

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1291

2001 HOUSE FINANCE AND TAXATION

HB 1291

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1291

House Finance and Taxation Committee

Conference Committee

Hearing Date January 23, 2001

Tape Number	Side A	Side B	Meter #
1		X	5,900
2	X		0
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

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

**REP. RICK BERG, DIST. 45, FARGO**, Introduced the bill. Related to another bill heard earlier which ties into this bill. He submitted a handout to the committee relating to an initial start-up project. See attached copy.

The bill before you relates to value added ag. Explained the examples on the handout.

**REP. LLOYD** Asked if this would cover cooperatives.

**REP. BERG** Yes, although it is not spelled out in here. That is another issue, if you have a private sector owning the facility, they are paying taxes on that, so we would be collecting some revenue on that investment.

**REP. CARLSON** Stated we have had funding bills for establishing a fund, a pool of money, for cooperatives to get started, as we dug into the bill, we found out there weren't any enhancements for security, so nobody would buy the bonds, the same would apply here, would it not. We are

Page 2

House Finance and Taxation Committee

Bill/Resolution Number HB 1291

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allowing the private sector to come in to build a facility, he would consider it a high risk facility in most cases you gave us, in reality, will this be used?

**REP. BERG** No one gets anything, and the state is not at risk, until dollars go into the deal.

Related back to the handout, stating it will take a group of local people to come up with the bucks. If they don't come up with the bucks, no one will build a facility for them. In this section of the code, I believe the director of ED & F, will have a list of businesses that have qualified under this. I can see a group of investors may look to E D & F and ask for businesses, which will qualify for the tax credit.

**REP. LLOYD** It is my understanding, from being in business, a combination of two or three investors, will put money up to build a facility, then you could have other people become part of the management in operating this facility. Then you have to look at the reward side of that, if I am an investor, I want to make at least twenty to twenty five percent on that investment. You won't make that much money, if you let these fifteen people have an option to buy it, because they won't want to pay that kind of money for the operation. Most operations of this magnitude, in dollar value, won't succeed, unless the three people who put up the facility, are directly involved in the operation. That is commitment, that is how this concept has to work. I don't think this works as well on paper, as we would like, unless you have commitment of the investors of the facility.

**REP. BERG** I think if they are on the hook for another million dollars in debt, despite what they put in, they will be committed to see that facility work. Every deal will be different.

Page 3

House Finance and Taxation Committee

Bill/Resolution Number HB 1291

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There are two keys, in my mind, to make it work. These operators are not loaded up with debt and the thing will either make money or not. If it makes money, they will have the option to buy it back and take it over, after several years of profit. What better environment could you have.

**REP. SCHMIDT** This building doesn't have to be built by these investors, they could take over one that is existing?

**REP. BERG** I would see that as an option.

**SEN. TERRY WANZEK, DIST. 29** Testified in support of the bill. Stated he has always wanted to find a way to get venture capital into agriculture. There is a tremendous potential out there that hasn't been tapped. The biggest hurdle to overcome this financing of funding is ideas. I am somewhat defensive of protecting family farmers. I think this idea could work. He stated that personally, he entered into a project with his brother, with a cleaning mill, a gravity table, etc., to process their own beans. In the last two years, they have gotten four employees who are working for them. I think this bill has some merit.

**REP. TOM BRUSEGAARD, DIST. 19,** Testified in support of the bill. He stated he has always been interested in value added ag production. He does like this concept. It is easier to attract investors who are interested in specific projects, rather than investing in a "pig in a poke". When this vehicle is utilized by investors, you would want approval by the E D & F, would be credible. Outside investors are a lot more objective about projects, when you run the numbers by them.

**WADE MOSER, STOCKMEN'S ASSOCIATION OF NORTH DAKOTA,** Testified in support of the bill. Maybe the people on main street will be interested in some kind of value added facility which will keep business in their community. It certainly will help our industry.

Page 4  
House Finance and Taxation Committee  
Bill/Resolution Number HB 1291  
Hearing Date January 23, 2001

**REP. CARLSON TO JOSEPH BECKER** Asked Mr. Becker if this was capped at \$50,000 per individual in HB 1041.

**JOSEPH BECKER TAX DEPARTMENT** Stated that he wasn't sure.

**REP. BERG** Answered, stating HB 1041 would cap the tax credit at \$250,000 per project, and the investor would be capped at \$50,000. He would receive a benefit of thirty percent or \$15,000 which can be taken over two years.

With no further testimony, the hearing was closed.

**COMMITTEE ACTION 2-7-01, Tape #2, Side A, Meter # 0**

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

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

15 YES    0 NO    0 ABSENT

**REP. SCHMIDT** Was given the floor assignment.

**FISCAL NOTE**  
 Requested by Legislative Council  
 01/17/2001

Bill/Resolution No.: HB 1291

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.*

HB 1291 changes the definition of "qualified business" for purposes of the seed capital investment tax credit. The possible fiscal impact of the change is unknown. (There were no seed capital tax credits claimed on 1999 returns.)

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:	01/22/2001

Date: 2-7-01  
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1291

House FINANCE & TAXATION Committee

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

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Not Pass

Motion Made By Rep. Schmidt Seconded By Rep. Winrich

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	✓				

Total (Yes) 15 No 0

Absent 0

Floor Assignment Rep Schmidt

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



**REPORT OF STANDING COMMITTEE (410)**  
February 8, 2001 8:51 a.m.

Module No: HR-23-2675  
Carrier: Schmidt  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

HB 1291: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **DO NOT PASS** (15 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1291 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

HB 1291

**Current Value Added Start Ups**

Facility Cost	\$1,500,000
Operations	<u>750,000</u>
Project Cost	\$2,250,000
Equity Needed	\$1,125,000
Producers Needed (\$25,000/Investor)	45

**House Bill 1291 - Seed Capital**

Facility Cost	-0-
Operatons	<u>\$750,000</u>
Project Cost	\$750,000
Equity Needed	\$375,000
Producers Needed (\$25,000/Investor)	15