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Sen. Kathleen Vinehout writes about the latest audit of the Wisconsin Economic Development Corporation (WEDC). The Legislative Audit Bureau reports again on the failure of WEDC to follow state law and its own policies when awarding grants, loans and tax credits to businesses and to verify whether or not promised jobs were actually created.

MADISON - “When do we return the economic development initiative and the checkbook to the control of a state agency” John Dunn of Mauston asked in a letter to Legislators. “The WEDC has again failed to follow state law and its own policies in awarding taxpayer-funded incentives to state companies. We need accountability to taxpayers.”

Not following the law, and not acting in a transparent and accountable way is a frequent criticism of the state’s economic development operations.

The Wisconsin Economic Development Corporation (WEDC), created in 2011 as an independent authority, fell under criticism again with the recent release of another audit showing that WEDC failed to follow state laws and its own policies when awarding grants, loans and tax credits to businesses and failed to independently verify whether or not promised jobs were actually created.

In 2013, the Legislative Audit Bureau (LAB) found WEDC did not have policies to oversee, for example, the multi-million-dollar economic development grant and loan programs. In October 2013, WEDC officials reported to our Legislative Audit Committee they had addressed the problem.

But two years later, the new audit found while WEDC established policies, they weren’t following the grant and loan policies. For example, loans can be “forgivable” – meaning they aren’t paid back – only in “extraordinary circumstances”. But the audit found in FY 2013-14 two-thirds of the loans in one program were determined to be “forgivable”. In another case a taxpayer-subsidized loan was “forgiven” to a company unlikely to create full-time jobs – a requirement of the loan program.

Similar circumstances existed in the state’s business tax credit programs. Credits are awarded to companies to offset taxes owed to the state. In some cases tax credits are “refundable” meaning if the company owes less in taxes than the credit, the state “refunds” or sends taxpayer money to the company.

Auditors found examples of officials not following established rules for tax credits, like not determining if the project would happen without the tax credit; awarding credits without determining if the company’s tax liability fell within the law limiting credits to 125% of the companies tax liability; and instances of awards made without required financial information.

State law also requires that a portion of tax credits must go to rural and small businesses. In July 2014, the WEDC board revised its own policies to eliminate this requirement – in direct conflict with the state law.

Several of these problems were a repeat of a previous audit.

In another case WEDC awarded tax credits to an Illinois company under the Jobs Tax Credit program in conflict with state law that required activities funded by this program to occur in Wisconsin. Auditors wrote, “The business would be awarded tax credits in amounts based on the wages they paid to their employees while working in Illinois, and such amount would increase the longer the jobs remained in Illinois.” As of December, Wisconsin awarded two Illinois businesses $53,678 in tax credits.

Enterprise Zone and Jobs Tax Credits are refundable and they cost us a lot. The nonpartisan Legislative Fiscal Bureau reported the cost of just these two programs was $42 million last year. In another report, the LFB noted that Wisconsin contracted with companies for $352.5 million in tax credits over three years.

Does the substantial state money given to these companies result in any economic activity that would not already exist? This question remains unanswered with the most recent audit.

State law requires WEDC to verify jobs created, retained, and if contractually specified wage requirements are met. A previous audit found WEDC did not conduct verification. This recent audit found that even during site visits to companies, officials failed to review payroll records to independently verify jobs. Without information on wages and jobs, it’s impossible to know if the hundreds of millions in state dollars going to companies accomplished anything.

All of this adds up to one inescapable conclusion: WEDC is a failure. With Wisconsin job growth in the lower third among all states, it is time we reevaluate our state economic development policies. The first step must be putting hundreds of millions in state economic development expenses once again under the accountability and transparency rules of the rest of state government.