

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE COMMITTEE

Thursday, January 24, 2002
Brynhild Haugland Room, State Capitol
Bismarck, North Dakota

Senator John M. Andrist, Chairman, called the meeting to order at 9:10 a.m.

Members present: Senators John M. Andrist, Duaine C. Espegard, Joel C. Heitkamp, Carolyn Nelson, Rich Wardner; Representatives Byron Clark, Mark A. Dosch, Pat Galvin, Doug Lemieux, Bob Martinson, Bill Pietsch, Blair Thoreson, Lonny Winrich

Members absent: Senators Tony Grindberg, Karen K. Krebsbach, Deb Mathern, Duane Mutch; Representatives Rick Berg, Glen Froseth, Scot Kelsh, Dale C. Severson

Others present: See attached appendix

It was moved by Senator Heitkamp, seconded by Representative Winrich, and carried on a voice vote that the minutes of the July 12, 2001, meeting be amended to reflect that Representative Winrich was present at the meeting and that the minutes be approved as amended.

OCCUPATIONAL AND PROFESSIONAL BOARDS STUDY

Chairman Andrist called on committee counsel to present the memorandum *Occupational and Professional Licensing Boards of North Dakota and Neighboring States*. Committee counsel said South Dakota law provides for 22 professional licensing boards which are supervised and provided administrative services by the Division of Professional and Occupational Licensing, Department of Commerce and Regulation. She said the Department of Commerce and Regulation creates an annual report of the state's occupational and professional licensing boards, a copy of which is attached to the memorandum. She said a representative of the South Dakota Department of Commerce and Regulation reported that there has not been any recent movement to consolidate the state's boards; however, there has been discussion of consolidating the Board of Barber Examiners and the Cosmetology Commission. She said the information provided by a South Dakota representative indicates the following South Dakota boards licensed fewer than 100 licensees:

1. Abstracters' Board of Examiners;
2. Board of Hearing Aid Dispensers and Audiologists; and
3. Board of Podiatry Examiners.

Committee counsel said Wyoming law provides for at least 31 professional licensing boards. She said 13 of these boards use support services provided through the Wyoming Department of Administration and Information. She said a representative of the Wyoming Department of Administration and Information reported that there has been no recent movement to consolidate the state's occupational and professional licensing boards. Of the boards with a known number of licensees, she said, the Board of Hearing Aid Specialists and Board of Registration in Podiatry licensed fewer than 100 licensees.

Committee counsel said Montana law provides for at least 38 occupational and professional licensing boards under the Business Standards Division, Montana Department of Labor and Industry. She said she was not able to gather information regarding whether there has been any movement to consolidate the state's boards or regarding the number of licensees licensed under each of the boards.

Committee counsel said Minnesota law provides for at least 21 occupational and professional licensing boards as well as for licensing by seven state agencies. She said it appears that although Minnesota legislators have discussed the possibility of consolidating some of the boards, recently there has not been any successful legislation consolidating these occupational and professional licensing boards. She said it does not appear as though any of Minnesota's occupational and professional licensing boards license fewer than 100 licensees.

Committee counsel said North Dakota law provides for 38 occupational and professional licensing boards as well as professional licensing by six state agencies. She said there does not appear to have been any recent successful consolidation of occupational and professional licensing boards in North Dakota. She said the following boards license fewer than 100 licensees:

1. Board of Hearing Instrument Dispensers;
2. Board of Podiatric Medicine;
3. State Board of Reflexology; and
4. State Board of Registration for Professional Soil Classifiers.

In response to a question from Representative Winrich, committee counsel said several states, including several of our neighboring states, provide

for an "umbrella agency" to provide administrative services to and gather information regarding the occupational and professional licensing boards.

Chairman Andrist temporarily relinquished the chair to Representative Thoreson in order to testify regarding his experience with occupational and professional licensing boards in his community and to propose a possible consolidation of several of the state's occupational and professional boards. Senator Andrist provided written testimony and information regarding a proposal to consolidate several of the state's occupational and professional boards, a copy of which is on file in the Legislative Council office.

Senator Andrist provided testimony regarding his experience with the state's boards for licensing cosmetologists, architects, and physicians. He said the sad reality is that most licensing boards exist not for the benefit and protection of individuals, but instead for the convenience and protection of professionals who control the boards. In addition to providing information regarding what some other states have done regarding occupational and professional licensing boards, he made several proposals regarding how the committee could pursue its charge. He provided information relating to how several occupational and professional licensing boards could be consolidated. Additionally, he discussed the possibility of limiting the committee work to a review of the four boards that license fewer than 100 licensees.

In response to Senator Andrist's comments, Representative Galvin said using the Board of Cosmetology as an example, the board is in place to protect the public. He said that especially in a profession such as cosmetology, which deals with the human body, it would be problematic if the state allowed a person to practice as a cosmetologist without any minimum training requirements. Additionally, he said, in the case of the example cited by Senator Andrist, in which a Canadian cosmetologist had difficulty being licensed in North Dakota, it is unrealistic to expect that a board could have different licensing requirements for every individual who applies for licensure and reciprocity.

Senator Andrist said when it comes to allowing licensed professionals from out of state to practice in North Dakota, many professions across the country are setting uniform requirements that could apply across the country and North Dakota boards should adopt this approach.

In response to Senator Andrist's testimony, Senator Heitkamp said the State Bar Association of North Dakota provides a service for attorneys which the state does not want to provide. He said if the law were changed so that the state provided the services the State Bar Association of North Dakota provides, the change would result in increasing the size of state government and providing that state employees provide the service. He said it seems the system in

place for the licensure of attorneys in the state is working.

In response to a question from Senator Heitkamp, Senator Andrist said it is his recollection that North Dakota was unique in requiring attorneys to be members of a private organization in order to practice the legal profession. He said if North Dakota is going to require licensure of professionals, the state should be responsible for providing that service. Additionally, he said, although the licensure system seems to be working for attorneys, his experience indicates that the licensure system is not working for every one of the occupational and professional licensing entities. Under the current licensure system, he said, it is hard for residents of small towns in rural North Dakota to find certain professionals to provide the needed services.

In response to a question from Representative Winrich, Senator Andrist said his proposal to consolidate several of the state's occupational and professional licensing boards is intended to be a starting place for discussion of the issue. He said if larger occupational and professional licensing boards were created, he would anticipate the first thing the larger boards would do is update the administrative rules pertaining to these professions.

Senator Andrist resumed his position as chairman, calling on Mr. Kevin Axtman, North Dakota State Examining Committee for Physical Therapists, for comments regarding the study. Mr. Axtman provided written testimony, a copy of which is on file in the Legislative Council office. He said his organization is opposed to any proposal to merge the boards of physical therapy, occupational therapy, respiratory therapy, and reflexology. He reviewed some of the basic requirements for licensure as a physical therapist and said regulation of the profession of physical therapy needs the expertise and peer review of physical therapists. He said other health care providers are not qualified to regulate physical therapy and could have interests limiting or conflicting with the practice of physical therapy. The consolidation of state boards, he said, could lead to decreased oversight and peer review and could ultimately result in harm to the public.

Chairman Andrist called on Mr. Gregory R. Jund, North Dakota Occupational Therapy Association, for comments regarding the committee's study. Mr. Jund provided written testimony, a copy of which is on file in the Legislative Council office. He said his organization strongly opposes any attempt to combine the boards serving the citizens of North Dakota. He said the occupational and professional licensing boards are composed of citizens who are serving citizens. The members of these boards, he said, are volunteers who are chosen for their expertise in their chosen fields who receive no pay and no benefits and the expenses for which they are reimbursed are paid out of funds collected as fees.

Mr. Jund expressed his concern that every two years these volunteer boards are before the Legislative Assembly providing testimony because one or two members of the Legislative Assembly feel that the state has too many boards. He said the simple statement that "there are too many boards" is not a reason to dismantle a volunteer system that works and costs no money to the state. He encouraged the committee to allow the system in place to continue working.

Chairman Andrist called on Mr. Glenn Thom, North Dakota Society for Respiratory Care, for comments regarding the committee's study. Mr. Thom said under the current system the public is very well-protected. Additionally, he said, any negative press the board licensing podiatrists may be receiving is not warranted. He said the fact that the Board of Podiatric Medicine has brought disciplinary actions against a podiatrist indicates the board is performing its duty. He said the issue of reciprocity is an issue that can be dealt with by each board. The committee's charge under 2001 House Bill No. 1377, he said, limits the committee's study to boards licensing fewer than 100 licensees. He said this charge does not direct the committee to reorganize the entire licensure structure for occupational and professional licensing boards.

Chairman Andrist called on Mr. Jim Conklin, State Board of Reflexology, for comments regarding the committee's study. Mr. Conklin said his board is composed of volunteers and the information the committee was provided indicating there are 18 licensed reflexologists in the state is not up to date. He said there are 43 reflexologists licensed in North Dakota.

Senator Andrist requested that information be provided at a future meeting regarding financial data on the four North Dakota occupational and professional licensing boards that license fewer than 100 individuals.

Representative Winrich said he would like information presented to the committee at a future meeting regarding risk management.

Chairman Andrist called on Mr. James Fleming, Assistant Attorney General, Attorney General's office, for information regarding risk management. Mr. Fleming said in addition to any sovereign immunity remaining with the boards, the Tort Claims Act provides protections for the state. He said consolidation of smaller boards does not in and of itself impact the state's possible liability.

Representative Galvin said he is concerned regarding the combination of occupational and professional licensing boards because the result would be one profession overseeing multiple professions and professionals of one profession licensing professionals in different professions.

Senator Andrist said the state's licensure structure includes examples of boards that license more than one profession. He said the state's Board of Podiatric

Medicine and other small boards are especially vulnerable to litigation and financial hardships.

Representative Pietsch said although the specific situation of the state's Board of Podiatric Medicine was at issue during the 2001 legislative session, he thinks disciplinary costs can get out of hand regardless of the size of a board. He said one of the major purposes of a board is to protect the public and it would be problematic if a lack of funds prevented a board from protecting the public. It would be helpful, he said, to receive information at a future meeting regarding whether any other of the state's occupational and professional licensing boards were experiencing financial difficulties.

In response to a question from Representative Galvin, Mr. Fleming said the use of bonding is typically limited to situations in which an individual is dealing with funds and is meant to provide some form of protection for those funds. He said he is aware of at least one board that was not able to pursue disciplinary actions due to lack of the necessary funds. He said in that instance the Emergency Commission denied the board's request for funds because it was decided that boards should be responsible for raising the funds necessary to perform their duties.

In response to a question from Senator Wardner, Mr. Fleming said he is not aware of any prohibition against the Legislative Assembly creating a state fund to assist boards with their finances.

RENAISSANCE ZONE PROGRESS REPORT

Chairman Andrist called on Mr. Rich Gray, Renaissance Zone Manager, Division of Community Services, Department of Commerce, for an annual report on the progress of the renaissance zones. Mr. Gray provided written information regarding the status of the state's eight approved renaissance zones and regarding activities of renaissance fund organizations, a copy of which is on file in the Legislative Council office. He said in addition to the approved zones in Fargo, West Fargo, Casselton, Valley City, Grand Forks, Jamestown, Bismarck, and Minot, a zone in Watford City is in the process of being approved and he is aware of potential zones in Carrington and Hazen. Additionally, he provided information regarding renaissance zone projects within each of the approved zones.

In response to a question from Senator Andrist, Mr. Gray said regarding the availability of state and federal historical tax credits, representatives of the project must consult with the State Historical Society and if a project meets the federal requirements, it will thereby meet the state's requirements. Additionally, he said, North Dakota's renaissance zone program is modeled on a similar Michigan program; however, in Michigan there are some built-in caps on the number of renaissance zones allowed. He said the North Dakota program does not include any of these caps

and the North Dakota program is in its beginning phase and for that reason the program is still growing and it is difficult to determine what the future growth of the program will be. He said currently the program has allowed for more than \$2 million in historical tax credit potential.

In response to a question from Representative Winrich, Mr. Gray said the financial information he provided is based upon a renaissance zone's five-year projected figures which are based on the current number of projects in each zone. He said the information includes the impact on the state's tax revenues as well as property tax revenues.

In response to a question from Senator Heitkamp, Mr. Gray said individuals may be eligible for tax breaks. For example, he said, the individual who owns a condominium unit may be approved as a zone project and thereby be eligible for a tax exemption.

In response to a question from Representative Pietsch, Mr. Gray said in the area of historical tax credits, North Dakota's law does provide for a \$250,000 cap and a 50 percent credit.

INTERNATIONAL MARKETING STUDY

Chairman Andrist called on Ms. Linda Butts, Director, Division of Economic Development and Finance, Department of Commerce, for comments regarding international marketing and the current international marketing activities of the department. Ms. Butts provided written testimony and written information from the United States commercial service program and North Dakota exportation statistics, a copy of which is on file in the Legislative Council office. She said the United States Department of Commerce office in Minneapolis provides free export counseling services to North Dakota businesses. She said the Minneapolis office also provides fee-based services, including an international partnership search. In addition to the referrals made to Minneapolis, she said, the department refers callers to a number of web sites that provide export information, including the North Dakota District Export Council.

Chairman Andrist called on Mr. Cory Finneman, Division of Economic Development and Finance, Department of Commerce, for comments regarding the types of questions and inquiries he receives from potential exporters. Mr. Finneman said the requests for information he receives include requests for background information on specific countries, assistance in completing paperwork, information regarding international trade brokers, North Dakota export statistics, and due diligence information. He said he refers most of these callers to other organizations to provide this information.

Chairman Andrist called on Mr. Miles Friedman, National Association of State Development Agencies, to address the committee telephonically regarding the international marketing study. Mr. Friedman said his organization assisted in the design of the Department

of Commerce and, in doing so, identified areas in which the state could do more with the state's limited resources. He said possibilities for increasing export services range from adding a full-time employee to providing these services with existing staff.

Mr. Friedman said small- and medium-sized companies tend to have the greatest potential for increasing exports; however, these same companies are also in need of the most assistance. He said in helping small- and medium-sized companies to find market niches in other countries, the North Dakota District Export Council is providing a good service. Additionally, he said, the United States Department of Commerce is a helpful organization and the state should increase its energies in pursuing this relationship; however, it is too bad that there is not a district office in the state. He said it would be helpful to study the existing infrastructures of export service providers in the state and then strengthen these relationships. He said North Dakota could benefit from a workplan that identifies public and private resources available for exporters.

Chairman Andrist called on Mr. Juan Miguel Pedraza, Minn-Dak Growers Ltd., Grand Forks, for comments regarding the company's experience with exportation and suggestions he might have. Mr. Pedraza provided written testimony, a copy of which is on file in the Legislative Council office.

Mr. Pedraza reviewed the company's experience in exporting and processed specialty crop commodities. He said the company's experience has helped him understand that the export business never becomes automatic, as business overseas constantly faces dynamic change both in terms of business and economic conditions and in terms of trade conditions. He said the central role of state government should be active but limited. The underlying role of a capitalist free-market economy, he said, is to match supply to demand by encouraging competitiveness and fostering innovation. For example, he said, government can encourage innovation by providing tax breaks for new companies and by providing funding for innovation incubators and business centers. Additionally, he said, government can fund informational resources that encourage individual businesses to make competitive decisions based on the best information. Specifically, he said, North Dakota government agencies can help exporters best by:

1. Financially facilitating agriculture exports by means of tax breaks;
2. Enhancing access to federal low-cost export financing;
3. Providing subsidized brick and mortar financing for export products;
4. Funding appropriate market feasibility studies more aggressively; and
5. Providing an information clearinghouse that would include resources concerning domestic

and foreign laws and regulations that directly affect exporters.

Overall, Mr. Pedraza said, government should not be handholding and coddling businesses to encourage exportation. He said exporting is not for the economically fainthearted and North Dakota businesses need to change their frame of mind and just "go out and do it." Therefore, he said, the state should commit its resources to helping those businesses that are willing to get out and open the necessary doors to be successful in exporting.

In response to a question from Senator Wardner, Mr. Pedraza said in acting as a facilitator, the Department of Commerce would be a good place to locate services. He said although the state can provide assistance to new companies via the Internet, personal contact between the buyer and the seller is very important.

In response to a question from Senator Andrist, Mr. Pedraza said in order to be successful, an exporter needs to be a risk taker.

In response to a question from Senator Nelson, Mr. Pedraza said the North Dakota Northern Crops Institute is a good facility as is the United States Department of Agriculture facility located in Grand Forks.

Chairman Andrist called on Mr. Fred Sund, Sund Manufacturing, for comments regarding his company's experience with exportation and suggestions he may have. Mr. Sund explained to the committee that his business manufactures pickups for combines and approximately 25 percent of its products are sold to Canada with additional sales overseas.

Mr. Sund said one service the state offered which helped in his company's exportation experience was a European trade show. He agreed with Mr. Pedraza that personal contact is very important in being successful in exportation. He said one of the hurdles his company has faced is that the United States dollar is very strong; however, this is not a problem over which the state has any control. Relating to the price of products, he said, with exportation there are more middlemen involved; therefore, the wholesale price needs to be lowered from the domestic price.

Mr. Sund said state services that his company has used include assistance by the state in providing information or making referrals to those organizations that have the requested information. He said the federal government can assist exporters by providing financing options.

In response to a question from Representative Galvin, Mr. Sund said when he goes overseas to market his product, he arranges to have a demonstration model available. He said companies need to spend money in order to make money.

In response to a question from Senator Nelson, Mr. Sund said costs associated with tariffs in some countries make exporting challenging.

Chairman Andrist congratulated Mr. Sund on the success of Sund Manufacturing. He said Sund Manufacturing is a North Dakota legend and is an example of the success of family businesses.

Chairman Andrist called on Mr. Lee Peterson, Commissioner, Department of Commerce, for comments regarding the committee's studies. Mr. Peterson said success comes from people who are willing to go out and do the work. He said although the department does not have the staff or the financial resources to provide international trade shows, he is looking at what services the department is able to provide.

Representative Pietsch said it would be helpful to hear from representatives of the Department of Agriculture regarding which services are offered under the department, whether there is duplication of these services, and whether there is communication between the department and the Department of Commerce.

Senator Wardner said he appreciates that North Dakota exporters care about quality and good followup. He said it reflects highly on the state.

Representative Galvin requested information at a future meeting regarding the history in North Dakota of international marketing.

Mr. Peterson said the Department of Economic Development and Finance at one time had a person dedicated to international marketing; however, the result of fewer full-time employees resulted in the loss of this position.

BUSINESS PROGRAMS STUDY

Chairman Andrist called on Mr. Rick Clayburgh, Tax Commissioner, for comments regarding state tax incentive programs that assist in economic development. Commissioner Clayburgh provided a written summary of the state's tax incentive programs, a copy of which is on file in the Legislative Council office.

Chairman Andrist called on Mr. Joe Becker, Tax Department, for a presentation regarding the state's tax incentive programs. Mr. Becker provided a brief summary and a review of the history and use of the following nine tax incentive programs:

1. Venture capital corporation investment tax credit;
2. Small business investment company investment tax credit;
3. Certified nonprofit development corporation investment tax credit;
4. Seed capital investment tax credit;
5. Agricultural commodity processing facility investment tax credit;
6. Renaissance zone;
7. Beginning farmer income tax deduction;
8. Beginning businessperson deduction; and
9. Exemption of gain from sale of stock of relocated corporation.

Chairman Andrist called on Mr. Harold Aldinger, Tax Department, for comments regarding the state's tax incentive programs. Mr. Aldinger provided a brief summary and a review of the history and use of the following four tax incentive programs:

1. Income tax exemptions;
2. Research expense credit;
3. Wage and salary credit; and
4. Jobs training assistance.

Senator Andrist called on Mr. Myles L. Rouse, Tax Department, for comments regarding the state's tax incentive programs. Mr. Rouse provided a brief summary and a review of the history and use of the following five tax incentive programs:

1. Manufacturing equipment sales and use tax exemption;
2. Agricultural processing plant construction materials sales and use tax exemption;
3. Power plant production equipment and construction materials sales and use tax exemption;
4. Wind-powered electrical generating facilities sales and use tax exemption; and
5. Computer and telecommunications equipment sales and use tax exemption.

Chairman Andrist called on Ms. Marcy Dickerson, Tax Department, for comments regarding state tax incentive programs. Ms. Dickerson provided a brief summary and a review of the history and use of the property tax exemption.

Chairman Andrist called on Mr. Finneman for comments regarding the seed capital investment tax credit. Mr. Finneman said the Department of Commerce has created a screening process used in determining whether a business qualifies as a primary sector business and as value-added agriculture. He said these qualifications can be used for the seed capital investment tax credit, sales and use tax exemptions for computers and telecommunications, corporate income tax, and Work Force 2000.

Chairman Andrist called on Mr. Eric Hardmeyer, President, Bank of North Dakota, for comments regarding the state programs under the Bank which assist in economic development. Mr. Hardmeyer provided written testimony, which summarized the Bank's programs, a copy of which is on file in the Legislative Council office.

Mr. Hardmeyer provided a summary and a brief history of the Bank's business startup loans, including:

1. Startup entrepreneur program (STEP);
2. Business development loan program;
3. Beginning entrepreneur loan guarantee program; and
4. Agriculture partnership in assisting community expansion (Ag PACE) program.

Mr. Hardmeyer also provided a summary and a brief history of the Bank's incentive programs, including:

1. Partnership in assisting community expansion (PACE) program; and
2. Match loan program.

In response to a question from Senator Nelson, Mr. Hardmeyer said the Bank's default rate on loans is approximately \$1.2 million, which is equal to approximately one-tenth of 1 percent of the Bank's loans. He said this rate of loss is very low compared to the default rate for private banks. He said the Bank's low default rate is due in part to the fact that a majority of the Bank's loans are commercial and that residential loans are largely federally guaranteed. Additionally, he said, the Bank has a comprehensive marketing program that markets the Bank's loan programs to banks. Under the marketing program, he said, each bank is contacted at least once per year.

In response to a question from Representative Thoreson, Mr. Hardmeyer said there are eight outstanding loans under the match loan program. He said not all the loan recipients under the match loan program are businesses that are brand new to the state. He said about half of these loans represent expansions of businesses that already had some presence in the state. He said the Bank works in concert with the Department of Commerce in putting funding packages together for economic development.

Chairman Andrist called on Mr. Dean Reese, Chief Executive Officer, North Dakota Development Fund, Inc., Department of Commerce, for testimony regarding state programs under which the department assists in economic development and regarding gaps in economic development services. Mr. Reese provided written information, including a report on growing new businesses with seed and venture capital; a chart listing funding programs available to businesses in North Dakota according to the businesses' development stage; North Dakota Development Fund, Inc., information; and articles on venture capital funding, a copy of which is on file in the Legislative Council office.

Mr. Reese explained that business funding can be broken up into different stages, such as:

1. Early-stage financing.
 - a. Seed financing.
 - b. Startup financing.
 - c. First-stage financing.
2. Expansion financing.
 - a. Second-stage financing.
 - b. Third-stage financing.
3. Later-stage financing.
 - a. Bridge financing.
 - b. Open market.
4. Acquisition and buyout.
 - a. Acquisition financing.
 - b. Management buyout and leveraged buyout.

Mr. Reese said a review of the state's programs indicates that the biggest needs in the state are seed

financing and startup financing. However, he said, seed financing carries the greatest risk.

In response to a question from Senator Andrist, Mr. Reese said there is a gap in funding programs available in the state. He said there are problems creating investment funds or getting venture capital corporations to invest in the state in part because of the low volume of projects in the state. He said North Dakota Development Fund, Inc., has worked with some success to try to fill this gap. He said there is a public role to fill this gap; however, in order to be successful the state needs to be willing to take a risk.

Senator Espgaard said there is not a lack of venture capital funds in the state but instead there is a shortage of "deal flow." He said venture capital funds are regional in nature and are not required to be limited to a state border and there are venture capital funds in Minnesota, which should be included as part of our region. Mr. Reese said if a true venture capital fund were to provide funding for a business, the fund would expect a rate of return between 25 and 35 percent. Senator Espgaard said he would rather the state use its funds on lower-risk loans. However, he said, if the state makes equity investments, the state should be eligible to receive a higher return to reflect the increased risk.

Mr. Reese agreed with Senator Espgaard's analysis and said that entrepreneurs attract venture capital funds and in response venture capital funds attract entrepreneurs. He said in evaluating the success of North Dakota Development Fund, Inc., it is important to remember that even if the fund has a 35 percent chargeoff after five to seven years and even if a business does not make it after five to seven years, the business was in the community and thereby helping the community for those five to seven years.

In response to a question from Representative Winrich regarding whether it is possible for the Legislative Assembly to evaluate the success of the state's business programs, Mr. Reese said North Dakota Development Fund, Inc., earns a 6 to 7 percent return on investments. However, he said, he is not certain of the return for the other programs in the state. In addition to evaluating a program based on the return on investment, he said, legislators should also consider the benefits of job creation. He said he can provide additional information at a future meeting regarding the rates of return of other state programs.

Chairman Andrist conveyed to the committee members Senator Grindberg's request for creation of a subcommittee to study venture capital.

Representative Thoreson said if a subcommittee is formed, he would recommend that the subcommittee explore the role of the state in venture capital.

Senator Espgaard questioned whether the state should be involved in venture capital businesses.

Chairman Andrist called on Mr. Delore Zimmerman, New Economy Initiative, for testimony regarding

the status of the program. Mr. Zimmerman provided written testimony and a copy of the document *North Dakota's Smart Prairie Strategy: Creating Networks for Action and Prosperity in the New Economy, July 2001*, a copy of which is on file in the Legislative Council office.

Mr. Zimmerman said New Economy Initiative is not attempting to duplicate what the legislature or state government is doing; rather its goal is to complement the work of the government and help identify ways to make North Dakota a more profitable, dynamic, and desirable location for business and people. He said under New Economy Initiative, there are more than 70 action initiatives under way to address major challenges such as talent recruitment, capital formation, supporting entrepreneurs, technology training, improving on-line government services, increasing research and development, increasing connections between businesses and universities, and community development. Under New Economy Initiative, he said, private sector leaders have volunteered their time and talents to design and implement solutions to these challenges.

Mr. Zimmerman said the organizational structure of New Economy Initiative includes six industry organizations called clusters. He said the goal of these clusters is to drive growth in the areas in which North Dakota has natural advantages. He said the 70 existing action initiatives fit within the four broad goals of:

1. Growing competitive clusters;
2. Building strong and responsive economic infrastructure;
3. Creating effective collaboration and dynamic leadership; and
4. Promoting global market focus and openness to change.

Mr. Zimmerman said New Economy Initiative is developing initiatives to address entrepreneurialism and capital, including:

1. One hundred new economy business challenges;
2. Idea Fest;
3. Statewide talent pool strategy;
4. Investment capital; and
5. University research and technical education.

Mr. Zimmerman said as a result of the work being performed by New Economy Initiative, New Economy Initiative will be offering additional initiatives to the Governor and the Legislative Assembly to help make North Dakota more competitive. Additionally, he said, New Economy Initiative has been working with the Department of Commerce to determine how to best coordinate efforts in various areas, including marketing and attraction of workers and companies.

In response to a question from Senator Espgaard, Mr. Zimmerman said New Economy Initiative clusters will make recommendations which will be brought to the Legislative Assembly during the 2003 legislative session.

In response to a question from Senator Nelson, Mr. Zimmerman said there is an aversion to risk mindset in North Dakota. He said he is puzzled by the lack of the sense of urgency and changing the mindset of North Dakotans may help to resolve part of this problem. Additionally, he said, transportation is an important issue and although it is not an individual cluster, transportation is being considered as an element of economic development by the clusters.

In response to a question from Senator Winrich, Mr. Zimmerman said it may be necessary to make some changes to our business laws in order to change business structures so investors can more easily invest in businesses.

Senator Andrist said there have been changes made to the laws pertaining to business organization structures during the last few legislative sessions.

In response to a question from Senator Heitkamp, Mr. Zimmerman said the state needs to be more supportive of young entrepreneurs. He said North Dakotans have a heightened sense of personal responsibility with the mindset that if you cannot do something right, do not do it at all. He said the nature of entrepreneurship requires that we accept some degree of failure.

Representative Lemieux said he agrees that business and financing deals need assistance in being put together because increasing the number of business deals has a positive impact on everyone in the state.

WORKFORCE TRAINING AND DEVELOPMENT PROGRAMS STUDY

Chairman Andrist called on Mr. James J. Hirsch, Director, Division of Workforce Development, Department of Commerce, for comments regarding workforce training programs in the state and areas of worker shortage. Mr. Hirsch provided written testimony and a written report covering workers in short supply, workforce training program achievements, and proposed legislation, a copy of which is on file in the Legislative Council office.

Mr. Hirsch said a major problem in North Dakota is that job vacancies and skill shortages information is not centralized. He said to effectively respond to worker shortages, timely local and accurate labor market information is essential. However, he said, various organizations have tried to assess work shortages, including:

1. Bureau of Labor Statistics;
2. Job Service North Dakota;
3. Workforce Development Council; and
4. Division of Economic Development and Finance.

Additionally, Mr. Hirsch said, the Workforce Development Council, Department of Commerce, and partners of the workforce delivery system are working to address issues of workforce shortages and training needs. For example, he said, a workgroup is identifying core data elements to create a community labor

availability survey; the Workforce Development Council is working with partners to develop a process to get timely local information on current vacancies, skill shortages, and work and skill requirements to support expansion and business attraction; the Department of Commerce is pursuing a cost-effective on-line employment and resume management system to offer to employers in the state; the Workforce Development Council is creating a data warehousing workgroup to explore the creation of a single point of contact for all core data information on the state's labor force, workforce availability, and job skill requirements; the Workforce Development Council is working with the North Dakota Long Term Care Association on a project designed to identify career ladder training options that could take individuals from entry-level positions in the health care field and provide a career path leading to high-skill and high-pay opportunities; and the Workforce Development Council is involved with New Economy Initiative.

Mr. Hirsch said the state is very close to having a model comprehensive workforce development and training system. He reviewed the federally funded workforce programs available in the state, which are participant-focused in nature; the state-funded workforce programs, which are employer-focused; and the infrastructure workforce training programs, which are state-funded. He said in order to effectively use these programs, it is necessary for the state to provide a single point of contact for accessing these services. He said to identify how the workforce training system is working and how it might be improved, he suggests the legislators ask the end users who are employers, local developers, the Small Business Administration, the Division of Economic Development and Finance, and private training providers.

Mr. Hirsch said North Dakota has gaps within the comprehensive workforce system which would warrant discussion and consideration of new legislation, including funding assistance for the underemployed, warehousing of data and information, community labor availability, fees for services, a permanent fund source for incumbent worker training, and new Americans initiatives.

In response to a question from Senator Heitkamp, Mr. Hirsch said among the state agencies, there is cooperation and an interest in working together.

In response to a question from Representative Thoreson, Mr. Hirsch said an example of a fee-for-service program would be if the Department of Commerce contracted with a private on-line entity with which employers subscribed to list job openings.

In response to a question from Senator Andrist, Mr. Hirsch said although there is a problem with the employees who most need to upgrade their job skills lacking the necessary motivation, he is aware of this problem and the system tries to address this problem.

Chairman Andrist called on Ms. Maren Daley, Job Service North Dakota, for comments regarding the

committee's study of workforce training and development programs. Ms. Daley said representatives of Job Service North Dakota worked with Mr. Hirsch in compiling the information in his written report. She said there is a unified effort within the state when it comes to working together for workforce training. Additionally, she said, as a result of the state's workforce training program being certified, the state will be eligible for incentive funding. She said as this program evolves, it may be necessary to allow the workforce training program more flexibility.

Chairman Andrist called on Mr. Peterson for comments regarding the committee's studies. He said the Department of Commerce is working on creating a measuring tool to measure the effectiveness of the economic development programs.

In response to a question from Senator Nelson, Mr. Peterson said some of the state's economic development programs are out of date and there may be value to streamlining and updating these programs. He said he is not convinced that a large venture capital corporation would be successful in this state. He said the Department of Commerce has created a list of venture capital corporations that are willing to invest in North Dakota; however, the state needs an equity fund and a program to provide startup funds. He said startup funds could be provided through a new program or through North

Dakota Development Fund, Inc., but it is important to realize the increased risk and the need to accept loss in order to receive large returns.

Senator Andrist requested information at a future meeting regarding the workforce training regions.

Representative Martinson requested that the Department of Commerce provide information at a future meeting regarding what it would take to put North Dakota back into the international market. Chairman Andrist requested that the Department of Commerce work with the Department of Agriculture on this project.

Senator Nelson requested that a representative of Fargo's Skills Technology Training Center make a presentation to the committee.

It was moved by Representative Thoreson, seconded by Senator Nelson, and carried on a voice vote that the meeting be adjourned. No further business appearing, Chairman Andrist adjourned the meeting at 3:45 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:1