

1999 SENATE FINANCE AND TAXATION

SB 2417

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2417

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 1, 1999

| Tape Number                                  | Side A | Side B | Meter #   |
|----------------------------------------------|--------|--------|-----------|
| 1                                            | x      |        | 2308-4306 |
|                                              |        |        |           |
|                                              |        |        |           |
| Committee Clerk Signature <i>Sheila Wald</i> |        |        |           |

Minutes:

SENATOR URLACHER opened the hearing on SB2417: A BILL TO PROVIDE FOR THE ESTABLISHMENT OF EMPOWERMENT ZONES AND TO PROVIDE TAX CREDITS FOR BUSINESSES LOCATED WITHIN THE EMPOWERMENT ZONES.

SENATOR TIM MATHERN testified in support of SB2417 and recommended a DO PASS.

(See attached testimony)

SENATOR KELSCH testified. (See attached testimony)

SENATOR WARNER stated rural ND has been devastated by population loss and has put stress on all of our institutions. He urged a DO PASS on SB2417.

PAUL GOVIG, Bank of North Dakota testified. (See attached testimony) There will be significant transfers from the Bank of ND during the next biennium, and because of that, we feel

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Senate Finance and Taxation Committee

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that the appropriation for this should come from the general fund, so I would encourage you to amend that.

SENATOR WARDNER asked if there was not going to be enough money left in the bank to take care of this.

PAUL GOVIG replied the bank is concerned about that and to reach our mission and do that, we feel we need significant reserves at the bank. This bill could put a crimp on that.

SENATOR WARDNER asked if we were at a time when the state would not be taking so much out of the bank, would you have a problem with the bill.

PAUL GOVIG replied I believe that is true.

DENNIS JOHNSON, ND Farmers Union testified in support of SB2417.

SENATOR URLACHER closed the hearing on SB2417.

DISCUSSION 2-3-99, MOTION MADE BY SEN. CHRISTMAN TO DO NOT PASS, W/ AMENDMENT, SECONDED BY SEN WARDNER, CARRIED BY SEN SCHOBINGER.

THE VOTE WAS 5 Y 2 N 0 ABSENT OR NOT VOTING. TAPE 02/03/99 2000-2738.

## FISCAL NOTE

Return original and 14 copies)

Bill/Resolution No.: SB 2417

Amendment to: \_\_\_\_\_

Requested by Legislative Council

Date of Request: 1/27/99

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:** SB 2417 provides various tax credits for economic development activity within empowerment zones in rural North Dakota. A portion of the revenue loss attributed to the credits will be offset by economic expansion in rural areas. The overall net impact of SB 2417 is unknown.

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 |
| <b>Revenues</b>     |                  |             |                    |             |                  |             |
| <b>Expenditures</b> |                  |             |                    |             |                  |             |

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: \_\_\_\_\_

4. **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: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 29, 1999

Phone Number: 328-3402

Date: 2/3/99  
 Roll Call Vote #: 17

**1999 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 2417**

Senate Senate Finance and Taxation Committee

Subcommittee on \_\_\_\_\_  
 or  
 Conference Committee

Legislative Council Amendment Number adopt Amend

Action Taken do not Pass /w amend

Motion Made By Sen Christmann Seconded By Sen Wardner

| Senators           | Yes | No | Senators | Yes | No |
|--------------------|-----|----|----------|-----|----|
| SENATOR URLACHER   | ✓   |    |          |     |    |
| SENATOR CHRISTMANN | ✓   |    |          |     |    |
| SENATOR SCHOBINGER | ✓   |    |          |     |    |
| SENATOR STENEHJEM  | ✓   |    |          |     |    |
| SENATOR WARDNER    | ✓   |    |          |     |    |
| SENATOR KINNOIN    |     | ✓  |          |     |    |
| SENATOR KROEPLIN   |     | ✓  |          |     |    |
|                    |     |    |          |     |    |
|                    |     |    |          |     |    |
|                    |     |    |          |     |    |
|                    |     |    |          |     |    |
|                    |     |    |          |     |    |

Total (Yes) 5 No 2

Absent 0

Floor Assignment Sen. Schobinger

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

**REPORT OF STANDING COMMITTEE**

SB 2417: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2417 was placed on the Sixth order on the calendar.

Page 1, line 2, replace "and" with "to create and enact a new subsection to section 57-38-30.3 of the North Dakota Century Code, relating to empowerment zone tax credits;" and after "appropriation" insert "; and to provide an effective date"

Page 6, after line 6, insert:

- "4. A partnership, limited partnership, subchapter S corporation, limited liability company or any other pass-through entity that invests in an empowerment zone must be considered to be the taxpayer for purposes of any credit calculations or investment limitations in this section, and the amount of the credit allowed with respect to the entity's investments must be determined at the pass-through entity level. The amount of the total exemption or credit determined at the entity level must be passed through to the partners, shareholders, or members in proportion to their respective interests in the pass-through entity."

Page 6, line 7, replace "4" with "5"

Page 8, after line 2, insert:

**"SECTION 11.** A new subsection to section 57-38-30.3 of the 1997 Supplement to the North Dakota Century Code is created and enacted as follows:

An individual, estate, or trust is allowed, as a credit against the tax otherwise due under this section, the empowerment zone tax credits under section 8 of this Act."

Page 8, after line 7, insert:

**"SECTION 13. EFFECTIVE DATE.** Section 8 of this Act is effective for taxable years beginning after December 31, 1998, and does not apply to any investments or activities that occurred before January 1, 1999."

Renumber accordingly

1999 TESTIMONY

SB 2417



# NORTH DAKOTA SENATE

STATE CAPITOL  
600 EAST BOULEVARD  
BISMARCK, ND 58505-0360



Senate Minority  
Leader

Senator Tim Mathern  
District 11  
406 Elmwood  
Fargo, ND 58103-4315

Testimony for Senate Finance and Taxation

✓ Senator Tim Mathern, January, 20 1999

Chairman Urlacher and members of the Senate Finance and Tax committee, I am Tim Mathern, Senator from District 11 in Fargo. I'm hear today to express my support of SB 2417.

SB 2417 is a bill that would establish rural empowerment zones as one way to stem the flow of outmigration from our rural counties. Since 1980, 25 counties with less than 8,000 people have seen a decline in their population of at least 20%. In many counties, any additional decline will be the demise of our rural centers.

We must take immediate action to stem this alarming trend. As an urban legislator, I see the decline in our rural population as bad news for our state and for my district in downtown Fargo. We must not forget, it is our rural communities that built Fargo, Grand Forks, Minot and Bismarck. Make no mistake, the cities immediate and long-term fortune is dependent on a healthy rural North Dakota.

We all know that when rural communities prosper, Fargo and the other cities prosper. The same is true if our rural communities disappear.

2565 If rural communities are going to prosper, there has to be strong incentives for people to want to live there. The creation of empowerment zone tackles the problem in two ways. First, we provide tax incentives for businesses to grow in rural north Dakota. A special emphasis is placed on business the add value to agricultural commodities

2610 Second, we create partnerships between empowerment zones and state agencies. A few such partnerships include creating home mortgage program through the state housing finance agency so people can afford to build a home in rural areas. Our university business schools could provide internships to design pilot projects in the empowerment zones, On pages 6 and 7 of the bill, there are 17 examples that could make the difference between a slow death of a community or the revitalization of rural North Dakota. 2740

This bill will put the initiative in our local communities. Local people knows what will work best in their communities.

This bill is the first step on the road to recovery for our rural communities. I recommend a Do Pass for SB 2417.

## COUNTIES THAT WOULD QUALIFY FOR EMPOWERMENT ZONE INITIATIVE

Criteria:

Population no more than 8,000

City no larger than 2,500

Outmigration of 20% from 1980

| County        | 1997 Population | Decrease from<br>1980 Census |
|---------------|-----------------|------------------------------|
| Adams         | 2,748           | 23.3%                        |
| Bowman        | 3,290           | 22.0%                        |
| Burke         | 2,332           | 39.0%                        |
| Cavalier      | 5,145           | 32.0%                        |
| Dickey        | 5,636           | 21.8%                        |
| Divide        | 2,416           | 30.9%                        |
| Dunn          | 3,641           | 21.3%                        |
| Emmons        | 4,372           | 25.6%                        |
| Golden Valley | 1,901           | 20.5%                        |
| Grant         | 3,043           | 28.8%                        |
| Griggs        | 2,834           | 23.7%                        |
| Hettinger     | 2,966           | 30.6%                        |
| Kidder        | 2,929           | 23.6%                        |
| LaMoure       | 4,907           | 24.2%                        |
| Logan         | 2,417           | 30.8%                        |
| McHenry       | 6,168           | 21.5%                        |
| McIntosh      | 3,569           | 25.6%                        |
| Nelson        | 3,811           | 27.2%                        |
| Renville      | 2,852           | 21.0%                        |
| Sheridan      | 1,784           | 36.7%                        |
| Slope         | 846             | 26.9%                        |
| Steele        | 2,252           | 27.5%                        |
| Towner        | 3,077           | 24.1%                        |
| Wells         | 5,261           | 24.6%                        |

*Sen. Kaleb  
Testimony*

# Rural Empowerment Zones

- **Program is to be used to provide financial resources and incentives to stem the flow of outmigration from our rural communities.**
- **Empowerment Zones Particulars**
  - \* Geographical area does not exceed 3,000 square miles.
  - \* The county or counties in the empowerment zones have a population of no more than 8,000.
  - \* No city within the county or counties have a population of 2,500.
  - \* County or counties have had an outmigration of population of at least 20 percent of the total population of the county since 1980.
  - \* Three empowerment zones for the state
- **Empowerment Zone applicants must include:**
  - \* A plan developed by the community
  - \* Type of investment and development within the zone
  - \* Specific investment or development reasonably expected to take place
  - \* Projected number of jobs that will be created and anticipated wage level
  - \* Applicants proposed means of assessing effectiveness of the plan
- **Area may become an Empowerment Zone if they agree to make a qualifying contribution including these sources:**
  - \* Dedication of available government grants
  - \* Dedication of training funds
  - \* Waiver of business license fees
  - \* Infrastructure improvements
  - \* Private contributions
  - \* Utility rate concessions
  - \* Small business incubator programs
  - \* Management assistance programs
- **The Empowerment Zone shall impose a one percent sales tax to be designated for use for zone activities.**
  - \* State will rebate (match) one percent from state sales tax revenues collected within empowerment zones.
- **Each Empowerment Zone has a duration of 5-years, which county or counties may reapply for the designation.**

- **Empowerment Zone State Tax Credits**

- \* A credit of \$750 may be claimed by a business for each new full time position filled for at least six months during a given tax year.
- \* Additional credit of \$750 may be claimed if the new positions is in business that adds value to agricultural commodities through manufacturing or processing.
- \* Credit of \$200 may be claimed for two consecutive years for each new employee who is insured under an employer-sponsored health insurance program, if employer pays at least fifty percent of the premium cost.
- \* A credit of fifty percent of the value of a cash contribution to a private nonprofit corporation -- credit may not exceed \$100,000.
- \* Credit of twenty five percent of the first 200,000 spent of rehabilitating a building that has been vacant for two years or more.
- \* An annual tax credit of ten percent of the first 250,000 in investment and five percent of the next 1,000,000 qualifying investment in plant, equipment or other depreciable property.
- \* If the amount of a tax credit exceeds a business tax liability for a taxable year, the amount of the credit exceeding the liability may be carried forward for a period that does not exceed three years.
- \* Tax credits cannot be claimed by a business engaged in retail trade or by a public utilities business.

- **State Agency Assistance**

- \* ED&F shall develop special programs and target grant programs in the empowerment zones.
- \* Bank of North Dakota shall assist counties in the empowerment zones a seed capital fund up to \$100,000 in initial funding.
- \* Bank of North Dakota shall provide \$100,000 to each empowerment zone to be used by the county or counties in the zone for the establishment of a revolving loan fund for economic development projects.
- \* The adjutant general shall provide assistance to counties designated as an empowerment zone through the use of national guard training mission to assist in completion of infrastructure projects.
- \* State housing finance agency shall create special home mortgage programs.
- \* Institution of higher education shall design programs through the business colleges to provide internships and pilot projects for empowerment zones.
- \* The agricultural products utilization commission shall designate at least 10% of its funds each biennium for projects within the empowerment zones and shall give priority consideration to value added projects in empowerment zones.
- \* Tax commissioner shall provide to political subdivisions located within the empowerment zones which levy sales taxes a rebate from state sales tax revenues of one percent.
- \* Superintendent of public instruction shall develop jobs development, work force training, and entrepreneurial training programs and curriculums to be used in schools located within the empowerment zones.
- \* Superintendent of public instruction, subject to legislative appropriations, shall provide school districts within the empowerment zones additional per pupil payments.

**TESTIMONY TO THE  
FINANCE AND TAXATION COMMITTEE  
SENATE BILL 2417  
PAUL GOVIG-BANK OF NORTH DAKOTA**

The core mission of the Bank of North Dakota is to promote the development of commerce, industry and agriculture in North Dakota. Therefore, BND is supportive of the concept of creating empowerment zones to assist with job development in small communities throughout the state. Nonetheless, the Bank of North Dakota is opposed to appropriating \$600,000 for seed capital funds directly from the Bank of North Dakota. It is recommended that the \$600,000 appropriation come from the General Fund instead of the Bank of North Dakota.

BND earnings are transferred to the General Fund each biennium and then appropriated to various programs. Senate Bill 2015 requires the transfer of \$60,000,000 during the next biennium. Also, additional transfers of up to \$23,000,000 could occur if General Fund receipts fall below biennium projections.

Currently, the Bank of North Dakota, now \$1,600,000,000 in total assets, is strong, growing, meeting its mission to help finance economic development and generating more income in the process. If you approve Senate Bill 2417 it should be amended to incorporate a general fund appropriation instead of a transfer directly from BND so that we can continue to operate in a sound manner and meet our mission.