Prepared by the North Dakota Legislative Council
staff for the Commerce and Labor Committee
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ECONOMIC DEVELOPMENT - BACKGROUND MEMORANDUM

INTRODUCTION

Section 16 of House Bill No. 1019 (1999) directs the Legislative Council to study the economic development efforts in North Dakota, including the provision of economic development services statewide and the related effectiveness, the potential for the privatization of the Department of Economic Development and Finance, and the appropriate location of the North Dakota Development Fund, including the potential transfer of the fund to the Bank of North Dakota.

PREVIOUS STUDIES

1997-98 Interim Commerce and Agriculture Committee

Section 12 of Senate Bill No. 2019 (1997) directed the Legislative Council to study economic development functions in North Dakota, including the Bank of North Dakota programs, Technology Transfer, Inc., the North Dakota Development Fund, the Department of Economic Development and Finance, and other related state agencies. The bill further provided that the study should include a review of the most appropriate, effective, and efficient method for the state to deliver economic development assistance in light of changing economic conditions and considerations.

The 1997-98 Commerce and Agriculture Committee received reports from representatives of the Department of Economic Development and Finance regarding the restructuring of the department, loan performance, and the programs administered by the department. A representative of the department testified that a reorganization of the department and its focus was necessary because the economic situation in the state differs greatly from 1991 when most of the economic development programs administered by the department were adopted. Therefore, the department was changing its focus from jobs creation to wealth creation and attempting to respond to the needs of existing businesses by assisting in work force training and development programs. The director of the department testified that although the department shares information and cooperates with the area's economic development programs outside the department, more of those programs should be administered within the department to promote efficiency. The committee received testimony that although 90 percent of the state's business assistance programs address financing, the department is attempting to become more of an information agency to help businesses make good business decisions.

The committee received testimony from representatives of the Bank of North Dakota regarding economic development programs administered by the Bank. In addition to the loan programs specifically authorized by statute, the Bank attempts to establish other programs to assist in creating jobs in the state and representatives of the Bank regularly meet with other economic development entities to attempt to coordinate funding activities. Representatives of the Bank indicated that because the Bank is a lending institution, the administration of economic development grant programs such as those administered by the Department of Economic Development and Finance may not be appropriate for the Bank of North Dakota.

The committee received testimony from individuals involved in economic development activities at the local level indicating that the Department of Economic Development and Finance and the Bank of North Dakota cooperate with local developers and that the state has the tools necessary to promote and sustain development. Although there has been a shortage of skilled employees in some areas, development officials stated that they have been working with institutions of higher education, particularly the two-year schools, to train employees.

The Commerce and Agriculture Committee made no recommendation with respect to its study of economic development functions in the state.

1993-94 Interim Jobs Development Commission

Senate Bill No. 2021 (1993) directed a study of methods and coordination of efforts to initiate and sustain new economic development in this state. The 1993-94 interim Jobs Development Commission reviewed the various divisions and programs within the Department of Economic Development and Finance, the Bank of North Dakota, and the North Dakota Agricultural Products Utilization Commission. The commission made no recommendation with respect to its study of methods and coordination of efforts to initiate and sustain economic development within the state.

1989-90 Interim Jobs Development Commission

House Concurrent Resolution No. 3004 (1989) directed the Legislative Council to establish a Jobs Development Commission to study methods and coordinate efforts to initiate and sustain state economic development and to stimulate the creation of new economic opportunities for the citizens of the state. The 1989-90 interim Jobs Development Commission, pursuant to Senate Concurrent Resolution No. 4056, also conducted a study of the state's bountiful natural resources and outdoor recreational activities with an emphasis on the state's wildlife resources and enhancement of the resources for the benefit of North Dakota citizens and economic development.

The Jobs Development Commission worked closely with the North Dakota 2000 Committee, which was formed by the Greater North Dakota Association, and the Governor's Committee of 34, which was a committee of 34 members selected by the Governor for the purpose of developing and implementing a comprehensive economic development legislative program for 1991. The commission recommended several bills to the Legislative Council relating to economic development. Included among those bills was 1991 Senate Bill No. 2058, which provided for a comprehensive economic development program known as the "Growing North Dakota" program.

PREVIOUS LEGISLATION

1991 "Growing North Dakota" Legislation

Senate Bill No. 2058 (1991) replaced the Economic Development Commission with the Department of Economic Development and Finance. The bill required the Governor to appoint a director of the department and provided for a division of finance, a division of marketing and technical assistance, and a division of science and technology. The bill provided for the establishment of the following funds:

1. The agriculture partnership in assisting community expansion (Ag PACE) fund for the purpose of buying down the interest rate on loans to on-farm businesses.
2. The partnership in assisting community expansion (PACE) fund for the purpose of buying down the interest rate on loans made by lead financial institutions in participation with the Bank of North Dakota.
3. The primary sector development fund (North Dakota Economic Development Finance Corporation) for the purpose of taking equity positions in, providing loans to, or using other innovative financing mechanisms to provide capital for new or expanding businesses in the state or relocating businesses to the state. Every full-time employee of a business receiving moneys or other assistance from the primary sector development fund was required to be paid an income at least equal to 100 percent of the federal poverty level for a family of four for the life of the loan, equity position, or other financial relationship. (This requirement was often referred to as the "living wage" requirement.)
4. The regional rural development revolving loan fund for the purpose of providing financial assistance, research and development assistance, and loans or equity or debt financing on a matching basis to new or expanding primary sector businesses in areas in the state which are not located within five miles of any city with a population of more than 8,000. Funds in the regional rural development revolving loan fund were to be divided equally among the eight planning regions. Repayments from projects funded by the regional rural development revolving loan fund were to be credited to the local region.

The 1991 Legislative Assembly appropriated approximately $21 million for economic development purposes for the 1991-93 biennium. Funding for the economic development program came from transfers from earnings from the Bank of North Dakota to the general fund.

1993 "Growing North Dakota II"

The Growing North Dakota program established in 1991 was partially revised in 1993 by Senate Bill No. 2021. That bill changed the name of the Science and Technology Corporation to Technology Transfer, Inc., and changed the name of the North Dakota Economic Development Finance Corporation to the North Dakota Future Fund, Inc.

In 1993, legislation also eliminated the requirement that the Department of Economic Development and Finance include a division of marketing and technical assistance. The legislation authorized the director of the department to establish additional divisions as necessary; however, the legislation required the department to contain an office of North Dakota American Indian Business Development and an office of North Dakota Women's Business Development.

The 1993 Legislative Assembly appropriated additional funds for the Future Fund and Technology Transfer, Inc., for the remainder of the 1991-93 biennium because all the funds appropriated by the 1991 Legislative Assembly had been expended. In addition, the 1993 Legislative Assembly appropriated approximately $18.5 million for economic development programs for the 1993-95 biennium.

1995 Economic Development Legislation

The 1995 Legislative Assembly continued to make significant changes to the state's economic development tools. In House Bill No. 1021 (1995), the regional rural development revolving loan fund and the North Dakota Future Fund were replaced with the North Dakota Development Fund. However, the Legislative Assembly provided that $6 million of the funds in the North Dakota Development Fund must be dedicated for the purpose of providing financial assistance, research and development assistance, and the loans or equity or debt financing on a matching basis to new or expanding primary sector businesses in areas in the state which are not within five miles of any city with a population of more than 8,000. Those funds were to be allocated for the benefit of each of the eight planning regions. The approximately $2 million balance in the fund was to be dedicated for projects as follows: 40 percent businesses in rural areas, 40 percent businesses in urban areas, and 20 percent North American Indian businesses. However, the director of the Department of Economic Development and Finance was allowed to reallocate up to 20 percent of any region's allocation to another region or regions during the biennium. The director was also permitted to reallocate among the Technology Transfer, Inc., fund and the North Dakota Development Fund for rural and nonrural development projects up to 10 percent of the amounts appropriated.

The 1995 Legislative Assembly also repealed the "living wage" requirement. The 1995 Legislative Assembly appropriated to the Department of Economic Development and Finance approximately $2 million for grants, $1,454,000 for Technology Transfer, Inc., and $1,968,750 for the Development Fund.

1997 Economic Development Legislation

The 1997 Legislative Assembly included within the appropriation for the Department of Economic Development and Finance (Senate Bill No. 2019) a provision that repealed Technology Transfer, Inc., as of July 1, 1999. The bill also appropriated to the department $1,909,875 for the North Dakota Development Fund, $500,000 for Technology Transfer, Inc., and $4,097,462 for the Agricultural Products Utilization Commission.

Senate Bill No. 2019 allowed the director of the Department of Economic Development and Finance to reallocate among the Technology Transfer, Inc., fund and the North Dakota Development Fund for rural and nonrural development projects up to 10 percent of the amounts appropriated for the biennium. The bill provided that the money transferred to the North Dakota Development Fund must be dedicated for projects as follows: 40 percent businesses and rural areas, 40 percent businesses and urban areas, and 20 percent North American Indian businesses. However, any unused funds in any category could be transferred to another category during the second year of the biennium, and the director of the department was permitted to reallocate up to 20 percent of any region's available remaining balance of regional rural development revolving loan funds to another region or regions. The bill further provides of the amount available in the North Dakota Development Fund, $4 million or the unobligated balance on July 1, 1997, relating to the transfer of regional rural development loan fund moneys, must continue to be dedicated for the purposes of providing financial assistance, research and development assistance, and loans or equity or debt financing on a matching basis to new or expanded primary sector businesses in areas of the state which are not within five miles of any city with a population of more than 8,000.

Senate Bill No. 2019 included a provision stating that a political subdivision or economic development authority may adopt a minimum wage requirement for any new business or business expansion in which a majority of the capital is provided by the North Dakota Development Fund and its own local development funds. The bill also provided that the Agricultural Products Utilization Commission is now a division of the Department of Economic Development and Finance. The bill included an agricultural prototype development program within the programs which the Agricultural Products Utilization Commission may administer.

Other 1997 legislation relating to economic issues included Senate Bill No. 2373, which provided a framework for investment in community development corporations by banks; Senate Bill No. 2398, which provided that the Industrial Commission, acting as the Farm Finance Agency, may establish the first-time farmer finance program to encourage first-time farmers to enter and remain in the livelihood of agriculture and to provide first-time farmers a source of financing at favorable rates and terms generally not available to them; Senate Bill No. 2396, which allowed a corporation or a limited liability company to own and operate the low-risk incentive fund, which makes loans to primary sector businesses; and House Bill No. 1401, which amended the seed capital investment credit provisions to eliminate the requirement of gross sales receipts of less than $2 million in the most recent year and to allow the credit to apply for a business that does not have a principal office in the state but has a significant operation in North Dakota or more than 25 employees or $250,000 of annual sales in a North Dakota operation.

Although the Department of Economic Development and Finance administered most of the major economic programs such as the North Dakota Development Fund, Technology Transfer, Inc., the Native American business development program, and the women's business development program, the Bank of North Dakota also administered economic development programs. The PACE fund was available to buy down the interest rate on loans made by lead financial institutions in participation with the Bank of North Dakota. The 1997 Legislative Assembly appropriated $4,000,600 for the PACE fund.

The Ag PACE fund is a fund through which the Bank of North Dakota assists in buying down the interest rate on loans to on-farm businesses. The 1997 Legislative Assembly appropriated $397,100 to the Bank of North Dakota for the Ag PACE fund.

The beginning farmer revolving loan fund provided direct loans through the Bank of North Dakota to first-time purchasers of agricultural real estate for the purchase of agricultural real estate. The 1997 Legislative Assembly appropriated $921,500 to the Bank of North Dakota for the beginning farmer revolving loan fund.

1999 Economic Development Legislation

In House Bill No. 1019 (1999), the Legislative Assembly appropriated $750,000 to the Department of Economic Development and Finance for the North Dakota Development Fund, Inc., House Bill No. 1019 provides for ethanol incentives and provides that the money transferred to the North Dakota Development Fund must be dedicated for projects as follows: 40 percent businesses and rural areas, 40 percent businesses and urban areas, and 20 percent North American Indian businesses. However, any unused funds in any category may be transferred to another category during the second year of the biennium, and the director of the department is permitted to reallocate up to 20 percent of any region's available remaining balance of regional rural development revolving loan funds to another region or regions. The bill further provides of the amount available in the North Dakota Development Fund, $4 million or the unobligated balance on July 1, 1999, relating to the transfer of regional rural development loan fund moneys, must continue to be dedicated for the purposes of providing financial assistance, research and development assistance, and loans or equity or debt financing on a matching basis to new or expanded primary sector businesses in areas of the state which are not within five miles of any city with a population of more than 8,000. House Bill No. 1019 also included a provision stating that a political subdivision or economic development authority may adopt a minimum wage requirement for any new business or business expansion in which a majority of the capital is provided by the North Dakota Development Fund and its own local development funds.

House Bill No. 1141 eliminates the requirement that the Department of Economic Development and Finance have a division of science and technology. The bill replaces the requirement that the department report annually regarding loan performance of the department, including a comparison of dollars spent to the jobs created of all programs administered or supervised by the department and review of the timeliness of loan processing practices, with a requirement that the department report annually on the performance of all divisions of the department, including the amount of success and satisfaction the department has meeting business client, economic developer, and community client needs and expectations, including a comparison of dollars spent to the economic benefits created of all programs administered or supervised by the department. The bill repeals the requirement that the department send an annual product listing of manufacturers located in the state to registered architects and engineers.

House Bill No. 1492 allows the establishment of "renaissance zones" in cities. The bill provides an individual taxpayer, who purchases single-family residential property as a primary residence as part of a zone project, with an exemption from up to $10,000 of personal income tax liability on the long-form or short-form return for five years beginning with the date of occupancy. A business that purchases or leases property for a business purpose as part of a zone project is exempt from income tax for five taxable years for income derived from the business locations within the renaissance zone. An individual, partnership, limited partnership, limited liability company, trust, or corporation that purchases residential or commercial property as an investment as part of a zone project is exempt from income tax for five taxable years for income earned from the investment. A historic preservation and renovation tax credit is provided against financial institutions taxes, corporate income taxes, and individual income taxes on the long-form or short-form return for investments in historic preservation and renovation of property in the renaissance zone during the years 2000 through 2004. The credit for historic preservation and renovation is 50 percent of the amount invested and any excess credit may be carried forward for up to five taxable years. The bill provides a credit against state tax liability for financial institutions, corporate income taxes, and individual long-form or short-form returns for investments in a renaissance fund corporation. The credit is equal to 50 percent of the amount invested and excess credit may be carried forward for up to five taxable years. The total amount of credits for investments in renaissance fund corporations in the state may not exceed an aggregate of $2.5 million for all taxpayers for all taxable years. The bill allows a city to grant a property tax exemption for single-family residential property in a renaissance zone purchased by an individual as a primary place of residence. The exemption may not exceed five taxable years after the date of acquisition. A city may grant a partial or complete exemption for a building purchased by a business for a business purpose as part of a renaissance zone project. The exemption may not exceed five taxable years. A city may grant a partial or complete exemption for up to five taxable years from property taxes for buildings and improvements to residential or commercial property in a zone project purchased solely for investment purposes.

House Bill No. 1443 provides the requirements for institutions of higher education that are assigned primary responsibility for work force training. After the Legislative Assembly adjourned sine die, the Governor vetoed Sections 7, 9, 10, and 11 of House Bill No. 1443, relating to funding work force training through employer work force investment fees.

House Bill No. 1456 allows an addition to a residential or commercial building to qualify for the property tax exemption for building improvements and extends from three years to five years the time for which the city or county governing body may grant an exemption for building improvements; Senate Bill No. 2096 provides new jobs training and education program services developed and coordinated by Job Service North Dakota must be provided to primary sector businesses that provide self-financing as funding for new jobs training programs and these employers may be reimbursed in an amount up to 60 percent of the allowable state income tax withholding generated from the new jobs positions; Senate Bill No. 2137 repeals the law relating to the participation by the Bank of North Dakota in loans to nonfarming small business concerns; and Senate Bill No. 2242 provides for a beginning entrepreneur loan guarantee program.

ORGANIZATION OF ECONOMIC DEVELOPMENT IN THE STATE

Interested Persons

A variety of state, local, and private actors are involved in providing economic development services in this state. State actors include the Department of Economic Development and Finance, North Dakota University System, Bank of North Dakota, Office of Intergovernmental Assistance (effective August 1, 1999, this office will be known as the Division of Community Services), Job Service North Dakota, Department of Agriculture, Governor Edward T. Schafer, and the North Dakota Workforce Development Council. Local government actors involved in providing economic development services include regional planning councils, regional human service centers, school districts, and local governing bodies. Private organizations involved in providing economic development services include the Economic Development Association of North Dakota, private schools, home schools, Greater North Dakota Association, and local government associations.

Privatization

Several states have entered partnerships with the private sector to promote economic development. These partnerships typically involve state financial backing for private lending institutions or venture capital firms to promote high-risk lending to businesses that would otherwise be unable to secure conventional funding.

The following information provided by the Council of State Governments' report *State Business Incentives: Trends and Options for the Future* addresses how states are using state-private relationships:

State	Program	Description
Alabama	Wallace Plan for Linked Deposits	The 1988 legislature authorized the state treasurer to use a small portion of the state's investment portfolio to deposit in Alabama banks or savings and loan associations and link these deposits to individual loans made to eligible small businesses or farmers. The financial institution pays up to a 3 percent lower rate on the state deposits and must charge a corresponding lower rate to the borrower. Eligibility: any person, corporation or partnership engaged in business and headquartered in Alabama, organized for profit, maintaining facilities primarily in Alabama, having no more than 150 employees, having debts equal to or greater than 35 percent of assets, and creating or sustaining job opportunities. Use of funds: land, buildings and equipment, repairs and renovations, rent, utilities, insurance and taxes, legal and accounting fees, and wages and inventory. Limits: The lower rate applies only to the first two years of the loan; however, the loan may be made for five to 10 years or longer. Job creation: One job must be created or sustained for each $15,000 of the loan, and loan requests above $250,000 must demonstrate that one job can be created for each $10,000 of the loan.

Alaska	Alaska Commercial Fishing and Agriculture Bank (CFAB)	Established by state statute, CFAB is a private lending cooperative in which borrowers become members. The cooperative provides its members with benefits such as competitive loan rates with terms and conditions designed to meet the needs of the individual and the industry; dividends on operating profits; a vote in the election of the Board of Directors; financial leverage by means of leveraged loan programs with the Farm Credit System; participation loans with the Alaska Industrial Development Authority, Farmers Home Administration and other lenders; expertise in specialized needs of the industries served; and availability to group insurance programs, including vessel insurance.
Arkansas	The Arkansas Capital Corporation (ACC)	The ACC is a privately owned, nonprofit organization established in 1957 to serve as an alternative source of financing for companies in Arkansas, its main goal is to improve the economic climate in the state by providing long-term, fixed-rate loans to Arkansas companies. As a preferred lender for the Small Business Administration, ACC makes loans to existing operations and business start-ups for everything from new construction and equipment to working capital. ACC loans may be used in combination with bank loans, municipal bond issues or other sources of financing.
Connecticut	URBANK	This program encourages lenders to provide loans to small businesses that create and retain jobs in Connecticut, with added incentives for designated municipalities and the entire region of New London and Windham Counties. Use of funds: any business purpose involving the purchase of real estate and equipment, and lines of credit and term working capital that can be defined as agricultural, commercial, industrial, retail or service. Refinancing is allowed upon approval of the CDA if the refinancing retains or creates jobs and materially benefits the borrower. All loans made by participating lenders and enrolled in URBANK are insured through a CDA reserve fund. Targeted Business loans receive supplemental insurance. The loan amount cannot exceed \$500,000, and can be up to \$250,000 without CDA prior approval. There is a 0.5 percent program fee payable to the CDA at closing. The borrower is also responsible for payment of an insurance premium at closing that will range from 2 to 4.5 percent depending on the duration of the loan and options selected by the lender.
Delaware	Delaware Access Program	The Delaware Access Program is designed to give banks a flexible and nonbureaucratic tool to make business loans that are somewhat riskier than a conventional bank loan, in a manner consistent with safety and soundness. It is designated to use a small amount of public resources to generate a large amount of private bank financing, thus providing access to bank financing for many Delaware businesses that might otherwise not be able to obtain it. When a bank makes a loan under the program, the borrower pays a one-time premium charge, which is matched by a bank premium payment. The Delaware Economic Development Office then matches the combined total of the borrower's payment and the bank's payment. The program sets minimum and maximum limits for the borrower's payment. At a minimum, it must be at least 1.5 percent of the loan amount. The maximum is 3.5 percent. The premium payment and other up-front expenses may be financed as part of the loan.
	Delaware Innovation Fund	The Delaware Innovation Fund is a private, nonprofit, nonstock corporation established as a public/private sector initiative to assist in the initial capitalization of pre-seed and seed stage enterprises within the state. The fund provides financial and technical assistance to Delaware-based businesses that have the potential to launch innovative products and processes into national markets, to create new jobs, and to make a significant contribution to the economic diversity and the technology base of Delaware's communities. Biotechnology, agriscience, advanced materials, chemicals, computer software, information technology and telecommunications are among the innovative sectors that provide a

		competitive edge for the commercial market. Investments take the form of long-term debt with royalty-based interest paybacks. Two funding vehicles exist: demonstration funding and commercialization funding. Demonstration funding, with limited one-time availability, provides $10,000 to $25,000 to aid in establishing patents, business plans and proof of concept issues. Commercialization funding, ranging from $25,000 to $150,000, is used to begin the commercialization process of early-stage businesses and may be available in multiple years. Because the Delaware Innovation Fund seeks to maximize its limited investment funds, a one-to-one match is required for investments. This match may take the form of dollars, sweat equity or a combination of both. The board of directors of the Delaware Innovation Fund evaluates the matches.
	Delaware Venture Partners	Delaware is a limited partner in a venture capital fund known as Delaware Venture Partners, which funds seed stage, early stage and later stage companies. The investment focus is on: computers, high-technology, biotechnology, medical, communications, environmental and manufacturing. Investments can range from $100,000 for seed stage companies up to $2 million for later stage companies.
Florida	Enterprise Florida	Enterprise Florida is a public/private partnership among the state's business, government and education sectors: <u>Enterprise Florida Capital Partnership</u>. The Capital Partnership, a nonprofit corporation that is in the start-up phase, develops programs to bring together Florida's companies and businesses with leading venture capital firms across the nation. A pool of $51 million, created by the Cypress Equity Fund, provides firms greater access to the national venture capital industry and, over time, seeks to establish a world-quality venture capital industry in Florida. The Capital Partnership has also created the Florida Development Finance Corporation (FDFC), a market-driven development bank for small Florida manufacturers and other economic-based firms. The FDFC provides access to tax-exempt loans as small as $500,000 for up to 15 years with fixed or floating interest rates at or below the prime lending rate. <u>Enterprise Florida Innovation Partnership</u>. The Innovation Partnership is a nonprofit corporation that centers on the creation and expansion of innovative, technology-based firms in the state such as biochemical, computer, microelectronics and software development. The partnership provides seed capital, expertise and direct production problem assistance. The partnership created Innovations and Commercialization Corporations (ICCs), which provide management, financial and marketing services for the commercialization of technologies developed at universities, federal laboratories and private firms. The Technology Research Investment Fund co-invests with Florida companies to develop new products or processes for the marketplace. Repayment through royalties is required. Florida Manufacturing Technology Centers, consisting of six regional field engineers, assists small- to mid-size manufacturers in overcoming problems and improvements in the manufacturing process.
Georgia	Business Development Corporation of Georgia	The Business Development Corporation of Georgia is a privately owned and managed lender that makes loans to Georgia businesses unable to obtain conventional financing. Terms range from five to 20 years for loans of $100,000 to $500,000. Amounts up to $1.25 million are available in conjunction with loans from such government programs as the Small Business Administration.
	Georgia Venture Capital Network	Venture Capital offers financing for high-risk opportunities in which the abilities of a company's management team serve as collateral. It is available to new, fast-growing companies that have substantial capital needs without enough assets to secure conventional loans. Venture capital investors require a high rate of return and

		invest only in companies with good prospects for rapid growth. The privately operated Georgia Venture Capital Network provides a database matching investors to companies.
Hawaii	Hawaii Strategic Development Corporation	The Hawaii Strategic Development Corporation is a cooperative partnership with private industry developed to encourage and foster the development of new business, especially in high technology and diversified industries. The corporation may take equity positions in eligible seed or venture capital organizations that make direct investments in enterprises, provide direct financing for eligible enterprises; or provide businesses with insurance, guarantees, or letters of credit through agreements with lending institutions and borrowers.
Illinois	Community Development Deposit Program	The Illinois Treasurer's Office targets state deposits where they will be used to support community development projects. The state treasurer may deposit funds in an approved Illinois financial institution, contingent upon the financial institution making a corresponding loan to a qualified business at a favorable interest rate.
Indiana	The Capital Access Program (CAP)	This program helps financial institutions lend money to Indiana businesses that do not qualify for loans under conventional lending policies. Loan proceeds must be used for commercial or industrial purposes for a project located in Indiana that fosters the economic development of the state. CAP loans may be of any amount. The lender and the borrower negotiate all terms and conditions of the loan. A reserve fund is established for each participating lender. The borrower, lender and Indiana Development Finance Authority (IDFA) make premium payments into the account each time a CAP loan is made. The borrower pays a premium between 1.5 percent and 3.5 percent of the loan amount, as required by the lender; the lender matches the payment and the IDFA matches the combined total.
Kansas	Kansas Venture Capital, Inc. (KVCI)	The KVCI is a statewide risk capital system designed to meet the special needs of businesses throughout Kansas. The system seeks to create private risk capital for investment in smaller Kansas businesses. All funds invested by KVCI must be invested in Kansas businesses solely for the purpose of enhancing productive capacity within the state, or for the purpose of adding value to goods or services produced or processed within the state. Most corporate businesses that meet the Small Business Administration's definition of a small business qualify for KVCI assistance. Any type of business can apply to the KVCI for assistance.
Louisiana	LA Link (Linked Deposit Program)	This investment program is designed to bring together small business owners and agricultural processors with lending institutions. This program allows the state treasurer to channel a small portion of the state's investment portfolio into reduced-rate certificates of deposit (CDs). These reduced rate investments are then linked to reduced rate loans by banks for use by qualified small businesses and agricultural processors. The maximum amount of the loan that may be matched by the state's CD is $200,000. The amount of the state's CD can not exceed the loan balance. The state's commitment is structured for one year with two additional renewals available.
	Venture Capital Co-Investment	This program allows the LEDC to co-invest with qualified venture capital funds in Louisiana-based enterprises. Its purpose is to encourage the formation of seed and venture capital funds in Louisiana. LEDC can participate up to 25 percent of the local venture capital investment, or a maximum co-investment of $350,000.
Maine	Linked Investment Program for Agriculture and Small Business	In cooperation with the State Treasurer's Office, Maine agrees to make investments of up to $8 million in state funds at a reduced rate of return for certain agricultural and commercial loans. Investments are limited to $200,000 per business for a term of

		one year, with the option of a one-year renewal for most program participants. In turn, the financial institution in which the state funds are invested agrees to finance an eligible agricultural or small-business borrower at a comparably reduced rate of return.
Massachusetts	Capital Access Program	The program provides participating banks with a cash collateral guarantee. The program is designed to encourage banks to make loans to small businesses and is available to Massachusetts companies with annual sales less than $5 million that have borrowing needs up to $500,000.
	The Massachusetts Capital Resource Company (MCRC)	This private company established in conjunction with the state acts as an economic catalyst by providing capital to businesses throughout the commonwealth.
	The Massachusetts Business Development Corporation (MBDC)	This private corporation under state charter provides loans to firms unable to obtain full financing from commercial lenders.
Michigan	Capital Access Program	Participating banks throughout Michigan offer the Capital Access Program directly to companies that need credit enhancement. Similar to a loan loss reserve fund, the bank, company and the Michigan Strategic Fund place a small percentage of the loan into a reserve that makes it possible for the company to receive fixed-asset and working-capital financing.
Minnesota	Capital Access Program	This program provides limited guarantees to private lenders for loans made to small- and medium-sized businesses for start-up or expansion costs.
Missouri	Missouri FIRST Linked Deposit Program	The state treasurer provides low-interest state funds to Missouri banks, savings and loan institutions, and credit unions that make loans to new and expanding businesses that create or retain jobs in the state. The state funds are deposited with a participating lending institution at up to 3 percent below the one-year Treasury Bill rate, with the lender passing on this interest savings to the business borrower. To be eligible, the borrower must be a new, existing or expanding company that is able to create or retain at least one new job for each $25,000 borrowed and must employ 10 or more persons. The funds may be used for any purpose approved by the lender. All Missouri banks may participate in this program. The state treasurer will offer deposits of state funds, dollar-for-dollar, for the amount of approved loans. The minimum deposit is $90,000, and there is a $5 million maximum.
	Missouri FIRST Linked Deposit Program for Small Businesses	The state treasurer has reserved a portion of available linked deposit funds for small businesses. To be eligible, a company must have less than 25 employees, be headquartered in Missouri and be operating for profit. Small business linked deposit loans are available for working capital. The maximum loan amount is $100,000.
Nevada	The Nevada Development Capital Corporation	The capital corporation is a private, market-based, for-profit development fund that finances growth opportunities for small Nevada businesses that do not qualify for conventional financing. The corporation has $3 million in commitments from investors, which include Nevada banks, utilities, mining companies and other firms. The Nevada Legislature appropriated $200,000 to fund the corporation's start-up costs.
New Mexico	Venture Capital Investment Program	Venture Capital Investments are severance tax permanent fund investments in qualified venture capital funds. The funds may be invested in entrepreneurial businesses under the following conditions: an experienced management team; a rapidly growing and potentially large market; a convincing proprietary or competitive advantage; the existence of barriers to entry for other businesses; and an opportunity for significant capital appreciation for investors over a five- to seven-year period.
North Dakota	Partnership in Assisting	PACE is an interest buy-down program that provides financing to

	Community Expansion (PACE)	businesses through a carefully orchestrated partnership between local lenders, local governments, and the state-owned Bank of North Dakota. The PACE program offers its funds to all North Dakota businesses, whether new or expanding, to meet their real property, equipment, expansion, working capital, and inventory needs. PACE has no funding limits or equity requirements. Payback periods can be up to 15 years for real estate loans. PACE funds are available for projects in manufacturing, processing, value-added processing and targeted service industries.
Oklahoma	Oklahoma Capital Investment Board	Though its venture capital program, the Oklahoma Capital Investment Board facilitates investment in venture capital funds that focus on investing in quality Oklahoma companies. To date, $10 million in aggregate investments has been made in three venture capital firms. These investments are in Ventures Medical II, a $14-million firm specializing in early stage, technology-based medical companies; Richland Ventures, a $42-million firm specializing in later stage service companies; and Intersouth Partners II, a $20-million seed capital investor in both technology and non-technology companies. The board has extended $12 million in preliminary commitments to an additional three firms and plans to make additional commitments in the coming months.
Oregon	The Capital Access Program	This program is designed to increase the availability of loans from banks to small businesses in Oregon. The program provides loan portfolio insurance so lenders may make business loans that carry higher than conventional risks but are within the soundness and safety requirements of federal and state banking regulations. The department establishes a loss reserve fund earmarked for each participating lender to cover loans made under the program. When a loan is made, the borrower and the lender each pay a fee to 2 percent to 3.5 percent of the amount of the loan. The department pays an amount equal to the combined total of the two fees (this can double in distressed areas). The fund grows as the lender continues to make loans under the program, and it can be drawn upon by the lender to cover a loss that would result from a defaulting loan.
Pennsylvania	PennCAP	This program provides loan guarantees through participating banks for businesses seeking to obtain commercial financing. Loan amounts can be between $25,000 and $200,000. No restriction is placed on the category of business that may apply for the loan guarantee. Businesses can apply for loans directly with a participating local bank.
Utah	Participating Loans Program	Administered by the Utah Technology Finance Corporation (UTFC), the participating loan program with Utah banks has a two-fold purpose: (1) to establish a commercial relationship between a new firm and a Utah bank, and (2) to encourage banks to become more active in lending to technology-based companies. The program works through an agreement between the UTFC and a bank. UTFC will provide one-third of a loan up to a maximum participation on UTFC's part of $125,000. UTFC takes a subordinated position to the bank under terms established by the bank. UTFC deals directly with the bank and only indirectly with the small business.
Vermont	Financial Access Fund	To stimulate lending, the Vermont Economic Development Authority has been authorized to create a fund to reimburse participating banks for losses incurred on loans registered under this program with VEDA. On each specific loan, a premium payment is made by the bank and the borrower to create the loan loss reserve fund. The state pledges its guarantee to the participating bank in an amount equal to total reserve payments. Because of this share risk pool, many small businesses will find it easier to obtain necessary capital for business expansions or start-ups. These loans are available only to business start-ups or

		those businesses with gross annual sales of less than $5 million. Loans can be up to $200,000.

North Dakota Development Fund

The North Dakota Development Fund, Inc., is the statewide nonprofit development corporation provided for under North Dakota Century Code Chapter 10-30.5. Section 10-30.5-02(1) provides the "corporation's principal mission is the development and expansion of primary sector business in this state" and that the corporation may "take equity positions in, to provide loans to, or to use other innovative financing mechanisms to provide capital for new or expanding businesses in this state." Chapter 10-30.5 provides that the corporation's board of directors must include the director of the Department of Economic Development and Finance and that the corporation's chief executive officer be the deputy director of the finance division of the Department of Economic Development and Finance.

The corporation is established from moneys appropriated from the general fund and transfers from other funds. In 1999 the Legislative Assembly appropriated to the Department of Economic Development and Finance the sum of $750,000 for the North Dakota Development Fund. This appropriation reflects a reduction of $250,000 from the Governor's proposed executive budget.

STUDY APPROACH

A possible approach to the study of economic development functions would be to:

1. Receive testimony regarding the provision and effectiveness of economic development efforts of state agencies, local governments, and private organizations.
2. Receive testimony from representatives of other states and private organizations involved in public and private partnerships for economic development to illicit information regarding privatization of economic development services.
3. Receive testimony from representatives of the North Dakota Development Fund, Department of Economic Development and Finance, and the Bank of North Dakota regarding the most effective organization and location of the North Dakota Development Fund.