

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE AND LABOR COMMITTEE

Monday and Tuesday, July 10-11, 2000
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Eliot Glassheim, Chairman, called the meeting to order at 8:40 a.m.

Members present: Representatives Eliot Glassheim, Rick Berg, Curtis E. Brekke, William E. Gorder, Howard Grumbo, Nancy Johnson, George J. Keiser, Dorvan Solberg, Elwood Thorpe; Senators Tony Grindberg, Karen K. Krebsbach, Deb Mathern, Harvey Sand, Vern Thompson

Members absent: Representatives Byron Clark, Glen Froseth, Lawrence R. Klemin, Amy N. Kliniske, Dale C. Severson; Senators Duane Mutch, Harvey D. Tallackson

Others present: See attached appendix

It was moved by Representative Keiser, seconded by Representative Berg, and carried on a voice vote that the minutes of the May 8-9, 2000, meeting be approved as distributed.

HERITAGE TOURISM STUDY

Chairman Glassheim called on Mr. Tracy Potter, Executive Director, Fort Abraham Lincoln Foundation, for comments regarding the status of lease negotiations with the Parks and Recreation Department. Mr. Potter reported that a lease agreement has been reached. Under the agreement, he said, the Fort Abraham Lincoln Foundation maintains its traditional role in providing interpretive services.

Mr. Potter said he is not happy with the terms of the lease agreement, in part, because of how reservations will be made by the Parks and Recreation Department. He said he is not asking the committee to change the agreement because that would be micromanagement; however, he does ask that the Legislative Council analyze the issue of whether private, nonprofit organizations can provide management services for Parks and Recreation Department facilities. Additionally, he said, the Legislative Council should study how much power the director of the Parks and Recreation Department has regarding park fees and service providers.

In response to a question from Representative Keiser, Mr. Potter said the Lewis and Clark Interpretive Center and the Sully Creek facility are examples of how the director of the Parks and Recreation Department has power to enter lease agreements regarding management services.

Chairman Glassheim called on Mr. Doug Prchal, Director, Parks and Recreation Department, for comments regarding the status of lease negotiations with the Fort Abraham Lincoln Foundation. Mr. Prchal reported the foundation and the department are not totally satisfied with all the terms of the agreement, and they will continue to work on these issues.

In response to a question from Representative Berg, Mr. Prchal said the issue of whether to turn over park management to the Fort Abraham Lincoln Foundation was not addressed in this year's lease agreement, but it is an issue the parties can discuss in the future. He said it is best if the park has one management entity, and under the current lease agreement, it is the department that performs this role. Representative Berg suggested the department and the foundation work toward a unified management system.

In response to a question from Representative Glassheim, Mr. Prchal said implementation of a unified management system probably does not require legislation; however, Fort Abraham Lincoln differs from the Sully Creek facility and the Lewis and Clark Interpretive Center in that both of those facilities are much smaller than Fort Abraham Lincoln.

In response to a question from Senator Thompson, Mr. Prchal said the main issue of discontent between the Fort Abraham Lincoln Foundation and the Parks and Recreation Department is over the collection of user fees. He said the issue is whether one entity should collect fees or whether two entities should collect fees, and it was his decision as director that one entity collect fees and then disburse that money. Therefore, he said, statutory clarification of the director's powers will not fix the issue because the issue is differing views of how the state parks should be run.

Senator Sand said one of his constituents recently told him about his experiences at Fort Abraham Lincoln and how the constituent felt overcharged by Fort Abraham Lincoln and the park. Mr. Prchal said determination of what fees are charged is based on the services used by the constituent. Mr. Prchal said he can make an attempt to clarify fees at the entry point of the park, and the department may be able to do a better job educating the public about the fee system.

Chairman Glassheim requested the Legislative Council staff determine whether there is an Attorney General's opinion or letter regarding the powers of the director of the Parks and Recreation Department.

WORKERS' COMPENSATION REPORT

Chairman Glassheim called on Ms. Tammy Dolan, Internal Audit Manager, Workers Compensation Bureau, for a presentation of the workers' compensation safety audit of the Roughrider Industries work programs and the bureau's performance audit of the modified workers' compensation coverage program. Ms. Dolan provided written testimony, a copy of which is on file in the Legislative Council office.

Ms. Dolan said the Roughrider Industries modified workers' compensation coverage program was established in 1997 and allows Roughrider Industries to continue to receive federal funding through the prison industries enhancement program. So far, she said, Roughrider Industries has met all the program requirements, and the program is operating as intended. She said the only claim that has been reported is that of one person with less than \$350 in expenses. She said at this time the Workers Compensation Bureau is not recommending any changes to the program.

In response to a question from Representative Berg, Ms. Dolan said Roughrider Industries is one of the bureau's minimum premium accounts, with annual premiums of \$125. She said regarding the state's liability, the reinsurance coverage provides coverage for the first \$250,000 of a claim covered by the risk management fund and then by secured reinsurance that covers up to \$10 million of any claim. She said the bureau reviews the adequacy of the reinsurance coverage on an annual basis.

JOB SERVICE NORTH DAKOTA REPORT

Chairman Glassheim called on Ms. Jennifer Gladden, Executive Director, Job Service North Dakota, to present a report regarding incentives to encourage claimants to decrease the length of time unemployment compensation is received and to encourage negative balance employers to change their status in terms of unemployment compensation insurance. Ms. Gladden made a computer presentation, a written copy of which is on file in the Legislative Council office.

Ms. Gladden reported the end-of-year trust fund reserve balance was \$38.06 million in 1997, \$35.48 million in 1998, and \$31.28 million in 1999. Because of the hold harmless provision of 1999 House Bill No. 1135, she said, under which no employer's tax rate may increase more than 30 percent of the previous year's rate and no employer's tax rate may decrease more than 10 percent of the employer's previous year's rate, she does not expect to see an increase in the trust fund reserve for the years 2000, 2001, and 2002. She said

the trust fund reserve balance is \$1 million higher than Job Service North Dakota had anticipated.

Representative Berg said it might be helpful for Job Service North Dakota to run an annual seven-year forecast. Ms. Gladden said updated forecast information likely is available, and she will provide that information to the committee at a future date.

Ms. Gladden reported the benefit history for the years 1997, 1998, and 1999. She said it is important to note the figures for 1997 are skewed, in part, as a result of the flooding in the Red River Valley. Additionally, she said, the numbers can change dramatically based on a closure or a layoff by a large employer.

Ms. Gladden said her understanding of the intent of 1999 House Bill No. 1135 was to:

1. Ensure that the state had a solvent unemployment insurance trust fund;
2. Provide for an equitable distribution of the cost of funding the program to covered employers in the state; and
3. Create incentives for employers to manage the risk and control their costs under the program.

Ms. Gladden said achieving trust fund solvency is two-pronged. First, she said, claimants need to return to work sooner, and second, participation of covered employers to control their cost and manage their risk is necessary. Ms. Gladden said one incentive for employers to manage risk and control cost under the unemployment compensation program is that the executive director of Job Service North Dakota is authorized to approve a tax rate reduction of up to 30 percent for negative account employers who have had three consecutive years of contributions exceeding benefit charges and who have an approved-plan outline of significant changes to reduce benefit charges to their account on file with Job Service. At this time, she said, there are 160 deficit employers who could apply for a tax rate reduction; however, Job Service North Dakota has had only one application for this reduced rate. The reduction was not provided to the applicant, she said, because the business had basically discontinued its primary activity, and Job Service North Dakota did not interpret the provision of rate reductions as a reward for those businesses that reduce their activity and employment. She said Job Service North Dakota has made employers aware of this tax rate reduction option through newsletters, personal visits, and presentations to employer groups.

Representative Berg said the fact that only one of the 160 employers has applied indicates to him the premium burden is not so great for employers or employers are not establishing innovative changes at this point; otherwise, the number of applicants would be much higher.

In response to a question from Representative Glassheim, Ms. Gladden said the premium

reeducation program information has been distributed to employers in newsletters, and one reason there may not be more applicants is that the information may be going to business accountants instead of the business management team.

In response to a question from Senator Mathern regarding the 160 eligible employers, Ms. Gladden said the three-year history requirement is calculated on the two years prior to the enactment of the 1999 legislation. She said if this was not the Legislative Assembly's intent, Job Service North Dakota welcomes clarification. She said the 30 percent reduction provision is the most contentious of the bill's programs.

In summary, Ms. Gladden said, as a result of the changes from the 1999 legislative session, the sharp decline in the trust fund reserve of the last several years has been stopped and the trust fund reserve is beginning to recover. She said claimant duration is also going the right direction. Those claimants who are identified as not returning to the former employer, she said, have had a decrease of claimant duration from 11.16 weeks for the period July 1998 through June 1999 to 10.36 weeks for the period July 1999 through June 2000. She said this number can be further improved with an emphasis on reemployment services for claimants and education of Job Service North Dakota staff in interviewing skills, case management, and conflict resolution.

In response to a question from Representative Glassheim, Ms. Gladden said although receipts are up and there has been a small reduction in claims, the trust fund reserve balance is determined by how much and how long an employee draws benefits. She said reduction in claimant duration is occurring in those employees going to new employers; however, an increase in claimant duration is occurring in those employees who return to the same employer. She said reducing claimant duration will require reeducation, and this process takes time and Job Service North Dakota has only one year's experience with the new system.

In response to a question from Senator Sand, Ms. Gladden said in spite of the low unemployment rates, demand for reemployment services is increasing.

In response to a question from Senator Krebsbach, Ms. Gladden said although Job Service North Dakota is waiting for official federal approval of the changes made due to implementation of the 1999 legislation, Job Service North Dakota is proceeding as legislation intended and not waiting for federal approval.

RENAISSANCE ZONE REPORT

Chairman Glassheim called on Mr. Richard Gray, Americans with Disabilities Act Building Code Program Manager, Division of Community Services, for a status report on the progress of renaissance

zones. Mr. Gray said Fargo was the first approved plan, and other cities are using Fargo's plan as a reference in creating their own plan. Additionally, he said, application documents are available in hard copy and are available on-line. He said the three renaissance zones that have been approved--Casselton, West Fargo, and Fargo--have all contracted with Dakota Renaissance Venture Corporation.

In response to a question from Senator Sand, Mr. Gray said Casselton has made a commitment to the renaissance zone project, and the community benefits from being near Fargo. He said Dickinson, on the other hand, is not ready to commit to a renaissance zone project.

Mr. Gray said although there are several communities in the process of creating renaissance zones, some communities have resisted the renaissance zone concept because it is not perceived as assisting existing businesses.

Mr. Gray said there is a continuing need to meet with renaissance zone cities and monitor the zones. In Michigan, he said, no one is monitoring the zones, and in Pennsylvania, there is a zone coordinator who monitors the renaissance zones.

Mr. Gray distributed to committee members a printed list of 32 potential items or issues for possible legislative changes. A copy of this list is on file in the Legislative Council office. He said some of these changes are more procedural and might be appropriate for the Division of Community Services to pursue, and others are more policy-oriented and might be better pursued by legislative action. Representative Berg suggested the committee digest Mr. Gray's list for possible legislative changes before taking any action. Senator Grindberg said in considering these changes, the cities need to be consulted.

In response to a question from Senator Thompson, Mr. Gray said as renaissance zone projects come in, tax incentives will be applied for the next year. He said the division and the Tax Department will have better figures on tax incentives once the actual tax returns are filed.

In response to a question from Representative Thorpe, Mr. Gray said in Fargo there are two projects; however, the projects themselves will not be approved for tax credits until completion, and therefore no specific information on these projects is available.

Senator Grindberg requested the Legislative Council staff work with the Division of Community Services to create a bill draft that accomplishes the department's proposed legislative changes. He said all the appropriate parties should be allowed to view this bill draft and comment at the next meeting.

ECONOMIC DEVELOPMENT STUDY

Business Financing

Chairman Glassheim called on Mr. John Cosgriff, Manager, InvestAmerica Investment Advisors, Inc., for comments regarding investment opportunities in the state. Mr. Cosgriff said there are three stages of financing businesses:

1. "Early stage" financing, which includes seed financing, research and development, startup financing, and first stage financing. He said this type of financing is basically missing in North Dakota.
2. "Expansion stage" financing, which includes second stage financing, third stage financing, mezzanine financing, and bridge financing. He said InvestAmerica typically provides these services, except for bridge financing which is typically associated with initial public offerings.
3. "Acquisition or buyout" financing, which is typically when management buys out the company or there is acquisition of part of a company.

Mr. Cosgriff said InvestAmerica typically participates in expansion stage financing, and the first step is typically to do a valuation of the company; the second step is to work with the company for up to five years; and the third step is the exit phase. He said InvestAmerica's target for the North Dakota fund was \$5 million, which was raised with investments from 73 investors. He said InvestAmerica is licensed as a small business investment company and therefore was able to borrow an additional \$10 million. He said InvestAmerica's North Dakota fund will be entirely invested by this time next year, and this fall they will be raising a second generation fund.

In response to a question from Representative Glassheim, Mr. Cosgriff said InvestAmerica is a private organization; however, the initial incentives were offered by the state with tax credits and guarantees that the Bank of North Dakota establish the catastrophic return guarantee. He said InvestAmerica will be able to create a second fund without state incentives because of the success of the first fund. Financial institutions have existing incentives, he said; however, additional tax incentives would be helpful.

Mr. Cosgriff said his experience has been that North Dakota business owners are not very comfortable with giving up a portion of a company in return for financing. He said another thing that impacts venture capital investment financing in North Dakota is that North Dakota has a very aggressive banking community that finances projects that banks in other states would not finance. He said the state could benefit from early stage financing but should be forewarned that it is a very difficult undertaking because the projects never happen on budget or on time, and the projects require a large amount of hands-on participation. He said Minnesota and Texas are

examples of states with early stage programs. He said state programs typically try to link early state potential companies with early stage equity investors such as angel investors, and these programs also assist companies in perfecting their presentations before the company has contact with the angel investor.

In response to a question from Representative Gorder, Mr. Cosgriff said angel investors come from all places, and sometimes they are not even aware they are angel investors. If a company agrees to take outside financing, he said, the company needs to be accountable for its actions.

In response to a question from Senator Grindberg, Mr. Cosgriff said InvestAmerica would watch closely if a startup fund is established in the state because InvestAmerica would be interested in providing financing at the expansion stage.

In response to a question from Representative Glassheim, Mr. Cosgriff said the state needs to consider looking at incentive dollars for smaller businesses. He said another thing about North Dakota businesses is that they seldom plan on going public, and this makes them less attractive to venture capital investors.

In response to a question from Representative Berg, Mr. Cosgriff said for a seed fund to be successful in North Dakota, he would recommend that there be incentives to raise funds, that the fund not be limited to North Dakota, and that decisionmaking be left with the private sector. He said it might be helpful to guarantee a portion of the investment return.

Chairman Glassheim called on Mr. Syver Vinje, Securities Commissioner, for comments regarding venture capital investment. Mr. Vinje said his office is planning a capital fair and constructing a web site to link investors with investment opportunities. He said in the process of doing these projects, his office needs to be careful that they do not violate any federal regulations that would jeopardize the businesses they are trying to help. He said his office has contacted the Federal Securities Exchange Commission, which is planning on conducting a townhall meeting in North Dakota regarding capital formation, and this may be incorporated with the capital fair event.

Mr. Vinje said he agrees with Mr. Cosgriff's comments that there are capital formation problems in North Dakota. He said he had an opportunity to review the committee's bill draft regarding venture capital corporation incorporation requirements and believes the bill draft in part addresses the need for seed capital for small businesses and small towns in North Dakota. He said the bill draft is not designed to help larger investment businesses like InvestAmerica. Additionally, he said, the state might want to consider creating a North Dakota benevolent fund. He said his office is currently researching how this might be done. He said California enacted a Capital Access

Companies Act, which provides requirements of a minimum of \$250,000 net equity; a \$5 million minimum of investable funds, 80 percent of which must be from Californians and 20 percent of which may be from any source; and the requirement that businesses be substantially located in California.

Mr. Vinje said he needed to clarify some comments he may have made at the last Commerce and Labor Committee meeting. He said North Dakota can take additional steps to further development within the state. He said a possible legislative consideration might be to combine the state's business regulatory agencies. He said such a possible state agency would include financial institutions, securities, insurance, and credit unions. He said during the 1999 legislative session, House Bill No. 1493 was introduced to create a business regulatory agency but was defeated in the House. He said one reason for combining these agencies would be due to federal governmental changes regarding financial services modernization and the state's need to keep abreast of these changes.

In response to a question from Senator Sand, Mr. Vinje said he acknowledges that consolidation of business regulatory agencies may result in turf protection, and there are states that have been successful in maintaining these separate agencies; however, benefits of consolidating the agencies include a visionary overseeing the agency and the one-stop benefits to the consumer.

Senator Grindberg suggested the committee request a bill draft to create a state startup financing venture fund similar to California.

Chairman Glassheim said he will request Legislative Council authorization to create a subcommittee to study a mutual fund type venture fund in North Dakota.

Senator Grindberg requested the Legislative Council staff work with the Securities Commissioner to create some sort of startup venture capital fund. He said additional information could be received at a future meeting.

Chairman Glassheim called on Mr. Neal Whittey, LAS International, for comments regarding venture capital investment in the state. Mr. Whittey said the state needs programs to assist venture capitalists. He said he disagrees with Mr. Cosgriff's statement regarding the aggressive nature of North Dakota bankers. To the contrary, the banking community in North Dakota is very conservative, and it is necessary to create some mechanisms to get equity investments in companies. He suggested the state consider innovative approaches to increase capital investments such as California did in creation of the Capital Access Companies Act. He provided the committee with a copy of the *Final Report of the SEC Government-Business Forum on Small Business Capital Formation* and a brochure published by the Securities and Exchange Commission entitled *Q & A: Small Business and the SEC A Guide to Help You*

Understand How to Raise Capital and Comply With the Federal Securities Laws. A copy of each of these documents is on file in the Legislative Council office.

Mr. Whittey said increasing venture capital within the state is not the answer to all the state's problems. He said for the state to benefit from venture capital investment, it is necessary to keep businesses in North Dakota and not sell off a company as an exit strategy.

In response to a question from Senator Sand, Mr. Whittey said typically small businesses in North Dakota do not have the time or expertise to look for capital investors.

In response to a question from Senator Grindberg, Mr. Whittey said he does not recommend that the state attract out-of-state venture capitalists, and he does not suggest an entirely state-funded venture capital fund. He said it is important for a venture capital fund to include private money and private decisionmaking; however, the state could provide for a joint private/public effort, tax incentives, and promotion of North Dakota businesses.

Senator Sand said if the state created a public/private organization, the organization may be insulated from politics.

In response to a question from Representative Glassheim, Mr. Whittey said he is working with the Securities Commissioner to determine whether it is possible to create a North Dakota mutual fund type investment tool. He said it would be helpful to create a working group to investigate this issue. Mr. Vinje said he thinks North Dakota may be able to create a mutual fund type investment tool; however, he is still investigating this issue.

Senator Grindberg said the state is lacking startup financing. If the committee pursues establishing a state venture fund, he said, the first step is determining the structure, and the second step is funding.

Oil and Gas Production

Chairman Glassheim called on Mr. Lynn Helms, Director, Oil and Gas Division, Industrial Commission, for comments regarding the status of oil and gas production in North Dakota. Mr. Helms made a computer presentation reviewing oil and gas production and prices since 1978; North Dakota monthly natural gas production and prices since 1975; the number of North Dakota wells producing each year since 1950; the number of North Dakota idle wells since 1993; the number of Industrial Commission cases heard since 1950; North Dakota oil versus water production since 1950; the number of seismic programs permitted since July 1, 1997; the average monthly rig count since January 1978; and the monthly petroleum production since 1977 for McKenzie, Golden Valley, and Billings Counties.

In response to a question from Representative Keiser, Mr. Helms said in comparing North Dakota natural gas production to that of Wyoming and

Montana, North Dakota is more like Wyoming in that it does not have an environmental impact study requirement but does have a State Health Department authorization requirement. He said there are a variety of elements affecting the North Dakota oil and gas industry, including the current difficulty in raising capital to drill oil wells within the state, the current difficulty in finding workers, and the access uncertainty related in part to proposed federal regulations.

Chairman Glassheim called on Mr. Ron Ness, Executive Director, North Dakota Petroleum Council, for comments regarding access to oil and gas. Mr. Ness distributed to committee members written documents regarding the state's oil and gas industry, factors leading to higher pump prices, and the impact of Forest Service grassland management plans and roadless initiatives, copies of which are on file in the Legislative Council office.

Mr. Ness said the federal government is pursuing a roadless area conservation proposal that would negatively impact oil and gas production in North Dakota. He said the Mandan BP Amoco production site gets a large supply of its petroleum from western North Dakota and relies heavily on petroleum from the North Dakota grasslands.

In response to a question from Senator Sand, Mr. Ness said in addition to the negative impact on oil and gas production, the roadless area conservation rule would negatively impact firefighting and access for hunting.

Economic Development Association of North Dakota

Chairman Glassheim called on Mr. Steve Egeland, Board Member, Economic Development Association of North Dakota, for comments regarding the association's proposed economic development legislation. Mr. Egeland distributed to committee members a document entitled *Economic Development Association of North Dakota: Vision for the New Millennium*, a copy of which is on file in the Legislative Council office.

Mr. Egeland said the association's vision for the new millennium is twofold. He said goal number one is to create 25,000 new primary sector jobs in North Dakota between 2000 and 2005, and goal number two is to increase North Dakota's per capita income to at least 93 percent of the national average by 2005.

Mr. Egeland said economic development trends that North Dakota will have to recognize and adjust to include globalization, technology and communications, regionalism, sustainable development and financial commitment, and work force development.

Mr. Egeland said the association has six specific legislative proposals:

1. A North Dakota department of commerce structure that includes the Department of Economic Development and Finance, Tourism Department, Division of Community

Services, Labor Department, and work force development.

2. Economic development and finance incentive programs, which must continue to be financed and supported to support future business startup, expansion, and recruitment projects.
3. Work force development, including Work Force 2000, new jobs training program, and work force training initiative. He said other work force training programs or initiatives that warrant consideration include developing a state-supported labor recruitment program, developing an incentive program for college graduates to stay and work within the state, exploring a low-interest mortgage rate program that would attract employees working in targeted industries back to North Dakota, and directing the North Dakota University System to develop program offerings that are flexible, responsive, and relevant to statewide economic development target industries and emerging industries.
4. Economic development marketing, public relations, and education that would include promoting North Dakota as more than just a tourist destination.
5. Technology infrastructure development that would include development and implementation of a statewide plan connecting all the state with a fiber optics and broadband width network.
6. Agriculture support and development, including support of existing programs and consideration of the development of new programs that have the capacity to support the shift in our state from a commodity-producing state to a food-producing state.

Representative Keiser noted the association's document of legislative proposals provides dollar values for increasing funding for programs but does not include dollar values for the implementation of other suggestions. He requested the association provide additional information regarding the cost of these suggestions.

Economic Development Connection Task Force of the Higher Education Committee

Chairman Glassheim called on Senator Grindberg for a report on the status of the Economic Development Connection Task Force of the Higher Education Committee. Senator Grindberg distributed to committee members *A North Dakota University System for the 21st Century: The Report of the Roundtable for the North Dakota Legislative Council Interim Committee on Higher Education*, a copy of which is on file in the Legislative Council office.

Senator Grindberg said the work done by the roundtable is especially relevant to the interim

Commerce and Labor Committee, Information Technology Committee, and the Higher Education Committee. Senator Grindberg focused his testimony on the roundtable expectations and recommendations on pages 17 through 19 of the written report. The roundtable made the following recommendations:

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

14. Identify research and development opportunities that have strong potential for positive economic impacts on the region, state, and institution.
15. Encourage campuses to maximize the potential to the institution, students, state, nation, and world of the global marketplace.

In response to a question from Representative Glassheim, Senator Grindberg said the Economic Development Connection Task Force of the Higher Education Committee is not reviewing bill drafts but is continuing to meet and will consider bill drafts at a future date.

Loan Forgiveness

Chairman Glassheim called on committee counsel to present a bill draft regarding education loan incentives to encourage North Dakota graduates to stay in the state. She said the bill draft would require the Bank of North Dakota to administer a student loan forgiveness program for student loans owned by the Bank of North Dakota or by the North Dakota student loan trust. She said the forgiveness would only be available to students who are legal residents of and physically living in the state and are employed in one of 10 specified target industries. Under the bill draft, each year of student loan forgiveness would be up to one-tenth of the initial unpaid balance of the student loan, not exceeding \$2,400 per year, and the student may qualify for the loan forgiveness for no more than five years.

Senator Sand said the \$2,400 per year maximum is not a realistic incentive to keep students in the state.

Representative Thorpe said the target industries and the amount being forgiven is not very fair.

Chairman Glassheim on called Mr. Fraine Zeitler, Director, North Dakota Workforce Development Council, for comments regarding the selection of target industries. Mr. Zeitler said the target industries in the bill draft are based on a 1997 North Dakota economic development study. He said each of the target industries is high growth, high earnings, and high skill, as well as being a primary sector business, and therefore wealth-generating.

Representative Johnson said this idea of loan forgiveness has been done for other industries in the state.

In response to a question from Representative Grumbo, Mr. Zeitler said education is not a target industry under the bill draft because the Governor is addressing this issue separately.

Representative Keiser said he disagrees with the target industries approach; however, he agrees with the concept and recommends a more general bill draft that does not specify industries. Mr. Zeitler said he agrees, and it would be better to refrain from legislating specific target industries.

Representative Johnson recommended that instead of legislating specific industries, they should empower another agency to determine target industries.

Senator Sand said if the state cannot give money to all students, it should not give money to any students. Additionally, he said, this bill draft may be an incentive for students to borrow money from the Bank of North Dakota.

Senator Grindberg said the state needs jobs and needs employees and needs to market North Dakota. He said the bill draft may help the state achieve these goals. He said a recent survey of job applicants in the Fargo area indicates a majority of students who leave North Dakota would be willing to return to North Dakota but for the lack of job opportunity and growth.

Senator Mathern said problems with the loan forgiveness bill draft include that typically North Dakotans go through the Bank of North Dakota and out-of-state students would likely fail to be covered under the bill draft because their loans are not through the Bank of North Dakota.

Representative Keiser said the loan forgiveness bill draft does not help those students without North Dakota student loans; therefore, they may want to consider a bill draft providing a tax credit to employers for hiring North Dakotans. Mr. Zeitler said such a program would be a good starting point for a public/private sector partnership.

Senator Thompson said in 1989 a similar bill was introduced to address the shortage of nurses in the state, and he said they need to look at the fiscal impact of loan forgiveness bills like this.

Chairman Glassheim called on Mr. Larry Isaak, Chancellor, North Dakota University System, for comments regarding the loan forgiveness bill draft. Mr. Isaak said the bill draft is a mechanism that may encourage young people to go to school in North Dakota and is in part a response to the recommendations made by the roundtable report. He said he appreciates the committee thinking along these lines and being creative enough to look for ideas.

Representative Glassheim said this bill draft is different in that in previous bill drafts economic development efforts have been focused on helping the employer versus this bill draft which is designed to assist an employee.

Chairman Glassheim said the committee will receive additional testimony regarding the student loan forgiveness bill draft and the fiscal impact of such a bill draft at the next meeting.

Centralization of Economic Development Services

Chairman Glassheim called on Mr. Kevin Cramer, Director, and Mr. Randy Schwartz, Deputy Director, Department of Economic Development and Finance, for comments regarding economic development services provided by state agencies and regarding how

commerce departments of other states are organized. Mr. Cramer distributed to committee members written documents with tables reflecting major divisions in state economic development organizations across the country, annual expenditures for economic development functions both in North Dakota and the 1997 statewide average, and the typical economic development functions located in state economic development organizations. He said these documents were created from information provided by the National Association of State Development Agencies. A copy of each document is on file in the Legislative Council office.

Representative Keiser asked if the department had access to financial information relating to the resources states expend on a per business basis rather than on a total state budget. Mr. Cramer said he does not have that information available; therefore, it might be helpful to compare North Dakota with states with similar populations.

Mr. Cramer distributed to committee members two written documents created by the department and based on the statewide agency economic development survey performed by the Legislative Council and the department. Specifically, he said, the information includes a proposed economic development organization structure for North Dakota and a chart that reflects the six classifications of economic development resources throughout the state. A copy of each document is on file in the Legislative Council office. He said the economic development survey performed by the department and the Legislative Council was a very good exercise for all the state agencies and especially for the higher education institutions. He said responding to the survey required agencies to evaluate, question, and classify their economic development efforts.

In response to a question from Representative Solberg, Mr. Cramer said the data collected in the survey indicates the largest amount of economic development resources in the state is going toward nonprimary economic development. He said this includes assisting businesses that do not create new wealth in the state. Senator Sand said nonprimary resources are important to the average North Dakotan's quality of life. Mr. Schwartz said the committee needs to remember the survey responses were not verified, and the responses are limited in that the responders may not have been uniform in how they answered the survey questions. He said the survey was a good start in developing an accurate, unified economic development budget, but in order to create a more accurate budget, additional work will need to be done.

In response to a question from Representative Glassheim, Mr. Cramer said the Labor Department was not included in the Department of Economic Development and Finance's proposed structure for the Department of Commerce. He said the Labor

Department was not included because of the regulatory functions it provides, while the Department of Economic Development and Finance focuses on consolidating nonregulatory functions. However, he said, the committee could expand the consolidation to include regulatory services. He said if the committee desires to include regulatory functions such as those provided by the Labor Department, the committee should also include agencies such as the Workers Compensation Bureau and Job Service North Dakota.

In response to a question from Representative Gorder, Mr. Cramer said creation of a Department of Commerce in North Dakota could increase efficiency and improve customer service. However, he said, the value of consolidation is more than just efficiency and one-stop shopping--the primary benefit is coordination of economic development services and planning. The consolidation in and of itself, he said, will not automatically result in more efficiency.

In response to a question from Representative Glasheim, Mr. Cramer said in the arena of international trade, the state has several quasi-public commissions that are active in international trade. Mr. Schwartz said the Department of Economic Development and Finance's proposed structure for a commerce department is based on some value decisions and judgments such as excluding regulatory functions.

In response to a question from Representative Glasheim regarding whether it is necessary to consolidate state agencies to achieve the one-stop shopping benefit, Mr. Cramer said project managers exist in the current structure of the Department of Economic Development and Finance, and the use of electronics has been instrumental in meeting the one-stop shopping needs of clients.

In response to a question from Senator Sand, Mr. Cramer said one goal of privatization and consolidation is to decrease the impact politics has on economic development.

Chairman Glasheim called on Mr. Miles Friedman, Executive Officer, and Ms. Nancy McCrea, Project Manager, National Association of State Development Agencies, via teleconference to make comments regarding the association's *NASDA Report to North Dakota on Potential Fine Tuning of State Economic Development Program*. A copy of this document is on file in the Legislative Council office.

Mr. Friedman said he is familiar with the strides taken by the committee to consolidate economic development functions into a commerce department and commended the committee for these efforts.

Mr. Friedman reviewed the suggestions in the report which provide the state:

1. Establish a central cabinet level department of commerce;
2. Set up a regional network to support local economic development activities;
3. Create a commerce cabinet;

4. Create a unified economic development budget; and
5. Establish a private, not-for-profit council to serve as an advisory council to the Commerce Department.

In response to a question from Representative Johnson, Mr. Friedman said his perception of the economic development providers in the state is that they are responsive and supportive; therefore, it seems realistic for the state to accomplish a consolidation of economic development services.

In response to a question from Representative Glasheim regarding how much consolidation of economic development services can be accomplished merely with agreements between agencies, Mr. Friedman said centralization will strengthen economic development if it is done well; however, the trouble is in the details. He said in order to accomplish centralization, it is necessary to evaluate the economic development functions provided by each agency.

In response to a question from Representative Glasheim, Mr. Friedman said if consolidation of economic development services includes creation of a private foundation, the members of this foundation could be appointed by the Governor but would need to represent different sectors in different regions across the state. He said in creating a private foundation, the perception of a broad range of interests is important in order to have the public's support. In determining how to select foundation members, he said, it is important for the legislators to solicit outside perspectives and consider how other states have created private foundations.

In response to a question from Senator Grindberg regarding how the state got to the economic development organization it is at today, Mr. Friedman said many states are in circumstances similar to North Dakota. He said North Dakota's response appears to be strategic. He said the committee may want to consider whether it wants to consolidate existing state agencies, whether to create an entirely new department of commerce, or combine each of these two approaches. He said North Dakota's approach seems to be a hybrid approach.

In response to a question from Senator Krebsbach, Mr. Friedman said North Dakota needs to have a long-term vision in its approach to economic development, and this may be hard to put into statute. He said it may be better to have the economic development actors work within some broad guidelines to develop the economic development vision.

Senator Krebsbach said it is important to consider how the business community will be affected by a commerce department.

Mr. Friedman said although some commerce departments include business regulatory functions, he perceives this as a low priority for North Dakota. However, he said, a commerce department in North

Dakota should have a clearly identified division for global business development.

Chairman Glassheim presented a bill draft relating to the statutory creation of goals for the Department of Economic Development and Finance. He said the primary purpose of the bill draft is to set statutory annual and 10-year economic development goals. He said the goals are reflective of the information provided by the RFA's *The Economic Performance and Industrial Structure of the North Dakota Economy*, a copy of which is on file in the Legislative Council office. The levels of the goals, he said, are slight increases over the existing levels.

Chairman Glassheim called on Mr. Cramer to comment on the bill draft regarding setting economic development goals. Mr. Cramer said it would be very difficult, if not impossible, to put goals in statute. He said to put a goal in statute places a large burden on agencies as a result of events over which they have no control. He said it would be good to have goals as part of an economic development strategic plan, but these goals would need to be evaluated in context of the existing state of the economy. He said it is not necessary to put the economic development goals in statute in order to accomplish the goals.

In response to a question from Senator Grindberg, Mr. Cramer said if the economic development goals are put into statute, to be effective the Legislative Assembly will have to cooperate with the goals, and the executive branch and legislative branch will need to work together very closely.

In response to a question from Representative Gorder, Mr. Cramer said one problem associated with putting economic development goals in statute is that the state does not have any control over the economic development activities on the regional and local level.

Senator Sand said goals are not appropriate. Instead, he said, the Department of Economic Development and Finance should focus on achievements.

Representative Johnson said she is not opposed to setting goals for agencies; however, she is opposed to putting these goals in statute. She said perhaps an economic development foundation or cabinet would be more appropriate to set economic development goals.

Senator Grindberg requested the Department of Economic Development and Finance work with the National Association of State Development Agencies on the specifics of how an economic development foundation should be created and the membership of such a foundation. He said the Department of Commerce should not include the Labor Department, and it might be possible a private board already exists that could serve in an advisory role for the Department of Economic Development and Finance. Mr. Schwartz said the creation of a commerce department in the state is two-phased. He said the first phase is completed, and they are now entering the

second phase, which can be funded by the department.

Senator Krebsbach suggested an economic development foundation be created with one of its duties being to establish economic development goals.

Representative Glassheim said the benefit of statutory goals is that it provides a directive to the agency to take specific actions to meet specific goals. He said it would be possible to amend the economic development goal bill draft to decrease the number of goals.

Representative Thorpe said he preferred creating economic development benchmarks versus creating economic development goals. Mr. Schwartz said it is a good idea to have economic development goals, and the definition of economic development could be defined as an improvement in the standard of living. He said an increase in the per capita income goal would seem most reflective of this definition. Senator Krebsbach said there are several factors that affect the standard of living.

Representative Gorder said general economic development goals would be better than specific goals. Mr. Schwartz said the department is acquiring software that will allow the department to input specific scenarios and run projections of the state's economy.

Senator Krebsbach requested the bill draft regarding economic development goals be revised to remove the existing reference to the Myron G. Nelson Fund, Incorporated, because this language is obsolete.

Chairman Glassheim called on committee counsel to present a bill draft relating to the creation of a department of commerce. Committee counsel said a majority of the bill draft addresses internal references to state agencies. The primary effect of the bill draft, she said, is to create a department of commerce that is directed by a commissioner who is appointed by the Governor. She said this commissioner would appoint and oversee directors for the following five Department of Commerce divisions:

1. Division of Community Services;
2. Division of Economic Development and Finance;
3. Division of Labor;
4. Division of Tourism; and
5. A Work Force Development Division.

In addition to overseeing these divisions, she said, the commissioner would be responsible for determining the membership of a North Dakota commerce cabinet. The commerce cabinet, she said, would be comprised of agency heads of agencies that provide economic development services. An additional duty of the commissioner, she said, would be to work with the commerce cabinet in creating a coordinated economic development plan.

Committee counsel said in addition to creating a department of commerce, with a commerce cabinet,

the bill draft creates a North Dakota Development Foundation. She said the foundation would be made up of 15 to 30 private business members who would provide advice and counsel to the Governor in the selection of the commissioner, serve in an advisory role to the commissioner, monitor economic development activities, set accountability measurements for the department, and raise and distribute private sector funds for commerce-related activities.

Senator Sand questioned whether the bill draft should include a division of labor. Senator Grindberg agreed and suggested the bill draft be amended to remove the regulatory portions of the Labor Department. Representative Glassheim agreed with removal of the Labor Department from the bill draft.

Representative Johnson asked whether the bill draft includes Job Service North Dakota. Committee counsel said Job Service North Dakota is not included in the bill draft. Representative Johnson said during the 1999 Legislative Assembly, a commerce bill was considered which consolidated business regulatory functions.

Senator Grindberg said the committee might want to consider changing the foundation board members' terms to two-year terms, with half of the members' terms expiring each year. Senator Krebsbach said she prefers decreasing the size of the foundation to 15 or 16 members.

Senator Grindberg requested the Department of Economic Development and Finance work with the National Association of State Development Agencies regarding creation of the foundation. He said the foundation should be charged with creating economic development goals and priorities.

Senator Sand suggested the foundation be composed of 15 members serving three-year terms with a maximum of two terms. Mr. Zeitler said his experience has been that it is difficult to get business

leaders to commit to projects for more than one or two years.

Ms. Joy Johnston, Economic Development Association of North Dakota and Greater North Dakota Association, said the Greater North Dakota Association Board has 25 members who serve three-year terms with a maximum of two consecutive terms, representing a broad cross section of regions within the state.

Senator Krebsbach questioned whether the bill draft should include the provision financially compensating the foundation members. She said the \$62 per day compensation provision may be perceived as disrespectful to the value of the foundation members.

Chairman Glassheim requested the Department of Economic Development and Finance, Job Service North Dakota, and the National Association of State Development Agencies work together to evaluate whether any or all of the services provided by Job Service North Dakota should be included in a North Dakota department of commerce. Mr. Schwartz said Job Service North Dakota is unique in that it provides a combination of regulatory and work force training services.

It was moved by Senator Sand, seconded, and carried on a voice vote that the Legislative Council staff be requested to prepare a new draft of the commerce department bill draft without the Labor Department.

No further business remaining, Chairman Glassheim adjourned the meeting at 12:30 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:1