

# ECONOMIC DEVELOPMENT COMMITTEE

The Legislative Council assigned the Economic Development Committee two studies and charged the committee with receiving 13 agency reports. Section 17 of Senate Bill No. 2032 (2005) directed a study of the state's business climate through a business climate initiative, including receipt of agency reports regarding economic development legislation introduced by the Legislative Council during the previous legislative session, participation in business climate focus groups across the state, and participation in a Business Congress. Section 18 of Senate Bill No. 2032 directed a study of issues relating to venture and risk capital and whether and how some of these issues may be negatively impacting business development in the state.

The Economic Development Committee was charged with receiving the following reports regarding economic development legislation introduced by the Legislative Council and passed during the 2005 legislative session, agency studies, and ongoing statutory reports by agencies:

1. Biennial report from the Commissioner of Commerce on the process used and factors considered by the commissioner in identifying target industries on which economic development efforts are focused and the special focus target industry under North Dakota Century Code (NDCC) Section 54-60-11.
2. Report from the Commissioner of Commerce on the status of the American Indian Business Development Office and the status of the International Trade and Business Office under NDCC Sections 54-34.3-06(1) and 54-34.3-14.
3. Report from the Commissioner of Commerce on the status of the certification program through which the Division of Economic Development and Finance provides training services to local economic developers under NDCC Section 54-34.3-15.
4. Report from the Commissioner of Commerce on the status of the image information program under NDCC Section 54-60-12.
5. Report from the Commissioner of Commerce on the status of the business hotline program under NDCC Section 54-60-13.
6. Report from the Commissioner of Commerce on the status of the Dakota Manufacturing Initiative created under Section 45 of Senate Bill No. 2018.
7. Report from the Commissioner of Commerce before July 1, 2006, on the outcome of the Department of Commerce study of the state's intellectual property laws as they relate to the protection of intellectual property rights. The study and reporting requirement were created by Section 51 of Senate Bill No. 2018.
8. Report from the Commissioner of Commerce before July 1, 2006, on the outcome of the Department of Commerce study of the state's economic development incentives. The study

and reporting requirement were created by Section 52 of Senate Bill No. 2018.

9. Report from the president of the Bank of North Dakota on the status of the Bank's investment in alternative and venture capital investments and early-stage capital funds under NDCC Section 6-09-15(4)(c).
10. Report from the State Board of Higher Education and the Centers of Excellence Commission on the status of the centers of excellence program under NDCC Chapter 15-69.
11. Report from the chancellor of the University System before July 1, 2006, on the outcome of the State Board of Higher Education study of incentives the state could adopt to serve as catalysts for stimulating more efficient commercialization of new technologies. The study and reporting requirement were created by Section 22 of Senate Bill No. 2032.
12. Report from the director of the Office of Management and Budget on the status of providing procurement information through the Internet under NDCC Section 54-44.4-14 and on the outcome of the director's procurement assistance center study.
13. Annual reports from the Department of Commerce Division of Community Services on renaissance zone progress under NDCC Section 40-63-03.

Committee members were Representatives Rick Berg (Chairman), Dawn Marie Charging, Donald L. Clark, Donald D. Dietrich, Mark A. Dosch, Eliot Glasheim, Pam Guleson, Jim Kasper, Bob Martinson, Lisa Meier, Eugene Nicholas, Kenton Onstad, Dan J. Ruby, Elwood Thorpe, and Clark Williams and Senators April Fairfield, Nicholas P. Hacker, Duane Mutch, Randy A. Schobinger, John O. Syverson, Ryan M. Taylor, and John M. Warner.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 2006. The Council accepted the report for submission to the 60th Legislative Assembly.

## REPORTS

### One-Time Status Reports

#### **American Indian Business Development Office and International Trade and Business Office**

The committee received a report from the Commissioner of Commerce on the status of the American Indian Business Development Office and the status of the International Trade and Business Office. The reporting requirement provides:

During the 2005-06 interim, the commissioner of commerce shall report to the legislative council on the status of the North Dakota American Indian business development office and the status of the international business and trade office; whether the North Dakota American Indian business development office

and international business and trade office should continue; whether the division of economic development and finance should continue to contract with a third party for international business and trade office services; and whether there are potential changes that could be made to enhance the support of American Indian businesses and to enhance the support of international trade by North Dakota businesses.

The Commissioner of Commerce reported the American Indian Business Development Office and the International Business and Trade Office should continue to exist and the Department of Commerce should continue to contract with a third party to provide the services of these offices.

The Commissioner of Commerce reported potential changes that could be made to enhance the support of American Indian businesses in the state include exploration of beginning a North Dakota chapter of the National Minority Supplier Development Council. The commissioner reported potential changes that could be made to enhance the support of international trade by North Dakota business include:

1. Establish a mechanism using the Bank of North Dakota to help exporters bridge the finance gap for entry-level exporters. A state finance program would help exporters build their businesses to the level at which they would qualify for federal assistance from the United States Export-Import Bank, the Small Business Administration Export Finance Division, or private insurance and funding organizations.
2. Create an export business expansion fund through which companies could competitively approach the International Business and Trade Office Board of Directors for funds to expand their international business by executing solid business plans. These would be soft dollars, typically not offered by banks or federal funding mechanisms, particularly for manufacturing firms. This fund would operate under a model similar to the Agricultural Products Utilization Commission (APUC).
3. Draft a clear and concise legislative directive to solve North Dakota's statewide intermodal transportation challenges.
4. Expand international business expertise through the use of foreign student graduates. This would entail expanding existing foreign student recruitment, bringing sorely needed new tuition dollars, new students, and international business expertise into the state's economy.
5. Continue the International Business and Trade Office core business growth with required increases for rent, capital equipment, two additional senior managers, associated operating expenses, education, and seminar funds.
6. Expand North Dakota's public relations efforts to include high-level international publications that could put North Dakota and North Dakota

companies on the map and bring them viable business leads.

### **Local Economic Developer Certification Program**

The committee received a report from the Commissioner of Commerce on the status of the certification program through which the Department of Commerce Division of Economic Development and Finance provides training services to local economic developers under NDCC Section 54-34.3-15. The reporting requirement provides:

During the 2005-06 interim, the commissioner of commerce shall report to the legislative council on the status of the certification program through which the division of economic development and finance provides training services to local economic developers. The report must include information regarding what services have been provided under the program to assist local economic developers, to whom the services were provided, local economic developer level of satisfaction with the program, whether the program should continue, and whether there are changes that could be made to better assist local economic developers.

The Commissioner of Commerce provided the committee with information regarding the status of implementation of the local economic developer certification program, including a summary of the services provided, to whom the services are provided, and the level of satisfaction of local economic developers receiving certification. The commissioner reported the program should continue with appropriate funding. In addition to providing the certification, the commissioner reported the Department of Commerce developed and implemented an orientation program to assist new developers to understand the programs and services available through the Department of Commerce and other partner agencies. The commissioner did not recommend any changes to the certification program.

### **Image Information Program**

The committee received a report from the Commissioner of Commerce on the status of the image information program under NDCC Section 54-60-12. The reporting requirement provides:

During the 2005-06 interim, the commissioner of commerce shall report to the legislative council on the status of the image information program. The report must include information regarding what information the program provides to state agencies and state agencies' employees, the manner in which the information is provided, the state agencies reached through the program, whether the program has been expanded to provide information to the private sector, whether the program should continue, and whether there are potential changes that could be made to better enhance the state's and private sector's ability to present a positive image of the state.

The Commissioner of Commerce reported on the status of the implementation of the image information program through the KnewView workshop, information provided to attendees of KnewView workshops, the manner through which workshop information is presented to attendees, and which state agencies have participated in KnewView workshops.

The Commissioner of Commerce reported the image information program should continue and recommended the Legislative Assembly consider expanding the program to the private sector.

### **Business Hotline Program**

The committee received a report from the Commissioner of Commerce on the status of the business hotline program under NDCC Section 54-60-13. The reporting requirement provides:

During the 2005-06 interim, the commissioner of commerce shall report to the legislative council on the status of the business hotline program. This report must include information regarding what information the program provides to callers; the number of calls made to the business hotline number; the manner in which the information is provided to callers; followup data; how the program is marketed; whether the program should continue; and whether there are potential changes that could be made to improve the dissemination of business information to businesses in the state, to persons planning on starting a business in the state, and to businesses wishing to do business in the state.

The Commissioner of Commerce reported on the status of the implementation of the business hotline program; the number and features of calls made to the hotline from February 1, 2006, through July 17, 2006; the nature of the information provided to these callers for this period; and how the hotline has been marketed. The commissioner reported it was too early to determine whether the hotline program should continue. Additionally, the commissioner recommended a potential change that could be made to improve the dissemination of business information to businesses may include providing a web-based one-stop shop for business questions.

### **Dakota Manufacturing Initiative**

The committee received a report from the Commissioner of Commerce on the status of the Dakota Manufacturing Initiative. The reporting requirement provides:

During the 2005-06 interim, the commissioner of commerce shall report to the legislative council on the status of the Dakota manufacturing initiative. This report must include information regarding how the initiative has been established and regarding the activities of the Dakota manufacturing extension partnership, incorporated. The commissioner shall include in the report whether the state should continue this initiative

or whether the goal of assisting manufacturers would be better served by alternative means. The commissioner shall report whether there are potential changes that could be made to improve the networking of manufacturing businesses and other suppliers in this state.

The Commissioner of Commerce reported The Dakota Manufacturing Extension Partnership (TD MEP) entered a contract with the Department of Commerce to:

- Complete a feasibility study of how manufacturers can best benefit through a membership organization and what TD MEP would need to do to be of value in developing and supporting that membership; and
- Implement a consortium of major manufacturers--original equipment manufacturers--that will be committed to improving the quality of the existing supply base and that believe this consortium can be a tool to enhance the long-term collaborative relationships with supplier companies.

The Commissioner of Commerce reported a membership of collaboration to address key manufacturing issues, needs, and opportunities should be supported by the state through TD MEP. However, the commissioner reported TD MEP should not support an independent manufacturing association at this time but should rather focus on an acceleration of the mission and scope of TD MEP in North Dakota.

The Commissioner of Commerce reported a strategy should be developed to further the success that has been started this biennium by the North Dakota original equipment manufacturers and their supplier companies. The commissioner reported the initiative should be extended to assist suppliers that are seeking to strengthen their own lean manufacturing skills.

The Commissioner of Commerce reported potential changes that could be made to improve the networking of manufacturing businesses and other suppliers in this state include:

1. Increase the state's support for TD MEP beyond the baseline amount of \$475,000 per year--the amount of the federal MEP level of support--by an additional \$500,000 per year for the 2007-09 biennium. This increased funding would allow TD MEP to participate in national initiatives and partnerships of the federal MEP as well as other state and regional initiatives of MEP centers in the national MEP system.
2. Develop strategies to provide that manufacturers that receive state assistance seek to develop effective outcome-based partnerships with TD MEP.

### **Investment in Alternative and Venture Capital Investments**

The committee received two reports on the status of the Bank of North Dakota investment in alternative and venture capital investments and early-stage capital funds under NDCC Section 6-09-15(4)(c). The reporting requirement provides:

During the 2005-06 interim, the president of the Bank of North Dakota shall report to the

legislative council on the status of the Bank's investments in alternative and venture capital investments and early-stage capital funds under subdivision c of subsection 4 of section 6-09-15. The president shall inform the legislative council whether this investment program should continue and whether there are potential changes that could be made to improve the state's venture capital and early-stage capital investment structure.

As part of the report provided on October 26, 2005, the committee received the following information regarding the 12 projects the Bank committed to:

Name	Amount Committed
Alien Technology	\$2,450,000
Dynasecco, Inc.	75,000
Grizella Corporation	300,000
Feed Management	500,000
Vanguard Manufacturing	385,000
Red Trail Energy	500,000
Hensley Aircraft	75,000
Vtrenz	275,042
GYG Technologies	100,000
SEO Precision	50,000
Results Unlimited	300,000
Gruby Technologies	150,000
Total	\$5,160,000 <sup>1</sup>

<sup>1</sup>Of the total amount committed, only \$1,045,037 has been funded.

It was reported that of these 12 projects, 8 were structured as equity investments and the other 4 were structured as loans. Generally, these projects were startup companies and the committee received testimony that the fund typically does not commit more than \$300,000 per project.

As part of the report provided July 19, 2006, the committee received information that as of June 30, 2006, the Bank had funded three loans for \$605,000, had entered four investments for \$1,431,360, had issued commitments for an additional \$3,062,874, and had reserved an additional \$1 million for a large North Dakota project. It was reported that as of the date of the second report, remaining funds available under the program totaled \$3.9 million. The president of the Bank reported the \$10 million cap on the program is adequate at this time and recommended that no changes be made to the program.

### Centers of Excellence Program

The committee received two reports from the State Board of Higher Education and the Centers of Excellence Commission on the status of the centers of excellence program under NDCC Chapter 15-69. The reporting requirement provides:

During the 2005-06 interim, the state board of higher education and the centers of excellence commission shall report to the legislative council on the status of the centers of excellence program under section 4 of this Act. The report must include information regarding approved and rejected applications; funding; private sector participation; accomplishments of each center of excellence, including information regarding how each center of

excellence is meeting, or will meet, the criteria under section 4 of this Act; and whether there are potential changes that could be made to improve the centers of excellence program.

The committee received the first report on the centers of excellence on October 26, 2005, and the second report on August 30, 2006. The reports included information on the application process, including the funding criteria used, the funding approval process, and the funding distribution criteria; the approved and rejected center applications; the funding for approved centers; private sector participation for each approved center; and potential changes that could be made to improve the centers of excellence program. A representative of the Centers of Excellence Commission testified that because each of the centers of excellence only recently received funding, there has not been adequate time to record and track their accomplishments.

The committee received a copy of the center of excellence application. The following 11 criteria of proposed centers are listed in the center application as factors the commission considers in making center designation and funding recommendations:

1. Whether the proposed center will use university or college research to promote private sector job growth and expansion of knowledge-based industries or use university or college research to promote the development of new products, high-tech companies, or skilled jobs in this state.
2. Whether the proposed center will create high-value private sector employment opportunities in this state.
3. Whether the proposed center will provide for public-private sector involvement and partnerships.
4. Whether the proposed center will leverage other funding, such as using funds to enhance capacity, enhance infrastructure, and leverage state, federal, and private sources of funding.
5. Whether the proposed center will increase research and development activities that may involve federal funding from the National Science Foundation experimental program to stimulate competitive research.
6. Whether the proposed center will foster and practice entrepreneurship.
7. Whether the proposed center will promote the commercialization of new products and services in one of the following industry clusters--advanced manufacturing, energy, information and technology, tourism, value-added agriculture, or an industry, including the aerospace industry, or an industry cluster specifically identified by the Department of Commerce as an industry that will contribute to the gross state product.
8. Whether the proposed center will become financially self-sustaining.
9. Whether the proposed center will establish and meet a deadline for acquiring and expending all

public and private funds specified in the application.

10. Whether the proposed center has established community support.
11. Whether the proposed center has established collaboration among institutions.

The first nine criteria factors were statutorily created and the last two criteria factors were created by the Centers of Excellence Commission.

The report provided the following 11 centers have been approved:

Name of Center of Excellence			
Award	Matching Funds	Private Sector Partners	Job Creation
<b>University of North Dakota Energy and Environmental Research Center National Center for Hydrogen Technology</b> \$2.5 million	\$8,875,900 at time of approval - Over \$20 million in contracts at time of report	ePower, Kraus Global, Inc., Basin Electric, Phoenix Industries, and Xcel Energy	100
<b>North Dakota State University Center for Advanced Electronics Design and Manufacturing</b> \$3 million	\$6 million	Alien Technology Corporation, Crane Aerospace and Electronics, and Clinical Services Management	Successful outcome of research will lead to dozens of new high-paying jobs.
<b>Bismarck State College Energy Center of Excellence</b> \$3 million	Up to \$12,232,000	Great River Energy, Basin Electric, Reliant Energy, MDU, North American Coal, Westmoreland Coal, and Minnesota Power/BNI Coal	Energy industry anticipated 3,350 new construction jobs and 728 new technician jobs will be created as a result of new plants being constructed.
<b>Lake Region State College Dakota Center for Technology Optimized Agriculture</b> \$450,000	\$1,317,650	Agri ImaGIS, Total-Crop Farming Systems, and Summers Manufacturing	Jobs will be created through product development work at partnering technology companies; testing and evaluation work at the farm and experiment station sites; and expanded manufacturing jobs resulting from new product enhancements.
<b>University of North Dakota Research Foundation Center of Excellence in Life Sciences and Advanced Technologies</b> \$3.5 million	\$10,258,000	Alion, Avianax, Agragen, BORDERS, Ideal Aerosmith, Intraglobal Biologics, MC Strategies, Prologic, Cangene, Cirrus, SEI, and ImClone	100 to 150
<b>North Dakota State University Center for Surface Protection</b> \$2 million	\$4 million	Gremada Industries, Tecton, Gamry, AKZO-Nobel, and Marvin Windows & Doors	40 to 45
<b>North Dakota State University Center for Agbiotechnology: Oilseed Development</b> \$2 million	\$10,750,000	Monsanto, Archer Daniels Midland, and Dakota Skies Biodiesel	2,472
<b>University of North Dakota Center of Excellence for Unmanned Aerial Vehicle and Simulation Applications</b> \$1 million	\$4.2 million	Lockheed Martin, Alion Science & Technology, Frasca International, and Cirrus Aircraft	15 private and 10 public
<b>Williston State College Petroleum Safety and Technology Center</b> \$400,000	\$1,343,468	Hess, Halliburton Energy Services, Sanjel, S & S Chemical, Baker Oil Tools, Nabors Well Service, Penkota Wireline Services, Sun Well Service, Schlumberger, Nabors Drilling, Natco, Encore, Tioga Gas Plant, Basint Tubin' Testin', Bear Paw Energy, Double EE, Enbridge Pipelines, Key Energy, Red River Supply, and SK & S Oilfield Services	400 per year with 1,600 by 2010
<b>Valley City State University Institute for Customized Business Solutions</b> \$1 million	\$4,912,046	Eagle Creek Software, Eide Bailly Technology Consulting, GEM Car, and MeritCare	200 by 2010
<b>Dickinson State University Center for Entrepreneurship and Rural Revitalization - Institute for Technology and Business</b> Unreported	\$2,981,442	Killdeer Mountain Manufacturing	Up to 120 over five years

The report provided the following seven applications were submitted but did not receive a designation recommendation by the commission:

1. Mayville State University Center for Security and Protection Applications and Research;
2. Minot State University Center for Creativity;
3. Minot State University - Bottineau Entrepreneurial Center for Horticulture;

4. North Dakota State College of Science Nanoscience Technician Center of Excellence;
5. University of North Dakota Center of Excellence for Aerospace Applied to Earth System Science;
6. University of North Dakota Center of Excellence in Aviation Software Development; and
7. University of North Dakota Center for Rural Service Delivery.

The report included the following potential changes that could be made to the centers of excellence program:

- Allow the commission to access centers of excellence funds for the purpose of conducting technical review of applications as necessary.
- Designate the Department of Commerce as the primary agency to provide administrative staff support to the commission, while continuing to have North Dakota University System involvement.
- Allocate centers of excellence funds to the Department of Commerce for the purpose of conducting the due diligence reviews on proposals and assisting the commission in continuing followup and monitoring approved centers.
- Allow noncash types of match for the private sector match.
- Support flexibility to allow the centers of excellence eligibility requirements to address a dynamic economy.
- Recognize that each center of excellence is demand-driven by private sector partners that have a majority influence in determining priority needs.

Addressing a committee concern that the centers of excellence program is being used as a workforce program instead of a job creation program, a representative of the Centers of Excellence Commission and a representative of the State Board of Higher Education testified that although workforce is not a statutory criteria for center of excellence designation, workforce is a positive spin-off of center designation because having a prepared workforce provides a competitive edge to businesses. They testified workforce is a recognized component of job creation and economic development.

Addressing the committee concern that the institutions of higher education are driving the center application and designation process, a representative of the Centers of Excellence Commission and a representative of the State Board of Higher Education testified although the recommended centers have been industry-requested programs and the commission ensures due diligence is taken to make sure there is a private sector need and private sector support for the proposed center, the first round of center of excellence applications was unique because several of the university and private sector interests had been sitting, waiting for the opportunity to apply for center designation. Future round applications will likely differ in this respect.

Addressing the committee concern that a private sector partner could withdraw from participation, a representative of the Centers of Excellence Commission testified that if a center of excellence project is approved but does not pull together its required funding, the state funding will not be disbursed.

A representative of the Centers of Excellence Commission testified it is very important that there be a scientific review at the front end of the centers of

excellence application process, but the commission needs flexibility in determining whether to conduct an independent study or review of the application.

### **Procurement Web Site**

The committee received a report from a representative of the director of the Office of Management and Budget on the status of providing procurement information through the Internet under NDCC Section 54-44.4-14.

A representative of the Office of Management and Budget reported the existing online bidders list system was enhanced to provide for the procurement information web site. The Office of Management and Budget contracted with the Information Technology Department to perform this enhancement.

The report indicated the new web site allows state agencies, the State Board of Higher Education, political subdivisions, and public education entities to log into the system to upload bid documents. The public can access the system from the state procurement online web site to search for current bid opportunities and bid results as well as to search archives of closed bidding opportunities. The system provides businesses that are on the state bidders list will receive e-mail or fax notification of solicitations posted to the web site.

The report provided that in addition to implementing NDCC Section 54-44.4.14, the new system also implements 2005 House Bill No. 1341, which provided for notification of bidders regarding an agency's intent to make a limited, noncompetitive, or cooperative purchase instead of conducting a fully competitive procurement process.

## **Study Reports**

### **Procurement Assistance Center Study**

The committee received a report from a representative of the director of the Office of Management and Budget on the outcome of the director's procurement assistance center study.

The recommendations outlined in the study report were:

1. Fund a North Dakota procurement technical assistance center to assist businesses in obtaining federal, state, and local government contracts;
2. Designate the Office of Management and Budget as the host agency of the North Dakota procurement technical assistance center; and
3. Once the federal procurement technical assistance center grant application is announced, the Office of Management and Budget or an entity designated by the Office of Management and Budget should submit an application for federal grant funds in order to expand the services offered by the North Dakota procurement technical assistance center.

The report indicated the recommendation of the Office of Management and Budget was that a North Dakota procurement technical assistance center be funded with state funds and not be dependent on federal funds for its continued existence. Federal grant money

that may be available should be used to expand the statewide program.

The study concluded legislation would not be required to create a North Dakota procurement technical assistance center, which would require the following appropriation and budget authority for the 2007-09 biennium:

- State fund appropriation of \$400,000;
- Federal funding spending authority of \$350,000; and
- Authorization for five full-time equivalent positions.

### **Economic Development Incentives Study**

The committee received a report from the Commissioner of Commerce on the outcome of the Department of Commerce study of the state's economic development incentives. The study and reporting requirements provide:

During the 2005-06 interim, the department of commerce shall conduct a study of the state's economic development incentives. The study must include an inventory of all of the state's economic development incentives, a review of the nature of each incentive, an indication of the targeted class of recipients of each incentive, an indication of the stage of business targeted by each incentive, an analysis of possible barriers to using the incentives, an analysis of possible gaps and overlaps in the state's economic development incentive system, a review of the effectiveness of each incentive and how to gauge the effectiveness of each incentive, and a review of economic development incentive best practices and how the state's incentives compare to best practices. The department of commerce may contract with a third party in performing this study. Before July 1, 2006, the commissioner of commerce shall report to the legislative council the outcome of the study and identify proposed legislative changes necessary to implement any recommended changes to the state's economic development incentive system to make the state's business environment more effective, efficient, and competitive.

The Commissioner of Commerce testified that in conducting the study, the Department of Commerce compiled an inventory of all the state's economic development incentives and contracted with two consultants to perform the analysis of the items in the inventory.

As part of the report, the committee received an inventory of the state's economic development incentives which specified for each incentive:

- The stage of business for which the incentive applies;
- The statutory site providing for the incentive;
- The amount of the incentive and the specified conditions to qualify for receipt of the incentive;
- A description of the incentive;
- The number of users of the incentive;

- The program funds distributed over the course of the 2003-05 biennium;
- Whether the terms of the distribution of funds is statutory or discretionary;
- If the incentive is a tax credit:
  - Whether the credit allows for a carryforward and for what period of time;
  - Whether the credit is refundable; and
  - Whether the credit is marketable;
- Whether the incentive is location-specific and, if so, what location;
- Whether the incentive specifically addresses a target industry;
- Whether the incentive has a job creation requirement;
- Whether the incentive has an investment requirement;
- Whether the incentive has a wage requirement;
- The sources of funding for the incentive; and
- The effective date and any expiration date of the law providing for the incentive.

The committee also received a copy of the consultants' analysis of the economic development incentives entitled *Economic Development Incentives in North Dakota - A Study for the North Dakota Department of Commerce*. The consultants reviewed the legislative background for performing the study, the steps taken in conducting the study and related analysis, the central themes that emerged in the course of conducting the analysis, and the recommendations that followed as a result of this study and analysis.

The recommendations included in the report included:

- The state needs a reliable means for notifying qualified businesses, in advance, about the possible constraints posed by the annual ceiling on the seed capital investment tax credit.
- The state should select the most relevant tax incentives and make these eligible for use on both the short form and long form. The remaining tax incentives should be allowed to expire.
- The Legislative Assembly should reexamine the validity of even having the long form for taxes. If an incentive is worthy of being placed in statute, the incentive should be allowed to be used by the taxpayers.
- North Dakota should consider utilizing refundable credits that can put cash in the hands of smaller businesses.
- North Dakota should consider funding soft skills training and transition assistance for workers trying to upgrade their job skills. Furthermore, North Dakota needs to consider programs aimed at recruiting workers from out of state and retention of existing workers, including internship programs that can address the needs of employers while exposing young people to opportunities in North Dakota.
- North Dakota should consider an adjustable scale for jobs and cost per job and allowing businesses

of local importance to qualify for assistance, regardless of whether the business is a primary sector business.

- North Dakota should consider initiating a fund for commercialization of new technologies as other states--such as Michigan--are pursuing this course rather aggressively.
- North Dakota should explore options for offering incentives to attract tourism facilities and incubators.
- North Dakota should explore adding more inclusive incentives for the use of machinery and tools.
- North Dakota should explore a statewide program option for supporting the development of infrastructure for the 21st century.
- If the research and development tax credit cannot be made more user-friendly, North Dakota should explore other means of encouraging research and development, including grants and loans.
- North Dakota should consider adding a special fund that would take emerging research ideas from the laboratory or research facility to the product stage.
- North Dakota should consider modifying the business incentive accountability law to require every incentive program to develop, implement, and report on an acceptable performance measurement system.
- North Dakota should undertake a study to review the cost and benefits of the state's tax expenditures.

The consultants testified the recommendation regarding a performance measurement system for economic development incentives is not because the incentive programs are not performing ongoing evaluations of their own performance but instead is recommended because it would provide for consistency and transparency.

One of the consultants testified that the recommendation regarding attracting tourism facilities addresses an issue that is not unique to North Dakota. Many states unintentionally exclude the tourism industry in the states' economic development incentives. One way to address this is to specifically include tourism as a qualified recipient in economic development programs.

### **Commercialization of New Technologies and Intellectual Property Studies**

The committee received a combined report from the chancellor of the North Dakota University System and the Commissioner of Commerce on the combined studies of the State Board of Higher Education study of incentives the state could adopt to serve as catalysts for stimulating more efficient commercialization of new technologies and the Department of Commerce study of the state's intellectual property laws as they relate to the protection of intellectual property rights. The study and reporting requirements provide:

During the 2005-06 interim, the state board of higher education shall conduct a study of incentives the state could adopt to serve as

catalysts for stimulating more efficient commercialization of new technologies. The study must include roundtable discussions; include consideration of leveraging research, capital, and entrepreneurs; include consideration of successful actions taken by other states to increase technology commercialization; and focus on approaches that are specifically tailored to the state's unique circumstances. The board may contract with a third party to conduct the study. Before July 1, 2006, the chancellor of the North Dakota university system shall report to the legislative council the outcome of the study and identify proposed legislative changes necessary to implement any recommendations to stimulate technology commercialization in this state.

During the 2005-06 interim, the department of commerce, in consultation with the state board of higher education, shall conduct a study of the state's intellectual property laws as they relate to the protection of intellectual property rights. The study must include a review of the state's intellectual property laws, including barriers that may inhibit research and development in the state, and must include consideration of successful actions taken by other states to improve the protection of intellectual property rights. The department shall contract with a third party in performing this study. Before July 1, 2006, the commissioner of commerce shall report to the legislative council the outcome of the study and identify proposed legislative changes necessary to implement any recommendations to improve the protection of intellectual property rights.

The Commissioner of Commerce and the chancellor of the North Dakota University System reported they decided to work together and combine their resources in performing the two studies. The chancellor testified he looks forward to having the State Board of Higher Education implement some of the recommendations that resulted from this study. The Commissioner of Commerce testified that the contract to perform the two studies was awarded to an independent, nonprofit research organization that serves academic, government, and commercial clients worldwide.

The consultant presented the report on the two studies *Intellectual Property and Technology Commercialization in North Dakota*. Because commercialization and intellectual property rights are topics that are so intertwined, the two studies were combined and performed as one. The six areas of focus and related recommendations specifically pertaining to technology transfer addressed:

1. Research capacity;
2. Intellectual property and technology transfer;
3. Entrepreneurship;
4. Access to capital;
5. Cluster-based economic development; and



6. Organizing to support science and technology-based economic development.

The five areas of focus and related recommendations specifically pertaining to intellectual property addressed:

1. Open meetings and open records;
2. Research foundations as public entities;
3. Trade secrets;
4. Noncompete agreements; and
5. State Board of Higher Education policies.

## **Statutory Reports**

### **Renaissance Zone Progress**

Under NDCC Section 40-63-03, the committee received annual reports from the Department of Commerce Division of Community Services on renaissance zone progress.

### **Target Industries**

Under NDCC Section 54-60-11, the committee received the biennial report from the Commissioner of Commerce on the process used and factors considered by the commissioner in identifying target industries on which economic development efforts are focused and the special focus target industry. Section 54-60-11 provides:

#### **Target industries - Report to legislative council.**

The commissioner shall identify target industries on which the commissioner shall focus economic development efforts. The commissioner shall designate one of these target industries as a special focus target industry. In identifying and updating target industries, the commissioner shall solicit the advice of the foundation and the North Dakota university system. The commissioner may contract for the services of a third party in identifying target industries. The commissioner shall report biennially to the legislative council. This report must include information regarding the process used and factors considered in identifying and updating the target industries, the specific tactics the department has used to specifically address the needs of the target industries, the unique tactics and the specific incentives the department has used to support the growth of the special focus target industry, and any recommended legislative changes necessary to better focus economic development services on these industries.

The Commissioner of Commerce reported the five target industries were formalized and adopted by Governor John Hoeven and the North Dakota Economic Development Foundation as part of the state's strategic plan for economic development. The target industries identified were energy, value-added agriculture, technology-based businesses, advanced manufacturing, and tourism. The commissioner reported that although the five target industries have not changed this interim, efforts will be taken to narrow the focus within these target industries on areas with the most opportunities for long-term growth. Additionally, the commissioner

reported the Department of Commerce continually analyzes the target industries to keep abreast of the dynamics at play in each industry and to identify opportunities and tactics for growth.

The Commissioner of Commerce reported the energy industry was the special focus target industry. Energy was chosen because of its increasingly important role in North Dakota's economy. With petroleum production rising in western North Dakota and renewable energy projects being developed across the state, renewable fuels, such as ethanol and biodiesel, are not only important energy sources, but are also a form of value-added agriculture.

With a special focus on the target industry of energy, the Commissioner of Commerce provided a summary of the activities relating to each of the target industries. The three key recommendations of the report were:

1. Refine the state's economic development targets to focus more exclusively on projects that can be defended in a global economy, including:
  - a. Narrowing the focus within each of the state's target industries to those niche areas that can be best defended from offshore competition;
  - b. Creating a strategy office within the Department of Commerce to help drive this new activity; and
  - c. Defining what it means to be a highly responsive economic development entity and then holding the various divisions of the Department of Commerce accountable to those standards.
2. Develop an explicit people development strategy to address the growing shortage of highly trained labor in the state, including:
  - a. Defining and implementing programs to recruit smart entrepreneurial individuals to the state and to encourage those individuals already here to stay by:
    - (1) Expanding university academic scholarship programs to draw high-level candidates; and
    - (2) Investing in infrastructure that will help improve quality-of-life amenities in North Dakota cities.
  - b. Expanding the current support for entrepreneurial ventures by:
    - (1) Reauthorizing and growing the centers of excellence program; and
    - (2) Developing a venture capital fund and other new venture programs to focus on the existing individuals and intellectual capital infrastructure in the state.
  - c. Reviewing the state's secondary and undergraduate education systems to bolster the state's competitive position in the global economy by:
    - (1) Enhancing the business-professional preparation available at four-year

undergraduate institutions in the state; and

- (2) Raising the profile of competitive, disciplined, and entrepreneurial academic activities to match the attention paid to interscholastic and intercollegiate athletics.
3. Engage in rapid results projects to achieve concrete program results, including:
  - a. Employing a back-planning approach to determine what things will need to change, and the sequence of that change, in order to achieve the state's vision in each of its target industries within prescribed time-frames.
  - b. Initiating and completing a series of 100-day projects to quickly create momentum and generate real progress toward these objectives.

The four specific legislative changes recommended in the report were:

1. Establish a state-funded visitor information center program in an effort to encourage visitors to stay longer and return for future trips. This program could assist with staffing cost in order to extend the hours, allowing visitors to access information later in the evening and on weekends. The Department of Commerce could provide training for visitor information center personnel.
2. Create a small pilot grant program for the expansion or development of tourism-based businesses and destinations.
3. Provide a matching fund program for communities to improve the look of their towns to become more attractive to tourists.
4. Consider recommendations from the Department of Commerce-commissioned study, *Global Competition and North Dakota's Target Industries*, in light of the current business climate study process.

### Recommendations

The committee recommendations relating to the reports are addressed in **BUSINESS CLIMATE STUDY, Recommendations**.

### BUSINESS CLIMATE STUDY

In addition to working with the Department of Commerce, the committee received assistance from the Greater North Dakota Chamber of Commerce in conducting the business climate study. The Legislative Council contracted with two private consultants to provide professional services to plan, facilitate, report on, and coordinate followup for the focus groups and Business Congress.

### North Dakota Legislative Background

The 2005-06 North Dakota business climate initiative is part of a three-interim initiative of the Legislative Council. During the 2003-04 interim, in accordance with House Bill No. 1504 (2003), the Legislative Council's

Economic Development Committee conducted a primary sector business climate study. That committee recommended Senate Bill No. 2032 (2005), which under Section 17 provides for a two-interim continuation of the activities begun under House Bill No. 1504 (2003). Through the course of the 2005 legislative session, several of the provisions of Senate Bill No. 2032, as introduced, were relocated to Senate Bill No. 2018, the appropriation bill for the Department of Commerce. Therefore, the initiatives of the 2003-04 Economic Development Committee are identified as being from either Senate Bill No. 2032 or Senate Bill No. 2018.

### 2005 Legislation

The Legislative Assembly enacted a majority of the programs recommended by the 2003-04 interim Economic Development Committee as part of the business climate initiative bill. As enacted, Senate Bill No. 2032, the business climate initiative bill, recommended by the committee:

- Extended and expanded the Bank of North Dakota's authority to invest its funds in North Dakota alternative and venture capital investments and early-stage capital funds.
- Rewrote the centers of excellence law, repealing the existing North Dakota Century Code section and creating a new chapter.
- Modified the membership of the Emergency Commission.
- Directed the Office of Management and Budget to establish a procurement information Internet web site.
- Modified the seed capital investment tax credit laws.
- Repealed the laws relating to venture capital corporations and the Myron G. Nelson Fund, Inc., effective August 1, 2007.
- Required the two studies assigned to the Economic Development Committee--the North Dakota business climate initiative and venture and risk capital.
- Required multiple agency studies and reports to the Legislative Council, a majority of which the Legislative Council assigned to the Economic Development Committee.

As enacted, Senate Bill No. 2018, the Department of Commerce appropriation, included several provisions that came from the recommendations of the 2003-04 interim Economic Development Committee. These provisions:

- Modified the organization of the Department of Commerce Division of Economic Development and Finance, renaming and modifying the International Business and Trade Office and clarifying the duties of the North Dakota American Indian Business Development Office.
- Created a Department of Commerce Division of Economic Development and Finance program for local economic developer certification.
- Required the Commissioner of Commerce to identify target industries.

- Provided for a Department of Commerce program for North Dakota image information.
- Provided for a Department of Commerce business hotline program.
- Provided for a Dakota Manufacturing Initiative, through which the Department of Commerce was directed to seek to contract with TD MEP.
- Required multiple agency studies and reports to the Legislative Council, a majority of which were assigned to the Economic Development Committee.

#### **2005-06 Interim Studies**

In addition to the activities of the Economic Development Committee during the 2005-06 interim, there were several committees charged with economic development-related studies and receipt of economic development-related reports.

The economic development-related charges of the interim Agriculture and Natural Resources Committee included a study of the utilization of the state's abundant energy resources to attract energy-intensive economic development projects to the state.

The economic development-related charges of the Budget Section included:

1. Approve, with the Emergency Commission, borrowing of up to \$5 million by the Office of Management and Budget as requested by the Centers of Excellence Commission for the purpose of providing funding to centers of excellence;
2. Receive a report from the Department of Commerce after July 1, 2006, on the use of grant funds provided to the Rural Development Council to match federal funds;
3. Receive a report from the Department of Commerce after July 1, 2006, on the use of grant funds provided to the Red River Valley Research Corridor to match federal funds;
4. Receive a report from the Department of Commerce after July 1, 2006, on the use of grant funds provided to the North Dakota center for technology program;
5. Receive a report from the Department of Commerce after July 1, 2006, on the use of funding for grants in the partners in marketing grant program; and
6. Receive a report from the Commissioner of Commerce annually during the 2005-06 interim regarding North Dakota economic goals and associated benchmarks.

The economic development-related charges of the interim Industry, Business, and Labor Committee included:

1. Study the unemployment insurance tax rate structure; the structure's impact on the unemployment insurance trust fund, with special focus on the impact of the current unemployment insurance tax structure on new businesses; the historical cyclical risks faced by the industries in which new businesses are beginning to operate; and whether the

unemployment insurance tax impact is reasonably favorable to the desired economic development of the state;

2. Receipt of report from the Agricultural Research Board on its annual evaluation of research activities and expenditures;
3. Receipt of report from Workforce Safety and Insurance on recommendations based on the safety audit of Roughrider Industries work programs and performance audit of modified workers' compensation coverage program; and
4. Receipt of report from the Insurance Commissioner before July 1, 2006, on the outcome of the commissioner's compilation of existing data regarding the state's liability insurance marketplace.

The economic development-related charges of the interim Transportation Committee included receipt of a report from the Upper Great Plains Transportation Institute on the outcome of the institute's study of how improvements to the transportation infrastructure of this state might enhance the business climate and the state's competitive position in economic development.

#### **2003-04 Interim Studies**

Under House Bill No. 1504 (2003), the 2003-04 Economic Development Committee studied the state's business climate, including the creation of an index of key objective measurements that address the state's competitiveness with other states, the consideration of methods of creating business partnerships with North Dakota Indian tribes in order to increase primary sector business growth in the state, and active participation in the activities of the Primary Sector Business Congress. In conducting the study, the Legislative Council was directed to conduct a Primary Sector Business Congress. The purpose of the congress was to assist in the business climate study, evaluate the impact of existing state economic development programs on primary sector businesses, identify methods to increase primary sector business job growth in the state, and prioritize for the Legislative Council the state's primary sector business economic development programs and initiatives.

The Economic Development Committee held nine meetings, which included a joint meeting with representatives of the North Dakota American Indian tribes; six business community focus group discussions, with participation by the business communities of Grand Forks, Fargo, Bismarck, Minot, eastern rural North Dakota, and western rural North Dakota; one focus group discussion specifically for economic developers in the state; and a Primary Sector Business Congress held at the State Capitol in the House chamber.

Using the information gathered during the course of the committee meetings, focus group discussions, and Primary Sector Business Congress, the committee crafted a business initiative and related legislative recommendations. In crafting the committee's business climate initiative, the committee considered the following 21 action items:

1. External image.

2. Internal image.
3. Marketing available resources.
4. International business development.
5. Support for local economic developers.
6. Manufacturing.
7. Procurement.
8. Ongoing consultation on strategies.
9. Targeting industry.
10. Taxes.
11. Tribal businesses.
12. Technology commercialization.
13. North Dakota University System.
14. Venture capital.
15. Workforce development.
16. Education.
17. Intellectual property protection.
18. Liability and insurance.
19. Energy.
20. Transportation.
21. Gauging return on investment for economic development.

The 21 action items fell into one or more of the following five major categories:

1. General business climate;
2. Business services;
3. Image and marketing;
4. Support for local economic development; and
5. Education partnerships.

For each of these 21 action items, the committee took one or more of the following actions:

1. Drafted proposed legislation.
2. Referred the issue to relevant lead agencies or private entities to report additional information to the committee.
3. Directed long-term further study.

The committee drafted and reviewed bill drafts addressing the action items. Written action item-related information provided by agencies and private sector entities was considered in drafting and revising the bill drafts. To address accountability for the committee's business climate initiative following the Primary Sector Business Congress, each bill draft considered by the committee provided for a report to the Legislative Council during the 2005-06 interim on the status of the implementation of the legislation.

After receiving and reviewing all the bill drafts, the committee determined whether to include each separate bill draft in a consolidated bill draft that would reflect the business climate initiative resulting from the Primary Sector Business Congress. Ultimately, the committee recommended two bills. Senate Bill No. 2032 addressed a broad range of economic development and business climate issues and was enrolled. House Bill No. 1031, which did not pass the Senate, would have modified the law relating to tax exemptions within urban renewal development or renewal areas.

### **Focus Group Activities**

During the 2005-06 interim, the committee, with the assistance of the Department of Commerce, held seven half-day focus groups--four for business leaders, two for local economic developers, and one for young

professionals. The business leader focus groups were held in Grand Forks, Fargo, Minot, and Bismarck; the local economic developer focus groups were held in Fargo and Bismarck; and the focus group for young professionals was held in Bismarck. The committee followed the same format for the four business leader focus groups, a slightly modified format for each of the two local economic developer focus groups, and a more informal, abbreviated format for the young professional focus group. The basic format of the focus groups was:

- Welcome and introductions;
- Review of the 2005 legislative package resulting from 2003-04 business climate study;
- Visioning exercise;
- Group interview; and
- Closing remarks.

At each of the focus groups, except the young professional focus group, committee members sat at tables with business leaders and local economic developers while one or both of the two consultants facilitated the focus group. The young professional focus group was organized in response to the input received during the business leader and economic developer focus groups and was an evening focus group attended by young professionals from the Bismarck-Mandan community and facilitated by one of the committee's consultants.

At each focus group, a representative of the Department of Commerce reviewed the Department of Commerce's ongoing activities in the five targeted industries.

### **Visioning Exercise**

Following the welcome and review of 2005 legislation, the consultants conducted a visioning exercise. For this portion of each focus group, the participants received a list of 20 written statements in a survey format, for which participants were asked to note whether they strongly agree, agree, disagree, or strongly disagree with each statement or whether they had no opinion regarding the statement. The consultants recorded participant responses to each of the following statements:

1. North Dakota is a great place to grow my business.
2. If venture capital were more readily available locally, there would be more business growth.
3. Tax policies in North Dakota are, for the most part, supportive of business growth.
4. The cost and availability of energy is not a problem for North Dakota businesses.
5. There is little more that North Dakota universities could do to facilitate economic development.
6. Most businesses are aware of state programs that can assist them.
7. There are plenty of qualified workers available to support business growth in North Dakota.
8. Capital is too expensive and too hard to obtain for businesses in North Dakota.
9. North Dakota should put most of its emphasis on attracting target industries to locate in the state.

10. North Dakota needs to commit more resources to enhancing the availability of qualified workers in the state.
  11. North Dakota has transportation constraints that hinder business growth.
  12. Government should pay more attention to housing, health care, and other quality of life factors that affect business growth.
  13. I know which industries are being targeted by the state for expansion and attraction.
  14. Government policies and incentives have little effect on the commercialization of new technologies.
  15. There are neighboring states that have more business-friendly environments than North Dakota.
  16. State and local economic developers need more incentives to encourage business growth in the state.
  17. Government-administered business finance programs do not have a big impact on business growth in North Dakota.
  18. North Dakota could do more to ensure that we have a well-prepared qualified workforce.
  19. More resources need to be committed to programs that support the growth of existing businesses in North Dakota.
  20. There is little that government can do to improve the state's image to the business community inside and outside of North Dakota.
- b. Are there any specific changes needed in legislation, regulation, funding, program, etc., that might make capital more available?
  - c. Would incentives help leverage more capital for business?
5. Industry targets:
    - a. Are you aware that the state has identified target industries and is refining its targets?
    - b. What industries would you target?
    - c. What kinds of incentives would you offer to target industries?
  6. Technology opportunities:
 

What could the state do to further encourage the commercialization of new technologies?
  7. Transportation and taxes:
    - a. Is transportation a constraint upon the growth of your business?
    - b. Are state or local taxes constraints upon the growth of your business?
    - c. If so, what might be done to improve the situation?
  8. Infrastructure:
    - a. Is the physical infrastructure in place for business growth in North Dakota?
    - b. Is high-tech infrastructure adequate to support business growth in North Dakota?
    - c. What can government do to help?
  9. North Dakota image issues:
    - a. Does the state have an "image problem?"
    - b. Is this an internal or external issue?
    - c. What more could be done to enhance North Dakota's image?

### Group Interview

After the visioning exercise, one of the committee consultants facilitated a group interview, which included soliciting participants' responses to questions that were shown as part of a computer presentation. The participants of the business leader focus groups provided responses to the following questions:

1. Doing business in North Dakota:
    - a. What is the best reason for your business to be in North Dakota?
    - b. What is the biggest barrier to doing business in North Dakota?
  2. Workforce:
    - a. Are your workforce needs being met in North Dakota?
    - b. Are there ways in which state government influences your ability to meet your workforce needs?
    - c. Is there more that the state can do to have a positive influence?
  3. Partners:
    - a. What one thing could the state do to help your business expand in North Dakota?
    - b. How could North Dakota universities be utilized more effectively as partners for your business?
  4. Venture capital:
    - a. Have you found it difficult to obtain venture capital, or any other type of capital, in North Dakota?
1. What is your general take on the business climate and has there been progress since the previous business climate study?
  2. What are the top issues that impact business climate in North Dakota?
  3. What is most in need of improvement?
  4. What should the legislature focus on?
  5. Do local economic development professionals have the tools they need?
  6. Does the state have all the tools it needs?
  7. Are there state programs that are especially effective?
  8. Are there opportunities for collaboration with other localities or with the state which might be more aggressively pursued?
  9. What would you do to enhance current state tools?
  10. Can the state do more to market or publicize its services and assistance?
  11. Is workforce the No. 1 challenge for businesses in North Dakota?
  12. Is more, or less expensive, venture capital needed?
  13. Are other types of capital in short supply or too expensive?

14. Could local universities play a greater role in economic development?
15. Can state efforts at industry targeting enhance economic development?
16. Are you aware of the state's industry targets and are there ways this effort could be strengthened?
17. How much hindrance or help are energy and transportation?
18. Does image hold North Dakota back, and if so, is it internal, external, or both?
19. Can internal marketing and current state efforts help?
20. Can state and local economic developers do more to enhance North Dakota's image?
21. What one thing could be done to enhance the business climate and help you do your jobs?
22. Is there a specific state action or program that would help?

### **Business Congress Activities**

Following the seven focus group discussions, the committee held and participated in the Business Congress at the State Capitol on April 19, 2006. The invitation list for this event included individuals invited to and individuals who attended the seven focus groups. The Business Congress received from the two committee consultants the report entitled *North Dakota Business Congress: Bismarck 2006, North Dakota Business Climate Study - Round II*. This report included an overview of the focus group activities and identified five key issues and corresponding proposed actions to address the key issues. The proposed action items were identified from ideas from focus group activities, surveys, the North Dakota Commerce Cabinet, and the two committee consultants. The following is the list of key issues and related proposed action items:

1. Workforce development:
  - a. Internship program for target industries;
  - b. State grant program to promote school-business partnerships;
  - c. Central web site for information and resources;
  - d. Marketing and incentives to recruit workers; and
  - e. Early career counseling;
2. North Dakota's image:
  - a. Tourism marketing;
  - b. Media relations;
  - c. Ambassadors program;
  - d. Online resources and toolkit for teachers and speakers; and
  - e. Incentives for tourism facilities;
3. Attracting and retaining young people:
  - a. Entrepreneur programs;
  - b. Governor's awards for young entrepreneurs;
  - c. Entrepreneurial training;
  - d. Business mentors;
  - e. Targeted marketing to young people;
  - f. Focus groups for young professionals; and
  - g. Recruit for college and technical schools;

4. Transportation:
  - a. Upper Great Plains Transportation Institute study;
  - b. Expansion of air transportation;
  - c. Incentives to airlines;
  - d. Freight rail improvement;
  - e. Certified cities program; and
  - f. Commerce Cabinet recommendations; and
5. University participation in economic development:
  - a. Inventory avenues for communication with business;
  - b. Fund commercial evaluation of new technologies;
  - c. Awards program to technology companies;
  - d. Centers of excellence followup;
  - e. Incentives to students for technology courses;
  - f. Add ways for business to interact with and advise universities;
  - g. Speakers bureau for business lecturers; and
  - h. Recruit faculty in target disciplines.

Additionally, the Business Congress received from the North Dakota Commerce Cabinet the report entitled *Current Actions to Address Five Key Issues - Commerce Cabinet Task Force Report to 2006 Business Congress*.

Following receipt of the reports, the Business Congress participants broke into three small groups to:

- Review existing programs addressing the five key issues, utilizing the document prepared by the North Dakota Commerce Cabinet, *List of Proposed Actions for 5 Key Issues - Reference Document for Small Group Activities*;
- Review proposed actions to address the five key issues;
- Consider proposed actions and whether additional actions should be proposed;
- Prioritize the proposed actions; and
- Consider whether there are performance measures to track the progress in the prioritized proposed actions.

### **Resulting Business Initiative**

Using the information gathered through the focus group process, through the Business Congress activities, through receipt of reports, on the activities of other interim committees as they related to the key issues identified by the committee, and through traditional committee meetings the committee crafted a business climate initiative and the related legislative recommendation. In crafting this initiative, the committee reviewed, revised, received testimony regarding, and discussed in detail each of the key issues and related proposed action items. The committee requested and received action item-related information from a broad spectrum of sources, including:

- Committee consultants;
- Department of Commerce;
- Bank of North Dakota;
- State Board of Higher Education;

- Department of Career and Technical Education;
- Job Service North Dakota;
- Tax Commissioner;
- Greater North Dakota Chamber of Commerce;
- Housing Finance Agency;
- Aeronautics Commission;
- Department of Transportation;
- Office of Management and Budget;
- Governor's office;
- Centers of Excellence Commission;
- North Dakota Economic Developers Board; and
- Members of the private sector.

In response to the significant amount of information received and reviewed by the committee, the committee continuously revised the proposed action items for the key issues and the key issues and final action items were addressed in the committee bill drafts.

During the committee meetings following the Business Congress, the committee crafted the business initiative. The committee considered 18 bill drafts--17 of which were committee-sponsored and 1 that was sponsored by an individual committee member. Some of the bill drafts addressed a single key issue and others were broader, addressing more than one key issue. Additionally, some of the testimony received by the committee and some of the committee discussion addressed more than one key issue. The following key issues follow the basic framework established by the committee consultants, with the addition of the bill draft considered as a result of the recommendations of the Department of Commerce business incentive study report. Following consideration of each of the bill drafts, the committee determined whether amendments were desired and whether the committee wished to include the text of the bill draft in the final, single business initiative bill.

### **Workforce - Internships**

The committee requested and received information regarding how some of the workforce needs in the state may be addressed through preparation of students from institutions of higher education for jobs in the state through internships and other creative partnerships between institutions of higher education and businesses. Additionally, the committee requested and received information regarding possible tax incentives that could be used to increase the use of higher education internships.

A representative of the Governor's office provided the following suggested changes to improve internship use in the state:

- Enhance the followup information on North Dakota education and training (FINDET) system report;
- Increase education and awareness, including improved data, public relations, and networking;
- Encourage community engagements;
- Provide reverse dollars for scholars;
- Provide higher education scholarships, which may include reprioritizing current scholarship programs;

- Improve coordination, including alignment of resources across the system, alignment of inventory, and elimination of student barriers;
- Enhance data tracking;
- Enhance marketing;
- Provide economic incentives, which may include community grants, state scholarships, nonprofit grants, and tax incentives;
- Support the Governor's internship program; and
- Address university career centers by providing more outreach and additional coordination.

The committee received testimony from the Tax Commissioner that the state's economy is growing and with that growth comes increased workforce needs. Possible ways to address the workforce needs in the state may include tax incentives for higher education internships.

The committee considered a bill draft that in part would have created a tax credit for employers to encourage use of higher education internships. This tax credit, as amended, is included in the business initiative bill.

The committee reviewed the background of the Governor's internship program, received an overview of the internship program, reviewed positive and negative experiences of the internship program, reviewed a summary of data relating to the internship program, and received suggestions to enhance the internship program.

The committee received testimony that the FINDET system data indicates that paid internships result in a 15 percent increase in retention over unpaid internships and 40 percent of students with a paid internship are still employed with that same employer one year following graduation. However, a weakness of this data is that the determination of whether an intern is in a paid internship is established by determining whether that student had any income, regardless of the source of that income.

The committee received testimony that the cost per credit for internships may be a barrier to increased use. Some students may not be signing up for internships because of the credit cost; however, because each institution of higher education does things differently, this may not be a barrier at every university.

The committee received testimony that internships are very valuable, especially if a business has a need for an experienced workforce. One thing internships do is provide members of the workforce with a headstart following school.

The committee considered a bill draft that in part would have expanded the duties of the Department of Commerce Division of Workforce Development to include administration of a higher education internship program and administration of the FINDET system and would have provided for the Department of Commerce to study workforce intelligence and higher education internships. These internship provisions are included in the business initiative bill.

### **Workforce - Career Education**

The committee requested and received information regarding how some of the workforce needs of the state might be addressed through preparation of kindergarten

through grade 12 students for jobs through creation of a program aimed at promoting partnerships between schools and local businesses and through providing early career counseling and education.

The committee received an overview of the career education program used by the Grand Forks School District, which actually serves the school districts of Grand Forks, Central Valley, Emerado, Grand Forks Air Force Base, Larimore, Manville, Northwood, and Thompson. Overall, the program reaches approximately 800 students at each grade level. The testimony indicated that the program in Grand Forks does not take away from the education process but instead is an integrated program and, as a result of this program, students are better able to choose their electives and basic coursework.

The testimony distinguished the Grand Forks career education model from the traditional career counselor model. Approximately 177 schools in North Dakota have funded career counselors. Under the Grand Forks model, there is a career center and this is a different mindset from the career counselor or guidance counselor approach. The committee received testimony that the West Fargo and Fargo School Districts are beginning to implement some of the elements of the Grand Forks program and other school districts around the state have recognized the success of the Grand Forks program and have implemented component pieces of the Grand Forks program.

A representative of the Department of Career and Technical Education testified that, although academics need to remain strong, each student learns differently and the education system needs to recognize this and be prepared to teach students accordingly. Recognizing the importance of students knowing career opportunities available in the state, the education system should prepare students for the jobs they want, and should not just limit career education to those jobs available in North Dakota.

A representative of the Department of Career and Technical Education testified that joint powers agreements may be good vehicles to consider in providing a career education program throughout the state. Although the Grand Forks program is a good model to implement statewide, it is important to recognize that statewide implementation would require a large financial commitment from the state and the school districts.

The committee considered a bill draft that would have required the Department of Commerce Division of Workforce Development to develop and implement a career education program and a career promotion program for students and would have provided for the Department of Commerce to perform a career education study. This career education program, career promotion program, and study, as amended, are included in the business initiative bill.

The committee considered a bill draft that in part would have provided for an innovation matching grant program to be administered by the Department of Career and Technical Education. This grant program is included in the business initiative bill.

## **Workforce - Services for and Recruitment of Workers**

The committee received information regarding housing issues that affect the ability to recruit workers. A representative of the Housing Finance Agency testified that developing a housing strategy is an integral part of the state's efforts toward economic development and workforce recruitment. The Housing Finance Agency priorities for 2006 include providing technical assistance to developing communities as well as proposing several programs that will provide financial assistance to communities to assist in developing new housing and to improve the quality of existing housing. However, testimony indicated NDCC Chapter 54-17 may need to be amended to allow the agency to implement its plans.

The committee considered a bill draft that would have expanded the Housing Finance Agency mortgage loan financing program and housing grant program and would have provided for a Legislative Council study of housing needs. The housing provisions and study are included in the business initiative bill.

The committee requested and received information regarding:

- How some of the workforce needs in the state may be addressed through new or existing workforce programs and through addressing the population of unemployed workers;
- The characteristics of unattached unemployed in the state; and
- The status of federal funding of Job Service North Dakota programs.

The committee reviewed some of the activities of Job Service North Dakota which address workforce needs in the state, including Workforce 20/20; the federal Workforce Investment Act, through which training funds are made available to employers and employees and in high-demand occupations, primary sector businesses, and growing industries; the Work First Project, a demonstration project through which reemployment services were provided to claimants; and pilot projects in Dickinson and Grand Forks through which services are provided to individuals delinquent in child support payments. The review stressed that labor market information is key to helping employers and job seekers make good decisions and that Job Service North Dakota services are demand-driven.

A representative of Job Service North Dakota testified Job Service North Dakota is preparing to submit a proposal to the United States Department of Labor which would allow Job Service North Dakota to continue its reemployment initiatives and to conduct a study into the root causes of chronic unemployment. The purpose of submitting this supplemental budget request is to better position Job Service North Dakota to identify the underlying reasons for unemployment. With information gained through this study, Job Service North Dakota would be able to more accurately identify whether chronic unemployment is the result of attitudinal factors, behavioral factors, or skill deficiencies. The results of the study would produce a body of information that would provide Job Service North Dakota with a greater



ability to identify trends and areas needing intensified focus on reemployment services.

The committee received information regarding the unattached unemployed, including the number of unemployment insurance claimants; average duration of claim; exhaustion rate; and demographics, including geographic area, education level, gender, occupation before layoff, and age.

A representative of Job Service North Dakota testified that approximately 70 percent of the currently unemployed individuals in this state are classified as "job-attached," which means these are individuals who experience a short term of unemployment. This means approximately 30 percent of the unemployed population in the state is non-job-attached. Testimony indicated the individuals who make up this 30 percent are unemployed for a variety of reasons, including that they may lack hard skills, soft skills, or the desire to work. Testimony indicated some individuals learn these hard skills, soft skills, and desire early through their public education and others do not.

The committee also received testimony regarding the demographics of repeat unemployment insurance claimants. On an annual basis, the state's unemployment insurance system receives 13,000 to 20,000 claims. For each claim an evaluation is performed on whether each individual is job-attached. The unemployment insurance system does see reoccurring claimants and typically classifies these individuals as job-attached. With 15,000 to 17,000 unemployment insurance claimants, it could be estimated approximately 5,000 to 6,000 of these individuals would not be job-attached.

As part of the committee discussion regarding the importance of focusing services, a representative of Job Service North Dakota testified the current data collection system does not specifically code the reason for a claimant leaving employment and the system does not collect long-term data regarding an individual's contact with Job Service North Dakota.

The committee received testimony that typically the state provides responsive services to address needs, but preventative services, such as internships, mentorships, and career education in kindergarten through grade 12, could be implemented to help address the problem of reoccurring unemployment.

The committee requested and received information regarding the state's talent strategy and the key issues of workforce and attracting and retaining young people and young families. The committee received testimony that North Dakota is faced with barriers to implementing an effective statewide talent initiative to address the workforce skill shortages in the state, including:

- Lack of quantitative data or workforce intelligence from business on current and projected worker shortage and skill requirements;
- Lack of a coordinated statewide talent recruitment strategy; and
- The fact that North Dakota employers are not proactive enough in addressing their workforce issues.

The committee received information that the North Dakota Workforce Development Council, the North Dakota Youth Development Council, and the North Dakota State Commission on National and Community Service have begun strategic planning regarding workforce and skill shortages. In the strategic planning process, it was determined the role of the system should be to prepare the workforce. The primary considerations in carrying out this role include:

- Workforce intelligence needs to be the basis for all decisions;
- Career promotion needs to replace career information;
- There needs to be a move to a demand-driven service industry model, which focuses on target industry clusters;
- There is a need to expand the workforce participation rates;
- It is important to provide timely customized workforce training to meet business demands; and
- The state should adopt a common statewide talent strategy.

The outcome goals of the North Dakota talent strategy adopted as a result of the strategic planning are to increase the quantity and quality of North Dakota's workforce and to transition from a workforce to a talent force through a workforce improvement focus.

A representative of the Division of Workforce Development testified that 10 areas that need continuous improvement are:

1. Ensure council and commission leadership in attracting, retaining, and expanding talent by:
  - a. Making all decisions based on workforce intelligence;
  - b. Seeking both vertical and horizontal alignment with demand;
  - c. Building strategic talent partnerships with the private sector and targeted industry clusters;
  - d. Forging workforce system partnerships to achieve success in all talent initiatives; and
  - e. Developing broad public awareness and understanding of North Dakota's workforce needs.
2. Develop a dynamic workforce intelligence system with the vital information needed to confront North Dakota's talent crisis and to assess progress in ameliorating the crisis.
3. Disseminate key workforce intelligence to all stakeholders, businesses, and partner leadership and staff so all North Dakotans may take appropriate actions to meet the workforce needs of individuals and businesses.
4. Focus on workforce improvement, preparation, and lifelong learning by improving the quality and quantity of training and education available to North Dakota's residents, ensuring the offerings respond to employer and skill demand, and making these development opportunities affordable and accessible.

5. Increase the labor force participation rate and expand the available talent pool by reaching, serving, preparing, and connecting those not currently in the labor force, including target populations.
6. Give emphasis to the emerging worker talent pipeline by focusing on young people, improving the connections between school and work, promoting demand careers, and encouraging workers to stay in North Dakota.
7. Build stronger workforce system partnerships to increase efficiency, effectiveness, and accountability through reducing duplication; sharing resources; and adopting a common action agenda and strategies for talent attraction, retention, and expansion.
8. Improve the workforce system interface with employers and targeted industry trade associations to more effectively meet their workforce needs by developing strategic partnerships and ensuring service responsiveness.
9. Promote North Dakota as a great place to live and work to attract and retain talent.
10. Promote inclusion of soft skills and work readiness into all training and education offerings.

The committee received the following specific recommendations to support the work of the Economic Development Committee:

1. Provide for workforce intelligence studies;
2. Create an out-of-state talent attraction initiative;
3. Provide for foreign worker recruitment;
4. Implement youth retention strategies, which include:
  - a. A state-funded internship program;
  - b. Funds for the North Dakota University System to provide expanded technical assistance and outreach to employers to increase participation in the higher education internship program;
  - c. Study, develop, and implement a career promotion program for target industry occupations as a method to supplement the work of career counselors and formal career guidance programs in secondary schools; and
  - d. Expand the Job Service North Dakota software that will provide options to data mine and track numbers of job listings to a Level IV spider; and
5. Formalize the role of the Department of Commerce Division of Workforce Development.

The committee considered a bill draft that would have required the Department of Commerce to establish and implement a program to attract out-of-state workers and would have required the Division of Workforce Development to study, develop, and implement strategies to assist North Dakota businesses in recruitment of permanent immigrants to fill high-demand, high-skill jobs. These attraction and recruitment

provisions, as amended, are included in the business initiative bill.

The committee considered a bill draft that would have provided for a Job Service North Dakota study of chronic unemployment and soft skills training and would have provided for an appropriation to expand the Job Service North Dakota web site spider program to identify job listings available in North Dakota. These study and appropriation provisions are included in the business initiative bill.

The committee considered a bill draft that in part would have expanded the duties of the Department of Commerce Division of Workforce Development to include development and implementation of the state's talent strategy, development and implementation of a statewide intelligence coordination strategy, and administration of the FINDET system; would have provided for the Commissioner of Commerce to make biennial reports on the status of workforce development; and would have provided for the Department of Commerce to study workforce intelligence. These workforce provisions are included in the business initiative bill.

### **Attracting and Retaining Young People and Young Families - Marketing and Incentives**

As a result of the small group discussions during the Business Congress, the committee modified this key issue to reflect the need to attract young families as well as young people. The committee requested and received information regarding possible legislative actions that could be taken to address the key issue of attracting and retaining young people and young families.

The committee considered a bill draft that would have modified the structure of the business climate study for the 2007-08 interim to include young professionals in the focus groups and Business Congress. This business climate study provision is included in the business initiative bill.

The Tax Commissioner testified that although the Tax Commissioner plays a role in economic development, one challenge that the Legislative Assembly needs to recognize is because the Tax Department performs tax regulation, it is important for the department to keep at arm's length in business dealings. The Tax Commissioner is addressing this challenge through reorganization of the department and the Tax Commissioner requested legislative support as this reorganization is undertaken.

As it related to retention of young people and young families, the committee discussed the difficulties of establishing appropriate criteria for tax incentives for workforce retention.

The committee considered a bill draft that in part would have created a tax credit for business expenses associated with recruitment of employees. This tax credit, as amended, is included in the business initiative bill.

At the committee's request, a representative of the Bank of North Dakota provided the committee with background information and suggested improvements

regarding the beginning entrepreneur loan guarantee program, partnership in assisting community expansion (PACE) program, and Biodiesel PACE program. Suggested improvements were:

- Beginning entrepreneur loan guarantee program - Increase the total volume that the Bank of North Dakota can guarantee under the program to \$8 million in outstanding loans and update definitions;
- PACE program - Provide a higher appropriation amount for the next biennium; and
- Biodiesel PACE program - Maintain the 2007-09 biennium appropriation at the same level as the 2005-07 appropriation and update definitions.

The committee received testimony that as interest rates increase the PACE program becomes a more valuable incentive.

The committee considered a bill draft that would have increased from \$4 million to \$8 million the amount of loans outstanding the Bank of North Dakota may guarantee under the beginning entrepreneur loan guarantee program; that would have updated the eligibility requirements under the beginning entrepreneur loan guarantee program, updating the definition of biodiesel production facility for purposes of the Biodiesel PACE program; and that would have appropriated funds for the Biodiesel PACE fund and the PACE fund. These business incentive provisions, as amended, are included in the business initiative bill.

The committee received testimony that Bank of North Dakota student loans may be another area in which the state can positively impact the attraction and retention of young people and young families. Over the last couple years, interest rates have been at historic lows with fixed rates at between 3 and 4 percent. However, there have been federal changes that impact new loans, resulting in fixed rates at 6.8 percent. Testimony indicated that student debt increases as tuition costs increase and interest rates increase, with a current average student debt of \$19,000.

The committee received testimony that the Bank of North Dakota is doing three things related to student loans. First, the Bank has a fixed rate option that is a state alternate loan program for students who have reached the maximum available from traditional loans; second, current federal loans have a 3 percent initiation fee that the Bank pays; and third, the federal government is silent on who pays the 1 percent guarantee fee and the Bank has chosen to pay this expense.

The committee received testimony from representatives of the Department of Commerce regarding current efforts and proposals to target marketing and offer incentives to young people and young families.

The committee received information regarding the North Dakota ambassadors program, including a program overview, review of current marketing and incentive efforts, the greatest challenges being faced by the program, greatest opportunities that can be recognized through the program, proposed modifications

to current marketing and incentive efforts, and specific program improvement suggestions.

Testimony indicated there are approximately 1,000 North Dakota ambassadors who reside in 26 states and six countries. One of the challenges the program faces is finding ways to contact the 2.1 million former North Dakotans who are living outside the state. Actions that have been taken to address this challenge include contacting alumni organizations, considering expanding the audience, and increasing the relationship with Job Service North Dakota to get information into the schools in the state.

### **Attracting and Retaining Young People and Young Families - Higher Education Recruitment and Responsiveness**

The committee requested and received information from the North Dakota University System regarding current efforts and proposals to recruit students to North Dakota institutions of higher education; current and proposed efforts to promote seamless lifelong learning; and current and proposed efforts to provide a demand-driven education that is responsive to job market needs in the state. The committee members received a broad range of information from representatives of the North Dakota University System, including information regarding:

- The North Dakota University System enrollment management-service plan, which includes enrollment strategies of expanding the state's population base;
- Recruitment of international students as well as statistics on international educational exchange in North Dakota;
- Online education services, which although they do not automatically bring students to this state, they do take a first step in getting out-of-state students familiar with North Dakota and the North Dakota University System; and
- Articulation and transfer between North Dakota institutions as well as the possibility of addressing articulation and transfer with out-of-state education programs.

The committee received testimony from a representative of the North Dakota University System that the state's future is tied to education from preschool to graduate school and the P-16 Education Task Force has been active in evaluating what kind of changes need to be made to keep up with the state's needs. Additionally, the committee received testimony that the North Dakota University System is taking actions to address incentives for nonresident students to attend school in North Dakota, is considering flexibility for tuition, and is expanding recruitment in the states that have university systems that have reached capacity.

The committee received an overview of the services of CCbenefits, Inc. Under the services of CCbenefits, Inc., the North Dakota community colleges perform studies and forecasts on the economic impact of the college, enhancing the college's ability to better serve its stakeholders while addressing economic development.

The committee considered a bill draft that would have specified the information provided in the State Board of Higher Education annual performance and accountability report to include economic development information and student recruitment information, would have created a higher education new program startup matching grant program to be administered by the State Board of Higher Education, and would have provided for a State Board of Higher Education study of the implementation of the services of CCbenefits, Inc. These higher education provisions are included in the business initiative bill.

#### **Image - Marketing, Message Training, and Tourism**

The committee requested and received information regarding current efforts and proposals regarding the key issue of image and the related action items of supporting and funding tourism marketing, media relations, and internal image campaign; expanding message training for service sector employees; and authorizing incentives for tourism facilities.

The committee received testimony that the strategy of the Department of Commerce Division of Tourism includes continuing to communicate the legendary brand and focus on what makes North Dakota rich in culture and history. Lewis and Clark and Sakakawea will continue to be featured legends; additionally, a broader city experience strategy has been developed, consistent with the legendary brand but focusing on the city weekend getaway experience.

The committee reviewed the Division of Tourism statistics regarding the 2005 return on investment for the advertising campaign, indicating for every \$1 spent, \$81 was returned. Research shows advertising improves image. Some of the greatest challenges faced by the Division of Tourism include limited resources. The division's resource challenges include funding dedicated staff, providing funding to host all of the travel writers who express an interest in writing about North Dakota, and the cost of funding travel expenses to bring media members to the state.

The committee received information regarding the current efforts and proposals of the Department of Commerce regarding business media relations and the internal image campaign. The Department of Commerce specifically addresses image in its business media relations and internal image campaign. For purposes of business relations, areas with room for improvement include providing outgoing media trips, creating and distributing media kits, creating a business photo gallery, and creating an enhanced resource network. In response to the initiative of the 2005 Business Congress, the Department of Commerce implemented an internal image campaign that was launched in March 2006.

The committee received information regarding the current efforts and proposals of the Department of Commerce regarding message training for employees. Current efforts include the Lewis and Clark hospitality training program and the rest area brochure fulfillment program. Future goals include a statewide visitor information center employee training program and a statewide hospitality training program. Specific

challenges related to message training for service sector employees include establishing the required buyin and support from businesses and the high rate of labor turnover in the hospitality industry.

The committee received information regarding current and proposed incentives of the Division of Tourism for tourism facilities. Challenges faced by the Division of Tourism include the minimal amount of dedicated tourism dollars available, the lack of a central coordinator for tourism facilities, and the typical funding requirement that a business be a primary sector business in order to qualify for incentive dollars.

The committee considered a bill draft that would have expanded the Department of Commerce image information program to include the private sector and would have created a Department of Commerce Division of Tourism visitor information center program. These provisions are included in the business initiative bill.

The committee considered a bill draft that would have created a tourism PACE fund and would have created a rural community tourism enhancement grant program to provide matching funds to communities. The rural community tourism enhancement grant program provision is included in the business initiative bill.

The committee considered a bill draft that in part would have created a tax credit for contributions to tourism organizations. This tax credit was not included in the business initiative bill.

The committee considered a bill draft that in part would have provided assistance for research, development, technology, and marketing needs to aid in the expansion of existing and development of new tourism-based businesses. This tourism business assistance provision, as amended, is included in the business initiative bill.

#### **Transportation**

The committee requested and received information from regional Part 135 private charter airline operators regarding actions that the state might take to increase economic development through private air charter businesses. Part 135 operators are a federal class of operators who meet Federal Aviation Administration requirements that allow them to charge for their services.

The committee requested information from Part 135 operators in the communities of Grand Forks, Fargo, Bismarck, Dickinson, and Williston asking if the state's objective is to increase economic development through private air charter businesses, how the current system could be modified focusing on changes that could be made at the state level and identification of specific improvements that could accomplish this goal of increasing economic development through private air charter businesses. The committee received written responses from Part 135 operators in Bismarck and Dickinson and received testimony from a Part 135 operator from Bismarck.

The two written responses raised the issues of the cost of doing business, including insurance requirements. Additionally, the Bismarck operator raised the concern of how some operators have found a way to avoid the cost of having to meet the Part 135

requirements, including avoiding the high cost of commercial insurance and raised a concern regarding the city of Bismarck's financial support to a startup operation and how this negatively impacts the private sector that is competing with the startup.

The committee received testimony from one of the committee consultants that this high cost of doing business for Part 135 operators is related to several factors, including the cost of fuel, equipment, and insurance. Because North Dakota private air charter operators do not have a high volume of flights, the costs are proportionately higher for these businesses than for similar businesses in states that have higher volumes of flights. However, Part 135 operators in other states have concerns similar to those in North Dakota.

The committee received a report prepared by the Upper Great Plains Transportation Institute entitled *Impacts of Transportation Infrastructure on the Economy of North Dakota*, which was prepared in response to the directive of Section 23 of Senate Bill No. 2032, a recommendation of the last interim's business climate study. The report included an evaluation of how improvement to the transportation infrastructure of this state might enhance the business climate and the state's competitive position in economic development. The 2005-06 interim Transportation Committee also received this report.

A representative of the Upper Great Plains Transportation Institute testified that the institute will work with the Department of Transportation to help address transportation issues during the 2007 legislative session. A representative of the Department of Transportation testified the Department of Transportation worked closely with the Upper Great Plains Transportation Institute in performing the study and preparing the report. The committee received testimony that although the Department of Transportation is already implementing some of the recommendations in the report and the report results will assist the department in making future decisions in transportation investments, it is important for the department and policymakers to continue to be sensitive to the business needs in the state.

A representative of the Department of Transportation testified that as the Legislative Assembly makes decisions in the future, the department requests the following key points be taken into account:

- Investing in the transportation system is a good and sound investment with an average cost-benefit ratio return of 4.89 percent on projects in the state.
- North Dakota's investment in the transportation system is critical to the long-term growth of its economy.
- Construction inflation, which has been approximately 25 percent, will not allow the state to proceed at the baseline analysis that was used in the report. The funding level is closer to a 75 percent funding level when inflation is taken into account.

A representative of the Department of Transportation testified that one item that was not addressed in the

report was the issue of intermodal transportation and its role in growing the state's economy. Intermodal facilities are essential to the state's ability to continue to efficiently and effectively move goods to the marketplace and grow the state's economy. Testimony indicated the department is working with communities to address intermodal transportation issues and at this point there is no need to modify state law because the laws allowing for the creation of a port authority and a commerce authority, as well as the ability to enter joint powers agreements, allow the state to proceed with the development of intermodal projects.

The committee considered a bill draft that would have created an airport economic development fund to be administered by the Aeronautics Commission and would have provided for an appropriation. These airport economic provisions, as amended, are included in the business initiative bill.

### **Higher Education - Commercialization of New Technologies and Intellectual Property**

The committee used the recommendations of the Department of Commerce and State Board of Higher Education study of commercialization of new technologies and intellectual property as a basis for discussing the action items of commercialization and intellectual property.

Testimony indicated that if North Dakota provided for a 25 percent tax credit for research and development, North Dakota would be the leader in the country by offering the highest tax incentive for research and development.

One of the committee's consultants testified the definition of the term "base" used in calculating the research and development tax credit could be changed. The base requirement could be taken away entirely or it could be modified to limit the base calculation to research and development performed within the state of North Dakota. Another change offered by the consultant was that the committee could consider allowing a business to sell tax credits that remain unused. The committee discussed the fact that most companies in the state do not need the tax credit and therefore the value of transferability is limited.

The committee considered a bill draft that in part would have modified the open records law relating to research and development performed by public entities, would have created a Department of Commerce Division of Innovation and Technology, and would have expanded the research and technology tax credits. The Division of Innovation and Technology and the research and technology tax credit provisions are included in the business initiative bill.

The committee considered a committee member-sponsored bill draft that would have expanded the research and technology tax credits, including an incentive to conduct research in rural areas in the state. This research and technology tax credit provision was not included in the business initiative bill.

The committee considered a bill draft that in part would have created a business and tourism acceleration commission to provide assistance for the research,

development, technology, and marketing needs of businesses and entrepreneurs in the state to aid in innovation for new or existing businesses. This business assistance provision, as amended, is included in the business initiative bill.

The committee considered a bill draft that would have expanded the agricultural business investment tax credit to include investments in livestock feeding, handling, milking, or holding operations that use distillers grain produced as a byproduct at an ethanol or biodiesel plant. This tax credit provision, as amended, is included in the business initiative bill.

### **Higher Education - Centers of Excellence**

The committee used the recommendations of the State Board of Higher Education and Centers of Excellence Commission provided as part of the report on the status of the centers of excellence as a basis for discussing the action items relating to the centers of excellence program.

The committee considered a bill draft that would have modified the centers of excellence program, including providing for independent, expert review at the application phase and requiring followup monitoring after designation as a center of excellence; would have distinguished between centers for commercialization, workforce, and infrastructure; and would have provided that the Department of Commerce provide administrative services for the Centers of Excellence Commission. These centers of excellence provisions are included in the business initiative bill.

### **Trade and Other Items**

The committee used the recommendations of the Commissioner of Commerce provided as part of the report on the status of the International Trade and Business Office as a basis for discussing the key issue of trade.

A representative of the Department of Commerce Division of Economic Development and Finance International Business and Trade Office testified the International Business and Trade Office does not expect the Bank of North Dakota to change its mode of operation; however, it supports having a program through which a North Dakota business can request financial assistance in accomplishing its first experience with international exports.

The committee considered a bill draft that in part would have created a business and tourism acceleration commission to provide assistance for the research, development, technology, and marketing needs of businesses and entrepreneurs in the state to aid in growth of international business through trade. This trade business provision, as amended, is included in the business initiative bill.

In response to the recommendations included in the Department of Commerce study of business incentives, the committee considered a bill draft that would have required biennial tax expenditure reports and business incentive reports, would have increased the cap on the seed capital investment tax credit, would have provided sales tax exemptions for tourism equipment and wireless

service provider equipment, would have repealed the beginning entrepreneur income tax deduction, and would have provided for a Legislative Council study of issues relating to wireless service providers. These business incentive provisions, as amended, are included in the business initiative bill.

### **Recommendation - Business Initiative Bill**

The committee recommends House Bill No. 1027 to address the broad range of economic development and business climate issues addressed through the business climate study, through the venture and risk capital study, and as a result of the receipt of reports. The bill consolidates, as amended, the bill drafts considered by the committee into a single business initiative bill. The resulting bill:

- Amends Section 17 of 2005 Senate Bill No. 2032, the provision that provides for a two-interim business climate study. This provision retains the requirement of a minimum of six focus group discussions but removes the specific references to what groups need to specifically be addressed at each focus group and adds young professionals to the already existing two groups that need to be addressed in the focus groups.
- Creates a new section to NDCC Chapter 2-05 relating to the Aeronautics Commission. This provision creates a rural airport economic development fund and provides for a \$5 million appropriation. The money in the fund may be used for matching fund grants to a public airport that is owned or operated by a public entity or airport operated by an airport authority. A recipient may use funds for the following purposes:
  - Automated weather-reporting facilities;
  - Computers and terminals to obtain weather information relating to flight plans;
  - Equipment to enhance flight operational safety;
  - Obstruction removal to facilitate global positioning satellite all-weather instrument approach technology;
  - Construction, rehabilitation, or extension of runway areas; and
  - Development of airport infrastructure.
- Amends NDCC Section 54-17-07.3, which authorizes the Industrial Commission, acting as the Housing Finance Agency, to establish certain housing finance programs. Specifically, the scope of the mortgage loan financing program is expanded to include assistance in the development of low-income to moderate-income housing or to assist a developing community address unmet housing needs or alleviate a housing shortage and the scope of the housing grant program is expanded to include assisting a developing community address unmet housing needs or alleviate a housing shortage.

- Provides for a Legislative Council study of housing needs during the 2007-08 interim.
- Expands the definition of "agricultural commodity processing facility" for purposes of the agricultural business investment tax credit law, to provide an agricultural commodity processing facility may include a livestock feeding, handling, milking, or holding operation that uses a byproduct from an ethanol or biodiesel plant located in this state.
- Amends the laws relating to the beginning entrepreneur loan program by amending the definition of "beginning entrepreneur" by simplifying the net worth limitations and increasing from \$4 million to \$8 million the maximum amount the Bank of North Dakota may guarantee in loans under the beginning entrepreneur loan program.
- Amends the laws relating to the Biodiesel PACE program and provides appropriations for the Biodiesel PACE program and the PACE (flex PACE) program. Specifically, the provisions amend the definition of "biodiesel production facility" for purposes of the Biodiesel PACE program; appropriates \$1.2 million of general fund money to the Bank for the Biodiesel PACE program; and appropriates \$8 million to the Bank for the PACE (flex PACE) program.
- Creates a Department of Commerce-administered rural community tourism enhancement grant program, which provides matching funds to cities of under 8,000 for the purpose of helping rural communities access public or private grants for helping communities identify and enhance their unique characteristics in attracting visitors and improve the appearance of the rural communities. The maximum grant is \$10,000 per applicant, with a maximum total of \$100,000 per biennium.
- Creates a Department of Commerce Division of Tourism visitor information center assistance program.
- Expands the Department of Commerce image information program to require services be offered to the public sector.
- Creates a business and tourism acceleration commission to administer grant programs for innovation, tourism, and international trade. The language is modeled on the APUC law and directs the commission to provide necessary assistance for the research, development, technology, and marketing needs of businesses and entrepreneurs to aid in innovation for new or existing businesses, expansion of existing and development of new tourism-based businesses, and growth of international business through trade.
- Requires the Commissioner of Commerce to create a biennial tax expenditure report and a state business incentive expenditure report.
- Increases the annual cap of the seed capital investment tax credit from \$2.5 million to \$5 million.
- Expands the sales tax exemptions to include tourism equipment and wireless service provider equipment.
- Provides for a Legislative Council study of wireless service providers during the 2007-08 interim.
- Repeals the beginning entrepreneur income tax incentives.
- Creates a tax credit for business expenses associated with recruitment for hard-to-fill employment positions.
- Creates an internship employment tax credit.
- Creates a Department of Commerce Division of Innovation and Technology.
- Creates a new section to NDCC Chapter 15-20.1 directing the Department of Career and Technical Education to administer a program to provide matching fund grants to teachers and schools for the purpose of funding innovative science, technology, or innovation programs for students in kindergarten through grade 12. The maximum amount of a grant is \$7,500, the department is required to consult with the Department of Commerce Division of Innovation and Technology in making award decisions, and \$45,000 is appropriated to the Department of Career and Technical Education for the funding of the innovation grants.
- Amends NDCC Section 57-38-30.5 increasing the research and experimental expenditures tax credit from 8 percent of the first \$1.5 million in research expense and 4 percent of research expenses in excess of \$1.5 million to 25 percent of the first \$100,000 in research expenses and 20 percent of research expenses in excess of \$100,000; redefining "base period research expenses" to only include research conducted in North Dakota; and allowing taxpayers to "assign" unused tax credits.
- Modifies the requirements of the Department of Commerce target industries report to the Legislative Council during the 2007-08 interim to include a study of cluster industries related to the state's target industries, and to include an inventory of innovation assets relevant to the target and cluster industries, how target and cluster industries may be better aligned with state economic development activities, and how to stimulate development in target and cluster industries.
- Provides statutory requirements for required elements of the State Board of Higher Education annual performance and accountability report, including economic development information and student recruitment information.
- Creates a new startup grant program for higher education programs through which grants are awarded on a competitive basis with a matching fund requirement. The State Board of Higher Education is required to consult with the

Department of Commerce and Job Service North Dakota in making award determinations.

- Requires the Department of Commerce Division of Economic Development and Finance International Business and Trade Office to work with the State Board of Higher Education to implement international business expertise with students of higher education.
- Provides for the State Board of Higher Education to study implementation of services of CCBenefits, Inc., and report to the Legislative Council during the 2007-08 interim.
- Modifies the centers of excellence program to provide for making a distinction among three types of centers--commercialization, workforce, and infrastructure; to provide that the Department of Commerce provide the Centers of Excellence Commission with staff services, including assisting with preaward reviews and postaward monitoring; requiring the commission to provide for independent expert review of complete applications to establish viability and likelihood of desired economic impact; requiring the commission to conduct postaward monitoring of centers for 6 to 10 years; requiring an applicant to show due diligence in putting together the proposal and high likelihood of viability and success; and clarifying that funds are not to be distributed if private sector participants stop participating.
- Provides for a Job Service North Dakota study and report to the Legislative Council during the 2007-08 interim regarding chronic unemployment and soft skills training for the chronically unemployed and as an element of workforce training; the evaluation of costs and effectiveness of current unemployment, reemployment, and workforce training used by Job Service North Dakota; the progress and results of the chronic unemployment demonstration project; and consideration of appropriate funding for implementing recommendations.
- Provides a \$600,000 appropriation to Job Service North Dakota for increasing the level of the web site spider program used to identify job listings available in North Dakota.
- Expands the duties of the Department of Commerce Division of Workforce Development adding the duties of developing and implementing the state's talent strategy and a statewide intelligence coordination strategy, which includes establishing details of the talent strategy, developing a consolidated biennial statewide strategic plan for the state's system for workforce development, workforce training, and talent attraction; continuously reviewing the state's workforce development system; developing a system of performance and accountability measures for the state's workforce development system; requiring that intelligence be disseminated to partners; requiring that FINDET data be a central source of intelligence; and

requiring that the Division of Workforce Development administer the FINDET system.

- Provides for a Department of Commerce study of workforce intelligence needs in the state and a report to the Legislative Council during the 2007-08 interim.
- Requires the Division of Workforce Development to administer a higher education internship program to increase use of higher education internships, including focusing on internships in target industries; providing services to employers, communities, and business organizations; collecting and analyzing data on use of internships; marketing internships to private and public sector employers; consulting with the State Board of Higher Education to develop strategies to decrease barriers to use of internships; and developing a program to provide incentives for state and local government employers to use internships.
- Provides for the Department of Commerce, in consultation with the State Board of Higher Education, during the 2007-08 interim to study and report to the Legislative Council the status of higher education internship opportunities in the state and strategies to increase higher education internships in the state.
- Provides for the Department of Commerce to provide career education and career promotion services.
- Provides for the Department of Commerce, in consultation with the Department of Career and Technical Education, Job Service North Dakota, and the Superintendent of Public Instruction, to study and report to the Legislative Council during the 2007-08 interim regarding career education needs of public school students.
- Provides for a Department of Commerce-administered talent attraction program to attract workers from out of state.
- Provides for a Division of Workforce Development program for foreign worker recruitment to implement strategies to assist North Dakota businesses in recruitment of permanent legal immigrants to fill occupations that are in high demand and require high skill.

## **VENTURE AND RISK CAPITAL STUDY**

### **Legislative Background**

#### **2005 Legislation**

House Bill No. 1133 modified the definition of "business" for purposes of eligibility under the PACE program, expanding the definition from allowing for targeted service industries as defined by the Bank of North Dakota to allowing for targeting industries as defined by the Bank.

House Bill No. 1526 required the Industrial Commission to establish at the Bank of North Dakota a guaranty program for a business located in the state which contracts with a business located in the state which is either owned by one of the five North Dakota



Indian tribes or which is an American Indian-owned small business located in the state. The Industrial Commission is required to limit participation in the guaranty program so that the cumulative value of the guaranteed portion of the receivables under the program does not exceed \$5 at any one time. The bill is effective through June 30, 2007.

Senate Bill No. 2032 is addressed under **BUSINESS CLIMATE STUDY**.

Senate Bill No. 2147 authorized the Agriculture Commissioner to develop a source-verified and process-verified beef marketing program and authorized APUC to administer grants related to nature-based tourism and to provide a technical assistance grant program for value-added businesses. This bill also directed the Bank of North Dakota to establish and administer a livestock loan guarantee program, which will expire June 30, 2009.

Senate Bill No. 2217 created the Biodiesel PACE fund to buy down the interest rate on loans to qualified biodiesel production facilities. The Bank of North Dakota administers the fund.

Senate Bill No. 2281 made the agricultural business investment tax credit available to corporations, limited the credit to investments in the first 10 businesses that qualify, increased from \$20,000 to \$50,000 the annual credit a taxpayer may obtain for agricultural business investments and imposed a lifetime limit of \$250,000 in credits, reduced from 15 to 5 years the time which an investment tax credit may be carried forward, and allowed a credit for a taxpayer whose investment in an agricultural commodity processing facility was made before 2005 and did not qualify for the tax credit because of the limitation on the seed capital investment tax credit. This credit is 30 percent of the amount invested by the taxpayer, but the taxpayer may claim no more than one-fourth of the credit in any taxable year.

### **2003-04 Interim Study**

Under House Bill No. 1504 (2003), the Economic Development Committee studied the state's business climate, including the creation of an index of key objective measurements that address the state's competitiveness with other states; the consideration of methods of creating business partnerships with North Dakota Indian tribes in order to increase primary sector business growth in the state, with a focus on business opportunities that may be available to North Dakota Indian tribes through the United States Small Business Administration 8(a) business development program; and active participation in the activities of the Primary Sector Business Congress. The committee recommendations for the 2005 legislative session included Senate Bill No. 2032, which among other things, provided for this venture and risk capital study. Provisions of the bill which directly address venture capital are addressed under **BUSINESS CLIMATE STUDY**.

### **2001-02 Interim Study**

Under Section 16 of Senate Bill No. 2019 (2001), the interim Commerce Committee studied the availability of venture capital, tax credits, and other financing and research and development programs for new or

expanding businesses, including an inventory of the programs available; a review of the difference between public and private venture capital programs; an assessment of the needs of business and industry and the research and development efforts of the North Dakota University System; and a review of the investments of the State Investment Board and the feasibility and desirability of investing a portion of these funds in North Dakota. The committee did not make any recommendations with respect to this study.

### **1999-2000 Interim Study**

Under Section 16 of House Bill No. 1019 (1999), the interim Commerce and Labor Committee studied the economic development efforts in the state, including the provision of economic development services statewide and the related effectiveness; the potential for the privatization of the Department of Economic Development and Finance; and the appropriate location of the North Dakota Development Fund, Inc., including the potential transfer of the fund to the Bank of North Dakota. While conducting this study, the committee received extensive testimony from a broad range of state, local, regional, and private sector parties interested in economic development, including the Bank of North Dakota, Department of Economic Development and Finance, Division of Community Services, Indian Affairs Commission, Job Service North Dakota, University System, Workforce Development Council, local development associations, Economic Development Association of North Dakota, Greater North Dakota Association, job development authorities, regional planning councils, and the Small Business Center. The committee considered the issues of venture capital, privatization and consolidation of state economic development efforts, population retention and demographics, and workforce development. In performing this study, the committee surveyed state agencies to determine the amounts of money being spent for economic development efforts. The committee recommendations for the 2001 legislative session included:

- House Bill No. 1039 - State venture capital fund. This bill would have provided for a North Dakota venture capital fund program under which a seven-member North Dakota venture capital authority would have designated a for-profit investment fund for lending to and investing private money in seed and venture capital partnerships and would have provided for a one-time issuance of \$5 million of state tax credits to the authority to offset losses under the program. The bill failed to pass the House.
- House Bill No. 1040 - Entrepreneur seed fund. This bill would have established a North Dakota entrepreneur seed fund program under which a nine-member North Dakota entrepreneur seed fund board would administer the fund, which was designed to be available to local entrepreneur seed fund applicants on a 500 percent local fund match basis to invest in North Dakota early-stage companies and small companies through equity or

equity-type investments. The bill would have provided for a \$3 million appropriation from the general fund to fund the program for the 2001-03 biennium. The bill failed to pass the House.

- House Bill No. 1041 - Seed capital investment tax credit requirements. This bill would have allowed the seed capital tax credit to be claimed on the state income tax short form, lessened the requirements to be classified as a qualified business under the seed capital investment tax credit law, allowed taxpayers to claim the seed capital investment tax credit for any amount up to \$50,000, allowed a seed capital investment tax credit to exceed 50 percent of the taxpayers' tax liability, provided seed capital investment tax credits for investments in one qualified business may not exceed \$250,000, decreased certain limitations on how a qualified business may use a seed capital investment, and increased the annual aggregate amount of seed capital investment tax credits from \$250,000 to \$500,000. Although the bill failed to pass the House, House Bill No. 1413, which was very similar to House Bill No. 1041, did pass.
- House Bill No. 1042 - Venture capital corporation incorporation requirements. This bill decreased the financial requirements for venture capital corporations to incorporate in the state.
- Senate Bill No. 2032 - Commerce Department. This bill consolidated the Division of Community Services, Department of Economic Development and Finance, and Tourism Department into the Department of Commerce administered by the Commissioner of Commerce; created the North Dakota Commerce Cabinet; and allowed for creation of a privately funded North Dakota Economic Development Foundation.
- Senate Bill No. 2033 - Renaissance zones. This bill revised the renaissance zone law. Among the changes, the bill authorized a statewide renaissance fund corporation, provided that an income tax exemption is effective beginning the year of the purchase or lease, removed the requirement that a petition for investment in a renaissance zone must include a plan for sale or refinancing that results in proceeds equal to or in excess of the proportional investment made by

the renaissance fund corporation, provided that a taxpayer must be current on all taxes in order to be eligible for a tax exemption or credit under the renaissance zone law, and allowed a city with a zone of less than 20 blocks to expand up to 20 blocks and allow these expanded blocks to have renaissance zone status for up to 15 years.

### **1997-98 Interim Study**

Under Section 12 of Senate Bill No. 2019 (1997), the interim Commerce and Agriculture Committee studied the economic development functions in this state, including the Bank of North Dakota programs, Technology Transfer, Inc., North Dakota Development Fund, Inc., the Department of Economic Development and Finance, and other related state agencies. The committee did not make any recommendations with respect to this study.

### **Testimony and Committee Considerations**

The committee conducted the venture and risk capital study as part of the business climate study and also considered relevant reports received by the committee. The business climate study focus group activities specifically addressed the issue of venture and risk capital. Additionally, the committee received a report from the Bank of North Dakota regarding the status of the Bank's investments in alternative and venture capital investments and early-stage capital funds under NDCC Section 6-09-15(4)(c), a report from the Department of Commerce on the department's study of business incentives, and a combined report from the Department of Commerce and the chancellor of the University System on the outcome of the study of incentives the state could adopt to serve as catalysts for stimulating more efficient commercialization of new technologies and of the study of the state's intellectual property laws as they relate to the protection of intellectual property rights.

### **Recommendations**

The committee recommendations relating to the venture and risk capital study are addressed under **BUSINESS CLIMATE STUDY, Recommendation - Business Initiatives Bill.**