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ROLL NUMBER

DESCRIPTION

2226

2007 SENATE FINANCE AND TAXATION

SB 2226

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2226**

Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: # 1523

Committee Clerk Signature

Sharon Jensen

Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2226.

Sen. Grindberg: prime sponsor of the bill appeared in support stating the intent of this bill is the reallocation or allocation of tax proceeds from beer, wine which traditionally is done through our general fund to allocate a portion of this to the Agricultural Product Utilizations Commission for the further research and advancement of the wine industry in the state. This is in no way to increase that tax that's presently being assessed. In my opinion the legislature has supported the wine industry and this is taking another step to advance the industry and what this bill does is helps provide more funding to advance that research so that the industry grows.

Sen. Cook: do you know of any other tax here that dedicates dollars for some sort of agricultural research?

Answer: not that I'm aware of.

Rep. Matt Klein: co-sponsor of the bill appeared in support stating today we have 4 or 5 wineries in ND producing quite a bit of wine producing a lot of revenue for our state. I am familiar with the winery out of Minot which has become a tremendous place to take people when

they come into town as a tourism type thing. I think this would fit in very well with the tourism industry in ND. I think we're talking about new industry and new ventures in this state.

Sen. O'Connell: co-sponsor of the bill appeared in support with written testimony. (See attached)

Rodney Hogan: Pres. Of the ND Grape Growers Assoc. appeared in support with written testimony and map and brochure. (See attached)

Sen. Urlacher: What's the average gallon of production?

Answer: we have 4700 vines that we know of, each vine should produce around a gallon of wine.

Sen. Urlacher: Are the fruit productions consistent from year to year?

Answer: it takes 3 years to get any grapes at all.

Sen. Cook: the United States Dept. of Agriculture or their Ag Research Division does a tremendous amount of research on many different commodities, do you know of any effort that's been done by Ag Research winery's anywhere?

Answer: University of MN has been doing research many years in the southern part. We need more research in the northern part. Other than that, none to my knowledge.

Greg Kreiger: NDGGA appeared in support and shared some of the challenges in growing grapes in ND such as types of grapes to grow in ND, if its hearty enough, weed control, how to trellis them, pruning them, pests to put up with, harvest, making wine, and wine tasting education. Opens up for potential jobs (seasonal) and potential business.

Sen. Tollefson: are most of these kinds of hobby vineyards?

Answer: several are affiliated with wineries, a lot of them are hobbies, its' definitely a growing industry.

Sen. Oehlke: question with packaging, why in a box vs. a bottle?

Answer: it's appearance mainly, sometimes taste, a box keeps air out and is lower priced.

Ken Grafton: Dean at the college of Agriculture Food Systems and Natural Resources at NDSU and also serve as the Director for the ND Agricultural Experiment Station appeared in support stating we believe this bill would provide significant amounts of funding for research and outreach programs and allow our scientists and extension personnel to enhance their efforts in great production in ND. This is very important for this particular portion of the industry as well as providing increases in tourism.

John Schneider: Executive Director of APUC and was asked to come talk about how we would handle it internally. APUC is a grant program within the Dept. of Commerce that administers 7 grants currently. We have a marketing utilization grant, prototypes development grant, farm diversification grant, applied research grant, technology grant, technical assistance grant and a nature based terrorism grant, all of which are under the administration of APUC. In concept we support SB 2226 and we can stand before you and say we can handle it administratively. The reason Sen. Grindberg wanted to put it with APUC is because some of the synergy's with the grape industry. APUC has been supporting the grape industry since 2003.

Harlene Hatterman-Valenti: I'm the high value crop specialist at NDSU and am in support of this bill and I see the desire that these growers have and some of the obstacles that they have encountered. Its really sad because I've tried to obtain funding to help research this to answer some of Greg's questions.

Pat Ward: ND Wholesale Liquor Association appeared in opposition with written testimony. (See attached) I'm not aware of any other directive in ND law that a particular state organization or association telling the State how to use its money and I thinks that's quite unusual that provision in the bill.

Nikki Weissman: ND Hospitality Assoc. appeared in opposition stating we don't feel that by taxing the wholesale industry is the right avenue to do that. If we could find some other avenue that would be favorable to us.

Closed the hearing.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2226**

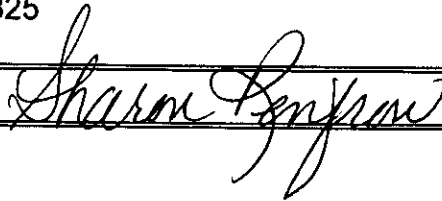
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 24, 2007

Recorder Job Number: # 1825

Committee Clerk Signature



Minutes:

Sen. Urlacher called the committee to order for further discussion on SB 2226.

Sen. Grindberg: appeared to offer amendments at the request of the vice-president of Agriculture at NDSU who asked to clarify if you choose to move this bill forward that the wording be tweaked and no confusion over ongoing debate over higher-ed equity and the experiment extension station being in the formula or not and so its intent if you choose to pass this bill would not be part of the formulas that the university system office uses for state funds in each university. That's basically what this amendment does.

Sen. Cook: made a Motion to Move the Amendment, seconded by Sen. Triplett.

Voice vote: 7-0-0, amendment carries

Sen. Triplett: made a Motion for DO NOT PASS as Amended, seconded by Sen. Cook.

Sen. Triplett: I have some people that had some concerns that once the funding is diverted to another area the state will come back in future years and want to raise the excise tax to replenish the confers and will raise prices to consumers because excise tax are to be passed on.

Sen. Urlacher: there's a need for some research, it is my hope that the university would recognize that importance to some degree.

Sen. Cook: I questioned to what degree USDA Agriculture Research services for growing of grapes. they have two research facilities that are doing research on it right now, one in WA and one in NY. I think if there is a need for research for more specific to North Dakota's climate, we have a research center in Mandan, ND that is a logical place and could do it and probably a better place. That's a place where they could add that to their mission and trying to get ARS to get them some funding and a much more logical place.

Roll call vote: 6-1-0 Sen. Cook will carry the bill.

FISCAL NOTE
 Requested by Legislative Council
 01/16/2007

Bill/Resolution No.: SB 2226

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$238,000)	\$238,000		
Expenditures						
Appropriations				\$238,000		

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2226 allocates 30% of the wholesale liquor tax on wine to the grape and wine program fund.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

SB 2226 is expected to reduce state general fund revenues by an estimated \$238,000 in the 2007-09 biennium. This revenue will be transferred to the grape and wine program fund.

Section 2 of the bill appropriates the revenue in the grape and wine program fund to the agricultural products utilization commission and sets forth an allocation schedule.

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.*

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, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/20/2007

JSB
1-24-07

PROPOSED AMENDMENTS TO SENATE BILL NO. 2226

Page 2, line 5, replace "university instruction" with "research activities"

Page 2, line 9, remove "educational"

Page 2, line 13, replace "Promote and support university and public instruction in" with "Provide research results and other outreach programs promoting"

Page 2, line 15, remove "education and"

Renumber accordingly

REPORT OF STANDING COMMITTEE

SB 2226: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO NOT PASS (6 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2226 was placed on the Sixth order on the calendar.

Page 2, line 5, replace "university instruction" with "research activities"

Page 2, line 9, remove "educational"

Page 2, line 13, replace "Promote and support university and public instruction in" with "Provide research results and other outreach programs promoting"

Page 2, line 15, remove "education and"

Renumber accordingly

2007 TESTIMONY

SB 2226

SB 2226

This bill allocates 30% of taxes from the sale of wine to the agricultural products utilization commission to provide funding for grape & wine research.

75% of the funds collected will provide research to study what grapes grow best in North Dakota's cold climates, to support the university instruction, and to provide research on other small fruits that may be useful for wine processing.

15% of the funds collected will be given to the North Dakota State University extension service to provide educational outreach, connect grape growers issues with university researcher and offer assistance in education. Promote instruction in viticulture and offer educational assistance and training in viticulture.

Finally 10% of the funds collected will be used for promoting and marketing North Dakota wineries, wine events, workshops and to encourage entrepreneurial programs.

North Dakota's Emerging Grape and Wine Industry 2007 Legislative Initiative

Innovative trends in production agriculture coupled with increasing consumer interest in locally grown products are propelling North Dakota's emerging grape and wine industry. Vineyards and domestic wineries hold great potential for economic development, especially their unique agritourism contributions. Likewise, profitable incentives associated with increased commercialization and tax revenues should stimulate North Dakota to seriously examine the development of a state-funded viticulture and wine program.

North Dakota Grape and Wine Industry Objectives

Primary:

1. *Select grape cultivars, particularly wine grapes, well suited to the climate of the state.*
Materials from private and public breeders will be evaluated at various research sites across the state. As vines mature, fruit will also be analyzed for winemaking quality by in-state winemakers. See Appendix A for an in-depth project description.
2. *Research crop management and cultural practices that will enhance northern vineyard productivity and address fruit quality issues.*
Investigating production methods such as vineyard establishment (i.e. utilizing grow tubes, establishing cover crops in aisles), vine training and trellis systems, and fruit cluster manipulation will aid grape growers in determining best management practices. Other projects, such as top-grafting choice cultivars onto hardy rootstocks, may demonstrate ways to foster grapevine winter survival.
3. *Educate producers and business owners on principles of viticulture and enology to ensure highest quality North Dakota grapes and value-added products.*
Field days and workshops organized at vineyard research sites will demonstrate basic crop management practices throughout the growing season and present research results. Workshop topics should include seasonal pruning, trellis construction, vineyard pest and disease management, fruit quality issues at harvest, and winery business planning. Conferences will help disseminate information while stimulating public interest and awareness of the state's viticulture and wine industry.

Secondary:

Implement an enology research project as a state resource for domestic wineries.
A critical part of the evaluation of grape cultivars will necessarily involve analysis for key wine components and determination of the optimum processing methods in winemaking. Organizing an accompanying enology research project will further aid the industry's expansion by demonstrating exceptional wines can be made from grapes grown in the state. It is anticipated this project will only happen several years—perhaps even 10—after the establishment and proven successes of the vineyard crop management research projects.

National and Regional Industry Information

A \$2.9 billion industry, grapes are the highest value fruit crop in the U.S. Grape wines are the most prized wines in any region, and processing the fruit for wine increases its value from three- to ten-fold. For the first time, California is home to fewer than half the wineries in the United States, according to a report released by the trade group WineAmerica. While the industry continues to grow rapidly there, California's rate of expansion is dwarfed by winery openings in upstart states like Pennsylvania, Michigan and Colorado.

Tourism associated with vineyards and wineries makes the industry a strong contributor to the agriculture economy of many areas. Economic data from area states show great profitability. In 2004, Colorado boasted 650 acres of grapes with an estimated total crop value of \$1.6 million; this state's value-added wine industry generated an additional \$11 million, created 70 jobs and contributed over \$400,000 in sales tax revenue. In Illinois, 33 wineries and 740 acres of grapes generated \$19.9 million in 2002 and created approximately 275 jobs for the state. Interestingly, for every research and promotion dollar spent by the state of Illinois, its grape and wine industry returns \$10.31 to the economy.

Grape and Wine Production in North Dakota

Grapes have been growing in North Dakota for thousands of years. Native Americans and early settlers picked grapes that grew wild along the rivers where they still can be found thriving today, despite the state's cold climate. In the 1800's Louis Suelter crossed a *V. riparia* with a Concord and developed a variety called Beta, which is hardy to -50°F. These grapes and others were brought to North Dakota by the settlers and planted in their backyards for table fruit and jelly. In the 1980's another hardy variety, Valiant, was developed by South Dakota State University, and both of these are still grown in the state. In the late 1990's a few growers started to experiment with some of the new varieties developed by Elmer Swenson and the University of Minnesota. Swenson, a private grape breeder, worked 60 years to develop many new cold climate varieties for table and wine production, and he is recognized worldwide for his contributions to viticulture. His research is one of the key reasons why the interest in grape growing is so great in North Dakota—several of his quality wine and table grapes appear viable for commercial production in the state's cold climate.

In 1998, Greg Krieger from Long Shadow Vineyard at Galesburg planted approximately 300 vines, and has since experimented with over 30 new varieties. His is the oldest commercial vineyard in the state. Jeff Peterson and Ken Eggleston began the state's first federally bonded winery—Pointe of View Winery—at Burlington in 2002. Their vineyard was started in 2000, and currently it includes over 600 vines and 20 new varieties. David Walker, owner of Northern Border Vineyard at Mohall has over 1200 vines planted at the most northern vineyard in the state. Rodney and Steve Hogen own Red Trail Vineyard at Buffalo and began by planting 120 grapes in 2003. Their vineyard expanded to 1000 vines by 2006, and they intend to add 1000 more in 2007. Other vineyards have sprung up in the last five years near communities across the state, including Wahpeton, Richardton, Rugby, and Lisbon.

Recognizing the need for scientifically-validated northern viticulture research, NDSU initiated a grape cultivar trial at the Horticulture Research Farm near Absaraka and the Williston Research and Extension Center in 2004. Sixteen selections were included to determine the suitability of various types of grapes—wine, juice, table, red, white, etc.—to the state's different environmental conditions. In 2006 this trial was replicated and planted at an additional NDSU site in Carrington to provide data from a central area of the state. Based on crop performance in the first three years of vineyard establishment and previous experimentation at other sites across the upper Midwest, it is anticipated some cultivars should be profitable for production in this region. Additional projects have been established at Absaraka to continue examining vineyard crop management practices, including trellis systems comparisons to determine their influence on fruit maturation and top-grafting onto hardy rootstock as a method of increasing winter survival.

In March 2006 over 75 people attended a day-long North Dakota Grape and Winery conference in Carrington. This was the third annual event. By the day's end, a new producer organization, the North Dakota Grape Growers' Association, was formed and began developing goals for networking, educating, researching, and publicizing efforts of the regional grape and wine industry. Now in the third month of its membership drive, the organization already has over 40 active members. Over 50 people attended the vineyard field days at both Absaraka and Williston Research Extension Center in the summer of 2006 with tours highlighting basic viticulture practices and winemaking principles. The participation at each of these educational programs attests to the mounting and sincere interest by North Dakota entrepreneurs who are seriously considering grape growing and winemaking as viable commercial operations.

Economic Development Interest

Like typical Americans, North Dakotans are consuming more wine and making more conscious choices regarding locally grown produce; these factors have spurred the development of six domestic wineries in the state since 2002. The North Dakota Grape Growers' Association currently has record of over 4700 planted vines—or 10 acres of production—in the state. This small acreage has the potential to annually produce 23,500 bottles of wine; at a retail cost of \$12.00 per bottle, this would contribute \$282,000 to North Dakota's economy. The development of more hardy wine grapes and the intense interest in new vineyards and winery businesses will provide ample fuel for this high-value production system across the state in the near future.

In addition to direct sales of wine, there are additional economic benefits. Economic development committees around the area have inquired with NDSU and growers about organizing grape- and wine-related programs and festivals. They understand that tourism associated with the industry is unparalleled by any agricultural crop or commodity—a 2005 poll of visitors to California showed wineries were second only to Disneyland in terms of destinations—and that such farm diversity affords additional income to small family farms and economic vibrancy to rural communities. A major Grape and Garlic Festival has been scheduled in Minot for September of 2007. Tasting garlic dishes,

wines, and other grape products will help promote these crops alongside informational industry booths and entertainment. The festival will be hosted by the Souris Valley Lions Club, participants from the local community and the NDSU Extension Service.

The Red Trail Vineyard at Buffalo hosted the first annual North Dakota Grape Harvest Festival in September 2006. This one day event included musical entertainment, food, craft vendors, wine tasting, hayrides and vineyard tours. The most exciting attraction was the GRAPE STOMP which involved 30 area participants competing for a \$200 grand prize. The event was attended by hundreds of people from the Midwest including Michigan, South Dakota, Montana, North Dakota and Minnesota. WDAY radio in Fargo did a live broadcast and the event was covered by the Associated Press; many papers across the state picked up the story. Already the plans for next year include two days of grape fun—Sunday will be a family day and kids will be included in the stomping activities for prizes.

Educator's Conference Held

Nebraska City, NE, was the recent location for an Educate the Educators conference covering technology transfer for the burgeoning Midwest grape industry. Attendance included 45 people from six states in the Midwest; North Dakota was represented by an NDSU Extension specialist, an NDSU researcher, and a vineyard owner. All states in attendance reported increasing growth in wineries and vineyards. Topics covered at the conference included history, botany, trellis construction, production management, irrigation, frost protection, fertilizers, and pests. The North Dakota delegation made a key contact with an attending Nebraska legislator and vineyard owner who is currently helping organize a national grape growers association. He will involve North Dakota in his work.

Appendix A:

Proposal for Development of a Wine Grape by and for North Dakota

Many people already engaged in North Dakota's wine industry have expressed the need for wine grapes specifically developed for this climate. Many grape cultivars do not grow well in North Dakota because they were developed in places with milder climates and include genetic material not quite up to the task of surviving the cold, dry and windy winter conditions of the state. The NDGGA proposes a grape development program that has a good chance of improving upon the best grape cultivars that are currently available to the state.

Existing grape breeding programs that could produce new material for North Dakota farmers include the University of Minnesota (public program), David Macgregor (private program in Minnesota), Tom Plocher (private program in Minnesota), and Mark Hart (private program in northern Wisconsin). Because of the way cold-hardy grapes are developed, the grape cultivars produced usually survive the best in commercial vineyards that are located in the same or milder climate as the original test site. For example, the Minnesota program is located just west of the Twin Cities. The cultivars released from the program appear best suited for the same latitude as or south of the Twin Cities. The recent boom in the Iowa winery business is largely due to this material from UMN. North Dakota suffers from the inability to gather cultivars developed from a climate colder than its growing conditions. If such a development program existed in the Canadian prairie, North Dakota would not worry about trying to create new varieties. However, there is not a Canadian program, and the state finds itself lacking from promising new wine grape prospects.

Recent events have given North Dakota a good chance to further the wine industry. In the early 1900s, the University of Minnesota had a grape development program. It was disbanded after a short while. Elmer Swenson from Osceola, Wisconsin took up the slack and made tremendous gains in methodology and results for cold-hardy grapes. Although Swenson was originally developing table grapes, his material started the Minnesota wine industry in the 1970s. Swenson also went to work as a groundskeeper/gardener in the plant section of the U of MN.

In 1975, Patrick Pierquet was a graduate student in the plant sciences division of the U of MN. He became friends with Swenson and they worked together on projects at Elmer's farm. Pierquet worked on apples, blueberries, strawberries, and raspberries. In his spare time and on weekends, he did some revolutionary work in collecting wild grape material from Minnesota and Manitoba. With this material and two acres of land for him to use at the university, Pierquet began developing wine grapes for Minnesota's climate. He continued to work at the University after he graduated until 1980. His work produced the red wine grape "Frontenac" that is now a mainstay in the Midwest for making wine. Pierquet moved on to other pursuits and then the U of MN's grape development program was "officially" reinstated in the 1980s due in part to funds secured by the Minnesota Grape Growers' Association. Swenson continued to work on grape development privately.

Elmer Swenson passed away during the winter of 2004-2005. Luckily Swenson taught several people his development methods including Mark Hart, Patrick Pierquet, and Tom Plocher—all are still active with grapes in Minnesota and Wisconsin. Pierquet has the advantage of both knowing Swenson's development techniques and having pioneered a better method for creating wine grapes for very cold areas. *Plant material selection assistance and advice have been generously offered by all three men for this project.* Because Swenson died in 2005, most of the precursor material that the NDGGA needs from his private program is still available and will be used in the project. However, the longer periods of time that elapse will result in fewer precursor plants to use and perhaps less support from these developers due to changes in their lives. This project is unique because the new plants for North Dakota will be obtained through efforts from the top private grape developers in the Midwest.

Outline of Development Program

Grapes are perennial plants and require several years of growth in order to select promising cultivars. Grapes are a high-value crop that must be protected every year from animal predation and extreme drought. Because of these realities, greater initial input of labor and materials are required for new cultivar development than are required for ubiquitous grain and corn test plots. With this in mind, here is a brief outline of the project:

1. Creation of new seeds through and under supervision of the established private developers.
2. Six NDSU research sites have offered assistance with the grape research projects. There are two in the Eastern part of the state, two in the Central and two in the West.
3. Planned assistance from the U of MN.

Maintaining the test sites as a normal vineyard—Starting in Year 4, fruit will begin to appear and be evaluated. All promising material will be distributed around North Dakota for multiple site testing. The off-site growers will give the fruit to the best NDGGA winemakers for uniform wine making and evaluation. The best cultivars will then be formally released to the public and named by the NDGGA. The horizon for public release should be about 10 years after the Year 2 initial seedling planting. Grape development is an extremely long process but needs to be started soon to secure the future of the North Dakota wine industry.

Established Grape Hybridizer Volunteers to Help With NDGGA Program (listed alphabetically)

Mark Hart: After starting with a science degree, Hart has gone on to privately learn from Swenson and experts from around the world. He has traveled as a U.S. grape representative to both China and Latvia. He now has the largest collection of grape material on one site that North Dakota needs to start its program. He has happily agreed

to start creating seeds for the NDGGA as soon as possible at his several thousand vine vineyard and development site on the south shore of Lake Superior in northern Wisconsin.

Patrick Pierquet: Mentioned above in the history section, Pierquet played a large role in restarting the U of MN grape development program. He created the successful red wine grape of the Midwest named "Frontenac" that was later released by the U of MN. His methods in the creation of that grape closely resemble the plans for establishment of the the North Dakota program. His advice and potential hands on help in creating the seeds for our climate will be invaluable.

Tom Plocher: Plocher studied grape breeding methods under Swenson. He took those methods further and has become a U.S. representative to the world for cold climate grapes. He has traveled multiple times to northern Europe and China. He has traveled multiple times to Northern Europe and China. He has become an accomplished winemaker and co-wrote the essential guide to cold climate grapes, *Northern Winework*. Plocher has released a grape named "Skandia" for short season wine growing in the Scandinavian countries. Recently he has been essential in helping NDSU establish its grape research. His knowledge of the hardy Swenson precursor material will be vital for the NDGGA program.

