



WORKFORCE DEVELOPMENT COUNCIL

317 West Main Street, Boise, Idaho 83735-0510

TRANSMITTAL # 5

MEMORANDUM

February 24, 2010

TO: Workforce Development Council

FROM: Mark Warbis, Communications Director
Office of Governor Otter

SUBJECT: Report on the Governor's Business Summit

ACTION REQUESTED: None. Information Only

BACKGROUND:

Attached is a copy of the Report on the Governor's Business Summit held at the Boise Centre on August 31, 2009. The purpose of this landmark event was to provide a forum for a broad segment of the business community to describe the current condition in their industries, the challenges they face in the economic downturn and what state government could do to accelerate a prosperous recovery.

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Report on the
Governor's Business Summit
August 31, 2009

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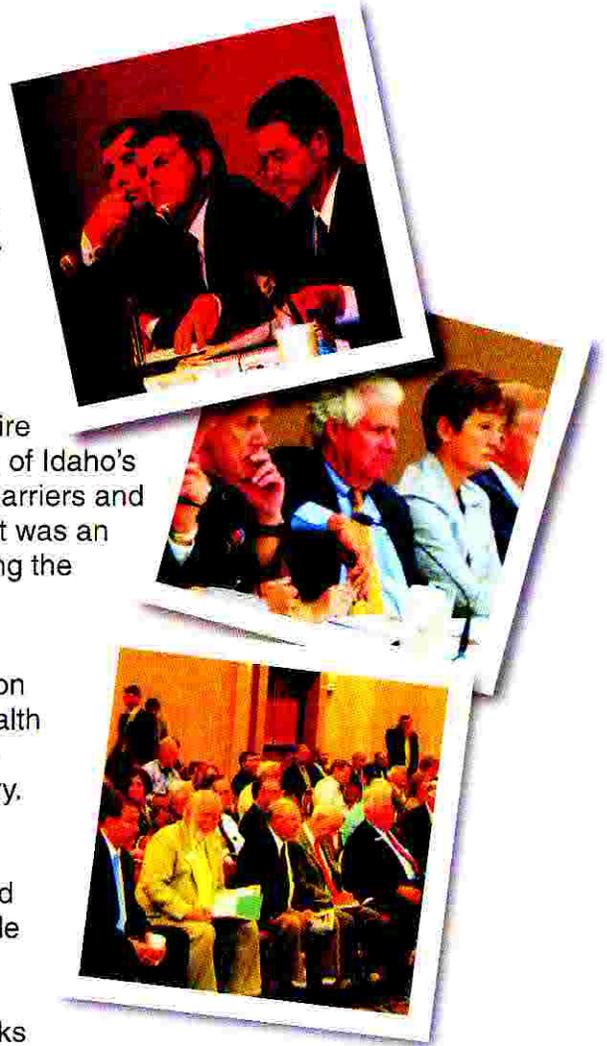
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www.project60.idaho.gov

BACKGROUND

On August 31, 2009, Governor C.L. "Butch" Otter convened the first ever Governor's Business Summit at the Boise Centre, Boise, ID. The purpose of this landmark event was to provide a forum for a broad segment of the business community to describe the current conditions in their industries, the challenges they faced in the economic downturn and what state government could do to accelerate a prosperous recovery. The Governor organized the event to support Project 60, his economic development plan to take Idaho's \$51 billion economy to \$60 billion through comprehensive systemic development, new businesses recruiting and increased international investment in Idaho. This collaborative approach would require public and private partnerships to preserve the best aspects of Idaho's stable, business-friendly environment while minimizing the barriers and obstacles to future growth. The Governor's Business Summit was an important milestone in building those partnerships and setting the stage for effective public policy.

Forty-one panelists participated on eight industry panels: agriculture, natural resources, travel and tourism, construction and transportation, manufacturing, commercial services, health care and social services, and retail. Panelists were carefully selected to represent a diversity of views within each industry. The majority were executive decision-makers or individual business owners. Each panelist had the opportunity to read prepared remarks highlighting their industry's challenges and opportunities. The Governor also encouraged them to provide recommendations for policy changes that might improve business conditions moving forward. A short question and answer period followed the conclusion of all prepared remarks during each panel.



RESULTS

351 pages of testimony were recorded during the summit. Panelists recommended a wide range of policy options to promote economic growth. The Idaho Department of Commerce summarized the recommendations for analysis by the Governor and state agencies. Several reviews produced a very useful discussion on the state of the economy, the competitiveness of Idaho businesses and the appropriate role of government in managing the economy.

On September 27, 2009, the Governor convened the Governor's Innovation Summit to explore the direction of high-technology, research and knowledge-based industries in the state. This summit provided additional perspectives and informed the ongoing review of earlier recommendations. Continuous revisions of tax revenue projections by the Department of Financial Management and ongoing policy debates in Washington D.C. also provided important context for the analysis of policy options.

RECOMMENDATIONS

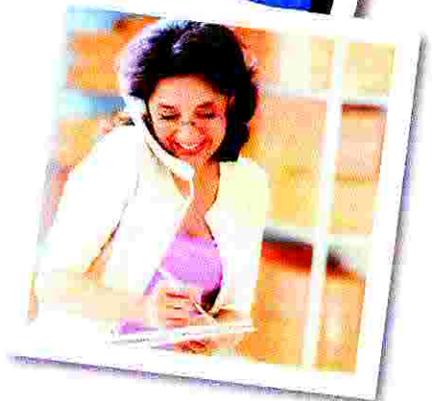
Many themes emerged across each of the industry panels. Of the multitude of recommendations, some clearly represented practical, state-level policy options that would benefit a wide range of businesses and industries. We suggest that the following recommendations (listed in no particular order) merit further discussion by policy makers as practical goals for a quick and robust economic recovery in Idaho.

1. Idaho should eliminate the personal property tax. The personal property tax remains one of the most complex and onerous taxes on businesses in Idaho. It is also difficult to administer and enforce. The Idaho Legislature passed Idaho Code 63-602KK to give businesses some relief from personal property taxes if receipts to the general fund grew 5 percent beyond the 2008 baseline.

Several people have mentioned
the personal property tax.
It's time for that to go away.
— Jim Schmit, Qwest Communications

Unfortunately, as tax receipts declined in 2009 businesses received no relief when they needed it the most. This tax is a significant barrier to business growth and entrepreneurial activity, especially in the creation of jobs that can become careers. It also puts Idaho at a competitive disadvantage in business recruiting and international investment. Eliminating this tax entirely as we have for all other personal property taxes in the state would be a significant economic recovery program with broadly-shared, long-lasting benefits. A 2007 study by a nationally known economist determined that eliminating the personal property tax is not only good for business, it would increase local government revenues over the long haul as well. According to the study, if business personal property taxes were eliminated, state private sector product (income) would increase by about 1.5%, or \$569 million. About two-thirds of the increase would come in the form of more private sector wages and salaries, or \$379 million, which translates into about 2,800 full-time equivalent workers. While the \$110 million generated by the tax represents a significant contribution to current government revenues, increases in private sector wages and sales would nearly offset one-half the costs even in the short term. Eliminating the tax on equipment would also reduce the cost (or “service price,” or required rate of return) of using the equipment in Idaho. The stock of equipment in the state would likely then increase. With more capital in place, the demand for labor would rise and output would increase, expanding the economy.

Personal property taxes can have a much greater impact for many businesses than corporate income tax. The personal property tax is a direct tax on the asset value of the equipment. The asset value is often much larger than the annual income generated by the asset, which means that a property tax rate is financially equivalent to a much



higher income tax rate. Therefore, even small changes in personal property tax rates can have a large impact on investment decisions and the state's competitiveness.

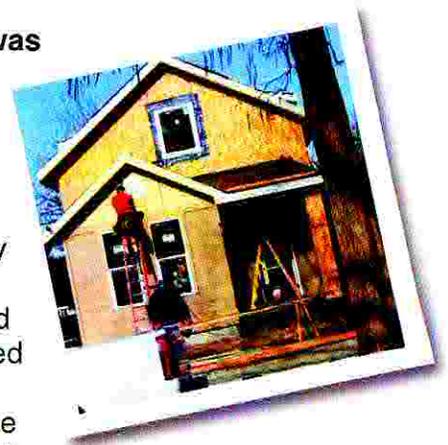
The personal property tax I never did understand.
Why is equipment that adds value to a product and
provides a job for an Idaho family subject to a tax?

– Bill Malloy, Malloy Veneer Company, Inc.

Some business owners indicate savings from the elimination of personal property tax would enable them to invest in better, more efficient equipment. Others have said they would use the money to invest in their employees through health benefits that they could not previously afford. Manufacturing, for example, is an industry that would be significantly impacted by lower personal property taxes. According to the Idaho Department of Labor, Manufacturing's 61,000 jobs make up over 7 percent of Idaho's total employment with an average annual wage above \$56,000. Manufacturing sub-industries range from food and animal production to semiconductors. Due to their longer, geographically related supply chains and the nature of their export-based commodities, manufacturing companies tend to have economic multipliers significantly higher than service producing sectors and the general economy as a whole.

2. Idaho should provide a homebuyer tax credit – similar to what was used by Utah – to stimulate absorption of very high housing inventories.

In 2009, several states including Utah, Georgia, New York, and Missouri offered homebuyer tax credits or grants beyond the federal program to stabilize housing markets and stimulate demand. Utah used ARRA stimulus funds to offer two programs of 1600x\$6000 grants and 1950x\$4,000 grants. Research conducted by the University of Utah Bureau of Economic and Business Research estimates that the homebuyer grants will create 16,000 Utah jobs and \$826 million in home sales. This will result in \$44.4 million in increased sales and income tax receipts back to the state on \$17.4 million in outlays. According to www.realtytrac.com, Idaho was ranked 5th in the nation in foreclosure rates for Q3 2009 behind only NV, AZ, CA and FL.



California also offered a \$10,000 state homebuyer tax credit in 2009 and October 2009 marked the eighth straight month that home sales in CA continued to increase. Idaho's housing market, and the thousands of construction and service jobs that depend on it, remains exceptionally soft. Since July 2007, our state's construction industry has lost over 17,000 jobs. This reflects in part the steep decline in new and existing home sales. For example, in Idaho's largest housing market, annualized new homes sales are off 85% from 2005. A home buyer tax credit or grant program in Idaho could boost sales, stabilize prices, and speed our construction industry back to health. The amount and number of grants could be tied to the size of the inventory and pace of sales. In our largest market, for example, 700 grants would represent about 10% of 2009 rate of new and existing home sales.

The federal government tax credit for first-time home buyers
is the current bright spot in the housing industry.
Combined with other programs, first-time home buyers
are finding great opportunities to get out of rental housing
and into home ownership. – Ron Whitney, Whitney Homes

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700x\$6000 grants would require an investment of \$4.2 million. 700x\$4000 grants would require \$2.8 million. This would be a targeted strategic investment in Idaho's economy that could produce results immediately in one of our hardest hit industry sectors, with expanding benefits to the professional services, retail and manufacturing sectors. Stabilizing home values will also shore up critical local government funding of education and public services. The University of Utah estimated that Utah's 1600x\$6000 round of grants produced 7,025 jobs, \$239.9 million in new wages and \$20 million in tax revenue. Idaho might see proportional benefits.

3. Idaho should provide a significant tax credit for all infrastructure construction investments, including those related to education. One of the most appropriate roles of government in managing the economy is to provide the physical and informational infrastructure necessary for free commerce to flourish. From bridges to broadband, infrastructure investment tax credits should be expanded to incentivize private investment. According to Idaho Department of Labor input/output models, for every \$1 million invested in the state of Idaho within the highway, street and bridge construction industry, for example, 20 jobs



We need affordable power. Our policy makers must stand up for reason over fear...this is especially true when it comes to sites selection and routing for power production and transmission. – Sheldon Alver, Monsanto

are created, boosting Idaho's total wages by over \$800,000. But the long-term benefits to the public can be even greater. We can already see this in the Idaho Education Network (IEN). The IEN has already linked 12 high schools and will have the entire state completed in about two more years giving our kids opportunities they have never experienced. We have also streamlined government services to expedite the construction of energy related projects including new generation and transmission. Idaho will never develop its renewable energy potential without significant new investment in power transmission. We are working to manage and modernize our water systems to encourage conservation and efficient utilization. Finally we are investing in our employees' future. The College of Western Idaho will likely double in size over the next year. Idaho must continue working to find ways to build our transportation system including modernizing truck, rail and air transportation. We need bold steps and collaboration, not fear of the future and discord in solving the problems. The future will come and the problems will only grow without our attention. Therefore, we need substantive incentives for private industry to help us develop an infrastructure that is globally competitive. This will be fundamental in accelerating Idaho towards a \$60 billion economy.

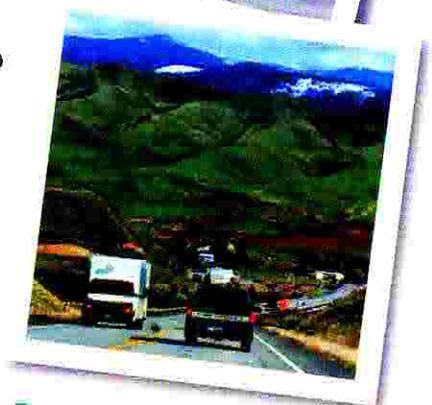
The Broadband Tax Credit is 3 percent for a very low speed. But maybe we should make it something significantly higher than that...It's that kind of policy change that will drive companies like mine, which will eventually make those types of investments in rural parts of the state, to be making them sooner rather than later. – Jim Schmit, Qwest Communications

Idaho companies are extremely freight sensitive to both rail and truck transportation costs.

– Vic Jaro, Amalgamated Sugar

4. Idaho should increase the truck weight limit on more Idaho roads to 129,000 pounds.

Transportation costs directly affect Idaho businesses in many ways, particularly in a state as large as ours. Reducing these costs can immediately make Idaho businesses more competitive. Montana, Nevada, Utah and Wyoming all permit 129,000 pound trucks to conduct interstate commerce. This puts Idaho at a competitive disadvantage. The Idaho Transportation Department has been conducting pilot program studies on raising the weight limit since 1998. After nine years of study, the 2007 report to the legislature stated that there is insufficient evidence that raising the limit degrades roads and bridges at a faster rate or poses a significant increased safety risk to the public. These initial findings confirmed earlier studies in Utah and Montana that both found minimal impacts from higher truck weights. The economic benefits to Idaho's economy have been very straightforward, however. Between 2003 and 2006, Amalgamated Sugar saved \$290,000 on transportation costs. American Ecology saved about \$1.5 million per year, providing sufficient incentive to privately pave a road in Elmore Country important to the company's operations. Savings of this magnitude could also be reinvested into product innovation, capital investment and most importantly new job creation. Idaho's transportation and warehousing industry employs over 30,000 workers and pays an average annual wage of around \$47,000. Certain individual sectors such as long distance freight trucking are experiencing significant unemployment. According to the Idaho Department of Labor, transportation jobs have a high multiplier effect on Idaho's economy. For every 100 jobs added directly in the general long distance freight trucking industry another 144 jobs are created in the rest of the economy. This 2.44 economic multiplier is significantly higher than most due to the high wages paid in this industry — \$53,075 annual average — and its relationship to interstate commerce. It is smart public policy to invest where the impact is the greatest.



If there's anything state officials can do to push for the change in this federal restriction [on truck weight limits], I would urge your support.

– Jason Andrus, Doug Andrus Distributing

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In addition, these transportation savings mainly come in the form of fuel savings from fewer trips. This can significantly reduce the transportation industry's carbon footprint, help reduce our dependency of foreign energy supplies, and help avoid EPA non-attainment status in our metro areas. Idaho should continue pressing congress to allow 129,000 pound trucks to use Idaho's Interstates. In the interim, the ongoing Idaho pilot program can be expanded to include more routes and permits. With no impact on state general funds, this would provide more businesses the opportunity to reduce their fuel consumption and provide more data for ITD's impact studies.

5. Idaho should leverage new technology at ports of entry to reduce processing time and fuel costs. As with increased weight limits, reducing transportation costs can have wide ranging positive effects on Idaho's economy. Weigh in Motion (WIM) - Automatic Vehicle Identification (AVI) technology at ports of entry (POE) can reduce the time and cost of truck transport and improve highway safety for all Idahoans. This technology allows vehicles to bypass POEs provided that their safety rating, credentials and weight limits are in order. WIM-AVI technology saves time and fuel and incentivizes safe/legal operations for carriers and drivers. Two systems were installed in Boise and Lewiston in 1997 and 1999 respectively. The combined traffic through these two POEs is over 6200 vehicles per day. In the past 12 years, 35,800 vehicles have registered in the Idaho transponder data base to take advantage of this program. Each truck with a transponder can save up to half a gallon of fuel and 10 minutes of transport time at each POE. The potential volume of cost savings to the industry could be enormous.

Studies have shown that [WIM-AVI technology] saves the truck ten minutes per bypass and one half gallon of fuel. This saving amounts to \$400,000 per year for our fleet.
- Jason Andrus, Doug Andrus Distributing

But the original systems are outdated and failing. A proposal to improve and expand the WIM-AVI program was part of ITD's 2006 Expanded Commercial Vehicle Information Systems Network plan. Lack of funds prevented its execution. A federal grant should allow ITD to update the current systems, but no funding exists for expanding WIN-AVI technology to the other POEs. While appropriations for WIM-AVI technology should not displace other projects in the State Transportation Improvement Plan, they do represent an excellent investment in infrastructure that can position the state for accelerated future growth. Costs will depend on the number and configuration of the POEs involved, but should not exceed \$6 million for full technology deployment. As mentioned above, careers in the transportation industry pay well and have high multiplier effect through the rest of the economy. The long term payback on such investments could be very significant for Idaho.



6. Idaho should reconvene the Joint Review Process (JRP) for mining to reduce conflicts and delays in federal and state permitting; e.g. Alaska has developed a unit within its Department of Natural Resources to expedite permitting. Idaho's mining industry employs almost 4,000 workers and pays an average wage of around \$59,000. High wages and a strong export orientation give it a high economic multiplier as well. But Idaho Department of Labor employment concentration studies suggest

that Idaho's mining industry may operate at a competitive disadvantage to other states. Clarity and predictability in the permitting process could go a long way to both making our mining industry more competitive and preserving our natural resources. In 1992, the Idaho Mining Advisory Committee (MAC) was established to address this very issue. As a public/private partnership, one of the committee's goals was "to assemble a single source of permitting information for the mining industry, state and federal agencies, and the public." The first step in working towards a more efficient JRP would be to reconvene the MAC to analyze the current challenges in mine permitting and the methods by which a JRP could work in Idaho. The Department of Lands is most likely the best agency to evaluate the current make up of the MAC and the resources needed to reestablish a process. With industry and government representatives both reviewing current needs, the issue of new or expanded state-agency capability like the Alaskan model could be addressed fully and deliberately with little immediate general fund impact.

We need regulatory predictability and should avoid continually moving the goalpost. Ever-changing and tightening standards increase uncertainty, which ultimately discourages investments here in Idaho and moves it offshore where such conditions don't exist. – Luke Russell, Coeur d'Alene Mines

7. Idaho should proactively recruit insurance companies to take advantage of Idaho's pro-insurance tax structure.

Discussions between the Department of Commerce and the Department of Insurance have already begun to conduct market research and develop courses of action for insurance industry recruiting. A number of business leaders within the Idaho insurance industry have also been contacted to provide perspective and assistance. Idaho has a history of successful insurance company home offices and service centers. Over the years, mergers and consolidation have reduced the number of domestic insurers domiciled in Idaho. And yet our low premium taxes and regulatory environment make Idaho highly competitive in the industry. A recent study of state regulatory environments ranked Idaho among the top 4 states in the nation with an accessible, pro-business system that benefits insurers and consumers alike. Idaho's producer licensing system is easy to navigate. We have attractive capitalization requirements. We make examinations very cost effective. Insurance industry careers are also the right kind of careers for Idaho. Careers in the insurance industry are stable, knowledge-based and environmentally sustainable jobs with good pay and low turnover. Idaho's finance and insurance industry employs almost 36,000 workers and pays an average annual wage of around \$42,000. Direct health and medical insurance carriers



Idaho's premium tax structure is insurance company friendly and fair when compared to other states. We at United Heritage have nothing but praise for Idaho's insurance regulatory system. We think Idaho's pro-insurance climate is a story that should be told outside our state more often.

– Dennis Johnson, United Heritage Financial Group

employ around 2,000 in Idaho. Most impressively, according to the Idaho Department of Labor this sector has very high multipliers throughout the economy. For every 100 jobs added directly to the health and medical insurance carrier industry another 271 jobs are created in the rest of the economy. This 3.71 economic multiplier is

due to the high wages paid in the industry and because the service is heavily export based. The Department of Commerce will work with the Department of Insurance to develop a recruiting campaign in support of Project 60 within its current budget and resources.

8. Idaho should create more professional-technical education programs

focused on heavy equipment operation and repair. There is a wide consensus that improvements in education are the most important long-term economic development investments any society can make. Comprehensive approaches like that underway with the Education Alliance of Idaho should continue and should include professional-technical education (PTE) in their strategies. Skilled trades will remain in demand in Idaho for the foreseeable future. It is critical that workforce development efforts begin early and continue through post-secondary education. Perhaps the most responsive and flexible programs are Idaho Department of Professional-Technical Education's workforce training programs. Workforce training programs for business and industry can be delivered in a specific region as customized training or in all regions of the state as a statewide initiative. These training programs are short-term and responsive to industry needs. New training can be developed and delivered in a short time period. Examples include retraining and retrofitting for the "greening" in jobs and occupations. Workforce training programs are funded through employer contributions and student fees, but improved full-time staffing and resources are needed throughout the PTE system to increase its effectiveness.



What we need in the equipment industry is some efforts in our state education system to focus more on vocational/technical training.

– Tom Harris, Western Equipment Sales

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