

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE AND LABOR COMMITTEE

Monday and Tuesday, February 28-29, 2000
Lewis and Clark Hall, Travelodge Hotel
Dickinson, North Dakota

Representative Eliot Glassheim, Chairman, called the meeting to order at 9:05 a.m. (MST).

Members present: Representatives Eliot Glassheim, Rick Berg, Curtis E. Brekke, Byron Clark, Glen Froseth, Nancy Johnson, Lawrence R. Klemin, Amy N. Kliniske, Dale C. Severson, Dorvan Solberg, Elwood Thorpe; Senators Tony Grindberg, Deb Mathern, Harvey D. Tallackson, Vern Thompson

Members absent: Representatives William E. Gorder, Howard Grumbo, George J. Keiser; Senators Karen K. Krebsbach, Duane Mutch, Harvey Sand

Others present: Fraine C. Zeitler, North Dakota Workforce Development Council, Bismarck

Ken Dukart, Rod Landblom; Roosevelt-Custer Regional Council, Dickinson

Gaylon Baker, Stark Development Corporation, Dickinson

Kevin J. Cramer, Randy Schwartz, Steve Egeland, Dean Reese; Department of Economic Development and Finance, Bismarck

Joy Johnston, Greater North Dakota Association, Bismarck

Cathy Langemo, Gene Veeder; Project Back Home, Mandan

Guy Moos, Baker Boy Supply, Inc., Dickinson

Jeff Swank, Southwest Manufacturers Area Technology User Group, Dickinson

Dean Rummel, TMI Systems Design Corporation, Dickinson

Representative Francis J. Wald welcomed the committee to Dickinson.

It was moved by Representative Solberg, seconded by Senator Tallackson, and carried on a voice vote that the minutes of the November 22-23, 1999, meeting be approved as distributed.

ECONOMIC DEVELOPMENT STUDY

Economic Development Organizations

Roosevelt-Custer Regional Council

Chairman Glassheim called on Mr. Ken Dukart, Economic Development Coordinator, and Mr. Rod Landblom, Executive Director, Roosevelt-Custer Regional Council, for comments regarding the council's funding sources and services provided.

Mr. Dukart said one of the basic funding sources for the council is the annual dues paid by the eight

counties comprising the district. He said additional funding is available from contracting to provide economic development services for private and public organizations. He said interest from some of the loans administered by the council also helps to fund economic development lending services. He said the council receives very little in the way of direct appropriations from the federal or state government.

Mr. Dukart said through the Roosevelt-Custer Regional Council community development program, the council provides services such as housing rehabilitation and public facility improvement. He said generally these services are not provided in the form of funding. The council's economic development program, he said, provides technical assistance and business lending services. Mr. Dukart said 40 percent of his time is dedicated to providing technical assistance and 60 percent of his time to providing business lending services. The business lending services, he said, are primarily funded through the federal Housing and Urban Development Agency, United States Department of Agriculture, and the federal Economic Development Agency.

Mr. Dukart said the council's partnerships with the Division of Community Services and the Governor's office are integral to the council's provision of services. He said the services provided by the council are essential and unique. The services, he said, are a critical part of the region's economic development system and complement the other economic development services offered within the region. He said one of the greatest assets of the council is its understanding of federal programs and the assistance offered in this respect.

In response to a question from Senator Tallackson, Mr. Dukart said an especially important partnership between the state and the council is through the North Dakota Development Fund.

Additionally, he said, the council meets with the local economic development organizations on a regular basis.

In response to a question from Representative Glassheim, Mr. Dukart said the council relies on the state to provide research services, and he would support increasing the resources available to the state to provide these services.

In response to a question from Senator Mathern, Mr. Dukart said the businesses that take advantage of the council's program cover a broad spectrum, from retail businesses to primary sector businesses.

In response to a question from Representative Froseth, Mr. Landblom said although the region's population is aging, and some of the population is leaving the region, there is a trend of people moving to larger communities such as Dickinson, and therefore, Dickinson's population is leveling.

In response to a question from Representative Glasheim, Mr. Landblom said in order to prevent outmigration, economic services will need to be provided to strengthen businesses in outlying areas, increase the number and variety of high-paying jobs, and look at how improvements can be made in the agricultural and energy fields. Mr. Dukart said another service that would assist regions in dealing with outmigration is increasing the research resources available to the regional councils.

In response to a question from Representative Froseth, Mr. Dukart said the council does not work with Dickinson State University in the area of specific job training.

In response to a question from Representative Glasheim, Mr. Dukart said he is not certain what actions the council will take if it runs out of available loan funds.

Stark Development Corporation

Chairman Glasheim called on Mr. Gaylon Baker, Director, Stark Development Corporation, for comments regarding the corporation's funding sources and services provided. Mr. Baker said the corporation receives 14 percent of the one percent Dickinson sales tax, and the corporation will be receiving funding through a two mill tax levy by the county. He said the corporation provides economic development to Dickinson and the surrounding areas and works closely with neighboring economic development corporations.

Mr. Baker said the corporation's primary economic development services are business retention, business expansion, business start-ups, and business attraction. He said there is a focus on primary sector businesses and value-added businesses. The Dickinson community, he said, has had limited success in attracting new businesses to the area primarily because the financial incentives the community has to offer are limited.

Mr. Baker said in an effort to retain existing businesses, the corporation facilitates a manufacturers' roundtable, and acts as a liaison between business and government. One advantage, he said, of acting as a liaison, is that it allows businesses to remain anonymous in their requests for information.

Mr. Baker said in the area of expansion, growing existing businesses is much less expensive than attracting and starting new businesses. He said the

corporation tries to treat expansion projects the same as it would treat recruitment projects. Additionally, he said, the corporation is in a position to offer technical assistance to businesses.

Mr. Baker said one project he would like the state and local communities to adopt is a "fast track permitting process." He said it would be helpful for the state and local communities to market the state's business friendly permitting process. He said the primary state agency that could implement this process is the State Department of Health, and at the local level the parties responsible for local zoning provisions could participate.

In response to a question from Representative Glasheim, Mr. Baker said the state gives away too much intelligence. Any time the government provides a loan, he said, certain information is required and is then available under the open records law.

In response to a question from Senator Grindberg, Mr. Baker said the corporation's board membership is composed of 17 members who represent businesses and communities.

In response to a question from Representative Berg, Mr. Baker said in Stark County the average annual per capita income is \$17,000. He said the provision of a large and well-trained work force is the corporation's No. 2 goal in its strategic plan. He said in Stark County the work force is aging and although unskilled employees are relatively easy to find, skilled employees are becoming harder to find.

In response to a question from Representative Thorpe, Mr. Baker said increasing wages is difficult. He said it is hard to put businesses in a position to require higher wages because the financial needs of the companies are very real, and there are real costs of doing business in the state. However, he said, employees who remain with an employer for a long period of time are rewarded over the long term because salaries increase over time.

In response to a question from Senator Thompson, Mr. Baker said oil prices have to stay at a high level for a long period of time before the state's oil industry will be affected.

Department of Economic Development and Finance

Chairman Glasheim called on Mr. Kevin J. Cramer, Director, and Mr. Randy Schwartz, Deputy Director, Department of Economic Development and Finance, for comments regarding the department's budget.

Mr. Cramer said the department's budget is 48 percent less than its 1991-93 budget. Additionally, he said, North Dakota is ranked 39th in per capita income.

Mr. Cramer said there needs to be a commitment to fund economic development in the state, because if there is inadequate funding, the structure of the department is irrelevant. He said the state needs

either to make a commitment to providing economic development services or to get out of the business of providing economic development services.

Mr. Schwartz distributed three documents--*North Dakota Economic Development & Finance Budget, Comparison of North Dakota Department of Economic Development & Finance To Other State Development Agencies, and Economic Development Funding, Staffing Levels By State*--copies of which are on file in the Legislative Council office.

Mr. Schwartz reported the state, federal, and special funds for the following services for fiscal year 1999-2000:

1. Special industry assistant;
2. Domestic recruitment/out-of-state;
3. Program support;
4. Administration;
5. Business finance;
6. Opportunity fund;
7. Technology transfer;
8. Community assistance;
9. Business assistance;
10. Work force preparation and development;
11. International trade and investment;
12. Minority business development;
13. Entrepreneurial development; and
14. Tourism/film.

For each of these funds, Mr. Schwartz reported the portion of funds applicable to program funds, salary and benefits, operating and equipment, federal funds, and special funds. Additionally, he reported how the financing of each of these functions in the state ranks on a national level.

Based on the biennial report of the National Association of State Developers Agencies, Mr. Schwartz reported the total resources and total operating budgets for each of the states' development agencies. A copy of definitions of terms used in defining state economic development functions is on file in the Legislative Council office.

In response to a question from Representative Klemin, Mr. Schwartz said in looking at the funding data, the amount of federal funds may include passthrough moneys, and the data is subject to inaccuracies and inconsistencies in reporting.

In response to a question from Representative Glassheim regarding whether the state is receiving appropriate per capita federal economic assistance moneys, Mr. Schwartz reported he is not in a position to answer that question; however, the National Association of State Development Agencies may be better able to answer that question.

In response to a question from Senator Thompson, Mr. Schwartz said the biennial survey is a good launching pad for discussion of economic development. Mr. Cramer said when he questioned South Dakota's development agency regarding the \$16.8 million figure for "other funds," South Dakota was not able to elaborate on the source of this discretionary fund.

In response to a question from Senator Tallackson, Mr. Cramer said in comparing the federal funding sources for North Dakota and South Dakota, it is important to note that in South Dakota the community development block grant program is managed and administered by the Department of Economic Development; whereas, in North Dakota this program is administered by the Division of Community Services.

Representative Berg and Senator Thompson stated the comparative figures for the economic development agencies is a very valuable tool in comparing economic development services of the states.

Local Entrepreneurs

Baker Boy Supply, Inc.

Chairman Glassheim called on Mr. Guy Moos, President, Baker Boy Supply, Inc., for comments regarding the company's economic development experiences. Mr. Moos provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Moos reported how the company started small in 1955, and steps the company took over the next 25 years to become what the business is today. He explained how the company received partnership in assisting community expansion fund loans and received a revolving loan fund loan and an intermediary relending program loan from the Roosevelt-Custer Regional Council.

In response to a question from Representative Froseth, Mr. Moos said when the company began, it was not very sophisticated, and at the time, partnership in assisting community expansion fund loans did not exist; however, if the company were to begin now, capital would be an important element to the startup business, and the partnership in assisting community expansion fund program would provide the necessary assistance to increase productivity. He said, in his business, skilled employees are in demand, and therefore the company works with Bismarck State College. The company, he said, does not receive economic assistance in marketing.

In response to a question from Representative Klemin, Mr. Moos said over the life of the business, the business has significantly invested in the community. He said Baker Boy is located in Dickinson because Dickinson is the home of the business owners, and even though there is a worker shortage, the business is not considering moving from Dickinson.

In response to a question from Representative Thorpe, Mr. Moos said his company sells products countrywide; however, marketing is limited to the region. He said the company ships its own products; therefore, transportation costs affect the cost of doing business.

In response to a question from Representative Glassheim, Mr. Moos said his employees typically start at \$6.50 per hour and wages increase quarterly until the employees reach \$10 per hour. He said specialized positions demand higher wages than introductory positions.

In response to a question from Representative Solberg, Mr. Moos said the company produces over 500 products, which include raw products, prebaked products, and partially baked products.

In response to a question from Representative Glassheim, Mr. Moos said the company has an Internet site at *www.bakerboy.com*. He said his company does not sell over the Internet, and the web site is designed to form business leads.

Southwest Information Technology Council and Information Technology Council of North Dakota

Chairman Glassheim called on Mr. Jeff Swank, Chairman, Southwest Information Technology Council, for comments regarding the activities of the council. Mr. Swank provided written testimony, a copy of which is on file in the Legislative Council office. Mr. Swank said in addition to his council membership, he is also vice chairman for the Information Technology Council of North Dakota.

Mr. Swank said in 1997 the Southwest Area Manufacturers and Processors Roundtable invited information technology staff from each member business to attend the meeting to discuss the state of technology. As a result of that meeting, he said, the information technology staff decided to meet on a monthly basis, and this group was known as the Southwest Manufacturers Area Technology User Group. Since its beginning, he said, the user group has expanded its reach to include the entire southwest region of the state. Mr. Swank said this expanded group is known as the Southwest Information Technology Council. He said the benefits of the group are recognized in networking, information technology support, and information technology education. The council's education efforts, he said, include working with the Bismarck State College work force training program.

Mr. Swank said the Information Technology Council of North Dakota was formed in January 2000. The purpose of this council, he said, is to build a stronger state through information technology excellence. Mr. Swank's written testimony includes a copy of the council's vision, mission, strategic goals, and statement of principles.

Mr. Swank said the work of the Southwest Information Technology Council and the Information Technology Council of North Dakota will be very productive. He said, however, North Dakota needs to become an information technology friendly state. The state's policies, he said, must encourage the use and expansion of the Internet and other new digital technologies. Especially important, he said, are the issues of taxation and free speech, and the state

government needs to engage in e-commerce at every opportunity.

In response to a question from Representative Klemin, Mr. Swank said the state can take advantage of information technology by implementing on-line license renewal systems.

In response to a question from Representative Glassheim, Mr. Swank said the Information Technology Council of North Dakota is studying the issue of connectivity throughout the state. He said the status of the state is probably better than the surveys indicate regarding connectivity. North Dakota, he said, has the resources to connect the state; however, the smaller communities and agricultural sectors need to become involved in the system. In this respect, he said, there may be a role for government in connecting geographical areas that are not profitable to connect.

In response to a question from Representative Severson, Mr. Swank said although he does not have a crystal ball, once the state reaches connectivity, pertinent issues may include Internet security and the state's role in policing Internet activities.

In response to a question from Representative Klemin, Mr. Swank said it is possible upcoming satellite network technology will offer services for the state that would not be offered via ground lines.

In response to a question from Senator Thompson, Mr. Swank said the future role of the Information Technology Council of North Dakota will include working with the Legislative Assembly.

In response to a question from Representative Glassheim, Mr. Swank said one of the pressing issues at this time is the fairness of e-commerce taxation.

TMI Systems Design Corporation

Chairman Glassheim called on Mr. Dean Rummel, President, TMI Systems Design Corporation, for comments regarding the corporation's economic development experiences. Mr. Rummel provided written testimony and information regarding the corporation's growth since the corporation began in 1985, copies of which are on file in the Legislative Council office.

Mr. Rummel said the corporation is a primary sector business that manufactures institutional furniture for the educational, health care, and laboratory markets, as well as for specialty projects throughout the country.

Mr. Rummel said from 1985 to 1999, the corporation's sales have increased from \$6.9 million to \$36 million. The corporation's average number of employees, he said, has increased from 82 to 367. He said the corporation's payroll has risen from \$2.1 million to \$11.2 million. During the corporation's 14-year existence, he said, over \$17 million has been invested in capital equipment and buildings, and of five major expansions, three were financed with the

help of the partnership in assisting community expansion fund program.

Mr. Rummel said the partnership in assisting community expansion fund program is an incentive for companies located in the state to continue to grow and invest capital. He said the partnership in assisting community expansion fund program services have allowed the corporation to expand at a faster rate because the program allows a sharing of risk. The situation in the state, he said, is different from the situation in larger metropolitan areas because if a North Dakota business invests in the company's real property, that property is probably a liability rather than an asset in North Dakota. He said the investment to attract a company to locate in North Dakota is greater than the investment to grow an existing business. He said the average full-time employee at his corporation grosses \$30,000 a year, and specialized employees, such as truck drivers, earn higher wages.

Mr. Rummel said another incentive that worked very well for his corporation was the elimination of the use tax on equipment purchases used for expansion. He said this incentive encourages primary sector businesses to increase production and allows North Dakota businesses to compete nationally. North Dakota businesses, he said, need every competitive advantage available because of freight costs associated with bringing raw materials into the state and shipping finished products throughout the country and Canada.

Mr. Rummel said six factors that are important to economic development in the state are:

1. Skilled workers - Location close to a university allows for partnerships with training, continuing education, and research.
2. Quality of life issues - Recreation, good schools, health care, low crime, and moderate weather.
3. Information technology - Access to broadband. The real growth in gross domestic product is technology driven.
4. Airport - Good air service links business to customers or suppliers.
5. Interstate highway - Location on a major highway allows shipment of raw materials in and finished products out efficiently.
6. Utilities - Good abundant water supply and adequate electrical and natural gas supplies at reasonable rates.

In response to a question from Representative Klemin, Mr. Rummel said he anticipates over-the-road truckers would oppose removing the diesel fuel tax because the result of removing the tax would be less maintenance on roads and bridges. However, he said, although companies may be supportive of less diesel fuel tax, they are cognitive of the need for a solid infrastructure and generally consider fuel costs an expense of doing business.

In response to a question from Representative Froseth, Mr. Rummel said although his corporation has had success with using strawboard in manufacturing, only one percent of board suppliers provide strawboard versus 99 percent of suppliers providing woodboard. He said Canada is manufacturing strawboard at a greater rate than North Dakota. In addition to the shortage of supply, he said, another factor that makes using strawboard difficult is that building specifications are designed for woodboards.

Population Retention and Growth

Regional Efforts

Chairman Glassheim requested committee counsel to report on what states in our region are doing to retain and grow population. Committee counsel said the Nebraska Works program is run by the Nebraska Economic Development Department. She said the department works closely with the Nebraska Department of Labor and is part of the state work force development program. The Nebraska Works program, she said, has the following seven-point strategy:

1. Promote the quality of life in Nebraska.
2. Research available jobs and work with businesses to promote these jobs.
3. Work with communities to address labor shortages.
4. Assist businesses with coordination and technology support to address work shortage.
5. Assist and partner with other entities to address worker quality and worker shortage.
6. Provide education community with information and support to promote Nebraska jobs to Nebraska students.
7. Promote working partnerships between education and business communities.

Committee counsel said the Governor of Iowa is proposing a three-prong tax cut in an attempt to increase Iowa's population by keeping Iowans in the state and by attracting new residents. She said the tax cuts would provide for tax credits for teachers and engineers, a pension exemption to address the problem of losing the aging population, and a modification of the individual income tax rate structure in an attempt to make Iowa's economic development more attractive.

North Dakota Workforce Development Council

Chairman Glassheim called on Mr. Fraine Zeitler, Director, North Dakota Workforce Development Council, to distribute documents to committee members in preparation for Mr. Zeitler's presentation at the next committee meeting. Mr. Zeitler distributed the following documents--*Serving the North Dakota Work Force: An Inventory of Programs and Policies, Strategic Five-Year Plan Workforce Development Plan, North Dakota State Plan for Adult Education and*

Literacy 2000-2004, State Plan for the State Vocational Rehabilitation Services Program and State Plan Supplement for the State Supported Employment Services Program--copies of which are on file in the Legislative Council office.

Project Back Home

Chairman Glassheim called on Ms. Cathy Langemo, Project Coordinator, Project Back Home, and Mr. Gene Veeder, President, Project Back Home Board, for comments regarding population growth services offered through the project. Ms. Langemo distributed informational brochures regarding Project Back Home, copies of which are on file in the Legislative Council office.

Ms. Langemo said Project Back Home arose as a result of efforts to compile addresses for the North Dakota Centennial celebrations. The program membership, she said, is composed of businesses, counties, and cities, each of which pays a membership fee.

Ms. Langemo said Project Back Home is composed of three phases:

1. The 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, Ms. Langemo said, is a fully interactive web site at *home.northdakota.com*, on which participants can post information such as job opportunities and visitors can complete employee surveys.

In response to a question from Representative Froseth, Ms. Langemo said the local communities typically join as a county, and Project Back Home has five community members and 55 business members. Mr. Veeder said communities typically link their web sites to the Project Back Home web site and state government web site. He said the reason business memberships exceed community memberships is because of the financial limitations of smaller communities.

In response to a question from Representative Glassheim, Mr. Veeder said Project Back Home typically is used by smaller communities; however, large businesses do use the service. He said the total membership fees collected for Project Back Home add up to less than \$30,000 per year.

Mr. Veeder said 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

Chairman Glassheim called on Senator Tony Grindberg, Vice President, Fargo-Cass County Economic Development Corporation, for comments regarding CareerLinkNorth. Senator Grindberg

distributed a written summary of CareerLinkNorth's mission, objectives, and members, and distributed a CareerLinkNorth informational brochure, copies of which are on file in the Legislative Council office.

Senator Grindberg said in 1991 the Fargo-Cass County Economic Development Corporation changed its focus and mission from land development to marketing labor and selling the labor pool. According to a 1991 survey, he said, the Fargo area had 44,000 underemployed people with college degrees. By 1995, he said, this number decreased to 17,000. A new survey will be released soon, he said, and the statistics indicate there are 6,000 underemployed people in the Fargo area.

Senator Grindberg said studies indicate metropolitan areas such as Fargo received 3,000 persons from local Tier 2 and Tier 3 counties. By 2003, he said, this number will be cut in half. He said a new survey also indicates that from the 400 primary sector industries in the Fargo region, 3,000 new hires will occur annually.

Senator Grindberg said the CareerLinkNorth program arose in this employment environment. The CareerLinkNorth program, he said, is modeled after a similar program in Omaha, Nebraska, called CareerLink. He said the objective of CareerLinkNorth is:

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

Senator Grindberg said the use of a web site as a recruiting tool is a short-term service, and medium- and long-term services will need to begin at the kindergarten through high school levels.

In response to a question from Senator Mathern, Senator Grindberg said at this point CareerLinkNorth is not working with high school counselors, but he anticipates a movement in this direction.

Higher Education Committee - Economic Development Connection Task Force

Chairman Glassheim called on Senator Grindberg, Chairman, Higher Education Committee - Economic Development Connection Task Force, for comments regarding the activities of the task force. He said the roundtable is broken out into six subgroups, one of

which is the Economic Development Connection Task Force.

Senator Grindberg said two consultants are assisting with the Higher Education Committee study. He said the consultants have reported the attitude of higher education in North Dakota is viewed more critically than in other states in the Midwest. Additionally, he said, midwestern states do not have as many entrepreneurs as other regions of the country. He said the consultants compared the state's University System with the systems in Utah and Colorado and noted college presidents in those states have more authority to deviate from university system budgets than do North Dakota University System presidents.

Senator Grindberg said the task force will meet in two weeks and on March 27, 2000. He said the task force will be considering how the University System should be accountable and will receive testimony from primary sector businesses.

In response to a question from Representative Glasheim, Senator Grindberg said the University System does not participate in profitmaking from activities that are academic in nature. Representative Glasheim asked whether risk capital and the University System could work together, such that the knowledge-based work would be accompanied by a profitmaking application approach.

In response to a question from Senator Tallackson regarding whether employees who do not have four-year degrees will be prevented from job growth in the long term, Senator Grindberg said whether a person receives a two-year or a four-year degree is a personal decision and lifelong learning can assist with job growth. Senator Grindberg said North Dakota is educating to export.

In response to a question from Representative Klemin, Senator Grindberg said the profession of economic development is a growing industry and some developers are receiving certifications as economic developers.

Venture Capital

Chairman Glasheim called on Mr. Dean Reese, Director, North Dakota Development Fund, and Mr. Steve Egeland, Coordinator, Business and Work Force Development Division, Department of Economic Development and Finance, for comments regarding venture capital investment opportunities within the state.

Mr. Reese said at the inception of the North Dakota Development Fund in 1989, 75 percent of the funds were involved in equity investing and 25 percent of the funds were involved in subordinated debt. He said the state's internal rates of return were less than six to nine percent; whereas, the rates expected by venture capitalists today are between 30 and 80 percent. He said it is because of this high rate of return that venture capitalists take higher risk. He said the investment strategy of the North Dakota

Development Fund has changed. He said 70 percent of the Development Fund is in subordinate debt and 30 percent in equity debt. As a result of this new strategy, he said, money in the fund is tied up for a shorter period of time than it would be under an equity investment. If it had not been for this restructuring of the fund, he said, the fund would likely have run out of funding money.

Mr. Reese distributed written material regarding venture capital, copies of which are on file in the Legislative Council office. He said the written information includes information regarding:

1. The Small Business Administration's access to capital electronic network, which is a national securities offering listing service that allows venture capitalists and institutional and individual accredited investors to find small, growing companies through a secure Internet data base.
2. Definitions relative to venture capital, including defining the term "venture capital" as "money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors. Venture capital is an important source of equity for startup companies."
3. Trends in venture capital fundraising over the last decade, including the surge in information technology businesses nationwide, and a regional overview of investment.
4. Data regarding the high percentage of small businesses in North Dakota.
5. Analysis of three types of publicly assisted venture capital programs--publicly funded, publicly managed venture capital funds; publicly funded, privately managed venture capital funds; and certified capital companies.
6. Information regarding what Hawaii and Iowa are doing in the area of venture capital investment.

Mr. Reese said the state has a difficult time 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 area 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.

Mr. Reese said one possible change in state law the committee might want to entertain is establishing a tax credit on investments made to venture capitalists. He said the state also needs to establish its own venture capital fund, operating like a venture capitalist

in the private market, with higher internal rates of return.

Mr. Reese said the Development Fund is continually receiving equity requests, and the number of requests has increased recently, largely due to the increase in information technology businesses. Mr. Egeland provided the committee with copies of two letters from individuals interested in venture capital within the state who found our state laws to be too restrictive. A copy of each letter is on file in the Legislative Council office.

In response to a question from Senator Mathern regarding the definition of "subordinated debt" and "equity investment," Mr. Reese said subordinated debt is a gap finance type of lending typically used to fund expansion. Under subordinated debt, he said, the state would take a subordinate position to the traditional lender and would be repaid through regular repayments. Under equity-type investment, he said, the state would own a portion of the company and would receive payment by exiting the company once the business has recognized the value of expansion.

In response to a question from Representative Berg, Mr. Reese said in order to encourage venture capitalists to consider North Dakota investments, the state could create a fund that matched a portion of investment dollars and which took a subordinate position to other investors. Mr. Egeland said another way to encourage investment in North Dakota is to create a fund that would somehow mitigate the risks of out-of-state investors and to create a tax credit program to assist in-state investors.

In response to a question from Representative Glassheim, Mr. Egeland said the only real vehicle North Dakota has for venture capitalists is under North Dakota Century Code Section 10-04-06. He said under the "9A Rule" a securities offering is limited to no more than 35 persons and the "9B Rule" provides an offering may be made to an unlimited number of people; however, the gross proceeds of the offering may not exceed \$1 million.

In response to a question from Senator Grindberg, Mr. Egeland said Oklahoma is an example of a state that allows a certain portion of pension funds to go towards venture capital. Mr. Egeland said dollar-for-dollar it is less expensive to retain businesses than it is to recruit businesses. He said a common situation is when a business begins, all the money is put into research and development and there are not any funds left over for marketing. He said this situation is a perfect opportunity for venture capital investment.

Mr. Egeland said there are three types of investors--angel investors, seed funds, and venture funds. He said a typical angel investor is a high net worth individual who has an interest and knowledge in a particular business sector, often because that is where the investor gained personal wealth. Seed funds, he said, are professionally managed investment partnerships or limited liability companies that

invest in very young companies. He said venture capital operates in a niche where traditional, low-cost financing is not available, and they seek to exit the company and the industry before it tops out. A venture capital firm, he said, can afford to take the risks it does because of the large upside of a few of the investments. The net returns are accumulated, he said, from a minority of the investments, and most of the returns come from 10 percent of the portfolio.

In response to a question from Representative Klemin, Mr. Egeland said typically the 9A Rule and 9B Rule target businesses with business plans, and there is a need to address groups that do not have exact businesses in mind. He said it may be helpful to decrease the 9A Rule minimum investment requirement, and it may be helpful to increase the number of people a business plan can be presented to under the 9B Rule.

Structure of State Economic Development Services

Chairman Glassheim called on Mr. Cramer and Mr. Schwartz for comments regarding the National Association of State Development Agencies biennial report and comments regarding the committee members' responses to the survey questions relating to consolidation of economic development services.

Mr. Cramer said the discussion regarding venture capital is pertinent to the National Association of State Development Agencies survey. He said the business community historically has come to the plate to support economic development.

Mr. Schwartz reviewed the responses from the survey he distributed to committee members at the November meeting. A copy of the summary of the survey responses is on file in the Legislative Council office. Mr. Schwartz said the responses to the survey help to indicate where committee interest lies.

In response to a question from Representative Berg, Mr. Schwartz said the primary benefits of privatizing economic development services are privatization lessens the impact of changes in executive administrators and improves continuity over the long term, and he said privatization reduces the role of politics in the economic development system. Additionally, he said, the three key functions of economic development are:

1. Bringing private sector to the table during the establishment of programs for the private sector;
2. Providing services in business recruitment and business assistance; and
3. Addressing the global economy.

In response to a question from Senator Thompson, Mr. Schwartz said under Mr. Cramer's leadership, there has been a favorable retention of Department of Economic Development and Finance staff, and this is contrary to the countrywide trend of losing economic development staff members. He

said employees of the Department of Economic Development and Finance have good business backgrounds, and it is important that the department continue to hire employees with business backgrounds.

In response to a question from Representative Klemin, Mr. Schwartz said the federal Manufacturing Extension Partnership program is a good example of how privatization can work.

Mr. Cramer said he does not support the complete privatization of the state's economic development efforts in part because there is a need for public accountability if public dollars are involved. He said examples of successful private/public ventures include Technology Transfer, Inc., and the North Dakota Development Fund.

Senator Grindberg said North Dakota has never had an out-of-state presence in the area of economic development and needs to provide global economic development services. Mr. Cramer said globalization is a good example of an area that would benefit from private/public partnerships. Additionally, Mr. Cramer said, it may be worthwhile to explore the creation of a nonprofit entity that complements the Department of Economic Development and Finance. An example of such an entity might be a private/public partnership in marketing for economic development.

PRIVATIZATION OF STATE ECONOMIC DEVELOPMENT SERVICES

Manufacturing Extension Partnership

Chairman Glassheim called on Mr. Schwartz and Mr. Egeland for comments regarding the Manufacturing Extension Partnership. Mr. Schwartz provided a United States Department of Commerce brochure regarding the Manufacturing Extension Partnership program and a document providing information for Manufacturing Extension Partnership steering committee candidates, copies of which are on file in the Legislative Council office.

Mr. Schwartz said 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. He said funding for the program is one-third federal funds, one-third state funds, and one-third private sector support, primarily in fee for services.

Mr. Schwartz said the Manufacturing Extension Partnership program is a nationwide network of not-for-profit high-performance centers, the sole purpose of which is to provide small- and medium-size manufacturers with the help they need to succeed. He said 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, he said, administration of the Manufacturing Extension Partnership program was transferred to North Dakota State University.

Pursuant to the review of the North Dakota program on August 26, 1999, he said, the federal agency in charge of the program suspended North Dakota's program.

Mr. Schwartz said after North Dakota's program lost federal certification, the Department of Economic Development and Finance has attempted to get the program back on its feet. If the department can get the manufacturing program started again, he said, it would be a good model for other private/public partnerships. He said some Manufacturing Extension Partnerships look like public organizations; however, the more successful programs look more like a private business.

Mr. Egeland said the Department of Economic Development and Finance is surveying North Dakota manufacturers to identify which businesses would be possible clients for the Manufacturing Extension Partnership. He said the department is interviewing the companies that would most likely use the program.

In response to a question from Senator Thompson, Mr. Cramer said existing law provides legislative intent regarding pursuing the Manufacturing Extension Partnership, and the department's strategic plan includes pursuing the program.

In response to a question from Representative Klemin, Mr. Cramer said ultimately the department would like to use its research to build an initial data base of 326 businesses. He said the department is pacing itself in collecting this information and is looking at contracting for services to provide this assistance.

In response to a question from Representative Glassheim, Mr. Cramer said the privatization aspect of the Manufacturing Extension Partnership is found in the steering committee, which is made up of private industries.

In response to a question from Representative Berg, Mr. Cramer said although the department has invited local economic development organizations to the table to discuss the Manufacturing Extension Partnership, some businesses do not want the local economic development service providers active in all stages.

In response to a question from Representative Solberg, Mr. Cramer said the initial interview and information gathering done by the department is free of charge to the business; however, it is from this interview the department will gain information to provide assistance. Mr. Schwartz said in some states the Manufacturing Extension Partnership program provides a set amount of free assistance. For example, in Minnesota there is no fee for service; however, Minnesota funds the program at \$4 million per year.

Mr. Schwartz said the Manufacturing Extension Partnership program information gathering will assist the department in indicating which industries are helping North Dakota's economy. He said the Manufacturing Extension Partnership would mature and

information would change as industries grow over time.

Representative Thorpe said the Manufacturing Extension Partnership program sounds like a good course of direction and venture capitalists may have more confidence in North Dakota if there is a private/public partnership. Mr. Schwartz said perhaps when the Manufacturing Extension Partnership program is up and running in North Dakota, it could provide services to assist the Agricultural Products Utilization Commission.

Representative Berg said under the Manufacturing Extension Partnership, the Department of Economic Development and Finance can move more efficiently, and the committee should empower the Manufacturing Extension Partnerships to provide the services for which they were designed.

In response to a question from Representative Thorpe, Mr. Schwartz said although there may be situations in which industries are reluctant to provide some of the data collected during the Manufacturing Extension Partnership interview, the businesses need to develop a trust relationship with the department. He said North Dakota is working with other states' Manufacturing Extension Partnerships to learn from the experiences of other states.

Privatization Trends

Chairman Glassheim called on Mr. Miles Friedman, Executive Officer, and Mr. Ken Poole, Director, Domestic Business Development, National Association of State Development Agencies, for comments regarding privatization of state economic development services. Mr. Friedman and Mr. Poole testified via telephone.

Mr. Friedman said the current trend of privatization is more frequently implemented through a targeted approach, whereby privatization deals with one particular niche, versus a broad approach where the privatization is general purpose. He said typically the targeted approach provides for a private, nonprofit board that oversees the activities of the public economic development agency. Those states that have adopted a broad, general purpose privatization approach are generally not satisfied, he said, whereas states that have adopted a hybrid approach in which there is a targeted area and public funding is the predominant source are more satisfied.

Mr. Friedman said 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.

4. Increasing the private sector's acceptance of state economic development programs.

Mr. Friedman said the following four characteristics are typically found in successful privatization efforts:

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.
4. Some form of accountability so that the private sector does not believe one industry is receiving preferential treatment over another industry.

In response to a question from Representative Glassheim, Mr. Friedman said one accountability issue is the concern of a perception of favoritism among different industries. He said if one particular industry has a dominant role in privatization, it may result in the alienation of other sectors of private industry. He said one trend in economic development is the move toward centralization or creation of a mechanism to facilitate unification, such as creation of an economic development cabinet. Another trend, he said, is unification through a single economic development budget. Additional trends, he said, include the 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.

In response to a question from Senator Grindberg, Mr. Friedman said it is difficult to measure or evaluate the success of privatized economic development through separate private agencies because these models have not been around long enough to evaluate which model works best. He said there have been some limited studies evaluating the return on investment in privatized systems, but these studies have not evaluated whether the private model is better than the previous model. Mr. Poole said in Florida, data suggests that economic development output under the privatized system is much higher than before privatization, and Florida is using fewer staff members to provide these services.

Mr. Friedman said increased continuity is a large benefit under privatization. He said states and businesses have recognized the benefit of predictability under privatization. Mr. Poole said privatization allows economic development agency plans to exceed the typical four-year cycle and helps to promote bipartisanship and increase grassroots support. Mr. Friedman said the credibility of state programs is perceived as a benefit by the technical marketplace and the global marketplace.

In response to a question from Representative Johnson regarding whether privatization would allow the executive branch to impact economic

development and change direction, Mr. Friedman said the benefits of continuity do not necessarily prevent the executive branch from impacting economic development. He said under a hybrid system with a private advisory board, typically the Governor chooses the board members and the Governor and legislative branch choose how to appropriate funds for economic development. Change is more likely resisted, he said, if the privatization model is a totally private organization versus a hybrid model. Mr. Poole said another important point to make is that it is important to have an economic development professional staff with credibility.

In response to a question from Representative Glassheim, Mr. Friedman said an example of successful privatization is Indiana in which the Commerce Department uses a private partner organization to counsel the department. Ohio, he said, is another example of successful privatization through a strong commerce and economic department. He said in Ohio several private councils work with the Commerce Department, and the state provides local economic development training and tries to coordinate the activities at the local level with the activities at the state level. South Carolina, he said, is an example of a state that through privatization has successfully turned around its Economic Development Department. He said in South Carolina there is a private advisory board that reports to the Governor and sets economic development direction.

In response to a question from Mr. Schwartz, Mr. Friedman said if privatization is pursued, it is important to set clear objectives from the start and not wait until implementation has already begun before setting these objectives. Additionally, he said, it is important to understand what will be achieved through evaluation of the privatization efforts and understand the context of any output measures.

Mr. Poole said one problem in evaluating the effectiveness of privatization is that sometimes the purposes and objectives change. He said in addition to output measures and outcome measures, it is important to have activity measures. For example, he said, if one of the measurements is the number of jobs created and retained, after awhile the objective may be to increase the quality of jobs and focus where economic development is occurring. Mr. Friedman said a difficulty with benchmarks is the difficulty of quantitatively measuring the success of a program and proving that the changes are attributable to the program.

In response to a question from Representative Glassheim, Mr. Friedman said benchmarks can be set by the Legislative Assembly and by the executive branch. He said the most important points are that there is agreement between the branches and the goals are reasonable. Success and failure, he said, are important in deciding how to prioritize and allocate resources. Mr. Poole said if benchmarks are set in

statute, with less discretion, the result might be preventing changes and adjustments in the long term.

In response to a question from Representative Glassheim regarding whether less-populated states should take the same approach to privatization as more-populated states, Mr. Friedman said although there are substantive differences between small and large states and what they can do both because of their financial resources and the diversity of industry, typically the issues are the same regardless of the size of the state. Additionally, he said, sometimes less-populated states allow for greater accessibility to citizens and the business sector.

In response to a question from Representative Berg, Mr. Friedman said South Carolina and Indiana are examples of states that have adopted privatization through a private board. He said the programs in both states have stood the test of time and have worked well.

Mr. Poole said it is important privatization does not result in a monolithic corporate structure that focuses on big business. He said privatization needs to take small entrepreneurs into account. One way to address this concern, he said, is to have public and private members on an economic development board. Mr. Friedman said how an economic development board is created, how the membership of the board is chosen, and the style of management are very important.

In response to a question from Representative Glassheim, Mr. Friedman said Ohio and Pennsylvania are examples of states in which there is a large, well-funded, strong commerce department. He said examples of programs to include in a commerce department include international trade, finance, technology, travel, tourism, film, economic development research, data collection, and some labor and job services programs. Mr. Poole said in lesser populated states such as Montana, consolidation of economic development services recognizes the importance of economies of scale.

In response to a question from Senator Grindberg, Mr. Friedman and Mr. Poole said the issue of privatization is an issue the committee should consider. Additionally, Mr. Friedman said, it would be a logical step for the state to evaluate where its economic development services are located and how much is being spent on providing these services.

In response to a question from Senator Tallackson, Mr. Cramer said the North Dakota Development Fund is an example of an existing partnership with the private sector; however, this board actually has more than advisory power because it makes loan decisions.

In response to a question from Senator Thompson, Mr. Cramer said the Department of Economic Development and Finance is invested in studying how economic development services can better be provided. He said the department can

spend some of its discretionary funds to contract with the National Association of State Development Agencies, but in order to be effective the department will need to have full cooperation in gathering information from other agencies.

COMMITTEE DISCUSSION AND DIRECTIVES

Senator Thompson requested the Department of Economic Development and Finance gather budgetary information from the appropriate state agencies providing economic development services.

It was moved by Representative Berg, seconded by Senator Grindberg, and carried on a voice vote that Legislative Council staff be requested to gather information on state funds spent on economic development, including a brief description of the services and the specific amount of money spent on the services.

Mr. Schwartz said the National Association of State Development Agencies has made a formal proposal to study economic development within the state.

Representative Berg recommended a representative from the National Association of State Development Agencies be requested to attend the committee's next meeting and assist the committee with setting objectives.

Representative Thorpe asked what the timetable would need to be in order to work with the National Association of State Development Agencies. Mr. Cramer said the Department of Economic Development and Finance will have to act quickly in order to receive assistance from the National Association of State Development Agencies. He said the department has collected and provided a large amount of data to the association. However, he said, because of time constraints it will not be reasonable to have the National Association of State Development Agencies conduct focus groups across the state. Representative Glassheim said he recognizes there would be some value to conducting focus groups across the state.

In response to a question from Representative Froseth, Mr. Cramer said the National Association of State Development Agencies has provided a state proposal for approximately \$45,000; however, there is room for negotiation and fine-tuning of the proposal. Representative Berg said he envisions the assistance by the National Association of State Development Agencies as more low-key and focused in helping the committee.

Representative Froseth said if the National Association of State Development Agencies assists the committee in the committee study, it will be necessary to provide the association with background information on North Dakota's current economic development system.

Representative Glassheim suggested the committee request a bill draft that sets specific goals for the Department of Economic Development and Finance. He said the goals might include raising the per capita income in the state by a certain amount over a certain time. Mr. Schwartz said if the committee is interested in setting goals, it may be helpful to set some intermediary goals such as requiring the department improve the state's ranking in economic development by two places per year or to increase the population by 6,000 people per year. Representative Berg agreed with Representative Glassheim, but he said it is important to be realistic in setting goals and to be very clear in the setting of goals.

Mr. Zeitler said the Workforce Development Council is a private/public enterprise. Under the federal Work Force Investment Act, state goals are not set in statute because there is more flexibility if each state determines how to measure and set work force development goals. He said his experience with the Workforce Development Council has taught him how important it is to have board members who have policymaking authority.

Senator Grindberg said the North Dakota Economic Development Association is discussing some of the same issues as the committee. He said the association will piggyback its meeting with the committee's meeting in May.

Senator Tallackson said he would recommend the state better support the regional planning councils.

Representative Berg said the idea of creating investment incentives should be considered before the next legislative session.

Representative Glassheim said areas the committee may want to study at a future meeting include receiving information on the Small Business Administration programs in the state, determining whether clarification is required regarding the confidentiality of economic development information, and instructing the Department of Economic Development and Finance to have an out-of-state office. Representative Glassheim said at the next meeting of the committee, the committee should establish goals and then decide the details of any organizational changes required.

Representative Klemin said in determining whether legislative action is required under the 9A and 9B Rules, the committee should receive information from the Securities Commissioner, and he would also be interested in receiving information regarding venture capital corporations, and the number of venture capital corporations organized under North Dakota law.

Representative Thorpe said the regional development corporations should participate in state economic development efforts. Mr. Cramer said because authority is not granted, it is earned, the local economic development organizations will not follow

the state's economic development vision unless the vision is well thought out. He said the local economic development organizations would like to see greater leadership at the state level.

Representative Thorpe requested the Department of Economic Development and Finance provide the committee members with a list of acronyms applicable to economic development.

Ms. Joy Johnston, Counsel, Greater North Dakota Association, said Vision 2000 needs to be reinvigorated.

Representative Berg said the committee needs to focus on the goals of economic development and finance and finding a solution on how to reach these goals. Before the committee takes any action, he said, it needs to set the direction of economic

development first. Senator Grindberg said the committee needs to look to the future and needs to look at the needs of the state and how to provide these services.

Senator Grindberg said he would like to receive information on the possibility of creating a nonprofit, private foundation to distribute economic development grant money.

There being no further business, Chairman Glasheim adjourned the meeting at 10:25 a.m.

Jennifer S. N. Clark
Committee Counsel