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**Report: Privatization of State Economic Development Agencies
Can Undermine Integrity and Accountability**

Washington, DC, January 12, 2011—Transferring state business recruitment functions from government agencies to private entities is not the panacea that its proponents suggest, and the track record of those few states that have taken the step is filled with examples of misuse of taxpayer funds, political interference, questionable subsidy awards, and conflicts of interest, according to a report published today by Good Jobs First, a non-profit, non-partisan research center based in Washington, DC.

The report, entitled *Public-Private Power Grab*, is available at www.goodjobsfirst.org.

"Rather than making economic development activities more effective, privatization is often little more than a power grab by governors and politically connected business interests," said Philip Mattera, research director of Good Jobs First and principal author of the report.

Interest in economic development privatization has surged recently. It is being promoted by newly elected governors in Wisconsin, Ohio, Iowa and Arizona who are urging that state commerce or development agencies be replaced by public-private partnerships (PPPs).

"Turning economic development over to PPPs is fool's gold," said Good Jobs First executive director Greg LeRoy. "What really matters is business basics: strategic public investments in skills, infrastructure, and innovation—not privatized smoke-stack chasing."

Good Jobs First's review of existing economic development PPPs finds:

- The idea is far from new but it is not a common or standard practice. Economic development PPPs date back more than 20 years, but only seven states currently allow private entities to control their business recruitment functions: Florida, Indiana, Michigan, Rhode Island, Utah, Virginia and Wyoming.
- Several other states previously employed PPPs but abandoned them because of performance problems.
- Most of the seven states that currently make use of economic development PPPs have experienced a variety of performance problems. These include the following:

- Misuse of taxpayer funds (Rhode Island, Florida and Wyoming);
- Excessive executive bonuses (Virginia, Florida, Michigan and Wyoming);
- Questionable subsidy awards by the subset of PPPs that have a role in that process (Michigan and Rhode Island);
- Conflicts of interest in subsidy awards (Florida, Utah and Texas, which makes limited use of PPPs);
- Questionable claims by the PPP about its effectiveness (Wyoming, Florida, Utah and Indiana); and
- Resistance to accountability (Florida and Michigan).

Based on these experiences, the report concludes that the creation of economic development PPPs is not a wise course of action and urges states to focus instead on making their existing agencies more effective and accountable.

In states where a PPP already exists or a new one is being created, the report recommends strong accountability safeguards, including:

- Maximum transparency in decision-making and finances, including adherence to state open records rules;
- For PPPs that oversee subsidy awards, maximum transparency concerning recipients of those awards and their performance;
- Strict conflict of interest rules regarding staff members and boards of directors;
- Strict rules barring favoritism and “pay to play” in connection with companies doing business with the PPP;
- Appointment of a public ombudsperson to monitor PPP activities and respond to outside complaints; and
- Respect for the rights of employees to organize a union (or to transfer a representation agreement that was in place when the entity was a government agency).

As for the governance of PPPs, the report recommends that a governor not chair an entity’s board and not have absolute power to name all of the directors, among whom should be legislative leaders and representatives of labor, the non-profit sector and other constituencies.

The report also recommends that PPPs be funded entirely out of public revenues with full legislative oversight. If private contributions are deemed necessary, they should be in the form of mandatory fees imposed on companies applying for and/or receiving subsidy awards. Barring voluntary contributions will make it easier to avoid the problems of favoritism and pay to play.