

1999 HOUSE FINANCE AND TAXATION

HB 1495

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1495

House Finance and Taxation Committee

Conference Committee

Hearing Date February 3, 1999

Tape Number	Side A	Side B	Meter #
1	x		13.6
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. BOB STEFONOWICZ, DIST. 2, Introduced the bill. See written testimony.

REP. BELTER Page 2, line 1, asked who would be the other forty nine percent?

REP. STEFONOWICZ That is left wide open. It could be townspeople.

REP. BELTER Could it be a cooperative?

REP. STEFONOWICZ That wasn't our original intent.

REP. MICKELSON With this bill, this Monday we heard five bills or so, asking for people or property exemptions to the tune of twelve and a half million dollars or greater, at some point in time, don't we have to come up with a way to make up the revenue, do you have a way to come up with twelve and a half million dollars?

REP. STEFONOWICZ I did not address this at this particular time, revenue enhancement or tax increases. I think there are some bills that are relevant to those things. I think we have to be sensitive to the issues out there as far as agriculture are concerned. In our particular corner of the state, there is a world of hurt. We were featured in Prague Magazine as two of the three counties I represent, suffering some of the greatest losses. This would be one way to enhance community growth in that way. I would hope we could do that with some mechanism.

SEN ROLLIE REDLIN, DIST. 38, MINOT, Testified in support of the bill as a co-sponsor.

This bill is a step in the right direction, which will encourage farmers to invest in something that will help themselves. Having been in the banking business for twenty years, I am encouraged by any effort to develop industry and jobs producing economic adventures.

ROGER JOHNSON, STATE AGRICULTURAL COMMISSIONER, Testified in support of the bill. See written testimony. Compared this bill to HB 1402, explained the differences.

REP. GRANDE Why doesn't this include LLC's?

ROGER JOHNSON The only reason was to attempt to limit the fiscal effect.

REP. WINRICH Is there a possibility of lowering the fiscal effect by lowering the limit on investments from twenty thousand to something else, if we lowered it to ten thousand, would that approximately cut the fiscal note in half?

ROGER JOHNSON Deferred the question to the Tax Department. When we drafted this bill we used the model, Rep. Brandenburg's bill from last session. The fiscal note on that bill was something around three and a half million dollars. That had a fifty thousand limitation.

RICHARD SCHLOSSER, NORTH DAKOTA FARMERS UNION, Testified in support of the bill. We agree with the concept of both bills HB 1402 and HB 1495. We understand there are a

whole host of bills before you asking for tax exemptions, etc. Understanding that agriculture is the largest sector of the state's economy, it would follow then, that we need to address the ills that are facing agriculture. If we can partner with North Dakota residents in value added processing that is great.

REP. MICKELSON In response to that, I have supported the majority of the tax exemptions which most of you have supported, my point in all of that is, we at the legislature are getting beat up with not doing enough for education, not doing enough for agriculture and a host of other things. I am telling you this, we are working within the budget that we have. The people back in my home do not want me to raise taxes, property or otherwise. For you people coming in and saying we need to get more people off the roles, I am saying maybe we need to put more people on the roles. If we pass everything out, we will increase the general fund by twelve million dollars or more.

RICHARD SCHLOSSER I understand your frustrations. I guess that is the case we are making. Can we head off a future ag crisis by doing what we can do within the state of North Dakota. That is where we at Farmers Union are coming from.

REP. RENNERFELDT I see this as quite a switch for the Farmers Union, I have been here quite awhile and when something used to come up like this, and you even mentioned outside investors, is this a new coop?

RICHARD SCHLOSSER I don't know that it is really new, we looked at before was the involvement in production agriculture. We saw as we came together with the commission of future agriculture, we came to the realization that this state needs some capitalization and some concept of outside involvement in helping to get these value added cooperatives started.

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House Finance and Taxation Committee
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REP. WARNER Commented that he invested in the Dakota Growers many years ago and it has paid off very well. He stated that has been the only profitability he has seen.

BRIAN KRAMER, NORTH DAKOTA FARM BUREAU, Testified in support of the bill.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-8-99, Tape #2, Side A, Meter #31.9

REP. GROSZ Made a motion for a DO NOT PASS.

REP. GRANDE Second the motion. MOTION CARRIED.

9 Yes 4 No 2 Absent

REP. RENNERFELDT Was given the floor assignment.

FISCAL NOTE

(Return original and 14 copies)

Resolution No.: HB 1495

Amendment to: _____

Requested by Legislative Council

Date of Request: 1/20/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: In enacted HB 1495 is expected to reduce revenues by \$1,475,000 in the 1999-2001 biennium.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			-\$1,475,000			
Expenditures						

3. What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

County, city, and school district fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed
attach a supplemental sheet.

Signed: *Kathryn L. Strombeck*

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: February 2, 1999

Phone Number: 328-3402

Please type or use black pen to complete

Date 2-8-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1495

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Grosz Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH		✓
RENNERFELDT	✓				
CLARK	✓				
FROELICH	A				
GRANDE	✓				
GROSZ	✓				
HERBEL	✓				
KROEBER		✓			
MICKELSON	✓				
NICHOLAS	A				
RENNER	✓				
SCHMIDT		✓			
WARNER		✓			
WIKENHEISER	✓				

Total 9 4
(Yes) (No)

Absent 2

Floor Assignment Rep Rennerfeldt

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
February 8, 1999 3:35 p.m.

Module No: HR-25-2224
Carrier: Rennerfeldt
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1495: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (9 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). HB 1495 was placed on the Eleventh order on the calendar.

1999 TESTIMONY

HB 1495

Testimony for House Bill 1495

Before the House Finance and Taxation Committee
Fort Totten Room, ND State Capitol
Wednesday, February 3, 1999, 10 AM

Chairman Belter and Members of the House Finance and Taxation Committee, I am here to urge your support of House Bill 1495.

For the record, I am Representative Bob Stefonowicz from Legislative District Two. I am farmer in the Wildrose area. I was a teacher of science at Dickinson High School until 1995.

I come before you today as the prime sponsor of House Bill 1495 that establishes a state income tax credit for investors in commodity processing cooperatives. The purpose of this bill is to encourage farmers to invest in commodity processing cooperatives.

The investment limits are outlined on page two of the bill. First the limit is set at \$20,000 per year. The credit would be 30% of that for a maximum credit of \$6000 per year.

Page 2, line 17 limits the income tax credit in a year to 50% of the qualified amount, so the maximum credit would be \$3000, but cannot exceed 50% of the tax liability. Those income tax credits not used in any one year may be carried over to future years up to 15 years.

Part 4 on page 2 outlines how partnerships and estates and trusts can also participate in this program.

I will leave it up to others more knowledgeable than me to give you the specific numbers for this bill. I urge your favorable recommendation on House Bill 1495.

I will be glad to answer any questions you may have.

**Testimony of Roger Johnson
Commissioner of Agriculture
House Bill 1495
House Finance & Taxation Committee
Fort Totten Room
February 3, 1999**

Chairman Belter and members of the House Finance & Taxation Committee, I am Commissioner of Agriculture Roger Johnson. I am here today in support of HB 1495, which establishes an agricultural cooperative investment tax credit.

“Co-op Fever” has spread through North Dakota since the early 90’s, with a total of 26 cooperatives forming with the specific purpose of adding value to agricultural products (See attachment 1). North Dakota agricultural processing cooperatives process many different products including bison, sugar, cheese, fish, potatoes, wheat, pasta, hogs, corn sweetener, specialty oils, and organically-grown crops.

Some of these new-generation cooperatives have been very successful, while others have struggled. Value-added cooperatives have built nearly \$800 million in facilities since 1990. These value-added cooperatives also account for more than 600 new jobs in North Dakota. Producers have invested \$216 million in equity dollars into value-added cooperatives, which in turn has stimulated growth in local economies.

North Dakota agriculture’s vision, developed through the Commission on the Future of Agriculture, is that North Dakota will become “the trusted provider of the highest quality food in the world with prosperous family farms, thriving rural communities, and world-class stewardship of resources.”

In step with that vision are five major goals for agriculture, one of which is to increase value-added agricultural processing. The Commission on the Future of Agriculture has recommended that the North Dakota legislature provide tax incentives for investors in value-added agricultural processing. HB 1495 clearly meets that goal and objective.

In order to increase value-added agricultural processing in North Dakota, we must provide opportunity for more producers to invest in these ventures. Unfortunately, farmers and ranchers in North Dakota have been experiencing very difficult economic times in recent years. The charts and information on pages 10-13 of the Commission on the Future of Agriculture report entitled, “Building the Future of North Dakota Agriculture,” highlight the economic conditions we are facing in agriculture.

As you know, there are two bills before the 56th Legislative Assembly dealing with agriculture cooperative investment tax credits – HB 1402 and HB 1495. Below, I have outlined a side-by-side comparison of these bills.

HB 1402	HB 1495
Qualified businesses are cooperatives and limited liability companies	Qualified businesses are cooperatives
Credit available when filling out long-form only	Credit available on both long-form and short-form
Annual investment amount must be no less than \$5,000 and no greater than \$25,000 (amended)	Annual investment amount can be no greater than \$20,000
Fiscal note = \$218,000	Fiscal note = \$1.4 million

While both bills seek to provide additional opportunity to invest in value-added agriculture cooperatives, it appears that HB 1495 will be a better fit for more producers. HB 1402 would benefit a smaller group of taxpayers – the less than 10% of North Dakotans who utilize the long-form when filing state taxes. HB 1495 provides tax credit availability on both the short-form and long-form.

According to the ND Tax Department, 23,000 farmers currently use the short form, with the average tax liability for these filers at \$629. The number of farmers currently using the long form is 2,200, with the average tax liability for these filers at \$169.

HB 1495 will provide an additional incentive for producers to become investors in value-added agricultural cooperatives. In turn, North Dakota will be on course with the vision we have created for ourselves, which will make us “the trusted provider of the highest quality food in the world.”

Chairman Belter and committee members, I urge a do pass on HB 1495. I will be glad to answer any questions you may have.

Table 1—New-generation cooperative formation with headquarters in ND, 1990-1997.

Name/Year	City	Status	Product
Farmers Union Feedlot Assn.—1997	Jamestown	planning	fed cattle
North Dakota Pigs Co-op—1997	Fargo	construction	hogs
Superior Pork Producers —1996	Egin	inactive	hogs
United Spring/Wheat Proc. —1996	Fargo	launching	frozen bread
Bloomfield Produce —1996	Hillsboro	inactive	carrots
Dakota Prairie Beef —1996	Gascoyne	equity	fed cattle
Western Dakota Pork —1995	Scranton	operating	slaughter hogs
Iso-Straw Cooperative —1995	Finley	planning	particle board
Northern Produce —1995	Hatton	reorganizing	carrots
Great Northern Garlic Grow. —1995	Minot	planning	garlic
Northern Plains Prem. —1995	Mandan	equity formation	beef
Central Dakota Cattle —1994	Maddock	operating	feeder calves
Farmers Choice Pasta —1994	Leeds	operating	pasta
Golden Growers Co-op —1994	Fargo	operating	corn syrup
Dak.Aquaculture Hatchery —1994	Carrington	dissolved	fingerlings
North Amer. Fish Farmers —1994	Binford	operational	fish
Imperial Organic Processing —1994	Napoleon	inactive	flour
Dakota Dairy Specialties —1994	Hebron	operating	cheese
Waiton Bean Growers —1994	Englevale	reorganizing	edible beans
Clifco New Energy —1994	Clifford	inactive	ethanol
Heart of the Valley —1994	Mayville	operating	bean products
No. Plains Organic Grains —1993	Steele	inactive	organic
Quality Pork —1991	Crosby	operating	feeder pigs
North Central Cattle Feeders —1993	New Town	operating	feeder calves
Dakota Rabbit Co-op —1993	Center	dissolved	broiler rabbit
Central Dakota Growers —1993	Jamestown	planning	potato storage
North American Bison —1992	New Rockford	expanding	bison meat
Dakota Growers Pasta —1991	Carrington	expanding	pasta