

Target Industries Report

SUBMITTED TO:

Legislative Council Workforce Committee
State Capitol
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Section 54-60-11 of the North Dakota Century Code:

54-60-11. 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.

Background

The five target industries were formalized and adopted by Gov. John Hoeven and the North Dakota Economic Development Foundation as part of the state's strategic plan for economic development. The target industries are energy, value-added agriculture, technology-based businesses, manufacturing and tourism.

The Department of Commerce uses these five target industries to drive and focus the agency's work.

Process Used and Factors Considered in Identifying and Updating the Target Industries

The Department of Commerce has decided to not make any changes to the current five target industries, at this time. Instead, Commerce has sought to narrow the focus within these target industries on areas with the most opportunities for long-term growth. In narrowing the focus, Commerce may consider industry specific factors, such as natural resources available for Energy and Value-Added Agriculture, or general factors such as how global competition will affect the economy.

Commerce has chosen Energy as the special focus target industry. Energy was chosen because of its rapidly increasing role in North Dakota's economy. Petroleum production has been rising in Western North Dakota. North Dakota sits on top of the world's largest supply of lignite coal. And while we continue to create new wealth, jobs and a strong tax base with these fossil resources, renewable energy is taking off across the state. North Dakota has one of the best wind resources in the country. Renewable fuels, such as ethanol and biodiesel, are not only important energy sources, but are also a form of Value-Added Agriculture. Finally, North Dakota enjoys abundant potential for development of biomass and hydrogen—fuels for our nation's future.

Economic Development Foundation

The North Dakota Economic Development Foundation is the strategic planning partner for the Department of Commerce. Throughout 2008, the Foundation has been meeting with economic developers and community leaders from across the state in preparation for a review of our state's economic development strategic plan. The Foundation has met with 24 economic developers in 2008 concerning their local communities' strategic plans for economic development. The Foundation will be using the information gathered as they consider changes and amendments to the strategic plan in 2009.

The Foundation's strategic plan dates back to 2002 and was last updated in 2005. The Foundation will take into consideration changes within North Dakota's economy as they review the current target industries and take a look at emerging industries such as life sciences.

Specific Tactics Used in Addressing Needs of Target Industries

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.

This report highlights some of the key factors at play in each of these industries.

ENERGY and VALUE-ADDED AGRICULTURE

Energy and value-added agriculture offer some of the greatest growth opportunities for North Dakota. Agriculture is North Dakota's number one industry and energy is the state's third largest industry.

Over the past several Legislative Sessions, the Governor and the Legislature have implemented a comprehensive package of state incentives to stimulate growth in all energy sectors and to create a broad-based energy strategy that maximizes all of North Dakota's energy resources.

The incentives the state has created as part of this energy strategy are working. Since 2005, nearly \$7 BILLION in new renewable energy projects have been completed, announced, or are under construction in the state. This includes wind projects that have been completed, are under construction, or filed letters of intent with the Public Service Commission. When all of these projects are realized, they will have the capacity to produce 325 million gallons of ethanol, 85 million gallons of biodiesel, and 2,500 megawatts of wind power (including 475 megawatts currently installed).

Last session the legislature established an energy policy commission to take a look at the state's energy industry and make recommendations to enhance North Dakota's energy policies. Governor Hoeven appointed 14 members to this "EmPower ND Commission", which includes representatives from all sectors of the energy industry. This Commission held 8 public meetings throughout the state to gather information about the various energy sectors and they drafted the EmPower ND energy policy which includes 21 goals, 40 policy statements, and 98 action items. The Commission presented their recommendations to the Energy Development and Transmission Committee which has since approved 9 bills implementing EmPower ND recommendations. Work is continuing and we expect additional bills to be drafted prior to the legislative session.

Also last session, the legislature approved the Renewable Energy Program and the Biomass Incentive and Research Program. The Renewable Energy Program was funded with \$3 million in general funds and the Biomass Incentive and Research Program with \$2 million. To date the Industrial Commission, upon the recommendation of the Renewable Energy Council, has approved approximately \$2.2 million in renewable projects. These include projects in biomass, ethanol, and wind energy.

With the growth in renewable energy, progressive lignite coal development and the oil exploration activity occurring in the west, North Dakota's energy industry is seeing vigorous growth.

TOURISM

Since 2002, when the Legendary strategy was implemented, ongoing research and measurement has been vital to the evolution and enhancement of the North Dakota Tourism Division's marketing and development program.

Tourism Research

- **NDSU – Economic Base (2006)**
 - Tourism is the second largest industry in the state, contributing \$3.78 billion
- **Travel Industry Association – Traveler Spending**
 - From 2001-2004, ND saw 17% growth in visitor spending, compared to 13.4% nationally
- **Statistics Canada – Canadian Travel to ND (2006)**
 - Canadians took 1,105,800 trips to ND
 - Spending more than \$146.6 million (U.S.)

The Tourism Division employed another type of research in 2007:

2006 Tourism Satellite Account

- The Tourism Satellite Account is used to measure tourism because the industry is not federally-classified – being made of several industries including lodging, retail, entertainment and others.

- Global Insight estimates North Dakota's tourism expenditures at \$2.23 billion in 2006.
- Visitors from other states/countries represent the largest portion of tourism expenditures at approximately 68%.
- Residents' travel accounts for almost 33%

What Do Visitors Mean to North Dakota?

- Every 493 visitors create a new job in ND.
- Each visitor creates about \$24 in tax receipts, \$11 of which goes to state and local authorities.
- Each visitor generates \$39 in wages to workers employed across an array of industries.
- Each visitor adds about \$81 to the Gross State Product.
- Core tourism is the 4th largest private-sector employer in the state.

The tourism division also conducted return on investment research on its 2007 campaign. The results were the best to date. According to the independent research firm Longwoods International, the \$1.66 million investment in tourism advertising returned \$204 million in visitor spending in 2007. Each dollar spent on paid media returned \$123 in visitor spending, a 52% increase in return on investment from 2005.

The Tourism Division's programs target group travel, international travel, outdoor recreation, cultural and heritage travel as well as media and public relations. Our largest program, leisure marketing focused on the important overall objectives -- create awareness, generate interest, motivate out-of-state marketable trips, and ultimately build a strong, compelling brand image for North Dakota that will continue to grow the tourism sector of the economy over the long-term.

On the development side, the tourism division continues to work with the North Dakota Development Fund to finance new or expanding tourism businesses and APUC to fund agri-based tourism businesses. A new infrastructure grant program has been created with dollars and insight from both ED & F and Tourism. To date just under \$300,000 has been awarded to 18 projects statewide.

ADVANCED MANUFACTURING/TECHNOLOGY-BASED BUSINESSES

Manufacturing accounts for 10 percent of North Dakota's Gross Domestic Product. While the rest of the country has experienced a manufacturing retraction since 2000, North Dakota has enjoyed an expansion. Strong market growth, both domestically and internationally, have contributed to a healthy manufacturing economy.

Specific tactics used for advanced manufacturing includes the Dakota Manufacturing Extension Partnership which also assists manufacturers to help them become more competitive.

The Centers of Excellence program has also been used to strengthen North Dakota's manufacturers and technology-based businesses. Approved Centers relating to these target industries include:

- Strom Center for Entrepreneurship and Innovation (Dickinson State)
- Dakota Center for Technology Optimized Agriculture (Lake Region)
- Center for Advanced Electronics Design and Manufacturing (NDSU)
- Center for Surface Protection (NDSU)
- COE in Life Sciences and Advanced Technologies (UND)
- Institute for Customized Business Solutions (Valley City)
- Center for Integrated Electronic Systems (NDSU)
- Center for Biopharmaceutical Research and Production (NDSU)
- Center for Passive Therapeutics. (UND)

North Dakota has been able to retain and even grow manufacturing jobs while all but two other states saw declines in manufacturing in recent years. However, the reality is manufacturing and technology-based businesses in North Dakota face a serious threat from off-shore competition. North Dakota manufacturers are not immune from the pressures of globalization and competition. The Department of Commerce has concluded, through a combination of both a manufacturing study and personal visits with manufacturing leaders across the state, that future expansion of our manufacturing sector will come not from labor growth, but rather from innovation and productivity gains, as well as a strong focus on developing foreign markets. State policy, both in terms of taxes and finance, should be examined to help stimulate and incent growth in this fashion.

Finally, with support from the legislature, the North Dakota Trade Office has been able to increase its efforts to expand North Dakota's exports to high-demand foreign markets. In fact, North Dakota lead the nation in export growth in 2007 with 34%. Continued support and funding for the trade office is essential to continued market growth for our state's manufacturers.

WORKFORCE

While the Department of Commerce maintains its focus on each of these targeted industries, it is also clear that continued growth of these industries will be heavily dependant upon a more robust and dynamic education and training system—one that is market-based and able to respond quickly to changing demands for skills. This is an area where North Dakota has the potential to create a competitive advantage.

Each of the five targeted industries have serious and unique workforce challenges. We need to retain more of our youth, attract new workers and families, retain and upgrade existing workforce skills on a life-long basis, and create business environments conducive to retaining workers that are otherwise eligible to retire.

Recommended Legislative Changes Necessary to Better Focus Economic Development Services on these Industries

The Department of Commerce continues to use the resources and tools granted to us by the legislature to target industries and help grow North Dakota's economy. A few possible legislative actions to consider include:

- Implementing the Empower North Dakota Commission recommendations
- Addressing infrastructure needs for energy development
- Creating a robust and market-based education and workforce training system
- Developing tax and financing incentives that promote automation and productivity
- Expanding trade services through the North Dakota trade office
- Continued support and funding for the Center of Excellence Program
- Expanding support for entrepreneurial start-ups, programming and support
- Expanding support for Tourism marketing and development