

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1051

2001 HOUSE FINANCE AND TAXATION

HB 1051

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1051

House Finance and Taxation Committee

Conference Committee

Hearing Date January 17, 2001

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

Committee Clerk Signature

Jamie Stein

Minutes:

REP. AL CARLSON, CHAIRMAN, Opened the hearing.

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

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

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

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

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

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

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

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

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

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

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

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House Finance and Taxation Committee

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Stated their family has provided a service to ag producers throughout the Dakotas and a few other nearby states, and their mission is no different today. Any investment instrument which furthers agricultural production, is obviously good for Cloverdale Foods. Specifically, hog production in North Dakota, has been about as pathetic as you can imagine, and is not remotely close to the needs of a company our size. We are a very small company, although we have grown in the last five years from thirty million dollars in sales to just a shade under fifty two million dollars in sales. In less than six years, our goal is committed to seventy five million dollars in sales.

Currently, our production plant in Minot, ND, is vastly under under-utilized. Last year, with the Dakota Growers line, which is a hog coop, we are now down to sixteen producers in that cooperative. Last year, the commitment was to cure about one hundred thousand hogs through that coop into Cloverdale Foods in Minot, North Dakota, and we achieved forty thousand hogs. That is not where it needs to be. We now have out-of-state parties and out-of-country parties knocking on our door, looking for opportunities in infrastructure that guarantees hog supplies into Minot. Our Minot plant is capable of one hundred fifty, to one hundred sixty thousand hogs per year, running a single shift. We could pretty easily double shift that plant and operate six days a week and our plant could be much greater than it is. It is our family's mission on behalf of all of the shareholders which include two hundred and ninety employees in Mandan who own half of the company, are in support of the bill to enhance agriculture in North Dakota.

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

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

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

REP. CARLSON Are you processing Canadian hogs?

T. J. RUSSELL Yes we are.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LANCE GAEBE, DIRECTOR OF AGRICULTURAL PRODUCTS UTILIZATION

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

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

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

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

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

DENNIS HILL, NORTH DAKOTA ASSOCIATION OF RURAL ELECTRIC

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

STEVE EGELAND, ECONOMIC DEVELOPERS ASSN. OF NORTH DAKOTA,

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

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

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

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

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

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

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

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

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

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

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

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

be a problem, it certainly is if the business is a cooperative. This could be made a little more flexible. Perhaps the fund here could be used to acquire property to build facilities and those facilities could be leased to producers with an option to buy or something like that. The fund doesn't actually own the venture but owns the physical plant.

JOSEPH BECKER, STATE TAX DEPARTMENT, Appeared to answer questions.

REP. CARLSON The fiscal note said it was impossible to tell, but if you look at the example given to us on the tax credit which could be taken, it could appear if two or three projects were to begin, it could be a rather significant number, would it not?

JOSEPH BECKER I would have to consult further, it depends on an individual situation.

REP. CARLSON This issue could be rather large, and when it comes up with no recommendation or idea of a fiscal note, you wonder how long the tail would be on that if we go ahead and pass something like this.

JOSEPH BECKER Stated he would consult with someone on this.

REP. DROVDAL TO REPRESENTATIVE FROM THE BANK OF NORTH DAKOTA,

If we pass this bill out and present it as a tool as a value added or economic development tool, what is the salability of this?

ED SATHER, BANK OF NORTH DAKOTA, Answered as the bill is currently structured, it would be difficult to market these bonds without some form of credit enhancement. When you issue bonds, you can have fixed interest rate and amortized rates, you will need some cash flow coming in and the investors will look at the underlying structure in terms of what is the cash flow and the collateral and what type of securities, etc. There are other options in terms of providing

some enhancement, whether initial guarantees of government agencies or the federal agencies or partners. It would need some form of enhancement to market this.

REP. BRANDENBURG What can be done to enhance bonds, I have seen feed lots in Nebraska and Oklahoma, we need that economic development here too.

ED SATHER I think a form of what that enhancement is. Partnering with other employers, credit enhancement. I think it needs to be structured, that as an investment, that there is no obligation of the state, there is no obligation of the Bank of North Dakota for repayment, that I have a certainty that I will get my cash flow. Whatever can be done to enhance that, will help the bond issue.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-5-01, Tape #2, Side A, Meter 3290

REP. BRANDENBURG Stated he was going to visit with some people regarding this bill and asked that it be held for another day before action is taken.

COMMITTEE ACTION 2-06-01, TAPE #2, SIDE A, METER #2588

REP. BRANDENBURG Stated the problem with the bill is if someone invested his money in this, there was no guarantee they would get their money back.

Committee members discussed flaws with the bill.

REP. BRANDENBURG Made a motion for a **DO NOT PASS**

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

11 yes 3 No 1 Absent

REP. RENNER Was given the floor assignment.

COMMITTEE ACTION 2-13-01, TAPE #1, SIDE A, METER #3845

The bill was brought back to committee for amendments to the bill.

REP. BRANDENBURG presented amendments which remove the tax credits.

After considerable discussion, committee members felt they had more questions to ask before they acted on the bill. The bill will be acted on later in the day.

COMMITTEE ACTION LATER IN THE DAY, TAPE #1, SIDE B, METER #2400

JOHN CRABTREE, COMMISSION IN THE FUTURE OF AGRICULTURE, Appeared

before the committee to answer their questions. He felt this is a nice incentive for tax credits.

He explained the amendments which were presented to the committee earlier.

REP. LLOYD Asked what we have that is comparable to this bill right now.

JOHN CRABTREE, He stated nothing, this is fairly unique.

RICHARD SCHLOSSER, NORTH DAKOTA FARMERS UNION Also appeared before the committee to answer questions and stated he had worked with Mr. Crabtree regarding this bill in the future of agriculture.

REP. LLOYD Made a motion to reconsider the action by which the bill was passed out of committee on February 6, 2001.

REP. BRANDENBURG Second the motion. **Motion carried.**

REP. WINRICH Made a motion to adopt the tax credit amendments #2 and #3

REP. KROEBER Second the motion. **MOTION CARRIED BY VOICE VOTE.**

REP. CLARK Made a motion to adopt amendment #1, which took out the investment tax credit.

REP. DROVDAL Second the motion. **MOTION FAILED.**

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REP. WINRICH Made a motion for a DO PASS AS AMENDED.

REP. SCHMIDT Second the motion. MOTION CARRIED.

8 YES 6 NO 1 ABSENT

REP. BRANDENBURG Was given the floor assignment.

FISCAL NOTE
 Requested by Legislative Council
 12/14/2000

Bill/Resolution No.: HB 1051

Amendment to:

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.*

| | 1999-2001 Biennium | | 2001-2003 Biennium | | 2003-2005 Biennium | |
|----------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | | | | |
| Expenditures | | | | | | |
| Appropriations | | | | | | |

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

| 1999-2001 Biennium | | | 2001-2003 Biennium | | | 2003-2005 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.*

Sections 3 through 7 of HB 1051 provide income tax credits for investments in bonds and tax deductions for interest on bonds in support of the farmers equity trust fund. There is no information available to use in the computation of the potential fiscal impact of these tax provisions.

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, 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: | Tax Department |
| Phone Number: | 328-3402 | Date Prepared: | 01/15/2001 |

Date: 2-6-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1051

House FINANCE & TAXATION Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Brandenburg Seconded By Rep. Clark

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-------------------|-----|----|
| CARLSON, AL, CHAIRMAN | ✓ | | NICHOLAS, EUGENE | ✓ | |
| DROVDAL, DAVID, V-CHAIR | ✓ | | RENNER, DENNIS | ✓ | |
| BRANDENBURG, MICHAEL | ✓ | | RENNERFELDT, EARL | ✓ | |
| CLARK, BYRON | ✓ | | SCHMIDT, ARLO | | ✓ |
| GROSZ, MICHAEL | ✓ | | WIKENHEISER, RAY | ✓ | |
| HERBEL, GIL | ✓ | | WINRICH, LONNY | | ✓ |
| KELSH, SCOT | ✓ | | | | |
| KROEBER, JOE | | ✓ | | | |
| LLOYD, EDWARD | ✓ | | | | |
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Total (Yes) 11 No 3

Absent 1

Floor Assignment Rep. Renner

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

Date: 2-13-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House FINANCE & TAXATION Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number depend on H1

Action Taken _____

Motion Made By Clark Seconded By Rowland

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-------------------|-----|----|
| CARLSON, AL, CHAIRMAN | ✓ | | NICHOLAS, EUGENE | A | |
| DROVDAL, DAVID, V-CHAIR | ✓ | | RENNER, DENNIS | | ✓ |
| BRANDENBURG, MICHAEL | | ✓ | RENNERFELDT, EARL | | ✓ |
| CLARK, BYRON | ✓ | | SCHMIDT, ARLO | | ✓ |
| GROSZ, MICHAEL | ✓ | | WIKENHEISER, RAY | | ✓ |
| HERBEL, GIL | | ✓ | WINRICH, LONNY | | ✓ |
| KELSH, SCOT | ✓ | | | | |
| KROEBER, JOE | | ✓ | | | |
| LLOYD, EDWARD | ✓ | | | | |
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Total (Yes) 6 No 3

Absent _____

Floor Assignment _____

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

Reconsidered

Date: 2-13-01
Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1051

House FINANCE & TAXATION Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass as amended

Motion Made By Rep. Winrich Seconded By Rep. Schmidt

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-------------------|-----|----|
| CARLSON, AL, CHAIRMAN | | ✓ | NICHOLAS, EUGENE | ✓ | |
| DROVDAL, DAVID, V-CHAIR | | ✓ | RENNER, DENNIS | ✓ | |
| BRANDENBURG, MICHAEL | ✓ | | RENNERFELDT, EARL | | ✓ |
| CLARK, BYRON | | ✓ | SCHMIDT, ARLO | ✓ | |
| GROSZ, MICHAEL | | ✓ | WIKENHEISER, RAY | ✓ | |
| HERBEL, GIL | | ✓ | WINRICH, LONNY | ✓ | |
| KELSH, SCOT | ✓ | | | | |
| KROEBER, JOE | ✓ | | | | |
| LLOYD, EDWARD | ✓ | | | | |
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Total (Yes) 8 No 6

Absent 1

Floor Assignment Rep. Brandenburg

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

REPORT OF STANDING COMMITTEE

HB 1051: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (8 YEAS, 6 NAYS, 1 ABSENT AND NOT VOTING). HB 1051 was placed on the Sixth order on the calendar.

Page 2, line 27, after the period insert "Preference must be given to projects that demonstrate the ability to secure insurance, guarantees, or letters of credit for repayment of investments or loans made under this chapter."

Page 3, after line 4, insert:

- "5. Establish standards for evaluation of a project's ability to secure insurance, guarantees, or letters from any public or private entity for repayment of investments or loans made under this chapter."

Renumber accordingly

2001 TESTIMONY

HB 1051

Submitted
by Dwight Erickson
Washington

Report for committee of Finance & Taxation on HB1051

By Daryl Dukart pork producer and chairman of Cloverdale Growers Alliance.

Reyne my spouse and my self farm near Dunn Center. We operate on 1680 acres, which consist of an 80-sow farrow to finish, 140 beef cows and 500 acres of crops. We were unable to attend this hearing because of other engagements but I would like to share with you some of our thoughts on this bill.

I feel it is very important for this committee to pass this bill in committee for we as North Dakotan's want to be the trusted providers of high Quality foods. We continue to see our small communities fade away and this bill would help slow down this process. By helping place equity into livestock that are able to enhance the value of the forages and grains we produce through out our state. By place livestock enterprises into our state we will add employment opportunities, sales of many products and financial strength back into our small communities.

I have to share with you a little information on North Dakotas hog production. Did you know that roughly 530,000 piglets are born in N.D. in 2000? Only 185,000 of these pigs are finished with in the state. The balance of which is about 325,000 pigs are ship out of our state and finished using our neighboring state grain supplies. If we finished these hogs with in our state they would consume roughly 3.25 million bushels of corn or 3.9 million bushels of barley. I will not get into the soybeans and premixes for I believe you get my picture. However did you ever think of the dollars we are allowing to be traded outside our state by not finishing these hogs? These 325,000 hogs would consume just over twelve million dollars in just feed and premixes. I have not included any vet cost, buildings, labor, utilities, transportation and what ever else it takes to get them to the processor.

We have seen and heard of hundreds if not thousands of feasibility studies that tell us North Dakota has a vast amount of feed grains,

which should be put to use in livestock feeding operation. Many of us also know the large amount of monies that have been spent on these studies. Many of the studies are completed and it time we move forward and make things happen.

As we enter the new millennium under the administration of President Bush let us prepare our selves for the future by adding value to North Dakotas livestock, grains and forages.

Thank you, Daryl Dukart

SUPPORT FOR HOUSE BILL 1051

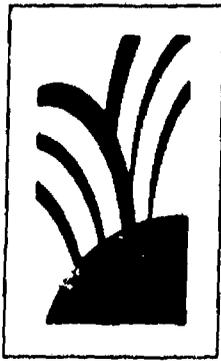
BRUCE R. CARLSON, VERENDRYE ELECTRIC COOPERATIVE MANAGER

Mr. Committee Chairman and members of the Committee, my name is Bruce Carlson and I am here representing Verendrye Electric Cooperative and our 10,000 customers in the 6 county area around Minot, North Dakota. I am here testifying in support of HB 1051 as we desperately try to jump-start rural economic development efforts in our service area.

I also am vice president of the "Magic Fund" which stands for the "Minot Area Growth by Investment and Cooperation" Fund. This is the state's most successful regional job creation effort using sales tax revenue that I am aware of. I do want to stress "regional" since I am the rural representative on the board of directors. Last year we funded over \$1,6 million in rural projects. Since it's inception, I'm proud to report that 24% of the Magic Fund disbursements have been to projects in the greater Minot trade area consisting of an approximate 100-mile radius around town. The point I'd like to make here today is that we would like to do more with our special emphasis on ag processing projects. The problem is that all rural projects must begin with grower or producer equity as a prerequisite to Magic Fund use along with nearly all other financial offerings. We all know how tough the rural economy is and I'm sorry to report that there just isn't any extra cash laying around in farmers and ranchers pockets to invest as equity in any new venture. As a result, our agricultural economy continues in a downward cycle with no hope of diversifying or capturing the benefits of value added processing. I believe a State of North Dakota bonding program that would allow for grower equity investments would be a very wise and greatly needed improvement.

Mr. Chairman and committee members, I am asking for a "do pass" recommendation on HB 1051. Are there any questions?

Thank you!



GROWING

North Dakota

Agricultural Products Utilization Commission
Adding Value to North Dakota Agriculture

Testimony of Lance Gaebe, director of the Agricultural Products Utilization Commission

Member of the Finance and Taxation committee:

Thank you for the opportunity to comment on **HB 1051**, which would create a farmers equity trust fund. Since the Agricultural Products Utilization Commission is a prominent part of the bill, with additional responsibilities, we are keenly interested in the concept.

The members of the APUC reviewed the bill. The commission is in support of the concept and the proposal to create a mechanism to finance the equity and debt needs of the value added agriculture projects. The lack of investment capital has limited the ability of many viable concepts to materialize. It is the opinion of the commission that the need exists to create this fund to help projects become capitalized and to source money outside of production agriculture to help accomplish that.

The commission does have concerns over its responsibilities in reference to the investment decision as outlined in the draft bill. APUC currently makes granting decisions for five types of projects, as mandated by Century Code: basic and applied research; marketing utilization; farm diversification; cooperative marketing and agriculture prototype. APUC typically assists projects early in their organizational process. Grants are often used for feasibility, market assessment, test runs, and business planning. It is understood that the money granted is 'at risk', and there is not an expectation of success or payback of the dollars. The grant money is used to see if potential exists or to give project start-up help.

This bill calls for the APUC to make investment and loan decisions to value-added ventures and to prescribe procedures for the process. Because of the expectation for return on investment, these functions are more complex than the present responsibilities of the commission, and would not be possible with our present single FTE.

The concept mirrors to some degree the purposes and activities of the Development Fund and the Rural Revolving Loan Fund already administered by the Economic and Finance Agency, of which APUC is division as well. The staff that manage those funds perform extensive credit evaluation, cash flow analysis, evaluate market projections and perform overall due diligence of businesses before an equity investment or a loan is offered.

These same functions should be an integral part of any responsibilities given to APUC to manage the fund developed in this bill.

As part of the proposed department of commerce, APUC may be able to utilize ED&F resources, including the development fund/rural fund staff, to perform the necessary business analysis to assist the commission to make better decisions. Or alternatively, the development fund board could be the entity that makes investment decision for the farmer's equity trust fund.

While the APU Commission appreciates the confidence in its abilities to make sound investment decision, it feels that it could not do an adequate job without additional professional staff to perform comprehensive "due diligence" on potential projects. We simply want this committee to be aware of the additional technical research and evaluation that will be necessary for sound investment decisions.

Details aside, the fund is a good and necessary idea, which could help many projects overcome a final hurdle in reaching their capitalization goals. The Department of Economic Development and Finance and the members of the Agricultural Products Utilization Commission support the concept and pledge to work with this committee to work on the "how to do it" part.

I would be happy to try to respond to your questions.

Dennis Hill
Executive Vice President
North Dakota Association of Rural Electric Cooperatives
Testimony on HB 1051, Farmers Equity Trust Fund

Mr. Chairman, my name is Dennis Hill and I am the Executive Vice President of the North Dakota Association of Rural Electric Cooperatives. On behalf of NDAREC I am testifying in support of HB 1051. The creation of a Farmers Equity Trust Fund is a crucial step in creating a better future for North Dakota's farms, ranches and rural communities.

Rural Electric Cooperatives have been at the forefront of cooperative and rural development in North Dakota. We intend to do everything we can to continue that effort. However, developing new, farmer-owned, value-added enterprises poses considerable challenges.

The single factor that most often brings about the failure of new value-added cooperative ventures is inadequate capital formation. In simpler terms, many farmers and ranchers have lost equity in their operations in recent years and therefore lack the ability to invest enough equity in new cooperative ventures to assure success.

The purpose of the Farmers Equity Trust Fund is to strike at the heart of that problem. To create a mechanism for private, non-farm investment in agriculture and value-added processing that so many have identified as important to the improvement of our rural economy. This legislation utilizes established institutions, namely the Industrial Commission, Bank of North Dakota and the Ag Products Utilization Commission to creatively address a fundamental challenge to cooperative and rural development and provides incentives to foster investment by North Dakotans in the future of North Dakota's farms, ranches and rural communities.

On behalf of North Dakota's Rural Electric Cooperatives I encourage you to support the passage of HB 1051 and the creation of the Farmers Equity Trust Fund.

Thank you.

COMMISSIONER OF AGRICULTURE
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**Testimony of Roger Johnson
Agriculture Commissioner
House Bill 1051
House Finance and Tax Committee
January 17, 2001**

Chairman Carlson and members of the Finance and Tax Committee, I am Jeff Weispfenning, representing Agriculture Commissioner Roger Johnson. I am here today in support of HB1051, which will establish an equity fund for investments in value-added agriculture projects.

This bill would provide a mechanism to help start more value-added agriculture projects in North Dakota. Low prices, diseases and bad weather have combined to drive optimism out of rural areas of our state. Accumulating equity for value-added projects has become much more difficult during recent years than during the early 1990's. Value-added projects in this state often don't get out of the starting blocks because they are unable to attract the equity necessary to demonstrate cash flow to lenders. This bill offers an additional method and incentives to build such equity.

This bill would reduce equity barriers to new projects and should result in the start up of more successful agricultural processing projects in our state. Therefore, we urge you to give HB1051 a "do pass" recommendation. Thank you—are there any questions?