

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2177

2005 SENATE FINANCE AND TAXATION

SB 2177

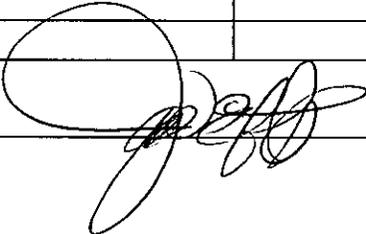
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2177

Senate Finance and Taxation Committee

Conference Committee

Hearing Date January 19, 2005

Tape Number	Side A	Side B	Meter #
1	x		.7 - end
1		x	0 - 46.4
Committee Clerk Signature 			

Minutes:

Chairman Urlacher opened the hearing on SB 2177, a bill relating to a sales and use tax exemption for dairy farm machinery, equipment, and structural materials; and to provide an effective date. and SB 2178, a bill relating to an individual and corporate income tax credit for certain investments in a dairy farm milking operation; and to provide an effective date. Because the bills are so similar, we will hear testimony on both bills. All members were present.

Senator Wardner introduced the bill. A year ago the State Dairy Task Force asked for the help of the Dickinson Chamber of Commerce with fund raising. He learned of the positive economic impact of the dairy industry on communities. The dairy industry's infrastructure is becoming depleted and this bill will help restore it. He is sponsoring these bills because there is always a need for milk, dairies are moving out of western and eastern states due to the growth of their metro areas and North Dakota offers them a place to conduct their business in peace and one dairy cow creates \$5000 economic activity.

SB 2177 is a sales and tax use exemption for dairy purposes only. If the equipment would have another use, it would not qualify and the fiscal note indicates it. SB 2178 is very specific and to get the tax credit, a taxpayer has to let the tax commissioner know. The bills will help rural North Dakota. (meter 4.8)

Gary Anderson from the tax department, explained the fiscal note. The tax department based the fiscal note on NDSU's figure of the capital impact of a milk cow to be from \$150 - \$500 per cow. They used \$150 and multiplied it by 37,000 cows. The fiscal note assumes minor expansion and primarily replacement. (meter 6.7)

Senator Urlacher asked if he foresees any complications on administration.

Mr. Anderson said most of these types of items are installed by the seller. In that case, there is a refund mechanism to the farmer. He would recommend an amendment to comply with the streamlined sales tax after December 2005.

Senator Cook asked if the bill includes structural materials, would that include building materials.

Mr. Anderson said according to their interpretation, yes. (meter 9.4)

Senator Cook asked if there is a lot of preferential tax treatment in the sales tax law. Is sales tax exemption common.

Mr. Anderson said there is another exemption for agricultural processing facilities that is very similar to SB 2177.

Senator Cook asked for a clarification, would Bobcat qualify for that exemption.

Mr. Anderson said no, they are not a processor. He said he should have said agricultural commodity processing facilities are exempt. He said another exemption is manufacturing, not the structure, just equipment.

Senator Every asked if Elite Swine would qualify. (meter 11.1)

Mr. Anderson said it must be a processing facility, since Elite Swine is a feeding operation, it would not qualify.

Senator Tollefson said the original impetus for this bill is from the existing dairy industry. The fiscal note is based on the existing industry. New industry would multiply the fiscal impact.

Mr. Anderson said yes, they looked at the existing environment. They would need to look to the industry experts to see where the industry is heading.

Senator Tollefson asked how milk is processed.

Mr. Anderson said this bill is aimed at dairy production facilities. The next level would be processing.

Senator Cook said during the interim, the tax department provided some numbers regarding preferential tax treatment. He would like to see those numbers. (meter 13.7)

Senator Bercier asked if a dairy farm also had an interest in a cheese plant would they be exempt.

Joe Becker from the tax department said, regarding SB 2178, the owner of the dairy farm milking operation would qualify. Page 2, line 10 says the taxpayer must expend the dollars so the credit goes to the taxpayer that owns the facility.

Representative Onstad appeared in support of the bill. (meter 16.7) (written testimony)

Senator Every asked what Cass Clay pays a dairy farmer for a gallon of milk. (meter 24.1)

Representative Onstad said the dairy he works with has several contracts, they average \$15/cwt. Price is based on protein and fat.

Senator Bercier asked if there used to be 100,000 dairy cows in North Dakota.

Representative Onstad said yes, about 25 years ago. In the late 1970's, the price of durum went up and many acres of pasture were converted to crop land. There was a terrible exodus of livestock from the state. Towns with a strong dairy industry are progressive, New Salem for example.

Senator Wardner asked if any dairies in Representative Onstad's area decided to stay in business because North West Dairy was there. (meter 27.6)

Representative Onstad said he can think of one. They are not in competition with their neighbors.

Senator Tollefson asked if this is a bill to sustain or grow the dairy industry.

Representative Onstad said absolutely, it is expensive to expand.

Senator Tollefson asked about the market in more populated states to the east or west.

Representative Onstad said he wasn't sure. Their buyer, Cass Clay, does not have enough milk to meet their market. There has been a big campaign in the dairy industry to introduce milk in fast food restaurants which has increased consumption. Federal regulations and EPA standards are forcing dairy farmers from more populated areas to move. A Virginia dairy recently moved to Montana. The midwest could have 30% of the nation's dairies due to urban growth in other parts of the country. North Dakota and South Dakota also have less disease and thus less problems with raising heifers.

Senator Tollefson asked if the number of dairies is decreasing. Is dairy farming viable, apparently not. (meter 32.4)

Representative Onstad said it is not a price issue, it is a life style issue.

Harlan Fuglesten, North Dakota Association of Rural Electric Cooperatives testified in favor of the bill.. (written testimony) (meter 33.6)

Senator Cook said exemptions to sales tax are a growing trend. How should we look at requests, why not add beef feedlots. (meter 37.0)

Mr. Fuglesten said this is a good question and a hard issue. The dairy industry is in trouble and has great economic impact on their communities. If we sustain and grow the industry, it will pay us dividends and can help promote the rural economy.

Senator Cook asked if North Dakota could potentially recover the dollars lost to this tax exemption with other tax dollars.

Mr. Fuglesten said the loss of dairy farms has caused a \$10 million loss to REC's. Property tax is paid by the REC's, the electricity they sell comes primarily from the lignite industry, personal income tax comes from employees of the dairy industry.

Senator Cook asked if dairies are replaced by other agricultural enterprises.

Senator Tollefson asked if this will build the industry or make producers bigger. The market is t there for the product.

Mr. Fuglesten said the North Dakota Dairy Coalition has other initiatives, too.

Senator Bercier asked if the dairy industry improves, will electric rates drop?

Mr. Fuglesten said yes, it would impact rate stability. (meter 45.2)

Gary Hoffman, North Dakota Dairy Coalition, testified in favor of the bill.. (written testimony)
(meter 46.6)

Senator Cook asked what other incentives are available now.

Mr. Hoffman said there are some incentives with the Bank of North Dakota like AgPace. They are hoping some communities will apply to APUC.

Senator Cook asked if this bill is passed will be see the number of dairy farms rise.

Mr. Hoffman said it is the intent of the North Dakota Dairy Coalition to get the numbers back up to 100,000 dairy farms. It is doable with dairies leaving the west and east coasts. North Dakota has everything needed for a healthy dairy industry.

Senator Urlacher asked if the out of state dairies are quite large.

Mr. Hoffman said he knows of two Minnesota producers considering a move to North Dakota, one with 150 cows, one with 100 cows, a Vermont farmer with 400 cows and a Washington state farmer with 1000 cows so the size of the dairies varies.

Senator Every said asked how we explain this bill to taxpayers who are paying \$5/gallon for milk. (meter 3.8)

Mr. Hoffman said milk pricing is very complicated due to the federal milk pricing regulations. There a lots of steps from farm to bottle. If we can't keep our processing plants going, the price will go even higher.

Senator Urlacher asked if there is a shortage if milk in the region.

Mr. Hoffman said our processing is underutilized in North Dakota but plants are full in other parts of the US.

Senator Bercier asked if we approach 100,000 dairy farms will milk prices drop.

Mr. Hoffman said it is possible but not probable. We would be redistributing current production. If plants are running full, impact is likely. (meter 7.7)

Jerry Messer, a dairy farmer from Richardton, testified in favor of the bill.. He runs 220 dairy cows, 800 beef cows and farms 12,000 acres. This bill won't help his operation but her supports it. Nationwide, dairy farmers are being squeezed out and they are picking and choosing where to go. They need an incentive to come to North Dakota. South Dakota is doing a good job of recruiting on the I-94 corridor. They have a new plant that needs 60,000 cows. They have stopped the decline of the dairy industry in South Dakota.

Demand for milk is the best in 20 years. Research has been done that shows 3 servings per day of milk help with weight loss. Happy Meals at McDonalds are now being sold with milk and the consumption of milk at McDonalds has soared. Our cold winters are tough to sell but it is easier to get a cow to milk in the cold than in the heat.

Senator Tollefson asked if some dairies are milking three times per day.

Mr. Messer said yes, some farmers have been doing it for 20 years. On his farm, they have made some adjustments for lifestyle and milk at 11AM and 11 PM so they can attend their children's activities. Modern day dairy farms take life style issues into consideration.

Senator Bercier asked if corporate entities are involved in dairy farming in other states.

Mr. Messer said there is a false perception that large dairy herds are corporate farms. Most are family farms, they might include more than one family.

Senator Bercier asked what is the largest family dairy farm in the US.

Mr. Messer said in Indiana there is a family farm with 30,000 cows and they want to grow to 90,000. Mr. Messer had 17 kids on his family farm at one time, they all got on the school bus. Some are in college now.

Senator Every asked how dairy farmers are going to get more of the \$4 difference from farmer to retail price.

Mr. Messer said prices are set by the milk stabilization board and dairymen need the protection.

Senator Urlacher commented that prices have been lucrative this year.

Mr. Messer said 2 years ago prices are \$9/cwt. It takes a few years to recover. The industry is trying to help itself by increasing demand. McDonalds needed a health story and milk provided it.

Senator Every asked if Mr. Messer was in favor of the milk stabilization board,

Mr. Messer said it doesn't really help him, much of his production goes to cheese, but it does prevent against out of area producers from flooding the market. (meter 20.4)

Ole Johnson, (pictured on page 7 of the brochure passed out by Mr. Hoffman) testified in favor of the bill. He moved to North Dakota from Washington. Other states recruited him and there were no incentives from North Dakota but he found an empty facility. He brought 17 people with him. He is utilizing the AgPace program. He is currently undergoing a \$300,000 expansion to go to 400 cows. His operation has had an impact on Center, where he buys all his feed, spending \$500,000 locally for feed last year. Getting service on broken equipment is the biggest challenge and that could improve if there were more dairies.

Senator Cook asked if he has realized a change in profit in North Dakota.

Mr. Johnson said yes, tremendously. Its hard to leave the huge investment in facilities and hard to move the kids. It took 13 semi trucks to haul the cows. It has been very profitable here, there is a huge feed source that is not being used. Of course, this was a profitable year in the dairy business. In Washington is was cheaper to add cows. The weather here demands more facilities but its easier to milk in the cold. Their electric bills are about \$20,000 annually and were comparable in Washington where they have hydroelectric power . A beef farmer doesn't have the equipment and utility expense of a dairy farmer. His kids love it in North Dakota.

Nathan Boehm testified in favor of the bill.. (meter 30.3) He has 100 dairy cows west of Mandan. The bills won't benefit him directly but an improvement to the industry will keep him in business.

Woody Barth, North Dakota Farmers Union, testified in favor of the bill.. (written testimony) (meter 31.5)

John Mittleider, North Dakota Farm Bureau, testified in favor of the bill.. (written testimony) (meter 33.8)

Senator Every asked if the corporate farming law was abolished, would it help the family farm. Mr. Mittleider said that would depend on the structure put in place. A couple of large families could perhaps form a corporation.

Senator Urlacher asked about the multiplier for dairy cows.

Mr. Mittleider said it is 2.69.

Bobbi Talmadge, North Dakota Agriculture Department, testified in favor of the bill.. (written testimony) (meter 38.7)

Joe Becker, North Dakota Tax Department, provided information on SB 2178. (meter 43.1) On page 2 of the bill, in line 1 the language limits this to partnerships and the committee might want to consider adding language to include pass through entities, LLC or S corps. Lines 15 -17, the language is unclear as to when the credit could be taken, the year of purchase, the year it was paid for or the year a final payment was made in the case of an installment plan, He would recommend an amendment making it the year of purchase.

Senator Wardner will work with Mr. Becker on the language.

Chairman Urlacher closed the hearing on SB 2177 and SB 2178. (meter 46.4)

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2177

Senate Finance and Taxation Committee

Conference Committee

Hearing Date January 25, 2005

Tape Number	Side A	Side B	Meter #
# 2		X	1.1 - 13.9
Committee Clerk Signature <i>Sharon Kenyon</i>			

Minutes: Afternoon Committee Work.

GARY ANDERSON: Tax Dept. Appeared before the committee to explain and give the intent of the amendment stating the intent of the amendment basically mirrors what is being attempted to do in SB 2177 itself. It's to continue that exemption for equipment and machinery and you notice I didn't address structural materials because structural materials continue to be subject to a 5% tax and that's under the sales tax law, there's no impact there. Farm machinery and equipment specifically after December 2005 has to be addressed by the amendment.

SEN. COOK: We have a bill in here that changes the effective date of the streamlined legislation to October 1, if that was to pass, with a different date then Dec. 31, 2005, would we have to then address this amendment also or would this change automatically?

GARY: As I understand it from talking to Legislative Council in the past, what happens when you have a bill that basically takes all of that chapter, they'll correct everything. If that

legislation passes moving the date of Oct. 1st up, this automatically moves up as well, so it doesn't create any conflict with what the sponsor is trying to do with this bill.

SEN. WARDNER: Made a motion to adopt the amendments, seconded by Sen. Cook.

VOICE VOTE: 5-0-1 Sen. Bercier absent.

SEN. WARDNER: I do struggle with fiscal notes and this one has a fiscal note of \$511,000 and I'm very conscious of the budget. I know in this particular industry, there is a tremendous amount of economic activities that goes on and I know that they cannot address that in the fiscal note, they can only address what they know. However, its documented that dairying, dairy cattle produce a lot of activities and the fact that a dairy cow in the course of a year, creates \$5,000 of economic activity, is well documented and in fact its more, but I'll stick with the \$5,000 and if that's the case, we will, the State will see a plus in revenues from this particular piece of legislation. That is why I am conformable with it and I make a **MOTION FOR DO PASS AS AMENDED AND REFER TO APPROPRIATIONS.**

SEN. TOLLEFSON: I asked the question when we heard testimony, is it sustaining the existing industry or is it growing the existing industry or can it do both? Maybe it can do both

SEN. WARDNER: the goal is to grow the industry, to gain the number of ___ out there in the industry, whether it be expansion of existing dairy or bringing on new dairy. If you sight a new dairy, that is not a task, that's about a \$20,000 job getting all the health permits, the manure, all that system and stuff like that. It's to more than sustain, its to grow it.

SEN. URLACHER: I think it will do both, it has the biggest turn around of benefit I think for an investment. If they reach the 100,000 dairy, we will have a print out of just about 5 million dollar return along with personal income of over 2 million dollars. When you start a dairy, its

very expensive, because its altogether different kinds of equipment and I've been in it, so I can somewhat relate to it, but its been in the past, I don't think there is going to be any 50 head diary's anymore, maybe not even 100, but this takes big bucks and this takes a lot of purchase, takes a lot of equipment in every action of operation. I think its a fast turn over for the benefit of the State.

SEN. TOLLEFSON: this is only a thought, I thought this bill won't be to sustain those that are presently in the business here, do we have prospects knocking at the door and looking at legislation like this and saying "yes, North Dakota is the place to be"?

SEN. URLACHER: I do think that on existing dairies will increase in numbers. Because they got the permits and things that go with it, so I think they will increase another 200 cows or whatever.

SEN. COOK: on sales tax exemption, I struggle with justifying of who gets it and who doesn't and its difficult to say , why you give it over here and your not going to give it to this one, you got to be able to do that or pretty soon everybody that comes is getting it. As I struggle with this, I try to in my own mind come up with some rationale that I could use to justify who gets it and who doesn't, I can come with maybe two indicators and one of them is something that we talked about alittle bit here is because by giving this exemption, you are going to improve the coffers in the State of ND and if you did give it, you would not and I think we have some of them. The other area that I'm sensitive to is, we and the Federal Govt. Pass all kinds of laws that require people to step up and when I say that, I think of the Environmental Office, if there's one thing in here I could be compassionate about its the waste damming system. That being said, I

understand your compassion and commitment to this and I'm certainly not going to argue with anybody, I have a hard time finding it in my heart to where I can support it.

SEN. URLACHER: we have an industry, we do address the _____ for manufacturing and other types of industry, I don't know what the turn around is, 2 years, I'm not sure you'll see a large jump in 2 years, but in 4 years, I would expect, because of the hugeness of the investment, the labor portion, so I think we're on a target where were trying to better different industries that need assistance and I think this is one. Now we can talk about other agricultural ventures, but they don't have the investment we do in this and we don't have the turn around that we do in this and that's where I'm coming from on this particular.

SEN. EVERY: I would just add that I agree 2 years wouldn't be long enough, but part of the problem I have with the way we do our economic development in the State is that we don't spend enough time sustaining the businesses that we already have and helping them. And there's nothing wrong with that, nothing wrong with saying its risky, it may not help at all but if nothing else is going to help them 37,000 cattle that we already have on the dairy farms, so be it. So I see this is as a good thing and would **SECOND THE MOTION.**

ROLL CALL VOTE: 4-2-0 Sen. Cook and Sen. Tollefson voted no.

Sen. Wardner will carry the bill.

FISCAL NOTE
Requested by Legislative Council
01/28/2005

Amendment to: SB 2177

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$511,000)	(\$44,000)		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

Engrossed SB 2177 creates a sales and use tax exemption for dairy farm machinery, equipment, and structural materials.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, Engrossed SB 2177 is estimated to result in a reduction in state general fund and state aid distribution fund revenues of \$555,000 during the 2005-07 biennium. This estimate assumes primarily replacement and minor expansions of existing dairy farms in the state. Any large-scale operations beginning in the state may result in sales tax exemptions that exceed this estimate.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/03/2005

FISCAL NOTE
Requested by Legislative Council
01/12/2005

Bill/Resolution No.: SB 2177

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$511,000)	(\$44,000)		
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2177 creates a sales and use tax exemption for dairy farm machinery, equipment, and structural materials.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, SB 2177 is estimated to result in a reduction in state general fund and state aid distribution fund revenues of \$555,000 during the 2005-07 biennium. This estimate assumes primarily replacement and minor expansions of existing dairy farms in the state. Any large-scale operations beginning in the state may result in sales tax exemptions that exceed this estimate.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/18/2005

PROPOSED AMENDMENTS TO SENATE BILL NO. 2177

Page 1, line 1, replace "section" with "sections" and after "57-39.2-04.5" insert "and an new section to chapter 57-39.5"

Page 2, after line 22, insert:

SECTION 2. A new section to chapter 57-39.5 of the North Dakota Century Code is created and enacted as follows:

"(Effective after December 31, 2005) Gross receipts tax exemption-Farm machinery and equipment for dairy farm.

1. Gross receipts from the sale of farm machinery and equipment used directly and exclusively in the milking operation of a dairy farm are exempt from taxes under this chapter.
2. For purposes of this section:
 - a. "Equipment" means any tangible personal property, other than machinery, used directly and exclusively in milk collection, handling, and storage; heating or cooling of the structure in which the milking operation is conducted, or tangible personal property, other than machinery, used directly and exclusively for waste handling and disposal directly related to the milking operation, and which tangible personal property is not commonly usable in other agricultural operations.
 - b. "Machinery" means mechanical devices used directly and exclusively in milk collection, handling, and storage; heating or cooling of the structure in which the milking operation is conducted; or mechanical devices used directly and exclusively for waste handling and disposal directly related to the milking operation. The term included electrical, mechanical, and electronic components that are part of machinery and necessary for a machine to produce its effect or result and environmental control equipment required to maintain certain levels of humidity or temperature. The term includes computer equipment that controls or monitors the functions of machinery used directly in the milking operation.
 - c. "Machinery" and "equipment" do not include handtools or transportation equipment commonly usable in other agricultural operations or machines and equipment used primarily in administrative, accounting, sales, or other segments for the dairy farm operation besides milk production, handling, and storage."

Renumber accordingly

REPORT OF STANDING COMMITTEE

SB 2177: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the Appropriations Committee (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2177 was placed on the Sixth order on the calendar.

Page 1, line 1, after "57-39.2-04.5" insert "and a new section to chapter 57-39.5"

Page 2, after line 22, insert:

"SECTION 2. A new section to chapter 57-39.5 of the North Dakota Century Code is created and enacted as follows:

Gross receipts tax exemption - Farm machinery and equipment for dairy farm.

1. Gross receipts from the sale of farm machinery and equipment used directly and exclusively in the milking operation of a dairy farm are exempt from taxes under this chapter.
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 - b. "Machinery" means mechanical devices used directly and exclusively in milk collection, handling, and storage; heating or cooling of the structure in which the milking operation is conducted; or mechanical devices used directly and exclusively for waste handling and disposal directly related to the milking operation. The term includes electrical, mechanical, and electronic components that are part of machinery and necessary for a machine to produce its effect or result and environmental control equipment required to maintain certain levels of humidity or temperature. The term includes computer equipment that controls or monitors the functions of machinery used directly in the milking operation.
 - c. "Machinery" and "equipment" do not include handtools or transportation equipment commonly usable in other agricultural operations or machines and equipment used primarily in administrative, accounting, sales, or other segments for the dairy farm operation besides milk production, handling, and storage."

Page 2, line 23, replace "This" with "Section 1 of this"

Page 2, line 24, after "2005" insert ", and section 2 of this Act is effective for taxable events occurring after December 31, 2005"

Renumber accordingly

2005 SENATE APPROPRIATIONS

SB 2177

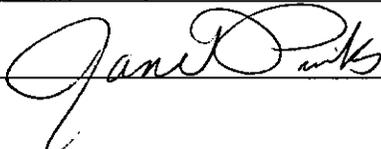
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2177 & 2178

Senate Appropriations Committee

Conference Committee

Hearing Date February 4, 2005

Tape Number	Side A	Side B	Meter #
1	a	b	
Committee Clerk Signature 			

Minutes:

Chairman Holmberg opened the hearing on SB 2177 and 2178.

Senator Richard Wardner, Dickinson, testified describing both SB 2177 and SB 2178. He indicated he got involved the bills through his involvement in Stark County. In addition, both bills are exclusive to the dairy industry. SB 2177 deals with the failed tax exemption as it can be used exclusively for dairy equipment. He discussed the fiscal note attached to this bill and indicated the bill will solidify the existing operations and will help grow the industry. SB 2178 is talking about an income tax credit which has a limiting factor, it depends on the individuals tax liability before they can get the tax credit.

Gary Hoffman, Director ND Dairy Coalition distributed written testimony in **support of SB 2177 and SB 2178** and a leaflet ND A Dairy Friendly State. He discussed the purpose of the Dairy Coalition, why it supports the senate bills, what has transpired in the dairy industry in the past and where it hopes to go in the future by promoting Dairy Farming.

Page 2

Senate Appropriations Committee
Bill/Resolution Number 2177 & 2178
Hearing Date February 4, 2005

Questions raised involved the clarification of the money lost in the industry, the reduction in dairy cattle lost in the state, what the polls show about the industry, the cost of investment for a 1000 head dairy farm, the factors of what is happening to the abandoned dairy lands and monetary impact, the financial impacts of this legislation, and the potential of accessing local funding sources.

Nathan Boehm, concerned dairy farmer, Mandan, provided written testimony in **support of SB 2177 and SB 2178** . He indicated the acceptance of SB 2177 and SB 2178 would give the dairy industry another means to expand the dairy industry from inside and bringing in dairy farmers from outside North Dakota.

Wayne Carlson, Livestock Director, ND Department of Agriculture testified in **support of both SB 2177 and SB 2178** which he believes will aid in growing the industry.

Chairman Holmberg closed the hearing on SB 2177 and SB 2178.

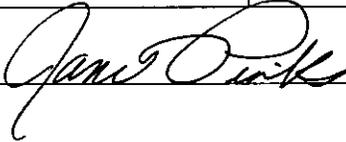
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2177

Senate Appropriations Committee

Conference Committee

Hearing Date February 10, 2005

Tape Number	Side A	Side B	Meter #
2	a		
Committee Clerk Signature 			

Minutes:

Chairman Holmberg opened the discussion on SB 2177. This bill is a fiscal impact of minus \$511,000 of general fund and \$44,000 of other funds. The sponsors talked of restoring the numbers of dairy farmers that we had. The original testimony was there would be an annual economic loss by not having the dairy cows of \$438 million.

Senator Mathern moved a do pass on SB 2177. **Senator Krauter** seconded. Discussion followed.

Senator Thane indicated he was not too enthusiastic as if this is done, we can think of all kinds of areas that need tax exemptions. Maybe times are in need of change.

Senator Andrist indicated we have a tax exemption now for value added agriculture investment, is this not considered value added.

Senator Mathern indicated as he understands this was patterned after tax exemptions for new businesses in cities. This is giving same consideration as those in the city.

Senator Kilzer does not favor this bill. It wasn't too long ago that dairy farmers were paid to get rid of dairy cows.

Senator Thane indicated that was because the price of milk was so low. I don't know if this is the right direction or not.

Senator Bowman indicated if the bottom line in the dairy industry is this exemption and survival, they are not going to survive anyway. This may work for the big dairy farms, but not the small farmer.

Senator Christmann is more inclined to accept this than SB 2178. This bill is a better enticement to make this happen. There won't be an insurgence of 25 or 50 cow dairy farms.

Senator Lindaas indicated if this is all that will keep an operation alive or make it work, it fits within some of the other areas. This fits.

Senator Krauter indicated this is an incentive for dairy farms not in North Dakota to relocate here. I am in support of the bill.

Senator Tallackson indicated the only way this will be an impact is if new dairy farmers come otherwise there is not impact.

A roll call vote was taken for a do pass on **SB 2177**. The motion **DO PASS** with 9 yes and 6 no, 0 absent.

Chairman Holmberg closed the discussion.

Date 2/10/05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2177

Senate SENATE APPROPRIATIONS Committee

Check here for Conference Committee

Legislative Council Amendment Number 2157

Action Taken Do Pass

Motion Made By Sen Mather Seconded By Sen. Krauter

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG		✓	SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN		✓	SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG		✓	SENATOR MATHERN	✓	
SENATOR ANDRIST	✓		SENATOR ROBINSON	✓	
SENATOR CHRISTMANN	✓		SEN. TALLACKSON	✓	
SENATOR FISCHER	✓				
SENATOR KILZER		✓			
SENATOR KRINGSTAD	✓				
SENATOR SCHOBINGER		✓			
SENATOR THANE		✓			

Total (Yes) 9 No 6

Absent 0

Floor Assignment Finance + Tax Sen Wardner

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

REPORT OF STANDING COMMITTEE (410)
February 10, 2005 3:02 p.m.

Module No: SR-27-2462
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2177, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO PASS** (9 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2177 was placed on the Eleventh order on the calendar.

2005 HOUSE FINANCE AND TAXATION

SB 2177

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB 2177**

House Finance and Taxation Committee

Conference Committee

Hearing Date **February 28, 2005**

Tape Number	Side A	Side B	Meter #
1	X		43.3
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. WES BELTER, CHAIRMAN Called the committee hearing to order.

SEN. RICH WARDNER, DIST. 37, DICKINSON Introduced the bill. The bill is a credit exemption on farm machinery for a dairy operation. In order to get this exemption, a taxpayer must purchase equipment which is used directly for a dairy operation. The bill was constructed so it is limited to that. Explained why he got involved with the bill. He stated the money rolls in his community when the people come to town and sell their livestock. There is a group in Stark County who join with a number of groups across the state of dairy operators. The dairy industry is dwindling in the state. The economic development director states, for every dairy cow, there is \$5,000 of activity around that one cow per year in the community. With those statistics, that fiscal note will go away. We have dairy operators in Washington, Oregon, California and even Wisconsin who are looking to the Dakotas because it is dry and environmentally sound to place a dairy. South Dakota has a recruiter right now.

REP. IVERSON Is there currently a sales tax credit for new dairy equipment sold in the state?

SEN. WARDNER Not that I am aware of.

GARY HOFFMAN, NORTH DAKOTA DAIRY COALITION Testified in support of the bill. See attached written testimony, plus a brochure relating to dairy operations.

NATHAN BOEHM, DAIRY FARMER, MANDAN, ND Testified in support of the bill.

See written testimony.

REP. CONRAD Stated, she is surprised this is not included with the rest of the agricultural equipment.

GARY HOFFMAN, Commented, that this is specifically for new equipment. We have an industry that hasn't reinvested in itself for many years. There is a lot of equipment out there that is worn out, it is to the point that they are walking away from it. This is for new equipment, kind of as an incentive to get people to reinvest in the industry, comparable to some of the credits we give to primary sector businesses.

WOODY BARTH, REPRESENTING THE NORTH DAKOTA FARMERS UNION

Testified in support of the bill. See attached written testimony.

BRIAN KRAMER, REPRESENTING THE NORTH DAKOTA FARM BUREAU

Testified in support of the bill. See attached written testimony.

BOBBI TALMADGE, LIVESTOCK DEVELOPMENT SPECIALIST, NORTH

DAKOTA DEPARTMENT OF AGRICULTURE Testified in support of the bill. See attached written testimony.

REP. CONRAD I can understand dairy and the special equipment that involves, what about swine, what type of specialty equipment would that need?

BOBBI TALMADGE Anytime you have livestock, there is special equipment to each segment of livestock feeding, etc.

REP. SCHMIDT Did you present this to the Senate side, this addition to agriculture?

BOBBI TALMADGE Yes, we did. We are not offering this as an amendment, but we did ask them to support livestock feeding.

REP. DROVDAL Usually when we come forward with an idea, we come with the amendments, you don't have the amendments with you?

BOBBI TALMADGE If you want me to draw them up, I will have them by noon.

REP. DROVDAL If you want us to consider them, you better draw them up.

REP. BELTER The specialized equipment, what constitutes specialized equipment, is a feed wagon considered specialized equipment?

BOBBI TALMADGE Feed bunks are generally specialized, I would believe a feed truck, it is equipment to the operation.

REP. BELTER Basically then, anything dealing with the production on that dairy farm would be included, or nearly so?

BOBBI TALMADGE Nearly so.

REP. FROELICH What about hand tools?

Didn't answer that...

DAVID MUNSCH, MORTON COUNTY Testified in a neutral position, to a certain degree. Stated he owned 80 acres of land in Morton County and lives next to a dairy farmer. He stated he paid his taxes, and he has off farm income, and his property taxes were a lot different than the dairy farmer's taxes. In checking with Morton County, the dairy farmer has been getting a break.

He stated there are all kinds of exemptions already, why do you really need this bill. Related to his past experiences then on to he feels the government has paid dairy farmers to get out of the business. This bill will allow the people from Washington and California to sell their property, like the people in North Dakota are doing, at \$2,500 an acre, and they will come up here and buy this cheaper land, get into dairy farming, and you guys are going to give them a tax break. Guys like me, who have spent the last thirty five years here, are going to have to carry these people, because somewhere you have to make up these taxes. If we are going to give this break to one farmer, we better give it to all.

With no further testimony, the committee hearing was closed.

COMMITTEE ACTION

REP. BELTER Asked committee members what their thoughts were on the bill. Committee members felt they weren't sure they wanted to pass this bill just for dairy, maybe it should be extended to everything related to a farm. Some committee members felt the fiscal note would probably get too high. Some committee members felt the dairy situation is probably a little different and the economic development it would create, would take care of the fiscal note. Committee members were going to get more information and act on the bill at a later date.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2177

House Finance and Taxation Committee

Conference Committee

Hearing Date **March 1, 2005**

Tape Number	Side A	Side B	Meter #
2		X	24.5

Committee Clerk Signature

Minutes:

COMMITTEE ACTION

Some of the committee members felt this is a good bill for economic development.

Other committee members felt only one industry was singled out in this bill and they didn't like that, and also the high fiscal note was a concern.

REP. GRANDE Made a motion for a **do not pass**

REP. WEILER Second the motion. **MOTION CARRIED.**

8 yes 6 no 0 absent

REP. GRANDE Was given the floor assignment.

Date: 3-1-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2177

House FINANCE & TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Not Pass

Motion Made By

Rep. Grande

Seconded By

Rep. Weiler

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	✓				
BRANDENBURG, MICHAEL	✓				
CONRAD, KARI		✓			
FROELICH, ROD		✓			
GRANDE, BETTE	✓				
HEADLAND, CRAIG	✓				
IVERSON, RONALD		✓			
KELSH, SCOT		✓			
NICHOLAS, EUGENE		✓			
OWENS, MARK	✓				
SCHMIDT, ARLO		✓			
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes)

8

No

6

Absent

0

Floor Assignment

Rep. Grande

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

REPORT OF STANDING COMMITTEE (410)
March 1, 2005 4:09 p.m.

Module No: HR-37-3908
Carrier: Grande
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2177, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman)
recommends **DO NOT PASS** (8 YEAS, 6 NAYS, ABSENT AND NOT VOTING).
Engrossed SB 2177 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

SB 2177

Testimony in Support of SB 2177 and SB 2178

By

Harlan Fuglesten,

Communications and Government Relations Director
North Dakota Association of Rural Electric Cooperatives

Before the Senate Finance and Tax Committee

January 19, 2004

Mr. Chairman and members of the Committee, my name is Harlan Fuglesten, representing the North Dakota Association of Rural Electric Cooperatives. Our members serve most, if not all of the dairies in the state. Over the last decade or so, we have witnessed a steady and dramatic decline of about 70 percent in the number of dairy producers in North Dakota. Whereas, there were 1,250 dairies a decade ago, there are currently only 383 producers left in the state.

The decline in the dairy industry has had a negative impact on the rural economy, including local electric cooperatives. As a consequence, our Association was very involved in the formation of the North Dakota Dairy Coalition and we support measures, such as SB 2177 and SB 2178, to provide needed incentives to expand our remaining dairy industry in the state. Without such incentives, we risk losing the infrastructure needed to keep current producers in business. The loss of business to the local co-op also puts pressure on rates for the remaining rural electric consumers who must pick up the cost of the rural electric distribution system.

From a utility perspective, dairies are large and efficient users of our product, electricity. Unlike grain drying and irrigation systems that are seasonal, dairy farms maintain a consistent load demand all year long, and dairy producers use, on average, about three times as much energy as an average small grain farm.

An average 100 cow dairy has a monthly power bill of between \$800 and \$1,100 per month, or between \$10,000 and \$13,000 per year. The loss of nearly 900 dairies in the last decade represents a loss of between \$8 and \$10 million per year in electric revenue to local electric cooperatives. This is only one example of the economic impact to our rural areas from the loss of our dairy industry.

For your information, I have attached to my testimony some information compiled from one of our co-ops, KEM Electric Cooperative of Linton. The information covers a nine-year period from 1994 through 2003, and documents the impact the decline of the dairy industry has had in KEM's service area.

On behalf of the rural electric cooperatives of North Dakota, we urge a DO PASS on SB 2177 and SB 2178.

Thank you.

THE LOSS OF DAIRY FARMS IN KEM ELECTRIC COOPERATIVE

The KEM Electric Cooperative service area covers Emmons, McIntosh, Logan, and most of Kidder counties. The numbers that will be illustrated include the entire service area.

From January 1, 1994 until January 1, 2003, KEM Electric has noticed a loss in dairy operations. We used the records of the North Dakota Dairy Commission for the data used in this study.

CHANGE IN THE NUMBER OF DAIRY OPERATIONS

	January 1, 1994		January 1, 1999		January 1, 2003	
COUNTY	GRADE A MANUFACTURED		GRADE A MANUFACTURED		GRADE A MANUFACTURED	
Emmons	47	91	42	47	32	21
Kidder	17	30	11	14	6	5
Logan	19	44	11	18	5	8
McIntosh	28	36	14	17	10	7
Totals	111	201	78	96	53	41
	312		174		94	
			Decrease % from 1994		Decrease % from 1999	
			29.7%		32.0%	
			52.2%		57.3%	
			Overall Decrease from 1994		Overall Decrease from 1994	
			44.2%		47.7%	
					79.6%	
					Total Decrease	
					69.8%	

TOTAL PRODUCERS IN THE STATE
 1994 - 1,366 1999 - 784 2003 - 467
 Loss in 9 Years = 899 Producers

WHAT IS THE IMPACT TO KEM ELECTRIC FROM THE LOSS OF THESE DAIRY OPERATIONS?

Each dairy operation uses about 320% more electricity than an average small grain operation. The impact of 218 fewer dairy operations is like losing 698 farms. Is that an impact to the member of KEM Electric?—YES! IT IS A MAJOR IMPACT. THE REMAINING MEMBERS MUST PICK UP THE COSTS FOR OPERATING AND MAINTAINING A SYSTEM WITH FEWER SERVICES OVER WHICH TO SPREAD THE COSTS.

KEM had and still has 20%-22% of all dairies in the state. The difference is the number of operations have dropped by 899 operations statewide in 9 years.

Testimony in Support of SB 2177 and SB 2178

Chairman Urlacher and Members of the Senate Finance and Tax Committee.

I am Representative Kenton Onstad, District 4 and I was the managing Partner in the Development of NorthWestern Dairy, located at Parshall North Dakota. Currently manage the individual accounts of it's investors.

I am here in support of both SB 2177 and SB 2178. NorthWestern Dairy was a development for several purposes. Economic Development, job creation and create other opportunity either directly or indirectly related to the dairy industry.

The livestock industry will turn dollars quicker , faster and more times than any other enterprise. The Dairy industry is tops in the livestock category. I would like to illustrate what NorthWestern Dairy does on a monthly basis for our area.

NorthWestern is an 800 cow milking facility with 800 free stalls and a double 12 milking facility which can be expanded to 16. Health permits are for 1600 milking cows.

It currently is a \$2.3 million facility
 \$1.4 million of livestock
 Total \$3.7 million in total plant

Has 103 investors of which ½ able to take advantage of State Tax Credit

Employs 16 full time employees- \$ 36,000 per month
Feed Purchases \$80,000 per month
Utilities \$5500 per month

Equivalent to 40 farms

Milk Sales \$250,000 per month \$3m annually

Benefits: The water pays the Water Maintenance salary at Parshall
 Two irrigations pivots were installed- more planned
 Created a rural water District
 Heifer raising in the area
 Custom Harvesting
 Trucking
 Veterinarian



Sells milk to North Dakota processing plant-(more markets than they have milk)

A State of the Art Livestock Facility are excellent Economic Development in certain areas of our state. As you see the impact in our area, I hope you will support SB 2177 and 2178 and recommend a DO PASS



Testimony in support of SB 2177 and 2178

January 19, 2005, 9:00 A.M.

Lewis and Clark room, State Capital

By

Gary Hoffman, executive director

North Dakota Dairy Coalition

Good morning

Mr. Chairman and members of the Committee, my name is Gary Hoffman representing the North Dakota Dairy Coalition. The ND Dairy Coalition is a group of dairy producers, dairy processors, commodity groups, Rural Electric co-ops and other entities who have an interest in North Dakota's dairy industry.

My job is to grow the industry in North Dakota by;

1. working with North Dakota producers to help them expand and reinvest in their facilities so they can bring in sons or daughters who may want to dairy in North Dakota.

2. Recruit dairy producers from within the United States who are considering relocating their dairies to the Midwest.

As producer numbers and cow numbers go down it becomes more difficult for the remaining producers to access the services, commodities, and processors that are needed to run an efficient dairy operation. Several processors have closed their doors in recent years because of not having an adequate milk supply.

Let me give you an example. In 1995 we had 1250 dairies. Today we are at 383 dairies. In 1985 we had over 100,000 dairy cows in North Dakota. Today we have 36,000 dairy cows in the state. This decline of our industry has huge impact on the state of North Dakota. Dairy farming has the highest multiplier effect of any animal enterprise. The output multiplier for dairy is 2.69, so if each cow produces \$2548.00 in milk revenue annually, times the multiplier of 2.69 this equals \$6854.00 revenue per cow. (Based on 20,000 lbs. per cow production, average 2003 ND milk price of \$12.74 cwt, USDA economic impact of dairy) This does not include dairy heifer sales or dairy beef sales. The loss of 64,000 dairy cows in North Dakota has an annual economic impact on our state of \$438,656,000.00. This is all money that was distributed across rural North Dakota. It's time to do something to revitalize what was once a major industry in this State. Also, a rule of thumb is that every 65 to 67 cows requires one FTE. This means we have lost 955 employees that once worked in the dairy industry across North Dakota.

As I look at our neighboring states I see various things they are doing to promote and grow their dairy industries.

For instance, Wisconsin has implemented a \$2 million Value Added Dairy Initiative, the Iowa Dairy Development Group is focusing on dairy enhancement programs, and Kansas has created an investment tax credit, a sales tax exemption and other incentives to help producers in their state. Missouri has low interest loans and loan guarantees for their dairy producers. Minnesota is providing technical assistance and Dairy Business Planning Grants and I'm sure you have all heard about South Dakota's successes in dairy development.

I'm here today on behalf of the North Dakota Dairy Coalition to ask for a do pass on SB 2177 and SB 2178. This legislation is needed desperately by our industry and North Dakota.

Thank you

You forwarded this message on 1/24/2005 3:43 PM.

Gary Hoffman

From: lleistri@ndsuxext.nodak.edu [lleistri@ndsuxext.nodak.edu]
To: Gary Hoffman
Cc:
Subject: Economic Impact
Attachments:

Sent: Mon 1/24/2005 5:44 PM

To: Gary Hoffman
ND Dairy Coalition

Fr: Larry Leistritz

Re: Economic Impact of Expanding North Dakota's Dairy Herd to 100,000 Cows

This note is a follow-up to our recent telephone conversation. As we discussed, I have updated the analysis from my report, *Economic Impact of Expanded Dairying in North Dakota* (AE 93010) and applied the values to an assumed 64,000 head expansion of the state's dairy herd. The estimated direct and total economic impacts to the state economy are as follows:

Economic Sector	Direct Impact	Total Impact
	----- \$000 -----	-----
Agriculture	45,312	74,197
Construction	4,096	13,796
Transportation	2,560	4,132
Communications & Public Utilities	3,328	16,137
Retail trade	21,120	107,452
Finance, Insurance & Real Estate	9,984	28,814
Services	13,696	30,591
Households	37,632	144,049
Government	1,792	14,516
Other ¹	0	24,184
Total	139,520	457,868
¹ Includes mining and manufacturing.		

These levels of added gross receipts for the various sectors would be expected to support about 5,600 additional secondary jobs in various sectors of the state economy, in addition to the persons

directly employed in the new or expanded dairy operations. These levels of added sales and income would also result in increased collections of various state taxes. The two most important are likely to be sales and use and personal income taxes. Estimated increased collections from these two taxes are as follows:

Sales and use tax	\$4.98 million
Personal income	\$2.16 million

F. Larry Leistritz
Department of Agricultural Economics
North Dakota State University
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701 231-7455 phone
701 231-7400 fax
email: lleistri@ndsuxext.nodak.edu

Senate Bill 2177 and 2178
Testimony by Nathan James Boehm
2-04-05

Mr. Chairman and members of the committee my name is Nathan Boehm and I am here in support of Senate Bills 2177 and 2178. I am a third generation dairy farmer from Mandan and currently milk about 100 head of registered Jerseys and Holsteins with my parents. I am concerned with the trend the dairy industry has been going in our state. We have fewer dairy farms which in turn leads us to less infrastructure and technical support for those dairy farms. It is getting harder and harder to find a good dairy veterinarian, a knowledgeable nutritionist, or available equipment dealer.

As a member of the Dairy Coalition we have put forth goals to expand the dairy industry from within and from the outside. Senate Bills 2177 and 2178 would give us another tool to achieve the goals we have set. Mr. Hoffman gave you some numbers to show you the great impact of the dairy cow. The sales tax exemptions and tax credits in these two bills would allow dairy farmers that are already here to expand and put money back into their communities and our state. Dairy farmers from out of state that would move here could get that additional boost to get them going and be profitable

tax paying citizens of our state. Dairy farmers tend to have large families and a solid work ethic. They put money back into their local communities by buying food, feed and supplies and put kids in the school systems. This is an impact we could surely use in our state.

Wisconsin and Minnesota have grant programs and tax credits to help their resident dairy farmers and to try to lure out of state dairy farmers to their state. We would like to be able to compete with our neighboring states for this economic impact that dairy farms provide.

Furthermore, these two bills cost nothing if we as dairy farmers and the Dairy Coalition don't do our job to try to reach our goals and expand and grow the industry. However if we gain any ground, based on the numbers that you heard before, the impact to our state and communities will be nothing but positive.

Mr. Chairman and members of the committee I urge a YEA vote on Senate Bills 2177 and 2178. In the interest of self-preservation, allow the dairy farmers and the Dairy Coalition of this state these tools to help expand their industry. This would keep the infrastructure we need to survive in place and give myself and my family the opportunity to continue to do what we love, milk cows.

THANK YOU

North Dakota Farmers Union

PO Box 2136 • 1415 12th Ave SE • Jamestown ND 58401

701-252-2340 • 800-366-NDFU

FAX: 701-252-6584

WEBSITE: www.ndfu.org

E-MAIL: ndfu@ndfu.org



Senate Bill 2177
Finance and Tax

*Same
given
to the
House*

Chairman Urlacher and Members of the Senate Finance and Tax committee,

My name is Woody Barth; I am here representing over 35,000 members of North Dakota Farmers Union. I am here to testify in favor of Senate Bill 2177, which would provide a sales tax exemption for dairy farm machinery, equipment, and structural materials.

North Dakota Farmers Union believes that Livestock production is essential to the well being of North Dakota. We actively promote the development of livestock production in North Dakota as a vital component in maintaining a healthy agriculture sector.

According USDA National Agricultural Statistics Service in 2003 North Dakota had.

North Dakota:

- 440 dairy farms
- 36,000 dairy cows
- 554 million pounds of milk produced annually
- North Dakota's average dairy herd is 82 cows.

North Dakota Farmers Union has and will continue to support our state's dairy farmers as they try to be successful in a rapidly changing industry.

SB 2177 provides for a means to purchase new and replacement machinery, equipment, and structural materials for new and existing dairy farmers.

Our producers have a strong commitment to producing the highest quality dairy products in the world. It is essential that we continue to find ways to grow and expand our state's dairy production.

Thank you Chairman Urlacher and Members of the Senate Finance and Tax committee, I would be willing to answer any questions that you have at this time.



Administration:

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P.O. Box 2064
Fargo, ND 58107-2064
701-298-2200 • 1-800-367-9668
Fax: 701-298-2210

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Bismarck, ND 58503
P.O. Box 2793
Bismarck, ND 58502-2793
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Fax: 701-224-9485

North Dakota Farm Bureau

www.ndfb.org

Testimony of North Dakota Farm Bureau

Senate Bill 2177

Senate Finance and Taxation Committee

January 19, 2005

John Mittleider

Good morning, Mr. Chairman and members of the Committee. My name is John Mittleider and I am here today representing the 27,500 member families of North Dakota Farm Bureau.

One of our top priorities for the 2005 Legislative Session is to support programs and policies that enhance livestock production in the state. We have low cost, abundant feed and forage in the state. One of the major challenges the agricultural community faces is to utilize our abundant feed and forage to their optimal use. We are far from doing so today.

We need to acknowledge the forward thinking efforts of the Dairy Coalition. Without question, the dairy industry is fading across the state and has been for a number of years. Just yesterday, USDA released a report showing that the dairy herd size in North Dakota declined by 1,000 head over the past year, while milk production declined three percent. Meanwhile, the number of milk cows and milk production increased across the United States. In spite of the trends, the Dairy Coalition, however, is taking a progressive approach to rejuvenating this important industry.

We support Senate Bill 2177 and encourage a "Do Pass" recommendation. We would furthermore respectfully request the Committee consider expanding SB 2177 to include other forms of livestock produced in the state. Other livestock species are experiencing several of the same difficulties as that of the dairy industry and we believe expanding the scope of SB 2177 to include other livestock species would also be a great asset in expanding livestock production in the state.

Thank you for your consideration and I would be happy to try to answer any questions you may have.

Roger Johnson
Agriculture Commissioner
www.agdepartment.com



Phone (701) 328-2231
Toll Free (800) 242-7535
Fax (701) 328-4567

600 E Boulevard Ave., Dept. 602
Bismarck, ND 58505-0020

Testimony of Roger Johnson
North Dakota Agriculture Commissioner
Senate Bill 2177
Senate Finance and Taxation Committee
Lewis and Clark Room
January 19, 2005

*Same given
to House*

Chairman Urlacher and members of the Senate Finance and Taxation Committee, I am Bobbi Talmadge, Livestock Development Specialist at the North Dakota Department of Agriculture. Our department has been a member of the Dairy Coalition since its inception. We support the Dairy Coalition and support SB 2177 which provides additional tools for dairy development in North Dakota.

In addition to support of this bill, I would like you to consider including livestock feedlots and swine feeding and finishing operations in the language. While dairy is important to our state, North Dakota has tremendous opportunities to grow in the areas of dairy heifer raising, beef feedlots, swine farrowing, and swine finishing. Our state has many competitive advantages in the areas of feed cost, feedstuff availability, agriculture business friendly, animal health, biosecurity, climate and wide open spaces. I would like to make you aware of ~~SB~~ 2147 which is similar to this bill in its content.

National Leader in Crop Production

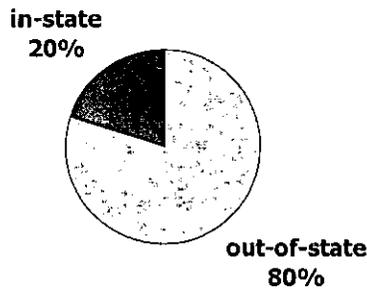
To build a livestock industry in the state it takes feed. North Dakota leads the nation in the production of thirteen different commodity categories – flaxseed, canola, durum wheat, oil sunflower, all sunflower, pinto beans, dry edible peas, non-oil sunflower, spring wheat, navy beans, barley, all dry edible beans and oats.

Many of these crop and their co-products are excellent livestock feed sources. Additional livestock feeding would create a stronger market for local crops. Rather than see these crops shipped to other states for their feeding industries, we would like to strengthen our own rural economy with the additional jobs and opportunities that livestock feeding brings to a community.

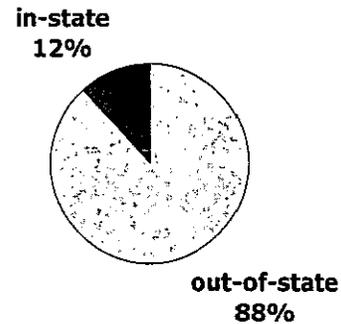
Beyond Our Borders

Currently, the majority of livestock feed produced in North Dakota heads beyond our borders. In addition, only 12% of soybeans, 19% of corn and 20% of the barley produced in North Dakota are utilized here – the rest is destined to leave the state.

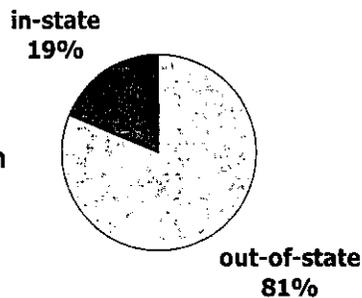
Barley Utilization



Soybean Utilization



Corn Utilization



Source: UGPII

We have an abundance of co-products that are produced from our ag processing plants in the region - beet tailings at Hillsboro, barley malt sprout pellets at Spiritwood, canola meal at Velva, corn gluten feed at Wahpeton, distillers grains at Walhalla and sunflower meal at Enderlin. Red Trail Energy's proposed ethanol facility at Richardton would be a superb source of co-products for livestock producers in the western part of North Dakota.

Our agricultural industry is continually adapting and changing to meet consumer demands and to fill global markets. Adding value to agricultural commodities and diversifying farm operations have proven effective in maintaining and enhancing the viability of agriculture. Value-added agricultural farm processing and farm input manufacturing generate \$1.7 billion in business

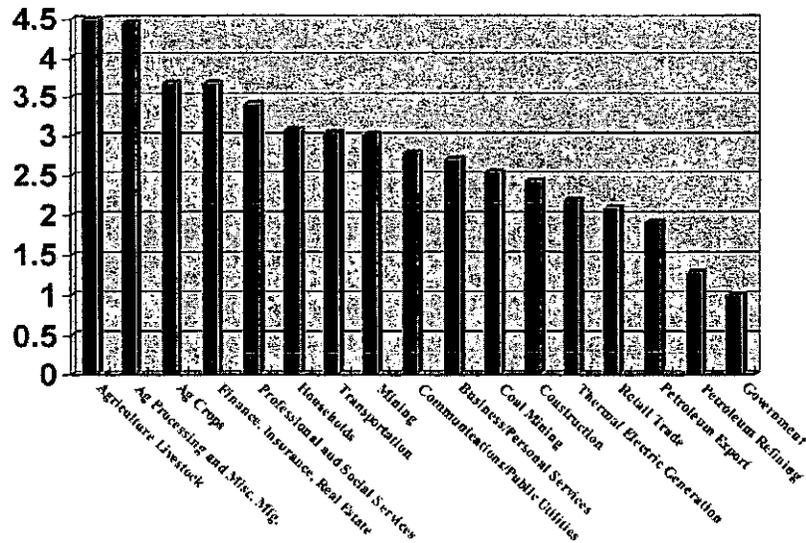
activity in the state each year. These businesses directly and indirectly employ more than 25,000 North Dakotans. (Source: *The Role of Agricultural Processing and Farm Input Manufacturing in the North Dakota Economy* – March 2003)

Why do We Need Livestock Development?

Livestock is a key component of our agricultural economy in North Dakota, generating cash receipts of \$870 million in 2003. We have 1.75 million head of cattle, 97,000 head of sheep and 150,000 head of hogs in the state.

While livestock industries already make a significant contribution to our economy, further development of these industries holds great economic value for our state. According to a study completed by North Dakota State University, livestock development has the greatest multiplier on North Dakota's economy. (Source: *The North Dakota Input-Output Model: A Tool for Measuring Economic Linkages* – Updated 2004.)

Multiplier Effect in North Dakota's Economy



Study completed by
NDSU Agricultural Economics Department

The economic multiplier effect in animal agriculture is significant because of all of the additional economic opportunities that are created. Additional inputs, such as veterinary services, medications, financial services and trucking are all integral parallel components of livestock development. Again, the most important of those inputs are the additional local markets created by the sale and processing of the feedstuffs in the local economy.

Thank you for giving me the opportunity to testify on this bill. I'll be happy to answer any questions you might have.

SB 2177

PREPARED FOR SENATE FINANCE & TAXATION COMMITTEE

Sales & Use Tax Business Incentives Exemptions

(1) Manufacturing, (2) Agricultural Commodity Processing Facility, (3) Recycling, (4) Wind-powered Electrical Generating Facility, and (5) Primary Sector Business Computer and Telecommunications Equipment

**Business Incentive Exemptions
FY 1991 - 2004**

	Manufacturing		Ag Processing		Total Manufacturing & Ag Process	
	Cost	Tax Exemption	Cost	Tax Exemption	Cost	Tax Exemption
FY1990	\$ 31,590,888	\$ 631,819			\$31,590,888	\$631,819
FY1991	32,682,675	653,651			32,682,675	653,651
FY1992	117,688,839	5,668,193			117,688,839	5,668,193
FY1993	33,268,862	1,646,467			33,268,862	1,646,467
FY1994	73,648,922	3,634,658			73,648,922	3,634,658
FY1995	31,056,423	1,552,807	150,978,850	7,548,944	182,035,273	9,101,751
FY1996	166,853,767	8,342,722	8,426,020	421,299	175,279,787	8,764,021
FY1997	164,145,532	8,207,283	67,724,871	3,386,513	231,870,403	11,593,796
FY1998	49,913,264	2,495,665	72,175,147	3,608,759	122,088,411	6,104,424
FY1999	129,637,942	6,481,897	23,408,462	1,170,424	153,046,404	7,652,321
FY2000	46,641,951	2,332,099	15,110,291	755,514	61,752,242	3,087,613
FY2001	135,776,675	6,788,835	11,532,905	576,644	147,309,580	7,365,479
FY2002	38,878,605	1,943,943	11,452,227	572,611	50,330,832	2,516,554
FY2003	113,499,346	5,674,967	16,180,763	809,038	129,680,109	6,484,005
FY2004	57,866,459	2,893,430	19,685,854	984,293	77,552,313	3,877,723
Totals	\$ 1,223,150,150	\$ 58,948,435	\$ 396,675,390	\$ 19,834,040	\$1,619,825,540	\$78,782,475

Non-Manufacturing:

	Cost	Tax Exemption
Recycling Exemption 7/1/1993 through 6/30/2004**	\$5,444,743	\$272,237
Primary Sector Business Other than Manufacturers 7/1/2001 through 6/30/2004**	\$13,005,329	\$650,267
Wind-Powered Electrical Generating Facility 7/1/2001 through 6/30/2004**	\$50,044,000	\$2,502,000
Total All Exemptions	\$1,688,319,612	\$82,206,979

** Insufficient activity to disclose annual statistics

North Dakota Sales and Use Tax Exemptions Estimated Biennial Fiscal Effect *

<u>Exempt Products</u>	Biennial Estimate	
	Low	High
Resources		
Gasoline	\$48,000,000	\$60,000,000
Coal	25,000,000	30,000,000
Electricity	36,000,000	41,000,000
Water Through Mains	1,400,000	2,000,000
Publishing		
Newspapers	\$2,500,000	\$3,000,000
Magazine Subscriptions	1,200,000	1,500,000
Bibles, Hymnals, Prayerbooks and Textbooks Purchased by Private Schools		Less Than \$5,000
Textbooks Purchased by Students	400,000	500,000
Medical		
Prescription Drugs	\$8,800,000	\$12,825,000
Oxygen and Anesthesia Gases	50,000	80,000
Artificial Devices (Hearing Aids, Eyeglasses, Limbs)	1,100,000	1,900,000
Ostomy Devices and Supplies	50,000	80,000
Diabetic & Bladder Dysfunc- tion Supplies	250,000	350,000
Equipment to Modify Articles for Disabled	20,000	40,000
Sales to Hospitals and Nursing Homes	6,250,000	7,250,000
Agricultural		
Commercial Fertilizer (For Ag Purposes)	\$15,000,000	\$19,000,000
Livestock and Poultry Feed	13,500,000	18,000,000
Seeds for Planting	10,500,000	13,500,000
Fungicides, Herbicides, and Insecticides	14,500,000	19,000,000
Used Farm Machinery and Repair Parts	12,000,000	17,000,000
Other		
Money	250,000	350,000
Grocery Foods	60,000,000	70,000,000
Exempt Products Total	\$256,770,000	\$317,375,000

Miscellaneous Exemptions		
Rental of Hotel and Motel Accommodations	\$190,000	\$290,000
Film Rental (Movie Theater)	400,000	500,000
Sales to Residents of Montana	3,000,000	4,000,000
Sales to Residents of Canada (Refund)	300,000	600,000
State and Local Fairs	100,000	175,000
Private and Parochial Schools	500,000	700,000
Inter-State Telephone	2,000,000	4,000,000
Cable Television	3,000,000	4,000,000
Auctions	3,000,000	4,000,000
Manufacturing & Recycling Equipment	4,000,000	8,000,000
Miscellaneous Exemptions Total	\$16,490,000	\$26,265,000

<u>Exempt Services</u>	Biennial Estimate	
	Low	High
Veterinary Services	\$1,500,000	\$2,000,000
Financial Services	3,250,000	5,500,000
Oil and Gas Field Services	7,000,000	12,000,000
Construction	15,000,000	24,000,000
Funeral Services	2,000,000	3,000,000
Miscellaneous Personal Services	600,000	700,000
Farm Machinery Repair	1,000,000	2,000,000
Transportation Services	200,000	400,000
Lawn Care Services	600,000	800,000
Engineering, Architecture, and Surveying	700,000	1,300,000
Health Services	70,000,000	100,000,000
Laundry, Dry Cleaning Service	1,200,000	2,000,000
Beauty and Barber Shops	3,000,000	4,000,000
Automotive Repair	8,000,000	12,500,000
Miscellaneous Repair	3,500,000	5,500,000
Accounting, Auditing and Bookkeeping	3,200,000	4,200,000
Business Services	6,000,000	7,000,000
Legal Services	7,000,000	9,000,000
Exempt Services Total	\$133,750,000	\$195,900,000
Grand Total All Exemptions	\$407,010,000	\$539,540,000

Partial Exemptions (fiscal effect is computed at 2%)		
New - Farm Machinery and Repair Parts	\$9,000,000	\$13,000,000
New Mobile Homes	300,000	500,000
Total Partial Exemptions	\$9,300,000	\$13,500,000

* Calculations are based on 5% state sales and use tax rate. All amounts are preliminary and subject to change as additional information becomes available.

SOURCE: North Dakota Office of State Tax Commissioner, Research Section

Biennial Filing Deductions

Sales Taxes	\$ 3,800,000
Businesses with taxable sales and purchases of \$333,000 or more per year receive compensation of up to \$85 per month for filing monthly returns.	
Cigarette Tax	\$ 50,000
Wholesalers who file and pay on time may deduct up to \$100 per month. This deduction was originally to compensate for stamping cigarette packages. In 1991 the stamping requirement was repealed, but the compensation remains.	

SOURCE: North Dakota Office of State Tax Commissioner,

Testimony in support of SB 2177
By
Gary Hoffman, executive director
North Dakota Dairy Coalition

Good morning

Mr. Chairman and members of the Committee, my name is Gary Hoffman; I am the director of the North Dakota Dairy Coalition. The ND Dairy Coalition represents and is funded by dairy producers, dairy processors, commodity groups such as the ND Soybean Council, Midwest Dairy association, North Dakota Barley Council, and the ND Corn Growers Assoc., North Dakota Milk Producers Association, Rural Electric co-ops and other entities that have an interest in North Dakota's dairy industry. One of the Coalitions' goals is to increase the number of dairy cows in North Dakota to a 100,000 head. We plan on doing this by;

1. Working with North Dakota producers to help them expand and reinvest in their facilities so they can bring sons or daughters who may want to dairy into their operations.
2. Recruit dairy producers from other regions of the United States who are considering relocating their dairies to the Midwest.

As producer numbers and cow numbers go down it becomes more difficult for the remaining producers to access the services, commodities, and processors that are needed to run an efficient dairy operation. Several processors have closed their doors in recent years because of not having an adequate milk supply.

Let me give you an example. In 1995 we had 1250 dairies. Today there are 383 dairies in North Dakota. In 1985 we had over 100,000 dairy cows in North Dakota. Today we have about 36,000 dairy cows in the state. This decline of our industry has a huge impact on the state of North Dakota. Dairy farming has the highest multiplier effect of any animal enterprise. The multiplier effect is the way dollars are turned over within the community to create additional economic activity. The output multiplier for dairy is 2.69, so if each cow produces \$2548.00 in milk revenue annually, times the multiplier of 2.69 this equals \$6854.00 revenue per cow. (Based on 20,000 lbs. per cow production, average 2003 ND milk price of \$12.74 cwt, USDA economic impact of dairy) This does not include dairy heifer sales or dairy beef sales. The loss of 64,000 dairy cows in North Dakota has an annual economic impact on our state of \$438,656,000.00. This is all money that was distributed across rural North Dakota. It's time to do something to revitalize what was once a major industry in North Dakota. Also, a rule of thumb is that every 65 to 67 cows require one FTE. This means we have lost 955 employees that once worked in the dairy industry across North Dakota.

Pg 2

Testimony in support of SB 2177

As I look at our neighboring states I see various things they are doing to promote and grow their dairy industries.

For instance, Wisconsin has implemented a \$2 million Value Added Dairy Initiative, the Iowa Dairy Development Group is focusing on dairy enhancement programs, and Kansas has created an investment tax credit, a sales tax exemption and other incentives to help producers in their state. Missouri has low interest loans and loan guarantees for their dairy producers. Minnesota is providing technical assistance and Dairy Business Planning Grants and I'm sure you have all heard about South Dakota's successes in dairy development. South Dakota has had a dairy development program for several years and they are starting to see the results in increased milk production and a new dairy processing plant.

I'm here today on behalf of the North Dakota Dairy Coalition to ask for a do pass on SB 2177. The incentives we are asking for is a small price to pay to get our industry back on solid ground. This legislation will also help attract some of the producers who are looking at North Dakota as a possible place to relocate their dairies. This legislation is needed desperately by the dairy industry and rural North Dakota communities. Again I urge a do pass on SB 2177.

Thank you, I'd be happy to answer any questions you may have.



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701-298-2200 • 1-800-367-9668
Fax: 701-298-2210

State Headquarters:
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701-224-0330 • 1-800-932-8869
Fax: 701-224-9485

North Dakota Farm Bureau

www.ndfb.org

North Dakota Farm Bureau Testimony on Senate Bill 2177

Good morning, Chairman Belter and members of the House Finance and Tax Committee. My name is Brian Kramer and I am representing North Dakota Farm Bureau. We support Senate Bill 2177. One of our top priorities for this legislative session is the advancement of animal agriculture in North Dakota.

We need to add value to the livestock we raise, in turn provide increased revenue to many of the crops produced on our farms and finally improve the economy for our farms and the state as a whole. Senate Bill 2177 is one of the building blocks to the improved economy. It provides needed stimuli for a dwindling segment of animal agriculture in our state by providing certain sales tax exemptions for the dairy industry.

We believe that this bill should be amended to include all segments of animal agriculture. This would provide incentives for those segments as well. Local economies across the state could see increased activity if beef, swine, sheep and others could be afforded the sales tax exemptions provided to dairy in this bill.

We understand the budget concerns if this bill was amended to include all of agriculture. However, the old adage that it takes money to make money certainly applies here. Yes it will reduce the sales tax revenues to the state, at least initially. But the return on that investment, through added value to crops and livestock and increased employment and all else that occurs with economic stimulus, most assuredly will improve the state revenue picture in the future.

If we are serious about improving the economic picture of our state, what better way than stimulating the number one industry, agriculture. It is a well known fact that a robust agricultural economy means increased economic activity across the state.

We believe that the Legislature could broaden the scope of this bill and cap the amount of sales tax exemptions to finite dollar amount (we suggest \$2 million), thus providing certainty to the fiscal note and treating all aspects of animal agriculture with the same opportunities for growth and expansion as is given the dairy industry in SB 2177.

We strongly urge you to amend SB 2177 to expand the scope of this bill to include all of agriculture and to provide a finite amount of sales tax relief.

Thank you. I would try to answer any questions you may have.

Senate Bill 2177
Testimony by Nathan James Boehm
2-28-05

Mr. Chairman and members of the committee my name is Nathan Boehm and I am here in support of Senate Bill 2177. I am a third generation dairy farmer from Mandan and currently milk about 100 head of registered Jerseys and Holsteins with my parents. I am concerned with the trend the dairy industry has been going in our state. We have fewer dairy farms which in turn leads us to less infrastructure and technical support for those dairy farms. It is getting harder and harder to find a good dairy veterinarian, a knowledgeable nutritionist, or available equipment dealer.

As a member of the Dairy Coalition we have put forth goals to expand the dairy industry from within and from the outside. Senate Bill 2177 would give us another tool to achieve the goals we have set. Mr. Hoffman gave you some numbers to show you the great impact of the dairy cow. The sales tax exemptions ~~and tax credits in these two bills~~ would allow dairy farmers that are already here to expand and put money back into their communities and our state. Dairy farmers from out of state that would move here could get that additional boost to get them going and be profitable tax

paying citizens of our state. Dairy farmers tend to have large families and a solid work ethic. They put money back into their local communities by buying food, feed and supplies and put kids in the school systems. This is an impact we could surely use in our state.

Wisconsin and Minnesota have grant programs and tax credits to help their resident dairy farmers and to try to lure out of state dairy farmers to their state. We would like to be able to compete with our neighboring states for this economic impact that dairy farms provide.

Furthermore, these two bills cost nothing if we as dairy farmers and the Dairy Coalition don't do our job to try to reach our goals and expand and grow the industry. However if we gain any ground, based on the numbers that you heard before, the impact to our state and communities will be nothing but positive.

Mr. Chairman and members of the committee I urge a YES vote on Senate Bill 2177. In the interest of self-preservation, allow the dairy farmers and the Dairy Coalition of this state these tools to help expand their industry. This would keep the infrastructure we need to survive in place and give myself and my family the opportunity to continue to do what we love, milk cows.

THANK YOU

Testimony in support of SB 2177 and 2178

By

Gary Hoffman, executive director
North Dakota Dairy Coalition

Good morning

Mr. Chairman and members of the Committee, my name is Gary Hoffman, I am the director of the North Dakota Dairy Coalition. The ND Dairy Coalition represents and is funded by dairy producers, dairy processors, commodity groups such as the ND Soybean Council, North Dakota Barley Council, and the ND Corn Growers Assoc., Rural Electric co-ops and other entities that have an interest in North Dakota's dairy industry. One of the Coalitions' goals is to increase the number of dairy cows in North Dakota to a 100,000 head. We plan on doing this by;

1. working with North Dakota producers to help them expand and reinvest in their facilities so they can bring in sons or daughters who may want to dairy in North Dakota.
2. Recruit dairy producers from within the United States who are considering relocating their dairies to the Midwest.

As producer numbers and cow numbers go down it becomes more difficult for the remaining producers to access the services, commodities, and processors that are needed to run an efficient dairy operation. Several processors have closed their doors in recent years because of not having an adequate milk supply. I am here this morning in support of SB 2177 and SB 2178.

Let me give you an example of why the Coalition feels it's important to support this legislation. In 1995 we had 1250 dairies in North Dakota. Today we are at 383 dairies. In 1985 we had over 100,000 dairy cows in North Dakota. Today we have 36,000 dairy cows in the state. This decline of our industry has a huge financial impact on the state of North Dakota. Dairy farming has the highest multiplier effect of any animal enterprise. The output multiplier for dairy is 2.69, so if each cow produces \$2548.00 in milk revenue annually, times the multiplier of 2.69 this equals \$6854.00 revenue per cow. (Based on 20,000 lbs. per cow production, average 2003 ND milk price of \$12.74 cwt, USDA economic impact multiplier for dairy) This does not include dairy heifer sales or dairy beef sales. The loss of 64,000 dairy cows in North Dakota has an annual economic impact on our state of \$438,656,000.00. This is money that was distributed across rural North Dakota. Also, every 65 to 67 cows requires one FTE. This means we have lost 955 employees that worked in the dairy industry across North Dakota.

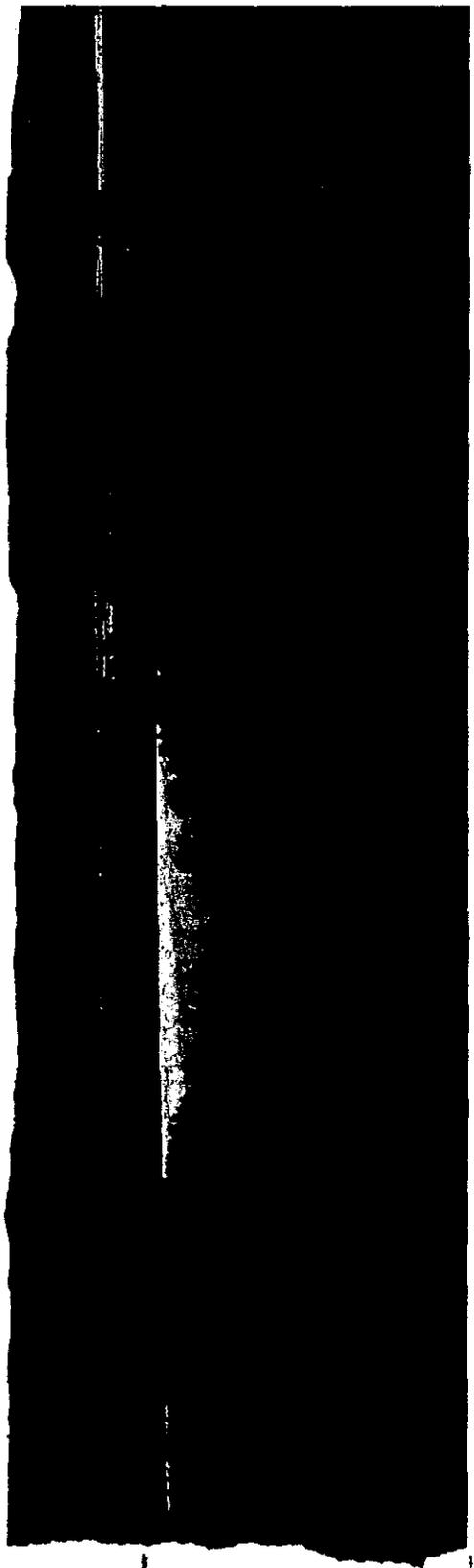
I have included for your review a study from Dr. Larry Leistritz, Department of Ag Economics at North Dakota State University. According to his analysis the fiscal impact of SB2177 and SB2178 to North Dakota is minimal and would be a good investment for the state.

He is assuming that cow numbers will increase to 100,000 head. Sales and use taxes will increase by \$4.98 million and personal income tax will increase by \$2.16 million. This is a pretty good return on investment for North Dakota. This is an industry that just needs a little jump start to rejuvenate it. We are just trying to build on something that already has the infrastructure in place. The North Dakota Dairy Coalition urges a do pass for SB 2177 and SB 2178.

Thank you, I'd be happy to answer any questions you may have.

5B2177

NORTH DAKOTA



A DAIRY FRIENDLY STATE

WELCOME

Greetings from North Dakota!

North Dakota was founded on the rich traditions of agriculture, and today, it is the leading industry in our state. Our 30,000 family farmers lead the nation in the production of commodities, including spring wheat, durum, barley, canola and sunflowers.

Dairy farming is an important part of North Dakota's agriculture industry. Our state and business leaders understand the important role dairy production plays in our economy, and many of them have agriculture backgrounds. As a result, our regulatory and environmental quality agencies are committed to dairy producers and helping them successfully operate their businesses.

North Dakota offers many advantages for dairy producers, including financing programs, affordable land, simplified processes for obtaining permits, ample feed supplies and access to dairy processing facilities. We have programs already in place to help dairy farmers start or relocate their farms, manage waste and market their products.

Most importantly, North Dakota is a great place to live and raise a family. With our excellent schools, low crime rate, friendly communities and a wide variety of year-round recreational activities, you will enjoy a quality of life that is unsurpassed.

Whether you are interested in starting a new dairy operation or relocating your herd, North Dakota has what you need for a successful business. We welcome the opportunity to help make that happen.

Sincerely,



John Hoeven
North Dakota Governor



Roger Johnson
North Dakota Agriculture Commissioner



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NORTH DAKOTA DAIRY COALITION

Incorporated in 2004, the North Dakota Dairy Coalition is a one-stop shop for producers planning to expand or relocate. Contact the Dairy Coalition for:

- Information on available sites
- Personalized tours
- Permitting assistance
- Financing assistance

The Coalition represents dairy producers, industry representatives and government entities that are working to increase the number of dairy cows in North Dakota. You can reach Gary Hoffman, executive director of the Coalition, by calling **1-800-234-0518**; or, check out our Web site at **www.nddairy.com**.

A RICH AGRICULTURAL HISTORY

European explorers first reached what is now North Dakota in 1738, and the first settler arrived in 1801. The fur trade was responsible for most of the early settlement of the area.

Following the organization of Dakota Territory in 1861, settlement began in earnest. The Homestead Act and the progress of the railroads attracted tens of thousands of newcomers, most of them interested in settling on farms and ranches in the new land. In the rich farmland of the Red River Valley in the east, huge bonanza farms were established, covering thousands of acres and employing hundreds of workers. Likewise in the west, large ranching operations, like Theodore Roosevelt's Elkhorn



and Maltese Cross Ranches, were established in the rolling grasslands in the west.

North Dakota became a state in 1889. By then, the bonanza farms were giving way to smaller, family-owned operations. The state became famous for its high quality spring wheat and barley and for its beef cattle. Dairy farming could be found in all parts of the state.

Agriculture is still North Dakota's No. 1 industry. The state's 30,000 family farmers lead the nation in the production of 11 different commodities, including spring wheat, durum, barley, canola and sunflowers.

NORTH DAKOTA'S ADVANTAGES

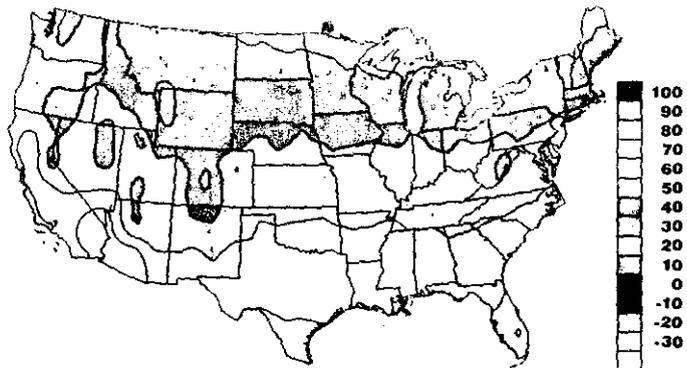
North Dakota offers many advantages for dairy producers, including:

- Affordable land.
- Animal agriculture friendly communities.
- Easy-to-obtain permits.
- Affordable, locally-produced and readily-available feedstuffs.
- A constant supply of low-cost byproducts for feed, such as ethanol byproducts, corn gluten and sugar beet pulp pellets from local agricultural processing plants.
- Dairy processing facilities that need milk, including a new plant in South Dakota that is looking for additional milk.



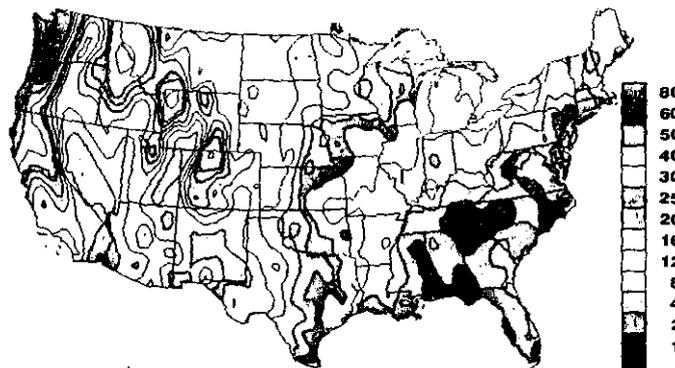
DAIRY-FRIENDLY CLIMATE

AVERAGE TEMPERATURE (° F)
Jan-Dec 2003



CLIMATE PREDICTION CENTER, NATIONAL WEATHER SERVICE
Computer-generated contours based on preliminary data.

AVERAGE PRECIPITATION (INCHES)
Jan-Dec 2003

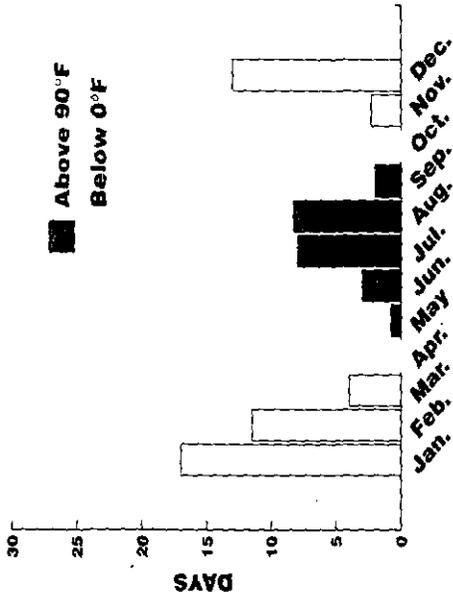


CLIMATE PREDICTION CENTER, NATIONAL WEATHER SERVICE
Computer-generated contours based on preliminary data.

DAIRY-FRIENDLY CLIMATE

NORMAL DAYS ABOVE 90°F OR BELOW 0°F

Source: NDASS



PLAINS LIFESTYLE

SNAPSHOT OF NORTH DAKOTA:

- Quality of life — Cost of Living Index = 95.5 (U.S. average = 100) ACCRA Cost of Living Index, 3rd Qtr., 2000
- Third in U.S. for least expensive car insurance rates. 2002 National Association of Insurance Commissioners' report
- No. 1 for the number of community hospitals per 100,000 population and 47th in average cost per visit for a community hospital stay.
- Safe communities — North Dakota has the lowest number of violent crimes, murders, robberies, aggravated assaults and property crimes per 100,000 population.
2002 state rankings compiled by Morgan Quitno Press.
- North Dakota ranks No. 1 for air quality, according to the Corporation for Enterprise Development's 2001 report. The American Lung Association gave the state an "A" grade in its annual

"state of the air" study that analyzes government data on ozone, smog's main ingredient.

EDUCATION IN NORTH DAKOTA:

Primary

- 13.7:1 student to teacher ratio
- Fourth-graders ranked No. 3 in science and No. 10 in math
- Eighth-graders ranked No. 2 in science and No. 5 in math (2000)

Secondary

- No. 1 for highest public school graduation rate (84.1%, compared to 66.1% for U.S. - 2000)
- No. 1 in Scholastic Aptitude Test Scores (2002)

PLAINS LIFESTYLE

Post Secondary

- No. 1 in college continuation rate for high school graduates (69.4%, compared to 56.7% for the U.S. average - 2000)
- No. 1 in college participation rates for 19-year-olds (58.4%, compared to 37.5% for the U.S. average - 2000)
- Nineteen college and university campuses, including two major research universities
- Two of the first "laptop" universities in the nation

POPULATION:

642,200

Major Cities:

174,367 Fargo – Moorhead
97,478 Grand Forks – East Grand Forks
94,719 Bismarck – Mandan



Ole and his wife, Jessica, moved their dairy from Washington state to North Dakota. Ole says, "North Dakota's climate has proven to be good for my cows. It's not as humid here. Our cows have adapted well. And the people here have been very welcoming. The feed is cheap and readily available."

FINANCIAL INCENTIVES

The only state-owned bank in the nation, the Bank of North Dakota (BND), was established in 1919, to encourage and promote agriculture, commerce and industry in North Dakota. BND acts as a funding resource in partnership with other financial institutions, economic development groups and guarantee agencies.

BND administers a number of lending programs that promote agricultural and economic development. The bank is specifically authorized to assist numerous other financial institutions in providing financing to stimulate economic development in the state.

Lending programs include:

- Farm irrigation
- Livestock retention
- Non-traditional farm income diversification
- Farmer/rancher financing with bank participations
- Beginning and established farmer/rancher financing
- Small business financing
- Guarantee program for start-up businesses
- Guarantee program for farm real estate
- Business financing with bank participations
- Community, rural and regional development
- Incentive financing for North Dakota economic development projects

PERSONAL PROPERTY TAX EXEMPTION

North Dakota exempts all personal property from property taxation except that of certain oil and gas refineries and utilities.

FINANCIAL INCENTIVES

SALES TAX EXEMPTIONS

Agriculture Production Equipment

All farm machinery repair parts are exempt from sales tax.

The sale, lease and rental of used farm machinery, used farm machinery attachments, and all farm machinery repair parts (except tires) used exclusively for agricultural purposes are all exempt from state and local sales tax.

Livestock Feed, Seed and Fertilizer

Sales of feed for poultry or livestock are not subject to sales tax. Sales of commercial fertilizers and sales of seeds, roots, bulbs and small plants for agricultural purposes are not subject to sales tax.



MARKETING OPPORTUNITIES

North Dakota offers the following markets for milk producers:

Associated Milk Producers Inc. (AMPI) –

This dairy cooperative is owned by 4,600 member dairy farms in Iowa, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin. Based in New Ulm, Minn., the cooperative's member farms produce 5.2 billion pounds of milk, with annual sales of \$1 billion.

Cass-Clay – This member-owned cooperative was started in 1934. Headquartered in Fargo, members are located in North Dakota, South Dakota, Minnesota and Montana. The plant offers customers a complete dairy line including fluid milk, butter, ice cream, cultured products and cheese. Cass-Clay is the official dairy of the Minnesota Vikings.

Dairy Farmers of America – This cooperative is owned and operated by 22,924 dairy farm families. The company is a diversified United States manufacturer of dairy products, food components, and ingredients.

Dakota Country Cheese – The facility started as a branch of Selfridge Cheese Company in 1985. The Mandan plant is capable of processing 750,000 pounds of milk per day. Products from the plant include barrel cheese and various whey products.

Dean Foods – The nation's leading processor and distributor of milk and other dairy products has a plant in Bismarck. This plant processes grade A milk from North Dakota dairy producers, using both plastic and paper containers for the white milk, chocolate milk, whipping cream, half-and-half and buttermilk products.

MARKETING OPPORTUNITIES

Pride Dairy – The northern community of Bottineau is the home of Pride Dairy. This farmer-owned cooperative started business in 1930. Pride Dairy produces ice cream and butter products.

Valley Queen – This family-owned processing plant was founded in 1929 and is located in Milbank, South Dakota. The company produces three main products: cheese, lactose, and delactosed whey.

Additional nearby resources – Adjacent states of Minnesota and South Dakota have more than 80 milk processing plants.



HEIFER DEVELOPMENT

Dairy producers are finding profit opportunities in North Dakota.

Feedlots are small, so cattle are not exposed to a great number of other animals. Some feedlots are interested in working exclusively with one supplier. Many operations have available grasslands; consequently, heifers do not spend a lot of time on concrete. All feeding operations are family-owned and operated – your cattle will get the individual attention they need.

North Dakota's record on heifer development is one of the best in the nation:

- Dairies report North Dakota-raised heifers remain in milking lines up to two years longer.
- Open spaces between operations provide added bio-security.

- Large open lots provide added comfort and bunk space.
- Affordable and diverse forages readily available.
- Animals return with little to no incidences of Hairy Wart.
- North Dakota disease-free status:
 - Tuberculosis
 - Brucellosis
 - Scrapie
 - Blue tongue
 - Pseudo-rabies

Call the North Dakota livestock development coordinator at **701-328-4159** for a list of heifer growers in the state or check out North Dakota feedlots at www.agdepartment.com/Programs/Livestock/feedlots.html

HEIFER DEVELOPMENT

"The regulators in North Dakota understand agriculture and most of them have agriculture backgrounds. They understand the industry and understand how crucial agriculture is to the economy.

"The regulatory agencies in our state are always willing to work with producers to be proactive in protecting the environment. And together we find solutions."

Bill Price
Missouri River Feeders
Feeds 10,000 dairy replacement heifers



Photo taken at Missouri River Feeders.

ABUNDANT FEEDSTUFFS

BYPRODUCTS & ALTERNATIVES

- Barley Malt Products
- Beet Pulp
- Corn Gluten Meal
- Linseed Oil
- Potato Waste
- Soybean Meal
- Bean Splits
- Canola Meal
- Distillers Grain
- Mill Feed
- Soybean Hulls
- Sunflower Meal

ALFAFA HAY

	Avg. Year Pricing (per ton)	State Production (million tons)
1998	\$65	2.6
1999	\$57	2.4
2000	\$43	3.1
2001	\$46	3.2
2002	\$50	3.3



GROWTH POTENTIAL

Growing and expanding your business is easier in North Dakota where land and buildings are extremely affordable.

It costs less to do business here than most anywhere else in the country. Labor, property, buildings and utilities are less expensive. This all adds up to lower operational costs and higher earnings.

Here's some of what our state offers to improve your growth potential:

- Some of the most competitive labor costs in the nation.
- Electric rates ranging from 3.5 to 6 cents per kilowatt-hour for commercial and industrial customers.
- Land prices averaging \$170 per acre for pasture land and \$440 per acre for cropland.
- Byproducts, grains and forages are easily accessible and very affordable.



POLLUTION CONTROL COST SHARING

North Dakota is a place known for its wide-open spaces. But with any dairy operation there comes the challenge of manure management.

To assist North Dakota dairy producers the Department of Agriculture has a program called the Dairy Pollution Prevention Program or DP3 for short. The cost-share program pays 60 percent of approved expenses, while the producer is responsible for the remaining 40 percent.

Benefits of the DP3 program include: controlling or preventing erosion; preventing feedlot waste from entering streams, lakes and rivers; using wetlands as a living filter; prevention or slowing run-off rates during major precipitation events; and helping participants develop a system for applying manure as fertilizer in field applications.

This program is voluntary and non-regulatory. The program started in 2000 and is available for existing operations.

CONTACTS

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THESE GROUPS SUPPORT THE NORTH DAKOTA DAIRY COALITION

- Bank of North Dakota
- Cass Clay Creamery, Inc.
- Great River Dairy Alliance
- Hubbard Feeds
- Midwest Dairy Association
- North Dakota Agricultural Products Utilization Commission
- North Dakota Association of Rural Electric Cooperatives
- North Dakota Barley Council
- North Dakota Corn Utilization Council
- North Dakota dairy producers/individuals
- North Dakota Department of Agriculture
- North Dakota Agricultural Mediation Service
- North Dakota Milk Producers Association
- North Dakota rural electric cooperatives
- North Dakota telephone cooperatives
- North Dakota Soybean Council
- North Dakota State University
- North Dakota Value-added Agriculture Promotions Board
- Stockmen's Supply