Arizona's new Commerce Authority has skeptics

Private use of public money raises concern

by Ginger Rough - Feb. 26, 2011 12:00 AM
The Arizona Republic

State officials tout Arizona's new Commerce Authority, a public-private partnership designed to woo companies and new jobs to the state, as the lynchpin that will help usher in a new era of economic development.

But public-policy groups and legislators are criticizing similar entities elsewhere in the country for not being open about their business dealings, inflating their job-creation numbers and doling out taxpayer dollars to unproven companies or businesses that have financial ties to government officials and board members.

Gov. Jan Brewer and those who will run the new commerce agency say they are committed to transparency and openness. But advocacy groups and lawmakers are raising questions about how the board will operate, to what extent its dealings will be in the public domain and its overall effectiveness.

The questions stem from the gray area in which the authority will function.

Traditional commerce departments are run by the state and answer to the governor, but the new setup blends public dollars and private-sector business leaders, meaning the board that controls the money doesn't automatically have to follow the same rules that govern state agencies.

"When states set these up, they sort of resort to vague statements about 'nimbleness' or being able to respond quickly to opportunities," said Philip Mattera, research director of Good Jobs First, a Washington, D.C.-based policy think tank.

"None of that really makes a strong case for transforming your government, and there are a lot of risks to taking that step."

Mattera wrote a January report that questions the merit of public-private partnerships like Arizona's new authority.

Seven states have established quasi-public agencies that handle part or all their economic-development efforts, according to Mattera's group. Four others - Arizona, Wisconsin, Ohio and Iowa - have either just set up similar structures or are moving in that direction.

The organizational structure of each state's agency differs slightly. Some have gone the Arizona route, creating authorities led by the governor and a business-heavy board of directors. Others maintain existing commerce departments but partner with powerful private-sector agencies for marketing and business outreach.

Many of the setups have yielded mixed results.

The Arizona system

Brewer, who lists economic development as one of her top policy priorities, used her executive-order powers to create the Commerce Authority last summer.

She appointed a 30-plus member board for a one-year term and advanced the agency $10 million in stimulus funds.

Last week, lawmakers passed a wide-ranging economic-development package that officially dissolved the existing Department of Commerce and outlined operating rules and procedures for the new authority. The package also gave the quasi-public agency the power to administer an annual $25 million "deal-closing" fund, plus the responsibility of awarding tax credits and other incentives to other qualified businesses.

In the coming months, Brewer, who serves as the entity's chairwoman, will appoint nine new board members. Senate President Russell Pearce, R-Mesa, and House Speaker Kirk Adams, R-Mesa, will appoint four members each. The board members will be made up of executives from various Arizona businesses and will represent a wide array of industries, such as solar, health care, mining, aerospace or technology.

Don Cardon, former director of the Arizona Department of Commerce, is the partnership's president and chief executive officer. Valley businessman and sports executive Jerry Colangelo is co-chairman of the board.

The new agency has a $10 million operating budget to start and has the authority to spend tens of millions of dollars through the deal-closing fund and other tax-credit initiatives, including a "Quality Jobs" program.

The board's sweeping ability to spend taxpayer dollars concerns public-interest groups and lawmakers - including some Republicans - who worry the board will not be open in its business dealings.

"I just have an uneasy feeling about turning over somewhere between $25 million and $50 million to a group of private individuals," said Sen. Ron Gould, R-Lake Havasu City.

Other states

Texas is often held up as a model by states looking to alter their existing economic-development structures.

In 2003, that state's Legislature created the Texas Enterprise Fund, a $200 million-plus deal-closing fund designed to lure new companies to the state. Two years later, lawmakers created a second fund that provides money to startup companies that partner with the state's universities on new research-and-development projects.

Gov. Rick Perry's office controls the cash, although he, the state's lieutenant governor and the speaker of the House must all agree on a project before they award the money.

The state also works closely with TexasOne, a public-private partnership that aggressively markets the state to companies outside its borders.

Lucy Nashed, Perry's deputy press secretary, said the Texas Enterprise Fund is one of the state's "most competitive tools to recruit and bolster business" and credits it with helping finalize projects that have yielded more than 56,700 new jobs.

But Texas has discovered that its system is not perfect.

Last year, a newspaper investigation found that the technology startup fund had awarded $16 million to companies with ties to Perry's supporters.

In December, the state's comptroller reviewed both programs and urged greater transparency regarding their business operations.

Questionable subsidy awards and other challenges also have been reported in other states:

- In Rhode Island, the public-private entity in charge of economic development provided a $75 million guaranteed loan to 38 Studios LLC, a video-game company controlled by Curt Schilling, a retired Boston Red Sox pitcher and former Arizona Diamondback.

The award became a major issue in that state's gubernatorial race last fall, after candidates and local businesses questioned the wisdom of giving a large sum of taxpayer money to an unproven company that has not yet launched its first video game.

- In March 2010, critics blasted the Michigan Economic Development Corp. after it awarded $9 million in subsidies to a convicted embezzler, alleging the agency failed to perform basic checks that could have detected the problems stemming from his past business dealings.

- In Indiana, a television-station investigation found that state's economic-development corporation had substantially inflated its job-creation numbers. The agency later released a report that showed that about 40 companies had not complied with their job-creation promises and that the state, as a result, was owed $5 million worth of incentives, according to news reports.

Tad DeHaven, a former Indiana budget official who works at the Cato Institute, a conservative public-policy think tank based in Washington, D.C., said agencies such as the Indiana Economic Development Corp. frequently practice what he calls "press-release economics."

"At the end of the day, it was a political instrument for the governor," DeHaven said.

"It gave the appearance of doing something. Indiana is a state that has been losing jobs for a long time, and it allowed the governor to attend ribbon-cutting ceremonies and say that a certain number of jobs were coming (to the state)."

Transparency pledge

Arizona officials say they are committed to transparency and pledge to avoid the kinds of problems that have befallen similar entities in other states.

"(This) is something that has a chance to work," Colangelo said. "And rather than people focusing on why it won't and what all the negatives are . . . Give me a break."

Brewer spokesman Matthew Benson said the authority will adhere to the state's public-records and open-meeting statutes. But, Benson said, there are "some limited exceptions."

For example, he said, the board can refuse to disclose details about a deal in the final stages of negotiation, and board members can go into closed session to discuss a company considering locating to the state.

The legislation signed into law last week includes dozens of requirements and exemptions governing the Commerce Authority's operations.

Some rules specify, for example, that board members serve without compensation and that they must adhere to the state's conflict-of-interest statues. But the law also grants the board broad authority to draft its own policies and procedures for its operations and the awarding of grant money.

Cardon said he and Colangelo will work to create additional safeguards to help ensure the board operates openly and without impropriety.

These include rules requiring board members with conflicts of interest to recuse themselves from voting and an annual report on the board's activities, delivered to the Legislature.

In addition, Colangelo plans to create a committee at the board's March 29 meeting that will be tasked with drafting bylaws and an ethics policy for members.

They plan other provisions to ensure that the authority doesn't award questionable subsidies to undeserving companies.

For example, the board will require that a third-party financial analyst review any contract signed with deal-closing funds to ensure the state will get a good return on its investment, Cardon said.

"We want to ensure that some of the failures that have happened in other states absolutely do not happen in Arizona," Cardon said.

Republic reporter Betty Beard contributed to this article.