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ROLL NUMBER

DESCRIPTION

1424

2005 HOUSE FINANCE AND TAXATION

HB 1424

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1424**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **January 26, 2005**

Tape Number	Side A	Side B	Meter #
1	**X**		**0.9**
Committee Clerk Signature Janice Stein			

Minutes:

REP. WES BELTER, CHAIRMAN Called the committee hearing to order.

REP. MERLE BOUCHER, DIST. 9 Introduced the bill. See attached written testimony. He compared this bill with another one regarding economic accountability, HB 1203, and supposedly there is also a bill being introduced on the senate side relating to economic development.

REP. BELTER In setting up this bill, you are well aware of the tremendous competition in states and cities, in trying to attract businesses, is this legislation modeled after any other state?

REP. BOUCHER This is legislation that has been presented in Minnesota, and other states, we all have the NCSL and all of those groups out there, accountability is something that has been discussed in many states across the country. There are different models out there. This is the one that came to my desk, this is a working document.

REP. CONRAD Related to his written testimony, stating he picked out three areas, are they the most important things in this bill?

REP. BOUCHER When we talk about economic development in communities, and if you go around the state of North Dakota, it is a mixed bag as to how they handle economic development. In my community we have what we call a Jobs Development Authority. We have, I think, a mill assessed on our city taxes that creates a pool of money that amounts to about eight hundred dollars. What we are talking about in assessment and development authorities, is the fact, that we are going to create some type of a profitable structure where these ideas and proposals are presented. I think we need to develop a clearing house where ideas are presented.

REP. SCOT KELSH, DIST. 11, FARGO Co-Sponsor of the bill. Testified in support of the bill. Stated he would like some of the standards which were put forth in HB 1424, be implemented in HB 1203. He went on to quote a statement by Ronald Reagan, "trust but verify", that is a good policy when it comes to using public money.

REP. STEVE ZAISER, DIST. 21, FARGO Testified in support of the bill. He stated he was a co-sponsor on this same bill two years ago, and that bill didn't get quite as much scrutiny, as it is getting this year, because there was no other companion bill and it sort of went down. He stated he supported more measures in HB 1424 which more cleanly define accountability. He read an article he got off of the internet addressing what is happening across the country.

DON MORRISON, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA PROGRESSIVE COALITION, Testified in support of the bill. See attached written testimony. He went on to explain every section of the bill.

REP. BELTER If it is a new type business, there is a high risk of failure, how are you going to require something that has a high chance of failure to own up to whatever the taxpayer put in for him?

DON MORRISON This is a balance. We want those businesses to succeed and to pay high wages, so people can earn livings working for those companies. Part of that is the promises, in other states, they have found, there are a whole lot more negotiation and thought between the taxpayer agencies and the businesses, about what those promises will be. Part of that is, it takes two years until you get to that point.

REP. DROVDAL Related to the recapture part, a lot of times businesses come in and we grant them the tax credits, but not everything is in their control, a natural disaster could cause setbacks which they have no control over, is there any leeway that could be given by local economic developments to adjust for items out of their control, so in two years, they may have four years to achieve this employment rate.

DON MORRISON I think maybe we should make sure we are not putting undue burdens on businesses. One of the things we want to make sure as part of that discussion, is what about the workers who are counting on those jobs. We don't want to put undue burden on the employees, the taxpayers, the schools, etc.

REP. IVERSON This sounds more like a wage bill, then an economic development bill. If a corporation or business came in here and they can't afford to pay decent wages to be competitive, what do you suggest they do?

DON MORRISON Part of that situation has to do with, we are providing the investment. We are not talking about every business, only businesses that receive taxpayers money.

REP. DROVDAL Under current law, the school board has the authority to say no, on granting economic development, in some areas, am I wrong?

DON MORRISON They can be consulted, but they do not have any say in the process.

REP. DROVDAL I don't like the fact that they can only be consulted, I would like them to have some input. Is there room for flexibility, could they be admitted by a vote of the school board?

DON MORRISON There are a lot of caveats to that, there is probably room for discussion there.

REP. BELTER Who is the Progressive Coalition and who are your members?

DON MORRISON We have been around since 1992, and have been testifying on these kinds of issues since 1993. We are an advocacy group, we have a 33 member organization. It is a group of folks who really care about our community.

REP. HEADLAND You mentioned this bill was basically established in Minnesota, and I thought I heard you say you could provide us with statistics which show us how the program was impacted in Minnesota.

DON MORRISON It is on Good Jobs Website. Minnesota's policies have changed substantially, with the cities and economic development.

REP. HEADLAND Does this report show how companies have received the abatements, and how they have prospered and achieved their goals?

DON MORRISON It talks about some of the successes. Also, they have a better relationship with the people in their community.

REP. BELTER This would apply to state as well as political subdivisions?

DON MORRISON Yes

REP. BELTER Are these reports public information?

DON MORRISON Yes, the information is public information, and they actually, for the most part, except a couple key exceptions, which are income tax exemptions.

REP. BELTER Used a company coming to Bismarck, for an example, they fill out this standardized form, when is that information available to the public,?

DON MORRISON I don't think this addresses that until it is a full fledged project, when they need to have a public hearing.

REP. BELTER Is the public hearing before the project is approved by the local governing body?

DON MORRISON Yes, at that point, there would need to be enough public information so that the public could participate, but before that time, there isn't anything in this bill that requires the release of information.

REP. BELTER If they are cutting a deal in Bismarck, ND, they have their public meeting, all the information becomes public, people from Minot attend the meeting, and they go to the company and say, we can give you a better deal than Bismarck?

DON MORRISON We have been talking about that for about twenty five years. That already goes on. Governors of states, for the past twenty years, have been talking about how do we decrease this amount of competition. I don't think this would increase or decrease that kind of competition. Actually, what they found in Minnesota, is it has lead to more cooperation among communities.

JOE WESTBY, NORTH DAKOTA EDUCATION ASSOCIATION. Testified in support of the bill. See attached written testimony, together with several handouts illustrating what the organizations have been doing.

CHRIS RUNGE, NORTH DAKOTA EMPLOYEE'S ASSOCIATION Testified in support of the bill. We believe we are past the question whether we need accountability, it is what is the level of accountability. We believe strongly that increasing high wage jobs and working with businesses that grow those jobs in North Dakota, that is why accountability is terribly important.

JOSH KRAMER, REPRESENTING THE NORTH DAKOTA FARMERS UNION Testified in support of the bill. See attached written testimony.

DAVID STRALEY, REPRESENTING THE ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA, THE NORTH DAKOTA CHAMBER OF COMMERCE AND BUSINESS COALITION Testified in opposition of the bill. See attached written testimony.

REP. CONRAD Mr. Morrison referred to a report that was put out by the tax department, have you had problems with reporting in the past?

DAVE STRALEY To my knowledge, no, I know there have been some discussions on that. We are doing it at a local level and that is where we want to keep it. I don't think it would be more cumbersom, but once you start generating a report that says certain things, you tie it to a number of jobs, dollars of those jobs, you are going to miss opportunities that exist out there, for example, the elevator, you will miss that. Five or ten years down the road, you see these reports and, should we maybe fund these projects based on the reports, it makes sense, but look at all of the local areas you will miss.

REP. KELSH Does the organization you represent have a position on HB 1203?

DAVE STRALEY Yes and no. Our organization is looking at HB 1203, and have supported that bill, the economic development association has not, their board can't agree, and will be coming in representing themselves in their local area.

REP. KELSH Related to Sections 11 and 12 of the bill, regarding the school districts, do you oppose all sections of the bill?

DAVE STRALEY Section 11, we support giving it to the local entity local control.

JERRY HJELMSTAD, NORTH DAKOTA LEAGUE OF CITIES Testified in opposition of the bill. Stated they had a concern with maintaining a balance. Right now, municipalities have the opportunity to negotiate a project and require certain things in that negotiation process, we think that gives them the flexibility they need to perform the requirements because of variation in the types of jobs around the state. As far as hearing requirements, North Dakota does have very proud open meeting laws, and all decisions of these bodies are made at open meetings. The question relating to property taxes on school property, negotiating with that project operator, those school taxes are a big chunk of what is negotiated. Right now, the law does provide that the school boards can have a non voting representative on that governing board when they are involved in project deliberations. They think this does give them the opportunity to point out what the problems may be, if this project were to be brought in with a tax exemption. On the other hand, we are looking at a situation where when city or county governing board members are elected, part of the reason they are elected is to promote job creation within those areas. As pointed out, cities do have the ability to appoint a job development authority or they can contract an existing authority.

With no further testimony, the hearing was closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1424**

House Finance and Taxation Committee

❑ Conference Committee

Hearing Date **February 2, 2005**

Tape Number	Side A	Side B	Meter #
1		**X**	**11.7**
Committee Clerk Signature			

Minutes:

COMMITTEE ACTION

REP. BRANDENBURG Made a motion for a **do not pass.**

REP. IVERSON Second the motion. **MOTION CARRIED.**

11 YES 2 NO 1 ABSENT

REP. BRANDENBURG Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
01/18/2005

Bill/Resolution No.: HB 1424

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			$96,000			
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1424 provides for the collection, review, and distribution of information on economic development incentives granted by the state and its political subdivisions. The bill sets job quality and accountability standards, and has provisions for the recapture of the value of incentives if the standards are not met.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

It is unknown if the recapture provisions of HB 1424 will result in additional revenues to the state during the 2005-07 biennium. Many of the provisions for recapture will first occur beyond the 2005-07 biennium, and therefore, may impact revenues in subsequent biennia.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The gathering, analyzing, and distribution of economic development incentive data required in HB 1424 would result in the need for one FTE in the tax department, estimated to cost $96,000 for the 2005-07 biennium.

Additionally, Department of Commerce and political subdivisions will incur costs associated with the provisions of the bill.

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner

Phone Number:	328-3402	**Date Prepared:**	01/25/2005

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

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1424

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Rep. Brandenburg Seconded By Rep. Iverson

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI	✓				
FROELICH, ROD		✓			
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD	✓				
KELSH, SCOT	✓				
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO		✓			
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes) 11 No 2

Absent 1

Floor Assignment Rep. Brandenburg

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

REPORT OF STANDING COMMITTEE

HB 1424: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1424 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1424

GOOD MORNING CHAIRMAN BELTER AND MEMBERS OF THE FINANCE AND TAXATION COMMITTEE. FOR THE RECORD, MY NAME IS REPREPSENTATIVE MERLE BOUCHER OF DISTRICT 9. I AM HERE TODAY TO VOICE MY SUPPORT FOR HB 1424, WHICH INCREASES VISIBILITY AND ACCOUNTABILITY FOR BUSINESSES THAT UTILIZE PUBLIC FUNDS FOR ECONOMIC DEVELOPMENT AND ENTREPENEURIAL ENDEVOURS. OVER THE COURSE OF RECENT YEARS STATES SUCH AS MINNESOTA AND WISCONSIN HAVE IMPLIMENTED ACCOUNTABILITY LAWS. IN TOTAL, 29 STATES HAVE ESTABLISHED THEIR OWN SUBSIDY ACCOUNTABILITY GUIDELINES TO PREVENT MISUSE AND ABUSE OF INCENTIVE PROGRAMS. HB 1424 ESTABLISHES THAT EVERY TWO YEARS BEGINNING IN 2006 THE TAX COMMISSIONER SHALL:

- DISCLOSE STATE TAX EXPENDITURE SUBSIDIES FOR DEVELOPMENT
- DISCLOSE PROPERTY TAX SUBSIDIES FOR DEVELOPMENT
- CREATE A STANDARDIZED APPLICATION AND APPROVAL PROCESS BY THE DEPARTMENT OF COMMERCE FOR ANY ON-BUDGET DEVELOPMENT SUBSIDY THAT WILL BE UNIFORMILY USED BY ALL GRANTING BODIES

IN ADDITION, HB 1424 ALLOWS FOR THE:

- CREATION OF GUIDELINES BY WHICH BUSINESSES ARE HELD ACCOUNTABLE IN THE AREAS OF JOB, WAGE, AND BENEFIT GROWTH.

- OPTIONAL ESTABLISHMENT OF AN ECONOMIC DEVELOPMENT AUTHORITY TO PROMOTE, STIMULATE, AND EXPAND ECONOMIC DEVELOPMENT IN NORTH DAKOTA
- OPEN EXCHANGE OF ECONOMIC DEVELOPMENT IDEAS THROUGH PUBLIC HEARINGS PRIOR TO SUBSIDY APPROVAL FOR SUBSTANTIAL GRANTS.

Testimony HB 1424
House Finance and Taxation Committee
Don Morrison, North Dakota Progressive Coalition
January 26, 2005

Mr. Chairman and members of the House Finance and Taxation 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 1424.

This bill is the result of local people from around the state getting involved in trying to make economic development in their local communities more successful. 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. Citizens have participated in their 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.

This bill is also based on research and information about what has worked in other states. Minnesota has had many of these policies in place since first passing their accountability legislation in 1995 and updating it in 1999. In addition, several years ago we worked with Good Jobs First, a nationally respected non-partisan research organization concerning the best practices in economic development.

North Dakotans in many communities have been talking about the policies that are in this bill. Some communities have adopted some of the provisions like clawbacks. Study resolutions were introduced in the legislature in the 1990s. Some sections of this bill were introduced in bill form in 2001 and 2003. Therefore, I assume you are familiar with much of this bill. We have come a long way. In 2005, there are a variety of proposals and the question may no longer be IF we will have accountability, rather the question may now be what kind of accountability.

Again, thank you for the opportunity to provide information about HB 1424. We urge you to vote a "do pass" on this bill.

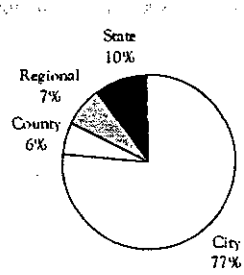
HB 1424
DON MORRISON

More accountability sought for business subsidy programs

In recent years, state and local governments have increasingly offered businesses a variety of incentives and subsidies in order to promote economic development. Greater use of these measures has been accompanied by more frequent discussions about whether or not subsidies are an effective economic development tool, what circumstances justify granting subsidies and how to limit interstate competition to recruit business prospects.

In the midst of these ongoing debates, another phenomenon has emerged. State and local governments are implementing more measures to hold businesses accountable for subsidies they receive, and to hold themselves accountable for making good decisions when granting financial assistance or incentives. According to the Corporation for Economic Development, at least 29 states have enacted accountability laws, up from only two states that had such provisions in 1989.

Help for Minnesota businesses



Source: Minnesota Department of Trade and Economic Development

The impetus for these measures is a growing desire to make sure that governments use incentives wisely, rather than handing them out too freely in an increasingly competitive global business climate. "It's not at all clear that the public is getting its money's worth," argues Wisconsin Rep. Mark Miller, a Democrat from Monona.

In July, Miller facilitated a round-table breakfast discussion on "Accountability for Business Subsidies" during the Midwestern Legislative Conference's 56th Annual Meeting in Lincoln, Neb. Participants discussed the pros and cons of offering incentives and described efforts in their states to make sure public funds are used well.

Accountability in Minnesota

Accountability measures take a variety of forms, including laws that require corporations and government agencies to disclose certain information, statutes that mandate companies meet specified conditions before receiving subsidies, and enforcement mechanisms that require businesses to repay subsidies and/or pay a penalty if they violate terms previously agreed to. The measures apply to a variety of tax incentives — such as abatements, exemptions, deferments and moratoria — as well as non-tax incentives — such as grants, loans, industrial development bonds and tax increment financing.

Advocates of accountability legislation say that most existing laws are limited and fragmented. A handful of states, however, have passed comprehensive legislation. In 1995, Minnesota enacted the Business Subsidies Law, sometimes referred to as the Corporate Welfare Reform Act.

Proponents adapted the rhetoric of accountability from welfare reform debates that were raging at the time. If individuals must be held accountable for subsidies they receive from the government, they argued, why shouldn't corporations be held accountable as well?

Minnesota's law was amended in 1999 and again in 2000, making it what many advocates consider to be the strongest accountability package in the country. Some of the changes were prompted by recommendations from the Legislature's Corporate Subsidy Reform Commission of 1997, which issued its final report in February 1998.

Under the law, state and local government agencies must establish specific criteria for awarding subsidies. The conditions can only be adopted after a public hearing and must be standard requirements, not approved on a case-by-case basis. They must specify minimum requirements that recipients have to meet to be eligible for subsidies, including a specific wage floor for jobs created.

The law's definition of a subsidy includes grants; personal or real property; infrastructure; below-market-rate loans; reductions or deferrals in taxes and fees (including tax increment financing); guarantees of payment under loans, leases or other obligations; and preferential use of government facilities. It explicitly excludes 22 forms of financial assistance, including subsidies less than $25,000.

Recipients and grantors must create subsidy agreements that include the following elements:

- A description of the subsidy, including the amount and type.
- A statement of the subsidy's public purpose. Increasing the tax base cannot be the sole purpose. The 1997 Corporate Subsidy Reform Commission identified several acceptable purposes, including enhancing economic diversity, creating high-quality job growth, stabilizing the community and providing for job retention (but only when loss is imminent and demonstrable).
- A list of measurable, specific and tangible goals for the subsidy, including the number of jobs created and target wages.
- A description of the recipient's financial obligation if the goals are not met.
- A statement of why the subsidy is needed.
- A commitment by the recipient to stay in the jurisdiction for five years after the subsidy is granted.
- The name and address of the parent corporation, if any.
- A list of all financial assistance given by all grantors in the project.

Recipients must provide grantors with information on their progress toward reaching the goals. Grantors, in turn, must submit annual forms to the Minnesota Department of Trade and Economic Development, which then compiles the information into an annual report that is submitted to the Legislature. (The 1999 and 2000 reports are available on the department's Web site at *www.dted.state.mn.us/02x05x02x01.asp*. More information about the reporting requirements is available at *www.dted.state.mn.us/02x05.asp*.)

In addition, state agencies must provide public notice and hold a hearing before they grant subsidies of more than $500,000. Local governments must do the same for subsidies of more than $100,000.

Miller plans to introduce a bill in Wisconsin based on Minnesota's law. "The goal of the legislation is a reporting requirement by agencies on the loans or economic development grants they make to businesses," he says.

The lawmaker believes he can receive broad support for the measure. For example, he says the Minnesota Chamber of Commerce favored accountability legislation. "They [members of the chamber] thought that to provide public subsidies was an aberration of the business climate."

Miller adds: "I would much rather see government compete on the basis of services that it provides, such as good education, good transportation infrastructure, a good legal system — those kinds of things that would make it attractive for a business to locate in a particular location, rather than trying to compete on how much money you can give them."

Both among people who support and oppose the widespread use of incentives, there seems to be a growing consensus that, when governments offer them, they should hold themselves and recipients accountable for the results.

HB 1424
Joe Westby
NDEA
January 26, 2005

Mr. Chairman and members of the House Finance and Taxation 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.

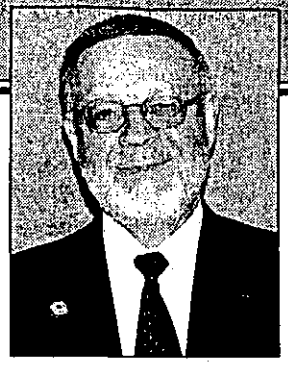
I am here today to support HB 1424. NDEA supports responsible, accountable economic development efforts for our state. And, a significant part of economic development is investment in public education. I have included several documents in my handouts to you today which our organization used in a North 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. Sections 11 and 12 of this bill are particularly important to schools. 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.



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.

NORTH DAKOTA EDUCATION NEWS

ISSN 0048-0681

North Dakota Education News, the official publication, published by the North Dakota Education Association, Box 5005, 410 East Thayer Avenue, Bismarck, ND, 58502. **North Dakota Education News** is published monthly except April, June, July, August, and December. Second class postage paid at Bismarck, North Dakota, copyright 1956, with additional mailing offices. Postmaster; send address changes to North Dakota Education News, Box 5005, Bismarck ND 58502.

Payment of $380 annual membership or $193.50 a year part-time member dues includes $3.82 for subscription to ND Education News.

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

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

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

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

School Funding, Taxes, and Economic Growth

An Analysis of the 50 States

Richard G. Sims
Independent Consultant

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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

K–12 Education in The U.S. Economy

Its Impact on Economic Development, Earnings, and Housing Values

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and

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NATIONAL EDUCATION ASSOCIATION
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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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The composition of this paper was supported by a contract from the National Education Association (NEA). The authors thank Michael Kahn, manager of the School System Capacity unit in the Research Department of the NEA for his valuable assistance throughout the course of the project; Dwight Holmes of NEA Research; Paul Wolman of NEA Research, for drafting the executive summary, providing editorial comments, and moving the manuscript to print; Catherine Rawson for desktop publishing work; and the participants at the NEA Roundtable on Education and the Economy for helpful comments. All opinions expressed here are the authors'. These opinions do not necessarily reflect the views of the Levy Economics Institute; California State University, Sacramento; or the National Education Association.

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 expeditious-

ly 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.

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

North Dakota Farmers Union

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HB 1424
Finance and Tax

Chairman Belter and members of the House Finance and Tax Committee,

My name is Josh Kramer; I am here representing over 35,000 members of North Dakota Farmers Union. I am here to testify in favor of HB 1424, which seeks to provide for collection and review of information on economic development incentives provided by the state and political subdivions in regard to job quality and accountability standards.

North Dakota Farmers Union believes that in order to grow the economy in our state, we need to put forth a constructive program of economic development reform.

There are criteria that our members believe are important when developing economic accountability legislation:

- We believe our state needs to be more open and receptive to rural and urban taxpayers concerns and inputs
- We need to have clearly defined goals, objectives, processes and policies, in regard to economic development
- We need to require companies receiving economic development incentives and taxpayer subsidies to pay wages at 125% of the federal poverty level
- We need to have claw back provisions if companies don't live up to their promises of job creation, retention and wages
- We support legislation to provide accountability of city and county economic development organizations.

North Dakota Farmers Union is concerned about the loss of property tax collections due to economic development tax abatements that force communities to compete against one another while placing an unfair burden on existing local property owners.

North Dakota Farmers Union urges a do pass on HB 1424 which takes a step in the right direction when providing a successful economic policy that will help expand the economy of our state.

Thank you, Chairman Belter and members of the House Finance and Tax Committee, I would answer any questions at this time.

Testimony of David Straley
Greater North Dakota Chamber of Commerce
Presented to the
House Finance & Tax Committee
January 26, 2005

HB 1424

Mr. Chairman and members of the House Finance & Tax Committee, my name is David Straley. I am here today representing the Economic Development Association of North Dakota, the North Dakota Chamber of Commerce, and a business coalition which includes area chambers of commerce in North Dakota with over 7,400 member businesses to urge you to **oppose** House Bill 1424.

HB 1424 puts unnecessary burdens on economic development across this state. We believe that economic development should not be a top down driven process. Local accountability is more responsive to the different community needs for job creation, infrastructure development, etc. Plus, local accountability is already covered by economic development organizations policy and procedure statements; and the economic developers are accountable to local elected officials in the use of public funds. I would like you to think about who are your economic developer associations or boards in your area. These are very competent people, but yet they are not perfect. They are doing this for your communities not to give away money or to see a deal go sour. They are doing it for their communities. Yes, there is risk involved, and that what we believe economic developers do, invest in projects that will not necessarily be given the opportunity from a bank.

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Next, the collection of information as suggested would require more time on development staff which in many areas of the state is a one-person shop, and this would take away from where we want them spending their time. And we are concerned with what the information will be used for because definitions do not always include what is best for a community. For example, keeping a drug store or grocery store open in a rural community is economic development, but not in the larger communities across this state.

Job creation in a rural community versus in a larger city does not carry the same value Many economic development investments are linked to projects that upgrade infrastructure, add value to product or enhance transportation and education. Tracking by job creation becomes unreliable and cumbersome. Tying number to jobs is a very difficult thing and there is room for opportunities that will go unheard of, and if looked at in a report format, will look as though they had very little impact, when in fact they had significant impact to a local community. For example, a value added agricultural processing center. Although what looks like a small business in North Dakota that may only create four or five high paying jobs that will be accounted for, it will not take into account the hundreds of farmers it will impact, although small when looked at a per bushel basis, but it could mean hundreds of thousands of dollars when it is all added up, not to mention reducing costs of transportation for all these farmers.

I would like to mention one last item that is currently in place, there are current open records laws and open meetings laws, which is are a very useful accountability tool.

Thank you, Chairman Belter and members of the House Finance & Tax Committee, for this opportunity to discuss the business community's position on HB 1424. We urge a **DO NOT PASS** for HB 1424. Thank you and I would be happy to answer any questions at this time.

The following chambers are members of a coalition that support our policy statements:

Beulah
Bismarck-Mandan
Bottineau
Cando
Crosby
Devils Lake
Dickinson
Fargo
Grand Forks
Greater North Dakota Chamber of Commerce
Hettinger
Jamestown
Langdon
Minot
Wahpeton
Watford City
West Fargo
Williston

Total Businesses Represented= 7429