Prepared Testimony Before the Ohio House State Government and Elections Committee
by
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Thank you for the opportunity to appear before this committee. My name is Philip Mattera. I am the research director of Good Jobs First, a non-profit, non-partisan research center in Washington, DC that focuses on issues relating to economic development.

Good Jobs First has been monitoring proposals that have emerged recently in Ohio and several other states to transfer economic development responsibilities from state agencies to public-private partnerships (PPPs) or other quasi-public entities. To help in the evaluation of such proposals, we undertook an examination of previous economic development privatization initiatives around the country. I would like to present a brief summary of our findings that were published in a report issued earlier this month. The report, *Public-Private Power Grab*, is available at no charge on our website at www.goodjobsfirst.org.[1]

First, we found that the idea of economic development privatization dates back more than 20 years, but it is not a common or standard practice. Several states experimented with economic development privatization and later abandoned it. California, for example, dismantled its Technology, Trade and Commerce Agency in 2003, leaving business recruitment to private entities such as TeamCalifornia. A February 2010 report by the Little Hoover Commission was sharply critical of the private sector's performance and argued for the creation of a Governor's Office of Economic Development.[2] Gov. Schwarzenegger went along with the suggestion, thereby bringing recruitment functions back into the public sector.

Privatization of government functions is usually promoted as a way of reducing government costs. This argument is not typically made by proponents of economic development PPPs. In fact, they usually admit that the change will result in *increased* costs, especially in terms of executive pay. Economic development PPPs also differ from other forms of privatization in that the function is not turned over to a true for-profit entity, the way that a state prison might be taken over by Corrections Corporation of America. Instead, what happens is that a state agency is replaced by a non-profit entity that is neither fully private nor fully public in character. It exists in a grey area between those two realms and may end up including the worst—not the best—of those two worlds.

This danger became clear to us in our assessment of the seven states that have created economic development PPPs and stuck with them. Those states are Florida, Indiana, Michigan, Rhode Island, Utah, Virginia and Wyoming. The oldest of the privatizations occurred in 1992; the most recent in 2005.

The fact that these seven states have retained their PPPs does not indicate that their performance has been outstanding. In fact, our review of the track record of the PPPs in these seven states revealed that they are been marked by problems such as the following:

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- 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[3])
- Resistance to accountability (Florida and Michigan)

Based on these experiences, which are thoroughly documented in our report, we concluded that privatization is not an effective way of improving state economic development and business recruitment performance. In fact, it may make things worse, especially when PPPs are allowed to combine state funds and private contributions from companies that do business with the entity. Instead, we urge states to explore ways to make their existing economic development agencies more effective and accountable.

In cases where a PPP already exists or is being created, we recommend that safeguards such as the following be included in its charter:

- 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 (in states such as Ohio that currently have fairly good transparency systems, it is important that they be preserved or even improved);
- 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;
- A board that is not appointed exclusively by the governor and that has broad representation;
- 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).

Thank you again for the opportunity to testify.

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[1] The direct link is http://www.goodjobsfirst.org/pdf/powergrab.pdf

[2] Little Hoover Commission, *Making Up for Lost Ground: Creating a Governor's Office of Economic Development*, February 2010; online at http://www.lhc.ca.gov/studies/200/report200.pdf

[3] http://www.wthr.com/story/13870940/where-are-the-jobs-the-real-numbers-are-in