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Dynamic Co-Creation: Building a Competitive Economy

By C. Kenneth Meyer and Stacy Gibbs

["Jobs, Jobs and more jobs" was the mantra of the state's governor and the undergirding rationale for the State Sustainable Values Fund (SSVF). The cost-benefit analysis done by the Department of Economic Development (DED) provided an unaudited and self-reporting basis for the commitment of millions of dollars to companies and communities to reinvigorate or attract new businesses and industries to the state. The political controversies overlaying the building of a competitive economy were substantial and involved the media, corporate interests, and enduring tensions between the state's legislative and executive branches of government. In the final analysis, was the SSVF selecting "winners and losers" for financial assistance based on social values rather than market based criteria.]

In 2003, Governor Olson Downing (D) proposed legislation that promised to create over 50,000 good-paying jobs in growth industries such as biotechnology, advanced manufacturing, and information solutions. The State Sustainable Values Fund (SSVF)* provided nearly $500 million dollars to be used to attract new business ventures to the state. Downing said the program could also be used to improve the training and quality of the state's workforce, expand available cultural and recreational opportunities, and reinforce the state's already high commitment to education.

The state House of Representatives passed the values fund legislation with an overwhelming bi-partisan vote of 79-19 in 2003, but the state Senate adjourned for the session without taking action. The governor, anxious to get economic development on track, called the legislature back for a special session the next month. During the special session, two separate bills that pertained to the SSVF were passed. One of these created the fund and contained unrelated regulatory and tax policy favored the General Assembly, but opposed by the governor. In response, Governor Downing vetoed many of the unrelated provisions, extending his line item veto authority into previously uncharted waters. In turn, the assembly's legal council challenged the constitutionality of the governor's use of the veto power. Now the stage was being set for a real donnybrook.

In litigation, the District Court ruled in favor of the governor and opined that the legislation was an appropriations bill and, as such the governor's line item vetoes met constitutional muster. Later, however, in 2004, the state's Supreme Court overrode the decision of the lower court and the entire bill was made null and void. However, the issue was becoming more complicated day by day, especially since the Department of Economic Development (DED) had already committed millions of dollars to companies that sought to expand or re-locate their in-state operations. Lawmakers, in a special session, approved the temporary replacement for the Values Fund in order to finance the projects which had been previously approved by DED.

The next year, during the 2005 legislative session, lawmakers passed legislation which re-created a $500 million dollar version of the SSVF and made the financing available over a 10-year period. By doing this, the state could begin to further support economic development in the three intended areas originally set out by Downing in 2003. Cumulatively, by May 2006, DED had given financial aid to 388 companies from the Values Fund. These recipients received support in one or another of these forms: a grant, a forgivable loan, or tax break as a developmental incentive. The DED scored the Values Fund program as representing a successful venture in co-creation.

When the Sustainable Values Fund came under increased scrutiny, as was destined to occur given its strong opponent base, the "facts versus reality questions" had to be reconciled. The actual number of jobs promised varied substantially from the official total. Of course, the legislators, media and watchdog groups questioned the statistics given by the DED. The official data revealed that DED had committed over $130 million dollars to nearly 400 businesses since 2003, and that no formal assessment or audit had been made to date.

In early 2005, DED conducted a review to confirm the success of the "innovative" incentive program. The assessment process comprised a two-page questionnaire that was sent to all business that received funding for the years 2003-2005. Respondents were asked questions pertaining to completion of the business project, whether it was completed "on schedule, behind schedule or not proceeding." Interestingly, the responding businesses were not required to provide documentation or proof of performance in their "self-reports."

Once the information had been retrieved, the review showed that 283 projects took part in one or more state funded incentive programs; 50 percent were on schedule and 11 percent of the projects were completed and met contractual obligations. Noteworthy, however, the report found that 18 businesses — 6.4 percent of the total, had received Values Funds and had subsequently failed! Another 9.2 percent (N=26) of the companies admitted that they were behind schedule, and another 28 percent of the firms (N=80), did not return the questionnaire or respond to the study, although they had received a combined funding of more than $3.2 million dollars in financial assistance.

Faced with these startling facts, DED sent out a second, more formal questionnaire to all businesses that had received state assistance through 2005. In a formal bureaucratic sense, all companies were required this time to demonstrate proof of performance, to include, financial documents and payroll records. Nearly six months after the second survey was distributed, DED remained unable to provide results from the questionnaire. In turn, DED blamed the slow response rate on technical difficulties and indicated that they wanted to make sure the information solicited and provided was both accurate and reliable and that it had met their strict test for verification.

The poor response rates, coupled with incomplete performance records, generated added questions about DED's capability to provide the needed oversight of the SSVF. For example, some protagonists asked why DED did not know exactly how each business was performing at any point in time. In response, DED stated it did not have the ability to hire and locate more than 300 project managers on the numerous sites — managers who would have complete knowledge about the projects they were monitoring at any given minute. DED, in an effort to mitigate any further damage to its already badly tarnished image and reputation, indicated that it had a comprehensive oversight procedure in place for the incentive programs. As such, a contract that guaranteed a specific number of jobs or capital investment had to be signed before monies from the SSVF were disbursed. It further stated that it had only five project managers to monitor the numerous businesses that had received state assistance. In the final analysis, DED reported that in early 2003 it had 51 business prospects and of May, 2006, that number had mushroomed to an unbelievably high number of 475.

Based on the plethora of newspaper accounts and other media reports, the efficaciousness of SSVF had been called into question. Several legislators wondered out loud if the officials of DED should be held accountable for the millions of dollars that had been distributed from the SSVF — money that belonged to the people of the state (the people's treasure). Others wanted the state auditor to determine if the number of new jobs promised to be created had in fact come about and if they were at the salary and wage levels agreed upon. In addition, representatives of the state assembly and the media wanted to make certain that those who had received SSVF were held accountable to their agreements with the state and that appropriate due diligence was exercised in the oversight function of DED.

Not to be excluded from sitting at the table of accountability, the state auditor wanted an additional layer of oversight be added to ensure that the funds were properly disbursed in accordance with the law. The auditor argued that the number one concern about the SSVF was whether the fund actually met the job creation and retention goals that it had promised. He said, "Those are the numbers people are looking for. If we've spent millions of dollars, what have we gotten in return?" The auditor realized that "sunshine and transparency" were twin disinfectants and that SSVF had to be audited and that he needed to be prepared to respond to the legislative queries that were certain to be raised during the 2007 legislative session.

In response to the many probing concerns, DED welcomed a comprehensive review and audit of the processes they had use in awarding and monitoring the projects. Also, the department said that it had the project managers now in place, all of the contracts signed, and an adequate set of checks and balances in place — in short, the department was ready for any and all scrutiny that might come from the legislature or the media.

Questions and Instructions:

1. When you think about the Sustainable State Values Fund, is the government picking "winners and losers" for financial assistance based on social values rather than market based criteria? Please explain.

2. For some states that are heavily based on an agribusiness base, are they politically obligated, for instance, to invest in business ventures that will build a sustainable agriculture base or alternatively, if the state is heavily unionized and industrialized, should it invest in the "values" associated with manufacturing and heavy industries? In your view, can politics predict what the next growth mechanism will be for a state better than market forces? Please elaborate.

3. Does "self-reporting" provide an accurate basis on which to assess whether the businesses were in compliance with the "terms and conditions" of the SSVF contracts? Please elaborate.

4. What are the advantages and limitations associated with using the SSVF as a vehicle to spur state economic development? Please explain.

5. What are some of the techniques or strategies that public jurisdictions (municipalities, counties, states) use to foster long-term economic development? Please list and then discuss their respective strengths and weaknesses.

6. Several state agencies were involved in this case. In your opinion, who should have been held accountable (the DED, the state auditor, the office of the governor) for the performance of the organizations that received the state monies — those who had contracted with the SSVF? Please justify your position. [Your answer might be further informed if you contact a representative of your own state's department of economic development (or equivalent), and solicit their responses on the issues embedded in this case.]

7. Please contact at least one other state that has a program that is somewhat similar to the SSVF presented in this case study. Then, ascertain how the "comparative state program" measures successfulness or failure in the field of new job creation or in the expansion of the economic development base.

8. If you were preparing a questionnaire to be completed by the businesses that were funded by SSVF, what items would you have included and why? Please be specific.

*The SSVF was written with the State Values fund in mind and many of the issues presented in the case, but not all of them, are indicative the type of problems that were presented in the process of initiating , implementing, and evaluating the financial assistance legislation.

Case 5: Dynamic Co-Creation: Building a Competitive Economy

Name:

Case Log and Administrative Journal Entry

This case analysis and learning assessment is printed on perforated pages and may be removed from the book for evaluation purposes.

Case Analysis:

Major case concepts and theories identified:

What is the relevance of the concepts, theories, ideas and techniques presented in the case to that of public management?

Facts — what do we know for sure about the case? Please list.

Who is involved in the case (people, departments, agencies, units, etc.)? Were the problems of an "intra/interagency" nature? Be specific.

Are there any rules, laws, regulations or standard operating procedures identified in the case study that might limit decision-making? If so, what are they?

Are there any clues presented in the case as to the major actor's interests, needs, motivations and personalities? If so, please list them.

Learning Assessment:
What do the administrative theories presented in this case mean to you as an administrator?

How can this learning be put to use outside the classroom? Are there any problems you envision during the implementation phase?

Several possible courses of action were identified during the class discussion. Which action was considered to be most practical by the group? Which was deemed most feasible? Based on your personal experience, did the group reach a conclusion that was desirable, feasible, and practical? Please explain why or why not.

Did the group reach a decision that would solve the problem on a short-term or long-term basis? Please explain.

What could you have done to receive more learning value from this case?