

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE AND LABOR COMMITTEE

Monday, September 13, 1999
Meeting Room, Cooperstown Country Club
Cooperstown, North Dakota

Representative Eliot Glassheim, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Eliot Glassheim, Rick Berg, Curtis E. Brekke, Byron Clark, Glen Froseth, Howard Grumbo, George J. Keiser, Lawrence R. Klemin, Amy N. Kliniske, Dale C. Severson, Dorvan Solberg, Elwood Thorpe; Senators Tony Grindberg, Karen K. Krebsbach, Duane Mutch, Harvey Sand, Harvey D. Tallackson, Vern Thompson

Members absent: Representatives William E. Gorder, Nancy Johnson; Senator Deb Mathern

Others present: See attached appendix

It was moved by Senator Tallackson, seconded by Representative Berg, and carried on a voice vote that the minutes of the July 12, 1999, meeting be approved as distributed.

ECONOMIC DEVELOPMENT STUDY

Griggs-Steele Empowerment Zone

Chairman Glassheim called on Mr. Roger Monson, President, Griggs-Steele Empowerment Zone Board, for comments regarding the status of the empowerment zone. Mr. Monson submitted written documents summarizing his presentation, copies of which are on file in the Legislative Council office.

Mr. Monson testified that the Griggs-Steele Empowerment Zone is one of five recipients designated a Round II Rural Empowerment Zone by the federal government. He said the selection was made on account of the county's high outmigration record. The empowerment zone area, he said, includes all of Steele County and part of Griggs County.

Mr. Monson said designation as an empowerment zone will allow for grant awards and the ability to offer loans through a revolving loan pool. He said the federal government's initial plan provided for each empowerment zone to be budgeted \$40 million over a period of 10 years. The federal government is now proposing to decrease the funding for empowerment zones, he said, and the Griggs-Steele Empowerment Zone Board is working at the federal level to have this funding restored to its initial level.

Mr. Monson said the board's vision statement is:

We envision a future where our friends and children no longer have to leave in order to make a satisfying life for themselves. Our communities provide a wide diversity of

opportunities for employment, and local businesses supply our needs. Our children understand and respect their farm heritage, while being well educated and familiar with the most modern technologies. We live in a world where new and innovative changes have been added to the valuable rootstock of our existing values, thereby creating economic opportunity in a society still worth living in.

Mr. Monson said the four goals of the Griggs-Steele Empowerment Zone are job creation, creation of new wealth, enhancement of quality of life, and demonstrable sustainability of the program.

In response to a question from Senator Tallackson, Mr. Monson said one of the major projects the empowerment zone will work on is assisting in the startup of a strawboard plant located in Steele County. He said plans for the strawboard plant preexisted the designation of the Griggs-Steele Empowerment Zone; however, the empowerment zone's strategic plan includes the strawboard plant.

In response to a question from Representative Froseth, Mr. Monson said the federal government made an appropriation to fund Round I Rural Empowerment Zones; however, the Round II Rural Empowerment Zones were not funded beyond the first year.

In response to a question from Representative Glassheim, Mr. Monson said the federal government received more than 150 applications for designation as a Round II Rural Empowerment Zone. He said the final determination was based on the written application, not political party affiliations.

In response to a question from Representative Glassheim, Representative Severson said the application for designation as an empowerment zone was done locally, and the Department of Economic Development and Finance assisted with gathering statistical information.

In response to a question from Senator Sand, Mr. Monson said outmigration is a form of poverty, and the creation of job opportunities is intended to combat outmigration. He said the Griggs-Steele Empowerment Zone plan will address the issue of inadequate housing for employees. The strategic plan, he said, recognizes that underemployment exists and approaches underemployment as an opportunity as well as a problem. He said one way to

address outmigration is through the retention of young people.

In response to a question from Senator Thompson, Mr. Monson said the Griggs-Steele Empowerment Zone Board will work with Job Service North Dakota and the Department of Human Services to determine whether elements of the empowerment zone plan can be dovetailed with state programs. He said the Griggs-Steele Empowerment Zone Board will hire an executive director to assist in coordination of programs.

In response to a question from Representative Klemin, Mr. Monson said the board anticipates employees for the strawboard plant will come from within a 40-mile radius, and this will be a shorter commute than many people are currently driving. He said even if employees come from outside the empowerment zone, the empowerment zone will benefit because there will be a regional impact.

In response to a question from Senator Grindberg, Mr. Monson said the 11 strategies of Phase 1 of the strategic plan were developed through a series of townhall meetings.

In response to a question from Representative Keiser, Mr. Monson said the approach taken to stopping outmigration is probably different from the approach taken to increase migration. He said the Griggs-Steele Empowerment Zone will initially be addressing stopping outmigration.

In response to a question from Representative Kliniske, Mr. Monson said one way the empowerment zone is going to deal with bringing young people back to the community is through Project Back Home, which takes advantage of school records to identify young people and then the young people can be contacted via the Internet.

In response to a question from Senator Krebsbach, Mr. Monson said funding through the empowerment zone program will not include the use of wage tax credits.

In response to a question from Representative Thorpe, Mr. Monson said entry-level wages at the strawboard plant will be \$8 or \$9 an hour as well as benefits and higher-level jobs will begin at \$10 to \$12 an hour plus benefits. He said wages at the strawboard plant will help supplement family farm income.

Regional Planning Councils

Souris Basin Planning Council

Chairman Glassheim called on Mr. Greg Hagen, Executive Director, Souris Basin Planning Council, for comments regarding the role of regional planning councils in economic development. Mr. Hagen provided a copy of the Souris Basin Planning Council's 1998 annual report, a copy of which is on file in the Legislative Council office.

Mr. Hagen testified that three funds available through the regional planning council are revolving

loans, intermediary relending, and community development loan funds. He said regional planning councils were originally a part of the Growing North Dakota plan. One role of regional planning councils, he said, is to channel federal economic development funds to local communities.

In response to a question from Senator Grindberg, Mr. Hagen said economic development goals vary from region to region; however, the Souris Basin Planning Council focuses on primary sector growth and growth from within the community.

In response to a question from Representative Glassheim, Mr. Hagen said if state money were available, the Souris Basin Planning Council would likely fund improvements to infrastructure and to the quality and quantity of housing, increase funding for staff, and fund deal-making packages.

In response to a question from Senator Sand, Mr. Hagen said he was unsure whether changes made to the law during the 1999 legislative session played any role in Northwest Airlines locating a reservation center in Minot. He said entry-level positions at the center start at \$9.50 an hour plus benefits.

In response to a question from Senator Thompson, Mr. Hagen said the Souris Basin Planning Council does not duplicate services offered by local development associations. He said regional planning councils work as a team with local development associations.

In response to a question from Representative Kliniske, Mr. Hagen said an example of programs funded by the Rural Economic Area Partnership program would be a \$500,000 Housing and Urban Development grant through the city of Rugby and a \$200,000 Rural Business Enterprise grant, which will be used for a revolving loan fund, research and development fund, and a Champion Community fund.

Lewis and Clark Regional Development Council

Chairman Glassheim called on Mr. Paul Rechlin, Executive Director, Lewis and Clark Regional Development Council, for comments regarding the role of regional planning councils in economic development. Mr. Rechlin provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Rechlin said over the years, regional councils have had partnership relationships with the Division of Community Services and the Department of Economic Development and Finance, federal agencies, local development groups, and primary sector businesses. He said as state and federal sources dry up, regional and local economic development organizations have had to step in. Trying to do more with less, he said, dilutes the process, limits results, and jeopardizes the ability of regional planning councils to meet strategic planning goals.

Mr. Rechlin made the following four suggestions:

1. Reinstate contracts between regional councils and Economic Development

and Finance. Our office is the professional economic and community staff for most of the 10 counties and 50 cities we serve. We are an enhancement source for those few who have their own staff, and in fact we are probably used more by cities with the resources to have their own staff than by those who do not. But those who have no staff rely on us almost exclusively.

2. Encourage Division of Community Services to establish a relationship with regional councils to service and collect from block grant borrowers. The current default rate of that program of 38 percent should be unacceptable to everyone. In part that is due to the high-risk nature of most loans. But it is also due to the fact that no one currently has the responsibility of servicing and collecting. Cities are expected to do that, but they are ill-equipped to do so. Councils could, but there is currently no means to pay us for the work, nor does legal authority generally exist for us to do it. Our record with our own revolving loan funds documents our ability to perform that function. Better return from borrowers will generate more economic development funds being available to future borrowers, and that could be done **at no cost of state dollars**.
3. Restructure the Sunday fund so that regional councils can use those funds to leverage additional federal dollars to the state. It is reasonable to assume, as shown by the federal dollars councils have leveraged with local funds in establishing regional revolving loan funds, that the Sunday fund moneys to assist rural areas could be easily doubled, possibly tripled, and **at no cost to the state**.
4. Encourage all state agencies, before adding new full-time employees or contracting with consultants, to consider hiring regional councils, who could perhaps perform the same services, **possibly at less cost to the state**.

In response to a question from Representative Froseth, Mr. Rechlin said money from the Sunday fund could be used for rural development and could be regulated through administrative rules and internal policy requirements.

In response to a question from Representative Klemin, Mr. Rechlin said that even though economic development funding is scarce at the local level, there have been local successes such as increasing tax bases and increasing jobs; therefore, it is important

for the state to continue providing services to these local economic development organizations.

In response to a question from Senator Sand, Mr. Rechlin said the Lewis and Clark Regional Development Council is not self-sustaining, although the balance in the council's revolving loan fund is increasing.

In response to a question from Representative Glassheim, Mr. Rechlin said there is a limited relationship between the Lewis and Clark Regional Development Council and the Department of Economic Development and Finance.

In response to a question from Representative Berg, Mr. Rechlin said three primary roles of regional development councils are economic development financing, housing, and economic development planning.

Tri-County Regional Development Council

Chairman Glassheim called on Mr. Paul Bauer, Executive Director, Tri-County Regional Development Council, for comments regarding the role of regional planning councils in economic development. Mr. Bauer provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Bauer reviewed some of the successes of the Tri-County Regional Development Council, including the ongoing growth of and ongoing relationship with Medical Arts Press.

Mr. Bauer said as the number of local community developers in the region increases, the work of the council becomes more effective. He said active community developers allow the region to become specialized in providing services. Regional planning councils and local developers, he said, do not overlap activities but instead fill voids and in some instances strengthen and support local development activities.

Mr. Bauer said the removal of state funding of regional planning councils has resulted in the Tri-County Regional Development Council reorganizing goals and objectives. He said in the short term, the council will have to restrict activities.

North Central Planning Council

Chairman Glassheim called on Mr. Richard Anderson, Executive Director, North Central Planning Council, for comments regarding the council's role in economic development. Mr. Anderson said problems associated with the flooding of Devils Lake have affected the activities of the planning council. The planning council has many charges, he said, including physically relocating houses and businesses.

In response to a question from Representative Glassheim, Mr. Anderson said until the 1999 legislative session, the state had been funding approximately 50 percent of the region's budget. He said value-added agricultural products have been target areas for many of the region's communities.

Lake Agassiz Regional Development Corporation

Chairman Glassheim called on Mr. Irvin Rustad, Director, Lake Agassiz Regional Development Corporation, for comments regarding the role of regional planning councils in economic development. He said the Lake Agassiz Regional Development Corporation has a strategic plan based upon sustainability. He said not only does his region actively follow this strategic plan, but by the end of next year the region plans to add \$8 million to the bottom line.

In response to a question from Representative Glassheim, Mr. Rustad said though his office is located in Fargo, 95 percent of the region's work is provided in rural areas. He said an example of rural economic development is the strawboard plant. Economic development services offered by regional planning councils, he said, are not limited to high technology and urban areas.

In response to a question from Senator Sand, Mr. Rustad said cooperatives seem to be an effective way to organize in the case of economic development that is located off the interstate.

Job Development Authorities

Red River Regional Council

Chairman Glassheim called on Mr. Julius Wangler, Executive Director, Red River Regional Council, for comments regarding the role of job development authorities in economic development. Mr. Wangler said the Red River Regional Council is involved with job development authorities in a variety of ways, including providing developmental staff for the authorities and entering into administrative contracts with some of the authorities. He said job development authorities are instrumental in economic development at the local level.

In response to a question from Representative Froseth, Mr. Wangler said he is not sure how many counties in the state levy the allowed four mills.

In response to a question from Senator Tallackson, Mr. Wangler said the job development authorities in the Red River Regional Council use revolving loan funds.

In response to a question from Senator Sand, Mr. Wangler said larger metropolitan areas, such as Grand Forks, help economic development in outlying rural areas in part because the economic health of the surrounding rural communities impacts the larger communities.

In response to a question from Representative Glassheim, Mr. Wangler said the state law regarding job development authorities appears broad enough to allow the job development authorities to work effectively. Mr. Wangler said in the past, the relationship job development authorities have had with the Department of Economic Development and Finance includes the migrant programs.

In response to a question from Representative Berg, Mr. Wangler said three duties of job

development authorities include building relationships with manufacturers, holding townhall meetings, and reporting on the progress of the job development authority.

In response to a question from Representative Glassheim, Mr. Wangler said the job development authorities in his region are working on strategies to decrease outmigration. He said one way the relationship between job development authorities and the Department of Economic Development and Finance could be strengthened would be through semiannual meetings.

Mountrail County Economic Development Association

Chairman Glassheim called on Mr. Jonathan Scott, Director, Mountrail County Economic Development Association, for comments regarding the role of job development authorities in economic development. Mr. Scott said Mountrail County has a 3.75-mill levy, which is valued at \$45,000. The focus of the Mountrail County Economic Development Association, he said, is to promote growth within the county. He said in order to meet this goal, the association needs to build leadership at the local level and needs to invest money to train and educate leaders within the community, and economic development needs to be sustainable.

Jamestown/Stutsman County Job Development Corporation

Chairman Glassheim called on Mr. Kevin Cooper, Chief Executive Officer, Jamestown/Stutsman County Job Development Corporation, for comments regarding the role of job development authorities in economic development. Mr. Cooper said the Jamestown/Stutsman County Job Development Corporation is funded through sales tax and a county mill levy. Since 1992, he said, the job development authority has provided financing for 30 projects.

Mr. Cooper said job development authorities provide technical assistance and interface with the Department of Economic Development and Finance and with regional planning councils. He said the Jamestown/Stutsman County Job Development Corporation has a strategic plan and targets development of value-added agriculture, industries for agriculture, and maintaining and growing manufacturing industries. He said the authority has experienced successes in expanding and attracting local businesses and has been less successful in supporting startup businesses.

In response to a question from Representative Klemin, Mr. Cooper said the job development authority's role in agriculture is not duplicative of efforts of other organizations but instead is helping to fund studies related to agricultural processing.

In response to a question from Representative Berg regarding the statistics indicating the population

of Stutsman County has decreased and the number of jobs has increased, Mr. Cooper said jobs within Stutsman County may draw workers from outside the county and more farmers are working off the farm, which has changed the job force.

In response to a question from Representative Glassheim, Mr. Cooper said the relationship between the job development authority and the Department of Economic Development and Finance has changed over the last six to seven years from getting financing to providing research and marketing dollars.

In response to a question from Representative Froseth, Mr. Cooper said that on occasion the Department of Economic Development and Finance's research is not adequate because the research is not available or because the research is too expensive to access. He said there is not much duplication of services between the Department of Economic Development and Finance and the Bank of North Dakota.

In response to a question from Representative Keiser regarding effective tools offered by the state, Mr. Cooper said the partnership in assisting community expansion fund programs is an important tool for his community; however, gap financing tools may be more important to smaller communities. He said an increase in state funding would always be helpful.

Traill County Development Council and Job Development Authority

Chairman Glassheim called on Mr. Rick Forsgren, Executive Director, Traill County Development Council and Job Development Authority, for comments regarding the role of job development authorities in economic development. Mr. Forsgren said the Traill County Development Council and Job Development Authority is funded by a four-mill levy valued at \$72,000.

Mr. Forsgren said one of the biggest problems facing his organization is the low availability of funds. He said one improvement to the system would be to have a "one-stop" financing source.

Local Development Associations

Maddock Economic Development Corporation

Chairman Glassheim called on Representative Arlo E. Schmidt, Maddock, for comments regarding the work of the Maddock Economic Development Corporation. Representative Schmidt provided the committee with written testimony of Mr. Bruce Terpening, President, Maddock Economic Development Corporation, a copy of which is on file in the Legislative Council office.

Representative Schmidt said the Maddock Economic Development Corporation has a variety of success stories, including a business and technology center and a multipurpose facility that promote business development, health care, child care services, computer services, Internet training, and education. He said the success of the economic development

organization in his community is due to a private-public partnership. Communities need to grasp new technology, he said, because technology is the wave of the future.

In response to a question from Representative Glassheim, Representative Schmidt said the funding for the technology center is a combination of federal money and local money gained through fundraisers. He said local taxes were not raised to fund the technology center project.

North Dakota Association of Rural Electric Cooperatives

Chairman Glassheim called on Mr. Bill Patrie, Rural Development Director, North Dakota Association of Rural Electric Cooperatives, for comments regarding the cooperative's role in economic development. Mr. Patrie provided the committee with a written outline of his comments, a copy of which is on file in the Legislative Council office.

Mr. Patrie reviewed the organizational structure of the cooperative and the economic development services provided by the cooperative. Mr. Patrie said the cooperative has established a revolving loan fund and has awarded zero interest loans to assist in economic development. He said the cooperative has an economic development strategic plan and perceives unmet needs in the areas of livestock enterprise funding, minigrant funding, commercializing new technologies, equity funding, and financing for regional councils.

In response to a question from Representative Berg, Mr. Patrie said three areas the state should focus on are:

1. Programs need to change people's perspective that things are better somewhere else. The young people have a misplaced belief that they need to leave North Dakota in order to be successful.
2. State policymakers need to approach economic development as a long-term investment and stop approaching economic development in two- or three-year cycles.
3. State policymakers need to "take a big breath" because people are pulled to change, not pushed to change.

In response to a question from Senator Mutch, Mr. Patrie said the rural electric cooperative is a traditional cooperative. He said characteristics of a "new generation" cooperative include requiring investment capital before patronage.

In response to a question from Representative Thorpe regarding the move toward corporate agriculture, Mr. Patrie said because of the globalization of agriculture, America is losing its ability to compete in the commodities marketplace. He said in order to be successful, the United States may need to change its system to encourage new generation cooperatives in the area of agriculture and commodities.

In response to a question from Senator Thompson, Mr. Patrie said there are huge information technology opportunities available and North Dakota could benefit from taking advantage of these opportunities.

In response to a question from Representative Glassheim, Mr. Patrie said one thing the committee could do to support economic development is to change the name of the committee from the Commerce and Labor Committee to the Vision Committee. He said economic development deals with more than just economics; the committee needs to focus on designing programs that work.

Forward Devils Lake Development Corporation

Chairman Glassheim called on Mr. James D. Dahlen, Executive Director, Forward Devils Lake Development Corporation, for comments regarding the role of the corporation in economic development.

Mr. Dahlen said Forward Devils Lake Development Corporation has vital, positive relationships with state agencies, and the organization is not supportive of the dissolution of Technology Transfer, Inc., and is not supportive of the defunding of regional planning councils.

Mr. Dahlen said some of the unmet needs of his organization include inadequate product funding, particularly grant incentives; a lack of existing buildings for businesses; the need for an improved public image; a lack of solid lead generation; a lack of sufficient research and education; a lack of willingness to take risks; a lack of understanding of how to finance information technology businesses; a failure to adequately support locally driven economic development; and a lack of broadening a variety of economic development tools to meet the ever-changing variety of economic development needs.

Grand Forks Economic Development Corporation

Chairman Glassheim called on Mr. Jim Melland, Director, Grand Forks Economic Development Corporation, for comments regarding the role of the corporation in economic development. Mr. Melland said the services offered by the Bank of North Dakota and the services provided by the Department of Economic Development and Finance need to be kept separate because they serve different purposes. Mr. Melland said the Grand Forks Economic Development Corporation is organized as a public-private corporation, and the state may benefit from reviewing the corporation's organizational structure and implementing some elements at the state level.

Mr. Melland said due to the low unemployment rate, people are looking to upgrade employment, and therefore it is necessary to have adequate work force training.

Mr. Melland said he does not support the decrease of funding of the Technology Transfer, Inc., program and the decrease of funding for the development

fund. He said the state needs to apply the same philosophy to its budget as an individual would apply to its budget and make it a point to put some resources aside for the future.

In response to a question from Representative Froseth, Mr. Melland said one possibility for encouraging high-risk financing may be to provide Small Business Administration matching funds.

Griggs County Economic Development Corporation

Chairman Glassheim called on Mr. Keith Monson, Griggs County Economic Development Corporation member, for comments regarding the role of the corporation in economic development. He said one economic concern of small towns is the difficulty in finding individuals to act as economic development directors. Perhaps, he said, the state could help fund these positions through some type of cost-share program.

Mr. Monson said the economic development of the state needs to be broader based and has to focus on more than just the seven major cities in the state.

In response to a question from Representative Klemm, Mr. Monson said he is not certain how to deal with the low rate of unemployment and the shuffling of employees between jobs.

COMMITTEE DISCUSSION AND DIRECTIVES

Chairman Glassheim informed the committee Senator Byron Dorgan is hosting a conference--*Telecommunications Technology in North Dakota: Opportunities in E-Business*--on September 20, 1999. He distributed conference information, a copy of which is on file in the Legislative Council office.

Mr. Cooper invited committee members to attend an economic development meeting October 27, 1999, in Fargo. He said he will mail invitations to the committee members as more information becomes available.

Senator Grindberg suggested a survey of economic development organizations in the state regarding the definition of economic development.

Representative Berg requested information at a future meeting regarding how areas in the state with population increases have been successful and what types of business have been successful. He said he is also interested in receiving information regarding the budget and staffing for regional planning councils, job development authorities, and local development organizations.

Senator Thompson said it may be helpful to survey colleges in the state to determine what they are doing to assist in economic development. He said it also may be helpful to solicit information regarding the information technology needs of different regions in the state.

Senator Sand said the services provided by regional councils are very important to economic development in the state, and there is a big difference between the economic development services offered by the Bank of North Dakota and the economic development services offered by the Department of Economic Development and Finance.

Representative Froseth said he supports keeping the Department of Economic Development and Finance and the Bank of North Dakota separate.

Senator Tallackson said the 1999 Legislative Assembly took funding away from regional councils; however, he thinks the state should have increased funding for regional planning councils.

Senator Grindberg said the removal of funding of regional planning councils reflects the economic development philosophy of focusing resources instead of being all things to all people.

Senator Grindberg requested that a large portion of the next committee meeting be devoted to looking at how other states have dealt with privatization of economic development. He said the committee should consider whether the state's current economic development system will be effective into the next century.

Senator Krebsbach said consideration of the work force development survey being completed by the National Conference of State Legislatures will be helpful because the entire Midwest is facing outmigration concerns.

Representative Grumbo asked for information regarding whether a county can levy four mills for job development authorities and whether a city within that county can also levy for a job development authority.

Chairman Glassheim called on committee counsel to review information provided by agencies in response to requests made at the July 12, 1999, meeting. Committee counsel distributed to committee members a written memorandum provided by Ms. Dina Butcher, Director, Division of Community Services, regarding the division's role in economic development, a copy of which is on file in the Legislative Council office. In response to a request for information regarding the performance of the North Dakota Development Fund, committee counsel distributed to committee members a written memorandum provided by the Department of Economic Development and Finance, a copy of which is on file in the Legislative Council office. Additionally, committee counsel distributed printed tables provided by the Department of Economic Development and Finance, indicating the state's top 20 population counties' annual average covered employment; the state's population and number of nonagricultural jobs over the last 10 years; and the state's total corporate income collections and the state's gross state product over the last 10 years, copies of which are on file in the Legislative Council office.

There being no further business, Chairman Glassheim adjourned the meeting at 4:30 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:1