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New Keystone Research Center Report Finds Pennsylvania Should Strengthen Economic Development Disclosure

HARRISBURG, PA (March 16, 2010) – While Pennsylvania has made some improvements in the disclosure of economic development spending, more needs to be done to ensure adequate transparency and accountability, according to a new report from the Keystone Research Center.

The report, *Good Jobs, Strong Industries, A Better Pennsylvania: Towards a 21st Century State Economic Development Policy*, was released today at a state Capitol press conference attended by a bipartisan, bicameral group of Pennsylvania lawmakers and a broad, bipartisan subsidy accountability coalition.

The report found that the level of transparency in economic development programs is better in Pennsylvania than in most states. Still, it is not strong enough to answer such basic questions as do companies receiving subsidies actually create jobs, where do the subsidies go, what industries are subsidized, and what kind of wages do subsidized jobs pay?

The report also determined that the state's economic development efforts rely too heavily on handing out checks to companies for locating or remaining in Pennsylvania. Instead, the state should rely more on helping create and expand homegrown businesses. Pennsylvania has been a leader in such "grow-your-own" programs since the 1980s, but their funding has been slashed nearly in half since 2008–2009.

"With the sharp economic downturn, now is the time to rethink how the state promotes economic development," said Stephen Herzenberg, PhD, Keystone Research Center's Executive Director and lead author of the report. "These investments should be focused on growing and developing innovative clusters of Pennsylvania businesses, rather than harvesting companies from other states."

Reinventing Economic Development

The report makes six recommendations to maximize Pennsylvania's return on economic development investments:

- 1) Target traditional business subsidies to companies with good jobs, in industries that make sense for Pennsylvania, and to places with existing infrastructure near areas with high unemployment.
- 2) Improve transparency and public disclosure by making Pennsylvania's online subsidy database – the "Investment Tracker" – a more complete and usable tool, with information on jobs created, wages and health care benefits provided, and the street address of business sites where subsidies are used.
- 3) Create a unified development budget that provides an annual report to the state legislature cataloging and analyzing all state spending for economic development, including tax breaks.
- 4) Enact economic development accountability legislation to require better public disclosure, strengthen job quality standards, and recapture subsidies when companies don't create jobs.

- 5) Shift the state's emphasis in economic development to growing its own businesses. Grow-your-own programs deliver a higher documented return on investment than subsidies to individual companies and are a more legitimate focus of public investment than one-company handouts.
- 6) Change the business model and mindset of economic development organizations so that they do not depend on "doing the deal" to run their operations and instead have a stake in a 21st-century state economic development strategy.

Accountability Legislation

Legislation now before the Pennsylvania Senate and House of Representatives will implement many of the accountability and transparency reforms this report supports. Senator Pat Browne and Representative David Levdansky are the bills' respective sponsors.

Representative Levdansky said of his legislation: "Taxpayers expect that when public dollars are spent to spur economic development and job creation, it's done prudently and with accountability for results from start to finish. Awarding business subsidies with public money needs to be an open process where communities have a real opportunity to be informed and offer input, as well as having pertinent data available on the internet for review. My bill would statutorily require those standards, because I don't believe expectations are good enough."

Senator Browne also called for more accountability along with investment in homegrown Pennsylvania businesses. "Without support for economic development and seed money for start-up companies, we are losing out in job growth which in turn means we are losing out in revenues that would be gained from personal and corporate income tax receipts," Senator Browne said. "Now more than ever, when our state economy is stretched to the breaking point and beyond and revenues are lean, government must increase accountability in its economic development efforts to ensure that funding is not being squandered and that businesses receiving the assistance are fulfilling their promises."

Both the Senate and House bills would create a public database detailing all economic development activity the state subsidizes, including tax credits. The database would disclose where subsidies go, who is receiving them, and what kinds of jobs they support.

Both bills also establish job quality standards that limit subsidies to companies that pay at least 90% of an industry wage (80% for small businesses).

Senator Jane Earll chairs the Senate Community, Economic and Recreational Development Committee, which has oversight of economic development programs. She said of this legislation: "In these economically challenged times it is imperative that every line item in Pennsylvania's budget is thoroughly scrutinized to ensure Pennsylvanians are getting the maximum bang for their buck. This is particularly true with regard to economic development funds. We need to ensure the monies are utilized effectively and efficiently.

"The Economic Development and Fiscal Accountability legislation being proposed will help reassure the citizens of Pennsylvania that they are getting the best return on the investment of their tax dollars by providing for transparent reporting, quality jobs, and recapture of state funds when an economic development project fails to produce the number of jobs promised."

The Keystone Research Center is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy. More information online: www.keystoneresearch.org.