

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE AND LABOR COMMITTEE

Monday, November 22, 1999

Large Conference Room, Skills and Technology Training Center
1305 19th Avenue North, Fargo, North Dakota

Tuesday, November 23, 1999

Room 211, Rural Technology Center, University of North Dakota
4300 Dartmouth Drive, Grand Forks, North Dakota

Representative Eliot Glassheim, Chairman, called the meeting to order at 8:10 a.m.

Members present: Representatives Eliot Glassheim, Rick Berg, Curtis E. Brekke, Byron Clark, Glen Froseth, William E. Gorder, Nancy Johnson, George J. Keiser, Lawrence R. Klemm, Amy N. Kliniske, Dale C. Severson, Dorvan Solberg, Elwood Thorpe; Senators Tony Grindberg, Deb Mathern, Duane Mutch

Members absent: Representative Howard Grumbo; Senators Karen K. Krebsbach, Harvey Sand, Harvey D. Tallackson, Vern Thompson

Others present: See attached appendix

It was moved by Senator Grindberg, seconded by Senator Mathern, and carried on a voice vote that the minutes of the September 13, 1999, meeting be approved as distributed.

ECONOMIC DEVELOPMENT STUDY

Privatization

Chairman Glassheim called on Mr. J. Mac Holladay, Chief Executive Officer, Market Street Services, Inc., for comments regarding privatization of state economic development services. Mr. Holladay addressed the committee via telephone and made a visual computer presentation. He provided a written copy of the computer presentation, a copy of which is on file in the Legislative Council office.

Mr. Holladay defined the term economic development and addressed elements of economic development which are pertinent today. He said the country and the world are undergoing significant economic changes. Key trends, he said, include globalization, technology and telecommunications, regionalism, sustainable development, and work force preparation.

Mr. Holladay said statistics from the United States Department of Labor indicate the fastest growing occupations are computer engineers, computer support, data base administrators, data processing equipment repairs, dental hygienists, desktop publishers, medical assistants, paralegals, personal care and health aides, physician assistants, residential counselors, security and financial professionals, and

systems analysts. He said community decision-making is a process and to be successful it needs to be composed of the following three elements:

- Dissatisfaction with the status quo;
- A shared model or vision for the future; and
- A logical, step-by-step process of implementation.

If any element of this decisionmaking process is missing or done poorly, he said, the decision will not be successfully implemented.

Mr. Holladay explained how each of the following states has used privatization as an innovation to address economic development--Wyoming, through the Wyoming Business Council; Florida, through Enterprises Florida; Nebraska, through Nebraska Development Network; Virginia, through Virginia Economic Development Partnership; and Pennsylvania, through Team Pennsylvania.

In response to a question from Representative Glassheim, Mr. Holladay said reasons in support of privatizing economic development services include removing economic development from politicians which results in continuity between administrations, providing greater expertise as economic development gets more complicated, dealing better with the private sector elements of economic development, allowing greater flexibility in responding to market changes, and getting the private sector to be involved and helping fund economic development.

In response to a question from Representative Gorder, Mr. Holladay said if a state work force does not have skilled workers, businesses will not locate within the state. He said North Dakota and other small states need to work on keeping college graduates in the state, and the state of the economy will affect the ability of these college graduates to stay within the state.

In response to a question from Representative Glassheim, Mr. Holladay said states that have privatized elements of economic development continue to control economic development and require accountability for economic development in a variety of ways. He said Wyoming has accountability built into the law by requiring measures of effectiveness; Virginia deals

with accountability through legislative initiatives; and Florida has dealt with accountability through the funding mechanism such that reports to the Appropriations Committee are required for budgeting purposes.

In response to a question from Representative Berg, Mr. Holladay said the specific measures of accountability over the long term depend on the structure of the economic development organization. During the first years of privatization, he said, accountability can be measured by activity measures, and once the privatized economic development services are established, accountability can be addressed by looking at the outcome of the services.

In response to a question from Representative Berg, Mr. Holladay said in Florida the primary funders of the privatized economic development services were the big businesses within the state. He said private funds are used differently in different states, for example, some states use private funds to allow economic development salaries to increase.

In response to a question from Representative Froseth, Mr. Holladay said his experience has been that private money does not corrupt the system.

In response to a question from Senator Grindberg regarding regional efforts of privatization of economic development, Mr. Holladay said regional participation is especially important for rural communities. He said in Georgia, a 1994 constitutional amendment provided for counties to create multicounty partnerships and share in revenues. He said one way to encourage regionalization is to provide incentives such as regional funds that are only available for multicounty efforts.

In response to a question from Representative Glassheim, Mr. Holladay said one of the major trends in economic development is the increasing need for a qualified work force which has resulted in the trend of providing work force training. He said financial incentives for work force training could include tax credits, incentives specific to particular types of industry, or making incentives available to existing businesses. He said technology is one of the highest priorities in creating an infrastructure for economic development.

In response to a question from Representative Klemin, Mr. Holladay said an example of a multistate activity includes the Carolina Partnership under which several counties in North Carolina are working with several counties in South Carolina.

In response to a question from Representative Gorder, Mr. Holladay said the difficulty of raising venture capital is common to most small states. He said states should be involved in leveraging businesses. He said in the global economy a large portion of the growth is taking place in small- and medium-sized firms.

In response to a question from Representative Berg, Mr. Holladay said he was involved in Wyoming's efforts to privatize economic development. He said

he assisted the Wyoming Steering Committee by gathering information from across the state and coming up with five optional structures for consideration. He said Wyoming picked a hybrid model of privatization, and he is not in a position to comment regarding the successes and failures of this system. He said there are cultural differences between Wyoming and North Dakota. Wyoming, he said, up until recently had never been poor, and the tax structure within Wyoming is very unstable. He said Wyoming was forced to take a look in the mirror to acknowledge the critical nature of its situation, and Wyoming did not have much experience with conflict resolution.

In response to a question from Senator Grindberg, Mr. Holladay said in Wyoming the Legislative Assembly and the local development community seem comfortable with the privatization efforts undertaken. He said one of the trends that indicated a change was needed was that from the years 1990 through 1996 there were 14 percent fewer six-year-olds in the state.

In response to a question from Senator Mathern, Mr. Holladay said in a state like North Dakota, which has urban and rural environments, the first thing that would need to be done is to acknowledge some of these differences and focus on the commonalities such as a commitment that economic development is beneficial to all of the state.

Privatization in Wyoming

Chairman Glassheim called on Mr. Den Constantino, Deputy Director, Business Recruitment and Development, Wyoming Business Council, for comments regarding Wyoming's experience in privatization. Mr. Constantino addressed the committee via telephone. He said he has been with the Wyoming Business Council for six months and did have the opportunity to work with Mr. Holladay in the privatization of Wyoming's economic development.

Mr. Constantino said Wyoming's economic development efforts were noneffective, and the state ultimately came to the point where something needed to be done or an affirmative decision to do nothing at all had to be made. He said the state decided to try something new in trying privatization. During the first years, he said, all of the funding will be public and funding will shift to the private sector over the long term.

In response to a question from Senator Grindberg, Mr. Constantino said one of the toughest hurdles Wyoming has faced has been forming strategic alliances among the stakeholders.

In response to a question from Representative Glassheim, Mr. Constantino said the entire budget for the Wyoming Business Council is \$24 million, and this includes funding from state sources, federal sources, and private sources, and the state's portion of this is approximately 80 percent. When the existing

economic development divisions consolidated, he said, most directors were given the opportunity to work for the Wyoming Business Council and most employees of these divisions were given the same opportunity. He said the 45 Wyoming Business Council employees are not state employees and salaries and benefits are slightly higher than average state employee salaries and benefits.

In response to a question from Senator Grindberg, Mr. Constantino said regionalization has been a bright spot in Wyoming's economic development efforts. He said Wyoming has six regions and the structure of the Wyoming Business Council has helped to focus and strengthen the commonality between each of these communities in the state.

In response to a question from Senator Grindberg, Mr. Constantino said the legislation creating the Wyoming Business Council sunsets in the year 2003. He said this sunset provision is designed to be a safety net and requires the state to reevaluate the economic development efforts in 2003.

In response to a question from Representative Glasheim, Mr. Constantino said the Wyoming Business Council started out meeting monthly, then changed to every other month, and next year the council will meet quarterly. He said the system in place provides for yearly audits, and each division has benchmarks and goals tied to personal income growth and to the rate of teen pregnancy. Mr. Constantino said he would provide the committee with a copy of the benchmarks.

In response to a question from Representative Glasheim regarding the technology infrastructure development in Wyoming, Mr. Constantino said the development of technology infrastructure has been a challenge; however, there has been some progress with the Interstate 80 Corridor, which includes a large fiber optics corridor, and the state is funding studies and consulting for technology infrastructure development.

In response to a question from Representative Glasheim, Mr. Constantino said Wyoming lacks sufficient incentives in the area of economic development.

Privatization in Various States

Chairman Glasheim called on Mr. Randy Schwartz, Deputy Director, North Dakota Department of Economic Development and Finance, for comments regarding privatization of economic development in North Dakota and other states. Mr. Schwartz reported that he just returned from a special forum on public-private partnerships provided by the National Association of State Development Agencies November 18-19, 1999, Orlando, Florida. He said the forum did not identify a model of privatization which could fit in all or most states, rather the forum served as an opportunity to share information about state public-private models already in place so that states could learn about practices that might be used to

improve the effectiveness of their own efforts. The forum, he said, provided an excellent opportunity to network with other states and also to bring home ideas.

Mr. Schwartz distributed copies of the forum agenda, a list of forum attendees, a table of public-private economic development organizations, three National Association of State Development Agencies newsletters, and an article entitled *State Agencies Should Work with Private Sector Players . . . Not Become One of Them*. The documents are on file in the Legislative Council office. Additionally, Mr. Schwartz distributed written information regarding Wyoming's experience with the Wyoming Business Council, Michigan's experience with the Michigan Economic Development Corporation, and Indiana's experience with the Indiana Economic Development Council, copies of which are on file in the Legislative Council office. He encouraged the committee to spend some time looking at what Michigan has done in the area of privatizing economic development.

Mr. Schwartz said some potential benefits of public-private partnerships include improved leadership roles in economic development; improved vision and a strategic plan to guide the state's economic development; reduced role of politics in economic development; increased consistency in state development efforts; leveraged public-sectored funds with private sector for economic development; reduced state costs for economic development; improved performance and accountability of economic development; improved quality and professionalism of state development staff; increased flexibility in how state economic development organizations manage resources; reduced size of state government; improved responsiveness of economic development in meeting the needs of business; improved effectiveness of state, regional, and local economic development; improved coordination of resources at all levels of economic development; improved dialogue between private sector, executive, and legislative branches; increased continuity in state development efforts when governors and legislators change; increased use of private sector leaders as development ambassadors; improved responsiveness by state development economic changes and business needs; and improved information needed to better support state development. He asked the committee members to notify the Department of Economic Development and Finance regarding which of these benefits they would like to see from privatization of North Dakota's economic development services.

Mr. Schwartz said the National Association of State Development Agencies surveys each state development organization regarding traditional functions performed by economic development and finance. This survey, he said, addresses business assistance (small business development, retention, and expansion); business recruitment (advertising, marketing, prospect development, and site location

assistance); business finance; community development and assistance (infrastructure, projects, housing, community education, planning, grants to development organizations, and enterprise zone funding); entrepreneurial development (startup assistance and seed and venture capital); international trade and investment (export promotion, direct investment, and international marketing); minority business development; opportunity fund (project-specific allocations similar to an enlarged director or governor discretionary fund); program support (policy and planning, economic research, web data dissemination, public relations, and in-state regional offices); special industry assistance (agriculture, energy, and telecommunications); state development strategic planning; technology development and transfer (technology commercialization and business modernization); tourism and film; and work force preparation and development (customized training, incumbent worker training, and worker recruitment). He requested the committee members notify the Department of Economic Development and Finance of which of these functions committee members would like to see included in privatization of the Department of Economic Development and Finance.

Chairman Glassheim requested Mr. Schwartz to provide the committee with a copy of the notes he took at the special forum on public-private partnerships and a copy of the National Association of State Development Agencies survey.

In response to a question from Representative Berg, Mr. Schwartz said the current roles of the Department of Economic Development and Finance include business assistance, business recruitment, business finance, minority business development, opportunity fund, program support, and special industry assistance. He said areas the department does not provide include community development assistance, entrepreneurial development, and international trade and investment; and services are lacking in program support in policy and planning, special industry assistance and telecommunications, state development strategic planning, technology development and transfer, and work force preparation and development.

In response to a question from Representative Froseth, Mr. Schwartz said although the Department of Economic Development and Finance is improving its services, there is a real need to address globalization and international growth.

In response to a question from Representative Glassheim, Mr. Schwartz said there are areas of economic development research with which the University System could assist.

In response to a question from Representative Gorder, Mr. Schwartz said in the area of globalization, the state does not have a solid approach to how it treats existing businesses. He said the state needs to leverage existing businesses and global markets and

needs to spend money telling global markets the story of North Dakota.

In response to a question from Representative Froseth, Mr. Schwartz said an example of money-raising efforts for privatization in other states would be Alabama, which raised \$70 million in membership fees.

North Dakota Economic Health

Chairman Glassheim called on Mr. David S. Dahl, Public Affairs Economist, Federal Reserve Bank of Minneapolis, for comments regarding the state's economic health. Mr. Dahl made a computer presentation, a written copy of which is on file in the Legislative Council office.

Mr. Dahl presented statistical information addressing natural resources and the state's dependence on these industries, migration and population, per capita income, labor force growth and the labor force participation rate, unemployment rates, and hourly earnings.

In response to a question from Representative Berg, Mr. Dahl said under the current labor market, employees have a great opportunity.

In response to a question from Representative Klemin, Mr. Dahl said in Fargo the commute range has increased because there is underemployment in rural areas that allows for job growth in Fargo.

In response to a question from Representative Glassheim, Mr. Dahl said if North Dakota creates jobs, it is possible the work force might come from Montana, which has high unemployment; however, Minnesota is experiencing a worker shortage.

In response to a question from Senator Grindberg, Mr. Dahl said the current labor growth in North Dakota is one percent.

In response to a question from Representative Glassheim, Mr. Dahl said he does not have information regarding which sectors of the labor field offer large opportunities for wage growth.

In response to a question from Representative Gorder, Mr. Dahl said there has been a sharp drop in the demand in the agricultural market which is related to the decrease in the Asian market; however, as the Asian markets rebound, we can expect that demand to increase.

Greater North Dakota Association - Role in Economic Development

Chairman Glassheim called on Ms. Joy Johnston, General Counsel, Greater North Dakota Association, for comments regarding the association's role in economic development. Ms. Johnston said the mission of the Greater North Dakota Association is to be the voice of business and the principal advocate for positive change for North Dakota. She said the association's board of directors votes to implement a program of action, which is the association's agenda for the year. She said this year the association's

number two goal was economic development. In meeting this goal, she said, the association will continue to spark the spirit of young entrepreneurs by producing its 23rd business challenge program. She said the association is thankful for the visionary efforts in the new work force training system implemented last session. The association was disappointed, she said, with the reduction in some of the economic development programs like the gap financing and the Development Fund and Work Force 2000; however, the increases in the partnership in assisting community expansion fund and agriculture partnership in assisting community expansion fund programs are welcome and desperately needed. She said the association will continue with its community recognition and statewide awards program to be able to thank some of the outstanding leaders in the communities who volunteer their time and talent to make North Dakota a better place to live. She said the association will work with, and support the efforts made by, the Department of Economic Development and Finance and their partners in North Dakota's communities.

Ms. Johnston said North Dakota is in an economic crisis because farm prices have impacted all of North Dakota's businesses. She said one of the ways North Dakota is positioning itself to withstand these kinds of economic crises is to diversify its economy, and diversification means investment. She said North Dakota taxpayers can and should be a part of the overall economic picture for the good of the state. North Dakota, she said, is spending less and less in its Department of Economic Development and Finance, and the services offered by the department are necessary to bring in new businesses. She said local development organizations depend upon the department and the services offered by the department so that the local economic developers can work on keeping businesses in their communities.

In response to a question from Representative Klemin, Ms. Johnston said the Greater North Dakota Association includes membership of local developers, regional developers, and private industry.

In response to a question from Representative Gorder, Ms. Johnston said the association supports increasing wages and the Department of Economic Development and Finance and overall supports the department's programs.

In response to a question from Representative Glassheim regarding specific suggestions the association may have, Ms. Johnston said the association supports what is good for economic development because what is good for economic development is good for the association.

Banking Industry - Role in Economic Development

Chairman Glassheim called on Mr. Dave Canton, President and Chief Executive Officer, State Bank of

West Fargo, for comments regarding the role of banks in economic development. Mr. Canton said he is actively involved in economic development at the local level and this is typical of bank presidents around the state.

Mr. Canton said state programs he is involved with include the partnership in assisting community expansion fund program, and he is familiar with the new legislation allowing for renaissance zones. He said the partnership in assisting community expansion fund program is very important for economic development, and he said the early indications show the program statements for the renaissance zone are going to be very cumbersome.

Mr. Canton said he would support the creation of a state program to replace the federal Small Business Administration loan program. He said there are problems with the federal Small Business Administration loan program, and it would be an improvement to have a state program that would be administered and underwritten by the Bank of North Dakota. He said his experiences with the Bank of North Dakota have been very positive.

In response to a question from Senator Grindberg, Mr. Canton said the federal Small Business Administration's program is too expensive because too much money is used to pay the salaries of federal bureaucrats.

In response to a question from Representative Klemin, Mr. Canton said a state program similar to the federal Small Business Administration program should be very similar to the federal program, except there would be fewer fees.

In response to a question from Representative Glassheim, Mr. Canton said the local economic development needs in the Fargo and Cass County area are being met.

In response to a question from Representative Berg, Mr. Canton said real estate tax exemptions are good tools for economic development.

Bank of North Dakota - Role in Economic Development

Chairman Glassheim called on Mr. John Hoeven, President, Bank of North Dakota, for comments regarding the role of the Bank in economic development. Mr. Hoeven provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Hoeven said banks and other financial institutions throughout the state are on the front lines in providing financing for business creation and business expansion. He said participation by bankers both as volunteers and through their profession as lenders is integral to the state's economic development efforts.

Mr. Hoeven said the primary role of the Bank of North Dakota is to assist private financial institutions and economic developers in this process. He said the Bank of North Dakota complements and supports the

work private financial institutions do through the Bank of North Dakota's lending programs. The objective of the Bank of North Dakota, he said, is to help private financial institutions manage risk and provide enhanced financial products to the institution's customers.

Mr. Hoeven distributed to the committee members a copy of the Bank of North Dakota's lending program third quarter report for 1999, a copy of which is on file in the Legislative Council office. He said the Bank of North Dakota's loans fall into four primary areas--business and industrial loans, farm loans, home loans, and student loans.

Mr. Hoeven said typically all the Bank of North Dakota's programs are participation loan programs, meaning the private sector drives the process and the underwriting. He said to further leverage this participation lending approach, the Bank of North Dakota has joined with four other state and federal financing agencies to form the One Stop Capital Center at the Bank of North Dakota. He said the Bank of North Dakota, the Department of Economic Development and Finance, the federal Small Business Administration, the Federal Rural Development, and the Dakota Certified Development Corporation comprise the One Stop Capital Center. He provided a copy of a table indicating the total financial assistance in economic development provided by the One Stop Capital Center, a copy of which is on file in the Legislative Council office.

In response to a question from Representative Klemin, Mr. Hoeven said the number of loans provided by the One Stop Capital Center was inflated in 1997 because of the number of natural disasters.

Mr. Hoeven said the private banking industry, in tandem with the Bank of North Dakota and other state and federal financing agencies, will be able to effectively provide loan financing for business development and expansion in North Dakota. He said there is still a need, however, for additional sources of private and public venture capital which are usually in short supply for most business startups and expansions. Historically, he said, North Dakotans have spent their investment dollars out of state rather than investing in new business development in the state. He said there must be incentives and encouragement from North Dakota to invest equity capital in the state.

In response to a question from Representative Froseth, Mr. Hoeven said if economic development services are privatized, the Bank of North Dakota could take an administrative role.

In response to a question from Representative Glassheim, Mr. Hoeven said North Dakota came late to the economic development party, and therefore is dealing with a learning curve. He said the state's next step is to increase funds available for risk equity capital and to implement more tax incentives and other investment vehicles such as mutual fund type investments in state projects.

Committee Discussion and Directives

Representative Klemin said he thinks there are mutual fund products of North Dakota projects currently available within the state.

Representative Gorder requested the Securities Commissioner be invited to a future meeting to testify as to whether there are ways in which risk capital can be raised in the state. He said he is interested in investigating what the state can do to encourage venture capital investments in North Dakota companies. Mr. Kevin Cramer, Director, Economic Development and Finance, said Governor Schafer has raised the same question; therefore, the department has researched this issue. He said it is a very complicated issue.

Representative Klemin said he is interested in receiving more information regarding setting up a state small business administration loan program that is guaranteed by the state and has fewer fees than the federal program. Representative Keiser said the committee could explore this idea with the Bank of North Dakota and perhaps a separate program could be created that allows for the state subsidizing part of the federal Small Business Administration's origination fees. Mr. Cramer said if the Bank of North Dakota were to perform this service, the Bank would be making a large change in the role it plays because typically the Bank guarantees loans.

Chairman Glassheim requested that someone from the federal Small Business Administration, the Bank of North Dakota, and the Department of Economic Development and Finance be invited to testify at a future meeting.

Chairman Glassheim distributed an article regarding Nebraska's top 10 development ideas. A copy of this document is on file in the Legislative Council office.

Senator Grindberg said he is interested in having someone from Michigan's Economic Development Department address the committee on the issue of privatization. He said he is also interested in surveying economic developers within the state on the definition of and the goals and priorities of economic development.

Representative Berg said he is interested in receiving information regarding how local economic development organizations budget their money. He also requested additional information regarding what industries are experiencing the largest area of growth in the top 20 cities within the state.

Representative Kliniske said she is interested in receiving information regarding where North Dakota is in terms of connectivity. She suggested a presentation by Mr. Curtis L. Wolfe, Chief Information Officer, Information Technology Department.

RENAISSANCE ZONES - ANNUAL REPORT

Chairman Glassheim called on Ms. Dina Butcher, Director, Division of Community Services, to present the annual report on the status of the renaissance zone program. Ms. Butcher said the renaissance zone legislation was passed in the 1999 legislative session and became effective August 1, 1999. She said the division is responsible for fleshing out the details of the plan. She said the division has been working with the Tax Department in creating these details and has been providing information to local communities as they request information regarding the renaissance zone program.

Chairman Glassheim called on Mr. Richard Gray, Americans with Disabilities Act Building Code Program Manager, Division of Community Services, to present the annual report on the status of the renaissance zone project. Mr. Gray provided written testimony, a copy of which is on file in the Legislative Council office. Mr. Gray said because the division does not have administrative rulemaking authority for renaissance zones, the division is instead fleshing out the details through what is called a "program statement."

Mr. Gray said the current draft version of the renaissance zone program statement addresses 12 main topics:

1. Division of Community Services responsibilities;
2. Office of State Tax Commissioner responsibilities;
3. Responsibilities of renaissance zone city;
4. Tax exemptions and credits;
5. Creation and administration of renaissance fund corporations;
6. Income tax statistical information;
7. Passthrough of tax exemption or credit;
8. Definitions;
9. Renaissance zone policies;
10. Information required for project final approval by the Division of Community Services;
11. Renaissance zone program procedures; and
12. Recordkeeping for annual monitoring and reporting of renaissance zones.

Mr. Gray provided the committee members with a written copy of the renaissance zone program statement, a copy of which is on file in the Legislative Council office.

Representative Keiser questioned whether the allocation being made under the renaissance zone policies would allow a for-profit organization to invest funds without making the intended improvements. Representative Berg questioned the same policy, asking what would happen if tax credits were used but improvements not made. Mr. Gray was unable to answer these questions.

In response to a question from Representative Glassheim, Mr. Gray said in dealing with property tax

abatements, the Division of Community Services will be striving for parity with income taxes. He said although the legislation indicates abatements are discretionary, the renaissance zone program statement provides that the abatements are mandated.

In response to a question from Representative Solberg, Mr. Gray said the duration of a renaissance zone may not exceed 15 years, but the community plan may be for a period of less than 15 years.

In response to a question from Representative Klemin, Mr. Gray said in defining the term "purchase of property," the value of the property will be established by the renaissance corporation. He said the Division of Community Services will defer as much as possible to the local community and recognizes that the value of property may vary from community to community.

Mr. Gray said the division hopes to notify communities of the availability of the plan and begin to take applications by mid-December.

In response to a question from Representative Thorpe, Mr. Gray said under the current draft version of the renaissance zone program statement, it could be possible that a renaissance zone could include a large sports facility.

Representative Klemin said he would be interested in receiving status reports on the renaissance zones more often than annually.

WORK FORCE DEVELOPMENT SURVEY

Chairman Glassheim called on Ms. Jana Zinser, Policy Principal, National Conference of State Legislatures, to report on the results of the work force development survey. Ms. Zinser distributed a draft copy of the inventory of North Dakota work force programs and policies, and she distributed a written summary of each of the programs offered by state agencies, written copies of which are on file in the Legislative Council office.

Ms. Zinser said the survey indicates there are eight state agencies that deal with work force development programs, and there are approximately 40 work force development programs in the state. In comparing this state with other states she has surveyed, she said, North Dakota seems to be accessing all of the major federal work force programs, and North Dakota seems to invest a lot of local money in work force programs.

Ms. Zinser said some additional work force training programs other states have tried include customized training programs, retraining programs, and providing grants to community colleges to train using technology; however, the other states typically fund these programs through gaming money or tax-exempt bonds. Additionally, she said, the survey responses indicated North Dakota does not have any work force training programs through the Americorp program and the Jobs for America's Graduates program.

Ms. Zinser said Job Service North Dakota covers more areas than this agency typically covers in other states. Additionally, she said, this state's Labor Department did not report any programs and that is unusual.

Ms. Zinser suggested four areas the committee may want to consider when looking at the survey results:

1. Evaluate the amount of money and the number of individuals served;
2. Compare duplication of population served and services offered;
3. Require measures of results; and
4. Consider whether an agency left a survey question blank and evaluate why that response is blank.

In response to a question from Representative Gorder, Ms. Zinser said if information is missing in the inventory, it is because that information was not provided by the agency in the returned survey. Mr. Fraine Zeitler, Director, North Dakota Workforce Development Council, said it is possible some agencies may have left survey responses blank because there may be confidentiality issues.

In response to a question from Representative Johnson, Ms. Zinser said she has not performed work force programs surveys of states similar to North Dakota such as South Dakota, Wyoming, or Montana.

Representative Froseth said he is pleased with the response of the University System and hopes this trend continues.

In response to a question from Representative Kliniske, Ms. Zinser said Texas consolidated approximately 75 percent of the state work force programs; however, there is still some fine-tuning taking place in this consolidation.

Chairman Glassheim called on Mr. Zeitler for comments regarding the work force inventory and the status of the North Dakota Workforce Development Council. Mr. Zeitler provided written testimony, a copy of which is on file in the Legislative Council.

Mr. Zeitler said the work force inventory presented by Ms. Zinser does not indicate whether the work force programs are meeting the needs of the business community, the number one client. He recommended the committee review the work force programs in the inventory in the context of why individual programs were created. He said generally a program is designed to deal with a specific population group. He said he is concerned the committee will make recommendations in the area of work force training without looking at the demand for services.

In response to a question from Representative Glassheim, Mr. Zeitler said the North Dakota Workforce Development Council is creating a strategic plan that will be submitted to the federal government by March 2000. He said a copy of that plan will be available at the web site www.state.nd.us/wia.

In response to a question from Representative Klemin, Mr. Zeitler said in looking at kindergarten through grade 12 requirements, standards come from the Superintendent of Public Instruction, and these standards do not necessarily reflect the standards of industry.

Chairman Glassheim requested Mr. Zeitler report back to the committee on what other states are doing in the area of work force training.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND FINANCE - ANNUAL REPORT

Chairman Glassheim called on Mr. Cramer to present the department's annual report. Mr. Cramer provided the committee with a computer disk containing the visual presentation of the annual report, a document containing the Development Fund loan activities, and the Agricultural Products Utilization Commission grant activity, copies of which are on file in the Legislative Council office.

Mr. Cramer's annual report included an agency overview, the agency's vision and mission, the agency's key strategies, activities of the 1997-99 biennium, agency products and services, challenges facing North Dakota, and solutions for North Dakota.

Senator Grindberg requested the Department of Economic Development and Finance provide the committee with information regarding how the department's budget is spent.

ECONOMIC DEVELOPMENT STUDY Regional Economy

Chairman Glassheim called on Mr. Jerry Nagel, President, Red River Trade Council, Inc., and Northern Great Plains Initiative for Rural Development, for comments regarding the current state of the economy in the region and the future expectations of the region's economy. Mr. Nagel said he would limit his presentation to the three areas of agriculture, technology, and transportation.

Mr. Nagel said in the area of agriculture, within the next five years farmers will need to pay particular attention to what they are raising and to whom they will be selling this agricultural product. He said the future of production in agriculture will be contractual in nature and there will be an interdependence between all of the players. He said this new system will require a very high value and a lot of information at the front end of the process so the producer will be better able to choose the specific crop raised.

Mr. Nagel said this future change in how agriculture works might be addressed by the Agricultural Products Utilization Commission, research grant programs for universities which require different departments within the university to cooperate, and research and loan funds that give the state a stake in the agricultural product.

Mr. Nagel said in the area of technology, the movement is toward an "always on" Internet society. He said the new model for doing business will be connected businesses which will require high-speed access statewide without limits on transactions, and this access will need to be affordable.

Mr. Nagel said "the network favors the network"; therefore, if a party is not on the network, the system will not work for that party. He said by the end of 1999 there will be more Internet users outside the United States than within the United States.

Mr. Nagel said ideas relating to technology include supporting manufacturer business networks, which is a service that would cost the user to use, such as the program in Minnesota; providing high-speed connectivity; and funding sources to train for high technology.

Mr. Nagel said in the area of transportation, the key issue is system reliability and predictability. He distributed to the committee members two articles from the Northern Great Plains Initiative for Rural Development regarding transportation, copies of which are on file in the Legislative Council office.

Mr. Nagel said transportation is integral to a successful supply chain. He said the economy will be moving away from a push logistics to a pull logistics because inventory costs money.

In response to a question from Representative Froseth, Mr. Nagel said the United States Postal Service is taking some measures to stay abreast of the changes in the economy.

Mr. Zeitler said if agricultural products are valued at the front end, there will be some dependence on soil conditions, and a program could be arranged on the computer to allow contact of farmers within certain growing conditions.

Mr. Nagel said there is tracking of products from the field to the floor shelf; however, buyers are not going to contract with 700 separate farmers. He said farmers can create alliances among themselves to deal with purchasers.

In response to a question from Representative Kliniske, Mr. Nagel said he is not certain whether the federal crop insurance program is designed to deal with contractual growing, but the general rule is that the United States government is not very farsighted. He said the relation between the grower and the buyer is becoming closer and closer.

In response to a question from Representative Gorder, Mr. Nagel said his experience has been that product quality requirements result in an interactive relationship between a grower and a buyer.

Economic Development Trends

Chairman Glassheim called on Mr. Bruce Gjovig, Director, Center for Innovation, University of North Dakota, for comments regarding economic development trends and future economic development opportunities in the state. Mr. Gjovig distributed a magazine article regarding North Dakota's economy,

an article regarding Wyoming's economic development, information regarding the university technology park, and information regarding the Center for Innovation, copies of which are on file in the Legislative Council office.

Mr. Gjovig said the 1990s is the decade of entrepreneurs. He said 40 percent of the entrepreneurs who started a new business in 1997 were under 35 years of age and 23 percent were under 30.

Mr. Gjovig said employers of fewer than 20 employees are responsible for the majority of net new jobs, and 70 percent of small businesses are still active after eight years.

Mr. Gjovig said North Dakota, Montana, and Minnesota have the highest number of workers working multiple jobs. He said states with large agricultural sectors and low unemployment rates hold the highest multiple job rates.

Mr. Gjovig said the number of small business incubators has grown significantly in the last 20 years, and these businesses experience an 87 percent success rate. He said the return on the public investment for a small business incubator is \$4.96 per dollar.

Mr. Gjovig said science and technology are responsible for much of the nation's growth in jobs and productivity. He said recent studies indicate that small businesses will lead medium to large businesses in future employment growth, especially in the area of technology-intensive industries.

Role of Small Business Development Center in Economic Development

Chairman Glassheim called on Mr. Wally Kearns, State Director, Small Business Development Center, for comments regarding the role of his organization in economic development. Mr. Kearns provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Kearns said since the program's inception, the program has been one of the nation's strongest examples of a state-federal and public-private partnership designed to assist the country's small businesses. He said the program is funded by the federal Small Business Administration, the North Dakota Department of Economic Development and Finance, the University of North Dakota, and the private sector. The Small Business Development Center helps small business owners, managers, and employees deepen their understanding of small business management by providing analysis, data, and assistance that is generally beyond the capacity of a small business to purchase in the private sector.

Mr. Kearns said the state's economic prosperity is not only linked to agriculture but also to the health of the small business sector. He said the Dun and Bradstreet third quarter 1999 data shows that the average number of employees in a manufacturing firm in North

Dakota is 20. He said in service firms that average is 12.

Mr. Kearns said the major objectives of the Small Business Development Center are to continue to develop an effective working relationship with the North Dakota Department of Economic Development and Finance; provide timely, quality assistance that is cost-effective and has measurable economic impact; provide long-term, indepth counseling; provide quality indepth business assistance through information transfer, consulting, training, networking, and one-to-one counseling; provide a wide range of business development and technology assistance services to small businesses located in rural areas; develop and foster working relationships with colleges and universities, vocational centers, and public high schools; identify resources within the University System to assist entrepreneurs; and involve college students in the delivery of Small Business Development Center services.

Entrepreneurs

Meridian Environmental Technologies

Chairman Glassheim called on Mr. Leon Osborne, Chief Executive Officer, Meridian Environmental Technologies, for comments regarding his economic development experiences in the state. Mr. Osborne is a full-time professor at the University of North Dakota, is technical advisor for Governor Schafer, and is president of a small company.

Mr. Osborne said Meridian Environmental Technologies was created in 1996. As a high technology business, he said, there were high startup costs and problems associated with collateralizing brainpower. He said the business climate in North Dakota is such that high technology is not readily supported; however, North Dakota has been a strong supporter of Meridian.

Mr. Osborne said Meridian is located in the technology incubator at the University of North Dakota, the average salary is \$40,000, and the company employs 30 people. He said the company is experiencing a shortage of qualified employees; therefore, Meridian has started contacting the University of North Dakota alumni as a recruiting tool.

Mr. Osborne said assistance received from the state includes assistance by Technology Transfer, Inc., in helping with the early business plan; assistance by the Bank of North Dakota in providing buydown under the partnership in assisting community expansion fund program; and assistance by the Development Fund in the form of capital equipment expansion.

In response to a question from Representative Glassheim regarding suggestions on what the state could do to improve its services, Mr. Osborne said support of the University System is integral, and the state needs to embrace high technology businesses. He said a problem with funding a business through

investors is that the business owner loses control of the business.

In response to a question from Senator Mutch, Mr. Osborne said there is no foreseeable end to Meridian's need for capital. He said there will likely be no profit for 10 to 15 years.

In response to a question from Representative Kliniske, Mr. Osborne said Meridian is organized as an S Corporation.

Harvest Fuel

Chairman Glassheim called on Mr. Bob Thornberg, President, Harvest Fuel - SweetPro Feed, for comments regarding his economic development experiences in the state. Mr. Thornberg said his business has received economic development assistance through the Agricultural Products Utilization Commission, the Center for Innovation at the University of North Dakota, the North Dakota State University feed trials, the community development block grant in Grafton, interest buydown through the partnership in assisting community expansion fund program, and through Walhalla State Bank through federal Small Business Administration programs and loans.

Mr. Thornberg said the business started in 1989 as a concept and was initially too small and there were too many unknowns for venture capitalists. He said in 1999 the company employs 15 employees and has \$2 million in annual sales. He said initially the Department of Economic Development and Finance matched stock offerings, and the Red River Regional Council provided loan funds. He said economic development assistance has been strong and consistent throughout the business's life.

In response to a question from Senator Mutch, Mr. Thornberg said the ethanol byproducts used by Harvest Fuel have been a good value and they seem to have been underpriced so far.

In response to a question from Representative Klemin, Mr. Thornberg said the stock held by the Department of Economic Development and Finance does not have a buyout provision. He said Harvest Fuel hopes to go public eventually.

Vector Training Systems

Chairman Glassheim called on Mr. Dean Gorder, President, Vector Training Systems, for comments regarding his economic development experiences in the state. Mr. Gorder provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Gorder said the business opportunity arose to move an Austrian flight simulator manufacturer to Grand Forks. He said the Center for Innovation assisted in developing an early strategy. He said within a month, Technology Transfer, Inc., provided funding for the new company. He said the Department of Economic Development and Finance

provided a loan to assist in the startup of the business.

Mr. Gorder said in the next year he expects his business will include 40 jobs in high technology engineering, programming, composites, computer graphics, and manufacturing. He said the average salary in his business is more than \$25,000 per year.

Mr. Gorder said through his experience he has learned it is difficult to determine the role of the various economic development agencies and entities. He said a network of venture capital into which an entrepreneur could tap would bring a higher level of confidence to governmental and commercial lenders. Local or regional investment, he said, keeps the projects and dollars closer to home. He said the economic development process takes time and shortening response time would be an advantage to startup companies because windows of opportunity can close suddenly.

In response to a question from Representative Froseth, Mr. Gorder said North Dakota offers education and training necessary for his business. He said so far he has been able to find qualified employees by recruiting students attending the University of North Dakota.

In response to a question from Representative Johnson, Mr. Gorder said Lake Region State College offers programs to train students to service and maintain flight simulators.

Committee Discussion and Directives

Representative Kliniske said she is interested in having Mr. Cramer compare how Minnesota organizes economic development and commerce compared to how this state organizes these services.

Representative Severson said he is interested in having Mr. Zeitler report to the committee on the development of the Workforce Development Council's strategic plan.

There being no further business, Chairman Glassheim adjourned the meeting at 4:30 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:1