

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

ECONOMIC DEVELOPMENT COMMITTEE

Wednesday, September 17, 2003
Cityscape B Room, Radisson Hotel
Fargo, North Dakota

Representative Rick Berg, Chairman, called the meeting to order at 9:10 a.m.

Members present: Representatives Rick Berg, Tracy Boe, Mark A. Dosch, Mary Ekstrom, Glen Froseth, Nancy Johnson, Jim Kasper, George Keiser, Kenton Onstad, Ken Svedjan; Senators Dick Dever, Tony S. Grindberg, John O. Syverson, Ryan M. Taylor

Members absent: Representatives Byron Clark, Eugene Nicholas; Senator Duaine C. Espeguard

Others present: See Appendix A

At the request of Chairman Berg, Mr. John D. Olsrud, Director, Legislative Council, reviewed the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Council*.

Chairman Berg recognized the following local legislators in attendance: Representatives Ron Iverson, Kim Koppelman, and Blair Thoreson and Senators Tim Flakoll and Carolyn Nelson. There was a moment of silence as Chairman Berg recognized the passing of Representative Janet Wentz.

POPULATION STUDY

At the request of Chairman Berg, committee counsel presented the background memorandum *Population Study - Background Memorandum* relating to the committee's study as directed by House Concurrent Resolution No. 3072 to study possible methods of growing North Dakota's population, including approaches to decreasing outmigration, increasing in-migration, and reviewing how other states are dealing with related population issues. Reviewing studies that may be related to population growth, committee counsel said, the scope of the studies that may be related to population growth is very broad. She said in addition to studies relating to commerce and economic development, studies relating to health, welfare, education, crime, and tax may be perceived as being related to population growth. She said that as in the case of related studies, the scope of the topic of related legislation may be equally as broad.

Committee counsel reported the State Data Center is the state's official source of population and socio-economic statistics. In reviewing the population and demographic statistics of North Dakota, she said, a review of national and regional statistics may be of value in putting the statistics in perspective.

Committee counsel reviewed recent population initiatives, including the Great Plains Population Symposium Project, Saving North Dakota Roundtable, New Economy Initiative, and Youth Initiative Committee initiated statutory measure No. 3. She said in addressing possible study approaches, one way to approach the issues relating to increasing the state's population may be to prioritize population and demographic issues; review the resources available to address these issues; and determine the best approaches in which to accomplish these priorities.

Chairman Berg called on Mr. Richard Rathge, State Data Center, for comments regarding the committee's population study. Mr. Rathge made a computer presentation, attached as Appendix B, and available on-line at www.ndsu.nodak.edu/sdc/presentation/091703_files/frame.htm. Additionally, Mr. Rathge distributed two State Data Center bound documents--*North Dakota Population Projections: 2005 to 2020*, which is available on-line at www.ndsu.nodak.edu/sdc/publications/reports/ProjectionsReport2002updated.pdf and *North Dakota County Migration Flows: 1998-99 to 2000-01*, which is available on-line at www.ndsu.nodak.edu/sdc/publications/reports/NDCntyMigFlows98_01FinalPDF.pdf. A copy of both documents is on file in the Legislative Council office. Mr. Rathge commented he would encourage communities working with this issue of population to work together to support a regional approach.

Mr. Rathge's presentation focused on what he called the four hard demographic truths about the future:

1. Population consolidation;
2. Loss of young adults and families;
3. Aging population; and
4. Shifting labor force.

He said in looking at the loss of young adults and families, this loss is largely a result of technology.

In response to a question from Representative Berg, Mr. Rathge said in looking at the net domestic migration rates, North Dakota, South Dakota, Wyoming, and Kansas are all sharing the same experience. Additionally, he said, even though the state of Texas has had a growth rate of more than 22 percent, over 50 percent of the counties in Texas have experienced a population loss. He said there is a difference

between looking at the state rate of population and the county rate of population because a state's counties can experience loss but if the state includes a larger metropolitan area, the growth of that metropolitan area can make up for the losses in the counties. He said one thing that makes North Dakota unique is that it does not have the large cities most other states have. He said the population shift in the Great Plains is due in large part to agriculture and this shifting trend has been taking place for more than 50 years.

In response to a question from Senator Grindberg, Mr. Rathge said the issue of migration from rural areas to urban areas is a global issue. He said the situation of the United States can be distinguished from the situation in Europe in that geographically the United States is larger than the countries in Europe and the distance between communities is greater in the United States.

In response to a question from Representative Kasper, Mr. Rathge said change will not happen overnight. He said as policymakers, committee members should recognize the population trend is based in part on technology and this should be a factor or consideration in any attempts to change the population migration trends.

In response to a question from Representative Ekstrom, Mr. Rathge said a further breakdown of the 2,281 individuals who moved to North Dakota between 1995 and 2000 indicates a significant Hispanic population.

Representative Berg stated, referring to an article written by Ms. Yolanda K. Kodrzycki, Federal Reserve Bank of Boston, that North Dakota is not unique in experiencing a loss of its college student-aged individuals. Representative Berg requested committee counsel provide committee members with a copy of Ms. Kodrzycki's report at a future meeting.

In response to a question from Representative Ekstrom, Mr. Rathge said approximately 25 percent of the state's higher education students from out-of-state remain in the state, and therefore, there may be a value in encouraging out-of-state students to attend North Dakota schools.

In response to a question from Senator Syverson, Mr. Rathge said he will soon be receiving updated information regarding in-migration. Mr. Rathge referred to in-migration and outmigration data contained on page 8 of the *North Dakota County Migration Flows: 1998-99 to 2000-01*. He said over the last three years there have been significant consequences resulting from outmigration, including loss of state taxable income.

In response to a question from Representative Keiser, Mr. Rathge said the data relied upon on page 8 of the document regarding in-migration and outmigration does not include short-form income tax exemptions. He said there is "slippage" in the figures used.

Mr. Rathge said it is not possible to survey individuals who are determined to be migrating into the state based upon tax filings, because the Internal Revenue Service has determined that this income tax data is confidential. He said a recent attempt was made to survey individuals who get new driver's licenses in the state. He said he will provide committee counsel with a copy of this study.

In response to a question from Senator Syverson, Mr. Rathge clarified on page 8 of the document the reference to "aggregate income" refers to gross income.

Mr. Rathge said one movement pattern in the state is individuals living in rural areas moved to larger communities within the state and then moved out of state. He said the committee may wish to consider how to keep individuals in the state as well as how to get young people to return to the state. He said in addressing this, the committee should realize families typically think differently from individuals.

In response to a question from Representative Ekstrom, Mr. Rathge said as part of professor exit interviews the North Dakota University System typically retains data regarding the destination of professors who leave the university system.

In response to a question from Representative Kasper, Mr. Rathge said in evaluating how to encourage educated professionals to remain in the state, the opportunity for employment needs to be evaluated. He said wages are not the reason people return to a state, instead, individuals return to the state largely for environmental and social reasons.

In response to a question from Representative Kasper, Mr. Rathge said creating opportunity is not the same as creating jobs. He said it is important to create incentives for jobs to exist.

Mr. Rathge said the consequences of losing the young adult population include a decrease in individuals of childbearing ages and the accompanying loss of births as well as an increased concentration of the elderly population, which raises health care issues and home-based care issues.

In response to a question from Representative Onstad, Mr. Rathge said there is a correlation between the loss of parents and the loss of school-age children. He said that although this is an outmigration issue, more importantly it is the loss of the ability of this state to increase its population through childbirth.

In response to a question from Senator Dever, Mr. Rathge said the trend of older senior citizens moving back to the state is related to these individual's moving back to families and family-based care.

In response to a question from Senator Grindberg, Mr. Rathge said although states such as Pennsylvania and Florida do not tax retirement income, typically the tax structure of the state is not a primary factor in a retired individual's determination of where to move. He said a primary factor in determining

whether and where to move is who is going to care for that older senior citizen.

Mr. Rathge said the loss of youth correlates to the loss of entry-level workers. Additionally, he said, in looking at technology, it is found in all sectors, including health care and banking.

In response to a question from Representative Kasper, Mr. Rathge said his data indicates that the education system in North Dakota is not inadequate.

ECONOMIC DEVELOPMENT EFFORTS IN RED RIVER VALLEY STUDY

Chairman Berg called on committee counsel to present the background memorandum *Economic Development Efforts Study - Background Memorandum* relating to the committee's study under House Concurrent Resolution No. 3051. Committee counsel reviewed related activities of current interim committees as well as past interim committees. Additionally, she said, Sections 17 and 19 of House Bill No. 1019 (2003) provide that \$200,000 of the discretionary grants line item for the Department of Commerce appropriation is for the purpose of contracting with a private organization for conducting a marketing and image building campaign for the Red River Valley Research Corridor during the second year of the biennium.

Committee counsel said in reviewing the possibility of state enhancement of federal economic development programs, federal economic development programs active in the state include rural economic area partnership (REAP) zones, a rural empowerment zone, the rural champion community program, and an urban and rural renewal community. Additionally, she said, state economic development programs include renaissance zones, the rural growth incentive program, and the manufacturing extension program.

Committee counsel said in addition to the federal and state economic development programs, there are state and federal activities specific to business and technology development in the Red River Valley. She said North Dakota State University and the University of North Dakota have committed resources to technology in the region as well as federal business and technology programs associated with the universities, such as the experimental program to stimulate competitive research and the North Dakota innovation and research and the small business technology transfer.

Chairman Berg called on Senator Grindberg for comments regarding the study of economic development efforts in the Red River Valley. Senator Grindberg said the activities of the committee are very timely. He said the timeline of economic development is at the very beginning. In the late 1980s, he said, the Growing North Dakota effort took place and looking back the value of those activities can be recognized and failure to take those steps would have been detrimental. He said the state is at another

crossroads at which failure to take action now could be a lost opportunity.

Senator Grindberg stated technology will be transforming this state, this country, and the world. Alien Technology, he said, is an exciting example of a technology business entering the state. He said the efforts of United States Senator Byron Dorgan are making a difference in bringing companies such as Alien Technology to the state. Senator Grindberg distributed written information prepared by United States Senator Dorgan regarding the Red River Valley Research Corridor, a copy of which is on file in the Legislative Council office. Additionally, Senator Grindberg distributed a copy of written material from Representative Pam Gulleon regarding the Red River Valley Research Corridor, a copy of which is on file in the Legislative Council office.

Senator Grindberg stated the economic development and technology activities of the University of North Dakota and North Dakota State University complement each other. Additionally, he said, these activities benefit the entire state.

In response to a question from Representative Ekstrom, Senator Grindberg said in order to position Fargo as a business destination, it will be necessary to build off of the activities of Alien Technology. He said there is a variety of support activities that can benefit from a major business like Alien Technology.

Chairman Berg called on Ms. Linda Butts, Division of Economic Development and Finance, Department of Commerce, for comments regarding the Red River Valley portion of the committee's study. Ms. Butts said the department will be looking at ways to leverage the \$200,000 discretionary grants line item. She said the department will keep the committee informed of developments with the campaign.

Chairman Berg said the committee will monitor the activities of the department as it contracts with a private organization for conducting a marketing and image-building campaign for the Red River Valley Research Corridor.

REPORTS

Renaissance Zones

Chairman Berg called on Mr. Richard Gray, Division of Community Services, Department of Commerce, to present the annual report on renaissance zone progress. Mr. Gray distributed a document entitled *Renaissance Zone Projects*, which details the renaissance zone activities in each of the zones in the state, and a document entitled *Renaissance Zones*, which lists the location of the renaissance zones and contact information, a copy of which is on file in the Legislative Council office.

Mr. Gray said he has good news to report--new renaissance zones are being created and the zones appear to be working. He said his office is doing everything it can to encourage more small communities to participate in renaissance zones. Mr. Gray

reported that of the \$2.5 million of initial tax credits allowed, \$1.205 million of credits are still available.

In response to a question from Representative Keiser, Mr. Gray said because property tax is a local issue, the Division of Community Services has left it to the local governments to collect data relating to the impact of a zone on the property tax collections and projections of the impact of a renaissance zone as it relates to local taxes.

Representative Berg said the activities of a renaissance zone bring long-term advantages and there are long-term property tax benefits even though there may be short-term property tax losses.

Representative Keiser requested that the Division of Community Services report and collect data regarding the change in the assessed value of property within a renaissance zone. He said this information is especially important because the state needs outcome measurements. Mr. Gray said he would work on collecting and providing this data.

Senator Grindberg expressed a privacy concern regarding the use of Social Security numbers in presenting renaissance zone data information. Mr. Gray said he would look into having this information removed from the annual reports.

Chairman Berg called on Mr. Bruce Furness, Fargo Mayor, for comments regarding the Fargo renaissance zone. Mr. Furness welcomed the committee to Fargo. He said economic development in Fargo includes focusing on higher-paying jobs, revitalization of downtown, and creating a good place to live.

Mr. Furness said that as a result of legislation in 2003, the Fargo renaissance zone is in the process of expanding its renaissance zone, so that with the proposed expansion, the zone will encompass one-third of downtown Fargo. He distributed a bound document listing the Fargo renaissance zone projects, a copy of which is on file in the Legislative Council office. He said the Fargo renaissance zone projects have been very successful and only one of the Fargo projects has withdrawn.

Mr. Furness said as a result of the renaissance zone activities, investment in renaissance zone properties results in a significant increase in property valuation. He said the renaissance zone in Fargo has had an additional positive impact on areas outside the zone.

Chairman Berg called on Mr. Jim Gilmour, City of Fargo Planning, for comments regarding the Fargo renaissance zone. Mr. Gilmour said the sheer number of projects and renovations that have taken place in the zone have been overwhelming. He said the creation of the zone has had the desired effect.

Chairman Berg called on Mr. Dave Anderson, Downtown Community Partnership, Fargo, for comments regarding the Fargo renaissance zone. Mr. Anderson orchestrated a brief bus tour of the Fargo renaissance zone. Stops on the tour included walking tours of the Vogel Law Office, 300 NP Lofts

and Offices, the Donaldson Hotel, and Monte's, a local restaurant.

DEPARTMENT OF COMMERCE

Chairman Berg called on Mr. Lee Peterson, Commissioner, Department of Commerce, for a report regarding specified economic goals and associated benchmarks in compliance with Section 19 of 2003 House Bill No. 1019. Mr. Peterson provided copies of written documents, including:

- A summary of the activities of the divisions within the Department of Commerce, including the summary of the six strategic goals of the strategic economic development plan for the state.
- A copy of an article about the state's baking-related companies.
- A September 15, 2003, news release by the Division of Economic Development and Finance.
- A September 17, 2003, news release regarding Lt. Governor Jack Dalrymple's touring of an Edgeley-Kulm wind farm.
- A copy of the September 2002 North Dakota Economic Development Foundation strategic plan.

A copy of the documents is on file in the Legislative Council office.

Mr. Peterson briefly reviewed some of the major activities of the Division of Community Services, Division of Workforce Development, Division of Tourism, and Division of Economic Development and Finance. He said the six strategic goals of the economic development plan for the state are:

1. Develop a unified front for economic development based on collaboration, accountability, and trust.
2. Strengthen linkages between the state's higher education system, economic development organizations, and private businesses.
3. Create high-quality jobs to retain North Dakota's current workforce and attract high-skilled labor.
4. Create a strong marketing image to build on the state's numerous strengths, including workforce, education, and quality of place.
5. Accelerate job growth in diversified industry targets to provide opportunities for the state's long-term economic future.
6. Strengthen North Dakota's business climate to increase global competitiveness.

Mr. Peterson said specific industries being targeted by the Department of Commerce include tourism, information technology, value-added agriculture, and advanced manufacturing and energy. He said statistics released by Job Service North Dakota indicate the state has realized 1,673 net new jobs in the first quarter of 2003 compared to the first quarter of 2002. Additionally, the state's per capita personal

income grew 4.6 percent in 2002, the fastest growth in the nation.

In response to a question from Representative Froseth and Representative Berg, Mr. Peterson said the increase in wages is attributable to a combination of factors, including better jobs coming to North Dakota and growing in North Dakota.

In response to a question from Representative Keiser, Mr. Peterson said he would provide information regarding how different organizations rank North Dakota for business climate.

In response to a question from Representative Ekstrom, Mr. Peterson said although it is difficult to limit to a single source or manner, the department is working on pursuing outlets to promote North Dakota as a small business home.

PRIMARY SECTOR BUSINESS STUDY

At the request of Chairman Berg, committee counsel presented a memorandum entitled *Business Climate Study - Background Memorandum* relating to the committee's study under House Bill No. 1504. Committee counsel reviewed the definition of the term primary sector business as used and defined in the North Dakota Century Code; briefly reviewed several studies comparing business climates and ranking the states based on a variety of factors; summarized the United States Small Business Administration 8(a) business development programs for small disadvantaged businesses, including Native American-owned businesses; and reviewed the committee's charge to create a primary sector business congress.

Chairman Berg called on Mr. Brian Walters, Fargo Cass County Economic Development Corporation, for comments regarding the Fargo economic development experience as it relates to primary sector business growth. Mr. Walters provided a copy of his written testimony, which is on file in the Legislative Council office. He said the local definition he uses of primary sector business is "a company that mobilizes local resources to produce a good or service that is sold outside the area, injecting new wealth into the local economy." He said the Fargo Cass County Economic Development Corporation makes an affirmative effort to thank the businesses in Cass County. He said these businesses grow the economy.

Mr. Walters said outmigration is an effect, not a cause. He said people come or go from a community for jobs and education. Additionally, he said, outmigration is not unique to North Dakota. In reviewing demographic and population statistics, he said, it is important to note that throughout the nation smaller communities statistically have lower average incomes than larger communities and North Dakota is a state comprised of small communities.

Mr. Walters said Cass County is a regional center for education, health care, finance, manufacturing, transportation, and technology. Therefore, he said, Fargo Cass County Economic Development

Corporation has determined target industries of physical sciences, life sciences, information technology, logistic and distribution, back-office support centers, manufacturing, and value-added agriculture. He said these targeted industries were established through an organized review and planning process. He said his organization focuses on industries in which Cass County has an advantage or would like to position itself to have an advantage. He said in drawing parallels between the Cass County economic development experience and the North Dakota economic development experience, the small size of the state can work as an advantage because North Dakota has the benefit of being nimble in its ability to respond quickly.

In response to a question from Representative Kasper regarding the comparative cost of health insurance in North Dakota as a competitive factor, Mr. Walters said he has not tracked this issue; however, some studies have recognized North Dakota's affordability of health care and quality of health care. He said he would provide the committee with information regarding this health care cost issue.

In response to a question from Representative Svedjan, Mr. Walters said it is very common for economic developers to have a business retention and expansion service that may identify and track the number of primary sector businesses in the community. Mr. Walters said the Fargo Cass County Economic Development Corporation actually has a plan to contact out-of-state businesses that own North Dakota businesses, in order to say thank you and to find out if there is anything the community can do to assist these businesses.

Representative Berg said local developers need to work with primary sector businesses to help resolve any barriers and to contact the Department of Commerce when necessary. He said if primary sector businesses are focused on at the state and federal level, ancillary businesses will follow. Additionally, he said, if there are economic development barriers at the state or local level, the committee needs to be made aware of these barriers.

Senator Dever said Fargo is an economic development bright spot in North Dakota.

Chairman Berg called on Ms. Sandy Clark, North Dakota Farm Bureau, for comments regarding the committee's studies. Ms. Clark said the North Dakota Farm Bureau supports the committee's interest and study of population issues. She requested the committee consider agricultural and rural communities in the course of the committee's studies, and she looks forward to participating and providing any information the committee may request.

No further business appearing, Chairman Berg adjourned the meeting at 3:30 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:2