

# NORTH DAKOTA LEGISLATIVE COUNCIL

## Minutes of the

### ECONOMIC DEVELOPMENT COMMITTEE

Wednesday, August 30, 2006  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Representative Rick Berg, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Rick Berg, Dawn Marie Charging, Donald L. Clark, Donald D. Dietrich, Mark A. Dosch, Eliot Glasheim, Pam Guleson, Jim Kasper, Bob Martinson, Lisa Meier, Dan J. Ruby, Elwood Thorpe, Clark Williams; Senators Nicholas P. Hacker, Duane Mutch, Randy A. Schobinger, John O. Syverson, Ryan M. Taylor

**Members absent:** Representatives Eugene Nicholas, Kenton Onstad; Senators April Fairfield, John M. Warner

**Others present:** See Appendix A

**It was moved by Senator Mutch, seconded by Representative Guleson, and carried on a voice vote that the minutes of the July 19, 2006, meeting be approved as distributed.**

#### ECONOMIC DEVELOPMENT INCENTIVES STUDY REPORT

Chairman Berg called on Mr. Shane C. Goettle, Commissioner, Department of Commerce, to present the outcome of the Department of Commerce study of the state's economic development incentives as required under Section 52 of 2005 Senate Bill No. 2018.

Mr. Goettle explained for the study the Department of Commerce compiled an inventory of all the state's economic development incentives and contracted with Mr. Rod Backman, Covenant Consulting Group, Bismarck, and Mr. Miles Friedman, National Association of State Development Agencies, Manassas, Virginia, to perform the analysis of the items in the inventory. Mr. Goettle distributed a copy of the 45-page [inventory of the state's economic development incentive programs](#), a copy of which is on file in the Legislative Council office. He also distributed a copy of the analysis of the economic development incentives entitled [Economic Development Incentives in North Dakota - A Study for the North Dakota Department of Commerce](#), a copy of which is on file in the Legislative Council office.

Chairman Berg called on the consultants, Mr. Backman and Mr. Friedman, to present the information regarding the analysis of the economic development incentives. Mr. Friedman participated by telephone. The consultants gave a computer presentation, a copy of which is attached as [Appendix B](#). Mr. Backman and Mr. Friedman

reviewed the legislative background for performing the study, the steps taken in conducting the study and related analysis, the central themes that emerged in the course of conducting the analysis, and the recommendations that followed as a result of this study and analysis.

The recommendations included in the report are:

- The state needs a reliable means for notifying firms, in advance, about the possible constraints posed by the annual ceiling on the seed capital investment tax credit.
- The state should select the most relevant tax incentives and make these eligible for use on both the short form and long form. The remaining tax incentives should be allowed to expire.
- The legislature should reexamine the validity of even having the long form. It seems that if an incentive is worthy of being placed in statute, it should be allowed to be used by the taxpayers.
- North Dakota should consider utilizing such refundable credits that can put cash in the hands of smaller firms.
- North Dakota should consider funding soft skills training and transition assistance for workers trying to upgrade their job skills. Furthermore, North Dakota needs to consider programs aimed at recruiting workers from out of state and retention of existing workers, including internship programs that can address the needs of employers while exposing young people to opportunities in North Dakota.
- North Dakota should consider an adjustable scale for jobs and cost per job and allowing firms of local importance to qualify for assistance, regardless of whether they are primary sector.
- North Dakota should consider initiating a fund for commercialization of new technologies. Other states--such as Michigan--are pursuing this course rather aggressively.
- North Dakota should explore options for offering incentives to attract tourism facilities and incubators.
- North Dakota should explore adding more inclusive incentives for the use of machinery and tools.

- North Dakota should explore a statewide program option for supporting the development of infrastructure for the 21st century.
- If the research and development tax credit cannot be made more user-friendly, North Dakota should explore other means of encouraging research and development, including grants and loans.
- North Dakota should consider adding a special fund that would take emerging research ideas from the laboratory or research facility to the product stage.
- North Dakota should consider modifying the accountability act so that it requires every incentive program to develop, implement, and report on an acceptable performance measurement system.
- North Dakota should undertake a study that reviews the cost and benefits of its tax expenditures incurred by the various incentives, credits, and other tax breaks offered to businesses.

Mr. Backman said the recommendation regarding a performance measurement system for economic development incentives, if done well, may result in the decreased need for ongoing contracts with consultants to analyze the state's economic development incentives. Mr. Friedman said the recommendation is not because programs are not performing ongoing evaluations of their own performance but instead is recommended because it would provide for consistency and transparency.

In response to a question from Representative Glassheim, Mr. Backman said for purposes of the performance measure recommendation, perhaps the program manager would be in the best position to identify the best performance measures, benchmarks, and targets. Mr. Friedman said there are a variety of ways to accomplish the measurement of performance but suggests putting the burden on the program manager, perhaps as part of the budgeting process.

Representative Kasper said he has concerns about allowing a program manager to set the measurements, in part because of the lack of uniformity that would likely result. He suggested having the Department of Commerce provide for a uniform manner of recording these performance measures.

Representative Berg said he is a proponent of performance measures. However, he said, he does have concerns about allowing a program manager to set the actual measurements. He suggested the measurements be set by the program manager in collaboration with the Legislative Assembly.

Mr. Friedman said he agrees with Representative Berg's comment but intended to clarify that one size does not fit all.

Mr. Friedman said the recommendations regarding attracting tourism facilities and incubators addresses an issue that is not unique to North Dakota. He said many states often unintentionally exclude the tourism

industry in the states' economic development incentives. He said one way to address this is to specifically include tourism as a qualified recipient in economic development programs.

In response to a question from Representative Kasper regarding how the state's sales tax structure may be impacted by the activities of streamlining the state's sales tax systems, Representative Berg said Senator Dwight Cook is the chairman of the Streamlined Sales Tax Governing Board. Representative Berg said his understanding is each state may choose whether to participate in the streamlined process.

Mr. Friedman said the issue of the streamlined sales tax raises an important issue in that every time taxes are changed it is important for legislators to consider the impact and possible unintended consequences.

In response to a question from Representative Berg regarding the recommendation for a tax expenditure report, Mr. Backman said although the language of the recommendation uses the term study, in other states the expenditure reports are typically a function of government, which once begun, is a relatively simple process to update.

Mr. Friedman said a tax expenditure report could be a two-step process in which the Tax Commissioner collects data and the analysis of this data is conducted by the Department of Commerce or an outside contractor.

In response to a question from Senator Hacker regarding whether the analysis of the incentives considered federal incentives, Mr. Friedman said there are two schools of thought on how to consider the relationship between state and federal incentives. He said one school of thought is that some states try to bootstrap their state incentives with federal incentives. He said the second school of thought is some states are reluctant to get entwined with federal programs.

Representative Berg said in considering the list of incentives, the committee needs to consider which incentives are used.

In response to a question from Representative Berg regarding the seed capital investment tax credit, Mr. Backman said one way to address the possible constraints under this program would be to remove the credit cap entirely.

## **BUSINESS CLIMATE STUDY**

Chairman Berg called on Mr. Gaylon Baker, Stark County Development Corporation and North Dakota Economic Development Board, for comments regarding possible action items the committee may take in the course of performing the business climate study. Mr. Baker said economic developers in the state seek to develop wealth and per capita income. He said state economic development incentives economic developers support include the Agricultural Product Utilization Commission (APUC), partnership in assisting community expansion (PACE), flex PACE,

the North Dakota Development Fund, Inc., renaissance zones, and centers of excellence as well as training programs, such as the economic developers certification program and general leadership development and labor and workforce programs, including short-term training.

Committee counsel distributed the document entitled [Business Climate Study - Inventory of Key Issues and Action Items](#), a copy of which is on file in the Legislative Council office.

### **Workforce and Attracting and Retaining Young People and Young Families**

#### **Tax Issues**

Chairman Berg called on Mr. Cory Fong, Tax Commissioner, for comments regarding tax incentives to give incentives for out-of-state recruitment for hard-to-fill positions and the use of tax incentives for higher education internships. Mr. Fong gave a computer presentation, a copy of which is attached as [Appendix C](#).

Mr. Fong said the state's economy is growing and with that comes increased workforce needs. He said possible ways to address the workforce needs in the state include tax incentives for workforce recruitment and higher education internships as well as expansion of the research and development tax credit.

In response to a question from Representative Berg, Mr. Fong said for purposes of calculating the research and development tax credit base year, the federal tax structure uses the same model as North Dakota's tax structure.

Mr. Fong said the Legislative Assembly has chosen to participate in the streamlined sales tax project and as such his office is doing everything it can to support and administer this project.

Mr. Fong said a possible alternative to the existing credit cap on the seed capital investment tax credit might be to put a per business cap, much like what is done in the agricultural business investment tax credit.

Chairman Berg requested Mr. Fong work with the Legislative Council staff and the committee consultants to provide alternatives to address issues relating to the seed capital investment tax credit.

Representative Gulleason said in 2005 she introduced a bill addressing the research and development tax credit. She said her version included a target piece for rural areas in the state.

Mr. Fong said he agrees rural areas are very important.

Senator Hacker questioned whether it would be more appropriate to allow for 100 percent deduction of research and development cost versus providing a percentage credit. Representative Meier said she is supportive of providing tax credits because this is an upfront incentive.

Representative Berg said if the state provided for a 25 percent tax credit for research and development, North Dakota would be a leader in the country offering the highest incentive.

Mr. Backman said the committee may wish to consider whether to change the definition of "base" for purposes of the research and development tax credit. He said the base requirement could be taken away entirely or it could be modified to limit the base calculation to research and development performed within the state of North Dakota. He said another change the committee may wish to consider is allowing a business to sell tax credits that remain unused.

Senator Hacker said one problem in North Dakota is that most companies do not need the tax credit and therefore the transferability is limited.

#### **Workforce Issues**

Chairman Berg called Mr. Larry Anderson, Job Service North Dakota, for comments regarding the pilot reemployment project for the chronically unemployed. Mr. Anderson provided written testimony, a copy of which is attached as Appendix D.

Mr. Anderson said Job Service North Dakota is preparing to submit a proposal to the United States Department of Labor which would allow Job Service North Dakota to continue its reemployment initiatives and to conduct a study into the root causes of chronic unemployment. He said the purpose of submitting this supplemental budget request is to better position Job Service North Dakota to identify the underlying reasons for unemployment. He said with information gained through this study, he hopes to be able to more accurately identify whether chronic unemployment is the result of attitudinal factors, behavioral factors, or skill deficiencies. He said the results of the study would produce a body of information that would provide Job Service North Dakota with a greater ability to identify trends and areas needing intensified focus on reemployment services.

In response to a question from Representative Berg, Mr. Anderson said at this point it appears as though state action is not required to enable Job Service North Dakota to submit this proposal to the federal government. He said his purpose for presenting this information is to keep the committee informed of the activities of Job Service North Dakota and to show Job Service North Dakota has heard the concerns raised by this committee and is attempting to be responsive.

Mr. Anderson provided a brief summary of the Job Service North Dakota Work First Project, which he said was essentially an effort by Job Service North Dakota to verify and validate the finding by the Upjohn Institute that unemployed individuals who are exposed to extensive reemployment services early in their period of unemployment fare better than their counterparts left to traditional services for the unemployed. He said the results of the Job Service North Dakota Work First Project was the average duration of the control group claimants was 1.3 weeks less than the study group. He said the savings are about equal to the cost of the program. He said the

results are included in the required report to the interim Industry, Business, and Labor Committee during the 2005-06 interim. He said the interim Industry, Business, and Labor Committee is considering three bill drafts to address this project.

Chairman Berg called on Ms. Maren Daley, Job Service North Dakota, for comments regarding the activities of Job Service North Dakota. Ms. Daley said Job Service North Dakota is taking significant steps to address reemployment and she will continue to keep the Legislative Assembly informed of what is working.

In response to a question from Representative Ruby, Ms. Daley said the findings of the Work First Project, that the financial savings recognized were essentially equal to the cost of providing the services, were calculated using a very complete calculation. She said the calculation took into account state benefits as well as payroll contributions.

Chairman Berg called on Mr. James Hirsch, Division of Workforce, Department of Commerce, for comments regarding the state's talent strategy and the key issues of workforce and attracting and retaining young people and young families. Mr. Hirsch provided written testimony, a copy of which is attached as [Appendix E](#), and he gave a computer presentation.

Mr. Hirsch reviewed some of the background information to help set the stage for the discussion of a talent initiative for North Dakota. He said North Dakota has inherent barriers to implementing an effective statewide talent initiative to address the workforce skill shortages in the state, including:

1. Lack of quantitative data or workforce intelligence from business on current and projected worker shortage and skill requirements.
2. Lack of a coordinated statewide talent recruitment strategy.
3. North Dakota employers need to be more proactive in addressing their workforce issues.

Mr. Hirsch said the North Dakota Workforce Development Council, the North Dakota Youth Development Council, and the North Dakota State Commission on National and Community Service recently held a retreat to begin strategic planning regarding workforce and skill shortages. He said as a result of the retreat, it was determined the role of the system is to prepare the workforce. He said the primary considerations in carrying out this role include:

1. Workforce intelligence needs to be the basis for all decisions;
2. Career promotion needs to replace career information;
3. There needs to be a move to a demand-driven service industry model, which focuses on target industry clusters;
4. There is a need to expand the workforce participation rates;

5. It is important to provide timely customized workforce training to meet business demands; and
6. The state should adopt a common statewide talent strategy.

Mr. Hirsch said the outcome goals of the North Dakota talent strategy adopted as a result of the retreat are to:

1. Increase the quantity and quality of North Dakota's workforce; and
2. Transition from a workforce to a talent force through a workforce improvement focus.

Mr. Hirsch said that 10 areas for continuous improvement are:

1. Ensure council and commission leadership in attracting, retaining, and expanding talent by:
  - a. Making all decisions based on workforce intelligence;
  - b. Seeking both vertical and horizontal alignment with demand;
  - c. Building strategic talent partnerships with the private sector and targeted industry clusters;
  - d. Forging workforce system partnerships to achieve success in all talent initiatives; and
  - e. Developing broad public awareness and understanding of North Dakota's workforce needs.
2. Develop a dynamic workforce intelligence system with the vital information needed to confront North Dakota's talent crisis and to assess progress in ameliorating the crisis.
3. Disseminate key workforce intelligence to all stakeholders, businesses, and partner leadership and staff so all North Dakotans may take appropriate actions to meet the workforce needs of individuals and businesses.
4. Focus on workforce improvement, preparation, and lifelong learning by improving the quality and quantity of training and education available to North Dakota's residents, ensuring the offerings respond to employer and skill demand, and making these development opportunities affordable and accessible.
5. Increase the labor force participation rate and expand the available talent pool by reaching, serving, preparing, and connecting those not currently in the labor force, including target populations.
6. Give emphasis to the emerging worker talent pipeline by focusing on young people, improving the connections between school and work, promoting demand careers, and encouraging workers to stay in North Dakota.
7. Build stronger workforce system partnerships to increase efficiency, effectiveness, and accountability through reducing duplication; sharing resources; and adopting a common

action agenda and strategies for talent attraction, retention, and expansion.

8. Improve the workforce system interface with employers and targeted industry trade associations to more effectively meet their workforce needs by developing strategic partnerships and ensuring service responsiveness.
9. Promote North Dakota as a great place to live and work to attract and retain talent.
10. Promote inclusion of soft skills and work readiness into all training and education offerings.

Mr. Hirsch said the following are specific recommendations to support the work of the Economic Development Committee:

1. Provide workforce intelligence studies;
2. Create an out-of-state talent attraction initiative;
3. Provide for foreign worker recruitment;
4. Implement youth retention strategies, which would include:
  - a. A state-funded internship program;
  - b. Funding for the North Dakota University System to provide expanded technical assistance and outreach to employers to increase participation in the higher education internship program;
  - c. Study, develop, and implement a career promotion program for target industry occupations as a method to supplement the work of career counselors and formal career guidance programs in secondary schools; and
  - d. Expand the Job Service North Dakota software that will provide options to data mine and track numbers of job listings to a Level IV spider; and
5. Formalize the role of the Department of Commerce Division of Workforce.

In response to a question from Representative Ruby, Mr. Hirsch said his recommendations would not duplicate the services of Job Service North Dakota. He said North Dakota already has the necessary partners and each partner has a role but he is looking to formalize the state's communication system to assure that each of the partners has the knowledge necessary to be as effective as possible.

Representative Berg said when the Department of Commerce was formed, the role of the Division of Workforce was never fully defined.

Representative Berg said he is concerned the state is educating students for the wrong types of jobs. He said we need somebody who is independent of Job Service North Dakota, the North Dakota University System, and the Department of Public Instruction to pursue a state strategy that better aligns kindergarten through grade 12 with workforce needs.

Mr. Hirsch said the Division of Workforce does not work in isolation.

Representative Dosch said the next chancellor of the North Dakota University System should have a business background. He said there seems to be a disconnect between state agencies and higher education. He said he supports improving this communication.

Representative Gulleason said in the last four to six months, the North Dakota University System campuses have been active in responding to emerging workforce needs.

Representative Glassheim said it is important for the committee to remember the sole purpose of higher education is not to address North Dakota workforce needs. He said higher education helps create fully trained citizens who are educated for jobs worldwide. Additionally, he said, wages in North Dakota are relevant to workforce needs.

In response to a question from Representative Thorpe questioning why some North Dakota students are going to Wyoming to attend educational programs for oilfield workers, Mr. Hirsch said North Dakota is experiencing an enormous need for oilfield training. He said Wyoming is very progressive in its support for the oil industry and has created a two-year associate degree that is offered in short training modules which a student can earn over the course of several years. He said Williston is considering whether to move toward training modules for its oilfield program.

Representative Berg said he is concerned the only way the state was able to successfully train oilfield workers was through creation of a center of excellence. He said the state needs to be more responsive when these needs arise.

### Housing Issues

Chairman Berg called on Mr. Michael Anderson, Housing Finance Agency, for comments regarding housing issues that affect the ability to attract and retain young people and families. Mr. Anderson provided written testimony, a copy of which is on file in the Legislative Council office. Additionally, he provided a document entitled *2006 NDHFA Housing Priorities*, a copy of which is on file in the Legislative Council office. His written testimony is attached as Appendix F.

Mr. Anderson said developing a housing strategy is an integral part of our state's efforts toward economic development and workforce recruitment. He said although there are housing issues in larger communities, he will focus on the housing needs of the smaller communities, those communities with a population of 25,000 or fewer. He said the Housing Finance Agency priorities for 2006 include providing technical assistance to developing communities. He said this assistance will be provided through a housing statewide technical assistance team, which will be made up of housing professionals, the private sector, and representatives of state and federal government.

Additionally, Mr. Anderson said the Housing Finance Agency is proposing several programs that

will provide financial assistance to communities to assist in developing new housing and to improve the quality of existing housing. He said one financing program is tentatively being called the housing market survey grant program. He said this grant program would provide communities with a grant to help pay for market analysis. He said an additional finance program is tentatively entitled the community housing development assistance pilot program, which would provide a low-cost revolving loan fund to provide interim financing for predevelopment soft costs, land acquisition, site development, and similar expenses. Mr. Anderson said another financial program that is being considered is modifying the Housing Finance Agency homeownership program to help close the appraisal or rural value gap. Finally, he said, the Housing Finance Agency is creating a housing rehabilitation and revitalization pilot loan program, which will provide a low-cost revolving loan fund for the rehabilitation of single-family or multifamily properties.

Mr. Anderson said North Dakota Century Code Chapter 54-17 may provide limitations that will impede the agency's plans to provide gap assistance.

In response to a question from Representative Thorpe, Mr. Anderson said although his agency is able to provide financing for manufactured homes, he has not specifically considered opportunities relating to the Federal Emergency Management Agency and possible surplus manufactured homes that may be available.

In response to a question from Representative Dietrich, Mr. Anderson said programs in other parts of the country have been successful in providing an amortized second mortgage to help address the financing gap. He said the financing gap program will provide financing in excess of 100 percent of the appraised value of a home. Under a program like this, he said, the homeowner will be taking a risk on financing above the value of the home.

Representative Dietrich said if a second mortgage is unsecured, that homeowner is going to be taking a significant risk if unable to make payments.

Mr. Anderson said it is exactly because of this risk that the Housing Finance Agency will need to proceed carefully and, if the program is implemented, make sure the homeowner understands the risk and is able to afford the mortgage payments.

Representative Berg said it is likely there will be legislative support to expand the statutory authority of the Housing Finance Agency. However, he said, it is also important to allow the private sector to go into these markets and provide development.

In response to a question from Representative Berg, Mr. Anderson said as of this date, the Housing Finance Agency is not looking for money and is not looking for a committee-sponsored bill draft. He said the agency has the funds necessary to initiate the pilot programs and he will need to consult with the Industrial Commission before he makes any formal

request of the committee relating to legislative proposals.

Representative Charging said rural communities need housing, including housing for middle-income wage earners.

In response to a question from Representative Dosch, Mr. Anderson said the Housing Finance Agency is able to provide chattel mortgages for manufactured housing; however, it is not currently offering these loans.

Representative Dosch said manufactured homes may provide transitional housing needed in some communities.

### **Committee Discussion**

Representative Dosch said he supports having a postgraduate survey for college students to determine whether they participated in for-credit or not-for-credit internships during their studies.

Senator Syverson suggested business colleges in North Dakota study the concept of higher education internships and, as part of this study, create a tax incentive package to encourage internships and study barriers that exist under the current system.

Representative Glassheim said there may be value in surveying businesses to determine how they view internships and whether there are barriers to business participating in internships.

In response to a question from Representative Kasper, Mr. Hirsch said an example of a community grant for higher education internships may include what has been done in the communities surrounding Grand Forks. He said these communities pooled funding to help fund internships for businesses within the community. He said this model could be used to provide state matching funds.

Senator Hacker said it is hard to limit a grant program to small communities. If a grant program is considered, he said, all the parties should have a matching requirement.

Representative Charging said there is a difference between the needs of large communities and needs of small communities. Although she supports the concept of an employer match for interim grants, she said, she is not sure if she supports the idea of a community match.

Representative Thorpe said in considering the match requirements perhaps if a community did not have matching funds, businesses could provide both the business and community match.

The committee discussed the concept of providing a tax incentive for business recruitment of hard-to-fill positions.

Representative Dosch said it might be possible to give an income tax credit to the employee rather than the employer.

Representative Ruby proposed waiting to address the recruitment tax incentive until the Department of Commerce Division of Workforce is strengthened and given specific duties.

In response to a question from Representative Ruby, Mr. Fong said the issue of out-of-state recruitment has been an issue raised by employers.

Representative Glassheim said he is concerned about the idea of giving incentives to individual businesses. He said he is supportive of providing general state assistance and giving incentives to individuals.

Representative Berg said an out-of-state recruitment tax incentive might give incentives to small businesses to attend job fairs and to generally be more active in out-of-state recruitment than they have been in the past.

Representative Thorpe said if the committee recommends funding increased for the PACE and flex PACE programs, he recommends taking off the emergency clause. He said he thinks the emergency clause issue should be addressed by the standing committee and the Legislative Assembly as a whole.

Representative Berg cautioned against making flex PACE too broad. He said there are likely to be problems associated with moving too far away from primary sector businesses.

Senator Hacker said higher education institutions should be responsive to business needs without the state providing an appropriated pool of funds.

Representative Kasper said he thinks it is important to first study the future needs of employers and then require the education system be responsive.

Representative Berg said recognizing business needs as a first start is a very good idea. He said perhaps an advisory board could work with the State Board of Higher Education to see how future needs match with the education services being offered.

Representative Ruby voiced his concern that it is very difficult to mandate the number of students in a program. He said areas of study are market-driven.

Representative Berg said if 2 percent of the higher education funding were set aside and only made available to those institutions that take positive initiatives to fill workforce gaps, this issue would be addressed.

Representative Dosch supported the idea of earmarking any additional higher education funds to require institutions to be responsive to business and workforce needs.

Senator Hacker suggested that some of the institutions of higher education in the state may already be doing the things necessary to be responsive.

Representative Glassheim said he would like to see additional information regarding whether the institutions of higher education are being responsive to the economy. He would like the State Board of Higher Education to provide a list of new programs that have been approved over the last two years.

Mr. Hirsch said Job Service North Dakota does perform projection models forward for 12 years. However, he said, there are difficulties associated with these models, including the fact that some of the

Bureau of Labor Statistics data does not have all of North Dakota's unique variables.

Senator Syverson said he is concerned the committee is focusing too much on North Dakota workforce needs. He said institutions of higher education need to prepare students for the worldwide economy.

Representative Kasper said it might be valuable for the committee to hear from each of the state's campus presidents to hear about each president's visions for the institutions.

## Transportation

Chairman Berg called on Mr. Grant Levi, Interim Director, Department of Transportation, for comments regarding the key issue of transportation. Mr. Levi provided written testimony, a copy of which is attached as Appendix G.

Mr. Levi said he appreciates the Legislative Council's foresight in directing the Upper Great Plains Transportation Institute to conduct the study on the state's transportation and infrastructure. He said the resulting transportation infrastructure and economic development report results will assist the Department of Transportation in making future decisions in transportation investments. He said as the Legislative Assembly makes legislative decisions in the future, the department requests the following key points be taken into account:

- Investing in the transportation system is a good and sound investment with an average cost-benefit ratio of return of 4.89 percent on projects in the state.
- North Dakota's investment in the transportation system is critical to the long-term growth of its economy.
- Construction inflation, which has run at approximately 25 percent, will not allow the state to proceed at the baseline analysis that was used in the report. The funding level is closer to a 75 percent funding level when inflation is taken into account.

Mr. Levi said one item that was not addressed in the report was the issue of intermodal transportation and its role in growing the state's economy. He said intermodal facilities are essential to our state's ability to continue to efficiently and effectively move goods to the marketplace and grow the state's economy. He said although the Department of Transportation is working with communities to address intermodal transportation issues, he does not see any need for modifications to state law at this time. He said the laws allowing for the creation of a port authority and a commerce authority, as well as the ability to enter joint powers agreements, allow the state to proceed with the development of intermodal projects.

Chairman Berg called on Mr. Gary R. Ness, Director, Aeronautics Commission, for comments regarding air transportation. Mr. Ness provided written information on aviation data for the state of North Dakota, a copy of which is on file in the

Legislative Council office. Additionally, Mr. Ness provided proposed bill draft language for creation of an airport economic development fund, a copy of which is attached as Appendix H.

Senator Syverson said aviation is vital to the state and he supports Mr. Ness's proposal.

In response to a question from Representative Berg, Mr. Ness said he is not certain whether the proposed airport economic development fund also would provide loans or whether it would be limited to providing grants.

### Image

Committee members addressed the key issue of image and possible actions that could be taken.

Chairman Berg called on Mr. Justin Dever, Department of Commerce, for comments regarding tourism. He said the Department of Commerce Division of Tourism would like to reinstate visitor information centers. He said these visitor information centers could work with convention and visitor bureaus and could have extended hours so they could be open evenings and weekends. He said one service the state may be able to offer is to assist in training staff in the centers.

Mr. Dever said economic development branding is largely a resource need. He said this branding would be specific to economic development; however, the Department of Commerce is still looking at whether to pursue this issue.

Senator Hacker said if investment in tourism facilities is given a tax incentive, he would recommend that car rental businesses not qualify for these tax incentives.

Representative Kasper said the possible action item of providing a matching fund program for communities to improve the look of their towns in order to become more attractive to tourists does not seem appropriate for the state. He said communities ought to be doing their own cleaning up in order to attract tourists.

Representative Charging said South Dakota has done some amazing things in helping local communities create an atmosphere conducive to tourism.

### Trade

The committee discussed the action items of establishing a Bank of North Dakota finance program to help exporters build their businesses to the level in which they may qualify for federal assistance and the issue of creating an export business expansion fund, whereby companies can competitively approach the North Dakota Trade Office for funds.

Senator Hacker questioned whether the Bank of North Dakota may already be able to provide assistance to North Dakota companies wishing to enter the international trade market.

Chairman Berg called on Ms. Cherie Harms, North Dakota Trade Office, for comments regarding the key issue of trade. Ms. Harms said the North Dakota

Trade Office does not expect the Bank of North Dakota to change its mode of operation; however, it is seeking a program through which North Dakota businesses can request financial assistance in accomplishing its first experience with international exports.

### CENTERS OF EXCELLENCE REPORT

Chairman Berg called on Mr. Mark Nisbet, Centers of Excellence Commission, to provide a report on the status of the centers of excellence program. Mr. Nisbet gave a computer presentation, a copy of which is attached as [Appendix I](#).

Mr. Nisbet reviewed the status of each of the approved centers of excellence as well as reviewed the applications that were submitted but not approved. He said because each of the centers of excellence only recently received funding, there has not been adequate time to record and track their accomplishments.

Mr. Nisbet said potential changes that can be made to the centers of excellence program include:

1. Allow the commission to access centers of excellence funds for the purpose of conducting technical review of applications as necessary.
2. Designate the Department of Commerce as the primary agency to provide administrative staff support to the commission, while continuing to have North Dakota University System involvement.
3. Allocate centers of excellence funds to the Department of Commerce for the purpose of conducting the due diligence reviews on proposals and assisting the commission in continuing followup and monitoring approved centers.
4. Allow noncash types of match for the private sector match.
5. Support flexibility to allow the centers of excellence eligibility requirements to address a dynamic economy.
6. Recognize that each center of excellence is demand-driven by private sector partners who have a majority influence in determining priority needs.

Mr. Nisbet said he is very proud of the work of the commission. He said the state's centers of excellence program is on the cutting edge and is the envy of other states.

Representative Berg thanked Mr. Nisbet for his work.

In response to a question from Representative Glassheim, Mr. Nisbet said if a center of excellence project is approved but does not pull together its required funding, the state funding will not be disbursed.

Representative Berg said the foundation of the centers of excellence program is the private sector match requirement. He said if the private sector ends up not putting in any money, the state should not

provide any funding for the center of excellence project. He said next legislative session he will not support the centers of excellence program if it remains the same. He said changes need to be made to show that it is not intended to be a workforce program.

Representative Berg said he supports changing the centers of excellence law to classify each center as relating to either commerce, workforce, or infrastructure. He said the funding for the centers could be designated to be 25 percent for infrastructure centers, 25 percent for workforce centers, and the remaining 50 percent for commerce centers.

Representative Berg said he thinks it is very important that there be a scientific review at the front end of the centers of excellence application process.

Mr. Nisbet said he agrees with the concept of a scientific review. He said he has no reservation about the current center of excellence designations but the commission does need to have the continuing flexibility to make sure that future designations continue to meet the high standard that has been established.

Senator Hacker said the centers of excellence program has a very loose structure. He said it needs a more standardized due diligence requirement.

In response to a question from Representative Kasper, Mr. Nisbet said the proposed move of the administration services from the State Board of Higher Education to the Department of Commerce appears to have the support of the Governor. He said the Lieutenant Governor supports this change and he assumes the Governor is in support as well.

Representative Glassheim said workforce and infrastructure do have positive impacts on commercialization and jobs.

Representative Kasper said he would like to receive information regarding how the centers of excellence program and the North Dakota University System deal with royalties.

Representative Berg said he would like to receive information regarding how royalty money is dealt with in the higher education budget.

No further business remaining, the committee adjourned at 4:00 p.m.

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Jennifer S. N. Clark  
Committee Counsel

[ATTACH:9](#)