COMMERCE AND LABOR COMMITTEE

The Commerce and Labor Committee was assigned two studies. Section 16 of House Bill No. 1019 directed a study of the economic development efforts in the state, including the provision of economic development services statewide and related effectiveness, the potential for privatization of the Department of Economic Development and Finance, and the appropriate location of the North Dakota Development Fund, Inc., including potential transfer of the fund to the Bank of North Dakota. House Concurrent Resolution No. 3027 directed a study of heritage tourism and the relationships among the State Historical Society, Parks and Recreation Department, Tourism Department, Department of Economic Development and Finance, and private sector promoters and developers of heritage tourism in the state.

The Legislative Council also assigned the committee the responsibility under Section 5 of House Bill No. 1135 to make recommendations concerning the report of Job Service North Dakota regarding incentives to encourage an employee to decrease the length of time that employee receives unemployment compensation benefits and to encourage a negative employer to become a positive employer; the responsibility to receive annual reports from the Division of Community Services on renaissance zone progress and from the Department of Economic Development and Finance on performance of all divisions of the department, on the amount of success and satisfaction the department has in meeting business client, economic developer, and community client needs and expectations, and on a comparison of dollars spent to the economic benefits created of all programs administered or supervised by the director; and the responsibility to receive reports from the Workers Compensation Bureau regarding the bureau's safety audit of Roughrider Industries work programs and the bureau's performance audit of the modified workers' compensation coverage program, regarding the results of the bureau's study of the awards provided to injured employees with permanent impairments caused by compensable work injuries, and regarding the bureau's recommendations from the bureau's study of the benefits available to persons receiving long-term disability or death benefits from the bureau.

Committee members were Representatives Eliot Glassheim (Chairman), Rick Berg, Curtis E. Brekke, Byron Clark, Glen Froseth, William E. Gorder, Howard Grumbo, Nancy Johnson, George J. Keiser, Lawrence R. Klemin, Amy N. Kliniske, Dale C. Severson, Dorvan Solberg, and Elwood Thorpe and Senators Tony Grindberg, Karen K. Krebsbach, Deb Mathern, Duane Mutch, Harvey Sand, Harvey D. Tallackson, and Vern Thompson.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 2000. The Council accepted the report for submission to the 57th Legislative Assembly.

ECONOMIC DEVELOPMENT STUDY

The committee was charged with studying the economic development efforts in the state, 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, Inc., including the potential transfer of the fund to the Bank of North Dakota.

Legislative Background 1999 Legislation

House Bill No. 1019 appropriated $750,000 to the Department of Economic Development and Finance for the North Dakota Development Fund, Inc. The bill provided for ethanol incentives and 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 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 could 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 provided that, 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. The bill 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 eliminated the requirement that the Department of Economic Development and Finance have a division of science and technology. The bill replaced 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 repealed 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 allowed the establishment of "renaissance zones" in cities. The bill provided an individual taxpayer who purchases single-family residential property as a primary residence as part of a zone project with an exemption of 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 was exempted from income taxes 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 was exempted from income taxes for five taxable years for income earned from the investment. A historic preservation and renovation tax credit was 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 can be carried forward for up to five taxable years. The bill provided 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 can 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 allowed 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 could 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 could 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 provided 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 allowed an addition to a residential or commercial building to qualify for the property tax exemption for building improvements and extended from three years to five years the time for which a city or county governing body may grant an exemption for building improvements.

Senate Bill No. 2096 provided new jobs training, and education program services developed and coordinated by Job Service North Dakota must be provided to primary sector businesses that provided 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 repealed the law relating to the participation by the Bank of North Dakota in loans to nonfarming small business concerns.

Senate Bill No. 2242 provided for a beginning entrepreneur loan guarantee program.

Previous Studies

During the 1997-98 interim, the Legislative Council's Commerce and Agriculture Committee studied economic development functions in North Dakota, including the Bank of North Dakota programs, Technology Transfer, Inc., the North Dakota Development Fund, Inc., the Department of Economic Development and Finance, and other related state agencies. That committee made no recommendation with respect to its study.

Previous Legislation

In 1991 Senate Bill No. 2058, known as "Growing North Dakota" legislation, 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. Additionally, the bill provided for the establishment of the following funds:

- 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.
- 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.
- 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, a requirement often referred to as the "living wage" requirement.

- 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 52nd 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.

The Growing North Dakota program established in 1991 was partially revised in 1993 by Senate Bill No. 2021, known as "Growing North Dakota II" legislation. That bill changed the name of the Science and Technology Corporation to Technology Transfer, Inc., and 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 in 1991 had been expended. In addition, the Legislative Assembly appropriated approximately $18.5 million for economic development programs for the 1993-95 biennium.

In 1995 the Legislative Assembly continued to make significant changes to the state's economic development tools. In House Bill No. 1021, the regional rural development revolving loan fund and the North Dakota Future Fund were replaced with the North Dakota Development Fund, Inc. 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 Dakota 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.

In 1995 the Legislative Assembly also repealed the "living wage" requirement. The 1995-97 appropriation to the Department of Economic Development and Finance included approximately $2 million for grants; $1,454,000 for Technology Transfer, Inc.; and $1,968,750 for the North Dakota Development Fund.

In 1997 the Legislative Assembly enacted Senate Bill No. 2019, which included within the appropriation for the Department of Economic Development and Finance 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 Dakota 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 provided 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 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. The bill also provided that the Agricultural Products Utilization Commission became 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 North Dakota American Indian business development program, and the women's business development program, the Bank of North Dakota also administered economic development programs. In 1997 the Legislative Assembly appropriated $4,000,600 for the PACE fund and appropriated $397,100 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. In 1997 the Legislative Assembly appropriated $921,500 to the Bank of North Dakota for the beginning farmer revolving loan fund.

Economic Development Actors

The committee received extensive testimony from a broad range of state, local, regional, and private sector parties interested in economic development.

Bank of North Dakota

A representative of the Bank of North Dakota testified that the Bank's primary role is to assist private financial institutions and economic developers, and the objective of the Bank is to help private financial institutions manage risk and provide enhanced financial products to the institution's customers. The Bank complements and supports the work private financial institutions do through the Bank's lending programs.

The committee was informed that typically the Bank's programs are participation loan programs, meaning the private sector drives the process and the underwriting. To further leverage this participation lending approach, the Bank joined with four other state and federal financing agencies to form the One Stop Capital Center at the Bank. The Bank of North Dakota, Department of Economic Development and Finance, federal Small Business Administration, Federal Rural Development, and the Dakota Certified Development Corporation comprise the One Stop Capital Center. Testimony was received that the private banking industry, in tandem with the Bank of North Dakota and other state and federal financing agencies, is able to effectively provide loan financing for business development and expansion in North Dakota.

The committee received testimony regarding the feasibility and desirability of moving the North Dakota Development Fund to the Bank of North Dakota. A representative of the Bank testified that if the fund were located within the Bank, the Industrial Commission would oversee the fund. The committee received testimony from a representative of the Bank that the existing structure for economic development and location of the fund is successful, and there is no need to change this organizational structure. Testimony was received by a representative of a local development associate that the services provided by the Bank of North Dakota and by the Department of Economic Development and Finance need to be kept separate because they serve different purposes.

Department of Economic Development and Finance

The committee received testimony that the three goals of the department are to develop a shared vision for economic development efforts in the state, build the local capacity and ability of communities to secure successful investment outcomes, and promote the state to create awareness and to generate leads for successful investment outcomes. 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. Testimony indicated that areas in which the department does not provide services include community development assistance, entrepreneurial development, and international trade and investment. Additionally, economic development 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. Testimony was received that the current move in the economy is toward a knowledge-based economy. Although the department is improving services provided, there is a real need to address globalization and international growth.

The committee reviewed extensive information regarding the current funding of the department and extensive information comparing the department's funding to funding of development agencies of other states. Additionally, the committee reviewed the National Association of State Development Agencies biennial report comparing development agencies and services provided across the country.

Division of Community Services

The committee received testimony that the Division of Community Services primary involvement in economic development is through community block grant funds. Further testimony indicated the division works closely with regional planning councils and the Department of Economic Development and Finance.

Indian Affairs Commission

The committee received testimony from a representative of the Indian Affairs Commission that Indian tribes are interested in economic development and should be a part of discussions regarding economic development.

Job Service North Dakota

A representative of Job Service North Dakota testified that because economic development is dependent upon an available and qualified work force, work force development is a critical element for economic development. Economic development efforts of Job Service North Dakota include the public employment service, which is the single largest source of available workers for North Dakota businesses; the labor market information section, which is the single largest source of labor market information; and Job Service North Dakota, which is responsible for administering federal and state work force training programs.

North Dakota University System

Testimony indicated that the North Dakota University System is involved in economic development in a variety of ways, including the Work Force Training Task Force, research, and the customized training network. Additionally, the committee received updates on the status of the Economic Development Connection Task Force of the Higher Education Committee and reviewed the document *A North Dakota University System for the 21st Century: The Report of the Roundtable for the North Dakota Legislative Council Interim Committee on Higher Education*. The roundtable made the following recommendations:

- Pursue strategic alliance and partnerships with primary sector businesses and industries that have the strongest potential for expanding the economy of the region and the state.
- Strengthen planning and working relationships with local and state development organizations aimed at strengthening the local and state economy and fostering the quality of life factors of the region.
- Develop program offerings and delivery capabilities to close the gap between the strong and growing demand for graduates with technical education knowledge and skills in relation to the limited number of such graduates available within the state and nation.
- Offer educational programs on the topic of entrepreneurship at every institution within the University System.
- Encourage institutions to draw upon the knowledge and insights of the partnering entities to ensure state-of-the-art technology is being employed for teaching and research and is consistent with the technology being used in the private sector.
- Partner with the tribal colleges in delivering training to the reservations to allow these individuals to take advantage of the employment opportunities in the state.
- Develop opportunities that allow the American Indian community to take advantage of the underemployed and unemployed work force on the reservation in relation to the growing work force shortage in North Dakota.
- View the development and operation of the technology infrastructure as a public utility.
- Provide continued support for the work force training delivery system that was enacted in 1999.
- Establish incentives and rewards for and a culture supportive of entrepreneurial behavior on the part of the individuals at each level of the University System.
- Empower university presidents.
- Come to resolution on accountability measures.
- Recognize technology and the creation, development, and application of high technology as the key component of the new economy and add it to the four-part economy proposed in the Vision 2000 report.
- Identify research and development opportunities that have strong potential for positive economic impacts on the region, state, and institution.

- Encourage campuses to maximize the potential to the institution, students, state, nation, and world of the global marketplace.

North Dakota Workforce Development Council

The committee received status reports from the director of the North Dakota Workforce Development Council. Although the council does not include representation from the Legislative Assembly nor from the tribes, the council invites the Senate and House majority and minority leaders and the six tribal chairmen to each meeting of the council.

The four strategies of the council are:

1. Lifelong learning delivery system;
2. Kindergarten through grade 16 education responsiveness to change;
3. Recruitment and retention; and
4. Accountability and continuous improvement.

The council is working on a one-stop delivery system, and a memorandum of understanding was signed by all the one-stop participants except for the tribes. As part of the one-stop delivery system, an orientation program was implemented to familiarize all participants with programs linking with the one-stop delivery system and a web-based system for customer referral is being implemented.

Local Development Associations

The committee received testimony from representatives of several local development associations regarding the roles of local development associations in economic development. A representative of the North Dakota Association of Rural Electric Cooperatives suggested the committee consider that:

- Programs need to change the perspective that things are better somewhere else;
- State policymakers need to approach economic development as a long-term investment and stop approaching economic development in two- or three-year cycles; and
- State policymakers need to "take a big breath" because people are pulled to change, not pushed to change.

The committee received testimony in opposition to the decrease in funding of the Technology Transfer, Inc., program. Additionally, testimony was received that some rural communities are having problems finding people to fill economic development director positions, and the concern was raised that the state needs to focus on some of the smaller communities in the state rather than the seven largest cities in the state.

Economic Development Association of North Dakota

Testimony was received that two of the Economic Development Association of North Dakota's five-year goals are to have 25,000 new primary sector jobs created in the state and to increase North Dakota's per capita income to at least 93 percent of the national average. The association recommended the state consider the following proposals to strengthen economic development in North Dakota:

1. Create a North Dakota department of commerce, which might include the North Dakota Department of Economic Development and Finance, Tourism Department, Division of Community Services, Labor Department, and the North Dakota Workforce Development Council;
2. Focus on economic development finance and incentive programs, which include existing programs and may include an investment capital fund and a speculative building program;
3. Focus on work force development, which may include existing programs as well as a possible state-supported labor recruitment program, an incentive program for college graduates to stay and work within the state, a low-interest rate mortgage program that might attract employees back to the state, and stronger or new program offerings in the University System;
4. Increase economic development marketing, public relations, and education, which goes beyond marketing North Dakota's tourism;
5. Develop the technology infrastructure, including development and implementation of a statewide plan connecting all areas with a fiber optics and broad bandwidth network; and
6. Focus on agricultural support and development, including support of existing programs and consideration of development of new programs that have the capacity to support shifting the state from a commodity-producing state to a food-producing state.

Entrepreneurs

The committee received testimony from a variety of entrepreneurs regarding the entrepreneurs' economic development experiences in the state, including the use of state, regional, and local economic development services. Entrepreneurs raised concerns that:

- The state may not be doing enough to support technology;
- There are inadequate programs to assist in business startups; and
- There is a lack of venture capital available to businesses and entrepreneurs.

Greater North Dakota Association

The committee received testimony from a representative of the Greater North Dakota Association regarding the association's role in economic development. Association membership includes local developers, regional developers, and private industry. 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.

Griggs-Steele Empowerment Zone

The committee received a report on the status of the Griggs-Steele Empowerment Zone. The Griggs-Steele Empowerment Zone is one of five recipients designated a Round II Rural Empowerment Zone by the federal government. The designation as an empowerment zone was in large part based on the communities' high outmigration record, and the designation will allow for grant awards and the ability to offer loans through a revolving loan pool. Testimony was received that the four goals of the empowerment zone are job creation, creation of new wealth, enhancement of quality of life, and demonstrable sustainability of the program. The Griggs-Steele Empowerment Zone Board will work with Job Service North Dakota and the Department of Human Services to determine whether elements of the empowerment zone plan can be dovetailed with state programs.

Job Development Authorities

The committee received testimony from representatives of several job development authorities regarding the role of authorities in economic development. Duties of job development authorities include building relationships with manufacturers, holding town hall meetings, and reporting on the progress of the job development authority. Testimony was received that the relationship between job development authorities and the Department of Economic Development and Finance could be strengthened through semiannual meetings.

Regional Planning Councils

The committee received testimony from several regional planning councils regarding the role of councils in economic development. Regional planning councils were originally part of the Growing North Dakota plan. One role of regional planning councils is to channel federal economic development funds to local communities. Typically, the councils try to work as a team with local development associations. Additionally, the councils have had partnership relationships with the Division of Community Services, the Department of Economic Development and Finance, federal agencies, local development groups, and primary sector businesses. Testimony was received that regional planning councils and local developers do not overlap activities but fill voids and in some instances strengthen and support local development activities.

A representative of a regional planning council encouraged the committee consider the following suggestions:

1. Reinstate contracts between regional councils and the Department of Economic Development and Finance;
2. Encourage the Division of Community Services to establish a relationship with regional councils to service and collect from block grant borrowers;
3. Restructure the Sunday fund so that regional councils can use those funds to leverage additional federal dollars to the state; and
4. Encourage all state agencies, before adding new full-time employees or contracting with consultants, to consider hiring regional councils.

The committee received testimony regarding regional council funding sources, which include fees paid by member communities, contracting fees from public and private organizations, interest from loans issued by the council, and federal programs. The 1999-2001 appropriation for the Department of Economic Development and Finance did not include funds for regional planning councils. Testimony was received that an unfortunate result of this action has sometimes been a decrease in communication with the department. As state and federal sources dry up, regional and local economic development organizations have had to try to do more with less. Testimony was received that the four-mill tax levy available to counties for regional economic development councils is not always adequate to provide the necessary economic development services.

Small Business Development Center

The committee received testimony from a representative of the Small Business Development Center regarding the role of the center in economic development. The Small Business Development Center is a state-federal and public-private partnership program that 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. Testimony indicated that 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, in-depth counseling; provide quality, in-depth 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.

Venture Capital

The concern was raised from several sources that there is a lack of venture capital opportunities in the state. The committee formed a Commerce and Labor Committee Subcommittee on Venture Capital to focus on the issue of venture capital. Subcommittee members were Representatives Eliot Glassheim (Chairman), George J. Keiser, and Dale C. Severson and Senators Tony Grindberg and Deb Mathern. Testimony was received by the committee and subcommittee from a variety of parties interested in venture capital.

Testimony indicated that in addition to the direct benefits of increasing capital investment in the state, indirect benefits may include increased numbers of jobs, new wealth creation, increased taxes paid by businesses, and increased sales taxes collected. The committee was encouraged to remember that the direct and indirect benefits may take years to recognize.

A representative of the Bank of North Dakota testified there is a need for additional sources of private and public venture capital that are usually in short supply for most business startups and expansions. Historically, North Dakotans have sent their investment dollars out of state rather than investing in new business development in the state; therefore, there need to be incentives and encouragement from North Dakota to invest equity capital in the state. Testimony was received that the state's next step should be 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.

A report was received from a representative of the North Dakota Development Fund, Inc., regarding venture capital investment opportunities within the state. Additionally, the history of the North Dakota Development Fund and the evolution of the fund was reviewed. At the inception of the fund, 75 percent of the funds were involved in equity investing and 25 percent of the funds were involved in subordinated debt. Currently, 70 percent of the fund is in subordinated debt and 30 percent in equity investing. As a result of this current strategy, money in the fund is tied up for a shorter period of time than it would be under an equity investment. If the fund had not been restructured, however, the fund would likely have run out of funding money.

Testimony was received from representatives of the Department of Economic Development and Finance that the state could use the North Dakota Development Fund as a mechanism to provide venture capital to businesses in the state; however, the fund has been underfunded and would need to be revitalized to take on this task.

Testimony indicated the state has difficulty attracting venture capitalists for a variety of reasons, including the lack of large venture capital opportunities; the small volume of business plans within the state; the large percentage of small, private businesses within the state; the tendency of venture capitalists to locate in the geographical areas in which they want to invest; the lack of industry specialization within the state; the tendency of venture capitalists to co-invest with other venture capitalists; and the lack of venture capitalists within the state.

Most venture capital available in the United States is directed at issues of $10 million and more, whereas most offerings in North Dakota are less than $5 to $10 million. Testimony was received that there are several startup projects in the state which are in need of $50,000 to $100,000 to move to the next level.

Testimony was received that in order for a basic investment fund to be feasible, the fund would require at least $5 million to begin marketing and $10 million to begin funding projects. Further testimony supported the idea of funding a state venture capital fund from a blend of private and public resources. Some testimony supported requiring funding for startups to include funding from the state, from the banking sector, and the business owner.

Testimony was received that although there is a growing need for venture capital and seed money and although nearly all businesses could benefit from capital, some businesses in the state may need assistance and education regarding how to appropriately use the capital. It may be necessary for the state to provide some type of program to educate people regarding venture capital and for the state to participate in marketing the capital investment concept.

Testimony was received that the state should establish a tax credit on investments made to venture capitalists; should establish its own venture capital fund, operating like a venture capitalist in the private market, with higher internal rates of return; should lessen the restrictions on venture capital corporation incorporation; and in order to encourage venture capitalists to consider North Dakota investments, should create a fund that matches a portion of investment dollars and which takes a subordinated position to other investors. Additional suggestions to increase capital investment in the state included the state providing staffing, due diligence, and marketing services without actually making an appropriation to a venture capital fund.

In considering possible approaches to increase venture capital opportunities, the committee and subcommittee learned that federal laws and regulations may be significant barriers to creating a statewide investment group. Additionally, differences were considered between true venture capital and benevolent venture capital, and barriers include an unwillingness of some business people to let go of control of a company to receive financing, very few North Dakota businesses plan on going public, smaller businesses in the state may lack the expertise to create a competitive business plan and attract investors, and the perception of the public when the state takes equity positions in businesses.

Privatization and Consolidation Privatization

The committee received testimony from a representative of Market Street Services, Inc., regarding privatization of state economic development services. Key economic development trends include globalization, technology and telecommunications, regionalism, sustainable development, and work force preparation. The increasing need for a qualified work force has resulted in the trend of providing work force training. Financial incentives for work force training may include tax credits, incentives specific to particular types of industry, or incentives available to existing businesses.

The committee received testimony that 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 help fund economic development. Testimony also indicated states that have privatized elements of economic development continue to control economic development and require accountability for economic development in a variety of ways.

The executive director of the Department of Economic Development and Finance testified in opposition to complete privatization of the state's economic development efforts in part because there is a need for public accountability if public dollars are involved. However, testimony was received that globalization might be a good example of an area that would benefit from private/public partnerships.

A representative of the Department of Economic Development and Finance testified that some potential benefits of private/public partnerships may 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 sector funds with private sector funds 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 to better support state development.

The committee received information from representatives of the National Association of State Development Agencies regarding privatization of state economic development services and associated trends. The current trend in privatization is more frequently implemented through a targeted approach, whereby privatization deals with one particular niche, versus a broad approach in which the privatization is general purpose. Typically, the targeted approach provides for a private, nonprofit board that oversees the activities of the public economic development agency. With a private advisory board, typically the Governor chooses the board members, and the Governor and the Legislative Assembly choose how to appropriate funds for economic development.

Testimony indicated four of the primary objectives of states that privatize economic development services are:

1. Assisting in leveraging support of the private sector, primarily in the form of in-kind support versus financial support;
2. Creating a forum to get advice and counsel from the private sector;
3. Increasing the level of buy-in from the private sector; and
4. Increasing the private sector's acceptance of state economic development programs.

Four characteristics typically found in successful privatization efforts are:

1. A clear set of objectives and the role privatization is expected to play;
2. Clearly established relationships between the private and public sectors;
3. Clear funding goals and expectations of the private sector; and
4. A form of accountability to assure the private sector that one industry is not receiving preferential treatment over another industry.

A representative of the Bank of North Dakota testified that if economic development services are privatized, it will be necessary to reevaluate which organization should be in control of finances, and it is possible the Bank of North Dakota's role would be larger under those circumstances.

Consolidation

A representative of the National Association of State Development Agencies testified that trends in economic development include the move toward centralization or creation of a mechanism to facilitate unification, such as creation of an economic development cabinet; unification through a single economic development budget; and proliferation of economic development at regional and local levels, whereby even if the state has some degree of control over centralization, it is difficult for a state to control or centralize at the local and regional levels.

The committee conducted a survey of state agencies to determine which agencies are providing economic development services and the financial resources dedicated to these services. The results of this survey indicated a mixed response to cooperating in the survey and indicated economic development services are provided by a broad range of state agencies.

The National Association of State Development Agencies surveyed state agencies regarding the provision of economic development services within the state and submitted the report *NASDA Report to North Dakota on Potential Fine Tuning of State Economic Development Program*. The Department of Economic Development and Finance received high marks across the board in the survey, and negative observations indicated that perhaps there are too many economic development service providers within the state, and there does not appear to be a mechanism to coordinate the state economic development services. The report encouraged the state to:

- Establish a central cabinet-level department of commerce;
- Set up a regional network to support local economic development activities;
- Create a commerce cabinet;
- Create a unified economic development budget; and
- Establish a private, nonprofit council to serve as an advisory council to the Department of Commerce.

Testimony was received that if the committee considers consolidation of economic development services, existing state agencies may be consolidated into a larger agency, an entirely new agency could be created, or a combination of these two approaches could be used.

The director of the Department of Economic Development and Finance testified that creation of a department of commerce could increase efficiency and improve customer service; however, the value of consolidation is more than just efficiency and one-stop shopping--the primary benefit is coordination of economic development services and planning. The consolidation in and of itself will not automatically result in more efficiency. A representative of the Bank of North Dakota testified that it is not realistic to have "one-stop" shopping for all economic development services.

Manufacturing Extension Partnership

The Manufacturing Extension Partnership is a federal program that arose out of the downsizing of federal defense programs in an attempt to encourage manufacturing diversification and competitiveness. The program is a nationwide network of nonprofit performance centers, the sole purpose of which is to provide small- and medium-size manufacturers with the help they need to succeed. Funding for the program is one-third federal funds; one-third state funds; and one-third private sector support, primarily in fee for services.

North Dakota had a Manufacturing Extension Partnership program initiated in 1995, under the direction of Technology Transfer, Inc. As Technology Transfer, Inc., was phased out in 1997, the administration of the program was transferred to North Dakota State University. Pursuant to a review of the state's program in 1999, the federal agency in charge of the program suspended the state's program. Since the program lost federal certification, the Department of Economic Development and Finance has attempted to revitalize the program. The program would be a model for other private/public partnerships. The private aspect of the program is the steering committee, which is made up of representatives of private industries.

State Economy

The committee received a report from a representative of the Federal Reserve Bank of Minneapolis regarding the state's economic health; a report from a representative of the Red River Trade Council, Inc., regarding the current state of the region's economy and trends in the areas of agriculture, technology, and transportation; and reports on economic development trends and future economic development opportunities in the state.

Population Retention and Demographics Project Back Home

The committee received a report from a representative of Project Back Home regarding population growth efforts being taken by the program. Members of Project Back Home pay membership dues and include private businesses, counties, and cities. Project Back Home contains the following three phases:

1. Creation of a mailing list from which to create leads for the business or community;
2. Collection of interest survey information from individuals who respond to Phase I; and
3. Creation of a recruitment data base.

The Project Back Home web site at *home.northdakota.com* is a fully interactive web site on which participants can post information such as job opportunities, and visitors can complete employee surveys. Testimony indicated that in order for people to return to the state, adequate job opportunities need to exist, a high quality of life is required, and the jobs available must have competitive salaries.

CareerLinkNorth

The committee received a report from a representative of CareerLinkNorth. The CareerLinkNorth program is modeled after a similar program in Omaha, Nebraska, called CareerLink. Testimony indicated the objective of CareerLinkNorth is to:

- Deliver an aggressive quality marketing plan to create awareness of career opportunities through the CareerLinkNorth web site at *www.careerlinknorth.com*;
- Create an environment that fosters working as a team and addressing labor availability issues regionally;
- Develop a team of highly motivated, results-oriented organizations committed to the mission;
- Gain recognition as a successful organization that can affect positive changes as it relates to our region's growth, educational efforts, and social culture; and
- Encourage the sharing of resources, information, and time for a unified effort statewide.

North Dakota State University Data Center

The committee received a report from a representative of the North Dakota State University Data Center regarding the state's demographic trends in relation to economic development in the state. The trend in North Dakota of loss of population in rural communities is consistent with what is happening in all the states in the Great Plains. Three elements relevant to population are the number of births, deaths, and migrations. Testimony indicated that one element factoring into the loss of population in the Great Plains is that the number of acres per farm is increasing. North Dakota is at a point of change in the 21st century just as it was in the 1930s. In the 1930s there were agricultural changes, and in the 21st century there are technological changes. In the 1930s railroads connected communities, whereas now technology links communities.

In the 1990s North Dakota became a state with more of its residents living in urban areas than in rural areas. This consolidation of people to the larger communities is age and gender specific. In North Dakota, the senior citizen population now exceeds the youth population; the number of births in the state has been declining since 1982; and a growing number of counties experience fewer live births than deaths. As a result of this population change, the size of the available work force is decreasing.

Studies indicate there is a false perception among North Dakota graduates that job opportunities do not exist within the state. Statistics show if graduates were better informed, more graduates would remain in the state. Incentives to keep graduates in the state may include student loan buydowns, improved marketing of the quality of life in North Dakota, higher wages, and linking students to employers sooner than they are now being linked.

Information Technology

The committee received a report from a representative of the Information Technology Department regarding the status of state connectivity. Testimony indicated that the four pillars critical to future success in the new economy are telecommunications infrastructure, tax and public policy, building the North Dakota information technology work force, and economic development and business opportunities through technology.

The state network is designed to provide voice, data, and video transmission for government purposes and for education. Under the proposed network, there will be 222 cities and 544 locations encompassed in the network. Testimony indicated that an unresolved issue in implementation of the new network is the source of funding. Funding is necessary for hardware upgrades, the increase in reoccurring costs, video equipment, and for training and support.

Testimony was received that the building of North Dakota's information work force is very important, and this testimony indicated that education from the public school system through the universities and community colleges should encourage math, science, and other appropriate information technology curricula. Additional testimony indicated there are tremendous business opportunities available as a result of improved technology. Tactics communities can employ to attract or foster e-business include:

- Grants and other types of funding to startup businesses;
- Low-interest loans and other mechanisms available to local governments to finance knowledge-based industries;
- Free office space to support networks that address technological and marketing problems shared by many startup businesses and e-commerce conversion efforts;
- Financial assistance directly tied to work force development; and
- Discounted rates on electricity and telecommunication services.

The Chief Information Officer of the Information Technology Department made the following recommendations to the committee:

- Ensure kindergarten through grade 12 and the higher education system produces technology-literate students;
- Improve communications among those involved with each of the four pillars;
- Maintain flexibility but require accountability;
- Develop comprehensive integrated programs and overall budgets to address all four pillars necessary for the new economy; and
- Encourage the 57th Legislative Assembly to focus on an integrated information technology program.

A representative of the Southwest Information Technology Council and the Information Technology Council of North Dakota testified that the state's policies must encourage the use and expansion of the Internet and other new digital technologies. Especially important are the issues of connectivity, taxation, free speech, and government engagement in e-commerce at every opportunity. Testimony indicated that once the state reaches connectivity, pertinent issues may include Internet security and the state's role in policing Internet activities.

Work Force Development Program Inventory

The committee worked with the National Conference of State Legislatures in compiling a state inventory of job training programs that have a work force development component. The inventory indicated that the Department of Corrections and Rehabilitation, Department of Human Services, Department of Public Instruction, Department of Transportation, Job Service North Dakota, North Dakota University System, State Board for Vocational and Technical Education, Veterans' Employment and Training Service, and Workers Compensation Bureau provide approximately 40 work force development programs.

Committee Considerations

The committee considered a bill draft that would have provided the Department of Economic Development and Finance include a marketing division and an economic development and finance service provider division, that the costs of administering the Bank of North Dakota be funded by profits of the Bank in an amount equal to at least 21 percent of the Bank's profits, and that the Department of Economic Development and Finance be funded from profits of the Bank.

The committee considered a bill draft that would have clarified and specified particular goals for the Department of Economic

Development and Finance.

In considering a bill draft to create a commerce department, commerce cabinet, and commerce foundation, the committee considered funding the foundation from state funds and including the Department of Labor in the Department of Commerce.

Recommendations

The committee recommends House Bill No. 1039, based on an Ohio bill, to create a North Dakota venture capital fund program under which a seven-member North Dakota Venture Capital Authority creates a general lending and investment policy and designates a for-profit investment fund to carry out the lending and investment components of the program. The bill provides for lending to and investment of private moneys in seed and venture capital partnerships and provides for a one-time issuance of $5 million of state tax credits to the authority to guarantee losses under the program.

The committee recommends House Bill No. 1040 to create a North Dakota entrepreneur seed fund program under which a nine-member North Dakota entrepreneur seed fund board administers the North Dakota entrepreneur seed fund. The fund would be available to local entrepreneur seed fund applicants on a 500 percent local fund match basis to invest in North Dakota early-stage companies and small companies through equity or equity-type investments. Additionally, the bill provides a $3 million appropriation from the general fund to fund the program for the 2001-03 biennium.

The committee recommends House Bill No. 1041 to amend the law relating to seed capital investment tax credits. The bill would allow the seed capital tax credit on the state income tax short form, lessen the requirements to be classified as a qualified business under the seed capital investment tax credit law, allow taxpayers to claim the seed capital investment tax credit for any amount up to $50,000, allow a seed capital investment tax credit to exceed 50 percent of the taxpayer's tax liability, provide seed capital investment tax credits for investments in one qualified business may not exceed $250,000, decrease certain limitations on how a qualified business may use a seed capital investment, and increase the annual aggregate amount of seed capital investment tax credits from $250,000 to $500,000.

The committee recommends House Bill No. 1042 to decrease the venture capital corporation incorporation financial requirements to allow for smaller venture capital corporations to incorporate in the state.

The committee recommends Senate Bill No. 2032 to create a department of commerce by consolidating the Division of Community Services, Department of Economic Development and Finance, and Tourism Department. The new department would be administered by a commissioner of commerce. The bill would also create a North Dakota commerce cabinet and would allow for creation of a privately funded North Dakota development foundation.

The committee recommends House Bill No. 1043 to provide for state payment of certain student loans. The bill would provide that the Bank of North Dakota administer a student loan payment program that would be available to graduates of eligible postsecondary educational institutions in the state who are residents of the state and are employed in target industries located in the state. The target industries would be determined by the Department of Economic Development and Finance on an annual basis, and the department would be required to report to the Legislative Assembly during each regular legislative session. The maximum monthly payment under the program would be $166.66 per month for a maximum of 24 months. Additionally, the bill would provide for a $2 million appropriation from the general fund for the program for the 2001-03 biennium.

HERITAGE TOURISM STUDY

The committee was charged with studying heritage tourism and the relationships among the State Historical Society, Parks and Recreation Department, Tourism Department, Department of Economic Development and Finance, and private sector promoters and developers of heritage tourism.

Legislative Background 1999 Legislation

The 56th Legislative Assembly enacted the following bills relevant to heritage tourism--House Bill No. 1012, which allowed for the purchase of a commemorative Lewis and Clark motor vehicle license plate; House Bill No. 1208, which transferred supervision of the International Peace Garden from the State Historical Board to the Parks and Recreation Department; Senate Bill No. 2015, which provided a $25,000 appropriation to the Council on the Arts for a grant to the Plains Art Museum for the Lewis and Clark Bicentennial event; Senate Bill No. 2020, which provided a $931,345 appropriation to the State Historical Society for the Lewis and Clark Bicentennial and removed the $190,000 appropriation requested in the executive budget for the Gingras Trading Post planning and design; and Senate Bill No. 2022, which provided a $123,995 appropriation to the Tourism Department for the Lewis and Clark Bicentennial.

Previous Studies

During the 1989-90 interim, the Legislative Council's Jobs Development Commission studied the state's bountiful natural resources and outdoor recreation 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 commission joined with the Tourism Promotion Division of the Economic Development Commission to hire a consultant for the development of a tourism master plan and for the performance of related research. A consortium of tourism specialists known as International Tourism and Resort Advisors was selected to prepare the master plan and related research. The master plan and research addressed three primary concerns of state tourism promotion:

- The formulation of information on who is visiting the state and why, and what state residents are doing insofar as visitations in the state and outside the state.
- An analysis of the economic effects tourism and recreational experiences have on the state, including employment generated by tourism.
- The development of a master plan for tourism and natural resource development in the state, including a five-year action plan, a monitoring tool to measure what effect the state's tourism effects are having in the state, and insight into how the state can invest in the tourism industry to get the maximum returns from its investments.

The master plan and research was consolidated and bound in a two-volume set. Volume I contains a long-range master plan for the expansion of tourism in the state, presents a short-range action plan, and describes the methodology for monitoring effectiveness of the state's tourism program. Volume II contains profiles of travelers in the state and describes the economic impacts of travel throughout the state.

Previous Legislation

In 1991 the 52nd Legislative Assembly enacted the following legislation relevant to heritage tourism:

- House Bill No. 1044 provided for adoption of a state tourism policy that would guide the growth of the state's tourism sector.
- House Bill No. 1045 revised the definition of a bed and breakfast facility to allow four-bedroom units and to place limitations on the county and city governments' authority to impose stricter health and safety, licensure, and inspection requirements on the bed and breakfast facilities.
- House Bill No. 1046 repealed state law relating to the conduct of business on Sunday.
- House Bill No. 1047 required the Department of Transportation to establish rules for the erection and maintenance of tourist-oriented directional signs.
- Senate Bill No. 2054 established the State Department of Tourism for the purpose of fostering and promoting tourism to and within the state and for full development of the state's tourism resources. The bill established the Tourism Advisory Board for the purpose of advising the Governor regarding the promotion and development of tourism in the state.
- Senate Bill No. 2057 increased the maximum annual permit fee on motor vehicles entering state parks to $20 and eliminated the free senior citizen entrance permits.

In 1993 the 53rd Legislative Assembly enacted the following legislation relevant to heritage tourism:

- House Bill No. 1400 removed tourism from the State Parks and Tourism Department to create a State Tourism Department and created an Outdoor Recreation Interagency Council.
- Senate Bill No. 2419 allowed rural agricultural business attractions to use tourist-oriented directional signs.

In 1995 the 54th Legislative Assembly enacted the following legislation relevant to heritage tourism:

- Senate Bill No. 2156 removed Camp Hancock from the properties the State Historical Board maintains and operates as a historic house museum.
- Senate Bill No. 2157 decreased the number of members on the State Historical Board from nine members to seven members.
- Senate Bill No. 2207 allowed the North Dakota Heritage Center to charge admission fees for leased exhibitions.

Testimony

The committee received testimony from representatives of the following state agencies and nonprofit organizations regarding their roles in heritage tourism--Department of Economic Development and Finance, Indian Affairs Commission, Parks and Recreation Department, State Historical Society, Tourism Department, Fort Abraham Lincoln Foundation, and North Dakota Lewis and Clark Bicentennial Foundation.

The director of the Department of Economic Development and Finance testified that because tourism is a primary sector business, the department is interested in promoting tourism. The department looks to enhance private sector investments surrounding heritage tourism.

The executive director of the Indian Affairs Commission testified the commission's role is to act as a liaison between state government, tribal governments, and organizations and to educate the public to end negative stereotypes of American Indians. The Indian tribes are intimately related to heritage, and heritage tourism is one of the largest untapped business resources for the tribes.

The director of the Parks and Recreation Department testified that although land is a heritage resource, in addition to the state park land, the department offers a wide variety of park and recreation services. Several groups work in concert with the Parks and Recreation Department, forming a relationship that works to complement each of the parties involved. The director testified that if a private organization such as the Fort Abraham Lincoln Foundation presented a private management proposal, the proposal would be reviewed, and it would be determined at that time whether the department is authorized under law to enter into such an agreement.

The director of the State Historical Society described the role of the State Historical Society in heritage tourism as providing the product and the role of the Tourism Department as promoting the product. Additionally, the State Historical Society has relationships with a variety of nonprofit organizations that provide assistance with staffing sites, securing funding, and increasing public awareness of various historical sites. The committee received testimony that needs in the area of heritage tourism include increasing financial resources, including operating funds; increasing legislative support of heritage; and creating a grant system for local historical organizations.

The director of the Tourism Department described the department as the state advertising agency for tourism. Testimony indicated that although the 1999 Legislative Assembly appropriated money designated for the Lewis and Clark Bicentennial and that this money is very valuable and important, the committee needs to remember that North Dakota is the least-visited state and is also the least-funded state for tourism.

The executive director of the Fort Abraham Lincoln Foundation testified that the Custer House is a private building built with private funds which is on state land. The foundation leases the Custer House to the Parks and Recreation Department for $1 per year, and through this lease agreement, the foundation is allowed to conduct living history tours of the house. The committee reviewed information regarding the economic impact of the Fort Abraham Lincoln Foundation, fee totals for the Fort Lincoln State Park, and the Fort Lincoln State Park budget. The committee received information regarding a possible foundation proposal to create a pilot project under which the foundation would have managed the Fort Lincoln State Park. Testimony indicated that although private, nonprofit organizations manage some other state parks in North Dakota, the Fort Lincoln State Park site is considerably larger than the privately managed sites. The foundation suggested the possibility that the foundation may be able to run the park for less money than the state does.

The chairman of the North Dakota Lewis and Clark Bicentennial Foundation testified that the Lewis and Clark Interpretive Center in Washburn is managed and funded by a nonprofit organization and is owned by the state through the Parks and Recreation Department. Additionally, the Tourism Department helps to market the interpretive center, and the State Historical Society is active in the foundation's interpretive efforts. Testimony was received that the relationship between the foundation and the state is an example of a private/public partnership that works for the betterment of the state.

Committee Considerations

The committee considered problems the Fort Abraham Lincoln Foundation and the Parks and Recreation Department had renegotiating a lease agreement and whether current law adequately addresses the authority of the director of the Parks and Recreation Department to contract with private, nonprofit organizations for the provision of management services at state parks.

Conclusion

The committee makes no recommendations with respect to its study of heritage tourism.

REPORTS

Division of Community Services Report

The committee received two annual reports from the Division of Community Services on renaissance zone progress. The Division of Community Services worked with the Tax Department to create the details of the renaissance zone plan. Because the division does not have administrative rulemaking authority, the division instead fleshed out the details of the renaissance zone plan through what is called a "program statement." The committee reviewed the renaissance zone program statement, which addresses the following 12 main topics:

1. Division of Community Services responsibilities;
2. State Tax Commissioner responsibilities;
3. Renaissance zone cities responsibilities;
4. Tax exemptions and credits;
5. Creation and administration of renaissance fund corporations;
6. Income tax statistical information;
7. Passthrough of tax exemptions or credits;
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.

A representative of the Division of Community Services testified that the three communities with approved renaissance zones are Casselton, Fargo, and West Fargo, and these three communities have a total of five projects underway. All three approved communities contracted for services with Dakota Renaissance Venture Corporation. Additionally, several communities are in the process of creating renaissance zones. The committee received from the Division of Community Services a list of 32 potential items or issues for possible legislative changes relating to the renaissance zone law. Some of the items on the list were technical in nature and others were substantive and policy oriented.

The committee received testimony that it is important the renaissance zone law allow for a statewide renaissance fund corporation that may be a limited liability company and to allow for tax benefits for rehabilitation and improvement of real property.

The committee considered a bill draft implementing 12 of the 32 potential items or issues for possible legislative changes submitted by the Division of Community Services. The committee determined the 20 potential items or issues for possible legislative changes which were not included in the bill draft were substantive and policy oriented. Additionally, the committee considered including in the bill draft provisions allowing for a statewide renaissance fund corporation, clarifying that if or when a renaissance fund corporation dissolves the assets of the fund are distributed to investors in proportion to the investment in the fund, and allowing zones of less than 20 blocks to expand up to 20 blocks and allowing these expanded blocks to have renaissance zone status for up to 15 years.

Recommendation

The committee recommends Senate Bill No. 2033 to make the following changes to North Dakota Century Code Chapter 40-63, regarding renaissance zones:

- Change references from the Office of Intergovernmental Assistance to the Division of Community Services;
- Remove the definition of original principal amount;
- Clarify that an income tax exemption is effective beginning the year of the purchase or lease;
- Clarify the purpose of a renaissance fund corporation does not include the provision of financing to enterprise zone projects;
- Remove the requirement that a petition for investment in a renaissance zone must include a plan for sale or refinancing that results in proceeds equal to or in excess of the proportional investment made by the renaissance fund corporation;
- Repeal Section 40-63-08, regarding renaissance zone contribution use;
- Remove the requirement that the Division of Community Services and the Tax Commissioner issue renaissance zone forms to eligible taxpayers for the purpose of monitoring the use of any exemptions or credits received by taxpayers;
- Provide that a development plan map include a description of the properties and structures on each block, an identification of those properties and structures to be targeted for potential zone projects, and a description of the present use and conditions of the targeted properties and structures;
- Clarify that a development plan include a plan for the development, promotion, and use of a renaissance fund corporation if a renaissance fund corporation is desired to be established;
- Clarify that a development plan include a description of the types of projects the city wants to encourage in the city's targeted properties;
- Provide that a taxpayer must be current on all taxes to be eligible for a tax exemption or credit under the renaissance zone law;
- Expand the investment period for historical credits beyond December 31, 2004;
- Allow a city with a zone of less than 20 blocks to expand up to 20 blocks and allow these expanded blocks to have renaissance zone status for up to 15 years; and
- Allow for the creation of a statewide renaissance fund corporation.

Department of Economic Development and Finance Report

The committee received the Department of Economic Development and Finance annual report, which included the North Dakota Development Fund loan activities, the Agricultural Products Utilization Commission grant activity, a department overview, the department's vision and mission, the department's key strategies, activities of the biennium, department products and services, challenges facing the state, and solutions for the state.

Job Service North Dakota Report

The committee received reports from Job Service North Dakota regarding possible incentives to encourage employees to decrease the length of time employees receive unemployment compensation benefits and regarding possible incentives to encourage negative employers to become positive employers.

House Bill No. 1135 (1999) created a new unemployment compensation trust fund reserve target rate; changed the calculation of unemployment compensation premium rates to an arrayed tax rate schedule that is evenly distributed for positive and deficit account employers; established incentives for employers to manage costs and risks; and required Job Service North Dakota to report to a Legislative Council interim committee.

The committee received information regarding the status of the Unemployment Insurance Trust Fund Reserve; actions being taken by Job Service North Dakota to restore the Unemployment Insurance Trust Fund Reserve balance to the statutorily required level; unemployment compensation premium tax rates since 1997; unemployment compensation claimant benefit history since 1996; and Unemployment Insurance Trust Fund Reserve balance targets.

In working to achieve Unemployment Insurance Trust Fund Reserve solvency, Job Service North Dakota is working on returning claimants to work sooner and encouraging participation of covered employees to control employer cost and manage risk. Testimony was received that as a result of the changes in 1999, the sharp decline in the Unemployment Insurance Trust Fund Reserve of the last several years has been stopped, and the fund is beginning to recover. Additionally, the duration a claimant receives benefits is decreasing in certain instances. Although there has been an increase in claimant duration for employees who return to the former employer, those claimants who are not returning to the former employer have had a decrease of claimant duration from 11.16 weeks for the period July 1998 through June 1999 to 10.36 weeks for the period July 1999 through June 2000. Testimony indicated that these duration statistics may further improve with an emphasis on reemployment services for claimants and education of Job Service North Dakota staff in interviewing skills, case management, and conflict resolution.

The executive director of Job Service North Dakota may approve a 30 percent tax rate reduction to act as an incentive for deficit account employers if certain conditions are met. In order to qualify for this rate reduction, a deficit account employer must have had three consecutive years of contributions exceeding benefit charges and must have an approved plan outline of significant changes to reduce benefit charges to their account. More than 160 deficit account employers may potentially qualify for this tax rate reduction, but at the time of the report, only one employer had applied for the reduced rate.

Workers Compensation Bureau Reports Safety and Performance Audits

The committee received a report from the Workers Compensation Bureau on the bureau's safety audit of the Roughrider Industries work programs and the bureau's performance audit of the modified workers' compensation coverage program.

The Roughrider Industries modified workers' compensation coverage program was established in 1997 and allowed Roughrider Industries to continue to receive federal funding through the prison industries enhancement program. At the time of the report, since the inception of the account in March 1999, only one claim had been submitted and that claim was for one person with less than $350 in expenses.

In June 2000 a member of the bureau's safety and loss prevention staff conducted a safety audit of the work program and Roughrider Industries. Roughrider Industries met all the program requirements and the program was operating as intended. Additionally, the inspection showed that Roughrider Industries had made a significant effort toward providing a safe and ergonomically sound workplace for its employees. The Workers Compensation Bureau is not recommending any changes to the modified workers' compensation program in place at Roughrider Industries.

Permanent Partial Impairment Study

The committee received a report from the Workers Compensation Bureau regarding the bureau's study of the awards provided to injured employees with permanent impairments caused by compensable work injuries. The committee reviewed the current workers' compensation permanent partial impairment benefit structure, the advantages and disadvantages of the current law, the permanent partial impairment structure of other states, considerations and recommendations made as a result of the study, and the fiscal impact of implementing these recommendations. The study recommendations included:

- Retaining the existing method of impairment evaluation;

- Changing the evaluation so it does not include a disability component;
- Modifying the threshold to either 10 or 11 percent;
- Clarifying who qualifies for benefits under the new system;
- Considering a schedule for amputations; and
- Retaining the existing permanent partial impairment benefit rate of 33.3 percent of the state average weekly wage.

The Workers Compensation Board of Directors will determine whether to pursue the recommendations.

Long-Term Disability and Death Benefit Study

The committee received a report from the Workers Compensation Bureau regarding the recommendations from the bureau's study of the benefits available to persons receiving bureau long-term disability or death benefits. The committee reviewed the existing supplementary benefit structure, advantages and disadvantages of this current law, the supplementary benefit structure in other states, and recommendations and options for the North Dakota system. The study recommendations included:

- Eliminating the different qualifying periods effective August 1, 2006;
- Retaining the current qualifying period of seven years for permanent total disability benefit recipients;
- Applying a supplementary benefit method that treats each permanent total disability or death benefit recipient in a similar manner, based on three options; and
- Reducing the qualifying period for death benefit recipients to the first July after the benefits fall below 60 percent of the state average weekly wage.

The Workers Compensation Board of Directors will determine whether to pursue the recommendations.