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Report: Privatized State Development Agencies Create Scandals Instead of Jobs

Analysis of Arizona, Florida, Indiana, Michigan, North Carolina, Ohio, Rhode Island, Texas, and Wisconsin gives other states roadmaps to avoid

Washington D.C. – Three years ago, newly elected governors in several states decided to outsource economic development functions to "public-private partnerships" (PPPs). Together with a handful of other states' PPPs, these experiments in privatization have, by and large, become costly failures characterized by misuse of taxpayer funds, conflicts of interest, excessive executive pay and bonuses, questionable subsidy awards, exaggerated job-creation claims, lack of public disclosure of key records, and resistance to basic oversight.

Those are the cautionary conclusions of a study issued today by Good Jobs First, a non-profit, non-partisan research center. The report looks at eight states with existing PPPs and one more proposed. "Creating Scandals Instead of Jobs: The Failures of Privatized State Economic Development Agencies" is available at www.goodjobsfirst.org. It is a follow-up to a study issued in February 2011when four states moved to create new PPPs.

"Things have gotten demonstrably worse in the past three years. We conclude that privatizing a state development agency is an inherently corrupting move that states should avoid or repeal," said Greg LeRoy, executive director of Good Jobs First and lead author of the study. "Taxpayers are best served by experienced public-agency employees who are fully covered by ethics and conflicts laws, open records acts, and oversight by auditors and legislators."

"In 2007 we consolidated Wisconsin's economic development efforts, including terminating a state-created private economic development entity, Forward Wisconsin, in order to reduce political favoritism and misuse of public funds," said State Senator Mark Miller. "Unfortunately we reverted to old-style cronyism in 2011 with the creation of the Wisconsin Economic Development Corporation which has been plagued with predictable ethics improprieties and gross mismanagement."

"Enterprise Florida is our state's most glaring example of cronyism and institutional corruption," said Dan Krassner, executive director of the nonpartisan government watchdog group Integrity Florida. "The organization engages in pay to play: it sells seats on its board to corporations for $50,000 and then gives away taxpayer-funded subsidies and vendor contracts to them in return."

"Public dollars should be controlled by accountable and transparent public agencies, not handed off to private interests with looser standards and less oversight," said Donald Cohen, executive director of In the Public Interest.

The report finds that:

- Enterprise Florida faced new questions about shortfalls in the job creation performance of the companies it has recruited. There have also been controversies over a performance bonus paid to its CEO and subsidies awarded to companies represented on its board.

- The first chief executive of the Arizona Commerce Authority was given a three-year compensation package worth $1 million, and even though he resigned after a year he received a $60,000 privately-funded bonus.

- The Wisconsin Economic Development Corporation (WEDC) was accused of spending millions of dollars in funds from the U.S. Department of Housing and Urban Development without legal authority, failed to track past-due loans, and hired an executive who owed the state a large amount of back taxes.

- JobsOhio received a large transfer of state monies about which the legislature was not informed, intermingled public and private monies, refused to name its private donors, and then won legal exemption from review of its finances by the state auditor.

- The Indiana Economic Development Corporation has faced continuing criticism over its job creation claims. Triggered by tenacious investigative reporting by Indianapolis TV station WTHR, a state audit found that more than 40 percent of the jobs promised by companies described by IEDC as "economic successes" had never materialized. IEDC was also rocked by allegations that its representative to China solicited bribes from companies.

- The Rhode Island Economic Development Corporation is still litigating the biggest economic development scandal in Rhode Island history: its $75 million loan to the now-bankrupt 38 Studios.

Based on this persistent pattern of abuses, the report concludes that the privatization of economic development agency functions is an inherently corrupting action that states should avoid or repeal. With the "economic war among the states" already dominated by corporate interests and bargaining dynamics made worse by a long-term drop in job-creation deals, taxpayers are best served by experienced public-agency employees who are fully covered by ethics and conflicts laws, open records acts, and oversight by auditors and legislators.

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Editor's note: Good Jobs First is a non-profit, non-partisan research center founded in 1998 and based in Washington, DC. In the Public Interest is a comprehensive resource center on privatization and responsible contracting. www.inthepublicinterest.org