

DEPARTMENT OF COMMERCE TESTIMONY
JUNE 19, 2011, 1:40 P.M.
BUDGET SECTION
BRYNHILD HAUGLAND ROOM, STATE CAPITOL
SENATOR TONY GRINDBERG, CHAIRMAN

JUSTIN DEVER – MANAGER OF OFFICE OF INNOVATION AND ENTREPRENEURSHIP

Good afternoon, Mr. Chairman and members of the Budget Section, my name is Justin Dever and I manage the Office of Innovation and Entrepreneurship for the North Dakota Department of Commerce.

I'm here today to report on three items: possible statutory changes relating to ethanol plant production incentive reporting, a summary of funding awards for Centers of Excellence and Centers of Research Excellence, and a Centers of Excellence monitoring report including the annual audit reports.

Possible Statutory Changes Relating to Ethanol Plant Production Incentive Reporting

NDCC § 17-02-01 requires a report to the Budget Section concerning ethanol plants that have received a production incentive under that section. NDCC § 17-02-01 provided for a forty cents payment for every gallon of ethanol produced by ethanol plants that were in operation prior to July 1, 1995. In 2003, the legislature decided to phase out this incentive and replace with a counter-cyclical incentive for new ethanol plants. Existing ethanol plants were able to continue to receive the incentive through the 2005-07 biennium, and were required to report to the budget section on whether the plant produced a profit from its operation after deducting the payments.

There is no longer a need for the reporting requirement as these plants are no longer able to receive the production incentive. Therefore, the Department of Commerce recommends that NDCC § 17-02-01 be repealed.

Summary of Funding Awards for Centers of Excellence during the 2009-11 biennium and Centers of Research Excellence for the 2011-13 biennium to date

During the 2009-11 biennium, there were a total of three Centers of Excellence awards made totaling \$9.715 million and nine Centers of Excellence Enhancement grants totaling \$10 million.

Centers of Excellence Awards during the 2009-11 biennium

| | |
|--|-------------|
| North Dakota State University | |
| Center for Advanced Technology Development and Commercialization | \$3,900,000 |
| Center for Sensors, Communications and Control | 2,800,000 |
| Center for Biopharmaceutical Research and Production 2.0 | 3,015,000 |
| Total | \$9,715,000 |

Centers of Excellence Enhancement Grants during the 2009-11 biennium

| | |
|--|-------------|
| University of North Dakota | |
| Center of Excellence for Unmanned Aircraft Systems Research, Education, and Training | \$2,754,000 |
| Grand Forks Air Force Base Realignment Business Transition Program | 200,000 |

| | |
|---|--------------|
| North Dakota Unmanned Aircraft Systems Airspace Initiative | 100,000 |
| Unmanned aircraft Systems Software and Curriculum Development | 600,000 |
| Certificate Programs for Full Motion Video and Activity Based Intelligence Analysis | 746,000 |
| V2 Aerospace, Inc. Technical Assistance | 370,000 |
| Law Enforcement & Public Safety Agency Small Unmanned Aircraft Systems Course | 230,000 |
| North Dakota State University | |
| Research 1 expansion | 4,000,000 |
| Materials and Nanotechnology Center | 1,000,000 |
| Total | \$10,000,000 |

Last year, the legislature created a new Centers of Research Excellence (CORE) program which provides grants exclusively to North Dakota's two research institutions or their associated foundations. The legislature provided a total of \$12 million, which was allocated to three subprograms. These included \$5 million for the general Centers of Research Excellence (CORE) program; \$4 million for a CORE Limited Deployment Cooperative Airspace Program (LD-CAP); and \$3 million for CORE Base Realignment Grants. The legislation for the CORE LD-CAP included a specific breakdown between UND and NDSU, which is what the COE Commission has awarded.

Centers of Research Excellence (CORE) Awards – 2011-13 biennium-to-date

| | |
|--|-------------|
| North Dakota State University | |
| Center for Life Sciences Research and Applications | \$1,350,000 |
| Center for Technologically Innovative Processes and Products | 320,000 |
| Total | \$1,670,000 |

CORE Limited Deployment Cooperative Airspace Program (LD-CAP) Awards – 2011-13 biennium

| | |
|-------------------------------|-------------|
| University of North Dakota | \$2,700,000 |
| North Dakota State University | 1,300,000 |
| Total | \$4,000,000 |

CORE Base Realignment Grants – 2011-13 biennium-to-date

| | |
|--|-------------|
| University of North Dakota | |
| Global Hawk Sensor Operator Part Task Trainer | \$878,204 |
| North Dakota UAS Airspace Initiative (Phase 2) | 255,440 |
| Airspace Integration Team - UAS National Test Site | 500,000 |
| UND Center for Innovation Foundation | |
| Joint Distributed Common Ground System | 125,706 |
| Total | \$1,759,350 |

Please let me know if you'd like any additional information on any of these Centers of Research Excellence awards.

Centers of Excellence Monitoring Report and Distribution of the Annual Audit Reports of Centers of Excellence pursuant to Section 15-69-05(2)

Annual Audit Reports

To save on printed pages, we have condensed the 17 agreed upon procedures reports and 13 financial audits into a summary document that provides information on all of the findings and recommendations included in the reports. A printed and electronic copy of the reports has been provided to Legislative Council; please contact Legislative Council or the Department of Commerce if you'd like copies of any of the audit reports.

The agenda states both Centers of Excellence and Centers of Research Excellence reports will be provided. The Centers of Research Excellence was launched in the current fiscal year, so it is too early for any audit reports to be completed. We will start to report on Centers of Research Excellence next year.

The third-party auditors did uncover some findings, mostly administrative in nature. Some of the administrative findings were related to the fact that the Centers of Excellence program has some differences with other federal programs; such as reporting on a cash-basis versus an accrual basis. Some of them were simply clerical errors.

The Department of Commerce follows up on all errors and findings identified by third-party auditors. In all cases, the findings have been or are in the process of being addressed. Any errors in reporting are corrected and we utilize the updated information in our reports.

Monitoring Report

Statute requires the Centers of Excellence Commission to monitor each centers of excellence award for a period of 6 to 10 years. As part of this monitoring, the Commission is to determine whether the centers are having the desired economic benefits. The Commission reviews each center that has been in existence for at least three full fiscal years. As of the end of the 2011 fiscal year, 11 centers had reached this milestone. Of these 11, nine of the centers were determined to be on track to have the desired economic benefit. I'll be focusing my comments on the status of the two centers that did not receive this determination.

Valley City State University's Enterprise University was established to assist companies engaged in enterprise software consultancy. Specifically, it was started as a means to attract and grow Eagle Creek Software Services to Valley City. It was successful with Eagle Creek and now over 60 people are employed in Valley City. However, after its initial success the center had difficulty in finding other partners in which to engage. The Department of Commerce, local economic developers, and VCSU worked together to find additional partners for the center. Ultimately it was decided to end the operations of the center and over \$200,000 was returned to the state general fund. The Commission determined that Valley City State University's Enterprise University did not meet its stated goals, but it did have a significant economic impact on the community of Valley City and positively impacted Valley City State University.

The UND Research Foundation's Center of Excellence in Life Sciences and Advanced Technologies was the genesis of the Research Enterprise and Commercialization (REAC) Technology Accelerator facility. This facility is for companies that have grown beyond the incubator stage, and are approaching a time of rapid growth. It provides a beachhead for tech-

based companies to find appropriate laboratory space that will enable them to get established in Grand Forks.

At the time the COE award was made and throughout the construction, the REAC facility was projected to be near capacity. However, many of the original tenants outgrew the facility and relocated to elsewhere in Grand Forks. The UND Research Foundation has had some difficulty in keeping the facility fully leased which has hampered their ability to cash flow operations. UND and the UND Research Foundation, along with the Department of Commerce and the Grand Forks Regional Economic Development Corporation have taken steps to address the situation and work to recruit new companies into the REAC facility. UND and the UND Research Foundation are also looking at options to improve the financing of the facility.

You have all been provided a copy of the 2011 Center of Excellence Annual Report. This report provides an overview of the results from 22 Centers of Excellence and 8 COE Enhancement Grants. As of June 30, 2011, just under \$33 million in state COE funds had been spent by the centers. This \$33 million in state funds has leveraged \$157 million in non-state funds, a ratio of nearly five-to-one. Overall the activities of the centers and partners have resulted in a total economic impact of \$538.8 million.

Other highlights from the report include:

- 973 jobs have been created at the centers or by their private sector partners
- 185 partners are engaged with the centers
- 21 businesses have started or significantly expanded within North Dakota

In six years, the Centers of Excellence program has made significant progress in growing and diversifying North Dakota's economy. It has helped private businesses add jobs in high tech fields such as electronics, software development, vaccinology, and unmanned aircraft systems. Ultimately, the activities of the centers and their partners have added over half a billion dollars of economic activity to our state's economy.

Mr. Chairman and members of the Budget Section, thank you for allowing me the time to visit with you today. That concludes my testimony and I am happy to entertain any questions.