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ECONOMIC DEVELOPMENT FUNCTIONS IN NORTH DAKOTA - BACKGROUND MEMORANDUM

Section 12 of Senate Bill No. 2019 directs 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 provides 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.

INTRODUCTION

Although the 2.8 percent unemployment rate for North Dakota in 1996 ranked as the lowest among the 50 states, evaluations of the state's economic momentum vary. Congressional Quarterly's State Fact Finder Rankings Across America for 1997 rank the September 1996 index of economic momentum for North Dakota as the 19th best in the nation. On the other hand, a report by the Corporation for Enterprise Development in July 1996 gave the state a "D" in economic performance which rates employment, wage levels, and job quality.

PREVIOUS STUDIES

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.

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.

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 of Economic Development and Finance 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 onfarm 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.

In 1993 the 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 repeals 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 (1997) allows 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 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, 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 that the Agricultural Products Utilization Commission may administer.

Other 1997 legislation relating to economic issues include 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 administers 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 administers economic development programs. The PACE fund is 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 onfarm 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 provides 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.

SUGGESTED STUDY APPROACH

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

1. Receive testimony from the Department of Economic Development and Finance and the Bank of North Dakota regarding

the programs administered by those entities.

2. Receive testimony from representatives of other state and local entities involved in economic development activities as well as other groups involved in economic

development to illicit information regarding the most efficient and appropriate method for the state to deliver economic development assistance.

ATTACH:1

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 [8.05 kilometers] of any city with a population of more than eight thousand. These funds must be allocated for the benefit of each of the areas delineated as regions by executive order of the governor pursuant to section 54-40.1-02.

SECTION 11. ECONOMIC DEVELOPMENT FUNDS - WAGE REQUIREMENTS. Any 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. These wage requirements may be imposed on all or any portion of the employees and may exceed federal minimum wage requirements.

SECTION 12. LEGISLATIVE COUNCIL STUDY - ECONOMIC DEVELOPMENT FUNCTIONS. The legislative council shall consider studying during the 1997-98 interim economic development functions in North Dakota including the Bank of North Dakota programs, technology transfer, incorporated, the North Dakota development fund, the department of economic development and finance, and other related state agencies. The study, if conducted, 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.

SECTION 13. AMENDMENT. Section 4-14.1-03.1 of the 1995 Supplement to the North Dakota Century Code is amended and reenacted as follows:

4-14.1-03.1. Agricultural products utilization commission - Authority. The North Dakota agricultural products utilization commission may apply for, accept, and expend any appropriation, grant, gift, or service made available from public or private sources consistent with the purpose of this chapter. The commission may administer grant programs consistent with the purpose of this chapter including a basic and applied research grant program, utilization and marketing grant program, cooperative marketing grant program, farm diversification grant program, agricultural prototype development grant program, and a North American marketing grant program.

SECTION 14. AMENDMENT. Section 4-14.1-04 of the 1995 Supplement to the North Dakota Century Code is amended and reenacted as follows:

4-14.1-04. Agricultural products utilization commission - Meetings - Personnel - Reports. The agricultural products utilization commission, which is a division of the department of economic development and finance, shall meet as necessary and shall report to each session of the legislative assembly. The commission may secure office space ~~and~~, employ needed personnel for the performance of its duties, ~~may~~ hire consultants, spend any funds appropriated to the commission, and ~~may~~ contract with public entities or private parties for services.

SECTION 15. AMENDMENT. Section 54-34.3-08 of the 1995 Supplement to the North Dakota Century Code is amended and reenacted as follows:

54-34.3-08. Patents. The department of economic development and finance, ~~technology transfer, incorporated,~~ the North Dakota development fund, incorporated, and the North Dakota agricultural products utilization commission may hold or assign for remuneration all or a portion of their interest in patents or royalty rights acquired in the course of their operation and performance of duties as provided by law.

SECTION 16. AMENDMENT. Section 57-43.1-03.1 of the 1995 Supplement to the North Dakota Century Code is amended and reenacted as follows:

57-43.1-03.1. (Effective until December 31, 1999) Refund of tax for fuel used for agricultural purposes - ~~Reduction for agricultural fuel tax fund~~ Reductions. Any person who buys or uses any motor vehicle fuel for agricultural purposes, except motor vehicle fuel used in motor vehicles operated or intended to be operated in whole or in part upon any of the public highways of this state on which the motor vehicle fuel tax has been paid, must be reimbursed or repaid within the time provided in this chapter, the amount of the tax paid upon the presentation to and the approval of the commissioner of a claim for refund. The amount of the tax refund provided for in this section must be