

TECHNOLOGY-BASED ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT BEST PRACTICES - BACKGROUND MEMORANDUM

INTRODUCTION

Section 18 of Senate Bill No. 2018 (2009) provides for a Legislative Council study of technology-based entrepreneurship and economic development best practices, including a review of best practices implemented by the Department of Commerce and the effectiveness of the Department of Commerce Foundation. The Legislative Council has charged the interim Workforce Committee with performing this technology-based entrepreneurship and economic development best practices study. Additionally, under:

- Section 34 of Senate Bill No. 2003 (2009), the committee is charged with studying the establishment of a higher education student trust fund, including available funding sources;
- Section 19 of Senate Bill No. 2018 (2009), the committee is charged with studying the state's system for addressing workforce needs through a workforce system initiative, including a review of the alignment of taxpayer investment with programs, coordination of programs, and the North Dakota workforce strategic plan;
- Section 6 of Senate Bill No. 2038 (2009), the committee is charged with studying the means by which the North Dakota University System can further contribute to developing and attracting the human capital to meet North Dakota's economic and workforce needs;
- Section 1 of Senate Bill No. 2390 (2009), the committee is charged with studying the establishment and development of certified technology parks; and
- Senate Concurrent Resolution No. 4002 (2009), the committee is charged with studying the state's workforce system, the feasibility and desirability of enacting legislation to address the issues identified in the 2007-08 interim Workforce Committee's consultant's report, and the implementation of workforce initiatives enacted by the 61st Legislative Assembly.

The details of these five studies are addressed in separate background memorandums.

BEST PRACTICES STUDY CHARGE

The study charge directs the committee to study best practices for technology-based entrepreneurship and economic development. As part of this study, the committee is required to conduct a review of the:

1. Technology-based entrepreneurship and economic development best practices implemented by the Department of Commerce; and
2. Effectiveness of the North Dakota Economic Development Foundation.

As a starting point, it may be helpful to consider what "best practices" means in the context of this study charge. Although the North Dakota Century Code (NDCC) uses the term "best practices," the term is not defined, nor does the *American Heritage College Dictionary* or *Black's Law Dictionary* define the term. Considering other sources, the federal General Accountability Office (GAO) *Business Process Reengineering (BPR) Glossary of Terms* provides:

Best Practices: the processes, practices, and systems identified in public and private organizations that performed exceptionally well and are widely recognized as improving an organization's performance and efficiency in specific areas. Successfully identifying and applying best practices can reduce business expenses and improve organizational efficiency.

This GAO definition seems like a reasonable definition to start with in the context of the Workforce Committee's study directive.

Department of Commerce

The committee is charged with studying the technology-based entrepreneurship and economic development best practices implemented by the Department of Commerce. The Department of Commerce is created by NDCC Section 54-60-02, which provides the department consists of a Division of Community Services, a Division of Economic Development and Finance, a Division of Tourism, a Division of Workforce Development, and any division the Commissioner of Commerce determines necessary to carry out Chapter 54-60.

The Commissioner of Commerce is provided for under NDCC Section 54-60-03, which provides the commissioner's duties include:

- Assuming central responsibilities to develop, implement, and coordinate a working network of commerce service providers;
- Advising and cooperating with departments and agencies of the federal government and of other states; with private businesses, agricultural organizations, and associations; with research institutions; and with any individual or other private or public entity; and
- During each regular legislative session, reporting to a standing committee of the House of Representatives and Senate and annually reporting to the North Dakota Economic Development Foundation:

On the department's goals and objectives since the last report;

On the department's goals and objectives for the period until the next report;

On the department's long-term goals and objectives;

On the department's activities and measurable results occurring since the last report; and

On commerce benchmarks, including the average annual wage in the state, the gross state product exclusive of agriculture, and the number of primary sector jobs in the state.

North Dakota Economic Development Foundation

The committee is charged with studying the effectiveness of the North Dakota Economic Development Foundation. The North Dakota Economic Development Foundation is created by NDCC Section 54-60-04, which provides:

54-60-04. North Dakota economic development foundation - Executive committee - Duties. The North Dakota economic development foundation is created.

1. The foundation is composed of a minimum of fifteen and a maximum of thirty members appointed by the governor for two-year terms, except the governor shall appoint approximately one-half of the initial foundation members to one-year terms in order to initiate a cycle of staggered terms. Appointment of the foundation members must ensure a cross section of business, tourism, and economic development representation, and must ensure that at least one member represents rural concerns.
2. The foundation members shall elect an executive committee with a minimum of five and a maximum of seven foundation members, which shall include a chairman, vice chairman, secretary, treasurer, and up to three members at large.
3. The foundation shall seek funding for administrative expenses from private sector sources and shall seek and distribute private sector funds for use in commerce-related activities of the state.
4. The foundation shall:
 - a. Provide the governor advice and counsel in selecting the commissioner.
 - b. Serve in an advisory role to the commissioner.
 - c. Develop a strategic plan for economic development in the state

and set accountability standards, measurements, and benchmarks to evaluate the effectiveness of the department in implementing the strategic plan.

- d. Develop a strategic plan for the development of value-added agriculture in the state.
- e. Monitor tourism and economic development activities and initiatives of the department.
- f. Recommend state and federal legislation relating to strengthening the state's economy and increasing the state's population.
- g. Monitor state and federal legislation and initiatives that may impact the state's economy and population.
- h. Serve as a source of expertise for developing public and private initiatives to strengthen the state's economy and increase the state's population.

Creation - 2001

The North Dakota Economic Development Foundation was statutorily created in 2001 by Senate Bill No. 2032. Senate Bill No. 2032 was a Legislative Council bill recommended by the 1999-2000 interim Commerce and Labor Committee which also created the Department of Commerce. The Commerce and Labor Committee worked with the National Association of State Development Agencies (NASDA) in conducting the committee study charge and ultimately drafting the legislation to create the Department of Commerce. As part of the committee's interim study, NASDA surveyed state agencies regarding the provision of economic development services within the state and submitted the report *NASDA Report to North Dakota on Potential Fine Tuning of State Economic Development Program*. The Department of Economic Development and Finance received high marks across the board in the survey. Negative observations indicated that perhaps there were too many economic development service providers within the state, and there did not appear to be a mechanism to coordinate the state economic development services. The NASDA report encouraged the state to:

- Establish a central cabinet-level department of commerce to create more synergy among the state's economic development programs;
- Set up a regional network to support local economic development activities;
- Create a commerce cabinet to maximize cooperation and collaboration among the various state-funded entities that retain some economic development responsibilities;
- Create a unified economic development budget that would include all agencies that expend

state funds for economic development and which would be submitted through the department of commerce; and

- Establish a private, nonprofit foundation to serve as an advisory panel for the department of commerce which would oversee strategic planning and goalsetting to guide the state's efforts to strengthen its economy and which would set benchmarks with which to assess the effectiveness of the state's programs.

As a result of its deliberations, the Commerce and Labor Committee recommended Senate Bill No. 2032. The bill provided for the creation of a department of commerce by consolidating the Division of Community Services, Department of Economic Development and Finance, and Tourism Department. The bill proposed that the new department would be administered by a commissioner of commerce. The bill provided for the creation of five specific divisions within the department--a division of community services, a division of economic development and finance, a division of tourism, a division of international trade, and a division of workforce development. The bill provided for the establishment of a North Dakota commerce cabinet and allowed for the creation of a privately funded North Dakota development foundation.

Senate Bill No. 2032, as adopted by the 2001 Legislative Assembly, consolidated the Division of Community Services, Department of Economic Development and Finance, and Tourism Department in the newly created Department of Commerce. The bill required the Governor, with the advice and counsel of the North Dakota Economic Development Foundation, to appoint the Commissioner of Commerce to administer the department. The bill provided that the department must consist of a Division of Community Services, a Division of Economic Development and Finance, a Division of Tourism, a Division of Workforce Development, and any other division determined to be necessary by the commissioner.

Senate Bill No. 2032 also created the North Dakota Commerce Cabinet composed of the directors of each of the department's divisions and of the executive heads or other authorized representatives of the State Board for Vocational and Technical Education (now named the State Board for Career and Technical Education), the State Board of Higher Education, the Bank of North Dakota, the Department of Agriculture, the Workers Compensation Bureau (now named Workforce Safety and Insurance), the Department of Transportation, Job Service North Dakota, the Game and Fish Department, and any other state agency appointed by the commissioner. Senate Bill No. 2032 also created the North Dakota Economic Development Foundation composed of at least 15 members, but not more than 30 members, appointed by the Governor. The bill provided that the purpose of the foundation would be to serve in an advisory role to the commissioner; develop a strategic

plan for the development of value-added agriculture; develop a strategic plan for economic development in the state; and set accountability standards, measurements, and benchmarks to evaluate the effectiveness of the department in implementing the economic development strategic plan.

2003

In 2003 the Legislative Assembly made one significant change that affected the structure adopted in Senate Bill No. 2032 (2001). Senate Bill No. 2393 (2003) added to the responsibilities of the North Dakota Economic Development Foundation by requiring the foundation to recommend state and federal legislation relating to strengthening the state's economy and increasing the state's population, monitor state and federal legislation and initiatives that may impact the state's economy and population, and serve as a source of expertise for developing public and private initiatives to strengthen the state's economy and increase the state's population. The bill also required the Division of Workforce Development to actively monitor local, regional, and national public and private workforce development initiatives.

2007

House Bill No. 1137 (2007) made several changes impacting the Department of Commerce, including the requirement that the North Dakota Economic Development Foundation Executive Committee include up to three members at large and a treasurer in addition to the chairman, vice chairman, and secretary.

2007-08 Interim

During the 2007-08 interim, under Section 21 of House Bill No. 1018 (2007), the interim Industry, Business, and Labor Committee was charged with studying the effectiveness of the Department of Commerce, including evaluation of the effectiveness of the North Dakota Economic Development Foundation in providing a nonpartisan, private sector perspective of the department's approach to the department's duties.

The committee received an update regarding the North Dakota Economic Development Foundation strategic plan benchmarks. The plan included six goals:

1. Develop a unified front for economic development based on collaboration and accountability.
2. Strengthen linkages between the state's higher education system and economic development organizations and private businesses.
3. Create quality jobs that retain North Dakota's current workforce and attract new skilled labor.
4. Create a strong marketing image on the state's numerous strengths, including workforce, education, and quality of place.

5. Accelerate job growth in sustainable, diversified industry clusters to provide opportunities for the state's economy.
6. Strengthen the state's business climate to increase global competitiveness.

Within each goal, the plan included specific benchmarks upon which to measure the effectiveness of the department. Data provided to the committee indicated the department experienced success in working toward the goals since 2000. Among the successes cited by the department were:

- The state was ranked fourth in the *2007 State Competitiveness Report*.
- The state was ranked ninth by *Forbes* on the list of "Best States for Business."
- The state had the second highest percentage growth from 2000 to 2006 in academic research and development expenditures according to the National Science Foundation.
- Since 2000, 30,000 new jobs had been created in the state, 5,000 of which were created in 2007.
- Average annual wages increased by over \$8,400 per person.
- Positive business stories in national media provided an advertising equivalency of more than \$2.4 million in 2007, and the number of media inquiries regarding North Dakota business topics doubled in a recent 12-month period.
- The state experienced net job growth in all industries targeted in the plan--advanced manufacturing, energy, tourism, value-added agriculture, and technology-based business.
- The state is one of three states to increase the number of manufacturing jobs between 2000 and 2006.
- The state's gross domestic product grew to over \$26 billion in 2006.
- The state led the nation in the growth of exports in 2007 and global sales expanded to over \$2 billion.
- The state's manufactured exports exceeded \$2 billion in 2007, which was an increase of over \$500 million since 2006.

Representatives of the Department of Commerce presented information regarding the department's efforts to set performance goals and tie employee

salary increases to those goals. During the last year, 63 employees set 424 goals. Of those goals, 108 were exceeded, 291 were met, and 25 were not met.

Committee members generally agreed that the Department of Commerce and the North Dakota Economic Development Foundation were making progress in meeting the expectations and that the performance measurements of the department were indicating success in achieving the goals of the strategic plan. Members of the committee expressed some concerns regarding economic development funding at the local level and the dedication of state resources to assist local economic development entities. The committee made no recommendation with respect to its study of the Department of Commerce.

STUDY APPROACH

In conducting this study, the committee may choose to:

1. Receive testimony from:
 - a. The Department of Commerce regarding technology-based entrepreneurship and economic development best practices, department best practices and best practices of other states, and the effectiveness of the North Dakota Economic Development Foundation;
 - b. The North Dakota Economic Development Council regarding the activities and effectiveness of the foundation;
 - c. State agencies involved in technology-based entrepreneurship and economic development regarding the activities of the Department of Commerce, best practices of other states, and the effectiveness of the North Dakota Economic Development Foundation; and
 - d. Private and public economic development entities regarding activities of the Department of Commerce and best practices of other states and regarding the effectiveness of the North Dakota Economic Development Foundation; and
2. Consider technology-based entrepreneurship and economic development best practices of other states that are leaders in their areas.