

POLICY MATTERS OHIO

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Testimony of Jon Honeck, Ph.D.
On S.B. 236 before the
Senate Finance & Financial Institutions Committee
December 6, 2005

Good afternoon, Mr. Chairman and members of the committee. I am Dr. Jon Honeck, a research analyst in the Columbus office of Policy Matters Ohio. It is a pleasure to be here to present the views of Policy Matters Ohio on the Third Frontier portions of Senate Bill 236. Policy Matters Ohio is a nonprofit, nonpartisan institute that does research on tax and economic policy.

The new constitutional amendment says that the General Assembly shall provide for ensuring the accountability of all state funding provided for the purposes described in the amendment. The bipartisan Agreement in Principle reached last summer by the legislative leadership on the implementing legislation for the amendment calls for “accountability, integrity and transparency with respect to the disbursement of funds for the three components of this bond issuance...” The amendment itself also instructs the General Assembly to include “economically disadvantaged businesses and individuals in all areas of this state” in its implementation. The General Assembly should enact legislation consistent with these provisions and the Agreement in Principle.

While SB 236 contains safeguards in keeping with the amendment and the Agreement in Principle, additional measures should be added to ensure Ohioans that the Third Frontier program will be open and accountable, and that it will provide maximum benefits to the state. As outlined in the brief attached to this testimony, Policy Matters Ohio recommends additional safeguards, including:

- Companies selling products and services that were commercialized using Third Frontier funds should make them available to the state and local governments at the lowest, best price;
- Expansion of the Third Frontier Advisory Board in keeping with the amendment’s promise to include economically disadvantaged businesses and individuals and to better reflect the broad range of policy issues affected by the program; in particular, we recommend that four individuals be added to the board:
 - (1) One owner or representative of an Ohio-based minority-owned business;
 - (2) One expert in community economic development from a non-profit organization that works with economically and socially disadvantaged individuals to provide training or support for entrepreneurship;
 - (3) One expert from a non-profit environmental advocacy organization with a background in regulatory affairs, and
 - (4) One representative from a labor organization.

- Periodic performance reviews of the program by the Auditor of State, and
- Competitive bidding for all contracts let by the Ohio Department of Development and other state agencies for program administration and requirements for the review of potential conflicts of interest by contractors and their employees.

We also urge your consideration of the following issues:

- Penalties for nonperformance by the grantee (e.g., failure to file reports), besides the language in Sect. 184.115, which requires money to be paid back with interest in case the entity receiving support does not have an in-state presence within six months or the project does not primarily benefit Ohio.
- All Third Frontier Commission members should file public financial disclosure statements. As written in Section 184.01(H), the bill would treat the statements filed by the six new regional representatives as confidential. A majority of the commission would file confidential reports. Given that the sums awarded by the Commission may approach \$200 million each year, the public interest would be best served by full disclosure.¹
- Sect. 184.16 should be more specific about desired outcomes, including products and services sold commercially for the first time by program beneficiaries; the number of new jobs created; median pay and benefits of such jobs; the race or ethnicity of job holders, and whether they are disadvantaged persons; and, minority ownership of private for-profit grantees. Where relevant, the report also should include the amount of investment by the grantee itself in the project.
- Section 184.14 refers to the establishment of procedures for "public inspection of all support...and the processes used to determine which projects shall receive support." This language should make clear that this information will be available on the web and that it does not require a visit to Columbus.
- The bill does not uniformly cover all forms of financial support, instead referring at times only to "grants." This would create loopholes for those that receive loans, guarantees or other forms of assistance identified elsewhere in the bill (See for line 1185, Section 184.111, instance Section 184.114, line 1216, and Section 184.115, line 1226). This language should be tightened to refer to all forms of support.

We urge the committee to consider these issues carefully, and not to rush to pass Senate Bill 236 before they have been adequately examined. Thank you very much for the opportunity to testify.

¹ This was the approach taken by the General Assembly for members of the board of trustees and the executive director of the Tobacco Use Prevention and Control Foundation; members of the board of trustees and the executive director of the Southern Ohio Agricultural and Community Development Foundation; and the former Biomedical Research and Technology Transfer Commission.