



To: Senate Committee on Economic Development and Veterans and Military Affairs and Assembly Committee on Jobs, Economy and Small Business
From: Shannon Nelson, WISPIRG Program Associate
Date: January 13, 2011
Re: Special Session Senate Bill 6/Assembly Bill 6

Good afternoon Chairman Hopper and Chairwoman Williams and members of the committees. Thank you for the opportunity to speak today. My name is Shannon Nelson and I am a Program Associate for WISPIRG, the Wisconsin Public Interest Research Group. WISPIRG is a statewide non-profit, non-partisan public interest organization that stands up to powerful interests. We represent thousands of members across the state.

I am here today to advocate for strong transparency and accountability provisions for the proposed Wisconsin Economic Development Corporation in SB6/AB6 and to speak to the benefits of disclosing information about economic development subsidies online.

We live in an era where Americans expect to be able to search their own bank accounts or cell phone bills on line, in which we can verify information people tell us by Googling it on line. To restore public confidence in government, we also need to live in an era of "Google- able government" when it comes to transparency and accountability for the public purse.

Especially in these tough budget times, we need to track every dollar and make sure we get the most 'bang for our buck' for any business subsidy. Regardless of what one thinks about whether there should be more or less business subsidies, or through what body these subsidies should be administered, Wisconsin deserves to get the greatest results and accountability for each dollar. And taxpayers have a right to know whether their dollars are being used efficiently and effectively.

In the last few years Wisconsin has taken steps to improve transparency in the delivery of economic development subsidies. Under current Department of Commerce economic development program rules, progress reports are reported online, a step in the right direction taken by 2007 legislature. But, even these existing requirements are inadequate due to lack of enforcement--reporting on the websites is often incomplete and taxpayers are left in the dark about the impacts of their own tax dollars. This is unacceptable. Relative to the comprehensive online reporting practices exercised in many other states, including Minnesota and Illinois, Wisconsin is falling woefully behind in providing subsidy information to the public.

It is a problem that SB6/AB6 does not require a continuation, much less an improvement, of these practices. As it stands, SB6/AB6 is a step backwards for public accountability and transparency for Wisconsin. For a state that has long prided itself as a beacon of open government, this is unacceptable.

If the goal is to streamline the administration of economic development subsidies and to create more jobs for Wisconsin, strong transparency and accountability is critical. Studies have shown that comprehensive public disclosure of subsidy information increases efficiency, cuts down on wasteful spending, lowers the

risk of fraud and promotes good government. In fact, improved budget reporting is the most commonly cited way respondents say government can demonstrate greater accountability, especially through open disclosure and clear reporting.

SB6/AB6 should establish a searchable public database online to provide easy access to information about WEDC subsidies with highly detailed information of projects receiving subsidies, including total projected jobs, the wages and benefits, and the capital investment of the company. The best reporting also describes the outcome of subsidies and information is provided for numerous years in order to allow meaningful analysis of long term public costs and benefits.

Other states have seen the benefits of these practices. Minnesota, for example, publicly reports total subsidy amounts, wage and benefits data for the jobs created by subsidies, a summary of the goals in the subsidy agreement, outcomes until goals are attained, and (when applicable) a company's former location within the state and the reason for relocation. This data allows Minnesotans to know which subsidies are creating new upwardly mobile jobs, as opposed to just promoting relocation from one town to another with worse jobs. Wisconsin deserves no less.

What's more, Minnesota along with many other states, has established taxpayer guarantees called "clawback" or "recapture" provisions, which require companies to return subsidies if they don't deliver on their promises or fulfill the purpose of the subsidy. By recouping funds from underperforming contracts, said funds could be redirected to companies who deliver a better return on investment. Wisconsin taxpayers deserve the same protections; otherwise, we risk wasting taxpayer money on programs and getting nothing for our money. How could we in good conscience continue to provide millions of dollars in taxpayer-funded subsidies to companies and programs with zero accountability?

SB6/AB6 as currently written requires very little by way of transparency and accountability. We have several recommendations for improving this bill to ensure that the data reported is thorough and sufficient to inform taxpayers of these investments, and sufficient to assess whether or not we are getting a return on these investments.

First, we recommend that you specify the information that agencies must report both to the legislature and online, and ensure that reporting on actual outcomes is required. This includes requiring reporting on the name, current location, and any former locations of recipient companies, the amount and purpose of the subsidy, the number and quality of jobs or other benefits promised and the number delivered. Additionally, performance information should be tracked over several years. As the governor has promised would be practice, the WEDC should be required to comply with state open records and meetings laws. Agendas and minutes from meetings should also be posted online.

We owe it to ourselves to at least provide full information about where the money goes, but in addition we should ensure that there is accountability. Both Minnesota and Illinois have a "recapture" provision, requiring subsidy recipients to repay subsidies if they do not deliver on their promises. This type of measure holds companies accountable and ensures that we are getting a return on our investment. It is a "money-back taxpayer guarantee" for public subsidies. ***Our second recommendation is that you require such a provision in Wisconsin.***

In 2007 the *Journal Sentinel* examined deals with 25 big companies that were awarded about \$80 million in state subsidies over a 6-year period. The investigation found that overall the companies fell about 40 percent short on the job creation they promised in order to receive the subsidies. In the absence of established accountability mechanisms, the *Journal Sentinel* reported that the state often lowers its requirements rather than canceling the subsidies or seeking repayment. This is unacceptable. *If a*

contractor in our own home ends up tiling only half the bathroom, we don't go back and change the contract. If we are going to hold the public sector to high standards, we must have high standards for all types of expenditures, including economic development subsidies.

Thirdly, the bill must ensure that conflict of interest among WEDC board members and staff is eliminated, including rules prohibiting board members and staff from making decisions to distribute taxpayer-financed subsidies to their own related industries, affiliated companies, or clients. Additionally, this should include strict rules barring favoritism and “pay-to-play” structures in connection with companies doing business with WEDC. **Our third recommendation is that you include in SB6/AB6 strong language prohibiting conflicts of interest.**

Lastly, to ensure the accuracy of all reporting, as well as adherence to recapture requirements and conflict of interest provisions, SB6/AB6 should require an annual audit by legislative audit bureau.

We encourage you to consider these four improvements to SB6/AB6 to move Wisconsin forward in providing transparency and accountability in economic development spending. As it is currently written, SB6/AB6 takes us in the wrong direction. But we have an opportunity now to do right by taxpayers and set the national standard for transparency and accountability in the delivery of economic development subsidies. In order for the proposed WEDC to actually improve upon our state's existing mechanisms for economic development, top level transparency and accountability is a mantle we must carry. We look forward to working with you and the legislature. Together we can maintain our proud tradition of open government in Wisconsin, and build public trust in the investments made with taxpayer money.

Thank you for the opportunity to comment today.