NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

COMMERCE AND AGRICULTURE COMMITTEE

Thursday, January 22, 1998
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Duane Mutch, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Duane Mutch, Meyer Kinnoin, David O'Connell, Harvey Sand, Herb Urlacher; Representatives Glen Froseth, Pat Galvin, Lyle L. Hanson, Dennis Johnson, George Keiser, John Mahoney, Eugene Nicholas, Jim Poolman, Earl Rennerfeldt, Arlo E. Schmidt

Members absent: Representatives Jack Dalrymple, Lynn J. Thompson

Others present: Jess Cooper, Jay Johnston; Greater North Dakota Association, Bismarck

Kevin Cramer, Randy Schwartz; Economic Development and Finance, Bismarck

Ron Rauschenberger, North Dakota Development Fund, Kenmare

Bryan Dvirnak, North Dakota Development Fund, Bismarck

Curly Haugland, North Dakota Small Business Survival Committee, Bismarck

Paul Govig, Bank of North Dakota, Bismarck

Leland Barth, Agriculture Department, Bismarck

Leann Brunnette, AT&T, Minneapolis

Dave Krabbenhoft, Office of Management and Budget, Bismarck

Ken Bertsch, Brian Kramer; North Dakota Farm Bureau, Bismarck

Loren Stadig, Bismarck

Dina Butcher, Richard W. Gray; Office of Intergovernmental Assistance, Bismarck

Karlene Fine, Industrial Commission, Bismarck

Pat Fricke, Housing Finance Agency, Bismarck

Doreen Mehlhoff, North Dakota Association of Builders, Bismarck

Claus Lembke, North Dakota Association of Realtors, Bismarck

Roger Johnson, Commissioner of Agriculture, Bismarck

Mel Olson, Don Roloff; State Board for Vocational and Technical Education, Bismarck

Dan Bueligen, Board of Animal Health, Bismarck

Reagan Pufall, Workers Compensation Bureau, Bismarck

BACKGROUND

At the request of Chairman Mutch, committee counsel reviewed the Legislative Council rules of operation and procedure.

REPORT OF BOARD OF ANIMAL HEALTH

Chairman Mutch called on Mr. Dan Bueligen, Chairman, Board of Animal Health, to present the annual report of the Board of Animal Health as required by North Dakota Century Code (NDCC) Section 36-01-08.3. Mr. Bueligen submitted copies of the 1997 annual report and the evaluation of the State Veterinarian. A copy of the report and the evaluation is on file in the Legislative Council office.

Mr. Bueligen said the merger of the Board of Animal Health with the Department of Agriculture has progressed well but also has been the source of some problems. He said one of the main concerns has been the lack of statutory guidance as to the authority of the board and the Agriculture Commissioner with respect to the fiscal authority of the board and State Veterinarian. He said the board members generally believe that the board should have some authority to control the use of the funds appropriated by the Legislative Assembly for the use of the board. He said the commissioner has indicated that the authority to control the funding of the Board of Animal Health is his responsibility.

Mr. Bueligen said the new State Veterinarian is doing an excellent job. However, he said, the board is concerned with the amount of time the veterinarian is devoting to other duties because he has been appointed to act as the temporary dairy commissioner and the state livestock director. He said the Agriculture Commissioner and the board are attempting to address the problem so that the state veterinarian will be able to devote more time to the duties of the State Veterinarian to protect the health of the livestock industry in the state.

In response to a question from Representative Mahoney, Mr. Bueligen said inspections of

nontraditional livestock take up about one-half the time of the State Veterinarian. He said the board and the State Veterinarian have tried to implement a system for routine inspections of nontraditional livestock to maintain the good status of nontraditional livestock in the state. Because nontraditional livestock can carry diseases that are unique, he said, routine inspections are needed.

In response to a question from Representative Keiser, Mr. Bueligen said the Board of Animal Health is important because it provides grassroots involvement of the various livestock industries in setting policy for the State Veterinarian. He said the board has been effective for 90 years and the accomplishments of the state in eradicating livestock diseases is second to none. He said board members want to keep the regulatory powers of the board, and he hopes the conflicts with the Agriculture Commissioner can be solved.

In response to a question from Senator Sand, Mr. Bueligen said the board has saved money by sharing staff with the commissioner.

Chairman Mutch called on Mr. Roger Johnson, Agriculture Commissioner, for comments regarding the merger with the Board of Animal Health. Agriculture Commissioner Johnson said he and the board have spent a significant amount of time discussing the problems and progress has been made. He said he hopes an agreement can be reached regarding the authority of the board, especially with respect to the authority to hire and fire the State Veterinarian.

In response to a question from Representative Poolman, Commissioner Johnson said he has made no decision on the necessity of the Board of Animal Health. He said the board provides a valuable service and board members have specific expertise to assist the State Veterinarian.

At the request of Representative Keiser, Chairman Mutch requested Commissioner Johnson and Mr. Bueligen to report to the committee in the future regarding the discussions between the commissioner and the Board of Animal Health.

ECONOMIC DEVELOPMENT STUDY

At the request of Chairman Mutch, committee counsel reviewed a memorandum entitled *Economic Development Functions in North Dakota - Background Memorandum*.

Chairman Mutch called on Mr. Kevin Cramer, Director, Department of Economic Development and Finance, for comments regarding the study of economic development functions in North Dakota. Mr. Cramer submitted documents regarding basic steps in the economic development process and overview of the target industry identification process and the Enhancing Growing North Dakota program, copies of which are on file in the Legislative Council office. He also submitted information to the committee regarding loan performance and organization of the Department of Economic Development and Finance as required by NDCC Section 54-34.3-04.

Mr. Cramer said the economic situation in the state differs greatly from 1990 when discussion was begun regarding implementation of new economic development programs in the state. Therefore, he said, a reorganization of the department and its focus was necessary. He said the department should focus on wealth creation rather than jobs creation and should respond to the needs of existing businesses. He said the availability of a trained work force is important, and training and development programs are needed. A major goal of the department, he said, is to raise the standard of living in the state through a focus on quality jobs rather than a focus on recruiting large businesses to the state. He said the department continues to assist in the creation of homegrown businesses.

Mr. Cramer said 90 percent of the state's business assistance programs deal with financing. However, he said, providing information is as important or more important than providing financing. He said he wants to make the department more of an information agency to help North Dakota businesses make good business decisions. He said the state needs a seamless system of development which provides education to communities regarding the process of development; collaboration among various state programs, local programs, and other entities involved in development; targeted research to help individuals and businesses make good research decisions; formation of strategic plans; generation of opportunities; and the closing of development through financing, work force development, and improvement of the quality of life. He submitted a copy of the new department organizational chart and a graph illustrating the shared principals of development and the basic steps in the development process, a copy of which is attached as Appendix A.

Mr. Cramer provided the committee with a list of North Dakota Development Fund investments and chargeoffs by the North Dakota Development Fund, a copy of which is attached as Appendix B.

In response to a question from Representative Poolman, Mr. Cramer said he and representatives of the department meet regularly with representatives of the Bank of North Dakota and other

development entities in an attempt to strengthen the relationships with those other entities.

In response to a question from Representative Poolman, Mr. Cramer said the Development Fund is more profitable than when the fund was originally created. He said 95 percent of the writeoffs from the fund are from the first three years of its existence. He said the department has struggled to develop a balance between sound investment strategies and economic development goals.

Chairman Mutch requested Mr. Cramer to provide the committee additional information regarding loan performance at a future meeting.

In response to a question from Senator Sand, Mr. Cramer said there has been a problem with accountability with respect to funds under the control of the regional planning councils. However, he said, the Legislative Audit and Fiscal Review Committee appears to be addressing those concerns.

Chairman Mutch called on Mr. John Hoeven, President, Bank of North Dakota, for comments regarding the study relating to economic development functions in North Dakota. Mr. Hoeven presented a written summary of his testimony, a copy of which is attached as Appendix C.

Mr. Hoeven said the mission of the Bank of North Dakota is to deliver quality, sound financial services to promote the development of agriculture, commerce, and industry in the state and provide financial assistance to individuals to further postsecondary educational opportunities. He said the vision of the Bank is to be the development bank for North Dakota, responsible for financing economic growth while maintaining strong partnerships and a sound financial base with consistent earnings. The four major objectives from the Bank's strategic plan, he said, are:

1. Play a lead role in financing the expansion and diversification of the state's economy and its job base.
2. Maintain and protect the capital strength and financial integrity of the Bank in accordance with the Bank's capital plan.
3. Generate a consistent financial return to the state with income growth over time.
4. Develop a proactive, goal-oriented learning culture to assure continuous superior customer service.

Mr. Hoeven said in the Bank's role in financing economic development, the Bank's loan volume has tripled in five years. He said the Bank participates with local lenders, and between the local lenders and the Bank approximately $1 billion has been loaned in six years. He said the Bank has participated in the financing of over 1,000 projects, including new businesses, expansion of existing businesses, and recruitment of businesses.

In response to a question from Representative Keiser, Mr. Hoeven said the Bank of North Dakota programs help manage the risk for lead banks. By adding additional partners, he said, the risk is further reduced for the individual entities.

In response to a question from Senator Sand, Mr. Hoeven said the Bank of North Dakota is working to provide flexibility and rate concessions to farmers to help reduce the stress being experienced in the farming industry.

At the request of Chairman Mutch, Mr. Hoeven said he will provide the committee with further information regarding the performance of the various loan programs created as a result of legislative action.

Chairman Mutch called on Mr. Curly Haugland, North Dakota Small Business Survival Committee, for comments regarding the committee's study of economic development in the state. Mr. Haugland said it is not right to use state tax money for private businesses. He said the Constitution of North Dakota allows the state and political subdivisions to engage in business but also prohibits the use of the state's or a political subdivision's credit or money to assist private businesses. He said the constitution also prohibits the state or a political subdivision from becoming owners of equity in businesses. The responsibility of the Legislative Assembly is to uphold the constitution and its provisions prohibiting the state from using its money to assist private businesses, he said. He said the state's policy of corporate welfare is a poor policy that should be abolished and replaced with the provision of tax breaks to encourage business development and the repeal of the corporate income tax. He said many of the programs that give state money to private interests are not successful.

Representative Nicholas said he differs with Mr. Haugland and believes that programs to assist in the establishment of businesses are important to the state. He said state assistance is often essential for feasibility studies and to stimulate business development when a source of capital is needed to launch a project.

Mr. Haugland said most businesses are not subsidized and the good businesses would succeed regardless of the existence of state financial assistance. He said everyone has the opportunity to begin a business and individual initiative to put together capital is the foundation of our economic system.

WORKERS' COMPENSATION REPORTS

Chairman Mutch called on Mr. Reagan Pufall, Workers Compensation Bureau, for comments regarding reports required of the Workers Compensation Bureau regarding its safety audit of Roughrider Industries work programs and its performance audit of the modified workers' compensation coverage program as required by NDCC Section 65-06.2-09 and the wage loss benefit structure of the bureau as required by Section 7 of 1997 Session Laws Chapter 527. Because neither report is completed, representatives of the bureau will report to the committee at a future meeting regarding the required reports. Mr. Pufall submitted information to the committee regarding the establishment of the new Workers Compensation Board of Directors, including the board governance policy, the bylaws of the board, and a list of the board members, copies of which are on file in the Legislative Council office.

Mr. Pufall said the new directors commenced their terms on January 1, 1998. Before January 1, he said, a transition board met to draft the bylaws, establish a policy for governance of the board, and nominated the candidates for the membership on the new board. He said the board will hold its first meeting on March 3, 1998.

AFFORDABLE HOUSING STUDY

At the request of Chairman Mutch, committee counsel reviewed a memorandum entitled *Affordable Housing Study - Background Memorandum*.

Chairman Mutch called on Ms. Dina Butcher, Director, Office of Intergovernmental Assistance, for comments regarding the committee's affordable housing study. Ms. Butcher said she has been working with a housing task force appointed by the Governor to address concerns regarding affordable housing in the state. She said the task force has met three times and a final report will soon be completed. She said she will present the final report to the committee when the report is finalized.

Ms. Butcher said several recommendations are being considered to help provide for availability of housing, provide the tools necessary to create available housing, and to address educational concerns with respect to housing needs.

In response to a question from Representative Froseth, Ms. Butcher said the final report of the task force will likely recommend that the Office of Intergovernmental Assistance work with small communities to access funding for housing needs.

In response to a question from Senator Mutch, Ms. Butcher said because current mortgage rates are relatively low, interest buydown programs may not be necessary. However, she said, there may be a need for additional assistance to help the "working poor" purchase a home.

In response to a question from Senator Sand, Ms. Butcher said the Office of Intergovernmental Assistance administers programs designed to provide assistance for maintenance and rehabilitation of homes. She said it is important to maintain existing housing stock when new housing becomes available.

Chairman Mutch called on Mr. Pat Fricke, Director, State Housing Finance Agency, for comments regarding the committee's study of affordable housing. Mr. Fricke submitted a summary of housing programs administered by the Housing Finance Agency, a copy of which is attached as Appendix D.

Mr. Fricke said the Housing Finance Agency administers several programs to provide assistance for single family housing. He said those programs include:

1. The home mortgage finance program, which provides low interest rate mortgages for first-time home buyers.
2. The down payment and closing costs assistance program, which provides a zero interest, deferred payment loan up to $2,050 to assist first-time home buyers for down payment and closing costs.
3. The start down payment assistance program, which provides a 10-year, zero interest loan not to exceed three percent of the purchase price or $3,000, whichever is lower, to assist first-time home buyers with the down payment requirement.
4. The rural real estate mortgage program, which provides a secondary market for residential real estate mortgages guaranteed under the rural housing service Section 502 single family rural housing guaranteed loan program.
5. The home ownership acquisition and rehabilitation program, which assists low-income households achieve affordable home ownership through home owner education, assistance in finding an affordable home, and provision of rehabilitation funds.
6. The major home improvement program which provides low interest rate mortgages to eligible borrowers to buy and rehabilitate a single family home or to refinance and rehabilitate the borrower's present single family home.

7. The home buyer education incentive program, which is designed to help first-time home buyers be prepared for home ownership.
8. The application processing service, which provides application processing, loan underwriting, closing document preparation, loan closing disbursement, final packaging, and delivery services for participating lenders.

Mr. Fricke said the Housing Finance Agency also administers multifamily housing programs and other grant programs to assist in providing low and moderate income housing needs.

In response to a question from Senator Kinnoin, Mr. Fricke said the 30-year fixed rate of 5.9 percent under the first-time home buyer program is the lowest rate ever offered by the Housing Finance Agency.

In response to a question from Senator Mutch, Mr. Fricke said the total outstanding bonds of the Housing Finance Agency as of November 30, 1997, was approximately $590 million. He said the outstanding loan portfolio was approximately $360 million and approximately 8,000 loans are currently outstanding. He said the delinquency rate of two percent is very good compared to the general market.

In response to a question from Representative Keiser, Mr. Fricke said the bonds of the Housing Finance Agency are not considered debts of the state. He said the agency's bond ratings are excellent.

In response to a question from Representative Schmidt, Mr. Fricke said the disaster waiver under the first-time home owners program relates to the requirement that the purchaser be a first-time buyer. He said the income and purchase price limits in the disaster areas have also been increased.

In response to a question from Senator Urlacher, Mr. Fricke said if a home buyer is qualified under the first-time home buyers program and the loan is made, the buyer's qualifications for eligibility are not further reexamined in the future. He said it would take an act of Congress to allow the reexamination of a borrower's eligibility.

In response to a question from Senator Sand, Mr. Fricke said the Housing Finance Agency is totally self-sufficient and uses no general fund moneys.

REPORT OF STATE BOARD FOR VOCATIONAL AND TECHNICAL EDUCATION

Chairman Mutch called on Mr. Mel Olson, Director, State Board for Vocational and Technical Education, for comments regarding the report required of the board on its progress in coordinating statewide access to work force training programs as required by 1997 Session Laws Chapters 32 and 49.

Mr. Olson distributed a written summary of the activities relating to work force training programs in the state, a copy of which is attached as Appendix E. He also distributed copies of a report relating to one- and two-year student program completions in public and private institutions in the state, a copy of which is on file in the Legislative Council office.

Mr. Olson said the progress in coordinating statewide access to work force training programs has been excellent. He said a number of agencies have been involved in the process, including the North Dakota University System, the Department of Economic Development and Finance, and Workforce Development Council, the Secretary of State, the Labor Commissioner, the Department of Health, the Penitentiary, the Highway Patrol, the Youth Correctional Center, Job Service North Dakota, the Department of Human Services, the Superintendent of Public Instruction, the Agriculture Commissioner, the Department of Transportation, the Indian Affairs Commission, the State Board of Plumbing, the Public Service Commission, and the Missouri River Correctional Center.

Mr. Olson said a number of representatives from various industries have also been involved in the coordination process. He said work force training can be divided into five areas:

1. Secondary programs in trade, industry, and health careers.
2. Postsecondary completers.
3. Adult part-time, adult farm management, and small business management.
4. Continuing education programs.
5. Customized training network trainees.

In response to a question from Representative Poolman, Mr. Olson said work force training programs are growing dramatically at the Native American community colleges.

In response to a question from Representative Poolman, Mr. Don Roloff, State Board for Vocational and Technical Education, said the tribal colleges have implemented some very successful programs and are developing more programs. He said the graduation rate is strong at the tribal colleges. However, he said, graduates are having

some difficulty in obtaining jobs because of the poor economies on the reservations. He said Sitting Bull College has developed an excellent program through which it helps provide jobs on the reservation for its graduates.

In response to a question from Representative Keiser, Mr. Olson said the board attempts to make adjustments when it is presented with information that shows a need for additional training in certain areas. If there is a need for high tech training to draw more sophisticated businesses to the state, he said, the board will attempt to provide customized training for those in the work force to upgrade their skills.

MISCELLANEOUS BUSINESS

Representative Schmidt said he and Senator Vern Thompson have met with the North Dakota Thoroughbred and Quarterhorse Association to discuss a proposal to enhance the racing industry in the state. He said the group would like to meet with the committee and present its proposal at a future meeting.

Chairman Mutch requested the Legislative Council staff to invite representatives of Job Service North Dakota to address the committee at the next meeting regarding the status of the job insurance trust fund.

There being no further business, Chairman Mutch adjourned the meeting at 3:45 p.m.

John D. Bjornson
Committee Counsel

ATTACH: 5