

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

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2001 HOUSE FINANCE AND TAXATION

HB 1051

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1051

House Finance and Taxation Committee

Conference Committee

Hearing Date January 17, 2001

Tape Number	Side A	Side B	Meter #
1		x	2,400

Committee Clerk Signature *Jamie Stein*

Minutes:

**REP. AL CARLSON, CHAIRMAN**, Opened the hearing.

**JOHN WALSTAD, ATTORNEY WITH THE LEGISLATIVE COUNCIL**, Explained the bill. He served as council for the interium committee. See page 353 of the Report of the North Dakota Legislative Council.

**REP. WINRICH** Related to the provisions on page 1 of the bill to page 2 regarding APUC investments in the value-added agricultural projects, what is a loan secured by ownership interest as opposed to interest itself?

**JOHN WALSTAD** That is a good question, many of these enterprises take the form of a cooperative. We got some advice from legal council who work with establishing cooperatives, and what we found is, in most cases, a cooperative set up for these kinds of projects, really has to be set up one hundred percent producer ownership. There is a question whether this fund could actually acquire a real ownership interest, like a controlling type interest in a cooperative. That is

why is was set up so that, perhaps, a loan could be made secured by ownership interest but not actually owned by this fund. That part needs a little more exploration, to determine if there is a problem there.

**REP. WINRICH** When you go to your numerical example where twenty five hundred is applicable in the first year and then a carry-over, then the second year the taxpayer really had a credit of seventy five hundred, but could only use twenty five hundred of it, and then the provision of carrying things forward for one tax year, was the five thousand dollars in that example just lost, and not applicable in the third year?

**JOHN WALSTAD** That is right, in that example. Those were just numbers I was throwing out and worked because they were round. It will depend on an individual's circumstances as to what that individual owns in state and tax liability.

**REP. CARLSON** Did you not also mention that that could be extended beyond the taxable year?

**JOHN WALSTAD** Yes, the year of your investment is your first year of eligibility, the next year is your last year of eligibility.

**REP. WINRICH** In discussion, it was represented that the bond, that would be sold under this bill, would be at risk, and there would be no obligation by the State of North Dakota, where is that in the bill?

**JOHN WALSTAD** Page 5, states that no way, is the state ever going to pick up liability on any of these bonds.

**T. J. RUSSELL, CLOVERDALE FOODS, MANDAN,** Testified in support of the bill.

Stated their family has provided a service to ag producers throughout the Dakotas and a few other nearby states, and their mission is no different today. Any investment instrument which furthers agricultural production, is obviously good for Cloverdale Foods. Specifically, hog production in North Dakota, has been about as pathetic as you can imagine, and is not remotely close to the needs of a company our size. We are a very small company, although we have grown in the last five years from thirty million dollars in sales to just a shade under fifty two million dollars in sales. In less than six years, our goal is committed to seventy five million dollars in sales. Currently, our production plant in Minot, ND, is vastly under under-utilized. Last year, with the Dakota Growers line, which is a hog coop, we are now down to sixteen producers in that cooperative. Last year, the committment was to cure about one hundred thousand hogs through that coop into Cloverdale Foods in Minot, North Dakota, and we achieved forty thousand hogs. That is not where it needs to be. We now have out-of-state parties nd out-of-country parties knocking on our door, looking for opportunities in infrastructure that guarantees hog supplies into Minot. Our Minot plant is capable of one hundred fifty, to one hundred sixty thousand hogs per year, running a single shift. We could pretty easily double shift that plant and operate six days a week and our plant could be much greater than it is. It is our family's mission on behalf of all of the shareholders which include two hundred and ninety employees in Mandan who own half of the company, are in support of the bill to enhance agriculture in North Dakota.

**REP. CARLSON** Asked for an example of how this can help the situation in the hog farm.

**T. J. RUSSELL**, Stated they are currently evaluating and analysing, through other people in the Dakota Grower's Alliance and with APUC, several infrastructure projects that we could put up

some finishing units throughout central and western North Dakota. Anything that feeds out one hundred fifty to two hundred fifty thousand hogs per year, is good for any of the feed growers. Currently, we buy a tremendous amount of slaughter hogs out of South Dakota, specifically, out of Yankton, and the competitive money it takes to essentially, steal hogs from John Morrell, is exorbitant. We have to pay a guy, in excess, some competitive money, to get his truck to travel north instead of east. The fact of the matter is, the hogs might have been bred in North Dakota, but we are not finishing hogs in North Dakota. We also buy multiple truckloads, every single week of the year, from our competition.

**REP. CARLSON** Are you processing Canadian hogs?

**T. J. RUSSELL** Yes we are.

**DWIGHT ENOCKSON, ND CORN GROWERS ASSN, AND DIR. OF THE**

**CLOVERDALE GROWERS ALLIANCE**, Testified in support of the bill. He submitted written testimony from Daryl Dukart, Chairman of Cloverdale Growers Alliance.

He stated they are attempting to increase the production of hogs by putting up new facilities, farrow to finish. This bill would provide another tool in the process of getting this established. This is very much a rural development project. Currently, in North Dakota, most of the farm land is being farmed, and will continue to be farmed. But the area of agriculture that is shrinking, is the animal area. That is concern to us as corn growers, and other feeds. Too many of the animals raised in our state right now, are shipped out of state, along with the feed.

**REP. RENNERFELDT** What is the biggest reason hogs are going out of state, lack of capital, state laws, what is your opinion?

**DWIGHT ENOCKSON** I am thinking, capital is certainly one of them, because to be competitive in this industry today, it is necessary to achieve a certain size. Several producers need to go together in an enterprise rather than an individual approach.

**BRUCE CARLSON, VERENDRYE ELECTRIC COOPERATIVE,** Testified in support of the bill. See attached written testimony.

**WADE MOSER, NORTH DAKOTA STOCKMEN'S ASSN,** Testified in support of the bill.

North Dakota beef cattle producers have about nine hundred thousand beef calves born every year, the sad part about that is ninety five percent of those are shipped out on trucks, to add value and for slaughter. The other sad thing is, the five percent that are fed in this state are shipped out for slaughter. Very few, except for the little mom and pop butcher shops, or custom kill, are the only ones processed in North Dakota. We do need to change that trend, if we are going to change the trend in North Dakota. If we took twenty five percent of those we background and finish, just an increase in value in North Dakota cattle producers, would be about one hundred thirty million dollars in increased value, simply because we are dealing with some large numbers. That is not the spin off, that is just increased income through livestock producers. This bill would tailor very well with the push we are making in trying to get more research done in finishing cattle, and also address the concerns of the environmental issues.

**REP. CARLSON** This bill specifically calls out that the benefactor of these bonds would be a vertically integrated enterprise operated for processing in agricultural commodities, it really lends itself to be a group effort, rather than individual effort, how do you envision that to take place, you have many, many individual producers, and cooperatives have been tried in the past, how do you envision this to change or help things?

**WADE MOSER** That is one of the problems which we ran into with the Northern Plains Premium Beef, was that all of the people in agriculture were tapped out, there was a lot of risk. I think the bright light is a living example today in the southwestern part of the state, where a feedlot has been started, I think that will be a very good indicator whether we can do that throughout the state and not just one area. I think there is a lot of potential for that kind of growth if we have the money to back it.

**REP. CARLSON** The way you envision this, is a company such as Cloverdale eligible for this type of financing?

**WADE MOSER** I assumed they would be, if they are going to expand.

**REP. HERBEL** Asked whether there are other areas expressing interest in starting up feedlots.

**WADE MOSER** There is another background in cooperatives in the north central part of the state. There are others who are looking, but are not forming at this point.

**REP. KENT ONSTAD, PARSHALL, CHAIRMAN OF THE GREAT RIVER DAIRY**

**LINES,** He stated they put together a project and had several hurdles to jump over, one was digging up equity to get started. This bill is the best proposal to bring in enterprises, which at this time, do not qualify to invest in projects. This bill could provide a vehicle to allow banks, etc to come into this project.

**LANCE GAEBE, DIRECTOR OF AGRICULTURAL PRODUCTS UTILIZATION**

**COMMISSION,** Testified in support of the bill, see attached written testimony.

**REP. BRANDENBURG** The people that would be looking at putting money into this, will you be working with them to encourage them to put money in?



**LANCE GAEBE** My understanding would be that the bonds will actually be issued by the Industrial Commission with the assistance of the Bank of North Dakota and APUC's role would be to make investment decisions.

**REP. WINRICH** Do you have an understanding of what the difference is between APUC acquiring an ownership interest or securing a loan by an ownership interest?

**LANCE GAEBE** I think Mr. Walstad is more qualified to answer that question than I. Taking an actual position is the fact of having a portion of the stock or having a share in that entity. If it is a certain kind of business structure, a non-producer cannot own a share in a cooperative structure. Then the debt would be structured on some other kind of ownership position.

**DENNIS HILL, NORTH DAKOTA ASSOCIATION OF RURAL ELECTRIC**

**COOPERATIVES**, Testified in support of the bill. See attached written testimony.

**STEVE EGELAND, ECONOMIC DEVELOPERS ASSN. OF NORTH DAKOTA,**

Testified in support of the bill. He stated their association is an association of about one hundred professional economic developers across the state of North Dakota. One of the biggest challenges they all face is getting these types of projects funded, or any project funded. We see these type of projects as a very important part of what we do. We are very concerned about the rural communities around us.

**RICHARD SCHLOSSER, NORTH DAKOTA FARMERS UNION,** Testified in support of the bill. We believe this concept is visionary.

**PATTY LEWIS, NORTH DAKOTA FARMERS BUREAU,** Testified in support of the bill.

We too believe this bill is very visionary. During the interim committee, we did offer some

comments about the bill and some concerns we had. Is it enough to entice investors, given the high risk.

**ALLEN BRAATEN, NORTH DAKOTA CORN GROWERS,** Testified in support of the bill. The North Dakota Corn Growers made a survey about three or four years ago, North Dakota is a good place to feed livestock and poultry because the main reason is the feed is cheap. We have a lot of cheap corn. The land that you feed on is more reasonable than other states.

**JEFF WEISPFENNING, ON BEHALF OF ROGER JOHNSON, AGRICULTURAL COMMISSIONER** Testified in support of the bill. See attached written testimony from Roger Johnson.

**REP. CARLSON TO JOHN WALSTAD** Is it typical when we issue bonds, that we have turned over the management and the decision making power on those bonds to an organization or a commission like APUC?

**JOHN WALSTAD** The role of APUC is not on the bonding end.

**REP. CARLSON** On the distribution end, do we normally turn it over to a commission like that?

**JOHN WALSTAD** In putting this thing together, little bits and pieces were stolen from here and there. The bill that was vetoed last session, the livestock bonding bill, had that kind of provision. The idea was that APUC probably has more expertise in figuring out where those projects are that are going to need funding and have a chance of success. They also have other programs available to them which could be used in conjunction with this.

As I was sitting here, I think Rep. Winrich has hit on something that could be a problem, and that is acquiring ownership interest or making loans secured by ownership interest. That could

