduce confusion for companies considering multiple programs, and the data availability can facilitate project monitoring.

Relatedly, WEDC should simultaneously review its existing contracts to develop a set of Standard Terms and Conditions that reflect statutory requirements and policies that WEDC must incorporate into all its draft agreements. These standard terms and conditions are not subject to negotiation so they can be shared with companies during the application process to identify any “deal stopper” requirements that would prevent the applicant from moving forward to enter into an agreement with WEDC.

To complement these Standard Terms and Conditions, WEDC should also develop a standard Exhibit A to be included in agreements that may vary by program, summarizing unique programmatic requirements mandatory to that program (such as minimum wage requirements or program eligibility requirements) but that may not necessarily be applicable as a general requirement. This Exhibit A would differ by program and could also be shared with the firm in advance of completing the negotiation to identify potential areas of concern.

The negation process would then focus on specific items that are unique to the project. These would be memorialized in a separate Exhibit B where all negotiated performance requirements would be included as well as unique terms and conditions. Under this approach, WEDC **post-award compliance activities** would focus on enforcing the Standard Terms and Conditions as well as Exhibit A provisions while **performance monitoring activities** would focus on Exhibit B requirements.

- **Provide a report on progress in aligning contracts with statutory requirements**

The LAB audit recommended that WEDC implement all statutorily required policies for its programs, suggesting that their contracting and compliance process are not yet fully in line with legislative requirements. WEDC responded that it continues to closely monitor its program guidelines to ensure that they do so and are updating the guidelines. All parties agree that that there should be uniformity of language and statutory compliance in policy documentation. We anticipate that this task has been completed and a simple report to management and the board may be sufficient to instill greater confidence that WEDC has fully responded adequately to LAB’s satisfaction.

- **Create an online portal for document submission and management**

WEDC should undertake its data standardization efforts in concert with implementing ongoing data quality/data governance projects designed to inform internal information technology (IT) system improvements. The effort to standardize applications and other forms should lead to the development and implementation of an online portal that would allow incentive and financing program recipients to submit required documentation, instead of submitting these data through paper-based reports or included email attachments that then need to be entered manually into systems for tracking. Furthermore, applications and contract awards could be managed through this same portal, ensuring that data requirements for compliance and performance monitoring are consistent throughout the entire award process.

- **Review program rules to tie timing of disbursements to performance reporting**

WEDC's financial programs require both drawdown requests (for disbursement of funds) and performance reports from companies. Often, these tasks are undertaken independently. Each has its own form and unique documentation requirements, which can be cumbersome administratively. However, separating these functions may result in confusion for companies required to submit similar information at different times. Furthermore, maintaining these as separate activities precludes the opportunity for managing disbursements as a "carrot" to induce companies to submit their performance reports in a timely manner. WEDC should align drawdowns to follow the submission of performance reporting wherever possible.

- **Clarify language around the term "verify" as it relates to compliance and performance monitoring**

The LAB audit recommended that WEDC establish policies for verifying performance information submitted by businesses on the extent to which contractually specified outcomes were achieved. WEDC typically verifies performance of award recipients by receipt of signed performance reports from companies, receipt of payroll information from companies, annual verification of a sample of awards made, and site visits for awards over a certain threshold. Implied in LAB's report is that these efforts are inadequate to meet the statutory requirements.

WEDC's current approach is consistent with other states and appears reasonable. However, it may make sense to separate out the requirements for larger investments (grants, loans, or credits) from smaller ones, recognizing the administrative burden on the business and the limited resources available to WEDC to manage compliance. Certainly, larger investments should trigger more formal requirements from award recipients and more extensive compliance review from WEDC.

In FY16, WEDC has proposed engaging an independent auditor to enhance the process of verifying the accuracy of performance reports. Statutory language may be necessary to clarify that WEDC's approach suffices to verify information provided by businesses or whether further verification activities are required as suggested by LAB. We recommend the legislature take a balanced approach between ensuring thoroughness in the verification process and acknowledging the administrative costs to WEDC and the businesses of complying with more extensive verification requirements.

- **Enable data sharing between WEDC, DWD and the Department of Revenue for policy and evaluation purposes**

Many state economic development agencies have negotiated data sharing agreements with their state unemployment insurance offices and tax or revenue departments allowing access to records for verification or program evaluation purposes, while still respecting taxpayer and employer confidentiality. WEDC should pursue similar arrangements to supplement the verification procedures noted above and to enable more robust program reporting and evaluation. The legislature should authorize WEDC to have access to these administrative records for the purposes of policy making, compliance and performance monitoring, and program evaluation. Furthermore, the legislature should endorse WEDC's ability to include in their agreements a requirement for companies to authorize access to tax and wage records data submitted to the state for the purpose of verifying performance of terms of their agreement.

- **Continue to expand resources devoted to award servicing and performance reporting**

Once a contract is signed, servicing is typically where an award spends most of its time during its lifecycle. Servicing includes draw requests, loan repayments, compliance and performance reporting, and technical assistance support. This effort requires operational staff support. Accordingly, WEDC should review its current resources and consider expanding resources (especially for staff and IT systems in the short run) to ensure that the organization achieves its goal of operational excellence in this critical aspect of the award process.

Other states economic development organizations are increasingly focusing attention on this aspect of incentives program management in response to calls for greater transparency and accountability in incentives use. Specifically, WEDC should consider increasing the number of staff members available to monitor compliance and performance to project milestones. WEDC should also expand its investment in the data systems that will enable milestone data and performance metrics to be easily calculated and reported to internal and external audiences, including the legislatively mandated Annual Report on Economic Development (ARED) reports. Some of the recommended staffing increases should be short-term, adjusted at a later stage to reflect parallel investments designed to improve productivity.

- **Develop a set of common indicators that can be aggregated for WEDC**

The purpose for establishing program and project-level performance indicators is to help WEDC assess not only the results of individual investments, but the impacts of the combination of these investments in helping WEDC achieve its mission and goals. Consequently, it is important that WEDC be able to aggregate the results of these investments.

Furthermore, as described in more detail in Chapter 8, there is an important distinction to be made between outcomes, outputs, and activities as program benchmarks. Program outputs help to provide insights about how a program is tied to broader agency strategies. Outputs may include, for instance, performance related to jobs created or capital investment. By contrast, activities are tied more closely to progress in achieving program-specific milestones, such as counting the number of businesses assisted.

WEDC should identify and adopt a limited array of cross-cutting program output indicators that are relevant for most (if not all) WEDC programs and that contribute to WEDC's broader Key Performance Indicators. Typically, these cross-cutting metrics include jobs, capital investment, new revenue generated, and new companies. Certainly, individual program metrics (including activity measures) remain important in guiding continuous improvement and help WEDC balance its portfolio against the array of challenges the agency seeks to address.

- **Align performance indicator definitions so that outcomes can be compared and combined across programs and between WEDC and its strategic partners**

Related to the previous recommendation, WEDC should seek ways to develop consistent definitions for key data elements (e.g., defining a job or an investment in similar terms across programs as much as possible). This should be undertaken as part of the agency's process for standardizing applications and moving them to an on-line platform. That means that WEDC must develop standard internal definitions so that outcomes can be compared across programs. Consistently defined data elements and data gathering processes can more easily be integrated into an IT system that could be used in aggregating reports.

We highlight this as a separate recommendation because states frequently struggle with metric definitions across programs and across state agencies. For example, it is common for programs to define "jobs" in different ways, making it difficult for the reporting agency to tally total jobs created for individual economic development programs and across those programs for the agency as a whole. Standard definitions are vital for aggregating impacts and assessing the effectiveness of programs and individual investments.

- **Recognize that each indicator may be critical to WEDC mission but some may not be relevant to the goals of individual projects, programs, or divisions**

As WEDC's mission expands to acknowledge competitiveness and community development in addition to business development, the same outcome, output, and activity indicators will not apply equally to all programs. Economic development organizations are increasingly turning away from simple job counts as a primary measure of merit across their programs.

To address emerging issues, programs implemented may require other measures to monitor impacts. Further, the most appropriate indicators may vary from program to program. While it is useful to have some common performance indicators across programs to monitor overall agency performance, individual programs or divisions should also track their own metrics reflecting the unique goals of individual programs to support continuous program improvements.

- **Engage a third party to periodically analyze WEDC's portfolio of programs and assess impacts as feedback in adjusting strategic priorities.**

As noted earlier, WEDC conducts an economic impact analysis on its program outcomes and it assesses the likely fiscal impacts. The information provides invaluable insights about job creation and other benefits resulting from WEDC investments. It is reported in the agency's Annual Report on Economic Development. This analysis of job creating programs is completed in anticipation of making an investment, and it helps in assessing whether the project is likely to have a net positive return to the state. However, an analysis afterward based on what actually happened could help improve the due diligence process and help WEDC better align its resources to its priorities.

CREC determined that, in the spirit of continuous improvement, WEDC's analysis could be more robust and be even more useful in guiding future investments. This type of post-investment analysis is best completed by a third-party (e.g., a university or other strategic partner) with an external perspective using the most rigorous academic principles. WEDC could benefit from this type of review, designed to understand potential dislocation effects as well as fiscal costs and benefits resulting from all WEDC programs.

- **Develop clear career pathways with professional development opportunities for staff**

Small organizations, including economic development organizations, often struggle to provide a clear pathway for professional growth and career opportunities for their staff. Further, WEDC, like other organizations of its size, find it difficult to clearly articulate opportunities for advancement in terms of in-position growth options, lateral career options, promotional opportunities, and professional training. WEDC should examine how more clearly defined options can provide staff with (1) greater insight about opportunities and the importance of cross-training for opportunities that may ultimately arise in other programs and divisions, (2) formally recognized mentoring relationships, (3) enhanced internal communication mechanisms, and (4) expanded participation in external professional development programs enhancing both management and technical skills.

WEDC can do this by advocating and applying a more structured feedback and performance evaluation system as well as the creation of staffing categories or "pay bands" that recognize staff development progress and performance. Similarly, WEDC should continue its work to design career pathways for its various positions that recognizes staff add value to the organization through their maturity and experience, even within their position, and that successful staff need to have opportunities to move from a junior-level to a mid-level and then to a senior-level even within singular job roles.

Next Steps

This analysis includes a number of suggestions designed to support the first seven foundational recommendations included in this chapter. Not all of the recommendations are of equal weight. Moreover, WEDC has already begun action on some of these. We suggest that WEDC and the board review these proposals and determine which require immediate attention and which will require a longer period of time (e.g., one to three years). We anticipate that a few ideas will require extensive time, resources, and a consensus to complete.

The first recommendation needs immediate attention: building a consensus among stakeholders that **improving WEDC is preferable to wholesale restructuring**. The issues facing WEDC are management in nature rather than organizational, and restructuring does not necessarily lead to management improvements. WEDC is in the midst of making management changes in response to the previous LAB reports as well as by this study. Proposals to make wholesale organizational changes at this point would distract staff attention from completing these changes at a time when staff needs to be focusing a greater amount of its limited resources on the mission of creating greater economic prosperity for the state of Wisconsin.

After affirmation of this point, the next focus should be on developing a response focused on three parallel tracks:

(1) **Refining WEDC's strategy and resource allocation.** Reflecting on WEDC's mission and vision by adopting the proposed revised statement, by re-aligning WEDC's staffing units along the principles of the strategic pillars, and by reviewing the mix of programs and resource allocations (as part of the 2017 budget planning process) to calibrate WEDC's investment strategy going forward and

(2) **Continuing internal improvements.** Continuing internal efforts to address the important operational concerns raised by LAB, passing legislative reforms designed to make the technical corrections required, and completing the internal improvements identified to address current process bottlenecks.

(3) **Developing a systematic interactive communication strategy with stakeholders and partners**. The WEDC Board and management should make internal and external communication a high priority. Engagement should focus on all aspects of WEDC's extended stakeholder network, **particularly the legislature and public partners**, to share progress in making operational improvements and economic development achievements in ways that rebuild trust and confidence in WEDC's work.

By taking on these three initiatives, WEDC can better frame many of the recommendations included in this report and help to achieve the three primary goals that CREC set out in preparing this report: aligning WEDC's mission to the state's needs, achieving operational excellence, and rebuilding the trust of legislators and taxpayers in the agency's capability to foster economic prosperity for the people of the state.

SECTION II: CONTEXT

Chapter 1: Background and Report Overview

In 2011, the Wisconsin legislature enacted Act 7, which created the Wisconsin Economic Development Corporation (WEDC). State leaders intended the quasi-public entity to be a more potent instrument for directing state investments toward job creation and addressing economic crises. Implementing the vision for WEDC has been anything but smooth.

WEDC has accomplished significant impacts, but two biennial legislative audits suggest that work remains to be done to maintain the high standards expected of a public-private agency. At the same time, Wisconsin's economy is improving. The state's unemployment is half the level it was in 2011, adding nearly 160,000 jobs during the past four years. The Board has questions related both to WEDC's progress in responding to the Legislative Audit Bureau's findings and WEDC's adjustment to the state's changing economic landscape.

In order to address these issues, WEDC asked the Center for Regional Economic Competitiveness (CREC) to conduct a detailed internal review of the agency's operations and processes. As a result, CREC sought to offer guidance on how to properly balance the provision of economic development programs in response to a hyper-competitive business environment while also meeting the highest standards of public accountability. This review identifies critical issues and offers guidance to WEDC as it makes progress in aligning new priorities, improving its operations, and implementing adequate systems to effectively manage public funds. This report presents CREC's analysis that led to its findings and recommendations provided in the executive report.

The CREC team's three primary goals in conducting this review were:

- Assessing whether WEDC's existing efforts align with its strategic mission;
- Examining management and operations to identify areas for continuous improvement;
- Identifying ways to build and maintain confidence in WEDC's capabilities to deliver results AND serve as trusted stewards of taxpayer dollars.

To understand WEDC's current (real and perceived) situation, CREC conducted a series of external assessments, engaged stakeholders, and analyzed internal policies and procedures using focus groups, one-on-one interviews, and process reviews. CREC talked with each of the board members individually. In addition to small group discussions with more than 90 percent of the current staff, CREC conducted follow up meetings with most of the senior and mid-management staff. CREC also interviewed more than 50 external stakeholders, including the

Governor's policy staff, key legislative leaders (or their staff) from both chambers and both parties, as well as other stakeholders representing WEDC partner groups.

We supplemented our findings from these interviews with our team's experience working with other state economic development programs—in particular our work with 30 states during the last two years focused on refining management and evaluation practices for state incentive programs—to identify promising areas for improvement in WEDC's internal operations. We also conducted in-depth interviews with senior managers in states with similarly-structured economic development agencies.

The following section provides an overview of the overall economic context facing state and local economic development practice in the U.S. and how that influences WEDC's mission, vision, and values in such a hyper-competitive economic environment.

Economic Development in Today's Competitive Environment

Wisconsin, like most states, uses job creation and investment induced directly by its economic development programs as its primary indicator of success. It is relatively straightforward to ask individual businesses that receive assistance (e.g., loans, grants, or technical help) about business hiring and investment decisions that resulted directly from that assistance. Consequently, professional economic development practice becomes an effort to maximize transactions with individual businesses.

However, the reality is that the number of transactions associated directly with economic development programs necessarily will be small compared with the overall size of Wisconsin's $268 billion economy. That can be dissatisfying to policy makers seeking ways to influence the economy substantially or change its trajectory. In many states, it is not uncommon for expectations to be out of line with what may be possible given the resources available for economic development. That can be true particularly if a state economic development strategy is mostly about generating impacts resulting from rolling up a number of individual transactions in which the public sector had a significant role.

Truly effective economic development is a process, not a series of single events or project "wins." Economic developers, especially at the state and local level, cannot manage the entire economy because too much of what happens is beyond their control. The key to success is to develop an appropriate business climate, talent base, and other assets within the state to facilitate and sustain growth. Economic development today must focus less on solving the problems of specific businesses through individual transactions and more on creating opportunities for clusters of clients, companies, and communities to compete in the private marketplace.

Act 7 defines "Economic development" a "program or activity having the primary purpose of encouraging the establishment and growth of business in this state, including the creation and retention of jobs."

Nevertheless, too many leaders still consider the number of announcements of incentive-driven "deals" as the most important indicator of whether their state's economic development effort is being successful. From the casual observer's perspective, the day-to-day work of economic development as framed in this way typically involves:

(1) Playing and winning a lottery (by successfully recruiting a big project);

(2) Preventing overwhelming economic forces from having negative consequences on the state economy (by protecting what a community already has, through incentives-driven retention projects); or

(3) Searching for the proverbial needle in a haystack (by connecting emerging new technologies to companies trying to gain a foothold in an unpredictable marketplace).

Oshkosh Corporation recently announced a new Joint Light Tactical Vehicles contract, and this represents just such a "lottery win" for Wisconsin. These types of successes are extraordinarily rare. Kraft Foods' recent announcement that Oscar Mayer plans to consolidate several facilities (including locations in California, Maryland, New York, Pennsylvania, and Madison) represents an example of how a multi-national corporate decision beyond the state's control can impact a community adversely. Illinois offered no incentives to Kraft to consolidate its headquarters in Chicago; instead, market forces drove that corporate decision. The economic development role in this situation should focus on helping people, businesses, and communities make the economic transition. For instance, at the same time that Oscar Mayer is shedding shed 2,600 employees across North American including 700 in Madison) over the next two years,[1] Oshkosh Corporation and its suppliers will likely be seeking thousands of new workers. How can Wisconsin help business suppliers and workers take advantage of new opportunities?

[1] "Kraft Heinz to move Oscar Mayer HQ to Chicago," *Chicago Tribune*, November 4, 2015.

A Changing Economic Context

At its most severe, Wisconsin's unemployment rate of 9.2 percent in January 2010 represented 283,000 unemployed workers. Between 2007 and mid-2010, Wisconsin suffered 32 consecutive months of employment declines, yielding 178,000 fewer jobs than in early 2007.[2] At the time, job creation was the economy's [and WEDC's] most fundamental challenge.

While unemployment began to subside in 2010, the recovery was very slow. By January 2011, Wisconsin still had 246,000 unemployed workers. At the same time, Wisconsin's working age population was growing slowly like many other Midwestern states. The U.S. Census Bureau reports that Wisconsin's population between aged 18 and 64 increased by only about 8,000 people between 2011 and 2014. Furthermore, the BLS found only about 2,300 net new people entered the labor force between January 2011 and September 2015. Therefore, available workers (unemployed persons plus new labor force entrants) during the past four years was about 248,000 people in total. Even if the promised 250,000 jobs had materialized, there would have been too few unemployed workers and new jobseekers to fill them.

Instead, the Wisconsin economy gained 191,000 jobs since its nadir in mid- 2010, with 159,000 of those jobs added since January 2011. That job growth was sufficient to help bring Wisconsin's unemployment rate to 4.3 percent, close to a rate that most economists consider at or near full employment.

Of course, WEDC cannot claim credit for Wisconsin's economic recovery for the same reasons that it cannot be blamed for every economic setback. However, the improvement of the state's unemployment situation means that economic development going forward must focus on very different issues than the job creation that served as the state's focus in the past few years.

CREC's work in Wisconsin and nationally has identified several global economic trends that should influence economic development policymaking in the state WEDC's mission.

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[2] U.S. Bureau of Labor Statistics (BLS), Current Employment Survey.

1. **Successful companies create the most value through innovation and creativity.** Economic developers must understand which firms located in their region have the greatest capacity (and willingness) to create and innovate. They must focus their attention on how they can support growth in those firms and their supply chains. They must also recognize that not all businesses are ready to risk investing in emerging new opportunities not readily perceived as profitable. WEDC has developed programs focused on entrepreneurship and innovation that seek to ensure the state generates new opportunities that can supplement and sometimes even replace its legacy industries.

2. **Companies compete in ever shorter product and industry life cycles.** Economic developers must know which companies in their area are innovators and understand what they can do to help firms and industries mitigate risks and overcome barriers to innovation, including regulatory barriers. Economic developers must support entrepreneurs—whether they are in new start-ups, well-established companies, or prospects not already located in the state—as they search for the next generation product or service that can be produced in Wisconsin. Again, WEDC's entrepreneurship and innovation programs focus on providing the information and capital required to create dynamic new businesses.

3. **Economic activity is increasingly fragmented among large groups of networked enterprises.** Economic developers must become experts on the core competencies of firms within their service area, including understanding the role those firms play in global supply chains. They must also begin to recognize and leverage opportunities that could arise by exploring new markets or developing new product lines. Economic developers must also become better able to identify firms located elsewhere that might seek to relocate as a corporate strategy to maintain pre-existing original equipment manufacturer (OEM) relationships. Through its regional network of field agents and its strategic partnerships with industry alliances and regional economic development partners, WEDC is developing the infrastructure required to support emerging new industries, monitor ongoing developments in existing industries, and provide technical assistance to communities and companies.

4. **The vertical disintegration of economic activity means that global regions are more highly connected.** Economic developers must understand how supply chain linkages affect their own local economies by linking their place to decisions made in other communities. Economic developers must learn to develop redundancies that will mitigate risk to their community from catastrophic economic events that disrupt supply chains; they must assess which supply chain competencies are most likely to be available locally; and they must determine other areas that are competitors today but could serve as collaborators tomorrow. The idea is to maximize local capabilities when potentially disruptive events do occur (e.g., the 2017 planned Oscar Mayer facility closure). WEDC's work to support export promotion represents one example, but the organization must continue developing its capacity to leverage supply chain opportunities that could result not only in economic benefits to the OEM but also to potential Wisconsin-based suppliers, such as those afforded by the recent Oshkosh Corporation contract award.

5. **Increasing knowledge intensity is polarizing many companies and workers into "haves" and "have-nots."** For economic developers concerned about improving economic conditions, job creation is not always the best measure to demonstrate success, but it is often the measure that policy makers use because it is simplest for citizens to understand. Economic developers are increasingly understanding that success must involve measuring the quality of companies by the quality of jobs they offer. Not all companies are equal in the eyes of true economic development. Those companies providing high quality jobs and generating more spin-offs should be prioritized for assistance. WEDC's focus on developing emerging new industries and directing its resources to companies in targeted industry clusters reflect an acknowledgment that the state agency's core role is to enhance Wisconsin's competiveness.

6. **Changing national demographics mean more diverse consumers and an aging workforce.** Economic development increasingly involves taking a truly global outlook. More than promoting a trade mission or supporting companies seeking international customers, that means the entire economic development enterprise must take into consideration global competitors for customers, locations, and talent. Companies that relied on the Baby Boom generation for customers and talent are particularly vulnerable. Wisconsin added only 7,900 working age adults between 2010 and 2014 (see Figure 2); its number of young adults barely kept pace with the number of people entering their retirement years. During the same five year period, Wisconsin's population turning 65 or older increased by more than 96,000.

   States whose young adult and working age populations increased more rapidly can point to increases in the number of minorities and international immigrants as the source of that growth. The private sector is responding to this trend nationally, and companies are increasingly building their future on the foundations of a more diverse customer base and talent pool. These companies are also more likely to create the kinds of jobs that will help Wisconsin prosper in the future. According to the Census Bureau, minority-owned firms (e.g., those owned by African Americans, Asians, Hispanics, or some other minority group) represent 17 percent of the nation's employers, employing 7.0 percent of the U.S. workforce. By comparison, minority-owned firms represent 5.3 percent of Wisconsin's employers and employ 2.6 percent of the state's workforce.[3] A Census survey of firms with fewer than 50 employees found that minorities own 28 percent of those firms, and immigrants are twice as likely as the native-born population to own these smaller businesses.[4]

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[3] U.S. Census Bureau, "2012 Survey of Business Owners."

[4] Ewing Marion Kauffman Foundation, "The 2015 Kauffman Index: Main Street Entrepreneurship: National Trends," December 2015.

Figure 2: Wisconsin Population Estimate by Age Group

Age	Population Estimates (as of July 1)					Change 2010-2014
	2010	2011	2012	2013	2014	
Total, all ages	5,689,268	5,708,785	5,724,888	5,742,953	5,757,564	68,296
Under 18 years of age	1,336,102	1,325,845	1,315,886	1,307,425	1,300,189	-35,913
18 to 64 years of age	3,573,582	3,588,759	3,584,624	3,585,537	3,581,507	7,925
65 years of age and over	779,584	794,181	824,378	849,991	875,868	96,284
Median age (years)	38.5	38.7	38.9	39	39.2	0.7

Annual Estimates of the Resident Population for Selected Age Groups: April 1, 2010 to July 1, 2014
Source: U.S. Census Bureau, Population Division

7. **Slower growth resulting from demographic and economic trends will likely produce significant short-term headwinds for job creation.** Although economic growth has begun to pick up, job creation remains sluggish. While Wisconsin's economic output contracted in 2007 and 2008, it had returned to its peak output levels by 2011 and continued to expand to the present. Job creation has continued, but now that the economy has reach full employment, economic developers will need to facilitate a more nuanced discussion among policy makers about what constitutes economic development and growth. How much attention should be paid to alternative measures of economic growth, such as building household wealth, expanding good-paying job opportunities, or creating economic opportunity for traditionally disadvantaged populations (in distressed urban communities and rural areas)? Policy makers and citizens need to understand what is possible so that expectations are realistic and decisions regarding incentives and other programs address short-term needs as well as support long-term prosperity.

Evolving Economic Development Response

The programs created in Wisconsin, like in other states, are the accumulated result of a generation of policy experiments. In general, economic development practice at the state level has evolved since the 1950s in three "waves". The first wave focused on recruiting companies from elsewhere. Midwestern states engaged in recruitment more as a defensive move when southern states began to lure companies aggressively and later when those same companies began moving offshore in search of even lower wage, lower regulated work environments.

The second wave of economic development strategies, which gained traction in the 1980s, caught on much more quickly in the Midwest because it focused on fostering growth from within through the support of investment in technology, supporting growth in existing companies, and promoting entrepreneurship. The third wave—which became popular in the 1990s—led states to focus on challenges facing key policy institutions and providing help that could serve all companies—or targeted industries as a whole—rather than investing in individual companies.

In today's environment, successful economic development strategies embrace a portfolio approach in which programs reflect the mix of all three economic development waves.

Strategically placed investments can significantly change the trajectory of economic development by reducing the risk for first adopters, helping risk-taking firms become models for future investments, and building capacity where it did not previously exist. In this context, incentives are vital tools for intervening to support very targeted activities.

Often, economic development programs are implemented by an array of autonomous organizations working at the local, multi-county regional, or state level and that often have relatively narrow missions. The result is a seemingly fragmented network of "siloed" programs and organizations that can dilute resources. Within this broader economic development eco-system, state economic development agencies can play critical roles as strategic leaders, coordinators, facilitators, conveners, and capacity builders.

Chapter 2: WEDC's Mission, Vision and Values

In 2011, the Wisconsin legislature replaced the Wisconsin Department of Commerce with WEDC as the state's lead economic development organization. Act 7 streamlined Wisconsin's economic development efforts by removing former Commerce responsibilities not tied directly to helping businesses from WEDC's program portfolio and eliminating specialized program mandates in favor of a more flexible Economic Development Fund. These changes were designed to improve flexibility and increase focus on the needs of the state's businesses.

In establishing WEDC, the Act charges the WEDC Board with:

- Developing and implementing economic programs to provide business support, expertise, and financial assistance to firms investing and creating jobs in Wisconsin;
- Supporting new business startups and business expansion and growth;
- Developing and implementing any other programs related to economic development.

These responsibilities guide WEDC's efforts and influence perspectives about the organization's core mission.

WEDC's strategic planning process has been consistently guided by four principles:

1. **Be bold** – Make dramatic, not incremental, improvements in economic performance. Challenge status quo practices and incorporate bold, innovative solutions.
2. **Engage business** – Focus metrics on advancing business performance. Engage business leaders in planning and operations.
3. **Operate as an extended enterprise** – Engage Wisconsin's network of EDOs and actors in the state to achieve economic development goals
4. **Measure and be accountable**

Stakeholders interviewed by CREC continue to support these four principles but they acknowledge that WEDC's execution of programs in support of them must continue to improve. At the same time, the economic context in which WEDC operates has continued to evolve, and its mission and strategies must evolve as well. Organizations and operations crafted to respond to the specific challenges states faced during the Great Recession need to adapt to a different environment in which creating long-term opportunities for clusters of companies and broader communities is at least as important as the immediate need to attract and retain individual businesses. Innovation, networks, sector strategies, accessing global opportunities, community investment, and workforce development are all critical elements of U.S. state economic development programs in 2015.

In response, WEDC's senior leadership used this management review process as an impetus to re-examine and re-articulate the organization's mission and vision as follows:

Mission (what we want to do)

To advance and maximize opportunities in Wisconsin for businesses, communities, and people to thrive in a globally competitive economy.

Vision (what we aspire to become)

Leveraging talented professionals and strategic partnerships, WEDC aspires to be a leading and widely-respected state economic development organization, helping Wisconsin elevate its quality of life and long term economic prosperity for all residents.

Core Values (how we do what we do)

The organizational core values that express WEDC's approach to achieving its economic development mission and vision remain:

Integrity – To adhere to the highest ethical standards of honesty and character while achieving its mission.

Respect – To value and support each other and operate under the "Golden Rule."

Accountability – As a public-private steward of taxpayer dollars, to monitor its actions and outcomes, celebrate its successes, and commit to continuous improvement.

Innovation – To embrace creative initiatives that leverage Wisconsin's unique attributes.

Transparency – To track and share information to monitor organizational effectiveness.

Collaboration – To build strong internal and external relationships that help accomplish its mission.

People – To attract and retain talented staff, and to foster an environment for continued professional growth and wellbeing.

Public Service – To share a common purpose of improving the lives of Wisconsin residents by creating economic opportunities through the businesses in which they work and the communities in which they live.

Customer-Centric – To maintain the highest levels of responsiveness and service for the businesses and communities that are helping to grow Wisconsin's economy; the organization's customers.

To provide a more direct and actionable link between mission and program implementation, WEDC senior leadership also revisited its strategies and reworked them into several strategic pillars The pillars form the basis of a realigned organizational structure with a clearer connection to mission, vision and values:

Business Development: Building a Foundation for Economic Competitiveness

Community & Economic Opportunity: Improving Quality of Life across Wisconsin

Strategic Economic Competitiveness: Building Programs and Policies for Future Growth

Brand Development and Management & Promotion: Shaping the Narrative about Wisconsin

Operational & Fiscal Excellence: Building and Maintaining Confidence in our Stewardship & Effectiveness

WEDC plans to re-examine its internal operations and branding efforts framed around these strategic pillars in order to improve clarity both externally and internally. Figure 3 illustrates how these strategic pillars might inform WEDC's organizational structure and its operations.

Figure 3: Aligning the Strategic Pillars and a Re-organized WEDC

Strategic Pillar	WEDC Focus Areas
Business Development	• Entrepreneurship & Innovation • Export & International Trade • Business Retention & Expansion • Business & Investment Attraction (Domestic & International)
Community & Economic Opportunity	• Community Development • Downtown Development • Minority Business Development • Rural Economic Development
Strategic Economic Competitiveness	• Future Industry Strategies • Government Relations • Policy & Research • State/Regional Talent & Workforce Initiatives
Brand Development & Management	• State Asset Marketing • WEDC Program Marketing • Events, Trade Shows & Conferences
Operational & Fiscal Excellence	• Information Systems & Data Management • Budget & Finance • Underwriting & Program Management • Operations and Program Performance • Legal Services, Contract, Compliance & Risk • WEDC Talent Resources & Development

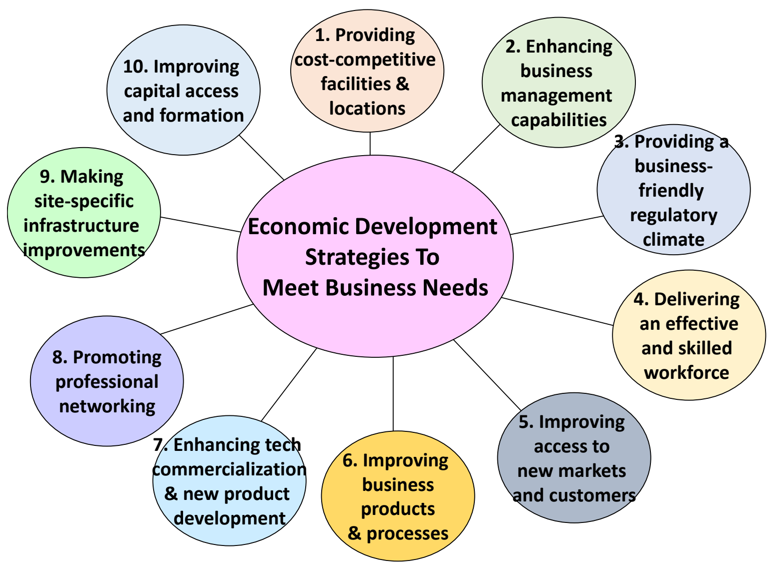
SECTION III: ALIGNING MISSION AND STRATEGY

Chapter 3: What's Possible: Typical Economic Development Activities

Most state economic development ecosystems undertake a similar set of activities. Many of them are assigned to the state's lead economic development agency while others are implemented by state- or local-level partner organizations. In Wisconsin, WEDC serves as the state's primary economic development policymaker and investor, but other organizations—some with a statewide service area and some with sub-state regional or local services areas—also contribute to the overall economic development ecosystem. States differ in their approach, including what they prioritize and deliver directly versus deliver through partner organizations.

The purpose of this chapter is to review these activities and describe how they are being addressed as part of Wisconsin's economic development ecosystem. Figure 4 summarizes ten (10) common state activities intended to support business communities and foster development and growth.

Figure 4: Common Economic Development Agency Activities



1. Most traditional state agencies emphasize helping companies find the most *cost-competitive facilities and locations*. Frequently, states will offer information about available sites and buildings or even provide subsidies to reduce the cost of leasing or owning a building or equipment. These programs are typically tied to state and local attraction and retention efforts, but in some cases they may offer incubation facilities or acceleration space for start-up companies. These initiatives reinforce the importance of place by supporting the development of appropriate space as well as providing marketing to make the most efficient use of available commercial real estate and buildings. WEDC addresses this business challenge by offering a variety of programs including a Certified Sites program, Idle Industrial Sites Redevelopment program, Development Opportunity Zone tax credits, and

both the Brownfield Site Assessment Grants and the Brownfield Redevelopment Financial Assistance Program to ensure that companies and communities have ready-to-develop commercial locations. While not common, other state agencies may also support these strategies. For instance, the Wisconsin Department of Natural Resources offers the Petroleum Environmental Cleanup Fund Award to help make contaminated sites safe and ready for reuse.

2. States aim to help companies enhance a variety of *business management capabilities* by offering assistance with business planning, new market development, business-to-business relationship building, and succession planning. The field is replete with specialized organizations that provide small businesses with information about market opportunities, management training and counseling, and coaching and mentoring. Such programs are often the point of entry into the economic development ecosystem for many entrepreneurs seeking help. While help may sometimes be offered by in-house staff, most states rely on partner organizations such as small business development centers and industry trade groups. In fact, WEDC relies on the University of Wisconsin (UW) Small Business Development Center to take the lead on these activities, although WEDC does offer seed grants and equity investments through its Seed Accelerator program and support for UW's entrepreneurial training and economic gardening programs.

3. Many state economic development agencies are charged with the task of monitoring the state's *tax and regulatory policy* to ensure that government is operating with business interests in mind. Through research about the impact of state policies, legislative advocacy activities, and broader business 'ombudsmen' services, state economic development agencies are often seen as the governor's "go-to" state agency on business advocacy issues. To avoid being seen as overly political, many states cede this role to partners. In Wisconsin, that role has been delegated to external organizations such as the Wisconsin Economic Development Association, Wisconsin Manufacturers and Commerce, Competitive Wisconsin, Inc., and a number of other statewide and local chambers, industry associations, and business networks. In some cases, the advocacy role might also include providing direct help to businesses with business permitting and complying with environmental regulations. Also, some state economic development agencies help reshape the tax code to level the playing field with in the competition with other states. For instance, WEDC manages a Jobs Tax Credit designed to offset the cost of hiring new employees in Wisconsin. But these efforts may also be legislated with little or no involvement by the economic development agency. For instance, Wisconsin offers several special exemptions for manufacturers, agriculture, technology, and renewable energy industries (including solar, wind, and woody biomass), as well as certain distressed areas (e.g., designated enterprise zones and development opportunity zones). These tax credits and exemptions help provide advantages for Wisconsin companies in these industries.

4. In recent years, state policy makers have come to recognize *workforce development* as one of the most important concerns facing businesses. Companies are placing greater emphasis

on the availability of new skills or in filling skill gaps. Responding to this concern has meant different approaches. For workforce development agencies, the focus has been on making the federally funded public workforce system more relevant to economic developers. For economic developers, the focus has been on ensuring access to skilled workers and prioritizing investments into transactions that are expected to create high skill jobs. In Wisconsin, the Department of Workforce Development manages the federal investments in the public workforce system and is seen by many as an increasingly important partner. Even so, WEDC, like many others states, offers training grants to individual businesses that may need help in upgrading the skills of their existing or newly hired workers. Additionally, WEDC constantly seeks ways to engage higher education institutions as a long-term strategy designed to meet business stakeholder needs.

5. States have increasingly helped firms *find new customers and explore new markets*. These services and incentives emphasize helping companies to access government procurement opportunities or find international customers – areas of traditional disadvantage for smaller firms. The federal government supports a network of state-based procurement assistance programs to help small businesses supply government agencies and contractors. At the same time, state trade offices have managed export promotion activities, with modest federal financial assistance, to expand businesses' capacity for overcoming the barriers to entering new foreign markets. The Wisconsin Procurement Institute manages Wisconsin's procurement technical assistance center with support from WEDC and the U.S. Department of Defense. In addition, WEDC provides marketing assistance through its Global Trade Ventures and Global Business Development Grants. Also, with help from WEDC, the state's Manufacturing Extension Partnership (MEP) program offers the ExporTech international marketing programs for manufacturers.

6. States have also developed the capacity to provide help to companies to *make business process improvements and learn new business methods*. With state help in implementing lean management systems, quality processes, and production lay-out systems represents a relatively new capacity, firms can become more competitive by lowering their costs and making their production processes more efficient. State economic development agencies rarely take on this task directly, but often turn to external partners with co-funding from the federal MEP program. Wisconsin turns to Wisconsin Center for Manufacturing and Productivity, Inc. (a merger of the former Wisconsin Manufacturing Extension Partnership and the Northwest Wisconsin Manufacturing Outreach Center as the state's primary MEP service delivery agent. Other states are beginning to explore whether lean management principles might also help other economic sectors, especially government and health care.

7. States are also increasingly concerned about *encouraging innovation and fostering growth in emerging new industries*. This may involve identifying and translating technologies into new products, providing access to university and lab resources (including people and equipment), and helping companies identify new product opportunities. These efforts have long been led by the state's university outreach efforts or specialized statewide venture

development organizations, but states have taken a greater interest in investing in emerging opportunities or networks in ways designed to help the state to achieve the advantages that result in being first to market with a technological innovation. In Wisconsin, the state uses a variety of tax credits and exemptions to facilitate private sector investments in innovation, including providing a research and development credit and a research expenditures tax credit. In addition, the Wisconsin Center for Technology Commercialization provides entrepreneurial micro-grants. WEDC contributes by offering Seed Accelerator and Capital Catalyst grants to small technology companies seeking to start up or searching for financing.

8. States are increasingly engaged in *bringing businesses together* to identify and address common challenges, such as talent development, identification of business opportunities, and providing input into program design. The formation of industry groups to support specific economic development activities builds on the work that chambers or industry groups may fulfill in some states, but for which a network may not already exist in the state or an emerging opportunity may require engaging a group of firms. WEDC provides capacity building grants for local economic development organizations and provides grant support for a variety of Targeted Industry Projects (or statewide industry cluster initiatives). In other Wisconsin agencies, the Department of Agriculture, Trade, and Consumer Protection helps to organize the Dairy30x20 consortium of industry professionals assisting the state's dairy farmers.

9. States also *invest in community facilities*, including sewers, water, roads, and broadband, located in areas that will benefit private businesses. Through community development programs, these efforts may focus on providing more general infrastructure investments to support business development in meeting the specialized needs required to support major investment opportunities such as on-ramps for interstates, rail access, high volume power generation, or very high broadband access. The programs may focus on using public and private resources to ensure that adequate infrastructure is available for a community or for a specific investor. Since these are often longer-term investments, they often require relatively larger funding streams to be useful. During the Great Recession, these programs were cut back in many states as part of efforts to balance state budgets. Funding for the programs have come back, but very slowly. Some states rely on historic preservation tax credits to provide capital for certain projects, but the highest visibility projects are the grants and loans provided for community facilities. WEDC continues to provide Community Development Investment Grants as well as offers resources through the Main Street and Connect Communities Program. Other agencies are also involves to complement these efforts, For instance, the Wisconsin Department of Transportation offers the Transportation Economic Assistance and the Freight Rail Preservation programs. The Department of Administration manages the federally funded Community Development Block Grant program, but vast majority of the funds are used to support housing and shelter programs with only a limited portion of these funds are available for economic development purposes.

10. States also recognize that *access to capital* is critical to the success of attracting companies, helping firms expand, or guiding entrepreneurs through the business start-up process. Many seek to ensure that firms have access by using grants, loans, and other financing vehicles to leverage private investment. In some cases, the financing is available through state programs while in others, the state may be tapping federal dollars as well as state revenues to finance a company or project directly or to leverage private sector investment. WEDC offers Business Opportunity, Technology Development, and Minority Business Development loans as examples of capital access programs. WEDC also manages a Qualified New Business Venture tax credit to encourage investment in start-up companies. The Wisconsin Housing and Economic Development Authority (WHEDA) is an important resource in supporting economic development financing with a number of programs, including the Linked Deposit Loan Subsidy, Small Business Guarantee, Contractors Loan Guarantee, Agribusiness Guarantee, Equity Investment Fund, and Venture Debt Fund, to leverage private capital for Wisconsin businesses. WHEDA also offers a tax credit financing program. In addition, the Wisconsin Business Development Corporation manages the state's SBA lending programs and provides a Capital Access Program for small businesses.

WEDC's wide array of business growth tools affords the agency the flexibility to provide assistance for different employers' needs, financial or otherwise. While grants and loans may be important to businesses, the availability of alternative resources are also vital to help companies in their various states of growth. WEDC's branding and marketing operations also remain an important staple of the organization's contributions to the state today. Staff have found that WEDC's "InWisconsin" brand combined with its innovative regional marketing campaigns continue to yield new project leads that benefit the state's economy as a whole.

For states seeking to determine what role they should play, it is also vital that they maintain the capacity to develop strategies, reallocate limited resources, and review their investment priorities. At the center of this ecosystem is the ability to develop sound plans, manage their organization's implementation efforts, and coordinate the independent efforts of others in the economic development ecosystem. Leaders at the state level need to be able to address several key questions. Are the full array of services available to firms (whether offered by their own organization or not)? Are resources being allocated across the organizations in a manner that reflects both client needs and state priorities? Are businesses able to easily navigate across the full economic development eco-system? Increasingly, a core role for state economic development agencies is that of chief facilitator, convener, and coordinator across the array of service providers. That function is becoming critical to leveraging limited public investments and to determining whether state funding for economic development is actually fulfilling public policy goals and meeting client business needs.

Chapter 4: The Structure of State Economic Development

Most states undertake economic development through line agencies under the Executive Branch. The model has the advantage of being well understood and providing a long history of processes and rules, where the latter are clearly prescribed. Staff are delegated responsibility for implementing legislated priorities by creating rules, developing appropriate procedures, and administering programs. Consistency, transparency, and fairness are guiding values in bureaucratic organizations.

Over time, however, bureaucracies can become dominated by process, at the expense of a focus on outcomes and customer needs. Economic downturns and technological change can surface inflexibility in state economic development bureaucracies. The Wisconsin Department of Commerce, like economic development agencies in some other states, was criticized as being too bureaucratic and too slow to react to economic needs. Furthermore, the agency's success was impeded as it tried balance management of a diverse array of legislated programs with goals perceived as addressing the economy of the past rather than the present and future.

Implementing State Economic Development through Public-Private Partnerships

Concerns about public bureaucracies have been long voiced, not just in Wisconsin. The severity of the 1981-1982 recession spurred policy makers to adapt state economic development structures to reflect rapid and massive change in the marketplace. Mimicking innovative regional efforts, states began to explore public-private models capable of implementing more aggressive place marketing and recruiting strategies, the primary focus of state economic development agencies at that time.

Wisconsin was on the cutting edge of this trend. In 1984, Wisconsin became one of the first states to establish a nonprofit organization (Forward Wisconsin) to attract business by supporting the state's marketing initiatives and providing private funds for advertising, entertainment, and travel that the state could not otherwise fund. Although Forward Wisconsin was ultimately disbanded in the late 2000s, the initiative nonetheless demonstrated how a complementary marketing organization might be used to leverage the private sector to support certain economic development activities.

Later, other states began implementing public-private models. In 1991, Alabama's business leaders—led by Alabama Power—created the Economic Development Partnership of Alabama (EDPA) to operate in parallel to the Alabama Development Office (ADO, later the Alabama Department of Commerce). EDPA was initially better funded and more aggressive in its marketing programs than ADO could be. In 1993, Connecticut's power and telecommunications utilities came together to emulate Alabama with the creation of the Connecticut Economic Resource Center (CERC). EDPA and CERC continue to exist today as nonprofit organizations, but their scope and scale have shifted as states needs have changed and deregulation has reduced the level of investment utilities are willing to make in state economic development.

Some states went further to leverage private investment by replacing their executive branch agency with a public-private partnership organization. In 1995, Rhode Island became the first state to abolish its economic development department outright in favor of the Rhode Island Economic Development Corporation. Rhode Island's legislation sparked action in several other states. Florida created the nonprofit Enterprise Florida, Inc., in 1996; Wyoming created the Wyoming Business Council as a state agency governed by a business board in 1998; and, in 1999, Michigan's governor established the Michigan Economic Development Corporation under Executive Order as an authority governed by a board of local governments and business representatives.

After this initial flurry of activity, states continued to tinker with the idea of engaging the private sector more actively with the creation of business advisory boards and externally funded nonprofits that could serve as part of the economic development "team." This model may be best illustrated by the creation of Team Pennsylvania in 1997, an independent business-supported nonprofit that operates in very close collaboration with the state's development agency. Unlike the marketing organizations created in other states, Team PA's scope included supplementing a broad array of state efforts, including strategic planning and policy making.

In the early 2000s, new initiatives to engage the private sector were few and tended to complement existing state efforts or manage niche programs. In some cases, the states focused on engaging the private sector in their governance while retaining public control of program implementation. For instance, North Dakota created its Economic Development Foundation in 2001, and New Mexico established a private, not-for-profit New Mexico Partnership in 2003. While neither state reformed or scaled back their line agency, they saw private involvement as a way to enhance their success.

The one exception to this pattern was in 2005 when Indiana replaced its Department of Commerce with the private Indiana Economic Development Corporation (IEDC). Indiana created IEDC as a "body corporate and politic" (i.e., a public-private company that is an instrumentality of the state) to help business start or expand with the use of state-authorized incentives. The Indiana Economic Development Corporation (IEDC) bylaws designate the agency as an "independent instrumentality exercising essential public functions, including to improve the quality of life for citizens of the State by encouraging the: (1) diversification of Indiana's economy and the orderly economic development and growth of Indiana; (2) creation of new jobs; (3) retention of existing jobs; (4) growth and modernization of existing industry; and (5) promotion of Indiana." The state sought reforms that strengthened private sector roles, streamlined procurement, and made hiring economic development staff more flexible and competitive with the private sector. IEDC reportedly served as a primary model in later efforts to design the Wisconsin Economic Development Corporation.

In 2010, New Jersey established the New Jersey Partnership for Action, a group of three organizations supporting state economic development. First, the state merged much of the former New Jersey Commerce Commission's business development activities with the New Jersey Economic Development Authority, a pre-existing financing and incentives arm, described in New Jersey as the state's "bank for businesses" comparable in structure to the Wisconsin Housing and Economic Development Authority (WHEDA). Second, the state created Choose New Jersey as a new privately funded not-for-profit corporation tasked with marketing and promotion as well as facilitating recruiting, business expansion, and business retention. Modeled after numerous state economic development nonprofits, Choose New Jersey parallels the now defunct Forward Wisconsin. Joining the two organizations is the Business Action Center, which serves as a one-stop-shop business outreach portal, linking firms to assistance with incentives, licenses and permits, tax issues, workforce development and training, and registration and records.

Public-Private Partnerships as a Response to the Great Recession

With substantial change in state governorships and legislatures during the post-recession election cycle, 2011 proved to be an extremely active legislative session for economic development. Iowa, Arizona, Ohio, and Wisconsin were four states that created new approaches to economic development. Each state took a slightly different approach.

Under the umbrella of the Iowa Partnership for Economic Progress, Iowa leaders created both the state-funded Iowa Economic Development Authority (IEDA) and the privately- and federally-funded Iowa Innovation Corporation (IIC). The Iowa Partnership for Economic Progress has a seven-member private sector board charged with developing a comprehensive state economic development strategy. IEDA operates essentially as a state agency, with IEDA staff participating in the state's personnel system, but with exemptions to state personnel and other administrative rules. IEDA works closely with partner organizations to implement economic development programs designed to foster business finance, market the state, coordinate local government efforts, encourage exports, tourism, and small business development. IEDA also undertakes job training and provides assistance to entrepreneurs. Unlike, WEDC, IEDA's mission explicitly includes community development as well as business development: IEDA operates the state's Community Development Block Grant (CDBG) program as well as its traditional business development programs. The agency also manages IIC as a wholly owned nonprofit organization. IIC administers competitive federal grants because it has more flexibility to manage staff and engage in financial partnerships that so many of competitive federal grants require. IIC does not attract corporate contributions.

The Arizona Commerce Authority (ACA), a quasi-public state agency, replaced the Arizona Department of Commerce as the primary agency developing strategy and administering economic development programs. Similar to Wisconsin, Arizona streamlined a number of programs, shifting those that were not tied directly to business development to other agencies. Although legally an authority, ACA is deemed a state agency by the federal government. As such, it manages $3 to $4 million in federal grants, including one with the Treasury Small Business Credit Initiative (SSBCI).

In 2011, Ohio reformed the Ohio Department of Development (ODOD) by creating the Ohio Development Services Agency (ODSA) and JobsOhio. Critics contended that ODOD had too many programs and was slow and unresponsive to businesses. ODSA is a state agency that manages many incentive programs. Jobs Ohio, organized as a nonprofit corporation under 501(c)4 of the Internal Revenue Code, manages the state's liquor sales and is funded by profits from those sales. The organization negotiates with companies seeking to locate in Ohio. JobsOhio serves as the front-end marketing and sales operation for business transactions that may involve incentives. JobsOhio makes the initial commitment to a client company, but once the negotiation is completed, the deal is turned over to OSDA for contracting and compliance.

Also in 2011, Wisconsin established WEDC as a quasi-public agency exempt from some statutory requirements that apply to state agencies (such as state personnel and administrative rules). Like other state quasi-public agencies WEDC, is funded almost exclusively by state dollars and retains many of the same responsibilities as a state agency, including reporting and audits. WEDC receives a block grant appropriation for economic development and subsequently submits a management plan that details its funding plans to its board for approval. WEDC must also produce an annual report for the legislature that explains how it expended taxpayer dollars and to what effect.

Types of Public-Private Economic Development Collaborations

Public-private models may appear to apply similar governance to economic development, but not all public-private collaborations are the same. Private sector engagement and involvement in economic development can be characterized in five different ways, although not all initiatives or organizations fall neatly into any single category:

1. A state-chartered, board-managed quasi-public agency;
2. A state-chartered not-for-profit with broad capabilities;
3. A privately funded not-for-profit EDC created with a more limited mission;
4. Selected outsourcing of specified economic development functions, usually to a quasi-public or nonprofit agency; and
5. Private sector-led boards or alliances that guide public agency program implementation.

The state-chartered quasi-public agency represents a *broad form of out-sourcing* of the state's economic development functions to an entity that remains under the direct control of the governor and legislature. In these cases, the traditional public economic development line agency is altogether absent while related programs (e.g., community development, workforce development, technology-based economic development) are distributed to other agencies. WEDC reflects this model, and Rhode Island, Michigan, Wyoming, Indiana, Arizona, and Iowa operate similarly. Unfortunately, experts disagree on what specific state roles these quasi-public agencies are authorized to undertake as instrumentalities of the state. This can be important to resolve since many federal programs—such as Community Development Block Grants, Treasury's State Small Business Credit Initiative, or the Department of Defense's Defense Industry Adjustment program—can only be administered by "state agencies." Often at issue is whether or not the quasi-public agency's obligations are considered state debt and ultimately the state's legal responsibility.

Under the second model, a broad portfolio of activities is delegated to a not-for-profit designated and governed by Internal Revenue Code rules (e.g., Enterprise Florida, Inc., a 501(c)3 corporation, or JobsOhio, a 501(c)4 corporation). This model, which entails wholesale privatization of the economic development function to a non-governmental agency, is actually quite rare. Because the non-profit organization is state-chartered in this instance, it may receive special consideration by receiving line item funding or be subject to state laws (e.g., open meetings acts or similar).

In the third approach, privately funded EDCs are used to manage state programs or incentives. In this approach, states employ nonprofits to implement selected activities in concert with public line agencies. States may out-source to multiple nonprofit partners any of a number of selected activities, such as management of tax credits, funding of staff and stakeholder travel for recruitment or trade promotion, or underwriting entertainment costs incurred in the support of marketing or recruitment activities. The now defunct Forward Wisconsin performed this role. Recently, other states have turned to nonprofits to undertake business recruitment (e.g., the Economic Development Partnership of North Carolina or Missouri Partnership).

Frequently, the funding for these programs is managed through the line agency's budget, but in other cases, they receive direct appropriations managed through the Governor's office directly (e.g., Texas Economic Development Corporation). Besides business recruitment activities, states also turn to specialty organizations to manage their business assistance (e.g., Wisconsin's Procurement Institute) and technical assistance efforts (e.g., the new Wisconsin Center for Manufacturing & Productivity Inc.).

Beyond marketing and technical assistance, there are many more examples of state-chartered economic development organizations seeded by state investments to address a variety of economic development "functions" or niches. For instance, the most exemplary international trade organization is the Maine International Trade Center, a nonprofit organization that serves as the state's primary export promotion and foreign direct investment arm. Many states have also created technology-based organizations, including the Maryland Technology Development Corporation, Connecticut Innovations, and the Arizona Science Foundation, each of which are independent organizations that receive state support, serve as arms of state policy, and have varying levels of government involvement in their boards of directors. In addition, states have helped establish a wide variety of industry cluster groups that maintain close affiliations with their respective state agencies. Examples are the Oklahoma Biotechnology Industry Organization and Maine Built Boats, Inc. (the latter funded through Maine's North Star Alliance Initiative).

The fourth model consists of quasi-public agencies designed to undertake a narrow set of responsibilities in lieu of the state's traditional economic development agency. The approach can help tap specialized technical expertise held outside the economic development agency and for which it is difficult to hire staff. State financing authorities (e.g., the Kentucky Economic Development Finance Authority, the California Industrial Development Finance Authority, the Arkansas Development Finance Authority, and, of course, WHEDA) are examples. Such authorities have the flexibility of using state funding yet they are able to compete for federal funding, generate fee revenue, or even in some cases attract private capitalization.

Under the fifth approach, states turn to institutions, councils, boards, or alliances charged with acting in a coordinative or advisory role, often reporting directly to governors, who may or may not serve on the boards. The first of these were created in the mid-1980s in the form of Kansas, Inc. and the Indiana Economic Development Council, Inc. Both were created and championed by their state legislatures to serve as independent policy organizations with a strategic planning mission. Both were subsequently abolished when the Executive Branch concluded that they either duplicated other activities or conflicted with the governors' priorities. Kansas Inc. and the Rhode Island Economic Policy Council (formed in 1996) managed to survive for some years as advisory councils within their state agencies before eventually being abolished in favor of broader governing or advisory boards.

Rationale for Public-Private Partnerships

In states that have adopted public-private economic development models, the appeal to policy makers rests on two concepts: "streamlining" and "business engagement." First, during the recession, frustration over the inability of state economic development agencies to respond in an agile way to economic challenges led to the belief that state efforts needed greater flexibility and focus. The initiatives frequently began with the idea that economic development agency success was impeded by too many programs and too many demands. It was hoped that providing flexible resources and limiting the agency's mission would help make economic development more nimble. Thus many public-private initiatives limited reforms to programs and services directly targeted to businesses; those programs "not core" to the business development mission—housing, community development, permitting, regulatory, and often workforce development programs—were often reassigned to other state agencies.

Second, "business engagement" meant more directly involving business leaders in setting the state's economic development agenda and encouraging businesses to invest directly in economic development agencies. Engaging the private sector in this way requires a different governance structure and governmental, legal, and financial reforms permitting more formal joint public-private economic development collaborations. Political support for an entirely privatized model (e.g., Enterprise Florida, Inc.) was often weak because full privatization entails divesting too much control over taxpayer dollars. On the other hand, creating a quasi-public agency authorized as an instrumentality of the state provided greater protection and retained public control over the funds. The key difference between the quasi-public model and the line agency was that a greater amount of the decision making authority was delegated from the governor to business leaders serving on a governance board, typically with the governor serving as chair. This model made the private sector role more than advisory in nature while keeping the state's Executive in a role that could help to guide decision making if it strayed too far from the governor's priorities.

As states approached the concept of public-private partnerships, they often did so for different reasons. A review of the evolution of these models (Linder 1999, Feser and Poole 2011) suggests the four most significant reasons are:

1. **To improve government or program management**. In this context, public sector staff seek to learn from business practices. Public policy makers perceive unique insights, knowledge, expertise, and discipline in the corporate sector that could be applied to address public sector problems. This rationale is commonly used in outsourcing economic development programs, including research, planning, regulation, and permitting, but it can also be applied to efforts to delegate the broader array of economic development policymaking and program management.

2. **To share power and responsibility.** The goal is to enhance the relationship between government and business by finding common goals and interests. This translates to the use of private business-dominated board management to provide input into policies as well as delegating to those boards the power to set priorities and sometimes even make resource allocation decisions. This is distinct from advisory boards that have no fiduciary responsibility and have limited (or no) decision-making authority. The result of delegating this responsibility is presumably an improved business climate or at least a public endorsement of the importance of building trust between the public and private sector (Block and Evans 2005; Block and Keller 2011).

3. **To introduce management operational flexibility.** A particular focus is greater flexibility in hiring and procurement. Private sector personnel models (e.g., hiring, firing, salaries, and performance incentives) and spending approaches (e.g., discretionary policies in determining procurement, resource allocation, and reassigning staff between programs) have fewer limitations than traditional public sector approaches. For many states, civil

service personnel rules make it nearly impossible to provide competitive salaries or incentive rewards for economic development staff who are often recruited by the business sector. Those same rules also make it very difficult to terminate ineffective employees. Since economic development agencies are measured based on their salesmanship and are assessed on their ability to adapt to the needs of business, they need to be able to adapt their programs and personnel quickly. That more direct accountability to the marketplace creates a greater senses of urgency to respond to client companies. In addition, public-private models are often proposed because agency leaders are frustrated in their ability to assemble qualified staff or to adapt quickly to mission changes.

4. **To tap strategic information.** Often, the private sector may have insights about competitive advantages, barriers to growth, and opportunities for new development that are not typically known to the public sector. States undertook many past initiatives for the express purpose of capturing business-held strategic insights to be used to guide economic development strategy. The potential advantages of these types of partnerships as a means of gathering strategic information about emerging economic opportunities are not always explicitly articulated, but recent research suggests that public-private information exchange can be particularly beneficial in spotting industrial growth opportunities (Hausmann and Rodrik 2003; Rodrik 2007).

Regardless of rationale, what is clear is that policy makers must assess whether public-private models live up to their promise of offering greater impact from the increased flexibility. Our interviews with Wisconsin's public agency heads revealed that many envied WEDC's flexibility in human resource management and procurement. At the same time, while there is always room for improvement, external stakeholders generally indicate that WEDC is placing appropriate emphasis on its relationship with state and local partners. However, it is important to realize that there are no systematic studies demonstrating that public and quasi-public economic development models generate appreciably different outcomes.

What is known is that state agency reorganizations can introduce uncertainty among customers, partners and staff as well as drain resources and delay implementation of economic development programs. A significant reorganization distracts leadership and staff from accomplishing the agency's mission as they devote time, energy, and expertise to implementing legal changes required by the new organizational form. Because economic development work must go on, typically the new model goes into operation with only partially reformed systems for managing personnel, resources, and outcomes. As the formation of WEDC illustrated, it can take 12 months or more to develop appropriate new policies and fully make the transition.

Chapter 5: Governing Economic Development

This chapter reviews how WEDC is governed and operates in comparison with other state public-private organizations. What is clear is that WEDC's board plays a unique role in guiding the economic development organization.

Board Roles and Responsibilities

Act 7 explicitly authorizes specific roles for the WEDC Board of Directors to provide both strategic leadership and operational oversight. The legislation authorizes the Board to develop economic development and related programs for WEDC, where an "economic development program" is defined as activities with the primary purpose of encouraging businesses to locate or grow in Wisconsin, and thus can include retaining as well as creating jobs.

The Board is also charged with monitoring and evaluating WEDC programs, including establishing program goals and benchmarks that are then required to be reported, and with setting reporting requirements, establishing data verification procedures, conducting program evaluations, and ensuring contract compliance. The Board is required to submit detailed reports to the legislature on the results of the state investment in WEDC as well as an independent financial audit.

The Board has the authority to expend funds, incur debt and establish committees and advisory councils; to appoint staff and delegate duties to those employees; and to conduct business through its committees and staff while maintaining oversight. In general, such flexibility is similar to that enjoyed by other state public-private partnerships.

Board membership and leadership

The WEDC Board of Directors includes 14 members representing legislators, departmental secretaries and private business owners, with voting members appointed as follows:

- Six members employed in the private sector are nominated by the Governor and appointed by the State Senate;
- Three members are appointed by the Speaker of the Assembly, including one majority and one minority party representative as well as a private sector representative;
- Three members are appointed by the Senate Majority Leader, consisting of one majority and one minority party Senator, representing members of standing committees in the State Senate, as well as one employed in the private sector;
- The Secretary of Administration and the Secretary of Revenue serve as nonvoting members of the Board.

Members of the WEDC Board of Directors and the CEO are considered state public officials under the Wisconsin Ethics Code, meaning they are subject to provisions governing conflicts of interest and general ethical standards for using state resources. However, they are not considered state agency officials under the state lobbying law.

In comparison to the boards of other state public-private partnerships, the WEDC Board is similar in size and composition, i.e., the predominance of private sector members joined by selection of public sector representatives. Other state economic development boards typically have nine to 25 members (JobsOhio has nine and the Virginia Economic Development Partnership has 25).

Enterprise Florida (EFI) and the Michigan Economic development Corporation (MEDC) both have much larger boards and their boards function somewhat differently than does WEDC's. The EFI Board of Directors has 64 members, comprised of appointed members and a diverse group of private members representing businesses, trade organizations, educational institutions, governments, and economic development organizations. In addition, each Florida Cabinet member holds a board seat. EFI has 14 Board members subject to Senate approval (six appointed by the Governor, four from the House of Representatives, and four from the Senate), which also serve as an executive committee.

Florida statute includes a mechanism designed to help EFI raise funds. Corporate sponsors who contribute $50,000 or more to Enterprise Florida receive a board seat. Due to potential conflicts of interest among this group, corporate sponsor board members do not approve or provide input on the economic development incentive awards and projects are not discussed during board meetings or on committees that include a corporate sponsor board member.

MEDC's board includes representatives from 62 regional and local government bodies as well as 20 members of the MEDC Executive Committee. MEDC's local partners appoint board members and select the executive committee members. The governing body of each consortium partner appoints one member to the board. For each member appointed by a governing body, the Michigan governor appoints up to two members to represent the state. However, the MEDC board meets only annually and the board's executive committee effectively functions as the board day-to-day. The executive committee is comprised mainly of private sector representatives and a few local and regional public sector representatives. It meets multiple times throughout the year to oversee MEDC activities.

The Arizona Commerce Authority's board of directors is charged with developing a comprehensive long-range strategic state economic plan and annually updating that plan for submission to the governor. The board delegates to staff the job of processing applications and administering incentives (with some board and legislative involvement), determining and collecting registry fees and security deposits, establishing and supervising out-of-state offices, assisting entrepreneurs with their business operations, and registering apprenticeship functions prescribed by the federal government.

The JobsOhio board holds four meetings per year to provide of operational oversight of the agency. It sets compensation for the Chief Investment Officer (CIO), approves all major contracts, establishes an annual strategic plan, and creates policies for conflict of interest, records retention, employee compensation, and financial incentives reviews.

Quasi-public agency boards across the states vary in terms of the number of representatives from the public sector versus the private sector, with states like Iowa and Wisconsin leaning towards more public sector representatives, while states like Wyoming, Arizona and Virginia are comprised almost entirely of private sector board members. The composition of the Rhode Island Commerce Corporation reflects the agency’s connection to the state’s workforce development programs; it has representatives from organized labor, higher education, the governor’s workforce board, and minority-owned businesses. However, WEDC is unique in that it has current members of the state legislature as voting board members. Two other boards—those of the Arizona Commerce Authority (ACA) and Iowa Economic Development Authority—have legislators but they serve as ex-officio, non-voting members.

WEDC’s board nomination and appointment process is similar to that of states like New Jersey, Florida, and Arizona, where board members are nominated by both the governor and members of the legislature. In Virginia, Ohio, and Rhode Island, all board members are appointed by the governor, subject to approval by the state senate.

In most states, the governor serves as chairman with a private sector representative serving as vice chairman. The Virginia Economic Development Partnership (VEDP) is a notable exception: the board chairman and vice chairman are elected from among the members of the board. The VEDP CEO serves as the board secretary while the VEDP controller or chief financial officer serves as board treasurer. VEDP’s board may also designate other officers or subordinate officers. In contrast, WEDC’s board chair is elected from among the Board’s non-legislative voting members. A majority of the voting members constitutes a quorum for the purpose of conducting the Board's business and exercising its powers. The Board may take action based on the vote of a majority of the voting members present.

Committees

The WEDC Board currently has three standing board committees. Membership of those committees include WEDC board members as well as executive staffers as set out in the WEDC Charter.[5] The current active board committees include:

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[5] WEDC Charters. Accessed at: http://legis.wisconsin.gov/lab/reports/follow-up/WEDC_Charters.pdf

- **Audit Committee**: Provides oversight and review of the board's response to external legislative audits.
- **Awards Administration Committee**: Reviews and assesses whether to approve the expenditure of funds for grants and loans to companies above a certain size.
- **Budget and Finance Committee:** Develops the organization's budget submittal to the governor and maintains appropriate financial review and controls.

Until 2014, WEDC also had a Contracts Committee which was charged with verifying the accuracy of information reported by financial assistance recipients and with reviewing and approving contracts for goods and services over $250,000. Until 2015, a Policy Committee developed and reviewed internal controls and program design elements that required board review and approval.

There is not "best way" to organize a Board's committees; however, it is helpful to see how other states organize their board governance to determine if WEDC might consider alternative committee structures or identify potential new committees that could help it operate as effectively as possible.

In our review of other states with public-private managing boards, the most common committees are executive, audit, compensation, finance, and award review. A few boards also have marketing, nominations, and ethics committees and some states have created committees for the specific purposes of helping the board respond to outside stakeholders and ensuring that the organization is achieving its designated public purpose (e.g., customer benefits, strategic planning, and legislative policy committees).

Although the different types of board committees have similar names, there is variation in the particular roles and responsibilities served by each state's committees. The ACA Executive Committee has most of the authority of the board itself; it can make and execute final decisions, with the exception of filling board vacancies, removing board members, or repealing bylaws or ACA policies. EFI's executive committee provides information and recommendations to the EFI board, supports the development of board investments, reviews operations and management issues, monitors relationships with linked organizations, and establishes the agenda for each board meeting. It may also assume any function or role assigned by the board, subject to similar restrictions as ACA's executive committee.

Audit committees in the various states generally focus on reviewing financial systems and ensuring the integrity of internal controls. JobsOhio's audit committee is also responsible for hiring an independent certified public accountant to perform an annual audit to ensure the corporation's compliance with prevailing law. Unlike Wisconsin, Wyoming combines the audit committee with the budget committee, but most states separate those board roles.

Compensation and finance are sometimes addressed by separate committees and sometimes combined into one committee, as at EFI. Compensation committees generally advise their boards on salaries, benefits, and related human resource policies, while finance committees maintain appropriate financial review and controls at the agency and review financial records. Finance committees sometimes oversee the audit function as well.

States like Iowa have board committees to help their boards make incentives awards under the agency's programs. The WEDC Award Administration Committee is charged with evaluating and approving loans between $1 and $10 million, grants between $500,000 and $2 million, and tax credits between $5 and $10 million. Depending on the focus of the agency, some states have committees to review their agencies' programs related to more specific economic development functions, such as providing capital access, community development, entrepreneurship, and technology commercialization assistance to businesses. JobsOhio's board also has an Independent Review Panel which assists in the review and evaluation of projects being considered for grants or loans and ensures the accountability of those proposals prior to approval.

Board terms

Compared to other states' quasi-public organizations, WEDC's bylaws are unique in that they do not currently specify the terms of board members. Bylaws for quasi-public agencies in other states generally prescribe the length of board terms, procedures for board member terminations and vacancies, and some specific board responsibilities, such as the number of required meetings per year. For example, in Iowa members of the board are appointed for staggered terms of four years; appointees to vacancies serve only for the unexpired portion of the term; and board members may be removed from office by the governor for just cause, usually after a notice and hearing.

Most organizations set up the staggered terms as a way to buffer the board from political forces and to develop institutional knowledge. JobsOhio board members serve four-year terms on a staggered basis, for example. Frequent board turnover inhibits good management and can amplify potential partisan interference in the organization's management.

The CEO

Like other quasi-public agencies, WEDC employs a chief executive officer (CEO) and other officers or assistant officers. The CEO is authorized to execute contracts on behalf of the organization and make necessary purchases and payments related to the operations and economic development programs within an approved budget and management plan. The CEO reports on revenues and develops the budget, monitors the agency's fiscal condition on behalf of the board, hires staff and consultants to implement the management plan, and determines staff compensation and benefits (sometimes subject to recommendations of the Compensation and Benefits Committee). In addition, the CEO establishes and enforces the Corporation's personnel and human resources policies and procedures.

WEDC's CEO is nominated by the governor and appointed with the advice and consent of the Senate. The powers, duties, and compensation of the CEO are determined by the Board. That is similar to how CEOs are hired in Iowa, Rhode Island, and Indiana, although both Rhode Island and Indiana require confirmation by both Houses. In other states, quasi-public agency boards appoint the CEO. Even in those cases, however, the selection is typically vetted carefully in conjunction with the governor's office before the board makes an appointment.

Relationship with the Governor's Office

In every state, the Governor serves as an important ambassador for economic development. Active governors are a powerful asset as states try to gain access to corporate leaders exploring potential locations for new or expanded facilities. Not surprisingly then, governors are frequently chairs of the quasi-public agency boards or co-chairs with a highly visible corporate leader.

Even where the governor does not take a formal role on the agency's board, all of the states' quasi-public agencies work in close alignment with the governor's office as a matter of practice if not formal policy. As the state's chief executive, the governor is ultimately responsible for all state expenditures; economic development is a high priority for many governors; and economic development tends to be a highly visible state activity, especially when new companies are making announcements about their plans. For those reasons, governors are often active in their economic development partnership organizations.

At WEDC, Governor Walker has been highly involved with the Board since the agency's inception, especially given his role in creating the agency. Like most other states with private boards, the Wisconsin governor appoints many of the WEDC board members and selects the CEO. Until a statutory change effective in July 2015, the governor served as the WEDC board chairman.

States vary in their governors' formal roles. Unlike in Wisconsin, the governors of Indiana, Florida, Rhode Island, and Wyoming serve as chair or co-chair of their respective economic development boards. The governor's role is ex-officio in the case of Wyoming and Rhode Island. In other states, like Iowa and Ohio, the governor does not serve on the board but appoints board members or the board chair. In Virginia, the governor serves an important advisory role by reviewing and approving any rule and bylaw changes as well as any fund or property transfers. In most states, agency annual reports and strategic plans are submitted for review and approval to both the governor and the state legislative body.

SECTION IV: MANAGEMENT AND ADMINISTRATION

Chapter 6: Operations

This chapter examines the internal operations of WEDC and compares how it functions relative to other states, especially with respect to revenue streams, detailed organizational structure, program mix, and staffing. While the comparison states are similar to WEDC in many ways in terms of organization and structure, states differ in their approach to economic development funding, spending, program portfolios, networks, and staffing practices. This nuance is not always captured, but the following comparisons to other states serve to illustrate how these matters are designed and practiced throughout the nation.

Funding

According to the *FY 2015 WEDC Operations Plan and Budget*, WEDC is primarily funded through annual state appropriations, with a small portion of funding from other revenue streams. In FY15, WEDC received $71.6 million in funding from various sources. The primary source of annual funding was $36.5 million in State General Purpose Revenues (GPR), which was used for administrative functions and economic development programming. GPR represent the state budget appropriation, primarily collected through state taxes, including individual income, sales, excise, and corporate income taxes.

The other primary sources of funding are the State Economic Development Fund (SEG) and State Brownfield Site Assessment. In FY15, WEDC received $21,776,300 from SEG, the source of which is a surcharge on all corporations and insurance companies that pay the income and franchise tax with gross receipts exceeding $4 million (the surcharge is 3 percent of gross tax liability). Usage of SEG funding is restricted to programmatic funding for WEDC's economic development programs. However, in FY16 some SEG funding can be used for certain administrative functions, such as third-party partner funding and marketing. WEDC also received $1 million from the Brownfield Site Assessment Grant through the environmental management account of the state's segregated environmental fund.

In addition to those major state funding sources, WEDC received $2.2 million in federal funding through intergovernmental agreements. Federal funds received include a WHEDA sub-grant provided by the U.S. Department of Treasury's State Small Business Credit Initiative (SSBCI) to augment the Technology Development Loan program. WEDC also received federal funding through the STEP for Export program.

The remainder of WEDC's FY15 budget was funded through loan principal repayments, interest income, the corporation's fund balance, and other revenues. WEDC generated approximately

$1.5 million from interest earned on outstanding loans, investments, and market value adjustments. To allow WEDC to manage its financial commitments, open contracts and loans, the budget also includes an "unassigned" fund balance that is monitored against a target of 15 to 25 percent of revenues. The budget ending FY15 unassigned fund balance was $12.7 million as established under Governmental Accounting Standards Board accounting principles. In response to LAB recommendations, WEDC revised its policies in early FY 2016 to restrict funding that had been obligated for conditional loans and grants being paid in future years.

Funding in other states

Similar to WEDC, other public-private partnerships are funded through a mixture of state, federal and private funds. Most receive the bulk of their revenue from state legislative appropriations.

Like WEDC, the Virginia Economic Development Partnership and Rhode Island Commerce Corporation receive almost all their funding through appropriations from their state's general fund, supplemented with a small portion of that funding with federal grants and program fees. Ohio allocated revenue from state-controlled liquor sales to fund JobsOhio. In 2013, the state provided the agency with an exclusive 25-year franchise, which it operates under contract with the Ohio Division of Liquor Control. For FY14, JobsOhio had operating expenses of $63 million, which were used for funding its economic development programs (62 percent), purchased services (14 percent) and agency operational expenses (24 percent).[6]

For FY14, the Arizona Commerce Authority received $50.5 million in "general revenue" and $8.9 million in "program revenue" that can be used to support staffing and operations. The funds are provided as a five-year block grant after which the agency undergoes a five-year sunset review. General revenue was mainly made up of payments from the state, a special allocation for the Arizona Competes Fund (for deal closing grants), and Job Training Taxes, with a smaller portion from interest income and other contributions. The Job Training Tax is imposed on the taxable wages of employees of state businesses and is used to fund the Arizona Job Training Program administered by ACA. Program Revenue was made up of operating grants and contributions and charges for services.[7] The agency also receives between $3 and $4 million in funding per year from federal grants and competitive grants. ACA's operational funds provide resources to administer the state's tax credit and grant programs.

Because all quasi-public agencies receive a large proportion of their funding from annual legislative appropriations or other state revenue funding streams, securing consistent funding

[6] 2014-2015 JobsOhio Annual Report Strategic Plan. Accessed at: http://jobs-ohio.com/about/strategic-plan/

[7] ACA Annual Report Fiscal Year 2014. Accessed at: http://www.azcommerce.com/media/511104/2014ACAAR111114.pdf

for incentive programs is a common issue across states, especially for programs like tax credits or performance-based grants that are designed to provide benefits over multiple years.

Private funding

In many states, early efforts to form public-private partnerships envisioned tapping the private sector as a significant source of support for economic development. In fact, raising such funding has proven difficult. Like most state quasi-public organizations, WEDC currently receives very limited private funding, categorized as "other revenue." The funds include fees collected from site selectors for conferences and collateral material.

Enterprise Florida is statutorily required to create a mechanism to raise private funds through corporate involvement to help fund the agency. EFI meets that requirement through corporate sponsorships; sponsors who contribute $50,000 or more are awarded board seats. Other states allow their public-private partnerships to accept corporate donations through non-profit foundations. For instance, IEDC's Indiana Economic Development Foundation raises about $1 million per year from various industry contributions to fund overseas trade missions and travel to trade conferences. The Iowa Economic Development Authority is authorized to charge fees for certain business tax credits and it also has contractual linkages with two non-profit entities, the Iowa Innovation Corporation and EDC, which mainly provide entrepreneurial marketing and consulting help to businesses that use IEDA's programs. Those entities have board members that can make cash contributions to IEDA to help fund the agency. IEDA also has a foundation—the Iowa Economic Development Authority Foundation—that it uses to help raise money from industry partners for overseas travel, marketing, and agency events.

Spending

Nearly two-thirds of WEDC's FY 2015 budget was expended on program grants and loans. Of the $55.9 million budget, about 30 percent was expended on financial grants (not including tax credits) and about 35 percent on loan loss reserves (a provision for bad debt on WEDC program loans based on outstanding loan balances by program). Although the agency substantially decreased its loan origination activities in 2015, it still manages a pre-existing loan portfolio. WEDC has budgeted $10 million for loans in FY15 and $5 million in FY16, after which it plans to cease loan origination activities other than for the Technology Development Loan program.

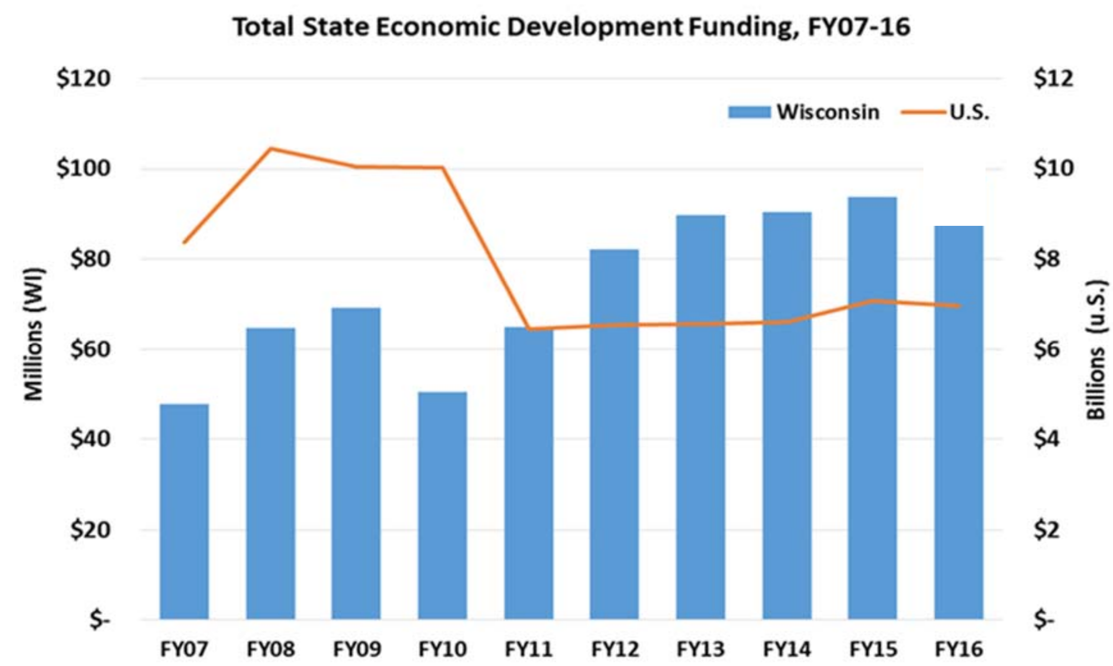
A smaller portion (6 percent) of the budget provided funding for awards to key strategic partners that function as an extension of WEDC. The remaining 28 percent was allocated to WEDC operational expenses, including marketing, staff payroll and benefits, general operations, purchases of capital and fixed assets, and principal and interest payments on long term debt and capital leases.

Comprehensive expenditure analysis

As part of the Pew/CREC Business Incentives Initiative, CREC completed a separate September 2015 analysis of Wisconsin's incentives and economic development expenditures made not just by the primary economic development agency (e.g., Wisconsin Department of Commerce and WEDC), but also relevant state investments in all budgeted economic development activities.[8]

Wisconsin increased economic development spending by 22 percent between FY 2007 and FY 2009, from $84 million to $108 million. Prior to the creation of WEDC in 2011, there was a significant decline in Wisconsin's investment in economic development overall (i.e., including but not limited to WEDC spending). Many states nationally were cutting their budgets in economic development and in other program areas during what was a severe state fiscal crisis.

Figure 5: Total State Economic Development Spending in Wisconsin Compared with U.S. Trends



Source C2ER State Economic Development Expenditures Database
***Note FY16 represents proposed and FY15 represents appropriated spending. All other years depict actual spending.*

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[8] Center for Regional Economic Competitiveness, "Business Incentives and Economic Development Expenditures: An Overview of Wisconsin's Program Investments and Outcomes," September 2105. Accessed from http://stateincentives.org/media/2015/outcomes/Wisconsin_State_Specific_Report_-_September_2015.pdf.

In 2011, Wisconsin leaders opted to increase their investment in job creation activities until cuts made this current fiscal year reflecting the state's pullback in lending activity (see Figure 5).

Not all economic development spending is included in the annual budget. Increasingly, states are using "tax expenditures" through a variety of tax credits, exemptions, and deferrals to implement economic development policy. The CREC report on Wisconsin's economic development program expenditures defines tax expenditures as "revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures."[9] Unlike budgeted expenditures, tax expenditures are reported after the fact. In many states, these expenditures may not be capped for very important programs.

The most recently available report on these expenditures, the FY 2015 Wisconsin Tax Expenditures Report published by the Wisconsin Department of Revenue in February 2015, includes data from FY 2014. Most of these tax credits, abatements, refunds/rebates and exemptions are not economic development related, but CREC examined those designed to influence business investment behaviors. Wisconsin's economic development tax expenditures totaled approximately $825 million, which was significantly greater than the $93 million Wisconsin invested in economic development program expenditures for that fiscal year. Approximately 63 percent of those expenditures were for corporate income and franchise tax relief. The remainder were tied to sales and use tax expenditures.

Based on CREC's review of 29 states, it is not unusual for economic development tax expenditures to outpace direct program activities. Quite often, legislatures use these as a way to shift tax policy or influence business investments without identifying revenue offsets, especially during the past several years when so many states have endure significant fiscal crises.

Organizational Structure

Figure 6 provides a detailed organizational chart that reflects the current structure of the WEDC as of fall 2015. Headed by the Chief Executive Officer/Secretary of Commerce and the Chief Operating Officer/Deputy Secretary, WEDC is currently organized into several divisions with a number of independent units reporting to either the CEO or COO. The CEO reports to the Board of Directors and the Governor and is responsible for developing and guiding economic development strategies and goals, ensuring compliance of WEDC activities with state statute and internal policies, coordinating high-level WEDC leadership, and serving as the primary spokesperson for the agency. Under the current organizational structure, the CEO also manages the operational activities including finance, credit and risk, and information technology.

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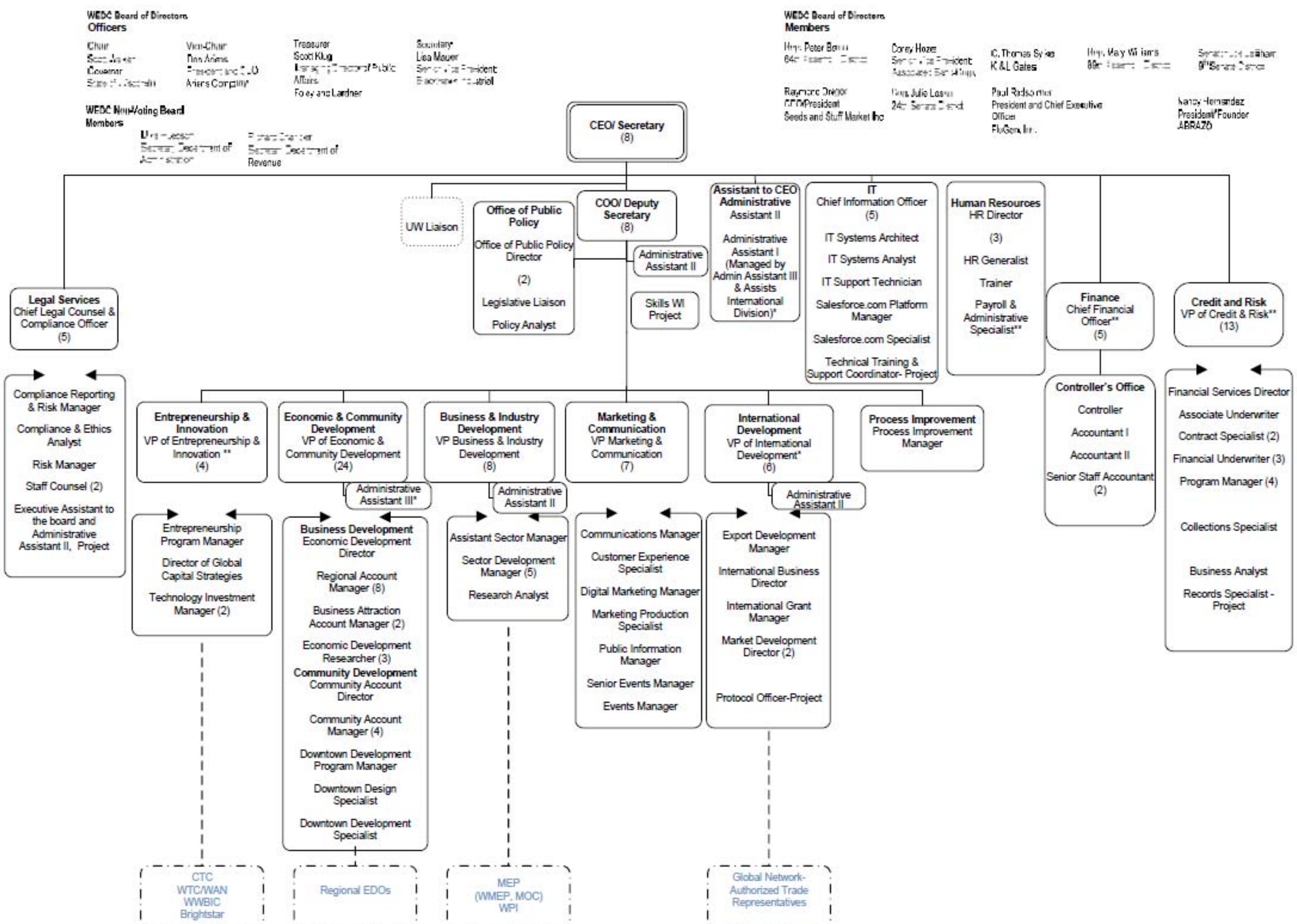
[9] *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

Figure 6: WEDC Organization Chart, 2015



The next highest ranking member of the WEDC is the COO, who is primarily responsible for managing day-to-day operations and directing most of the economic development programmatic divisions. The Office of Public Policy supports the executive office by developing and advocating for economic development initiatives and providing policy research and analysis. In addition to the CEO and COO, the WEDC senior management team includes several key personnel overseeing program and operational divisions.

WEDC's forward facing economic development programs are mainly administered through five divisions: (1) Entrepreneurship and Innovation; (2) Economic and Community Development; (3) Business and Industry Development; (4) Marketing and Communication; and (5) International Business Development. In addition, WEDC provides program services through an "extended enterprise" that includes strategic partners including the University of Wisconsin (UW) System Economic Development Liaison, the WEDC Skills Wisconsin Project Manager, and a network of key strategic partners. These programs represent the agency's "front office," working with prospective clients and managing service delivery to clients.

Under the current structure, the operational divisions (or "back office" functions) include leaders managing Legal and Compliance, Finance, Information Technology (IT), and Human Resources (HR). The Chief Legal Counsel leads the Department of Legal and Compliance, providing legal advice and analysis. The Chief Financial Officer heads the Department of Finance, managing and implementing financial policies and procedures and maintaining the agency's financial accounts and records. The Human Resources and Information Technology departments, each headed by vice-president level personnel, provide additional support services. The CEO provides direct oversight of economic development programs and WEDC strategic and operational plans.

Complementing these activities and supporting the program offices is the Credit and Risk Division. Created in 2013, this division centralized all underwriting functions at the organization. Credit and Risk Division staff are responsible for underwriting proposed investments and managing financial awards once they are under contract. This division is responsible for document management, data management, and data collections.

Other quasi-public agencies are organized into a similar structure, with differences in terms of hierarchical flow and the number and types of division. For example, the Arizona Commerce Authority is divided into Executive Management and Operations teams which provide leadership, support, and a connection between the ACA's Board of Directors and the "job creation departments". The Job Creation departments, namely Business Attraction (Recruitment), Business Development (Expansion and Growth), Business Creation, International and Rural Development, are managed by department leads. Industry leads operate across departments to provide strategic support for industry-focused activities. The COO/General Counsel manages all operations including contracting and compliance.

Across the ten states included in this comparison, the most common agency branches were business finance and assistance, domestic recruitment, entrepreneurial development, and international trade and investment. About half of the agencies had community development branches, while Arizona and Wyoming had branches specifically aimed at businesses in rural areas of their states. Michigan and Rhode Island both included workforce development as a focus. Some of the other more targeted branches at agencies include procurement assistance, exporting assistance, and energy industry development.

Agencies differ in how they distinguish operational “back office” activities and program “front office” service functions. For several states, marketing and financial service activities are included as operational activities while others treat them as programmatic activities. For instance, Enterprise Florida’s staff accept incentive program applications and then send them to Florida Department of Economic Opportunity staff or their outside contractors for approval, contracting, and compliance services. IEDC has a Business Account Management Incentive Team (BAMIT) as a division to provide services to tax credit and grant recipients. BAMIT generates and negotiates the terms of incentive agreements, gathers and evaluates company performance data, and ensures compliance. It also has primary responsibility for producing IEDC’s annual Economic Incentives and Compliance Report.

Program Portfolio

WEDC currently administers 28 active economic development programs across four of its divisions. These programs provide grants, loans, tax credits, technical assistance, professional networking opportunities, and other assistance to businesses, local governments, and other entities. WEDC also authorizes local governments in the state to award grants and loans and issue bonds to fund economic development projects.

WEDC’s current program portfolio is designed to address a variety of different economic development challenges. Figure 7 lists all of the currently active WEDC programs by division. About one-third of the programs provide community assistance, while the next highest proportion of programs support the state’s businesses in their entrepreneurial development and international trade and Investment activities. Business finance, domestic recruitment, tax burden reduction and technology transfer programs all play more minor but significant roles. WEDC also manages programs geared toward minority business development, special industry assistance, and workforce preparation and development.

Quasi-public agencies have designed their incentive programs to accomplish varying economic development policy goals. In Indiana, IEDC’s incentive portfolio places the most emphasis on business finance, tax burden reduction, and technology transfer. In Michigan, MEDC programs are heavily geared toward business finance and community assistance, with a minor emphasis on business assistance and technology transfer. Florida’s EFI administers a large number of

Figure 7: WEDC Incentive Programs, 2015

Business and Industry Development	International Business Development
• Minority Business Development Revolving Loan Fund • Targeted Industry Projects	• ExporTech • Global Business Development • Global Trade Venture
Entrepreneurship and Innovation	**Economic and Community Development**
• SBIR/STTR Matching Grant • Capital Catalyst • Entrepreneurial Micro-Grants • Qualified New Business Venture Certifications • Seed Accelerators • Technology Development Loans	• Business Opportunity Loan Fund • Brownfield Redevelopment Financial Assistance • Capacity Building Grants • Certified Sites • Clean Energy Manufacturing Revolving Loan Fund • Community Development Investment Grants • Development Opportunity Zone Tax Credits • Economic Development Tax Credits • Enterprise Zone Tax Credits • Historic Preservation Tax Credit • Industrial Revenue Bonding • Idle Industrial Sites Redevelopment • Jobs Tax Credits • Main Street and Connect Communities • Site Assessment Grants • Special Project Loan Fund • Workforce Training Grants

business finance and community assistance programs, with a greater emphasis on international trade and investment, special industry assistance, and strategic business attraction. In comparison to those agencies, WEDC's administers a more diverse program portfolio, with a large proportion of community assistance and entrepreneurial development programs.

Because of the state's small size, the Rhode Island Commerce Corporation is organizationally structured around industry sectors, rather than regions. The agency looks to leverage its small size to help businesses more easily access government resources across state agencies. The state's departments of commerce, labor, regulation, affordable housing, planning, and real estate are now all organized under one Secretary of Commerce. That has allowed the RI Commerce Corporation to develop indirect partnerships with other agencies, which they can use to help businesses navigate state resources and regulations.

Programs and divisions

WEDC has three different types of economic development programs: (1) aid programs, (2) technical assistance programs, and (3) pass-through aid programs. For aid programs, WEDC provides funds directly to a business, community, or consortia. Technical assistance programs involve assistance without any direct financial award to the client. Pass-through aid programs are projects or programs in which the agency provides funds to an organization within its "extended enterprise" of partners to distribute to sub-award grantees.

The Economic and Community Development (ECD) division provides direct service programs to businesses and communities in the form of capital access, site and infrastructure development, technical assistance and planning, and workforce training. With 16 currently active programs, the division administers the most programs of any agency division. Community, Business Attraction, and Regional Account Managers in the division serve as the primary point of contact for prospects and customers. Some managers specialize in representing specific programs or regions. In some cases, ECD account managers help businesses and communities apply directly to WEDC to tap ECD programs, but in some cases, they may refer businesses to services available from local and regional economic development organizations. In FY15, ECD spent $13.0 million on its grant programs and $20 million on loan programs.

The Business and Industry (BID) division administers programs to provide financial and technical assistance to minority-owned businesses and businesses in target industries, spending $3.1 million on grant programs in FY15. BID is also responsible for responding to high impact economic development project opportunities that require the quick mobilization of resources. Additionally, BID researchers provide the agency with research and analysis related to sector and investment strategies and economic and workforce trends.

The E&I division administers programs that provide access to early stage capital and incentives for technology transfer and investment. Some E&I programs previously existed at DOC, but WEDC prioritized these programs and increased resources for them. Furthermore, many entrepreneurial and technology transfer incentives were created based on identified needs and feedback of state businesses. The division's technical and financial assistance are used to support business efforts to complete proof of product development, raise investment capital, make equipment purchases, and commence production. In FY15, E&I spent $4.2 million on grant programs and $4.8 million on loan programs.

The IBD division promotes the state's exports in international markets, provides export assistance resources to state businesses, and encourages foreign direct investment in the state by international companies. Similar to ECD, IBD activities have more resources and IBD undertakes more extensive international outreach activities than previously at the former DOC. IBD provides clients with financial and technical assistance in the areas of export education, market entry, and market development, spending $1.4 million on grant programs in FY15.

The Marketing and Communications division provides support to the other economic development program divisions via third party service delivery. This division is responsible for administering the state branding campaign (InWisconsin), managing WEDC media relations, and organizing trade shows, sales meetings, and business meetings and conferences.

WEDC created the Division of Credit and Risk in 2013 to centralize underwriting activities for all programs, although staff in other divisions like E&I do partial underwriting for some programs. In addition to underwriting activities, the Credit and Risk division staff provides technical assistance on program policies and performance metrics, oversees the awards administration process, and collects delinquent financial payments and performance reports. The division also oversees the preparation of the agency's Annual Report on Economic Development and quarterly reports to the Board. With the agency's recent reduction in lending, the division will likely begin focusing more on grants administration in the future.

The 'Extended Network' in Economic Development

Through coordination, cooperative agreements, and funding to other economic development-related organizations around the state, WEDC extends its reach and leverages resources to support the state's economic development strategy. Beyond the programs that WEDC operates itself, the agency also manages pass-through funding to key strategic partners. Some of those partners are statewide industry intermediaries; others are regional economic development organizations. WEDC funding provides an incentive for partners to align with state priorities, which improves coordination in the overall economic development effort across the state. Among its responsibilities, WEDC authorizes local governments to issue bonds to fund economic development projects and awards grants and loans to local governments and other organizations through its various departments and divisions. WEDC is also statutorily required to make annual marketing grants to regional EDOs.

The WEDC regional account managers coordinate relationships with regional partners. Currently, WEDC provides the nine regional economic development organizations with an annual appropriation of $100,000 each to support marketing activities. In exchange, the local economic development organizations also provide WEDC with "on-the-ground" knowledge of the regions, industry sectors, and community groups as well as referrals for business opportunities that would benefit from state-level involvement. For business expansion and relocation projects, WEDC staff work with local economic development organizations to provide packages of state and local incentives.

In addition, WEDC, through the BID division, also works with several third-party service providers, including the Wisconsin Center for Manufacturing and Productivity, Inc. (a merger of the Wisconsin Manufacturing Extension Partnership and the UW-Stout Manufacturing Outreach Center) and the Wisconsin Procurement Institute (WPI). In FY15, BID division spent $1.6 million on funding for these key strategic partners. The division makes investments in targeted industries through its partnerships with industry-led nonprofit organizations. Furthermore, the IBD team coordinates outreach efforts to target clusters through partner intermediary organizations, and international development contracts with a global network of authorized trade representatives.

The E&I division advances Wisconsin's startup and emerging growth businesses by supporting entrepreneurial development support networks. E&I staff work with several key partners, including the Wisconsin Women's Business Initiative Corporation, Center for Technology Commercialization, BrightStar Wisconsin Foundation, Inc., and Wisconsin Technology Council (including Wisconsin Angel Network). E&I provides support to these organizations because they deliver services aligned with E&I's mission that would be difficult for the division to deliver itself. In FY15, this division spent $1.5 million on funding for key strategic partners.

In addition, WEDC collaborates with many other Wisconsin state agencies, like the Department of Agriculture, Trade and Consumer Protection (DT CAP), Department of Transportation (DOT), and Department of Workforce Development (DWD). For instance, WEDC worked with the DOT to hold state summits and advisory committees for the state's Freight Friendly Wisconsin initiative and uses DOT as a resource when there is a significant transportation component to their business recruitment efforts.

Given the current challenges that businesses face in finding workers, a vital state agency partner is DWD. WEDC works with DWD to align state workforce and economic development activities through technical review committee, inquiry review, and state economic and workforce strategy meetings. DWD refers business opportunities to WEDC's regional account managers and provides workforce pipelines data, while WEDC's researchers provide DWD with industry feedback on workforce skills gaps, new employer leads, and emerging industry sectors in the state. WEDC also maintains a UW System Economic Development Liaison and WEDC Skills Wisconsin Project Manager, which help WEDC align the state's economic and workforce development initiatives. The UW System Economic Development Liaison, a relatively new position, also coordinates entrepreneurial and technology transfer programs between WEDC and Wisconsin universities.

According to feedback from WEDC stakeholders, WEDC's current partners welcome opportunities for more collaboration on agency strategy development and business opportunities. Potential areas for collaboration include data and modeling system sharing, more formal and regular joint advisory committees, clearer pathways for providing feedback and referrals to WEDC staff, and joint marketing and training initiatives. Some stakeholders believe a rural economic development strategy is needed to address the non-urban parts of the state; others argue for strategies to aid small and disadvantaged businesses. Some stakeholders also seek a more proactive role for WEDC in coordinating the efforts of local and regional EDOs.

Comparison with other states

Other states handle their external partner relationships in different ways than WEDC. For instance, Enterprise Florida (EFI) manages a Strategic Partnerships Division separate from individual programs. EFI has initiated a Memorandum of Understanding with all of Florida's counties and public utilities which clearly identifies a primary points of contact. These local and regional partners help EFI by bringing forward business leads while EFI staff identify projects that might be located in the partners' communities, facilitate conversations with businesses about state incentives, and provide economic and labor data. EFI's regional representatives work with regional economic development groups and industry representatives, especially those in targeted sectors such as defense, banking and lending, manufacturing.

Florida's departments of revenue, health, environmental protection, and workforce identified "economic development liaisons" to connect companies with public resources. The agencies also meet quarterly to foster relationships and share information. EFI works particularly closely with CareerSource Florida, the state's workforce development agency, when developing a proposal that requires workforce training, and it partners with local career source centers, regional workforce boards, and state educational institutions on workforce related projects.

In Virginia, VEDP collaborates with its allies, especially the Virginia Economic Developers Association and the state's fourteen regional EDOs. Agency project managers coordinate closely with EDO representatives on marketing, product development, and business development projects. VEDP recently created a more formal "triumvirate" for each region. Each regional triumvirate consists of a business expansion, workforce, and trade development staffer. In 2015, the agency created a "Regional Action Team" of VEDP staffers that build relationships, incorporate educational institutions into growth strategies, and help regions better position themselves. Additionally, VEDP's research team provides services to regional organizations, including developing regional profiles for each county.

The agency's marketing and communications staff maintains a monthly marketing calendar to provide information on agency events. On a quarterly basis, VEDP hosts an orientation program for its allies in the economic development community, including communities and other state agencies. At these events, the agency's senior leadership discusses its roles in the state. VEDP also hosts regular "lunch and learn" events where communities can discuss and share information about happenings in their area, including sharing information about new sites and business prospects.

Other states manage their partner networks more informally. In Iowa, IEDA works closely with the state's professional economic development association and with local chambers. Rhode Island works with industry trade groups, a more practical approach for a smaller state. In Indiana, IEDC partners with non-profit entities to administer programs and provide local intelligence about workforce, industry, and capital access needs while IEDC provides those organizations with benefits such as database improvements and marketing support. ACA provides a modest level of funding to the state Chamber in exchange for policy services.

Staffing

WEDC currently has about 108 full-time employee positions. The agency began in 2011 with 50 full-time employees and has expanded to reflect program and operational needs. Current staffing is substantially below the 350 employed at the WI Department of Commerce in 2011.

A vice president leads each of the six program divisions. Directors are assigned to individual operating units within the divisions. In some cases the operating unit report directly to the CEO or COO. Directors and managers are assigned to lead programs, special projects, or industry sector initiatives. In some cases, directors and managers are assigned to manage customers in certain geographic areas or of client types. Parallel to the program team, the operational team manages project administration, data analysis support, and other special services. Those staff tend to be analysts, specialists, liaisons, and researchers. The operational team includes underwriters from the Credit and Risk division. Other operations units include controllers and accountants in the financial services unit, attorneys and contract specialists in the legal office, and specialists and trainers in the human resources office. The agency has several administrative assistants serving a variety of operating units, including the executive office.

Staff allocation across functional areas

CREC categorized the various WEDC staff positions into six broad categories, including senior agency leadership (20 percent of staff), project management (42 percent), data analysis and support (8 percent), financial services (9 percent), administrative and operational support (11 percent), and other specialized services (12 percent).

Across the states, quasi-public organizations employ between 50 and 100 full-time people, ranging from around 50 FTE in Wyoming, Rhode Island, and Arizona, to 115 at IEDA (recently reduced from 150 FTE). At the VEDP, the agency's 105 staff positions can be categorized as leadership (17 percent of staff), economic development project management (47 percent), data analysis and support (15 percent), financial services (5 percent), administrative and operational support (19 percent), and other specialized services (4 percent). While VEDP employs fewer financial services and specialized services staff than Wisconsin, they employ almost double the proportion of researchers and data analysts. The Wyoming Business Council's has a similar delegation of staff functions as WEDC.

CREC assessed the breakdown of staff assigned to sales/outreach, due diligence/risk management, information technology and management, finance, research, and compliance/reporting activities by analyzing the current staffing assignments. Economic development program staff (including all the staff operating from five program divisions) make up around 55 percent of WEDC's employees. Operations (including credit and risk, finance, and legal) accounts for 25 percent of the staff and administration (including human resources, information technology, and executive staff) comprise 20 percent (for a total of 45 percent in administration/operations). That distribution is more administration- and operations-heavy than some other states. For example, at VEDP approximately 36 percent of staff are employed in divisions with primarily administrative and operational functions; the share is 38 percent in the Wyoming Business Council.

Staff personnel rules and policies

The decision to exempt WEDC staff personnel from state employee status has been consequential but not unusual. Staff who moved over to WEDC from the Department of Commerce were offered an opportunity to earn market rate wages with benefits similar to those in the private sector. WEDC employees receive state benefits, participate in a retirement plan, and are employed at will.

This exemption is similar to changes made in other states, but not every state has followed this model in creating their quasi-public agency. Iowa's IEDA employees remain in the state classification system and receive state benefits, including the state 401k program and medical benefits. The IEDC uses the state civil service pension plan for employees, although it has flexibility within its bylaws to opt out if it desires. In Virginia, VEDP's salary structure and retirement benefits are based on the state, but the agency looks more to the private sector in structuring pay. Employees of the Rhode Island, Florida, and Arizona quasi-public agencies are not considered public employees and are exempt from laws regulating state employment, including procurement, accounting rules, and travel regulations. At Florida's EFI, employees do not receive public benefits and hiring and firing follows the laws governing private companies. ACA's employees are also not part of the state employment system, and employees moving over to the authority from the Arizona Department of Commerce competed for their positions at ACA, with the full understanding that they would be giving up their state benefits.

Compensation policies

WEDC's compensation policy is set within the parameters of the annual board-approved management plan. According to the *FY 2015 WEDC Operations Plan and Budget*, total expenditures for payroll and benefits in FY15 were $9.9 million, reflecting a 9 percent increase from FY 2014 and a 19 percent increase from FY 2013 as the agency continued to fill additional staff positions. The Board approves the CEO's salary, and the CEO approves all other salaries.

WEDC's policy (according to *HR 300 Salary Administration*), created in 2011, is to offer salaries at the mid-point of market compensation salaries for jobs in similar industries and regions. Every two years the Human Resources department conducts compensation surveys of other employers to help set pay policy. Compensation and merit adjustment guidelines are issued annually. Supervisors use these guidelines when conducting compensation reviews in conjunction with performance reviews. As a result of the shift from DOC, employees that transferred to WEDC and lost benefits were to receive higher pay that was more closely tied to market conditions. Of approximately 50 employees that transferred over from DOC, approximately 22 remained at WEDC four years later.

Staff development and retention

Staff retention has been a challenge so CREC sought to better understand how this might be addressed. During CREC's interviews, numerous staff raised concerns that every agency criticism included sweeping remarks that painted every staff member as either incompetent or criminals with little consideration for the ramifications of those charges on staff morale. According to staff, the criticisms rarely acknowledged the inherent challenges of economic development work where expectations are high but influence on the economy is limited. Quality on-boarding and the provision of professional growth opportunities for existing and new staff will be integral to retaining skilled staff and reducing turnover.

Supervisors and division heads may submit requests for new hires to HR for review and approval. If the new hire will either increase or decrease overall staffing levels in different units, managers are required to provide a justification of how the new hire will alleviate any issues their work unit is experiencing as a result of current staffing levels. Current employees can apply for open jobs within the agency if they meet position requirements, have been in their current position for at least six months, and have a satisfactory performance record. Unless it is a special hire, all job openings are posted for current WEDC staff on the WEDC Employment page. WEDC recently has demonstrated a strong preference for hiring qualified internal candidates to fill existing positions.

Upon hiring, the HR department is responsible for the general orientation of new employees and processing their employment forms, while their supervisor is responsible for all job training. Supervisors may select a member of their work unit as a mentor to facilitate the new employee's transition. New employees and current employees transferred or promoted within the agency are evaluated following their initial introductory period, which usually lasts for 3 months. After completion of the introductory period, employees are given periodic performance appraisals.

Because of the high turnover rate (at 25 percent annually according to WEDC's human resource chief), it has been difficult for the HR department and employee supervisors to effectively implement the full array of on-boarding activities. According to staff feedback, divisional training activity has been ad hoc, with no formal structure or process. This is not unusual in a smaller organization, but the biggest challenge may be in training on the use and management of internal data systems as well as program guidelines. Interviews with staff revealed an interest in improvements to program training, including more in-depth cross-training on different programs, more formal mentoring to help newer and younger staff identify a career plan, and more general training about key WEDC policies, procedures, and functions.

Like Wisconsin, other state quasi-public agencies provide on-boarding to new employees, some more extensively than others. Indiana's IEDC uses its HR staff to set up introductions for new employee to the state and agency systems and has designed training modules for particular positions. Enterprise Florida has a formal orientation for new employees and all new employees receive basic economic development training, specialized training for individual functions, and training modules related to their assigned department. VEDP has a designated on-boarding document to walk new employees through the agency and its functions; new employees are verbally assessed three months after hiring, then again at six months.

Designing career pathways

WEDC policy affirms that the agency uses a "pay for performance/incentives for high performance" model. In addition to reviews in the first months of a new staffer's hiring, supervisors are asked to complete performance appraisals in conjunction with annual salary reviews. Performance appraisals are considered for decisions regarding training, pay, promotion, transfer, and continued employment. Supervisors are responsible for recommending current or new employees for on-the-job training or special training programs, as well as maintaining self-instructional training materials. Employees may be required to enroll in and complete continuing education and training programs. The HR Department may also coordinate programs dealing with operational and compliance regulations.

Interviews with staff suggest that this process is not operating as intended because past salary freezes have offered little opportunity for rewarding high performers. Staff expressed a concern that merit awards were not adequate, and they were not always consistently made. Furthermore, current WEDC policies do not explicitly require that each staff position have a clear and documented career pathway for growth. As a result, many employees indicate that they are unclear about what their career trajectory might bring within the organization. This is not unusual in an organization of WEDC's size, but this could provide an opportunity to facilitate career progress within WEDC.

At Enterprise Florida, by comparison, entry-level positions are offered at the associate level. Employees can then track to become a manager, director, senior director or vice president, or receive a promotion within their current position. All employees receive mid-year and annual reviews to make sure they are tracking to their performance goals, department goals, and project benchmarks (i.e., number of projects established). For WEDC, employees who meet their goals and benchmarks receive bonuses, although the staff indicate that they have received neither raises nor cost of living adjustments since 2011. Current employees hoping to advance internally can apply to new positions that are posted publicly.

Employees of VEDP are placed into four different bands, with salaries adjusted based on a private sector reviews. All job descriptions are required to identify the professional development path for the position. Employees can also advance within their pay grade if their skills change significantly. Each agency division has its own professional development budget, and vice presidents and the executive office also have the ability to segregate funds for economic development. Staff are encouraged to attend professional development conferences and attain certifications. The agency reviews all employees annually, although vice presidents are encouraged to perform mid-year reviews as well. If a vacancy occurs within a department, the department assesses whether the position is still necessary before beginning the hiring process. Similarly, at IEDC any department considering adding a position must review its departmental budget and receive approval for the process. IEDC posts all new positions publically before beginning the competitive process.

Chapter 7: Systems and Processes

Operations and administrative management activities are the crux of efficient and effective economic development agencies. Coordinating these “back-office” activities with program administration is key to ensuring that business needs are met, external allies are satisfied, and taxpayers and their representatives are able to understand economic development goals and achievements. Highly efficient operational functionality ensures that back office staff and program management staff are driven by common mission and goals.

State economic development agencies require multifaceted systems to successfully manage economic development projects and programs. Applications, due-diligence, project approval and monitoring, and subsequent performance evaluations all require systemic approaches that acknowledge differences between projects while ensuing high standards of quality in the work. State economic development agencies understand the importance of normalizing these processes in ways that provide efficient services to customers (whether businesses or communities) and to report accurate performance outcome information to stakeholders.

The governance of operations and administrative management activities is critically important. Connecting market-facing staff to back-office operations requires well-documented, well-understood, and efficient systems and procedures. Supporting information systems—including customer relationship management (CRM) databases, financial management systems, and grant management systems—are invaluable resources for managing information efficiently while promoting accountability and timeliness. Wisconsin systems are similar to those in other states although the technologies used and specific elements deployed vary.

Program Guidelines and Review

WEDC has developed guidelines associated with each of its 28 programs, including benchmark metrics as required by statute. The specifics of managing those programs, including administrative procedures and documentation of outcomes, are critical to their effectiveness. By statute, WEDC certifies eligibility and makes allocations for state individual income, corporate income, and franchise tax credits and exemptions; administers programs like the Brownfields Grant Program, Brownfield Site Assessment Grants, and Main Street Program; and allocates the state volume cap on industrial revenue bonds (IRBs).

WEDC’s policy for developing guidelines for implementing any of its mandatory and discretionary programs are described in the document, *GOV ADM 126 Program Guidelines Approval and Revision.* The document describes the steps required and the timeline for developing new programs, modifying an existing ones, and reviewing all programs. WEDC reviews its programs annually and has provisions for creating or modifying programs on a quarterly basis.

The Office of Public Policy coordinates a development review process each year before the beginning of the fiscal year in consultation with other teams, including leadership from the Finance, Legal Services, and Credit and Risk departments. Division Vice Presidents may submit new or revised program elements using a template. Once developed, program guidelines need approval by the CEO and Board to be considered fully implemented. Once approved, program guidelines are published annually in the Program Guidelines Manual. Division vice presidents are responsible for monitoring staff progress in implementing and complying with approved program guidelines, while division teams are responsible for tracking program performance. If mid-year changes are needed, they can be made after organizational review and the CEO's approval. Substantial changes must be submitted to the Board's Awards Administration Committee.

Processes and Systems for Managing Incentives

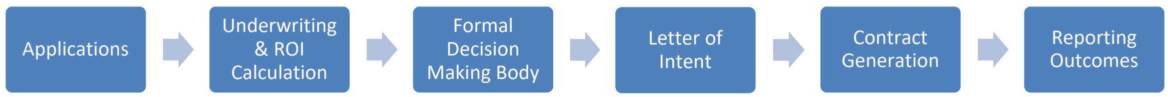
While some processes vary based on programmatic goals and differ based on project-level requirements, generally the more standardized the incentive award process, the better. This section of the report summarizes key components to most economic development agencies' incentives award process: (1) determining eligibility, (2) calculating project impact, (3) making formal decisions, (3) drafting letters of intent, (4) contracting, and (5) reporting. Seamless implementation of these mechanisms helps businesses and agency staff thoroughly communicate goals and work together to achieve economic development objectives.

WEDC has instituted an incentive award process that resembles that of most other quasi-public agencies. The system was put in place to track project deliverables and financial benchmarks from the project's start-date through post-project evaluations. While the new system was instituted in 2011 at WEDC's creation, some award administrative processes were held over from the former Department of Commerce. Over time, the combination of new and legacy processes have yielded operational bottlenecks that WEDC is seeking to address. Throughout its analysis, CREC sought to understand the mechanics of the prospect development, award review, and contract management system to identify specific instances of these bottlenecks.

WEDC relies on Salesforce, a commercially available CRM system, to track projects and revisions, and Enable Software, a commercially available data management tool, for performance coordination throughout the process.

Figure 8 provides a highly stylized version of the key process steps and a way to compare key elements of WEDC's project management process with those of other economic development agencies. The model provides a way to map a project's progression from initiation to implementation and subsequent assessment.

Figure 8: The WEDC Project Management Process



The application process

In general, all state economic development agencies manage their projects under a similar process. It begins when a business requests assistance tied to an activity that has a potential economic development benefit to the state. That assistance can include financial support through any of the state's programs. Account managers advise businesses on program elements related to project parameters and may also work closely with the potential applicant in fielding questions and guiding the project's design. During this initial phase, business needs—training, capital, etc.—are formulated and communicated. In essence, the business educates the agency about its plans and goals as well as the competitive environment while the agency helps the business understand the types of assistance available and the agency's goals for making a public investment (in terms of types of jobs created, wages, benefits for new hires, etc.).

If the project aligns well with a state's economic development mission, the agency asks the business to fill out an application for financial assistance. Most states have standardized applications for multiple programs that ask for similar information like financial standing, previous incentives earned, and average wages of current and future positions. Collecting this information ensures account managers and underwriters can measure against the standards set for all client companies. Requiring similar information for all projects yields a smooth vetting process that is easily understood by both the agency's staff and businesses leaders.

Each of WEDC's grants, loans, and tax credit programs have codified goals (some in statute and some in program guidelines). The application process for each of the programs differs to reflect the different goals and program requirements. Many of the same questions are asked during the application process for each incentive, but information gathered may be slightly different. This variation can lengthen the due-diligence process.

WEDC often asks businesses to provide a history of their operations, information about subsidiaries or parent companies, market information, revenue streams, and project information like anticipated employment and a detailed use of funding. The agency also requires companies to certify that false or misleading information will make them ineligible for financial assistance.

The uniqueness of the baseline data requested for each project can result in back-ups during the due diligence and contracting process as well as uncertainty about the anticipated fiscal and economic impact. Furthermore, WEDC sometimes must move forward to begin analyzing project impacts based on incomplete application information that may, in turn, lead in inaccurate ROI calculations.

How other states do it. Many states have developed standard applications for all of their programs, recognizing that not all data gathered are relevant to every program. States take this approach to ensure they have consistent information that can be evaluated in similar ways before a project is green-lighted and monitored in similar ways after the project begins.

In setting up its systems, WEDC followed practices similar to other states. For instance, Iowa EDA's finance department, for example, collaborated with the Iowa Attorney General, to design applications that align with the state's administrative code. Businesses are often shown a sample project application and contract prior to submitting their request for assistance.

In Indiana, businesses submit online applications that require standard information about project goals such as payroll, job creation benchmarks, and wages. These data are collected for the majority of the state's incentive programs. Indiana has found that standardization has helped to improve data integrity for reporting and decisions about the size of awards. IEDC leaders have also found that comparing new projects to similar deals from prior years has been a useful decision-making tool. The online system grants multiple staff members access to project information, further streamlining this portion of the incentive award process.

In its application, Enterprise Florida, Inc., asks companies which other states they are considering, an inquiry that attempts to address the "but-for" question. The onus is on the business to answer truthfully. In Florida's case, application forms are not available online and can only be accessed if a company has started negotiations with EFI.

Return on investment calculations

Once WEDC receives an incentive application, the proposed project is submitted to one of six underwriters to assess. For many projects, an analyst will use EMSI economic modeling software to support the assessment. EMSI does not have a fiscal impact component, and the cost-benefit of the incentive investment is not analyzed during the review process. The ROI analysis does not include a full assessment of all costs and fiscal benefits, but instead an assessment of the costs associated with job creating activities and the economic development benefits anticipated.

Once an initial assessment is made, WEDC assigns a contract specialist to conduct a background check on the applicant, reviewing a variety of sources to ensure that the project principles are eligible for assistance. During a weekly underwriter team meeting, new projects are discussed and information about the applications is shared. Once the return on investment and due diligence review has been completed, the application and economic impact results are submitted to the Management Review Committee (MRC) for review.

How other states do it. After completed applications are received, most state research or finance divisions review them for both completeness and competiveness. It is at this point that states assess the need for an incentive by calculating the expected Return on Investment (ROI), typically with the help of commercially available economic development software such as EMSI, REMI, or IMPLAN. WEDC uses EMSI in its business staff reviews involving potential job creation and retention. Some states also estimate anticipated new tax revenue resulting from the project or related investments.

If the analysis reveals the project will likely yield a desirable return on investment for taxpayers and show a positive net economic impact for the state, the analyst may suggest the size or type of award that might be beneficial to the state. This can influence project-specific performance goals (or expectations) that would be set for the applicant during the life cycle of the project.

States calculate ROI differently. Iowa's finance team calculates ROI and runs an economic impact model for every application received. Such analysis is a statutory mandate that informs the eligibility for state incentives. Iowa relies on sales tax tables and income tax models developed by Iowa State University researchers combined with IMPLAN model results to assess project viability. The finance team evaluates potential capital investment, new jobs created, and salaries, and then applies a multiplier developed from IMPLAN to better understand how the incentive's economic impact. While the model outputs are not a guarantee of impact, they help guide decisions. For projects that require over $1 million in funding, Iowa will run a second, more robust analysis using REMI.

Each of Virginia's discretionary projects requires an ROI calculation. This ROI figure always informs the award amount. The Commonwealth also prepares a report that compares actual revenue from a project against the original ROI projection, which helps to benchmark the model results for future decision-making. Virginia has achieve a 9:1 return on its investment. Florida's Quick Action Financing Fund uses an economic ROI as part of its analysis and requires a 5:1 ROI ratio for projects to move forward to a formal decision-making body.

Formal decision-making body review process

Completed applications are provided to the Management Review Committee (MRC). The MRC includes key WEDC staff leaders, including representatives from WEDC's legal, policy, account management teams. Whenever available, the CFO and COO also participate in MRC discussions.

The MRC offers a staff recommendation regarding a particular project. That recommendation is provided to the Vice President for Credit and Risk who, if the project is under a certain threshold, may make the final award decision. For larger projects, or if a company has requested more than $5.5 million (regardless of the size of the project award), the Vice President recommends approval or denial to the CEO. Above a certain threshold, the CEO makes his or her recommendation to the Awards Administration Committee (AAC) of the WEDC Board. Above a still higher threshold, the AAC makes a recommendation to the entire WEDC Board for a decision. Figure 9 provides a summary of the various thresholds by award type.

Figure 9: Approval Authority by Size of Project Award

Award type	Vice President of Credit & Risk	Chief Executive Officer	Awards Administration Committee	Board of Directors
Loans	up to $150,000	$150,000 to $1,000,000	$1,000,001 to $5,000,000	>$5,000,000
Grants	up to $25,000	$25,001 to $500,000	$500,001 to $2,000,000	>$2,000,000
Tax Credits	up to $125,000	$125,001 to $3,500,000	$3,500,001 to $10,000,000	>$10,000,000
Technical Assistance Programs		All		
Bonding Authority Awards		All		
Enterprise Zones				All

For loans under $150,000, grants under $25,000, and tax credits less than $125,000, the Vice President of Credit and Risk has authority (under WEDC's GOV ADM 121 Awards Administration Policy) to make a decision on projects. Above those levels, the award must be sent to the CEO for review and approval. The CEO has authority to approve loans between $150,001 and $1,000,000; grants between $25,001 and $500,000; tax credits between $125,001 and $3,500,000; and all technical assistance programs or bonding authority awards. Awards of a higher amount or for more than $5.5 million to an individual company must be submitted to the AAC for review. The CEO has some flexibility to make awards above that amount in urgent situations after consultation with the Vice President of Credit and Risk and the AAC Chair.

If the project receives approval, and the MRC approves the staff assessment of the project's potential economic impact, a formal "letter of intent" (LOI) is generated by an underwriter. At this point, WEDC commits (obligates) project funds and allocates them in the agency's financial system so they cannot be awarded to another project, unless the application is withdrawn or a contract is not executed. The generation of an LOI marks the date in which a business is allowed to begin incurring eligible expenses.

How other state agencies do it. Iowa's board of directors votes on every project proposed. The board is comprised of business leaders, bankers, financial service providers, as well as non-voting legislators. Virginia's Secretary of Commerce, who manages the President of Virginia Economic Development Corporation, reviews all management decisions on a project's impact and scope before the award is made. All award offers require the Secretary's permission, and VEDP notes that establishing trust between the Secretary and underwriting staff is paramount. In Indiana, IEDC provides great autonomy for executive staff to make decisions on whether or not projects move forward from this point in the process. The board will meet to approve a project only if it exceeds a $3 million threshold.

Impact of letter of intent

Once a decision has been made by a formal internal committee, WEDC drafts a letter of intent (LOI) to be shared with the prospective company. The LOI is a non-binding document containing the initial offer of terms and conditions. In anticipation of the MRC meeting, WEDC drafts a preliminary LOI for committee review as a way to outline the deal for members. Staff noted that WEDC receives requested changes to about 25 percent of LOIs. That is not unusual since the LOI often raises issues and concerns that the business may have and that are legitimately subject to negotiation. Requested changes from the business, especially related to anticipated impacts (e.g., jobs to be created or capital to be invested), may require restarting the staff review process.

In some cases, WEDC may provide the business with a "letter of support" for the application before the review process has been completed. A letter of support is distinctive from an LOI because the support letter can be sent before WEDC completes its underwriting. The letter of support can outline WEDC's general support for a project and potential assistance that may be available, but the letter does not commit WEDC to the project in any way. Letters of support are provided contingent on application, underwriting, availability of funds, and award approval. According to WEDC policy, the Chief Financial Officer and Chief Legal Counsel must approve any letter of support provided by the CEO to a business.

How other states do it. WEDC, like other states, typically decides on the terms during an ROI analysis process as well as during the committee review process. Some states include non-negotiable terms that would be required as part of the final contract with the LOI (if they were not shared during the application process). The terms include statutory requirements that the agency and company must meet in order to enter into a contract. Providing this document early in the process helps manage business expectations and clarify legal obligations or parameters. Negotiable elements of the project may still be under consideration once the LOI has been issued. One contract element shared in the LOI (if not before) is the performance requirement the state expects in exchange for its investment. Most states use the LOI as a formal mechanism for setting initial proposed terms even though standard contract language required for all contracts may be presented at this point.

Indiana places non-binding performance requirements in its LOIs so businesses understand what is expected for a project early in the contracting process. Only 50 percent of businesses accept the terms in the initial LOI. Indiana tracks revisions to improve contracting in the future. Businesses are not expected to begin their activities until the agreement is signed. The date the contract is fully executed represents the performance baseline date used later in monitoring job creation or capital investment activities during the performance reporting process.

Virginia has a custom client proposal that includes local economic development agencies' input. The proposal sent to the businesses is a unified state effort. At this point, as with WEDC's process, negotiations ensue between a company and the VEDP team; VEDP typically drafts two-to-three proposal versions before an agreement is generated.

In Iowa, like Wisconsin, businesses cannot apply for incentives on a project already underway. After the board's approval, agency staff wait until a contract is signed before beginning to count jobs for performance reporting purposes.

Contracting and generating performance requirements

Contract consistency is crucial to timely execution. In Wisconsin, once the terms and conditions have been agreed upon, WEDC's Credit and Risk division or the legal team adapts the revised LOI as content for a draft contract. The contracts include information about financial incentives as well as the deliverables required in terms of jobs to be created or retained, investment to be made, or other contract terms, as well as how WEDC will validate whether the company has achieved those deliverables. The contract also has a time element since the benefits and investments may be made over a period of years. Once the draft contract is created, an underwriter, the legal team, as well as the divisional Vice President review the content. Once the draft contract receives approval from that group, it is routed back to Credit and Risk for finalization.

A contract template exists for each program. The contract templates include project specific information within the main body of the contract. That allows the template to be more closely customized to the needs of each project. This flexibility has its disadvantages; customizing the agreements (combined with uncertainty in the LOI drafting and review process) can create the need for lengthy staff reviews and inconsistency in the performance data requested in the contracts.

How other states do it. The application process is key to efficient contracting. Several agency officials that CREC interviewed reported that ensuring that the client has clearly articulated the project in the application helps make the contract process move swiftly and efficiently.

Many economic development agencies have standardized the contract preparation process as much as possible. Project-specific information is not included in the main contract report. Instead, project specifics are added as appendices to ensure that unique terms are easily identified and data requirements are clearly articulated to companies receiving assistance.

Iowa contracts are outlined in statute and state administrative rules. IEDA works with the state Attorney General's office to draft contracts, and the AG defends the agency if contract requirements are not met. Using a standard template contract during negotiation affords IEDA transparency and helps with managing applicant expectations from the start of the award review process.

Monitoring and reporting impacts

Once a contract is signed, the company makes its investment. The agency's role at this point focuses on servicing the grant, loan, or tax credit. That process may be more or less active, depending on the state economic development agency's risk and how the program has been designed. A key aspect is monitoring the company's performance in achieving the milestones as set forth in its contract with the state.

For most states, businesses are required to report their job creation and investment activities. Typically, businesses submit annual line-item spreadsheet reports on progress for each investment. In other states, these reports may be validated by a third party, reviewed by the agency for accuracy, and sometimes the agency assumes the accuracy of the report through an attestation process.

In Wisconsin, the company submits reports to WEDC. Payment requests and performance reports are mailed to the agency's P.O. box, and there is a designated staffer to receive and/or process the performance reports. However, staff indicate that these reports can sometimes be misdirected, creating create delays for companies.

WEDC has a staff person dedicated to quality assurance, and WEDC staff may make site visits to verify company submissions, especially for larger projects. Companies are required to submit information about company payrolls, and WEDC takes a random sample of payroll figures to track project progress. Businesses provide data that may not be from official payroll records, but they may attest to the accuracy of the data presented. One option for validating payroll data is Unemployment Insurance (UI) wage records, but WEDC has not been successful in past efforts to obtain UI records. Further, because UI records typically include only total pay and the number of employees and do not include hours worked, the data are not always ideal for third-party verification of wages paid per employee or in validating whether workers receive full-time employment.

WEDC aggregates data from these reports for its annual report. The project reports must be rolled up to program impacts and then to agency-wide impacts. Data cleaning and validation are very time-intensive parts of this process. In the annual report, WEDC presents the number of awards made, the total amount awarded, and leverage ratios for each program in which these data are pertinent. That information is regularly updated and publicly available on the agency's website.

How other states do it. Many state economic development agencies have negotiated data sharing agreements with their state UI office allowing access to incentive recipients' wage records for policy evaluation purposes. Oklahoma has executed MOUs with both its Tax Commission and Employment Commission to allow the agencies to share aggregated data about tax credit claims and payroll information submitted. Similarly, IEDC has a data sharing agreement with the Iowa Department of Labor to verify job counts submitted by client companies. Enterprise Florida works with the Florida Department of Economic Opportunity to verify job counts; the department has access to UI data and aggregated tax data by way of MOUs with other state agencies.

To verify jobs, the Arizona Commerce Authority can review the business' wage record form to verify jobs and wages through an agreement with the Arizona Department of Economic Security. After spot-checking jobs and wage data, staff can also review W-2 payroll stubs or payroll reports to ensure target wage requirements are being met or exceeded. For capital investment projects, ACA requires invoices and receipts for funds expended to be submitted for verification; this requirement is outlined in statute.

WEDC has a portal providing information about its incentive programs. This is similar to a best practice in Indiana in that the portal contains a fully searchable database with data about each company receiving an incentive, including the award amounts and program details. The site is regularly updated and includes a dashboard that categorizes state expenditures by year and provide insight into state agencies' budgets.

Data Management and Client Reporting Systems

Accurately entering project application and performance data into electronic systems allows economic development agencies to track performance throughout the lifetime of an award and enables staff to evaluate programs. Ideally states will have central databases that house both application and performance data; many are currently undergoing system merges to transfer data from multiple sources into one. Well-documented standard operating procedures are key to efficient data management. Formulating processes for data requests and management ensures that there are no snags in the award process if project deliverables are changed. Additionally, state economic development agencies are moving away from paper-based applications and contracts toward technological solutions, e.g., online performance reporting and web-based application platforms.

As previously noted, WEDC uses Salesforce and Enable to manage company data and to shepherd incentives through the award processes. Salesforce allows staff to access project information from opening discussions through termination dates, provided data entry is consistent. During each step of the award process, staff update a project's progress so everyone is apprised of the status of the award process and to provide a documented history of customer support. Issues often arise when project deliverables can be adjusted through an amendment process. WEDC has a revision categorization system included in Salesforce so that staff can indicate changes. However, the system does not allow for tracking substantial project changes made during the award process without adding a new Salesforce campaign, essentially restarting the process within the system.

Some states have dedicated staff to track performance when an incentivized company submits a report and to notify the agency when performance reports are received. This is a best practice that WEDC could emulate. WEDC logs performance reports into Enable as they are received and saved in Salesforce as PDF documents. If there are disparities in what was in the contract and what is submitted, a dedicated staff member contacts the company to reconcile the data submission. For tax credits, underwriters review payroll information submitted by the companies.

The process is often slowed when performance reports do not align with contract amendments. Finally, before disbursements are mailed, underwriters again review the contract, its amendments, and the performance report as an additional layer of assessment.

Once contracts are fully executed, the accounting for each is managed through Intacct, an accounting administration system. Staff hold monthly reconciliation meetings to ensure that the data flowing from Enable to Intacct are correct and payments are remitted on time.

How other state agencies do it

Many state economic development agencies take advantage of Customer Relationship Management systems like Salesforce. Virginia and Florida use Salesforce just as WEDC; tracking project performance and monitoring client servicing. VEDP also utilizes Salesforce to store standardized VEDP client services surveys. The surveys are used to improve customer service for all of VEDP's client companies. Florida's Department of Economic Opportunity uses the data compiled in Salesforce to populate its client-facing portal that is used for companies to submit claims and view where an award is in process.

IEDA shares information with local economic development agencies by way of a shared database. While the agency does not have access to input information about company milestones, agency staff can export aggregated reports to stay apprised of the state's economic development goals. Businesses still submit paper forms for progress reports; names of workers and the amounts paid are then manually entered into Salesforce.

Program Evaluation and Auditing

All state economic development agencies, including quasi-public agencies, are audited for fiscal responsibility. Audit bureaus review an agency's books to ensure that financial management tools are in place, budgets are stable, and expenditures are tracked. The states operating quasi-public economic development agencies provide almost all of the funding through public funds for operations and programs. As such, legislators and citizens expect significant transparency in how funds are used and who receives them as well as accountability for the impacts those dollars have on the state's economic development.

In addition to financial audits, 17 states and the District of Columbia require regular evaluation of economic development incentives programs.[10] Many of those states mandate that the evaluation be conducted by a third party (outside of the agency or the legislature). It is important to note that financial audits and program evaluations have different purposes. Audits focus on ensuring fiscal responsibility and prudence. Program evaluations often have multiple purposes, including assessing effectiveness and efficiency, determining whether a program should be modified to better align with the agency's mission or to have greater impact, assessing whether available resources for the program should be adjusted or terminated.

In states that require both audits and third-party evaluations, legislators often use the results to assess the value of the program to the taxpayer and to determine whether it is funded at an appropriate level. Connecting the audit and evaluation processes to policymaking ensure that recommendations actually influence legislative decisions. This is not the case in every state since many do not require evaluations and because the audits and evaluations completed are not always used as intended in the policymaking process.

In Wisconsin, no post-hoc evaluation process is required. That is not unusual since few state economic development agencies have the capacity or resources to conduct evaluations. Beyond basic annual reporting requirements, WEDC relies on its annual reporting process and a biennial Legislative Audit Bureau (LAB) review to assess program performance. As a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies, LAB provides the Wisconsin Legislature with assurance that financial transactions and management decisions are made effectively, efficiently, and in

[10] Pew Charitable Trusts, "States make progress evaluating tax incentives", January 21, 2015 http://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2015/01/tax-incentive-evaluation-law-state-fact-sheets

compliance with state law. LAB reports typically focus on program management processes as well as a review of financial transactions. LAB also seeks to ensure companies submit completed and accurate performance reports and have met expectations related to job creation.

In its current form, the annual reporting and LAB audit process are useful, but they could be supplemented to provide greater context to management in assessing program performance. A key challenge for WEDC in developing and implementing organization-wide and program-specific benchmarks and metrics is the availability of standardized data across the programs. The variability of data fields collected during the application process and limited staff resources available to analyze the available limit the agency's capacity to assess performance of awards, programs, and the agency overall.

How other state agencies do it

Whenever a new approach is taken to implementing public programs, it engenders great concern about both transparency and accountability. Wisconsin's approach to performance evaluation is similar to that in other states. Rhode Island's economic development agency asks external auditors to assess its financial standing and the state's General Auditor conducts a financial and performance review periodically. Indiana's IEDC hires an independent financial auditor, but the agency is also subject to an audit by the state Board of Accounts. As a nonprofit, Enterprise Florida relies only on a private auditor from a third-party auditing firm to monitor contract compliance.

Chapter 8: Monitoring Performance

An effective economic development agency relies on evaluation to ensure that its programs are achieving their intended outcomes and its resources—primarily public resources—are being used effectively. These evaluations are important for achieving accountability and transparency objectives. As noted earlier, Act 7 directed the WEDC Board to incorporate evaluation into its programs. Specifically, the Board is required for each program it creates to establish clear and measurable goals tied to statutory or programmatic policy objectives and to set at least one quantifiable benchmark for each program goal.

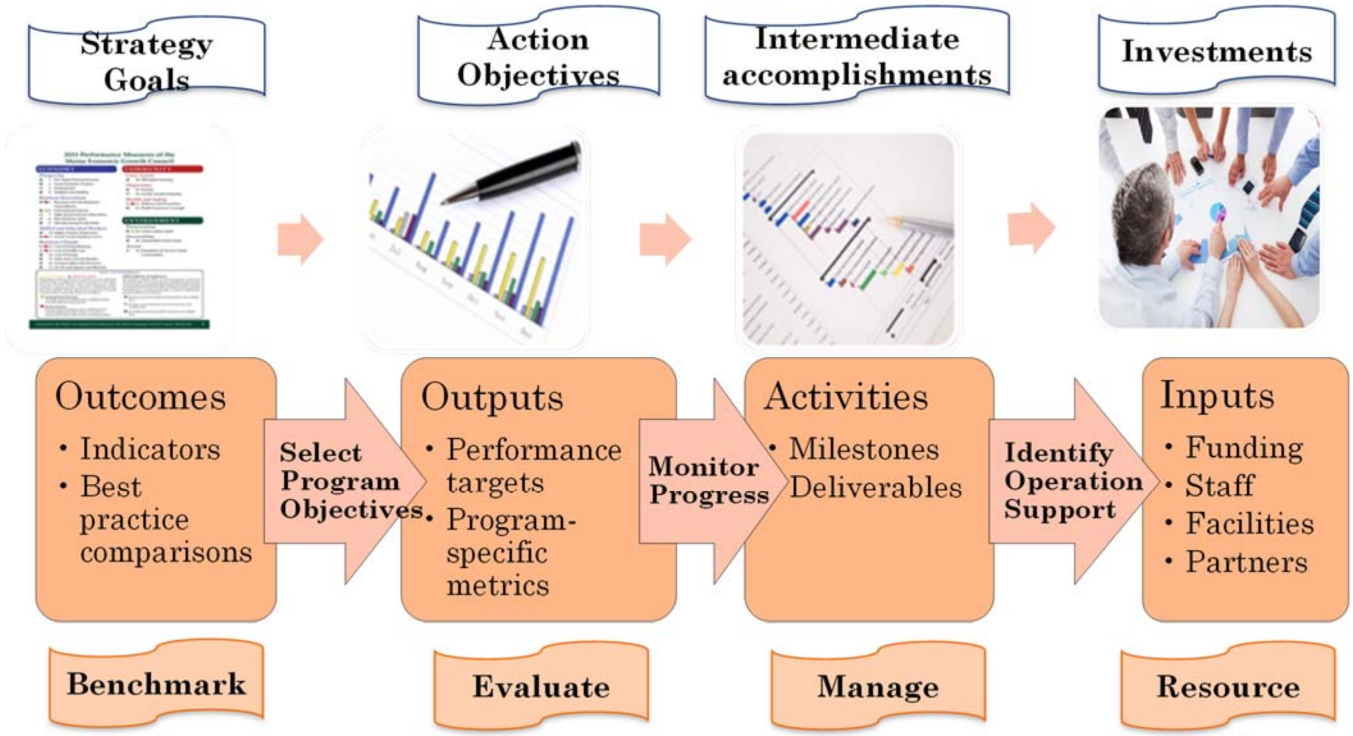
This chapter focuses on WEDC's existing efforts to provide performance indicators in response to this statutory requirement. It first discusses several issues relevant to the selection of appropriate indicators. It then examines WEDC's current Key Performance Indicators (KPIs) and the established benchmarks developed for WEDC's 28 economic development programs. Finally, the chapter discusses how several other states structure their performance indicators.

Selecting Indicators

Figure 10 provides a basic logic model for developing economic development metrics. It is important to make a distinction between outcomes and outputs. Outcomes are benchmark indicators most relevant to goals tied to broader agency strategies including, for instance, economy-wide performance related to jobs created or capital investment. By contrast, outputs are tied more closely program-specific objectives. Outputs focus less on measuring how the broader economic environment has changed and more on reflecting how activities being implemented have resulted in changed behavior of certain economic actors (e.g., businesses, communities, etc.). Common output measures include the number of businesses assisted or events held. These outputs and resulting outcomes are the result of activities undertaken, namely grants, loans, tax credits, or other types of programs. The inputs are resources in the form of funding, staff, or partners.

The graphic emphasizes where "Measuring Outcomes" is in a logic model and how it fits into the strategic planning process. This "logic model" is inverted from the traditional model in that it focuses on "OUTCOMES" and then tracks back in the process to the inputs activities and inputs required to achieve those outcomes.

Figure 10: Process for Developing Benchmark Indicators Using a Strategic Logic Model



Measuring outcomes by establishing benchmarks represents a logical step in economic development planning. In general, economic development agencies should identify and prioritize a set of economic development strategies as broad actions motivated by an assessment of competitive advantage, opportunity, or problem-solving. In WEDC's case, these strategies are implemented in the form of its 28 programs. Implementing those programs involves specific actions that are tied to strategies (or WEDC's "strategic pillars"). The agency may undertake actions through staff, partners, or allies using time, money, or facilities. The results of those actions should be monitored using metrics defined in advance and progress toward the goals of the strategies assessed regularly.

As illustrated in Figure 10, the first stage (outlined around "Strategy Goals") focuses on developing outcome measures that help describe the agency's vision. The second dashed outline (around "Action Objectives") focuses on the outputs that results from activities undertaken and represent the measures that can be most directly impacted by implementation. The third dashed outline reflects the actual tasks, or activities, undertaken. The fourth dashed outline describes the resources available to undertake those activities.

When selecting performance indicators it is important that the indicators are clearly linked to the economic development agency's stated goals and mission. They cannot just represent a collection of measures that describe some preferred future state. The indicators need to be limited in number so they will inform practitioners rather than confuse them.

Standard economic development measures include jobs created and retained and capital invested. However, economic development involves more than just job creation and investment so there should be enough indicators to reflect a broad organizational mission. For instance, if the agency emphasizes technology-based development then its leaders might want to track leveraged R&D spending by client companies. If tourism development is a key component of the organization's effort, the agency might track tourism spending.

The practical realities of collecting and organizing performance indicators must be considered in selecting appropriate benchmarks. Data availability or ease of collection is a factor that can dictate whether the economic development agency should use an indicator. Exploring statistical or administrative data sources will help in determining which indicators might best reflect the policy goals while also being available within an appropriate time frame. For instance, information derived from payroll records (e.g., UI system records) is often used in helping to assess job creation and retention results. However, legislative and administrative restrictions on how data may be shared may prevent their use. If specific data are required from companies, then the economic development agency may sometimes include a contract provision requiring the company to grant access to tax records to verify the firm's performance after receiving a grant, loan, or tax credit. Regardless of the data source, staff effort is required to gather and analyze these metrics.

In selecting the indicators and data sources, it is critical to clearly articulate goals and data definitions. For instance, job creation is perhaps the most common economic development indicator, but it is important to clarify if the jobs are full-time, part-time, salaried, or contract. Similarly, states must determine how long the job is to be maintained in order it to count. Programs often have distinctly different requirements. Standardizing definitions is important if a goal is to aggregate impacts across multiple programs or to benchmark progress over time.

One of the biggest challenges states face in setting appropriate measures is determining whether the impact can actually be attributed to the economic development action taken. The gold standard is to establish cause and effect, meaning that the state economic development investment caused the company to make its investment; that the company would not likely have done so without the public intervention. However, establishing a causal relationship is usually very difficult. There is often too much uncertainty (such as the company's true financial position or its true intentions) to determine whether the public investment actually caused the company to change its behavior or to make an investment it might not have done otherwise. Thus, analysts often settle for attribution. The company makes a credible claim or the economic development agency makes a reasonable effort to assess the company's intentions.

This challenge is particularly problematic for "younger" programs in which one could not expect the impact to occur immediately after the investment is made. In these cases, the economic development agency often resorts to using activity measures as intermediate forms of impact reporting. The dilemma is that it is often difficult to transition from measuring activities to measuring outcomes once the performance reporting system is put into place.

Performance monitoring requires staff and funding. Quite often states do not have adequate staff or financial resources to manage their data effectively or to conduct the kinds of analysis required. Economic development agencies often turn to academics or private consultants to undertake more in-depth evaluations. Third party analysts can bring a level of expertise the agency does not possess and their findings may be viewed as having greater credibility because of their perceived independence.

However, outside evaluation can create challenges for agency, particularly related expense and the availability of data. Third party evaluations, while quite useful, tend to be a one-time exercises and they rarely help to develop the internal capacity for ongoing evaluation.

Key Performance Indicators for Wisconsin Economic Development

In 2011, Wisconsin set a number of key performance targets based on the state's needs at the time WEDC was created. The state's overall targets, its Key Performance Indicators (KPIs), are designed to reflect Wisconsin's strategic economic development plan.[11] In practice, they are not linked closely to WEDC's plan or its individual elements. Furthermore, the KPIs are not based on data WEDC collects as part of its program implementation efforts; the lack of consistency in the information collected under individual programs makes it difficult to aggregate the measures.

The state KPIs call for efforts that would help Wisconsin appear in the top ten rankings for business start-ups and business climate. These rankings typically simplify an array of measures, then compare them across states in order to generate media attention to the topic of interest by the national group with its own policy agenda. The complexity of these indices can mask real improvements in areas that are particularly important to Wisconsin.

Clearly KPIs can be useful for highlighting progress or challenges, but they typically provide scant evidence that the state has made real progress in achieving Wisconsin's unique economic development objectives.

In addition to the KPIs, WEDC is required to identify "program benchmarks" for each of its 28 programs (as illustrated in Figure 11). The programs and their results are identified in WEDC's

[11] http://inwisconsin.com/wp-content/uploads/2013/02/2014-StratPlan-Final1.pdf

Annual Report on Economic Development.[12] The indicators as currently reported capture a combination of activities, outputs, and outcomes, but the most common measures represent a reporting of activities or milestones (e.g., businesses assisted, communities assisted, events coordinated, etc.).

Figure 11: Current WEDC Benchmarks Goals (Program Outputs and Activities) by Program

WEDC Program	Outputs	Activities
Business and Industry Development		
Target Industry Projects	• Achieve a 3:1 leverage ratio	• Assist 10 organizations • Assist 70 businesses through TIP pass through grants
Minority Business Development Revolving Loan Fund		• Assist 4 business associations to support financing of 16 businesses
Economic and Community Development		
Business Opportunity Loan Fund	• Support the creation of 1,440 jobs, retention of 2,160 jobs • Achieve a 3:1 leverage of other investment	• Assist 25 businesses
Special Projects Loan Fund	• Achieve a 2:1 leverage of other investment.	• Assist 15 businesses
Clean Energy Manufacturing Revolving Loan Fund	• Achieve a greater than 1:1 leverage.	• To assist to a minimum of five manufacturing businesses
Industrial Revenue Bonding		• Set allocation levels for 10 businesses
Workforce Training Grants		• Assist eight businesses.
Capacity Building Grants		• Assist eight projects.
Economic Development Tax Credits	• Support the creation of 3,750 new jobs, 1,250 retained jobs • Provide a 4:1 leverage.	• Assist 50 businesses
Development Opportunity Zones	• Support the creation of 10 jobs and retention of 40 jobs.	• Assist five businesses
Enterprise Zones	• Support the creation of at least 2,500 jobs and the retention of at least 1,000 jobs.	• Assist two businesses
Job Tax Credits	• Support the creation of 3,400 jobs and retention of 5,100 jobs.	• Assist 20 businesses

[12] http://inwisconsin.com/inside-wedc/impact/

WEDC Program	Outputs	Activities
Historic Preservation Tax Credits		• Assist 40 community projects.
Brownfield Redevelopment Financial Assistance		• Assist 10 community projects.
Site Assessment Grants		• Assist 12 communities.
Community Development Investment Grants	• Achieve a 10:1 leverage ratio and result in tax base increases.	• This program is expected to assist 20 communities
Idle Industrial Sites Redevelopment	• Leveraging a 10:1 investment ratio.	• Assist four communities
Main Street and Connect Communities		• Assist 35 Main Street communities and 60 Connect Communities Provide consulting services to 90 small businesses.
Certified Sites		• No new sites are expected to be certified in FY15, however it is expected that up to eight new sites will begin the process. WEDC will continue to promote the existing 13 Certified Sites.
Entrepreneurship and Innovation		
Technology Development Loans	• Leverage at least 3:1 in additional investment over the near term.	• Assist 20 companies
Capital Catalyst	• Maintain an average co-investment ratio of 1:1 and a further leverage ratio from company financing of 3:1.	• Assist five organizations to support the financing of 55 startup and emerging growth companies, and impact 70 jobs.
Seed Accelerator	• Maintain an average co-investment ratio of 1:1, and impact 45 new jobs.	• Assist six organizations to support 30 business startups and early stage companies
Entrepreneurial Micro-Grants		• Provide assistance to 125 businesses.
Qualified New Business Venture (QNBV) Program	• 10:1 private investment leveraged per credit issued.	• Certify 30 new businesses
SBIR/STTR Matching Grant	• Achieve at least a leverage to federal grants of 3:1.	• Assist 10 businesses • Support the creation of 10 new jobs

WEDC Program	Outputs	Activities
International Business Development		
ExporTech		• Deliver ExporTech programming to 40 new-to-export or new-to-market companies.
Global Business Development Grants		• Assist 80 businesses o IMAG: 60 grants to Wisconsin companies; • CMAG: 4 grants to Wisconsin organizations to assist 20 companies (5 companies each).
Global Trade Venture Program		• Support five global trade ventures in WEDC's target markets • Assist 20 businesses.

How other state agencies do it

WEDC is not alone in its intermingling different types of performance metrics. States commonly combine outcome, output, and activity measures in tracking performance. For instance, while Enterprise Florida monitors common program impacts like new and retained jobs and capital investment, EFI also tracks activity measures like the number of company consultations and domestic and overseas events conducted.[13]

In addition, some state agencies use their metrics and indicators to demonstrate how their programs allow them to achieve their goals and objectives. For instance, Michigan implements its economic development programs using three strategic pillars. As a result, MEDC has developed metrics to track performance for each of the pillars.[14] The metrics are described in Figure 12.

By focusing on those indicators that the organization has an ability to affect (e.g. positions filled with state help, rather than all positions filled statewide), MEDC can more easily connect its efforts to impacts on the state's economy.

[13] http://www.enterpriseflorida.com/wp-content/uploads/EFI-Annual-Report-2014.pdf

[14] http://www.michiganbusiness.org/cm/Files/Reports/MEDC-2014-2015-Annual-Report_E3.pdf

Figure 12: Metrics Monitored by Type of Strategic Pillar, Michigan

Strategic Pillar	**Metrics Monitored**
Accelerating business investments:	• Jobs committed • Investment leveraged • New sales revenue (with assistance from export assistance)
Increasing community vitality:	• Investment leveraged to revitalize downtowns • Square feet redeveloped • Square feet of public space reactivated.
Matching talent supply with demand:	• Positions filled with state help • Positions posted to mitalent.org • Business investment leveraged for skilled trades training.

In Virginia, VEDP similarly highlights a specific set of metrics associated with key functions such as business expansion, international trade development, business attraction, and promoting Virginia.[15] However, VEDP also combines aggregate program impact measures such as investment and new jobs created by new and existing companies with activity measures such as companies actively counseled or participating in trade events. It also calculates the return on investment from VEDP activities and the return per dollar of money spent on economic development and it aggregates its indicators so that it can manage its overall performance.

[15] http://www.yesvirginia.org/Content/pdf/Library/VEDP%20Annual%20Report%20FY2014.pdf

Chapter 9: Concluding Comments

WEDC has followed a pattern familiar to other states that shifted responsibility for economic development to a statewide quasi-public agency during the past several years. First, the state experienced a consensus among leaders that the previous economic development organization was not delivering expected results. Second, state leaders agreed that a new model might help improve economic development performance. Third, after creating the new agency and under increased scrutiny from stakeholders and the media, state leaders and stakeholders had to make major adjustments to more fully live up to the promise of delivering impact while upholding the new agency's role as a public steward. Finally, state leaders then entered a period in which the organization began maturing as state leaders adapted to a new normal in which the new agency emphasized performance and accountability while meeting the expectations about transparency and openness initially established.

Wisconsin has struggled through the third phase of this process, and now the question is whether the state and WEDC have made the adjustments necessary to move forward to this fourth stage. Like Wisconsin, some of the other states that created their agencies in 2011 are still seeking to find the right balance as media scrutiny continues and as agencies are asked to meet an ever higher standard of accountability. In part, this is due to a new era of scrutiny in which stakeholders value transparency ever more highly to ensure that public funds are managed fairly and effectively.

Economic development today focuses less on solving the problems of individual businesses and more on creating opportunities for clusters of clients, companies, and communities. In examining WEDC's portfolio, CREC found that the largest share of WEDC programs focus on providing support to industry sectors and communities, but the most visible (and most controversial) activities are the subset that provides incentive awards to individual companies. These need not be the primary focus of WEDC's efforts, but from the attention that these investments receive, one would believe they are. A great deal of attention has been paid to improving this aspect of the agency's efforts, and rightly so. CREC's examination of WEDC's processes acknowledged those improvements, but also made suggestions on how to improve them further. These are highlighted in our recommendations.

Within this context, WEDC is also developing a better reputation as a partner with many economic development agencies and other allies throughout the state as it has shifted from its initial approach to emphasizing greater collaboration. WEDC also has work to do in addressing relations with the legislature and regaining their confidence in the agency's ability to both serve as trusted stewards of taxpayer funds as well as deliver results. WEDC has made programmatic changes to improve its operations, often in response to legitimate concerns. Today, based on our assessment and the perspectives communicated by most stakeholders, WEDC is moving in the right direction and showing promise in taking the necessary steps to improve transparency and accountability as well as to help the state make economic progress as promised, but it has more to do.

While the agency has made significant progress, all would agree that much still needs to be done to achieve the ideal. WEDC, like any organization, must commit to continuous improvement. Striving to do better represents the heart of the goal of continuous improvement. Implementing the recommendations from this report will help make progress toward this ideal.

While many stakeholders continue to believe in WEDC's potential, the agency's success will also rely on restoring trust in its commitment to public stewardship. In the short run, this means that it may be as important that WEDC documents how it chooses to invest taxpayer dollars as what results from those investments. This involves not only continuing to refine its strategic approaches to be more responsive and impactful in an ever-changing economic climate, but also emphasizing openness and transparency in a way that reflects a commitment to both continuing improvement as well as operational excellence.

WEDC has the ability to achieve the goals of making Wisconsin a more prosperous state. The characterization of that goal may need to be re-defined in a new economic era, but as it continues to make the changes recommended, WEDC is positioned to strengthen Wisconsin's economic foundation and to accomplish its mission to advance and maximize opportunities in Wisconsin for businesses, communities, and people effectively, transparently, and confidently.

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