MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

1203

2005 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1203

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1203

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 1-31-05

Tape Number	Side A	Side B	Meter #
1		x	35.1-end
2	x		0-end
2		x	0-end
3			23.1-48.5

Committee Clerk Signature Jody Renke

Minutes:

Vice-Chairman N.Johnson: Opened the hearing on HB 1203. All committee members were present.

Representative Keiser: Appeared in support of bill and also was a sponsor. What this bill does represent is an appropriate level of accountability for our state.

Lt. Governor Jack Dalrymple: I think that this is an outstanding piece of legislature, and I think that we are very fortunate an experience developer like chairman Keiser, who has obviously put a lot of his own time and effort in to this legislation and as a result you have a bill that is very well thought through and carefully studied and being an excellent all around piece of legislation, this is the type of thing that you would see eventually published by the NCSL or other groups as modeled legislation. Two years ago we talked a lot about accountability, and you will recall that in the end there was not anything that passed the session, I think the main reason is that as we looked around at legislation from other states that we could follow as guidance that we could start with we were not able to find anything that had any quality at all, or that applied to the reality of economic development in ND. Chairman Keiser did build this bill from scratch.

Merle Bouche: Appeared in support of HB 1203, our objective should be progressive in nature. We talk a lot about the development of good jobs, the objective is to create good paying jobs in the state of ND.

Stan D. Benson, BND, legislative Coordinator: Appeared in support of HB 1203. and provided written statement (SEE ATTACHED TESTIMONY).

Representative Kari Conrad: Appeared in support of HB 1203 and provided a written statement (SEE ATTACHED TESTIMONY).

Lee Peterson, Commissioner, ND Dept. of Commerce: Appeared in support of bill and provided a written statement (SEE ATTACHED TESTIMONY).

John Dwyer, ND Lignite Energy Council: Appeared in support of bill and I do have a friendly amendment to offer. it really goes to the exclusion on line 17, page 2, we could either put language in there or at the end. We would suggest that you exclude the environmental activities under the lignite research and development program, and would be happy to answer any questions.

Nancy Sand, NDEA: Appeared in support of HB 1203.

Don Morrison, Executive Director, ND Progressive Coalition: Appeared in support of bill and provided a written statement (SEE ATTACHED TESTIMONY).

Woody Barth, ND Farmers Union: Appeared in support of bill This is a good start in economic development accountability we too would like to see some amendments to the bill to give it more clarity.

Dean Reinbolt, Barber, Jamestown, ND: I am in support of this bill it will help a little bit but it does not go far enough.

Lee Snyder, ND Progressive Coalition, Minot: Appeared in support and provided a written statement (SEE ATTACHED TESTIMONY).

Connie Sprynczynatyk, ND League of Cities: Appeared in support of bill and provided a written statement (SEE ATTACHED TESTIMONY).

Representative Ruby: Move to **ADOPT AMENDMENTS** (technical).

Representative Dosch: SECOND the motion to **ADOPT AMENDMENTS.**

Motion carried.

Representative Thorpe: move to **ADOPT AMENDMENTS (BOUCHE)**

Representative Boe: SECOND the motion to **ADOPT** Bouche **AMENDMENTS.**

Motion failed.

Representative Ruby: I **MOVE** a **DO PASS AS AMENDED** by **(KEISER)**

Representative Vigesaa: SECOND the **DO PASS AS AMENDED BY KEISER** motion.

Motion carried **VOTE: 12-YES 1-NO 1-Absent (EKSTROM).**

Representative N. Johnson will carry the bill on the floor.

Hearing closed.

50068.0600

Fifty-ninth
Legislative Assembly
of North Dakota

PROPOSED AMENDMENTS TO HOUSE BILL 1203

Page 2, line 31, after "subdivision." insert:

> q. "Federal or state assistance for the Lignite Research, Development and Marketing Program under Chapter 54-17.5 of the North Dakota Century Code."

Renumber accordingly

50068.0601
Title.

Prepared by the Legislative Council staff for
Representative Keiser
January 28, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1203

Page 1, line 1, after the semicolon insert "to create and enact a new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code, relating to disclosure of customer information by the Bank of North Dakota;"

Page 9, after line 4, insert:

"**SECTION 10.** A new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code is created and enacted as follows:

Recipient reports and grantor reports as required under sections 1 through 9 of this Act."

Renumber accordingly

Date: 1-31-05

Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1203

House **INDUSTRY, BUSINESS AND LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0600 0601 Keiser

Action Taken Adopt Technical Amendment

Motion Made By Rep. Ruby Seconded By Rep. Dosch

Representatives	Yes	No	Representatives	Yes	No
G. Keiser-Chairman	X		Rep. B. Amerman		
N. Johnson-Vice Chairman			Rep. T. Boe		
Rep. D. Clark			Rep. M. Ekstrom		
Rep. D. Dietrich			Rep. E. Thorpe		
Rep. M. Dosch					
Rep. G. Froseth					
Rep. J. Kasper					
Rep. D. Nottestad					
Rep. D. Ruby					
Rep. D. Vigesaa					

Total (Yes) 11 No 0

Absent (1) Rep. Ekstrom

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

50068.0602
Title.

Prepared by the Legislative Council staff for
Senator Every
January 31, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1203

Page 6, after line 4, insert:

"**SECTION 5. Failure to pay goal wages.** If a recipient fails to pay its employees the agreed-upon wages, the employee is a secured party under chapter 41-09, as a person that has a claim for wages against a person receiving economic assistance."

Renumber accordingly

Failed

50068.0603
Title.

Prepared by the Legislative Council staff for
Senator ~~Every~~ Merle Boucher
January 31, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1203

Page 4, after line 3, insert:

"**SECTION 3. Job qualilty standards.**

1. A grantor may not grant a business incentive to a recipient unless the wages paid to employees at the specific project site are at least equal to:

   a. For specific project sites located within a metropolitan statistical area, as defined by the federal office of management and budget, the average hourly wage paid nonmanagerial employees in the recipient's industry in the state, as most recently provided by the United States bureau of labor statistics to the two-digit or three-digit standard industrial classification number specification, as available.

   b. For specific project sites located outside a metropolitan statistical area, the average weekly wage paid in the state exclusive of metropolitan statistical areas, as most recently reported by the United States department of commerce in its county business patterns report.

2. For a business that employs fewer than an average of twenty full-time equivalent employees or which had gross receipts of less than one million dollars in all United States jurisdictions during the calendar year for which disclosure is required, the average wage must be at least seventy-five percent of the amounts specified in subdivision a or b of subsection 1."

Renumber accordingly

Date: 1-31-05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1203

House **INDUSTRY, BUSINESS AND LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Adopt Amendments 602 & 603 (Bouche)

Motion Made By Rep. Thorpe Seconded By Rep Boe

Representatives	Yes	No	Representatives	Yes	No
G. Keiser-Chairman		X	Rep. B. Amerman	X	
N. Johnson-Vice Chairman		X	Rep. T. Boe	X	
Rep. D. Clark		X	Rep. M. Ekstrom	A	A
Rep. D. Dietrich		X	Rep. E. Thorpe	X	
Rep. M. Dosch		X			
Rep. G. Froseth		X			
Rep. J. Kasper		X			
Rep. D. Nottestad		X			
Rep. D. Ruby		X			
Rep. D. Vigesaa		X			

Failed

Total (Yes) 3 No 10

Absent (1) Rep. Ekstrom

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Adopted by the Industry, Business and Labor Committee
January 31, 2005

House Amendments to HB 1203 - Industry, Business and Labor Committee 02/01/2005

Page 1, line 1, after the semicolon insert "to create and enact a new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code, relating to disclosure of customer information by the Bank of North Dakota;"

Page 1, after line 3, insert:

"**SECTION 1.** A new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code is created and enacted as follows:

Recipient reports and grantor reports as required under sections 2 through 10 of this Act."

Page 1, line 4, after "in" insert "sections 2 through 10 of"

House Amendments to HB 1203 - Industry, Business and Labor Committee 02/01/2005

Page 2, after line 31, insert:

"q. Federal or state assistance for the lignite research, development, and marketing program under chapter 54-17.5."

House Amendments to HB 1203 - Industry, Business and Labor Committee 02/01/2005

Page 3, line 25, after "of" insert "sections 2 through 10 of"

Renumber accordingly

Date: 1-31-05

Roll Call Vote #: 3

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1203

House **INDUSTRY, BUSINESS AND LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass As Amended

Motion Made By Rep. Ruby Seconded By Rep. Vigesaa

Representatives	Yes	No	Representatives	Yes	No
G. Keiser-Chairman	X		Rep. B. Amerman		X
N. Johnson-Vice Chairman	X		Rep. T. Boe	X	
Rep. D. Clark	X		Rep. M. Ekstrom	A	A
Rep. D. Dietrich	X		Rep. E. Thorpe	X	
Rep. M. Dosch	X				
Rep. G. Froseth	X				
Rep. J. Kasper	X				
Rep. D. Nottestad	X				
Rep. D. Ruby	X				
Rep. D. Vigesaa	X				

Total (Yes) 12 No 1

Absent (1) Rep. Ekstrom

Floor Assignment Rep. N. Johnson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1203: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (12 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). HB 1203 was placed on the Sixth order on the calendar.

Page 1, line 1, after the semicolon insert "to create and enact a new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code, relating to disclosure of customer information by the Bank of North Dakota;"

Page 1, after line 3, insert:

"**SECTION 1.** A new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code is created and enacted as follows:

Recipient reports and grantor reports as required under sections 2 through 10 of this Act."

Page 1, line 4, after "in" insert "sections 2 through 10 of"

Page 2, after line 31, insert:

"q. Federal or state assistance for the lignite research, development, and marketing program under chapter 54-17.5."

Page 3, line 25, after "of" insert "sections 2 through 10 of"

Renumber accordingly

2005 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1203

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1203

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 2-23-05

Tape Number	Side A	Side B	Meter #
1		xxx	0-end
2	xxx		0-4180

Committee Clerk Signature Lisa VanBerkom

Minutes: **Chairman Mutch opened the hearing on HB 1203. All Senators were present.**

HB 1203 relates to disclosure of customer information by the Bank of North Dakota; and to provide an effective date.

Lt. Governor, Jack Dalrymple, introduced the bill.

Jack: I think this bill is the right product for us at this time in the area of accountability. This bill is very well thought out. Rep. Keiser will go through the definitions with you. We are defining the benefit date, that becomes very important because in each situation, depending on whether you are talking about equipment, or improvements to property, or when the business actually begins to operate, you may have varying benefit dates. Benefit date is when the "clock starts" so to speak. The amount of time that is allowed for the various reports have to come in. There are things that happen after one year, two years, etc, so the benefit date is key.

Number two defines business incentive and this of course, is also very complicated because once you define business incentive, you have an entire page of section to the definition of a business present. It's a direct cash transfer, it's a loan, an equity investment, a contribution of property or infrastructure, a reduction or deferral of any tax or any fee, a guarantee of any payment under any loan, lease, or other obligation, or preferential use of government facilities. So the base definition is very comprehensive. You can look at the list of the term that it does not include which is A-P. First of all, it does exempt all systems valued at less than twenty-five thousand dollars. I know Rep. Keiser went through quite a bit of discussion with people about that. It seemed that that was the right level. There is a lot of activity out there where the business incentive is not large enough that people are going to become concerned about excessive abuse.

B, Assistance is generally available to all businesses, like tax credits and those things, are not included because there is no preference. C, takes care of the Bank of North Dakota situation a bit. Bank of North Dakota programs, generally, are exempt unless the incentive is a direct interest rate buy-down. It is pursuant to the entrepreneur loan guarantee program or is an investment need pursuant to the North Dakota Alternative and Venture Capital investments and early stage capital fund program. D, you can look at, public improvements, which serves a public purpose. Assistance for renovation generally provided that it does not exceed seventy five percent of the cost. Training services, subject to other regulations. Housing assistance, pollution control, all of these things are governed in other areas of our statute. P, is important. Federal assistance provided through the state of political subdivision, until the assistance has been repaid to and reinvested by a state political subdivision. In other words, passed through federal funds are not subject to this bill. But once the federal funds become under the authority of the state or poli-sub, then they are subject to this bill. On page 3, compensation, is a very important definition. It includes all earnings, wages, salary, bonus, and commission. B, it has to include separately, health disability, life and retirement benefits, or premiums paid by the employer, on behalf of the employee. Other fringe benefits that may be part of the job as well, have to be reported. The rest of those definitions, I think you can follow pretty well. Section 2, is simply the basic facts of the program. Section 3, requires a business incentive agreement to be drafted in every situation between the grantor, which is state or poli-sub and the grantee. It goes on to describe the various things that have to be included in the business incentive agreement. Description of the purposes and goals for the business incentive, including the job and average comparable for the incentive it's self. D, a description of the financial obligation that we are sitting on if the goals are not met. This of course is the claw back provision. We want everybody to understand what happens if they do not meet these agreed goals. It needs to be in writing and signed by both parties. Page 5, E, business needs to stay in the jurisdiction for five years. Obviously, situations are going to arise where they may have to move and in that case the agreement should state the consequences of that are. Obviously, everyone intends to stay where they are for five years, but occasionally, that doesn't happen. Finally, the agreement has to have a list of all the financial assistance, by all grantors. Section 4, has minimum requirements on what happens when you fail to meet your financial goals.

Senator Fairfield: The exceptions, letter m, on page 2. Recently, there was a bill with the universities and centers for excellence, the commerce department, the discussion that this was going to be the hub of economic development efforts in North Dakota. Does this exception exempt all of that? If that is the direction that we are going, through the universities and centers for excellence, is this all now exempt from the accountability because of this?

Jack: If there is a need for clarification, I think you should do it. The centers of excellence, normally would include some very specific business incentives that go along with it. Those would definitely be subject to this bill. What this refers to, in the word, "collaboration", would be more like a situation at NDSU for example, where both the university and the business are cooperating on some kind of research or possibly coordinating the activities of the university with the activities of the business. There would be no direct financial compensation or consideration going back. That is the purpose of that. There is already a tremendous amount of that that goes on. All I can say is the defining point should be whether or not it's financially measurable. If you can find a way to put a dollar figure on it, gifts or incentives being transferred from the public sector to the private, then it should be reported.

Senator Heitkamp: The centers for excellence calls for a two to one match. We weren't able to get the one to one match on the floor, but it calls for a two to one match. If that two comes from the private sector, or any place other than higher education, they are not exempt from this?

Jack: Yes, you are correct. The definition includes equity investments. It depends to some extent on what the university is contributing. But in most cases, they will be expending cash in order to contribute to this enterprise. It would be hard for them to imagine them doing an entire center of excellence in some kind of in client services or something.

Senator Heitkamp: Any regrets? You mentioned that there was legislation that was brought forth before that just wasn't right, there are some of us who felt it was right. In that time period, we have seen some things where if we had kept an eye on it a little better, we might have been able to fix it a little sooner, so from your opposite standpoint, any regrets, that we are sitting here in odd five doing this?

Jack: It would have been nice to have this very bill in our hands in 2003, but I think as you go through it, and you will see there is literally hundreds of hours of work into this to try to get it right. We just didn't have the two years ago.

Rep. Keiser, spoke in support of the bill.

Rep. Keiser: What you are going to discover, in dealing with accountability is there is no fast approach. I think that for this committee to do due diligence and we look forward to your input, it is important that we cover these things. Let me go back and cover why I became very interested in the bill. It wasn't for political reasons or because someone else had looked at this in the past. I have had the opportunity to serve on Bismarck's Vision Fund for several years now, and I know what is happening in Bismarck and some other areas of the state. I had the opportunity to go to Fargo and look at what has happened with the Renaissance Zone Fund in Fargo. As legislators we are asked always to make decisions about economic development, sometimes indirectly. Many people have come to me in the interim and said, "We need more money in the PACE program." and I said, "How do you know that?" They said they just do. I have also had questions about the renaissance program. Do you all know how much money we have put into the renaissance zone project, how much has been used and what is left?

All of the programs that we talk about in terms of economic development that we have addressed in this bill are programs in which the legislature has provided the authority to the local community and financing. Who would have thought that last session when we approved that that it would be as dramatically under funded as it is? We are in a position now where we don't have the dollars and we have the investors that want to make the investment, so how do we begin to gain a handle on that?

Keiser: We looked at several states. We looked at the legislation which had been offered in several states and the legislation that had been offered previously in North Dakota. We attempted to take the best parts of all of those efforts and bring them to you in the form of HB 1203. This entire area is very complicated.

Senator Fairfield: If the benefit date of a tax incentive is when business commences, later on in the bill you talk about the period of five years that they have to agree to stay. That starts when business commences, that tax goes into place. If the tax incentive last for five years, you are saying that when the tax incentive expires, they are free to leave, right?

Keiser: Absolutely.

Senator Fairfield: So when the incentive expires, they can ask for another incentive, that is part of the issue that has gone on.

Keiser: The bottom line is you are going to package your incentives, and if it's a five year tax exemption, and they are there for five years and the exemption has been granted in all of those five years and you have met all of the obligations in the agreement, it's over, and can the company leave? Absolutely. The contract has been met.

Senator Fairfield: Line 5 and 6 on page 2, when the Lt. Governor explained the bill, he talked about examples of this being something available to anyone, like tax credit. Would that include something like renaissance zones?

Keiser: I don't think so, in reality, it is only those people who are going to do a construction project in the zone, who are going to qualify.

Senator Espegard: Along with B then, if it is a condo project and I buy one of the condos, and I get a tax benefit because I am in the zone, do I qualify?

Keiser: There is a class of people involved. Later on, we put a limiter in here that the total amount of benefits being provided. Your example, that individual would never reach 25k.

Senator Nething: Under the exclusions here, our county in our district, foreclosed on a building that was involved in economic development. So they own it now, it belongs to them. In their interest to try to get something going, the state of North Dakota says to them, "We'll provide the market for your product." and then the county finds out that this doesn't work. Would that come under this type of legislation?

Keiser: If they hit over 25k and in support from the county, it would fall under that.

Senator Nething: So would the same hold true for the prison out at New England?

Keiser: Well, what it does exclude is any legislative act. So if the legislature chooses to make a contract with a purchase or to pay at a higher rate, that is not a subsidy, that is a contract. That would be different.

Senator Nething: The legislature just provides dollars for all contracting, not saying where they have to go and then the institution says they want to use that facility, it seems to me that they come under this.

Keiser: I don't think so. I would like to research that. I think we handled it in one of the exclusions.

Senator Heitkamp: Under M, the Lt. Governor said that he does not believe this exempts those centers of excellence. I just want to make sure that you understand it the same way.

Keiser: Until you show me the financing package for it, I really can't make an informed decision.

Senator Heitkamp: You started talking about the tax incentives and the breaks in relation to renaissance, we still don't know today what the tab has been on the bill. Lost revenues. The concept has been successful, I struggle with what the rest of the citizens of North Dakota have to pay and yet we seem to be exempting. If I'm wrong, correct me.

Keiser: I think you are wrong. We are not exempting the renaissance zone from this bill and you point out exactly one of the reasons for this bill. I can bring you Bismarck and show you in our renaissance zone fund, exactly the dollars of tax credit given to date. What that has cost the citizens of Bismarck. We have done it for every project. I can also tell you that after that exemption comes off, the increase value and the return of that, and how long it will take for the citizens of Bismarck to recover every one of the dollars and then to be making money on the project.

Senator Heitkamp: My point is that that was never required, you chose to do that in Bismarck. It wasn't part of the legislation. This was legislation that we brought in before. There are some of us frustrate with this because we have been beating that drum in previous sessions and I am just trying to get to the exemptions, and when I see a list of exemptions, A-Q that throws up red flags. What I am saying is, on the renaissance zone, will I be able to find out the information you say you are accumulating in Bismarck.

Keiser: I think that is exactly what you will get if this bill is passed. There is one exception. On line 10 on page 2, assistance for the sole purpose of renovating old buildings to bring up to code. We did exempt those. When you have a building in decay in your community, a building that is unsalvageable, and it comes back on city ownership. It is in such bad shape that no developer will do it. We as a community, gave them a lot of breaks, to get that going. The city was going to absorb the cost of tearing in down. The cost of tearing it down was going to be greater than the value of the property. We have excluded that when the building is in decay and ill repair and doesn't meet code, we gave that as an exclusion. If you don't the cities will continue to own those buildings because you will not be able to put together a financing package.

Senator Heitkamp: I don't disagree with that. All this bill says is that people know. What is the problem with people knowing what deals they got?

Keiser: There is nothing wrong with that because it was all held in a public hearing anyway.

Senator Krebsbach: On page 3, subsection 3, does that mean individually employing salary wages, etc, or collectively?

Rep. Keiser: This section was tough to address with the economic developers. What we ended up with is compensation includes earnings which includes wages, salaries, bonus, and commission. It also includes benefits including health, disability, life and retirements or insurance premiums paid by the employer.

Senator Nething: The reason I asked that question earlier about the prison, is because it was sold on the floor of the Senate as economic development. On page 4, lines three and eleven, why do we say "direct cash transfer" and then we say "a cash transfer of money"?

Keiser: Legislative Council drafted this, to my knowledge, there is not to be a difference between the two sections, other than "may" and "shall".

Stan Benson, Bank of North Dakota, explained the amendment

Benson: The amendment was just to allow our loans to be disclosed in the same format as any other disclosure we get.

Mutch: How would that be different?

Benson: Through the industrial commission.

Lee Peterson, Department of Commerce, spoke in support of the bill. See written.

Senator Heitkamp: Any regrets? There are many of us who have offered many of the items that are in this bill. We were never able to get your support in the past.

Lee: Accountability has been part of economic development since it's acceptance, how you go about that is the most important thing. I have never seen a bill that addressed the issues we are addressing in this bill. Making local communities responsible for their own incentive, making the state responsible for their own incentives.

Senator Klein: You are being a big brother. I am thinking of a small development, Harvey, for example. Those guys are out there. They are scrambling and competing. Any job is a good job in a small community. There aren't many jobs that people create. These people that work for economic development in these small towns are volunteers. You would deny somebody in one community a loan because they have a loan, and you are yelled at because everything is in the big towns. That loan goes sour and where does that go? I see this in our communities. I'm concerned about the small communities. You are going to put some strain on the small guys out there who are trying to do something for their little towns and I don't know if they are going to be able to fit under all of those categories.

Lee: We understand that completely. We want you to know that we went through two years of meetings, probably didn't have as much volunteer representation as we would have liked, but we certainly had some. Every community that is operating with public money has given us the feeling that the things we are asking for are already being kept track of. We are not asking for new information. We are asking for exactly what you have. Accountability is so complicated that nobody wants to deal with the real....

Senator Espegard: We always hear about Websmart, we always here things like Motor Coach Industry, how would this, other than publicly flailing, how would this accountability helped in any of that situation, how would this help?

Lee: Speaking specifically on the Websmart issue. When people reported on what was lost in Websmart, what they reported was, the entire package. As far as the job training funds, a very small portion of that had actually gone to the company. Money is currently being paid back on the building by rent by another company. Until you are completely finished, you don't know what the end result has been. Motor Coach Industries is putting people back to work. Economic Development is not about today, it's what the answer is.

Senator Espegard: I think Motor Coach is a positive. Those are good jobs up there and were lost, but it's not a failure.

Senator Fairfield: There isn't anything in this bill that deal with those retroactive, Websmart, debacle. There was only one bill that had a provision like that to make employees a secured party. So that they could perhaps get paid somewhere along the line. That is not in this bill. That was the only thing that would take care of the situation that has already occurred. In this bill, and hopefully with some friendly amendments, that it is about the future and avoiding those types of situations, because if everyone is involved, rather than doing sweetheart deals behind the scenes, where communities aren't involved in the process. Would you be opposed to to making this retroactive.

Senator Heitkamp: What would have this bill done about Websmart or Motor Coach industries, on page 3, under compensation, if you look at where it talks about wages, you would have known, if this bill had been in place, prior to that, Websmart, whether they were paying their employees.

Lee: I'm not sure how often that reporting is.

Nancy Sand, NDEA, spoke in support of the bill. See written testimony.

She also submitted testimony of Joe Westby. See attached.

There were no questions from the committee.

Chairman Mutch closed the hearing. No action was taken.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1203

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 3-16-05

Tape Number	Side A	Side B	Meter #
1		xxxx	500-end
2	xxx		0-end

Committee Clerk Signature Lisa VanBerkom

Minutes: **Chairman Mutch allowed committee discussion on HB 1203. All Senators were present. HB 1203 relates to disclosure of customer information by the Bank of North Dakota.**

Senator Fairfield presented the committee with several amendments. See attached.

Senator Fairfield: I chose to draft the amendments individually, rather than all together.

The first amendment, I would like to discuss them first. Amendment 50068.0713 is a study of local economic development. The reason for this is, that it has come to my attention when Rep. Keiser talked about the amount of hours and effort they put into crafting this bill, and I would also like to suggest that there are a number of others who have spent an equal amount of time and hundreds of people in many communities as well. What we have gathered through this, is that one of the things that has come into play is that government for economic development corporations in a number of communities, there seems to be differences in how communities elect or appoint or self-appoint, etc. That makes a difference to community members. This study would suggest that we look at the government of how economic development corporations and look for gaps in how economic development systems are utilized and whether the technical assistance is available in rural communities.

Senator Nething: Does this replace the bill?

Senator Fairfield: No, this is an add on study.

Senator Espegard: This is a look at the local economic developers in all of the rural communities to see if there is uniformity, duplication, governance issues, etc?

Senator Fairfield: Absolutely.

Senator Klein: This would allow for us to know in communities where you can't find anybody and someone says that it has to be done, that we would know in certain communities across the state that there is nobody else out there.

Senator Espegard: How many economic development communities are formally organized?

Senator Klein: Every community that is organized has registered at the Secretary of States Office. We know who they are and because of your registration, you have a criteria.

Senator Espegard: This amendment says "shall consider".

Senator Fairfield: I would move the amendment.

Senator Nething seconded.

Roll Call Vote: 3 yes. 4 no. 0 absent.

Senator Krebsbach: I don't see what this is going to reveal, that isn't already known.

Senator Fairfield introduced amendment 50068.0707. See attached.

Senator Fairfield: This also is a study. This would study the issue. There are a number of school districts that have concerns that they don't have a say in the projects that happen. Even though they are invited to the table and, yes, we did have a bill like this and it was killed. One of the discussion points surrounding the bill was whether we knew enough about how it would be impacted. This would simply study how abatements for school districts is impacted.

Senator Nething: School districts haven't been involved because they have a single authority of running schools. They don't have any police authority, fire authority, road authority, so the question is, since they are involved should we study how this impacts school districts. I don't support them wanting to have a vote in this because they don't have general government authority. On the other hand, there is an impact and an interest.

Senator Fairfield moved the amendments. Senator Nething seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Fairfield introduced amendment 50068.0704. See attached.

Senator Fairfield: On page 2, these are very quick. This came out of the discussion with Rep. Keiser, in his testimony, in the definition section. This amendment removes two words. It removes on line 6 and line 7, it removes "location in general". The reason for that is that it would tighten up the language so that this exemption would not effect renaissance zones so that they would not be exempt. I would move the amendments. Currently the way this is written, the collaboration that would be a center of excellence would be exempt, this would say that a center of excellence is not exempt. And that was according to Lt. Governor Dalyrmple.

Senator Fairfield moved the amendments. Senator Heitkamp seconded.

Roll Call Vote: 5 yes. 2 no. 0 absent.

Senator Fairfield introduced amendment 50068.0705. See attached.

Senator Fairfield: This is the one that says that centers for excellence are not exempt from the definition of business incentive. It would be included, not exempt.

Senator Espegard: That certainly seems to exempt it now. I think it's a good amendment.

Senator Heitkamp moved to adopt the amendment. Senator Espegard seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Fairfield introduced 50068.0701. See attached.

Senator Fairfield: This is a technical change based on a suggestion from Legislative Council. What this does on page two is it moves a total assistance valued at less than twenty-five thousand dollars, it moves it up into the definition of business incentive which makes it a first test. So it says right from the beginning that these exemptions won't even come into play if the business incentive is for less than twenty-five thousand dollars. So this is really just a clarification amendment that LC drafted to make this section.

Senator Fairfield moved the amendment. Senator Heitkamp seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Fairfield introduced amendment 50068.0712 and 50068.0717.

Senator Fairfield: In our bill when Rep. Keiser was before us, we talked about averages and how they would report average wages. The discussion that the average wage may be more difficult to tell how the incentives are benefiting the community, if you use wages, so I have two sets of amendments here, one that would break it down into three categories: wages of less than twelve dollars an hour, twelve to eight-teen dollars per hour, and more than eight-teen dollars per hour. Rational for that is less than twelve dollars per hour is roughly twenty-five thousand dollars per year, which is very close to the average wage in North Dakota. Eight-teen dollars is roughly thirty-seven thousand dollars, which is what the cost of living in North Dakota for a family of four. That's why that is broken into three categories. The other amendment breaks it down once. Twelve dollars per hour, above and below. Again, twenty-five thousand dollars per year. In other words, if a company says they are paying an average wage of fifteen dollars per hour and they creating thirteen jobs, but one job is a very high wage job and another is poverty level, this would avoid that and say that they care about how many jobs are going to be below the average wage in North Dakota.

Senator Heitkamp moved amendment 50068.0712. Senator Fairfield seconded.

Chairman Mutch: Then this legislates in these deals where economic development got the money from the state that they have to provide information, what if they don't?

Senator Fairfield: This is not a standard. It does not say that they cannot pay wages under twelve dollars an hour, it just says that they have to divide them according to what they are paid. The current language in the bill states that the goal must include the number of new jobs and the average compensation. The averages can be disruptive. If we broke it down into categories, that would give the public and economic development a better idea of how that money is going to be used. I think it should be broken into three categories. If it were broken down once into the average wage, at least you would be able to tell.

Senator Heitkamp: My suggestion is that if we are going to focus concept of breaking it down once is enough. When you have the average, you know if the jobs are falling below that or whether the jobs are above that. I think that number will be in front of this committee for twenty years.

Roll Call Vote: 2 yes. 5 no. 0 absent.

The motion failed.

Senator Heitkamp introduced amendment 50068.0706. See attached.

Senator Heitkamp: This pertains to the section of the bill on page 2, and number seventeen, it's about the Front Page Bar in Bismarck and I am not convinced that we should have a special segment for this bill for old and decaying buildings to make a special clause. What this amendment does is takes it out. It says that if we are going to have an accountability bill, we are not going to write specific exemptions for any particular project, end it right at the start.

Senator Heitkamp moved to adopt the amendment. Senator Fairfield seconded.

Senator Espegard: It says the term does not include, in other words, you couldn't get any money for this.

Senator Heitkamp: Yes, you could, but you couldn't get them exempt. My point is you are going to find out what happened with the bar if you don't exempt it. This way, the way the bill is, they are exempt.

Roll Call Vote: 3 yes. 4 no. 0 absent.

Motion failed.

Senator Espegard moved a DO PASS AS AMENDED.

Senator Krebsbach seconded.

Roll Call Vote: 7 yes. 0 no. 0 absent.

Carrier: Chairman Mutch

1st Amendment

50068.0713
Title.

Prepared by the Legislative Council staff for
Senator Fairfield
March 8, 2005

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1203

Page 1, line 3, after the semicolon insert "to provide for a legislative council study;"

Page 9, after line 16, insert:

"**SECTION 11. LEGISLATIVE COUNCIL STUDY - LOCAL ECONOMIC DEVELOPERS SYSTEM.** The legislative council shall consider studying, during the 2005-06 interim, the system of local economic developers to determine whether the existing system provides the most effective and efficient system; whether the system could be improved by providing for increased uniformity in the provision of local economic development services or uniform applications, project investment standards, and economic development authority governance; and whether there are undesirable gaps or duplications in local economic development services, particularly in rural communities. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly."

Page 9, line 17, replace "This" with "Sections 1 through 10 of this" and replace "becomes" with "become"

Renumber accordingly

Date: 3-16-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Amend 50068.0713

Motion Made By Fairfield Seconded By Nething

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 4 No 3

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05

Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0707

Action Taken Amend Adopt

Motion Made By Fairfield Seconded By Nething

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 4 No 3

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05
Roll Call Vote #: 3

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0704 & 50068.0705

Action Taken Adopt Amendments

Motion Made By Fairfield Seconded By Heitkamp

Senators	Yes	No	Senators	Yes	No
Chairman Mutch	X		**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 5 No 2

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05
Roll Call Vote #: 4

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0705

Action Taken Amend Adopt

Motion Made By Heitkamp Seconded By Espegard

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 4 No 3

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05
Roll Call Vote #: 5

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0701

Action Taken Adopt Amendments

Motion Made By Fairfield Seconded By Heitkamp

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach	X				
Senator Espegard		X			
Senator Nething	X				

Total (Yes) 4 No 3

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05
Roll Call Vote #: 6

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50068.0717

Action Taken Adopt Amend

Motion Made By Heitkamp Seconded By Fairfield

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard		X			
Senator Nething		X			

Total (Yes) 2 No 5

Absent Motion failed

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 3-16-05
Roll Call Vote #: 7

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Adopt Amendment 50068.0706

Motion Made By Heitkamp Seconded By Fairfield

Senators	Yes	No	Senators	Yes	No
Chairman Mutch		X	**Senator Fairfield**	X	
Senator Klein		X	**Senator Heitkamp**	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething		X			

Total (Yes) 3 No 4

Absent Motion fails

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Adopted by the IBL Committee
March 16, 2005

50068.0718
Title.0800

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1203

Page 1, line 3, after the semicolon insert "to provide for a legislative council study;"

Page 2, line 1, aftcr the ~~period insert~~ "To be considered a business incentive, the total assistance in all forms must be valued at twenty-five thousand dollars or more"

Page 2, line 2, replace "The" with "Unless specifically provided otherwise, the"

Page 2, remove lines 3 and 4

Page 2, line 5, replace "b." with "a."

Page 2, line 6, remove "location,"

Page 2, line 7, remove "general"

Page 2, line 8, replace "c." with "b."

Page 2, line 13, replace "d." with "c."

Page 2, line 17, replace "e." with "d."

Page 2, line 21, replace "f." with "e."

Page 2, line 23, replace "g." with "f."

Page 2, line 24, replace "h." with "g."

Page 2, line 25, replace "i." with "h."

Page 2, line 26, replace "j." with "i."

Page 2, line 27, replace "k." with "j."

Page 2, line 28, replace "l." with "k."

Page 2, line 29, replace "m." with "l." and replace "Assistance" with "Except for a center of excellence award under section 15-10-41, assistance"

Page 3, line 1, replace "n." with "m."

Page 3, line 4, replace "o." with "n."

Page 3, line 6, replace "p." with "o."

Page 3, line 9, replace "q." with "p."

Page 9, after line 16, insert:

"**SECTION 11. LEGISLATIVE COUNCIL STUDY - ECONOMIC DEVELOPMENT BY SCHOOL DISTRICT TAX ABATEMENTS.** The legislative council shall consider studying, during the 2005-06 interim, the current system under which property taxes levied by school districts are abated for the purpose of furthering economic development and whether this practice of abating property taxes levied by school districts should continue to be a part of economic development efforts in this state. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly.

SECTION 12. LEGISLATIVE COUNCIL STUDY - LOCAL ECONOMIC DEVELOPERS SYSTEM. The legislative council shall consider studying, during the 2005-06 interim, the system of local economic developers to determine whether the existing system provides the most effective and efficient system; whether the system could be improved by providing for increased uniformity in the provision of local economic development services or uniform applications, project investment standards, and economic development authority governance; and whether there are undesirable gaps or duplications in local economic development services, particularly in rural communities. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly."

Page 9, line 17, replace "This" with "Sections 1 through 10 of this" and replace "becomes" with "become"

Renumber accordingly

Date: 3-16-05
Roll Call Vote #: 8

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1203

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass As ~~Am~~ Amended

Motion Made By Espegard Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Chairman Mutch	X		**Senator Fairfield**	X	
Senator Klein	X		**Senator Heitkamp**	X	
Senator Krebsbach	X				
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Mutch

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1203, as engrossed: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1203 was placed on the Sixth order on the calendar.

Page 1, line 3, after the semicolon insert "to provide for a legislative council study;"

Page 2, line 2, replace "The" with "To be considered a business incentive, the total assistance in all forms must be valued at twenty-five thousand dollars or more. Unless specifically provided otherwise, the"

Page 2, remove lines 3 and 4

Page 2, line 5, replace "b." with "a."

Page 2, line 6, remove "location,"

Page 2, line 7, remove "general"

Page 2, line 8, replace "c." with "b."

Page 2, line 13, replace "d." with "c."

Page 2, line 17, replace "e." with "d."

Page 2, line 21, replace "f." with "e."

Page 2, line 23, replace "g." with "f."

Page 2, line 24, replace "h." with "g."

Page 2, line 25, replace "i." with "h."

Page 2, line 26, replace "j." with "i."

Page 2, line 27, replace "k." with "j."

Page 2, line 28, replace "l." with "k."

Page 2, line 29, replace "m." with "l." and replace "Assistance" with "Except for a center of excellence award under section 15-10-41, assistance"

Page 3, line 1, replace "n." with "m."

Page 3, line 4, replace "o." with "n."

Page 3, line 6, replace "p." with "o."

Page 3, line 9, replace "q." with "p."

Page 9, after line 16, insert:

"**SECTION 11. LEGISLATIVE COUNCIL STUDY - ECONOMIC DEVELOPMENT BY SCHOOL DISTRICT TAX ABATEMENTS.** The legislative council shall consider studying, during the 2005-06 interim, the current system under which property taxes levied by school districts are abated for the purpose of furthering economic development and whether this practice of abating property taxes levied by school districts should continue to be a part of economic development efforts in this state. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixtieth legislative assembly.

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Page 9, line 17, replace "This" with "Sections 1 through 10 of this" and replace "becomes" with "become"

Renumber accordingly

2005 TESTIMONY

HB 1203

DEPARTMENT OF COMMERCE TESTIMONY ON HB 1203
JANUARY 31, 2005, 8:00 A.M.
HOUSE INDUSTRY, BUSINESS, AND LABOR COMMITTEE
PEACE GARDEN ROOM
REPRESENTATIVE GEORGE KEISER, CHAIRMAN

LEE PETERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Mr. Chairman and members of the committee, good morning. I am Lee Peterson, Commissioner of the North Dakota Department of Commerce and I am here before your committee today in support of House Bill 1203. We, at the Department of Commerce, realize that our economic development measures must be evaluated on a continuous basis. This bill recognizes a variety of the measures already in place, yet effectively makes the progression to the next level, in a non-intrusive way.

Four years ago, we began to fundamentally change the way North Dakota pursues economic development. You enacted legislation that created the Department of Commerce, with the intent to marshal all of our state's resources into one common effort and goal: Improving the lives of all North Dakotans.

Here at the Department of Commerce, we partner with the private sector and work closely with local and regional developers across the state. Our partners are many and varied, including local convention and visitors bureaus, private businesses, local community action agencies, regional councils, city and county governments, volunteer and professional developers, and our colleges and universities.

Mr. Chairman and members of the committee, what we are doing here at the Department of Commerce is working – and it shows:

- According to the latest statistics from the State Data Center, **North Dakota's population is growing for the first time since 1996**. And we are growing in the 24 to 64-year-old age group, a demographic critical to our economic vitality. (State Data Center and U.S. Census Bureau)
- **We are stemming the flow of outmigration**. In fact, some of our native sons and daughters are returning home to North Dakota because of new and better opportunities here. (State Data Center)
- For 2003, the most recent year for which we have statistics, North Dakota led the nation in per capita personal income growth and was second in wage growth. In fact, **North Dakota was the only state in the nation in 2003 to show both an increase in personal income and a decrease in poverty**. (Bureau of Economic Analysis and US Census Bureau)
- **North Dakota gained jobs while most states, including other states in this region, lost jobs**. We added thousands of new jobs while the rest of the country struggled through a recession. In fact, Job Service North Dakota reported that North Dakota had an increase of more than 7,000 jobs in the second quarter of 2004 compared to the same quarter last year. (Job Service ND)
- **Our average annual wage increased from $23,750 in 1999 to $27,629 in 2003…an increase of 16%**. (Job Service ND)
- **North Dakota also gained more than 500 new businesses in 2003 alone**. (Job Service of ND)

These are just a few of the many measurements of the success we have seen, and they show the positive difference we are making on a variety of levels. Together with local developers and forward-thinking private sector participants, the North Dakota Department of Commerce can show that our efforts are paying off. North Dakotans are enjoying a better quality of life.

In addition to the positive measurements I have just mentioned, we also have proven that we support accountability on a number of other fronts within our agency:

- **Benchmarks** – During the last legislative session, the 19 benchmarks outlined in the North Dakota Economic Development Foundation's Strategic Plan were incorporated into our appropriations bill, and we have created an Annual Benchmark Status report which tracks those benchmarks.
- **Workforce Development & Training** – An accountability measures process that was also incorporated into our appropriations bill during the 2003 session, centered on a cooperative effort between the Department of Commerce, Job Service, Human Services, and the University System to track common measurements in the area of workforce development and training.
- **Additional Program Accountability** – Each of the programs within the Department of Commerce that provide economic development incentives, have a variety of accountability measurements in place, which are monitored on a continuous basis. Specifically, the North Dakota Development Fund, the Agricultural Products Utilization Commission, and the Community Development Block Grant program, each have solid processes which track appropriate data relating to measuring the success of their programs.

However, with all that we are currently doing in regard to accountability, we are aware that there is always more to do. The process of economic development is one that is continuously evolving. House Bill 1203 recognizes that a fine line exists between the responsibility to be accountable and the obligation to respect certain issues of confidentiality. The bill balances both of these important needs, yet improves upon what is already being accomplished.

House Bill 1203 takes the right approach by ensuring more accountability without hindering current economic development efforts or imposing bureaucratic burdens on our state's developers. Reflecting the input of state and local developers, the legislation ensures that the new requirements will be attainable from a practical and hands-on perspective.

Under House Bill 1203, recipients of state development programs would be required to sign a written business agreement, and report to the grantor the following:

- The number of new jobs to be created.
- The average compensation for the jobs to be created.
- The target dates to meet goals (2-5 years).
- A progress report on achievement of job and compensation goals.

House Bill 1203 also incorporates a provision that would require companies to pay back business subsidies if goals are not met by terminating or reducing a company's economic development incentives. This legislation applies to incentives at both the state and local level.

The accountability measures of this bill would apply to cities and counties as well. City and county developers would be required to maintain records of business subsidies and make them available to the appropriate governing body and to the public in an annual report. This report would include:

- The names of the businesses receiving business subsidies during that year.
- The number of new jobs expected to be created by each business.
- The total dollar value of all business subsidies provided by the political subdivision during that year.
- The average compensation expected to be provided by the new jobs anticipated as a result of the business subsidies.

House Bill 1203 offers the right balance of accountability for our economic development programs without being overly intrusive or cumbersome to North Dakota businesses and the development community. More importantly, the bill provides us with the tools to better evaluate the efficiency and effectiveness of our economic development efforts, without compromising confidentiality of employers and employees, or creating obstacles to continued progress.

Ultimately, the requirements of House Bill 1203 will create greater public confidence in our programs and the network of developers throughout our state who are working to advance our economy and make North Dakota an even better place for all of it's citizens. Thank you for your time and attention this morning and I once again urge your support of House Bill 1203.

Stan D. Benson

01/28/2005 07:37 AM

To:
cc:
Subject: Bank of North Dakota--Additional Info. On HB 1203-Proposed Amendment

Representative Keiser,

I wanted to provide you some additional information regarding proposed amendments to HB 1203. The amendments pertain to Bank of North Dakota confidentiality statutes regarding the type of information that the Industrial Commission can release on behalf of the BND. The amendments clarify that BND can indeed share otherwise confidential information with the Department of Commerce.

If the proposed amendments are acceptable would you be willing to route these to the Legislative Council so as they can process and return it to you prior to the scheduled hearing for HB 1203 on Monday, January 31.

Eric Hardmeyer's BND phone number is 328-5674 and he can provide additional information to you, as needed.

Thanks !

Stan Benson
BND Legislative Coordinator
328-5682

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1203

Page 1, line 1, after "reports;" insert "to create and enact a new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code, relating to the confidentiality of Bank of North Dakota customer records;"

Page 9, after line 4 insert:

SECTION 10. A new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code is created and enacted as follows:

Recipient and Grantor reports as required by this Act.

Renumber accordingly

TESTIMONY TO THE
HOUSE INDUSTRY, BUSINESS & LABOR COMMITTEE

JANUARY 31, 2005

HOUSE BILL 1203

STAN BENSON – BANK OF NORTH DAKOTA Support

The proposed amendment to House Bill 1203 pertains to Bank of North Dakota confidentiality statutes regarding the type of information that the Industrial Commission can release on behalf of the BND. The amendments clarify that BND can indeed share otherwise confidential information with the Department of Commerce via the Industrial Commission in its capacity as the managing body of the Bank of North Dakota.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1203

Page 1, line 1, after "reports;" insert "to create and enact a new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code, relating to the confidentiality of Bank of North Dakota customer records;"

Page 9, after line 4 insert:

SECTION 10. A new subdivision to subsection 7 of section 6-08.1-02 of the North Dakota Century Code is created and enacted as follows:

Recipient and Grantor reports as required by this Act.

Renumber accordingly

CHAPTER 6-08.1
DISCLOSURE OF CUSTOMER INFORMATION

6-08.1-01. Definitions. As used in this chapter:

1. "Customer" means any person that is a resident of or is domiciled in this state and which has transacted or is transacting business with or has used or is using the services of a financial institution, or for which a financial institution has acted as a fiduciary with respect to trust property.

2. "Customer information" means either of the following:

   a. Any original or any copy of any records held by a financial institution pertaining to a customer's relationship with the financial institution.

   b. Any information derived from a record described in this subsection.

3. "Financial institution" means any organization that is physically located in the state which is authorized to do business under state or federal laws relating to financial institutions, including, without limitation, a bank, including the Bank of North Dakota, a savings bank, a trust company, a savings and loan association, or a credit union.

4. "Financial institution regulatory agency" means any of the following:

   a. The federal deposit insurance corporation.

   b. The federal savings and loan insurance corporation.

   c. The national credit union administration.

   d. The federal reserve board.

   e. The United States comptroller of the currency.

   f. The department of financial institutions.

   g. The federal home loan bank board.

5. "Governmental agency" means any agency or department of this state, or any authorized officer, employee, or agent of an agency or department of this state.

6. "Law enforcement agency" means any agency or department of this state or of any political subdivision of this state authorized by law to enforce the law and to conduct or engage in investigations or prosecutions for violations of law.

6-08.1-02. Exemptions. This chapter does not apply to any of the following:

1. The disclosure of necessary customer information in the preparation, examination, handling, or maintenance of any customer information by any officer, employee, or agent of a financial institution having custody of such information or in the examination of such necessary information by an accountant engaged by the financial institution to perform an audit.

2. The disclosure of necessary customer information in the examination of any customer information by or the furnishing of customer information to any officer, employee, or agent of a financial institution regulatory agency solely for use in the exercise of that person's duties.

3. The publication of data derived from customer information if the data cannot be identified to any particular customer or account.

4. Any acts required of the financial institution by the Internal Revenue Code.

5. Disclosures permitted under the Uniform Commercial Code concerning the dishonor of any negotiable instrument.

6. The exchange in the regular course of business of necessary customer credit information between a financial institution and other financial institutions or commercial entities, directly or through a customer reporting agency.

7. The release by the industrial commission, in its capacity as the managing body of the Bank of North Dakota, of the following:

   a. The name of any person who has obtained approval for direct or indirect financing or security, including a loan guarantee or a letter of credit, through the Bank of North Dakota primarily for purposes other than personal, family, or household purposes.

   b. The amount of any financing or security referenced in subdivision a.

   c. The amount of any net writeoff or loan forgiveness associated with the financing or security referenced in subdivision a which the industrial commission determines is uncollectible.

8. The disclosure of customer information in the examination, handling, or maintenance of any customer information by any governmental agency or law enforcement agency for purposes of verifying information necessary in the licensing process, provided prior consent is obtained from the licensee and customer.

9. Disclosure of customer information to a law enforcement agency or governmental agency pursuant to a search warrant or subpoena duces tecum issued in accordance with applicable statutes or the North Dakota Rules of Criminal Procedure.

10. Disclosure by a financial institution to the agriculture commissioner that it has given a customer notice of the availability of the North Dakota agricultural mediation service.

11. The disclosure by a financial institution to any financial institution or other entity that controls, is controlled by, or is under common control with the financial institution if the financial institution or other entity receiving the information complies with section 6-08.1-03.

12. A disclosure of customer information under section 502(e) of the federal Financial Services Modernization Act of 1999 [Pub. L. 106-102; 113 Stat. 1436; 15 U.S.C. 6802(e)]. A disclosure under this subsection must comply with the rules adopted under section 6-08.1-10.

6-08.1-03. Duty of confidentiality. A financial institution may not disclose customer information to any person, governmental agency, or law enforcement agency unless the disclosure is made in accordance with any of the following:

1. Pursuant to consent granted by the customer in accordance with this chapter.

2. To a person other than a governmental agency or law enforcement agency pursuant to valid legal process.

HB 1203
House Industry, Business, and Labor Committee
January 31, 2005

Chairman Keiser and members of the Committee. I am Representative Kari Conrad from District 3 in Minot, testifying in support of 1203.

I am supporting HB 1203, because I believe it will help to bring about greater public support for economic development efforts in the future. In Minot we have learned that the public wants information about the specific projects for which their tax dollars are being used, and they want easy access to it. They want information so that they can form their own judgments about whether or not the public effort to improve the economic well-being of their local and state-wide community is worth it.

HB 1203 is a very significant move in the right direction. There are, however, a few additions that I think will make it even more effective. I base these suggestions on my twenty years of support for economic development activities in Berthold and Minot and my experience as a county commissioner, voting on tax incentives and the extension of federal funds for many, many projects.

1. Require reporting of incentives over $10,000 rather than having the limit at $25,000. This will allow more rural communities access to information about projects in their areas.

2. Add distinctions between "full-time and part-time" jobs and define full-time as greater than 35 hours per week. This is what the public considers a full-time job.

3. Require reporting on average job wages in specific dollar categories, rather than average across the board in a company. The great example involves Bill Gates and five homeless people. On average they would all be billionaires, but only Gates can afford to buy a house.

4. Require a company to list all public business incentives it is receiving, at the time, whether for the identified project or some other project or from some other state or political subdivision. Citizens are interested in knowing how many times they are helping the same company. I believe they are concerned about being exploited, but please don't ask me at what point that limit will have been reached.

5. Page 7 lines 10 and 11. Remove the maximum penalty for non-compliance with reporting requirements. $1000 is not much for some companies.

What we have found in Minot is that the sooner such requirements are in place, the sooner citizens not directly involved in economic development efforts will loose their skepticism about economic development projects and support the necessary funding. Before similar measures were put in place, locally, just two bad projects over 10 years killed our local sales tax. Previously, there was, however, no regular reporting except in the minutes of the city or count meetings. Once information was available through specific, centralized reporting procedures, our local sales tax was extended for 10 years.

Thank you for the opportunity to testify and I am available for question.

Testimony HB 1203
House Industry Business and Labor Committee
Don Morrison, North Dakota Progressive Coalition
January 31, 2005

Mr. Chairman and members of the House Industry Business and Labor Committee, my name is Don Morrison and I am the Executive Director of the North Dakota Progressive Coalition.

Thank you for this opportunity to provide information on HB 1203.

The North Dakota Progressive Coalition and many of our member organizations have listened to people and we have discussed both the positives and the shortcomings of publicly supported economic development in North Dakota. We have participated in our local economic development authorities as well as in spirited dialogue in public arenas. We want our economy to be strong and our economic development efforts to be successful.

As this bill is now it is a "feel good" bill. But, with amendments, it could be a start towards greater accountability for public subsidies for private businesses and for better results for workers paychecks. We are concerned, however that without more accountability and results oriented provisions, it could very well provide for a more effective "cheerleader" in the Department of Commerce rather than greater accountability and more public support.

With the proposed amendments and the opportunity for further discussion, we would recommend a "do pass" on this bill.

Again, thank you for the opportunity to provide information about HB 1203.

Mr. Chairman,

Members of the House Industry, Business and Labor Committee,

My name is Lee Snyder. I currently serve as an Alderman on the Minot City Council and have held that position for the last 9 years. I served with some of you as colleagues in the House during the 1991 Session.

I strongly recommend your committee amend HB 1203 before sending it to the floor of the House. This bill needs several amendments that will render it effective as a tool for accountability.

The general public is very skeptical of the efforts made by both the state and local governments in attempting to stimulate business with public dollars. The citizens of Minot are possibly the most skeptical critics of Economic Development because of the failures of some projects. The Websmart fiasco is not the only incident that moves my constituents to be guarded and careful in these efforts. I have learned from my constituents that they desire strong and effective measures to be utilized by their government to protect them from ineffective attempts at development. In general, I believe they seek the following:

- Strong measures involving disclosure of the applying firms before, during, and after the project.
- Average wages by occupational categories, not just an overall average that can hide rank and file wages that are poor and add to the social services burden of the community.
- Job quality standards are needed if citizens are to have confidence in Economic Development efforts. The public will grow more impatient and dissatisfied if the jobs created do not provide attractive wages.
- Require health care benefits as a minimum standard. Ideally other benefits would be available.
- Annual performance reports from the applicant firms to insure conformance with contract requirements.
- The Department of Commerce should published annual reports on expenditures by the Economic Development authorities.
- Public Hearings of projects is a current practice in Minot and have placed no great burden on participating applicant firms.
- Public confidence could be greatly improved with the election of Economic Development Authorities. The public is currently suspicious of Economic

Development Authorities that appear to be closed systems in which they have no opportunity for input.

Accountability of Government is an important theme in North Dakota's history. I sincerely hope you will continue that tradition and insure the taxpayers of North Dakota will not grow cynical of the need for Economic Development.

I wish to thank the Committee Members for their attention and the opportunity afforded me in communicating my thoughts.

Lee Snyder
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North Dakota League of Cities
Founded in 1912

Service, Advocacy, Leadership, Education & Support

HB 1203
House Industry, Business and Labor Committee
January 31, 2005

Committee Members:
When I testified this morning, I mentioned the difficulties in designing accountability legislation that fits cities of all sizes. While city leaders agree with the concept of accountability any time public money is spent, we don't always agree on how to accomplish the goal.

I am attaching two examples of the contrasting views that I mentioned this morning. As the legislature moves forward on this issue, I look forward to the continued dialog.

As several people noted this morning, the very bright spot in all of this debate is the story local leaders have to tell about the economic development successes and the strong partnerships that have been forged.

Regards,
Connie Sprynczynatyk

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TESTIMONY ON HOUSE BILL 1203

House Industry, Business and Labor Committee

Greg Hoover, Urban Development Director
City of Grand Forks, ND

January 31, 2005

Mr. Chairman and members of the House Industry, Business and Labor Committee, I am Greg Hoover, Urban Development Director for the City of Grand Forks. Thank you for the opportunity to present testimony on behalf of the City of Grand Forks on House Bill 1203.

House Bill 1203 relates to business incentives, agreements and reports. The City of Grand Forks generally supports this bill which specifies public accountability requirements when government assists private business in creating employment opportunities through increased economic activity.

As you may know, the City of Grand Forks has a long and successful record of assisting business in locating or expanding operations in the city. From 1996 and through 2004, the Grand Forks Growth Fund has approved nearly $7.3 million in financial assistance to 32 companies in creating or retaining over 1,600 jobs. Most of the assisted companies are still in business; however, some have had to close due to economic factors. This, unfortunately, is the harsh reality of economic development.

We take very seriously our responsibility to the taxpayers of Grand Forks to make prudent decisions when using their money to assist private business. To this end, the Grand Forks Growth Fund has established goals to guide its decisions in providing financial assistance to companies. Our goals are to provide economic support to businesses that create higher paying jobs, save existing jobs, invest capital, create new wealth, diversify the economy, and enhance the property tax base. We maintain a flexible arsenal of financing tools that allow us to meet the varied needs of businesses that meet these goals. When determining the appropriate type of financing for the businesses, we consider the importance of the business to our economy, the creation of higher paying jobs, and the growth potential in terms of likely expansions or spin-off ventures. Finally, we believe in public accountability as demonstrated through the issuance of annual reports and through open (and televised) meetings of the Jobs Development Authority which is responsible for managing the Growth Fund.

We believe that House Bill 1203 captures this same sense of openness and public accountability. We concur with the language in the bill that no business incentive should be given unless it meets a public purpose. We believe that government and the businesses are well served with an agreement that lays out the terms and conditions for the incentive and that allows reasonable provisions for modifying the agreement.

We do, however, have some reservations with certain sections of the bill. They are:

1. Section 1(2)(p) excludes from the definition of business incentive any federal assistance provided through the state or a political subdivision until the assistance has been repaid to and reinvested by the state or political subdivision. We agree with the exclusion up to the point of repayment and reinvestment. As a practical matter, nearly every federal assistance programs come with strings attached and requirements that these strings remain in perpetuity.

   We suggest that this definition be written as follows: "Federal assistance provided through the state or a political subdivision until the assistance loses its federal identity."

2. Section 2(3) requires certain structures for state business incentives. We believe that prescribing these, or any, structures ignores the economic reality that different businesses require different incentives.

   We suggest that this section be eliminated along with Section 2(4) which, though permissive in scope, strongly implies that political subdivisions should employ the same structures.

3. Section 3(3)(c) stipulates that goals for the business incentive must include the number of jobs to be created (or in some circumstances be retained). Taken by itself, this section seems to indicate that jobs are the only criterion upon which the incentive is based. Through we believe jobs are important, they should not be the sole determinant for assisting a business. There are other factors, such as those of the Grand Forks Growth Fund that were articulated earlier.

   We suggest that this section begin by stating that goals of the incentive must meet a public purpose [as defined in Section 1(7)] and that goals for jobs to be created or retained within two years of the benefit date stipulate their number and average compensation.

4. Section 3(e) requires a commitment by the assisted business to continue operations in the jurisdiction providing the incentive for five or more years after the benefit date. Businesses receiving assistance do not make a financial investment with the expressed intent on failing; nor does government provide incentives with the same intent. Both want to succeed, and though Section 4 allows for modifying this requirement in the event a business cannot comply, we believe this section sends a negative signal to prospective businesses.

   We suggest that this section and related references be deleted.

In closing, I hope you will favorably consider these comments in your deliberations. Thank you.

Comments on HB1203, as discussed today 1-28-05

Several questions and statements:
Section 2, part a - Does not include: total assistance in all forms which is valued at less that $25,000. If this is per deal with each business, it is acceptable. If it is the accumulated business with all businesses you do business with for a year it is bad. The meaning is not clear to me.

Section 3 e - Requires a commitment by the recipient to continue operations for 5 years or more after the incentive is given. I am not sure this is even legal. Most businesses that you help that don't stay, quit because they fail.

Section 4, part 1 - Requires paybacks for unmet goals. This would only lead to setting very low goals, and if they don't make the mark on very low goals, they are probably on very shaky financial ground at that time. This is no time to have the added burden of mandatory paybacks to the EDC.

Part 2 - Says that if the goals are not met, not only do you require paybacks, but no further help may be given to help them out of tight spot. This is very bad policy, as sometimes the only groups that can help a floundering business are the EDCs. In most cases the banks can't.

I cannot think of one business that we have worked with in the last five years that would have been willing to go through the paperwork and intrusive and costly accounting and reporting that are included in this bill. What we must remember is, when we are working with these firms, it is we that are trying to convince them to do something - move to, or stay in, the state and expand. Although we are giving them assistance, it is to convince them to do something for us. This is no time to put pages of restrictive paperwork and requirements in front of them to sign.

The smaller JDAs and EDCs would not be able to survive this bill. The local EDCs are accountable every day to their constituents (in the coffee shop and other meetings).

Rick Forsgren, Executive Director
Traill County Economic Development Commission
330 3rd St. NE # 1856 Mayville, ND 58257

HB 1203
Joe Westby
NDEA
February 23, 2005

Mr. Chairman and members of the Senate Industry Business and Labor Committee, my name is Joe Westby, Executive Director of the North Dakota Education Association. Our organization includes over 8,000 teachers, support staff and students planning to become teachers. Our members are distributed across the state in the 210 public school districts in North Dakota.

I am here today to support HB 1203. NDEA supports responsible, accountable economic development efforts for our state. And, a significant part of economic development is investment in public education. I have included several documents in my handouts to you today which our organization used in a North Dakota Education Coalition Joint Summit on Education and Economic Development held in Bismarck October 22, 2004. The Summit was sponsored by the North Dakota School Boards Association, the North Dakota Council of Education Leaders and the North Dakota Education Association. The Governor's office, Congressman Pomeroy, legislators, school administrators, school board members, and teachers participated in this event.

The featured presenters were three economists and the results of their work on education and economic development. The three were Constantinos Christofides from East Stroudsburg University in Pennsylvania; Richard Sims, former Policy Director for the Institute on Tax and Economic Policy in Washington, D.C. and now an independent consultant; and Thomas Hungerford, Senior Scholar and Research Director of the Levy Economics Institute of New York. Their research papers focus on how financial support for K–12 education and higher education has a direct positive impact on the economy of the state and nation. Good economic development means job growth, income growth and reduction in income disparity. And, economic research now supports the concept of increased investment in public education has a direct positive impact on economic development.

As you know, North Dakota is facing another lawsuit on the adequacy and equity of public education financial support. A study of the adequacy of school funding in North Dakota done by Augenblick and Palaisch last year recommends an additional $198 million/year be invested in our public schools. A direct correlation can be made between education funding and the state of the economy according to the work of these economists. The greater the investment in K–12 public education, the greater the reduction in income disparity meaning more opportunity is created for citizens to have quality of life through meaningful employment. The greater the investment in K–12 public education, the greater the impact on mean income in each of the five quintiles studied. States spending the most on public education have the lowest poverty levels. And, therefore state costs of welfare programs are reduced. High quality schools keep property values high -- a direct impact on the economy causing the economy to grow.

This bill is an economic development accountability measure and requires industry locating in North Dakota to be responsible stewards of the tax monies used to assist that industry to do business in our state. Our 8,000 + members want a thriving economy in our state, but we think reasonable accountability by industry is only fair. Our tax resources are limited. Our schools are under funded and we cannot afford state resources to be wasted. Let's promote equal education and economic opportunity for all through a business-sensitive pro-growth economy, equitable revenue sources and fairness in school funding.

That concludes my comments and thank you for the opportunity to appear before you today.

THE NORTH DAKOTA EDUCATION COALITION
(NDEA, NDSBA, NDCEL)

Presents a **JOINT SUMMIT** on

EDUCATION AND ECONOMIC DEVELOPMENT

October 22, 2004
Bismarck Radisson Inn Ballroom

1:00 p.m.	Welcome -- Gloria Lokken, NDEA President Greetings -- Governor or a representative from the Governor's Office Greetings -- Congressman Earl Pomeroy Introduction of the Education and Economic Development Topic – Joe Westby
	Introduction of the Economists – **Michael Kahn**, NEA Research
	K-12 Education in the U.S. Economy – **Tom Hungerford**, Economist
	Effects of State Public K-12 Education Expenditures on Income Distribution – **Constantinos Christofides**, Professor of Business Economics
	School Funding, Taxes, and Economic Growth – **Richard Sims**, Tax Policy Analyst
3:30 p.m.	Break
3:45 p.m.	Facilitated Table Talk and Report-Out – Assisted by NDEA staff
4:15 p.m.	Reaction Panel (NDEA, School Boards, Administrators, Legislator, Governor's Office) *Reaction to economic research and how can we use this research to further the cause of public education in North Dakota?*
4:55 p.m.	Summary and Wrap-Up -- NDEA President Gloria Lokken

Plain Talk

'Education Improves The Economy'

by Joe Westby, Executive Director

The editorial in the *Bismarck Tribune* February 16 entitled "The Sour Legacy of Living Just For Today" written by Ken Beauchamp of the *Beulah Beacon* focuses on the economic damage done by the exportation of millions of jobs to foreign countries. He sites an attitude of "I got mine, you figure out how to get yours" held by corporate America as contributing to this massive exodus along with consumer and worker attitudes making it very difficult for non-college graduates to obtain gainful employment in anywhere other than low paying service jobs. This trend is not good for the country, not good for workers and not good for the economy of the state and nation. It exacerbates income disparity and creates a new class of working poor in this country.

Further complicating the economic life of these folks is the propensity for state government to avoid increasing the revenue stream through state revenue sources such as income or sales tax increases and instead raising license fees, registration fees, tobacco taxes and every other fee levied by state government. These "taxes" on consumer spending impact the lower income segment of the economy to a much greater degree than general revenue increases from income taxes. The lack of adequate funding from state sources causes property tax increases at the city, school district and county levels. These property tax increases dramatically impact lower income homeowners and elderly on fixed incomes trying to remain in their own homes.

Recently, I participated in an NEA sponsored strategic planning session focusing on the relationship between education and the economy. Reports were presented by three economists who had conducted research relating funding for education and economic development. The three were Constantinos Christofides from East Stroudsburg University in Pennsylvania; Richard Sims, former Policy Director for the Institute on Tax and Economic Policy in Washington, D. C. and now an independent consultant; and Thomas Hungerford, Senior Scholar and Research Director of the Levy Economics Institute of New York.

Interestingly, these economic research papers relate somewhat to the topic Beauchamp wrote about in his editorial, but specifically focus on how financial support for K-12 education and higher education has a direct positive impact on the economy of the state and nation. Good economic development means job growth, income growth and reduction in income disparity. And, economic research now proves increased spending for the support of public education has a direct positive impact on economic development. The importance of high quality education on the economic vitality of a state has been an argument supported by NDEA for years. Now there is solid economic research to back it up.

One of the problems faced by many states, including North Dakota, is inadequate and inequitable funding for public education. A direct correlation can be made between education funding and the state of the economy. The greater the spending on K-12 public education, the greater the reduction in income disparity meaning more opportunity is created for citizens to have quality of life through meaningful employment. The greater the spending on K-12 education, the greater the impact on mean income in each of the five quintiles studied. States spending the most on public education have the lowest poverty levels. And, therefore state costs of welfare programs are reduced.

North Dakota is now involved in another lawsuit over the inequity and inadequacy of funding for public education. Our state continues to seek new industry to improve the economic diversity of our state. We need to connect adequate funding of public education and the economic improvement it will generate rather than constantly looking for ways to avoid providing adequate dollars for schools. Research shows high quality schools drive up property values. High quality public services cause states' economies to grow. Investing in education makes good sense educationally as well as economically.

Let's promote ***Great Public Schools For Every Child*** by promoting equal education and economic opportunity for all through a business-sensitive pro-growth economy, equitable revenue sources, and fairness in school funding.

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JOSEPH WESTBY, Executive Director and Consulting Editor
LINDA HARSCHE, Communications Specialist/Editor

NEA RESEARCH
WORKING PAPER

April 2004

School Funding, Taxes, and Economic Growth

An Analysis of the 50 States

Richard G. Sims
Independent Consultant

NATIONAL EDUCATION ASSOCIATION
www.nea.org
Great Public Schools for Every Child

Executive Summary

Recent court decisions and state studies indicate that none of the states measure up on even rough measures of adequacy and equity in school funding. Because of tax and spending limits, some states have school funding systems that are equitable, but hardly adequate. One way to address this problem is for states to get on a path toward achieving adequacy and equity by increasing education spending by a small percentage each year. However, given the compelling need to balance state budgets, governors and legislators frequently confront the difficult choice of cutting spending or raising taxes. A major aspect of this knotty fiscal dilemma is the effect such a fiscal policy decision will have on employment levels in the state.

This study employs a set of state-specific dynamic computable general equilibrium (CGE) models to evaluate the employment effects of a fiscal policy decision relating to education-related taxing and spending. Specifically, the study looks at the consequences of an increase in education spending by 2 percent and an equal increase in state residents' consumer taxes. The analysis considers the development impacts of education as an economic "industry," employing resources and producing an output. It also considers effects that are unique to educational spending, such as its role in regional amenity enhancement (i.e., the value that the increased quality of life from better-supported schools has in attracting a productive and efficient workforce).

The study finds that the number of jobs created by increasing education spending is larger than the number of jobs lost from increasing taxes to support that spending. The study reveals that such a strategy has significant net positive near- and long-term employment effects for each of the 50 states.

NEA RESEARCH
WORKING PAPER

April 2004

The Effects of State Public K–12 Education Expenditures on Income Distribution

Todd Behr, Constantinos Christofides, and
Pattabiraman Neelakantan
East Stroudsburg University

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Executive Summary

The effects of education on people's income are well documented in the economics literature, and the benefits of investing in human capital—in terms of both higher earnings and of other economic and social benefits—are popular research topics for economists and other social scientists. The present study explores the effects of public education expenditures on the distribution of income among people living in the 50 states and the District of Columbia. The study's basic premise is that, since a state's income level depends on its residents' educational level then the income distribution within each state is dependent on the distribution of educational levels among its residents. (There are, of course, other factors contributing to income level dispersion within a state, and these variables' effects are also considered.)

One popular way of graphically depicting equality of income distribution is the Lorenz curve, which records the percentage of total income received by a certain percentage of the population. For a state with perfect equality of income distribution the Lorenz curve appears as a 45-degree line, since 10 percent of the state's population receives 10 percent of the income, 20 percent receives 20 percent, and so on. No state, of course, has perfect equality of income distribution, so this depiction enables researchers to illustrate the relative *degree* of a state's equality of income distribution. In other words, the closer a state's Lorenz curve comes to the perfect 45-degree line the more equal the income distribution among its residents. Thus, the area between the Lorenz curve and the 45-degree line illustrates a state's relative degree of income distribution equality. The smaller the area is the greater a state's equality of income distribution, and the larger the area is the greater a state's inequality of income distribution.

When this gap is expressed as a percentage of the total area, it provides a convenient numerical measure of income distribution equality known as the Gini coefficient. A Gini coefficient of zero indicates perfect equality while a Gini coefficient of one indicates perfect inequality (one person receives the entire income). Kevin Sylwester (2002a) used the Gini coefficient to measure degrees of income distribution equality among fifty countries, and found that countries devoting more resources to public education experienced greater income distribution equality in subsequent years. The current study uses the Gini coefficient to measure degrees of income distribution equality among the fifty United States and the District of Columbia, and measures the impact of devoting more resources to public education on those degrees of income distribution equality in subsequent years.

This report's chapters are Income and Poverty Trends and Distribution, Methodology, Empirical Results, and Conclusions. There are two appendixes of summary and supporting tables and a bibliography that combines both referenced and non-referenced citations. The Trends and Distribution chapter discusses income distributions across the fifty states and the District of Columbia and compares other statistical characteristics, such as differences in public education spending. National trends in income equality from 1970 to 2000 are discussed, as well as trends in other state socioeconomic variables.

The effects of public education expenditures by a state on its Gini coefficient are discussed in the Methodology chapter (they are actually calculated and reported in the Empirical Results chapter), which introduces the basic model and discusses the selection of both dependent and independent variables and the mathematical structure of the regression equations. References are made to other relevant studies, and the similarities of the model to other models are explained. The different measures of income distribution equality are discussed, and the various measures among the states are explained in detail. Since other factors contribute to equality of income distribution besides education, the Methodology chapter identifies them and explains how their effects are "netted out." This chapter briefly surveys the literature, listing other research studies that have addressed the relationship between education and equality of income distribution. (A comprehensive Bibliography appears at the report's end.)

The next chapter discusses empirical results. Since the project's primary purpose was to measure the effects of education expenditures on state income dispersion, this chapter reports exactly how the Gini coefficients of the fifty states and the District of Columbia are influenced by their public education spending levels. The effects of education on lower income residents and on overall poverty levels have been measured and are reported. (Summary tables appear in Appendix A to enable the reader to more conveniently focus on them without having to interpret the supporting estimated regression equations, which appear in Appendix B.)

The report's Conclusions chapter provides a summary of the study's empirical results and critically evaluates how they correspond to the researchers' original expectations. A series of reflections on the other effects of education expenditures and other goals that the project has achieved are also enumerated.

NEA RESEARCH
WORKING PAPER

April 2004

K–12 Education in The U.S. Economy

Its Impact on Economic Development, Earnings, and Housing Values

Thomas L. Hungerford
Levy Economics Institute, Annandale-on-Hudson, New York

and

Robert W. Wassmer
California State University, Sacramento

NATIONAL EDUCATION ASSOCIATION
www.nea.org
Great Public Schools for Every Child

Preface

Residents of the United States recognize the value of publicly provided K–12 education and are quick to express outrage when they feel it is not being offered at an acceptable level of excellence. Although not often discussed as such, this outrage is generated in large part by concerns that have economic roots. Parents worry over the quality of the schools their children attend because a good primary and secondary education is essential to the success of their child's transition from high school to higher education or the labor market. Homeowners, even if they do not have children in public schools, are anxious about the quality of local public schools because they know the direct positive effect it has on the resale value of their property. Finally, business owners recognize that a quality K–12 education makes the workers they employ more productive. Federal, state, and local politicians comprehend these concerns and have consequently placed maintaining and improving the quality of primary and secondary public education at, or very near, the top of their policy agendas.

At the same time, state politicians throughout the United States currently face projected budget deficits. Even if budget deficits are not on their horizon, state policymakers are under constant pressure to reduce the tax "burden" within their state. To balance state budgets without raising taxes, or to pursue a more tax-friendly climate, state officials are forced to consider cutting expenditures. A reduction in state support of K–12 public education has not been exempt from consideration.

When faced with budget deficits, lobbyists claiming to represent the state's business and economic interests have argued that revenue enhancement to balance a government budget is a less-preferred option than cutting state expenditures, including support for primary and secondary education. They cite the possible detrimental effects a tax increase would have on the state's economic development. The argument, which is theoretically correct, is that higher taxes will discourage businesses and entrepreneurs from locating in the state and, consequently, reduce the amount of income and employment generated there. Often left out of this lobbying cry is the fact that a reduction in the quality of K–12 public education will also induce a decline in a state's long-term economic vitality. The question, then, is whether the negative economic effects of raising taxes to support quality K–12 public education are greater or less than the alternative of cutting statewide public support for primary and secondary education. This monograph offers evidence on the economic benefits of a quality K–12 public education.

Overall, we conclude from our literature review that if faced with the choice of (1) increasing revenue statewide to continue supporting the provision of quality public K–12 education or (2) cutting support statewide to public K–12 education to forestall a tax increase, a state's long-term economic interests are better served by increasing revenue. We have reached this conclusion by examining the evidence on the large spillover benefits of a quality public education beyond the direct benefit to those who receive it, the direct data-based evidence of the influence that various taxes and fees and K–12 education expenditures have on economic development, and the empirical evidence on how a quality public education influences an individual's lifetime earnings and the value of homes in the school district where it is provided.

Every child and young adult has surely heard the following: "To get ahead in life, get an education." The evidence suggests that many students take this advice and that it is correct. The provision of a quality K–12 public education plays a crucial role in the individual and economy-wide acquisition of "human capital." The economic payoff to individuals of increased schooling is higher earnings throughout their lifetime—a market-based individual benefit. In addition, a considerable number of benefits from a quality K–12 public education—the spillover effects—extend beyond individuals. Wolfe and Haveman (2002), economists noted for their efforts to put a monetary value on some of education's spillover effects, argue that the value of these spillovers for individuals and the economy is significant and that it may be as large as education's market-based individual benefits.

Economic development, as used in this report, is any dollar-based increase in economic activity within a state. Such increased economic activity can occur through two channels. First, a given economy (with a fixed number of workers, land, raw materials, machinery, and other physical inputs) is able to produce a greater dollar value of output because of the increased productivity of one or more of the existing inputs. Second, an economy produces a greater dollar value of total output by adding more inputs to its production processes. Improving the quality of a state's public K–12 education can result in greater economic development through both of these channels. Improving public education costs money and often results in increasing taxes, however, which depresses economic development. Our review of the research indicates that in most circumstances the negative influence of cutting K–12 public education expenditure by an amount that forestalls a statewide revenue increase of an equivalent amount exerts a greater negative influence on the state's economic development than if the revenue increase were put in place to maintain educational expenditures.

Although the literature is divided, we conclude that school resources can lead to improved student outcomes and higher-quality schools. Additional funding for public primary and secondary schools, however, will not generate greater student achievement unless the funds are used wisely. Furthermore, it must be recognized that other factors—such as student, parent, and neighborhood characteristics—also influence student outcomes and, hence, school quality. Many of these factors are outside the control of teachers, school administrators, and school boards.

The preponderance of statistical evidence shows a positive correlation between the quality of local public K–12 education and the value of homes in that neighborhood. This finding is important because it demonstrates yet another way that the provision of a quality elementary, middle, or high school education yields a tangible economic impact that would be lost with a decline in the quality of this service. The empirical findings in this literature reinforce the notion that spending per student, in itself, is not how parents identify a quality public K–12 education. But the findings presented here do not dismiss the possibility that higher spending is necessary for the provision of quality education.

Most states have had to deal with a projected budget deficit for fiscal 2003–04 and beyond. Many states, including California and New York, have wisely addressed this revenue shortfall by avoiding significant decreases in public K–12 education spending that could compromise educational quality. Even so, we believe that pressure to deal with projected budget deficits through decreases in state expenditures, which could include K–12 education, will continue. Furthermore, the pressure to cut taxes in good times could cause state and local politicians to question the merits of increasing or even maintaining primary and secondary education spending at current levels.

The evidence presented in this monograph suggests that reduced public spending on primary and secondary education could have an array of consequences in several economic areas. Here are some examples of the type and magnitude of the effects, as derived from the studies reviewed.

- **Economic development decline caused by a decrease in in-migration of potential laborers (short run), loss of productivity of future laborers (long run), or both.** Cutting statewide public K–12 expenditure by \$1 per \$1,000 state's personal income would (1) reduce the state's personal income by about 0.3 percent in the short run and 3.2 percent in the long run, (2) reduce the state's manufacturing investment in the long run by 0.9 percent and manufacturing employment by 0.4 percent. Cutting statewide public K–12 education per student by \$1 would reduce small business starts by 0.4 percent in the long run. Cutting statewide public K–12 expenditure by one percentage point of the state's personal income would reduce the state's employment by 0.7 percent in the short run and by 1.4 percent in the long run.
- **Reduction in a state's aggregate home values if a reduction in statewide public school spending yields**

a decline in standardized public school test scores, if in the long run people leave or do not enter the state because of test-score declines.** A 10 percent reduction in various standardized test scores would yield between a 2 percent and a 10 percent reduction in aggregate home values in the long run.

- **Reduction in a state's aggregate personal income, if a reduction in statewide public school spending yields a decline in "quality" of public education produced and a long-run decrease in earning potential of the state's residents.** A 10 percent reduction in school expenditures could yield a 1 to 2 percent decrease in postschool annual earnings in the long run. A 10 percent increase in the student–teacher ratio would lead to a 1 to 2 percent decrease in high school graduation rates and to a decrease in standardized test scores.

Given these possible consequences, we believe that the federal government, which, unlike most state governments, is not prohibited from running an annual budget deficit, is best suited to help state and local governments maintain educational funding during cyclical downturns. We suggest that the National Education Association (NEA) adopt a policy of advocating the preservation of public K–12 education funding using the long-run economic benefits cited here. The NEA can work to strengthen the tie between greater K–12 public education spending and these economic benefits by stepping up its advocacy of the implementation of progressive education programs that can lead to a higher quality of educational output for a given level of education spending.

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Executive Summary

This report introduces, analyzes, and summarizes for policymakers an extensive and diverse economics literature on the effects of public K–12 education spending on local, regional, and state economies. The effects of education spending appear in indicators ranging from economic development to employment rates, small business starts, personal income, and housing values. The report offers real-world evidence that providing a quality K–12 public education for all is one of the best investments that governments can make. Therefore, policymakers should engage in serious thought and analysis before taking cost-saving steps that reduce the quality of public education to solve a local, state, or even federal budget shortfall.

The paper looks at the effects of education spending and educational quality—as distinct from education spending—on economic indicators such as an individual's lifetime earnings, residential property values, manufacturing activity in a state, and small business start-ups in a state. The studies the paper discusses are for the most part regression analyses, which allow a researcher to determine the expected effect of a change in a single causal variable (e.g., education spending) on a specific dependent variable whose value is in part determined by it (e.g., student achievement) while holding constant the other relevant causal variables also thought to influence the dependent variable (e.g., race, poverty level, and parents' education). The study concludes by discussing recent controversies in California and New York that illuminate the real-world complexities of dealing with education funding during a state budget crisis. The study also offers some conclusions and policy recommendations for advocates of public education.

As an introduction to the review of specific studies, the study discusses the need for education investments. It also outlines the role of more and better education in producing direct and "spillover" (indirect) effects on human and social capital. Such effects can include benefits for productivity and economic growth, earned income, social stability, and quality of life. An important theme in the review is the difficulty of increasing or even preserving K–12 education investment within the constraints of a balanced budget, which most state constitutions require. Typically, then, states wishing to increase education spending must counterbalance these additional investments with increases in state revenue, decreases in other state expenditures, or a combination of the two.

But which strategies for coming up with funding for education are best for a state's economy? Researchers have examined several approaches to education investment in a balanced-budget environment. These include making changes in business property tax rates, personal and corporate income taxes, sales taxes, and spending on public services other than education. The authors report that negative economic effects are likely if the financing for K–12 education comes from an increase in the state's deficit or from decreases in higher education or health expenditures. But they also note that most other means of financing public education spending have statistically significant, positive economic effects at the regional, state, and local levels. These include benefits for personal income, manufacturing investment and employment.

number of small business starts, and the residential labor force available in a metropolitan area.

Another focus of the literature, and of the review, is the effect of education spending on educational quality. Here, the authors explore two types of approaches. One is the *production-function approach*. This methodology takes a given level of education resource "input" and determines the maximum level of educational quality "output" achievable from it. The other is the *cost-function approach*. This takes a given or targeted level of educational quality and finds the level of resources needed to produce it (this is also called the *adequacy approach*). Both types of studies seek to control for other factors that may influence school quality, such as differences in students' ability or environment. In that way, they hope to identify the relationships between resources and quality. The authors find this literature divided. Some of the most recent production-function approaches, however, have found innovative ways of controlling for unobserved variables to determine more reliably whether particular education strategies help maximize the "output" of quality. For example, some of these studies have found that being in a small class as opposed to large one (13–17 vs. 22–25 students) yielded an increase in standardized test scores by about 4 percentile points in the first year and by about 1 percentile point in subsequent years. Studies also noted positive effects of small classes on likelihood of taking college entrance examinations (SAT and ACT) and on increased scores on these tests. Research suggests as well that part of the reason for an African American–white differential in educational outcomes may stem from the fact that African American students tend to be in larger classes. Similarly, some of the best-designed cost-function analyses have estimated, for example, that large city schools such as New York's have low outcomes despite high spending not because they are inefficient in the production of education quality but because they face high costs in dealing with student and social situations that are out of the school's control. Overall, the authors feel, the most reliable evidence suggests that school resources—if used appropriately—do make a difference in advancing quality education. On a less-studied subject, the authors also note some evidence that the negative effects of cuts in education funding may be of even greater magnitude than the positive effects of increases in funding.

The authors continue by examining the relationship between school quality and home values. A number of studies have tackled this question, each using data from a different city or metropolitan area (e.g., Cleveland, Dallas, Gainesville, and Chicago). Again, the studies filtered out other potential factors affecting home values to pinpoint the relationship between school quality and home sales price. Of the nine studies reviewed, all indicated positive effects. In general terms, the conclusions of the analyses are as follows. Presuppose two homes that are identical in all characteristics except that one of them enables the children who live in it to attend a K–12 public school in which standardized test scores are 10 percent higher than the other. The studies indicate that buyers will be willing to pay anywhere between 2 and 10 percent more for the home that confers access to higher-quality education. That is, that home will have a 2 to 10 percent higher value.

In a similar way, the authors examine studies of the effects of school quality on earnings. These effects might reflect a correlation between higher earnings and increased years of education, a premium on earnings for those who attended higher-quality schools, or both. In addition, the quality of schooling might not directly affect earnings, but a positive correlation of quality education with increased years of education and with graduation (the "sheepskin effect") might produce a gain in earnings. For example, studies have looked at the relationships between such factors as student–teacher ratios and teacher pay and students' later earnings. Most of the literature suggests that school quality has significant positive effects on students' earnings as well as on their likelihood of pursuing a higher education. Education beyond a high-school diploma, in turn, confers distinctive earnings advantages—a 9 percent gain for attendees of two-year colleges and a 23 percent gain for attendees of four-year colleges.

The authors' own case studies of California and New York suggest the distance that remains between the worlds of economic analyses and state policymaking. In California, which faced a projected accumulated budget deficit of more than $38 billion in 2003–04, the state government deadlocked over how to reduce the deficit. The Democratic governor, Gray Davis, proposed a combination of fund shifts, revenue measures, borrowing, and transfers of program responsibilities from the state to counties (funded in turn by increasing the state sales and cigarette taxes and by reinstating the top brackets in the state's personal income tax). Even this mixed package envisaged reducing K–12 public school spending per student by about 2.5 percent. The Republican minority in the legislature, however, united behind using expenditure cuts alone against the deficit. The successful recall of Governor Davis—in part because of his failure to cope expeditiously with the deficit—and his replacement by a Republican, Arnold Schwarzenegger, has pushed California farther down the path of expenditure cuts. The new Republican budget plan includes efforts to fund some of the deficit through bond issues, but because of a strong commitment not to impose new taxes, it also depends on economic growth and expenditures cuts. Most believe that the former, however, will not be sufficient to remedy California's persistent structural deficits. And the latter, to the extent that it requires cuts in public K-12 education spending, is likely to have precisely the wrong economic effect.

In the state of New York, the direct and indirect effects of the 9/11 attacks include the loss of 100,000 jobs, damage to thousands of small and medium-sized businesses, and a loss of almost 30 million square feet of office space. In all, New York faces a fiscal 2003–04 gap of more than $9 billion. New York's Republican governor, George Pataki, proposed closing about 60 percent of the fiscal gap through expenditure cuts, with 25 percent more coming from financing, and the final 15 percent from revenue enhancement. Among the governor's proposed expenditure cuts was a $1.2 billion decrease in state education aid to localities. After vigorous protests from parents, teachers, and school administrators, however, the New York legislature passed a budget that will ultimately reduce those cuts, on a school-year basis, to $185 million.

California and New York are certainly at the high end of the deficit problem. But the authors' key point is that many states would risk significant adverse economic effects by cutting public K–12 education spending. This conclusion goes against the argument that the preferred response to an economic crisis is to cut taxes, on the theory that higher taxes are disincentives to business in-migration and growth and will therefore harm employment and income in the state. Within a balanced budget environment, cutting taxes would likely require cutting spending as well. But just as increasing education spending has largely positive economic effects, cutting education spending would have negative effects.

The authors illustrate the type and magnitude of these negative effects by using the statistical findings of earlier studies. For example, with regard to effects on economic development, one statistical study found that cutting statewide public K–12 expenditures by $1 per $1,000 of state personal income would reduce the state's personal income by about 0.3 percent in the short run and by 3.2 percent in the long run. They also note that another study found that such a cut would reduce the state's manufacturing investment in the long run by 0.9 percent and manufacturing employment by 0.4 percent. Similarly, another researcher found that a decline in educational quality, as measured by a 10 percent drop in standardized test scores, would lead to a 2 to 10 percent reduction in home values. They also cite a study that found a 10 percent reduction in school expenditures could yield, in the long run, to a 1 to 2 percent drop in postschool annual earnings.

What, then, are the alternatives to cutting state education spending? The paper contains a table showing options that would actually be less detrimental to a state's economy. Most involve raising one or another state tax or cutting expenditures other than for education or health. The authors believe that these studies provide reliable indications that many alternatives to cuts in education spending would have less damaging effects on factors such as statewide personal income, manufacturing employment, residential labor force, small business starts, and employment.

The authors recognize, of course, that state and local policymakers, when faced with a current-year budget deficit, often face difficult decisions over what to cut. But they are confident in advising states to think long and hard about cutting educational spending that results in a reduction in educational quality even in times of fiscal crisis because the adverse short- and long-term economic effects are evident in the economics literature. The authors believe that because of the states' limited resources and constitutional constraints against running a deficit, the federal government is best suited to help state and local governments maintain public K-12 educational funding during cyclical economic downturns.

The import of the studies cited in this paper, the authors contend, is that the long-run economic benefits of education spending that produces quality educational outcomes—and the potential damage of cuts in that spending—need much greater attention among proponents of public education, policymakers, and the public. The authors suggest that the economics literature on the whole provides a sound basis for the NEA to advocate for preserving public K–12 education quality through adequate funding and through promoting and implementing progressive education programs that can raise education quality even further.

DEPARTMENT OF COMMERCE TESTIMONY ON HB 1203
FEBRUARY 23, 2005, 9:00 A.M.
SENATE INDUSTRY, BUSINESS, AND LABOR COMMITTEE
ROOSEVELT PARK ROOM
SENATOR DUANE MUTCH, CHAIRMAN

LEE PETERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Mr. Chairman and members of the committee, good morning. I am Lee Peterson, Commissioner of the North Dakota Department of Commerce and I am here before your committee today in support of House Bill 1203. We, at the Department of Commerce, realize that our economic development measures must be evaluated on a continuous basis. This bill recognizes a variety of the measures already in place, yet effectively makes the progression to the next level, in a non-intrusive way.

Four years ago, we began to fundamentally change the way North Dakota pursues economic development. You enacted legislation that created the Department of Commerce, with the intent to marshal all of our state's resources into one common effort and goal: Improving the lives of all North Dakotans.

Here at the Department of Commerce, we partner with the private sector and work closely with local and regional developers across the state. Our partners are many and varied, including local convention and visitors bureaus, private businesses, local community action agencies, regional councils, city and county governments, volunteer and professional developers, and our colleges and universities.

The presence of these strong statewide partnerships, and the resulting reliance from these organizations upon the Department of Commerce, in and of itself, mandates a certain level of accountability to these organizations, and therefore the people these organizations represent. In addition to this, we also have proven that we support accountability on a number of other fronts within our agency:

- **Benchmarks** – During the last legislative session, the 19 benchmarks outlined in the North Dakota Economic Development Foundation's Strategic Plan were incorporated into our appropriations bill, and we have created an Annual Benchmark Status report which tracks those benchmarks. These same benchmarks were also recently incorporated into our 2005-07 appropriations bill.
- **Workforce Development & Training** – An accountability measures process that was also incorporated into our appropriations bill during the 2003 session, centered on a cooperative effort between the Department of Commerce, Job Service, Human Services, and the University System to track common measurements in the area of workforce development and training.
- **Additional Program Accountability** – Each of the programs within the Department of Commerce that provide economic development incentives, have a variety of accountability measurements in place, which are monitored on a continuous basis. Specifically, the North Dakota Development Fund, the Agricultural Products Utilization Commission, and the Community Development Block Grant program, each have solid processes which track appropriate data relating to measuring the success of their programs.

However, with all that we are currently doing in regard to accountability, we are aware that there is always more to do. The process of economic development is one that is continuously evolving. House Bill 1203 recognizes that a fine line exists between the responsibility to be accountable and the obligation to respect certain issues of confidentiality. The bill balances both of these important needs, yet improves upon what is already being accomplished.

House Bill 1203 takes the right approach by ensuring more accountability without hindering current economic development efforts or imposing bureaucratic burdens on our state's developers. Reflecting the input of state and local developers, the legislation ensures that the new requirements will be attainable from a practical and hands-on perspective.

Under House Bill 1203, recipients of state development programs would be required to sign a written business agreement, and report to the grantor the following:

- The number of new jobs to be created.
- The average compensation for the jobs to be created.
- The target dates to meet goals (2-5 years).
- A progress report on achievement of job and compensation goals.

House Bill 1203 also incorporates a provision that would require companies to pay back business subsidies if goals are not met by terminating or reducing a company's economic development incentives. This legislation applies to incentives at both the state and local level.

The accountability measures of this bill would apply to cities and counties as well. City and county developers would be required to maintain records of business subsidies and make them available to the appropriate governing body and to the public in an annual report. This report would include:

- The names of the businesses receiving business subsidies during that year.
- The number of new jobs expected to be created by each business.
- The total dollar value of all business subsidies provided by the political subdivision during that year.
- The average compensation expected to be provided by the new jobs anticipated as a result of the business subsidies.

House Bill 1203 offers the right balance of accountability for our economic development programs without being overly intrusive or cumbersome to North Dakota businesses and the development community. More importantly, the bill provides us with the tools to better evaluate the efficiency and effectiveness of our economic development efforts, without compromising confidentiality of employers and employees, or creating obstacles to continued progress.

Ultimately, the requirements of House Bill 1203 will create greater public confidence in our programs and the network of developers throughout our state who are working to advance our economy and make North Dakota an even better place for all of it's citizens. Thank you for your time and attention this morning and I once again urge your support of House Bill 1203.