

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

ECONOMIC DEVELOPMENT COMMITTEE

Wednesday, September 15, 2004
Roughrider Room, State Capitol
Bismarck, North Dakota

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

Members present: Representatives Rick Berg, Mark A. Dosch, Glen Froseth, Nancy Johnson, Jim Kasper, Kenton Onstad, Ken Svedjan, Don Vigesaa; Senators Dick Dever, Duaine C. Espeguard, Tony S. Grindberg, John O. Syverson, Ryan M. Taylor

Members absent: Representatives Tracy Boe, Donald L. Clark, Mary Ekstrom, George Keiser, Eugene Nicholas

Others present: See Appendix A

It was moved by Senator Grindberg, seconded by Representative Johnson, and carried on a voice vote that the minutes of the August 5, 2004, committee meeting be approved as distributed.

Chairman Berg called on Mr. Michel Hillman, North Dakota University System, to comment regarding a revision of the written information provided to the committee by Mr. Eddie Dunn, North Dakota University System, on August 5, 2004. A copy of the August 13, 2004, revised document is on file in the Legislative Council office. Mr. Hillman said the revisions are on pages 10 and 11 of the document relating to how each of the designated centers of excellence addresses the statutory criteria.

In response to a question from Representative Svedjan, Mr. Hillman said the \$100,000 of state funding for the University of North Dakota Design Center requires a dollar match by a date certain and if that dollar match is not met, the \$100,000 of state funds will go to competitive research.

Chairman Berg said the morning portion of the meeting will primarily address committee items that are not directly related to the Department of Commerce and then items that are directly relating to the Department of Commerce will be addressed in the afternoon.

BUSINESS CLIMATE STUDY

Reports

Greater North Dakota Association

Chairman Berg called on Mr. Dave MacIver, Greater North Dakota Association, for comments regarding the committee's request for economic development recommendations. Mr. MacIver provided written testimony, a copy of which is attached as Appendix B.

In response to the committee request for information regarding specific ways in which the state could better support local economic development efforts, Mr. MacIver said one of the largest issues facing economic developers in the state is the need for a qualified workforce. He said ongoing funding of the regional workforce training system is essential. Additionally, he said, there is confusion about what economic development really is. He said each community should have the opportunity to provide input into defining what economic development is in that particular community.

In response to a question from Representative Onstad, Mr. MacIver said regional trade centers are very aware of the importance of nonprimary sector businesses in smaller communities.

Representative Berg said although economic development discussions talk a lot about primary sector businesses, the committee recognizes the importance of each and every job in the state.

In response to the committee request for information regarding whether there are current economic development programs or efforts the Greater North Dakota Association is involved in that might be strengthened in order to help address some of the issues raised during focus group discussions, Mr. MacIver said he anticipates that during the 2005 legislative session, there will be legislation regarding economic development accountability. He said it will be important to implement this carefully and not just create another level of government oversight.

Representative Kasper said there may be significant long-term value to collecting economic development accountability statistics.

Mr. MacIver said if the state pursues economic development accountability measures, it will be important to collect data that is usable and valuable, ensuring that the oversight is being done for the right reasons.

Attorney General's Office

Chairman Berg called on Ms. Sandi Tabor, Attorney General's office, for comments regarding issues relating to contracting with the state. Ms. Tabor said it has come to the Attorney General's attention there may be issues relating to insurance clauses in state contracts. She briefly reviewed the

history of sovereign immunity in the state, explaining how since the end of sovereign immunity the state has been using certain indemnity language in state contracts to prevent the state and the contractor from litigating responsibility in liability cases. However, she said, because this type of insurance may no longer be available, the Attorney General is working on resolving this issue.

In response to a question from Representative Berg, Ms. Tabor said the \$1 million insurance coverage has not been raised to the Attorney General as a state contract issue. She said she does not believe it will be necessary to introduce legislation to address the indemnity issue. However, she said, if legislation is necessary to address the indemnity issue, the Attorney General will pursue this.

Energy Industry

Chairman Berg called on Mr. Dennis Hill, North Dakota Association of Rural Electric Cooperatives, for comments regarding committee requests for economic development recommendations from the energy industry. Mr. Hill provided written testimony, a copy of which is attached as Appendix C.

In addressing the committee question of what the state may be able to do to spur more energy exportation, Mr. Hill said, an informal survey of members indicated the state has built a good public policy environment for the generation and exportation of electric energy. He said the association has been working with an interim committee for almost six years, assisting in establishing an in lieu system of property taxation for transmission and distribution facilities owned by utilities in the state.

Chairman Berg called on Mr. Dale Niezwaag, Basin Electric Power Cooperative, for comments regarding committee requests for economic development recommendations from the energy industry. Mr. Niezwaag provided written testimony, a copy of which is attached as Appendix D.

In response to the committee question regarding whether there are exportation constraints at the state level, Mr. Niezwaag said, there are not constraints at the state level at this time. He said since transmission lines need to cross state boundaries and are regulated by the federal government, the options available for states to become proactive are limited. He said the Upper Great Plains Transmission Coalition has been formed to address this transmission issue at a regional level. He reviewed some of the impacts of the Federal Energy Policy Act of 1992 and how it impacts access to the transmission grid. He said until a transmission pricing method is developed that makes it fair for everyone to use the transmission system, no new transmission lines will be built. From a legislative perspective, he said, the best option for expanding the exportation of energy is to continue and possibly expand the proactive role North Dakota has always had toward energy development.

In response to the committee question regarding whether Basin Electric Power Cooperative has specific legislative proposals to increase the exportation of energy, Mr. Niezwaag said, there are two pieces of legislation that Basin Electric Power Cooperative will be supporting to develop energy production that will in turn push the need for new transmission lines to move the electricity out of state. First, he said, there is the repowering project and the Leland Olds Station. He said if a company builds a new coal-based power plant, that company is given a sales tax exemption on the equipment purchased and a five-year exemption on coal conversion taxes normally assessed the facility. He said the proposed legislation would expand these two incentives to include repowering projects. The second proposal, he said, involves the heat-recovery project. He said Basin Electric Power Cooperative has committed to building four heat-recovery generation units--one in North Dakota and three in South Dakota. Because of their remote locations, he said, the economics for these systems are very marginal. He said the proposed legislation would allow for a sales tax exemption on the equipment purchased to build these systems. He said the cost to construct these projects is approximately \$8 million per site. He said the goal of the proposed legislation would be to make more sites economically feasible. In addition to the tax incentive, he said, the proposed legislation would recognize the beneficial environmental attributes of the electricity produced and allow for the qualification for green tag or renewable energy credit.

In response to a question from Representative Kasper regarding the heat-recovery generation units in South Dakota, Mr. Niezwaag said, the decision to locate those three units in South Dakota was based primarily on geography.

Finally, Mr. Niezwaag said, Basin Electric Power Cooperative is very involved in renewable energy. On the legislative side of wind, he said, a legislative proposal will be brought forward to develop an energy-tracking program in the state as part of a regional effort to certify and qualify the amount of renewable energy produced in the region. He said the other states involved in this effort are Minnesota, Wisconsin, Iowa, and South Dakota, as well as Manitoba, Canada. He distributed a booklet that details the Basin Electric Power Cooperative investment in North Dakota--*We are Basin Electric Power Cooperative . . . We have a commitment to community*, a copy of which is on file in the Legislative Council office.

In response to a question from Representative Berg, Mr. Niezwaag said at this point he is not recommending that North Dakota mirror the Wyoming program relating to the development of a transmission authority. He said transmission is not just a money issue. He said North Dakota has historically made the state an open state to expand, build, and produce energy and he hopes this continues. He said

basically transmission is a federal issue and needs to be addressed at the federal level; however, there is very little that the state can do to push for change at the federal level. He said when the transmission system starts to use a fair pricing system, like the interstate highway system, then transmission lines will be built.

In response to a question from Representative Svedjan, Mr. Neizwaag said the Federal Energy Regulatory Commission pricing model is based on a New Jersey model. He said unlike the Plains region, the East Coast has a high concentration of people with a low number of transmission lines. He said this system protects power prices out East but does not benefit states like North Dakota that have low-cost power to sell.

Chairman Berg called on Mr. John Dwyer, Lignite Energy Council, for comments regarding the committee's economic development recommendations for the energy industry. Mr. Dwyer briefly reviewed the current lignite projects in North Dakota. He said there are two major lignite issues--environmental and transmission.

Mr. Dwyer said environmental issues relating to lignite energy are primarily federal and there is very little the state can do to address these issues. However, he said, the state may be able to assist the lignite energy industry by extending the coal conversion tax credit and sales tax.

Mr. Dwyer said as related to the lignite energy transmission issues, there is not much that can be done at the state level. He said the Industrial Commission has been active in pursuing the transmission issue and energy producers in the state have been active in establishing interstate contracts in order to help address regional transmission issues.

Mr. Dwyer said he does not have any formal legislative proposals at this time; however, the Lignite Energy Council will pursue the transmission and environmental issues during the upcoming legislative session.

Representative Berg recognized the importance of energy and its impact on economic development. He said the committee supports helping the energy industry in the state grow.

Bill Drafts

Chairman Berg called on Mr. Miles Friedman, National Association of State Development Agencies, to make a presentation regarding the ongoing economic development activities of the committee relating to the business climate study. Mr. Friedman joined the committee via telephone. A copy of his computer presentation is attached as Appendix E.

Chairman Berg called on committee counsel to present the committee bill drafts.

Risk Capital [50115.0200]

Committee counsel presented a bill draft relating to risk capital. She said this second draft is essentially a redraft of the first draft, which the committee reviewed at the August 2004 meeting. She said this bill draft addresses the 2003 legislative grant of authority to the Bank of North Dakota to invest in North Dakota alternative venture capital investments and early-stage capital funds. The bill draft extends the expiration date from July 31, 2007, to July 31, 2009. She said the bill draft increases from \$5 million to \$10 million the amount of money the Bank of North Dakota may invest under this program and authorizes the Bank of North Dakota to arrange for management of these investments by either the North Dakota Development Fund, Inc., or by a third party that is located in the state and which has demonstrated fund management experience. She said the bill draft increases from \$5 million to \$10 million the amount of money from the Development Fund which may be loaned to the Bank of North Dakota for these investments and also authorizes the Development Fund to manage these Bank of North Dakota investments. She said the bill draft provides for a report to the Legislative Council during the 2005-06 interim.

Representative Berg said the Bank of North Dakota may have conflicts in both lending funds to a business as well as being in an ownership position for that business. He said this bill draft would allow the Bank to contract with a third party for the management of these funds to alleviate these conflicts.

In response to a question from Representative Onstad, Senator Grindberg said management of funds under the program could be done by the Development Fund or a private management firm, thereby allowing the Bank the flexibility in determining how to manage funds. He said the Bank and Department of Commerce could clarify criteria for the program.

In response to a question from Representative Svedjan regarding federal Security and Exchange Commission requirements, Representative Berg said this bill draft does not override federal securities laws.

Representative Berg said some of the options to address accessibility to risk capital might include creation of a venture capital fund modeled on the partnership in assisting community expansion (PACE) program model. Additionally, he said, it might be important to address how the state is helping to prepare businesses to request venture capital funds with the option of possibly incentivizing venture capital firms to review proposals.

Chairman Berg called on Mr. Eric Hardmeyer, President, Bank of North Dakota, for comments regarding the risk capital bill draft. Mr. Hardmeyer said there are potential conflicts if the Bank is a lender and an owner; therefore, he recommends that any additional funding for this program be directed to the Development Fund or other third party. He said additional funding for this program should come from

Bank of North Dakota revenues. The initial \$5 million of investment under this program, he said, is essentially all obligated at this time and the Bank is willing to continue to manage the \$5 million in funding.

In response to a question from Representative Onstad, Mr. Hardmeyer said the initial \$5 million was not a grant but instead was an investment with Student Loans of North Dakota backup. Although the Bank is prepared to deal with managing this initial \$5 million worth of funds, he said, he recommends any additional funding be provided through a different entity in order to minimize potential conflicts of interest.

In response to a question from Representative Kasper, Mr. Hardmeyer said merely providing for third-party management does not adequately address potential conflicts because the initial investment is still being made on behalf of the Bank.

In response to a question from Representative Svedjan regarding Student Loans of North Dakota backup, Mr. Hardmeyer said if Bank revenues were transferred to a third party for these investment purposes, it would be necessary to consider whether there should be Student Loans of North Dakota backup. Mr. Hardmeyer said this program provides an investment opportunity with possible gain and the Bank agrees to share any gain with Student Loans of North Dakota.

In response to a question from Representative Dosch, Mr. Hardmeyer said bank regulators have looked at the current Bank program and due to the Bank's unique position, the regulators have not questioned the Bank's participation in the program.

Risk Capital Study [50167.0100]

Committee counsel presented a bill draft relating to a risk capital study. In addition to the risk capital study, she said, the bill draft provides for repeal of North Dakota Century Code Chapter 10-30.1, venture capital corporations, and Chapter 10-30.2, the Myron G. Nelson Fund, Incorporated, effective August 1, 2007. She said the intent of this bill draft is that the risk capital study include studying whether Chapters 10-30.1 and 10-30.2 should be repealed. She said the Tax Commissioner reported in his agency response to committee requests for information that these two chapters have not been used in several years.

Procurement [50113.0200]

Committee counsel presented a bill draft relating to state purchasing. She said this second draft is essentially a redraft of the first draft the committee received in August. She said the changes made in this draft are pursuant to Office of Management and Budget agency response information. This bill draft, she said, provides for a new section to the state purchasing law, requiring that the Office of Management and Budget implement an Internet program to inform

potential vendors of state purchasing opportunities. Additionally, she said, the agency report to the Legislative Council includes a requirement that the Office of Management and Budget study and report on the most effective manner in which to provide for a one-stop procurement assistance center.

Chairman Berg called on Ms. Linda Belisle, Office of Management and Budget, for comments regarding the state purchasing bill draft. Ms. Belisle said allowing the Office of Management and Budget the opportunity to fully study the concept of a one-stop procurement assistance center, allows for a coordinated effort between the Office of Management and Budget and other state and federal actors. She said under the state purchasing system, several state agencies, such as the Department of Transportation, individually post procurement opportunities on their Internet sites. She said by providing a comprehensive Internet location for all state purchasing opportunities, the state may be better able to assist businesses in accessing the state purchasing system.

Representative Berg said he supports the concept of a comprehensive Internet site to access state purchasing opportunities and the Office of Management and Budget should consider whether it is possible to include a link to federal procurement opportunities. Ms. Belisle said the Office of Management and Budget has been invited to participate with small business development councils in helping businesses better access the state purchasing system. She said state vendors are voicing frustration with the current system. Additionally, she said, the Office of Management and Budget is the logical location for a comprehensive Internet site because the agency is responsible for most of the state's purchases.

In response to a question from Representative Dosch regarding vendor frustration, Ms. Belisle said the details of how a bid is awarded depends specifically on how the solicitation is crafted. She said it may be possible to craft a solicitation in a manner that gives consideration to advantages to having an in-state vendor instead of relying on a low-bid solicitation for which there is very little flexibility. She said this is an opportunity for the Office of Management and Budget to educate agencies to consider all factors in crafting solicitations. Although she seeks to avoid preference laws, she said, there are ways to benefit in-state vendors. She said a solicitation can be crafted through the scope of work and specifications to the advantage of in-state businesses.

Representative Berg said he supports the concept of helping to improve the coordination of access to federal contacts. Ms. Belisle said the Small Business Administration in North Dakota is prepared to help the Office of Management and Budget with this task.

Career and Technical Education [50114.0100]

Committee counsel presented a bill draft relating to career and technical education. She said the bill draft

provides for a new section to the Department of Career and Technical Education law providing for a cooperative work experience program pilot project expiring July 30, 2009. She said the bill draft provides for the department to provide funds to individual schools or school cooperatives for the purpose of funding a local coordinator for local schools or for funding the actual local school cooperative work experience program. Additionally, she said, the bill draft provides for a report to the Legislative Council.

Chairman Berg called on Mr. Wayne Kutzer, Director, Department of Career and Technical Education, for comments regarding the career and technical education bill draft. Mr. Kutzer provided written testimony, a copy of which is attached as Appendix F.

Mr. Kutzer said the Department of Career and Technical Education has been in existence since 1917 and is separate from the Department of Public Instruction and North Dakota University System. He briefly summarized what efforts are currently underway in the North Dakota school systems to link education with business. He said the department works with communities to start education and training programs in situations in which there are skill shortages. Although North Dakota has almost 900 students annually completing cooperative work experiences with businesses, he said, there are ways to improve these links between schools and businesses. He said links between school systems and employers may be strengthened by focusing on adopting industry standards for all career and technical education programs, using national industry validated certification testing to measure results of student performances, promoting cooperative work experiences for students, and increasing opportunities for students to participate in career academies.

Mr. Kutzer said providing students with real-world work experiences will best happen by making the business and student connection at the local level. However, he said, making this connection will require substantial resources to fund local positions. He said a funding level of \$2 million for the biennium would enable thirty \$30,000 yearly grants to schools to partially fund an individual to work specifically at the local level. Additionally, he said, a key to the entire program would be a statewide coordinator to manage the program. He said the department currently has a full-time equivalent position to help with this coordination but no funds tied to this position. He said the necessary funds for this department position would be \$120,000 to \$250,000 per biennium.

Mr. Kutzer said lack of funding for career and technical education programs is of major concern. He said the demand for career and technical education programs outstrips the financial resources to provide funding for the programs.

In response to a question from Representative Svedjan, Mr. Kutzer said the bill draft providing for grants to schools is different from existing programs.

Mr. Friedman said the cooperative work experience is not a new idea. He said the bill draft is meant to continue and expand available programs in the state. He said in West Virginia he helped implement a similar program and businesses are very excited about participating. In order to make this cooperative work experience program successful, he said, it is necessary to fund a full-time equivalent position in the Department of Career and Technical Education.

In response to a question from Representative Kasper, Mr. Kutzer said existing career and technical education programs are limited to assisting 900 students per year because in order to provide the service in a meaningful way with existing resources, there needs to be participation limitations.

Representative Berg said the purpose of this bill draft is to address workforce issues that were raised during focus group discussions. He clarified that this bill draft is not being put forth by Mr. Kutzer but is instead intended as a committee response to the concerns raised at the focus group discussions.

In response to a question from Representative Kasper regarding whether a straight \$2 million appropriation to the Department of Career and Technical Education would essentially have the same impact as this bill draft, Mr. Kutzer said one of the department's primary needs is funding.

Mr. Friedman said in recommending this bill draft, he thinks it is very important to provide for a local coordinator and to allow a vehicle in which to enhance and expand existing programs.

In response to a question from Representative Froseth, Mr. Kutzer said the federal school-to-work program no longer exists and Job Service North Dakota programs generally do not provide services to individuals who are attending high school.

In response to a question from Representative Svedjan, Representative Berg said even though most of the committee bill drafts do not include an appropriation, it is expected that when necessary, appropriation language will be attached during the legislative session.

Senator Grindberg said the current workforce system seems fragmented, with services being offered by the Department of Career and Technical Education, Department of Public Instruction, and North Dakota University System.

In response to a question from Senator Grindberg, Mr. Kutzer said he would like to think that a study of the current workforce system might be beneficial in the long term. However, he said, the current system seems to work well as far as coordination between his department and the secondary and postsecondary system.

Representative Berg said North Dakota's population loss of young people is in part due to lack of knowledge of the career opportunities available in the state.

Transportation Study and Report to Legislative Council [50168.0100]

Committee counsel presented a bill draft relating to a transportation study and Legislative Council report. She said the bill draft provides for a study to be conducted by the Upper Great Plains Transportation Institute and a report to the Legislative Council on the outcome of this study. She said the study would include how to improve the state's transportation infrastructure in order to enhance the state's business climate with a focus on the potential to expand the sale of goods to markets outside the state.

Representative Berg said the issue of the transportation infrastructure in the state is a huge issue, as it relates specifically to the intermodal transportation and product-to-market issues.

Chairman Berg called on Mr. Tom Freier, Department of Transportation, for comments regarding the transportation study and report to Legislative Council bill draft. He said that transportation is very important to economic development; however, historically, transportation has been the last issue to be addressed. He said transportation needs to be included in economic development discussions up front.

Mr. Freier said the Department of Transportation has worked extensively with the Upper Great Plains Transportation Institute. He said because some of these transportation issues may most appropriately be addressed by the Department of Transportation and because the department's strategic planning efforts would be a significant source of information in performing this study, the committee may wish to include the Department of Transportation in the bill draft.

Representative Berg said it might be helpful for the department to assist the committee in determining how to address transportation as an economic development issue without duplicating efforts.

Tax Study and Report to Legislative Council [50118.0100]

Committee counsel said the tax study and report to the Legislative Council has not changed since the committee reviewed it in August.

Seed Capital Investment Tax Credit [50145.0200]

Committee counsel presented a bill draft relating to the seed capital investment tax credit. She said this is a second draft of the bill draft the committee received in August. She said the second draft differs from the first draft in that the second draft removes the proposed increase in the aggregate annual investment for which a taxpayer may obtain a tax credit under the seed capital investment tax credit and the second draft removes the proposed language that would have provided that once an annual tax credit cap is reached, any additional qualified investments could be carried forward to a future year. Additionally,

she said, this version of the bill draft removes the requirement for a minimum investment of \$5,000 and changes the proposed annual cap on investment tax credits to an annual aggregate amount of seed capital investment tax credits of \$2 million.

Representative Kasper questioned why this bill draft appears to be more limiting than the bill draft reviewed in August. He said he perceives this as a move backward and instead, the committee should seek to shoot high.

Representative Berg said this second draft would be an expansion of the existing seed capital investment tax credit. Additionally, he said, the last version raised liability concerns regarding carrying forward tax credit eligibility for an unlimited number of years.

Senator Grindberg said during the last two legislative sessions, changes to the seed capital investment tax credit have been implemented through appropriation bills. He said by dedicating a bill to the seed capital investment tax credit, there will be a better opportunity to focus attention and receive testimony.

Representative Berg said he hesitates having any cap on the seed capital investment tax credits; however, it is important to realize this second draft is an increase from the existing cap. Additionally, he said, there may be value in retaining a cap because this program is still maturing. Historically, he said, the seed capital investment tax credit was never used. He said it was through recent legislative changes that this program has finally become a viable program that is being used.

Business Liability Study and Report to Legislative Council [50120.0200]

Committee counsel presented a bill draft relating to a business liability study and report to the Legislative Council. She said this is the second draft of the bill draft the committee received in August. She said changes were made to reflect proposed amendments presented by Mr. Douglas Holloway, Insurance Department. Under this draft, she said, the Insurance Commissioner would study the North Dakota liability insurance marketplace, including consideration of liability issues that may result in barriers for businesses seeking affordable liability coverage and consideration of successful actions taken by other states to improve availability and affordability of liability insurance. She said as in the first draft, this draft provides for a specific focus on the travel and tourism industry.

Technology Commercialization Study and Report to Legislative Council [50116.0100]

Committee counsel said the technology commercialization study and report to the Legislative Council bill draft has not changed since the committee reviewed it in August. However, she said, if the committee wishes to recommend this bill draft, it will be necessary for the committee to determine which

agency will be charged with conducting the study and reporting to the Legislative Council.

Intellectual Property Study and Report to Legislative Council [50122.0100]

Committee counsel said the intellectual property study and report to the Legislative Council bill draft has not changed since the committee reviewed it in August. At the August meeting, she said, there had been committee discussion regarding the possibility of consolidating the intellectual property study with the technology commercialization study. However, she said, if the committee wishes to recommend this bill draft, it will be necessary for the committee to determine which agency will be charged with conducting the study and reporting to the Legislative Council.

Representative Berg said the intellectual property study and technology commercialization study address two different issues and should remain separate studies.

Following the luncheon recess, the committee specifically focused its discussions on economic development matters related to the Department of Commerce.

Reports

Chairman Berg called on Mr. Cory Finneman, Division of Economic Development and Finance, Department of Commerce, for comments regarding primary sector business data collection. Mr. Finneman said his original plan had been to provide the committee with an update on the revised Economic Development Foundation strategic plan benchmark for goal No. 5 relating to job growth in the state. He distributed a handout with this revised information, a copy of which is on file in the Legislative Council office. However, he said, there has been a very recent development by which he has learned that the Tax Department may be able to provide the Department of Commerce with aggregate figures that may assist the department in tracking primary sector business growth. He said this information is so recent that he is not prepared to provide the committee with any additional information at this time.

Chairman Berg requested that Mr. Finneman report on this development at the next meeting.

Chairman Berg called on Ms. Linda Butts, Director, Division of Economic Development and Finance, Department of Commerce, for comments regarding the status of the Red River Valley research corridor. Ms. Butts provided written testimony, a copy of which is attached as Appendix G.

Ms. Butts said the \$200,000 appropriated to the Division of Economic Development and Finance during the 2003 legislative session to market the Red River Valley research corridor has recently been leveraged with a federal grant. She said on September 8, 2004, the United States Department of Commerce Economic Development Administration

awarded the Department of Commerce, University of North Dakota, and North Dakota State University with a grant of \$155,000 per year for the next three years. She said this new funding, with the new funding being requested by the division for the 2005-07 biennium, will be used to pursue the following targeted activities:

1. Providing technical assistance.
2. Conducting applied research.
3. Disseminating results of these activities.

Chairman Berg called on Mr. Lee Peterson, Commissioner, Department of Commerce, for comments regarding his recent economic development mission to California. Mr. Peterson said the Department of Commerce and 20 North Dakota leaders hosted a North Dakota business reception for approximately 80 guests on September 14, 2004, at the Four Seasons Hotel, San Francisco. He said Mr. Rock Clapper, the Chief Executive Officer of Datatic Technologies, attended the event as one of the department's California business recruits. Mr. Peterson said Mr. Clapper attended a similar event in San Jose, California, last fall and in February 2004 announced his company location in Langdon.

Chairman Berg called on committee counsel to review the remaining bill drafts relating to economic development.

Bill Drafts

Targeting Industry [50107.0100]

Committee counsel said the bill draft relating to targeting industry has not changed since the committee reviewed it in August.

External Image [50108.0100]

Committee counsel said the bill draft relating to external image has not changed since the committee reviewed it in August.

Representative Berg said the issue of external image, although raised by several participants of the focus group discussions, is a very difficult matter to legislate.

Internal Image [50109.0200]

Committee counsel presented the bill draft relating to internal image. She said this bill draft is nearly identical to the version the committee reviewed in August. She said the program name has been changed to the business hotline program and the language clarifies that the program may be used as a clearinghouse for economic development information.

Representative Berg said this bill draft is in response to the issue raised at focus group discussions that there is a certain amount of business program awareness lacking in the business community.

International and Tribal Business [50110.0200]

Committee counsel presented the bill draft relating to international and tribal business. She said the changes made to the second draft are not intended to be substantive in nature but are instead intended to be style changes meant to simplify the bill draft. Like the first draft, she said, the second draft creates a Department of Commerce Division of International Trade and clarifies that the duties of the North Dakota American Indian Development Office include providing services to assist in the formation of partnerships between American Indian and non-American Indian businesses.

Local Economic Developers [50111.0200]

Committee counsel presented the bill draft relating to local economic developers. She said this second draft provides that the Division of Economic Development and Finance implement a program through which the division provides training to assist local economic developers in meeting the needs of businesses. She said this second draft retains the focus on providing services for local economic developers.

Manufacturing [50112.0200]

Committee counsel presented the bill draft relating to the creation of a Dakota manufacturing initiative to assist manufacturers. She said The Dakota Manufacturing Extension Partnership, Inc. (TDMEP), provided input in the drafting of this bill draft. Under this bill draft, she said, temporary law requires the Department of Commerce to seek to contract with TDMEP to implement the Dakota manufacturing initiative. She said under this initiative, TDMEP would build a membership association of manufacturers in North Dakota and South Dakota and would leverage state funds with additional public and private funds to perform this service. She said the bill draft includes a general fund appropriation to the Department of Commerce of \$165,000 for the biennium for the purpose of implementing this initiative.

Mr. Friedman said although he is concerned over the losses in the manufacturing sector, he is optimistic that actions can be taken to strengthen supply chains and thereby improve the health of the manufacturing sector. He said he is very excited to use the Manufacturing Extension Partnership program as a leader in creating a membership association of manufacturers.

Chairman Berg called on Mr. Randy Schwartz, The Dakota Manufacturing Extension Partnership, Inc., to comment regarding the manufacturing bill draft. Mr. Schwartz said TDMEP is a nonprofit 501(c)(3) corporation, which receives a combination of federal, state, and private fee-for-service funding. He said North Dakota is one of only two states that has successfully retained manufacturers and he commends the committee's efforts to strengthen the business climate for the manufacturing sector.

In response to a question from Representative Svedjan, Mr. Schwartz said TDMEP provides services to North Dakota and South Dakota manufacturers in large part to take advantage of economies of scale. He said it seems like a natural fit to provide these services in both states and with increasing global competition, it is very important for North Dakota and South Dakota to work together. He said the appropriation request of \$165,000 for the 2005-07 biennium is based upon an identical match being sought from South Dakota, as well as federal and private funds.

Economic Development Incentive Study and Report to Legislative Council [50123.0100]

Committee counsel presented the bill draft relating to the study of economic development incentives and Legislative Council report. She said the bill draft has not changed from the draft the committee reviewed in August.

Business Climate Study [50124.0100]

Committee counsel presented the bill draft relating to the ongoing efforts of the business climate study. She said the bill draft has not changed from the draft the committee reviewed in August.

Representative Berg said his impression is that the private sector seemed to appreciate the efforts taken by the committee to pursue the business climate study.

Centers of Excellence [50161.0200]

Chairman Berg called on Senator Grindberg to present a bill draft relating to the centers of excellence program. Senator Grindberg said the 2005-07 executive budget will likely include a \$50 million executive proposal to provide additional funding for the centers of excellence program. He said if the committee chooses to adopt his bill draft as a committee bill draft, this bill draft could be used as a vehicle in which to address the centers of excellence program during the 2005 legislative session. He said the bill draft is intended to clarify certain elements of the centers of excellence, as well as to make some substantive changes.

Chairman Berg called on committee counsel to provide additional testimony regarding the bill draft. Under the bill draft, she said, the State Board of Higher Education would establish centers of excellence application forms, accept applications, review applications for completeness, and forward completed applications to a newly created Centers of Excellence Commission. The Centers of Excellence Commission, she said, would consist of seven members, including two members appointed by the North Dakota Economic Development Foundation; three members of the Legislative Assembly appointed by the Legislative Council, serving in a nonvoting capacity; and two members appointed by the State Board of Higher Education. She said this commission

would narrow down the selection of applicants and in partnership with the State Board of Higher Education, present the details of the proposed designated center of excellence to the Budget Section for approval. Upon approval by the Budget Section, a designated center of excellence would be eligible to receive funding under the specific provisions of the award determination.

In response to a question from Representative Kasper, Senator Grindberg said the State Board of Higher Education has not yet had an opportunity to review the bill draft as this is the initial presentation of the bill draft. He said regardless of whether there are changes made to this bill draft, he thinks it is very important the Legislative Assembly have a vehicle in which to address this program.

Representative Berg said the 2003 creation of the centers of excellence program laid the groundwork for the program and a committee bill draft relating to the centers of excellence would be a vehicle to allow the interested persons to engage in valuable discussion. He said the 2003 legislation creating the program was a collaborative effort with the State Board of Higher Education and he would assume ongoing discussions would also include the State Board of Higher Education.

Representative Onstad questioned whether it is wise to have a seven-member commission, of which there are four voting members--an even number.

Representative Berg said the legislative members of the committee have nonvoting status in order to address possible separation of power issues.

In response to a question from Representative Johnson regarding executive input, Representative Berg said the State Board of Higher Education and the Economic Development Foundation are both

composed of Governor-appointed members; therefore, there would be significant executive input on centers of excellence policy decisions.

Mr. Peterson said he agrees with Senator Grindberg that the centers of excellence program is a fantastic initiative with a huge opportunity to positively impact the economic development and growth of this state. He said he supports the centers of excellence as a way to marry education and the Department of Commerce. He said it is very important that the eligibility criteria for the centers of excellence program be carefully defined.

Representative Svedjan said the role of the Budget Section essentially in approving center of excellence designation may be of concern. However, he said, the Budget Section does have similar roles in other programs.

Representative Berg said the bill draft reflects an attempt to seek balance between competing interests.

Senator Syverson said it may be valuable to limit the number of terms in which a commission member may serve. Representative Berg said because the centers of excellence program would expire in 2009, the issue of length of membership may not need to be addressed.

No further business remaining, Chairman Berg adjourned the meeting at 2:15 p.m.

Jennifer S. N. Clark
Committee Counsel

ATTACH:7