

2017 SENATE FINANCE AND TAXATION

SB 2044

2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

SB 2044
1/10/2017
Job #: 26708

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 54-35-26 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of economic development tax incentives reviewed by a legislative management interim committee; to provide an appropriation; and to provide an expiration date.

Minutes:

Attachment 1-2

Chairman Cook: All Senators present. Opened the hearing on SB 2044.

Emily Thompson, Legislative Counsel: Presented the bill, handed out a supplement to the bill, labeled as testimony #1. Correspondence John Bennett from Regional Economic Models Inc. (**REMI**); a software vendor that provided demonstration and various price quotes pertaining to this bill. This bill deals with the provision of dynamic fiscal impact for a certain study. Interim study by Political Subdivision Taxation Committee. Page 3 lists all of the different tax credits and exemptions that interim studies are tasked with review under statute. They have to be reviewed once every 6-year cycle, Political Subdivision Taxation Committee choose 14 for review, committee struggled with determining the value of the credits. Seeing if getting return for offering the tax credits. Committee was collecting data to analyze, had difficulties determining the rate of return. No software to work with. Topic came up if the state should acquire model software, to put in tax rates for example machinery or equipment for a factory, what kind of rate is that going to bring back to the economy. Not just saving on the machinery, but new employees moving to the state, paying income and sales taxes. Dynamic modeling software handles information like that.

Bottom of page 1 of the bill, additional sentence starting on line 21 and ending on line 24. The appropriation for acquiring the software, should the Director of Legislative Management deem the next interim committee should acquire it, is up to \$165,000. The price quote handed out from REMI. The main quote to purchase is \$164,000 for the interim. Quotes provided for rental on a short term basis. 12-month rental: \$68,000. 6-month rental: \$56,500. Bill states software would be housed with Legislative Council. Summarizes the bill. Happy to take any questions.

Chairman Cook: Regarding the cost, do you remember the numbers from the interim what the printed costs were and what they were lowered to after the meeting with them.

Emily Thompson: I think somewhere around \$19,000. Mostly because our interim committee had prepared the background memos as part of a consulting package. Consultants would normally prepare background memos of their own on each incentive and run the data through the REMI software and push out the final report. Knocked a chunk of the price as background memos were provided.

Chairman Cook: How many here were on the interim committee? 4 of us. Do you remember the bill number of the bill we had last session that created the interim committee?

Emily Thompson: I don't recall the bill that created the statute. The legislative management does choose an interim committee every time. Political Subdivision Tax had is this interim, next interim it could go to Economic Impact Committee.

Chairman Cook: In the bill, a listing of eight questions that we are challenged with. Do you have those 8 questions?

Emily Thompson: Yes, they are on page 2 in the bill a through h.

Chairman Cook: Thank you. Any other questions? Another bill that is seen just about every session dealing with sales tax on nonprofits and political subdivisions on their gravel. Senator Laffen gets real close to that. Claims the fiscal note is always far off. Political subs are paying sales tax to the state and it should be adjusted for that. Can't get the fiscal mil changed and Myles made it clear the fiscal note is a static fiscal note. Senator Laffen argues with that number, but we can't change it. Would a dynamic fiscal note be different than a static fiscal note. The dynamic fiscal note would probably show the number that Senator Laffen thinks it is. Is that correct?

Emily Thompson: That is correct.

Chairman Cook: We'd never be able to use a dynamic fiscal note for passing a balanced budget, we've always used a static fiscal note.

Emily Thompson: Correct, states have found difficulty trying to use dynamic fiscal notes for budgeting purposes.

Chairman Cook: How many states are starting to use dynamic financial fiscal notes? Twenty some?

Emily Thompson: Sounds right, not all states use it across the board, some such as Texas, committee looked at Texas, if the bill had projected impact on revenues over certain thresholds, then the requirement that dynamic revenue fiscal note would be prepared. Anniversary look back after 5 years to see how close the revenue was to the projection. Utah

uses it. REMI specifically does dynamic fiscal notes at the request of the legislators. Not for every bill, just when requested.

Chairman Cook: Biggest purpose, firstly to get down the road to using it, but another decision with this bill or next session. Where do we house this software, Commerce, Legislative Council, Tax Department, OMB, or Bank of North Dakota. Those are the only 5, Representative Dockter and I met with all 5, all interest, none lobbied so far. Legislative Council for two years to gain experience and knowledge, and then make the decision as to the permanent house.

Further testimony and support of SB 2044.

Keith Lund, Economic Development Association of North Dakota (EDND): presented testimony #2 in support.

Chairman Cook: Questions? Further testimony and support SB 2044? Opposed to SB 2044? Neutral testimony on SB 2044?

Closed the hearing on SB 2044.

2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

Senate Bill 2044
1/10/2017
Job #: 26711

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 54-35-26 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of economic development tax incentives reviewed by a legislative management interim committee; to provide an appropriation; and to provide an expiration date.

Minutes:

No Attachments

Committee Discussion on SB 2044. All Senators present.

Chairman Cook: Ready to send it there.

Senator Unruh: We spent a lot of time on this in the interim, and I was a very big proponent at the beginning of the interim. I place value in economic analysis. I think this could be used for good, but also to be used for evil, if implemented. Gone back and forth whether or not to support it in its full form. To utilize during the Legislative session, would be value in trying out during the Interim to see results. Results only as good as what's put into it. That's where my concern lies. Numbers come from Commerce Department and they utilize the software, that I don't think are accurate. Some concerns, but worth taking a look at. Feel very strongly that this belongs with Legislative Council and not any other agency that will have different motives than providing unbiased information needed. Testing in Legislative Council is the best way to go and it should stay there when full utilized. Ready to pass the bill out.

Chairman Cook: I agree, definitely there is a 2 year learning period to go through.

Senator Laffen: Do we have people in Legislative Counsel that can run this, know how, will run, or is it going to sit there and we just ask for information and they'll not know how to run it.

Chairman Cook: Discussion that needs to be had in appropriations, could be attached to the Legislative Council budget, questions if needed an economist up there. Question made us look at Commerce is they already use REMI products, have some training. REMI would train an individual in council. Data in effects data out, REMI is only one that puts data into the system. Legislative Council wouldn't be able to put data into the system.

Senator Unruh: What's taken into consideration for that analyst is something that is subjective when looking at a particular item.

Chairman Cook: That's the learning curve we go through. Senator Unruh, ready to make a motion.

Senator Unruh: Looks like Senator Laffen has a question.

Senator Laffen: As many bills and considerations we have with all these tax breaks we have, the state should have an expert economist to help us. What's the closest we have to that right now? Department of Commerce

Chairman Cook: Maybe the Department of Commerce, maybe at the Bank of North Dakota might have economist.

Senator Unruh: I don't think the Bank of North Dakota has an economist, but Department of Commerce has over 80 employees

Senator Laffen: You would think that they'd be our legislator's economist, at the Department of Commerce.

Senator Unruh: I agree, they know about a lot about the different businesses that are looking to develop in our state, and their motive is to make sure their programs work. This goes back to where placing the software. Value to having economist on staff solely for Legislative Council, not other data coming in also.

Senator Laffen: What's the role of the Department of Commerce?

Chairman Cook: Growth in the state. Diversify the economy. We have a lot of people in this state that get up every morning and their role is to create economic development.

Senator Laffen: Does it work?

Chairman Cook: Legitimate question that we need to find that out. How much money does the State of North Dakota spend on people on the economic development field? What did Keith say, EDND, 80 some? That's a lot of people.

Senator Unruh: The North Dakota Department of Commerce works to improve the quality of life for North Dakota citizens by leading efforts to attract, retain and expand wealth. Commerce serves businesses and communities statewide through committed people and partners who offer valuable programs and dynamic services. Four divisions: Tourism, Economic Development, Workforce Development and Community Services

Chairman Cook: There you go.

Senator Unruh: I would like to see us add an FTE to do this in Leg Council. But I don't think that's appropriate at this time, so I would move a do pass on the bill as is.

Chairman Cook: Why isn't that appropriate?

Senator Unruh: I guess I don't know why it's not appropriate based on the look on your face.

Chairman Cook: If you want the discussion to happen, it should happen in Appropriations and the way you can assure that discussion happens is to amend the bill so that it does include an economist and ultimately it will be their discussion to agree or remove it.

Senator Unruh: How does the committee feel about that?

Senator Laffen: I don't think the software is going to do us any good unless we have an economist that goes along with it. It really helps us dig into it.

Chairman Cook: I think the software will do us good either way. Someone is going to know how to run it. Jim Smith has had regular conversations with Mr. Bennett from REMI. Every time Mr. Bennett comes to town he meets with me, and he's met with Jim Smith also. I'm sure Council is committed to making this thing work. An economist is just going to be a great tool for us also.

Senator Unruh: I think it's the difference between Emily sleeping or not sleeping, quite honestly.

Chairman Cook: We'll hold the bill here and maybe Senator you'll want to have a conversation with Mr. Smith and Senator Holmberg on how to move forward with an amendment you might put on here.

Senator Unruh: Will do, thank you Mr. Chairman.

Senator Dotzenrod: Along with the discussion on this bill, if the assembly where to ask, what's the difference between a static fiscal note and a dynamic fiscal note. I think I could put together some words to convey what it is. I'm not sure if I actually can say with certainty what the exact difference is?

Chairman Cook: Example is, sales tax exemptions on nonprofits, on gravel for Political Subdivisions. Income tax looks at the amount of income taxed the previous year and what the rate difference would cost you, and that's a static fiscal note. A dynamic fiscal note might consider that a lower income tax is going to generate more growth, leaving more money for people to spend, will take into those considerations, and will know what the laffer curve is. Economist all agree that there is a curve, but economists will never agree where the point is. Dynamic fiscal note would come up with a different number.

Senator Dotzenrod: Difficult to analyze forecast. If only one thing gets changed, makes it difficult to review because other factors could change it. A number of states are putting an economist on their Legislative Councils. During a meeting spoke with someone from Indiana. An example was W-2 revenue was inaccurately inputted, and once it was separated, made more sense. Easier to stand behind the forecasts. Are new techniques in revenue forecasting, making forecasting better. One small part of it.

Chairman Cook: I always consider Indiana, one of the better run states in the nation. Good friend of mine, Senator Luke Kenley, his fingers are over Indiana tax policy and Senate policy. You bring up a good point, and that's what we started last biennium, but studying economic development incentives to see which one's work and which ones don't. Also heard and said all over the country, we compete with other states. Other states use dynamic fiscal notes as a tool to make wise decisions. We certainly don't want to sit in this competitive world and not have all the same tools our neighbors have. In the business world, referred to as leaving money on the table, in the economic development world, don't want to give away a lot of tax dollars that didn't need to be given away to gain the jobs. We do that, just don't know where we're doing it.

We'll hold this bill and come back to it next week.

Close discussion on SB 2044.


2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

Senate Bill 2044
1/18/2017
Job #: 27085

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 57-60-14 of the North Dakota Century Code, relating to the allocation of coal conversion tax revenue collections; and to provide an effective date.

Minutes:

Attachment #1

Chairman Cook: SB 2044, Senator Unruh you've got amendments?

Senator Unruh: (Handed out attachment #1, proposed amendments): We talked about having a possible staffer to be utilized the REMI software for dynamic fiscal notes. That is what this amendment does. I have not tried to engross it yet. Spoke with Legislative Council and they did suggest another full time employee to implement the legislation. I also spoke with Senator Holmberg and he said that we can certainly have that discussion.

Chairman Cook: He said we can have the discussion, but he didn't say we could have the FTE.

Senator Unruh: He would not guarantee me an FTE, but it sounded like he'd consider it.

Chairman Cook: The amendment is all in the appropriations section, so you going to move the amendment?

Senator Unruh: Move amendment 17.0299.02001 to Senate Bill 2044.

Vice Chairman Bekkedahl: Seconded.

Chairman Cook: Committee discussion?

Senator Laffen: The home of REMI in the original bill is already in Legislative Council? This is just adding an FTE for them. I was thinking it was placed somewhere else.

Chairman Cook: The bill puts it into the Legislative Management. Any questions?

Senator Dotzenrod: The dollar amounts we're adding, that's two years' worth of employment providing 24 months consistent with what's on page 4 lines 21 and 22. That's what we're covering with this money?

Chairman Cook: I believe so. Senator Unruh?

Senator Unruh: Yes, this covers the two-year period during the biennium. We didn't specify that the position would be an economist in the legislation. Legislative Council suggested it would be better for them to be able to possibly move things around within the department. I didn't want to tie their hands even though they know we are looking for an economist with this.

Chairman Cook: Any other questions? I don't believe the state has an economist in any one of our state agencies.

Senator Unruh: I'm unsure of the answer to that.

Chairman Cook: I think we heard that in the interim. We have a motion on the table to amend Senate Bill 2044 to add an economist to it. Let's give it a try.

Voice Vote was taken: Passed.

Senator Unruh: Move a do pass on SB 2044, as amended, with a re-referral to Appropriations.

Vice Chairman Bekkedahl: Seconded

Roll Call Vote was taken: 6 yeas, 0 nays, 0 absent.

Senator Unruh will carry the bill.

January 18, 2017

ET
1-18-17
p 1 of 1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2044

Page 4, line 19, replace "\$165,000" with "\$358,841"

Page 4, line 21, after "project" insert "and for salaries and operating expenses for a professional services position"

Page 4, line 22, after the period insert "The legislative council is authorized one full-time equivalent position."

Renumber accordingly

STATEMENT PURPOSE OF AMENDMENT:

This amendment provides \$193,841 from the general fund to the Legislative Council for expenses related to the addition of 1 FTE professional services position as follows:

Salaries and wages \$188,841

Operating expenses 5,000

Total general fund \$193,841

Date: 1-10
Roll Call Vote #:

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2040

Senate	Finance and Taxation	Committee
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☐ Subcommittee

Amendment LC# or Description: 17.0299.02001

Recommendation: ☒ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐

Motion Made By Unruh Seconded By Berkedahl

[illegible]

Total (Yes) 1 No 1

Absent 18/5/20

Floor Assignment

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

Date: 1-18-17
Roll Call Vote 2

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2044

Senate Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: 17.0299.02001

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☒ As Amended ☒ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ 1

Title: 03000

Motion Made By Unruh Seconded By Bekkedahl

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	<input checked="" type="checkbox"/>		Senator Jim Dotzenrod	<input checked="" type="checkbox"/>	
Vice Chair Brad Bekkedahl	<input checked="" type="checkbox"/>				
Senator Lonnie J. Laffen	<input checked="" type="checkbox"/>				
Senator Scott Meyer	<input checked="" type="checkbox"/>				
Senator Jessica Unruh	<input checked="" type="checkbox"/>				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Senator Unruh

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

REPORT OF STANDING COMMITTEE

SB 2044: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2044 was placed on the Sixth order on the calendar.

Page 4, line 19, replace "\$165,000" with "\$358,841"

Page 4, line 21, after "project" insert "and for salaries and operating expenses for a professional services position"

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Operating expenses	<u>5,000</u>
Total general fund	\$193,841

2017 SENATE APPROPRIATIONS

SB 2044

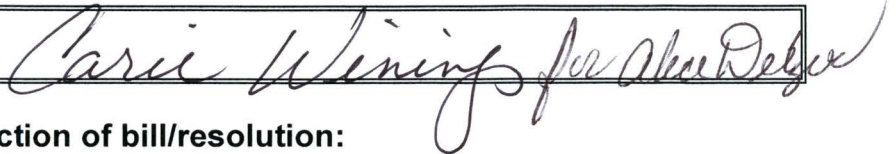
2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2044
1/31/2017
Job # 27628

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 54-35-26 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of economic development tax incentive reviewed by a legislative management interim committee; to provide an appropriation; and to provide an expiration date.

Minutes:

- | |
|---------------------------------|
| 1. Products PI+ |
| 2. Testimony of Jennifer Greuel |

Chairman Holmberg: Called the Committee to order on SB 2044 at 9:30 am in the Harvest Room. Roll call was taken. All committee members were present. Becky Deichert, OMB and Levi Kinnischtzke, Legislative Council were also present. (Some comments were made concerning some other bills before the introduction to the bill.)

(6:05) Chairman Holmberg: Opened the hearing on SB 2044.

Senator Jessica Unruh, District 33: Testified in favor of SB 2044. Last session the legislature passed a requirement for a legislative interim committee to review economic development tax incentives every six years. So, every six years each incentive on the books is reviewed by the committee to make sure it is still being utilized and being utilized appropriately. We had our first one this past interim and it was a very successful interim meeting. As we were going through the process we realized we needed a little more help trying to analyze whether or not these incentives were working or not. What you have before you is a pilot program to utilize some software called REMI software. You put in numbers and it spits out numbers and the numbers it spits out tells you how valuable an incentive has been or could be given particular circumstances. The committee had a lot of discussion as to whether or not we have the resources within legislative council to fully utilize and run the software. After having some conversations with legislative council we decided to add in an FTE to run the software that would be some type of an economist position. We do not currently have an economist on staff in legislative council or elsewhere for the legislature to use when analyzing different parts of the budget and the different impacts of different incentives. That total appropriation that I am bringing today is \$358,841. A lot of other states utilize software like this to include dynamic on fiscal notes on bills that would have a large impact to our state's economy and we think it could be a very valuable tool and investment for the state to make going forward.

(9.18) Chairman Holmberg: Did you investigate other products?

Senator Unruh: I don't think so.

Chairman Holmberg: If we had the program, would we have applications beyond just the economic development tools that are used.

Senator Unruh: I think it could. We had a lot of discussion on that during the interim. I think we could use it for a lot of our fiscal notes. We could take a broader look for the economy.

Chairman Holmberg: There is a state agency that utilizes something like this but it does not have the capabilities of the program you are talking about. Is that correct?

Senator Unruh: The Commerce Department does utilize some of REMI software.

Senator Sorvaag: Is the licensing for the software for a period of time? Would we need to upgrade it?

Senator Unruh: There is initial cost for the purchase of the software and then there are ongoing costs but they are much less than the costs you have in front of you. These costs include all of their help for the upcoming biennium.

Chairman Holmberg: There was a lot of conversation on the interim on this. There was discussion as to whether we should use the emergency commission and purchase this, but because it was a long range study of the tax incentive we needed the whole legislature weigh in rather than the emergency commission. So it needed to be brought before the whole legislation.

(13:28) Senator Dwight Cook, District 34, Mandan: Testified in favor of SB 2044 and provided Testimony attached # 1 Products PI+ which is the next generation of Policy Insight, a software product. REMI stands for Regional Economic Models Incorporated. Some REMI products are used today by commerce. They do not use this one because it is the new program. I believe there are 12 states using it right now. During the interim committee we receive notices of states that are moving toward dynamic fiscal notes. I think they were all using REMI except one. I believe history has proven this REMI to be very accurate as far as its economic predicting of dynamic fiscal notes. (Gave an example of how the program could be used.) Nationwide, times have changed, ever since the 90's we have passed so many economic development incentives and we put them on the books and left them alone. Some of them worked, and some did not. We do not know which. Now we are trying to get smarter and we are not alone. So are all the other states. We need the tools to do the best job we can. The days of just handing things out and leaving a lot of tax money on the table when you don't have to, to get something are over. Mr. Bennet, the rep for REMI will be in Bismarck next week. He would be available early in the morning or afternoon. I can get him here to get your questions answered.

Chairman Holmberg: We will turn it over the Department of Commerce subcommittee and then we will make sure he can meet with the subcommittee next week. Should it be in the legislative council or should it be in commerce or somewhere else.

Senator Cook: We had many possible locations.

Chairman Holmberg: Who stepped up and said they really wanted it?

Senator Cook: The former Governor thought it should be in OMB. I think the Bank of North Dakota would like it. I think the Department of Commerce would like it. The tax department would be an interesting location. This is the major decision by the interim committee to bring it forward to the legislature. As far as this bill is concerned, it is the software first.

(18:30) Chairman Holmberg: What the duty of this committee would be just to pass, is it a good idea that we should invest money; whether it is the \$165,000 or the \$358,000. Then if we decide that it should go forward, it will go back to finance and tax to determine where it should be housed.

V. Chairman Bowman: Did they study that ongoing cost as to how long the technology is good for and how fast it will be replaced. We've seen this department balloon over the past few years and it is all good, but is it good so much better than what we can afford?

Senator Cook: The upfront cost will be the largest cost we have. There is going to be a maintenance fee that is much smaller than this. As far as the technology changing, I think as we move forward we will always be faced with spending more money to get more information that is better or should we continue to use what we have.

Chairman Holmberg: Would this help the finance and tax folks answer the question if we are giving out incentives to folks that would do it anyway. We get that in the higher ed budget with open source material. There is money in the budget to entice campuses to do it.

Senator Cook: Another question, that it will help in is, if we pass this incentive, would it create any negative consequences on the business sector.

Senator Mathern: I was able to serve on that committee with you in the interim, and one of things that I thought was most promising was flushing out the unintended consequences of tax policy so we would know in advance what some of the consequences are versus waiting down the road.

Senator Cook: I certainly did see that as a benefit. I should add that committee included tax people and human service people at the same table.

Chairman Holmberg: But not unhealthy. We had the same with the higher ed committee.

Senator Wanzek: If you had REMI, might that change your mind?

Senator Cook: I probably would have come to my conclusion, and I don't know what it would be.

(23:18 – 25:28) Jennifer Greuel, Director of Economic Development Association of North Dakota (EDND): Testified in favor of SB 2044 and provided written testimony # 2.

Chairman Holmberg: Do you have any ownership as to where this should be cited?

Jennifer Greuel: We do not. Where ever the committee decides.

Chairman Holmberg: We have had incentives and programs that have had spectacular failures, is this a tool that might help understand the longer term ramifications of going down a path?

Jennifer Greuel: I believe so.

Chairman Holmberg: No further testimony was present. Closed the hearing SB **2204**. **(Assigned the subcommittee: Chairman Holmberg, Senator Robinson and Senator Oehlke).** We will look at this and try to coordinate this when the gentleman from REMI is here.

(27:54-32:31) The committee discussed other bills that were coming to the committee. Senator Hogue asked about SB 2044 and what staff members would be responsible for fiscal notes. Senator Holmberg went through how fiscal notes work and some examples of the problems there are with them.

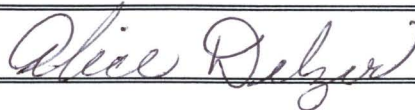
2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2044
2/17/2017
JOB # 28507

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL relating to dynamic fiscal impact analysis of economic development tax incentives

Minutes:

1. 17.0299.03001 amendment.
2. First Engrossment Bill 2044 (Christmas tree edition)

Chairman Holmberg: called the Committee to order on SB 2044. All committee members were present. Sheila M. Sandness, Legislative Council and Allen H. Knudson, Legislative Council and Lori Laschkewitsch, OMB were also present.

Senator Dwight Cook, District 34, Mandan: You have the amendments, Attachment # 1. The bill was introduced to have a two-year trial period for this REMI software hosted in Legislative Council. The amendments before you move it from council to the BND. There was a presentation from John Bennet about REMI and it was attended by a lot of regional economic developmental folks and also 4 individuals from the BND. They were very enthused about this and maybe we could put that software in the bank because we could really use that software for some major analysis that we like to do. The chairman has been talking to me about a desire maybe lower the legislative council budget so I wrote up these amendments. I had my first conversation with Mr. Hardmeyer about these amendments and I would like you to talk to him before you pass these amendments. All they do is put this software in the bank, They would have to pay for it out of their budget and they would probably want some money for that approval. It would require that the BND would do a fiscal analysis for the bills that are being studied by the interim committee next year, the next interim that study the economic development incentives and also certain bills that may need a dynamic fiscal analysis that are introduced in the 2017 session and it creates a review committee made up of leadership from the Senate and the House and the two tax committee chairmen that would have to review any request a legislator might have for a fiscal dynamic analysis and approve them. We can't have a situation where every legislator on their own would go over the bank and demand a dynamic fiscal analysis. We have to have some way of prioritizing which ones we really would want one on. I would please ask that you have a conversation with Mr. Hardmeyer before you pass these amendments.

Chairman Holmberg: handed out Testimony attached # 2 – First Engrossment Bill 2044 (Christmas tree edition) for the committee's review. We will take up this bill on Monday, February 20th at 2:00 before the full committee. The hearing was closed on SB 2044.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

SB 2044
2/20/2017
Job # 28522

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Rose Loring

Explanation or reason for introduction of bill/resolution:

Relating to dynamic fiscal impact analysis of economic development tax incentives reviewed by a legislative management interim committee.

Minutes:

Testimony Attached # 1.

Legislative Council: Allen Knudson
OMB: Becky Keller

Chairman Holmberg called the committee to order on SB 2044. Roll call was taken.

Amendment 17.0299.03001 was handed out to the committee –Testimony Attached # 1.

Eric Hardmeyer, President, Bank of North Dakota, North Dakota State Industrial Commission

Having worked with Senator Cook on this bill, SB 2044 would conduct or ask the Bank of North Dakota to purchase the REMI software to conduct dynamic revenue analysis for a price tag of about \$165,000. For us, the Bank of North Dakota would find other uses related to this software as well as what is being asked to do to review economic development tax incentives. We would use it to assist with our own regression modelling on revenues that come into the Bank of North Dakota to help us understand our deposit base. It's meaningful to us. We've looked at a demo a couple weeks ago by REMI. It has a feature Commerce is using that we could use as well, and that is to look at economic development projects. The BND would be willing to step in and purchase this, house it, run it for the projects you have identified as well as things we'd use it for.

The cost of this would be absorbed through our contingency line item which I understand SB 2014 was passed so I think there is sufficient funding within our contingency line item to absorb this. We have the staff to leverage to help you with this as well. That's my contribution to this discussion today.

Senator Bowman: What is going to be the long term cost to keep up with technology? Will this have to be updated every three years?

Eric Hardmeyer: We pursued this with the owners of the software and the initial outlay is \$165,000. After the first two years, there is a \$28,000 fee that is paid annually for the updates

which is typical in the software business. After the first two-year period, there will be a \$28,000 annual maintenance fee which would get you all the updates of all the new data that's out there.

Senator Mathern: Wouldn't you need an FTE authorization?

Eric Hardmeyer: Our conversations with the software provider and with Senator Cook, was to determine how much FTE would this require? As we understand it, it would be 8-9 projects per year. We didn't find that we needed a full time FTE to do that. We have expertise that we have developed at the bank that would be willing to take this on.

Senator Oehlke: I had a chance to visit with Senator Cook and Mr. Bennett (REMI representative). He admitted that if you don't put accurate information in, you aren't going to get accurate information out. My example was – what if you put in the wrong population base of the community you're concerned with? He said garbage in, garbage out. The other question I asked is what does this compare us to? The answer was that it compares it nationally and internationally. Not regionally or state to state, so tell me how that helps ND when we're looking at legislative things. It may be different from your broader economic world and banking industry, but if we're looking at a bill affecting milk producing operations in Valley City or Jamestown, how is that going to relate to a national or international basis and give us information we want.

Eric Hardmeyer: I don't know if I could answer that question. I know that the piece Commerce is using, they've been using for a decade. Justin Dever might be able to explain that piece a little bit better. I was unaware that it doesn't compare nationally or regionally. We looked at a demonstration and what they showed us was a decision by the State of Indiana to keep the carrier of heating & air company that was thinking of moving to Mexico. We saw the modelling and input on that and saw that it would have an analysis on what it would require from the state in terms of resources and what you could reasonably project in terms of tax increases, FTE counts, employment. We saw all that built into that model and how it would impact the state.

Senator Dwight Cook, State Senator, District 34, Mandan, ND

I know the conversation that Senator Oehlke is referring to, but just want to remind you that REMI stands for Regional Economic Models Incorporated. There will be regional modelling done. Some of the data in there is national, but the actual model is regional modelling.

Senator Hogue: When the bill first came to us, it had an amendment that provided for an FTE in Legislative Council. Have you given up on that or what is your current thinking?

Senator Cook: Yes. That's a good question and the discussion that has to happen in this room at a future session when we are in a better position. We need an economic model – an economic person working in the state government somewhere.

Senator Grabinger: Are we talking about the amendment that was handed out? (answer – yes). Then who is going to chair this Fiscal Impact Analysis committee? No one is slated to be the chair and it looks like an even number of people. Who would chair it?

Senator Cook: That's a good point. I obviously over looked designating a chairman.

Senator Mathern: Maybe it should be the President of the Bank.

Senator Cook: My recommendation would be the chairman of legislative management. It may involve another person or maybe someone that's already on the committee.

Chairman Holmberg: The purpose of the committee is to review the legislature's use.

Senator Cook: During the session, any bills that get introduced where there is a desire to have a dynamic fiscal analysis done to it, that an individual legislator would not be able to demand such a service from the Bank of North Dakota. It would only be allowed to be ok'd through that review committee. We do need a chairman of the committee though. You could designate one of the six that are on there.

Chairman Holmberg: Could the six select their chairman?

Senator Krebsbach: Being it's being housed in the Bank of North Dakota, perhaps the president of the state bank or his designee could do so.

Senator Cook: I think it should be a legislator. I would prefer the legislative management.

Chairman Holmberg: I don't care, but someone should have the gavel.

Senator Grabinger: I would think the chairman of legislative management would be the proper person to do that because you're already in the position of being chosen by both sides or both groups.

Vote 1 -

Senator Grabinger: Moved to amend amendment 17.0299.03001 and adding that the chairman of Legislative Management would also chair the dynamic fiscal impact bill selection committee.

Senator Wanzek: Seconded the motion.

Allen Knudson we should get amendment updated tonight yet.

Senator Dever: What happens if the chairman of legislative management is one of the majority leaders?

Chairman Holmberg: Then he or she is the chairman. Would this amendment be prepared so it can be signed and the bill could be on the floor by Wednesday?

Allen Knudson: We should be able to get this amendment updated tonight yet.

A Roll Call Vote was taken: 14 yeas, 0 nays, 0 absent.

Vote 2 –

Senator Bowman: Moved to adopt the amended amendment 17.0299.03001.
Senator Wanzek: Seconded the motion.

A Roll Call Vote was taken: 14 yeas, 0 nays, 0 absent.

Vote 3 –

Senator Krebsbach: Moved Do Pass as Amended on SB 2044.
Senator Mathern: Seconded the motion.

A Roll Call Vote was taken: 14 yeas, 0 nays, 0 absent.

Chairman Holmberg: Closed the hearing on SB 2044.

February 17, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2044

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 6-09 and a new section to chapter 54-03 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of select economic development incentives and bills introduced by the legislative assembly and the creation of a dynamic fiscal impact bill selection committee; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact analysis.

The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54-35-36 and bills selected by the dynamic fiscal impact bill selection committee under section 2 of this Act.

SECTION 2. A new section to chapter 54-03 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact bill selection committee.

1. During the 2019 legislative session, a dynamic fiscal impact bill selection committee must be formed consisting of the following members:
 - a. The majority leader and minority leader of the house of representatives;
 - b. The majority leader and minority leader of the senate;
 - c. The chairman of the house finance and taxation committee; and
 - d. The chairman of the senate finance and taxation committee.
2. The committee shall review bills introduced by the sixty-sixth legislative assembly which have a fiscal impact and forward bills selected for dynamic fiscal impact analysis to the Bank of North Dakota for review pursuant to section 1 of this Act.

SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective."

Renumber accordingly

Ch
2/21/17
1 of 2

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2044

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 6-09 and a new section to chapter 54-03 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of select economic development incentives and bills introduced by the legislative assembly and the creation of a dynamic fiscal impact bill selection committee; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact analysis.

The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54-35-26 and bills selected by the dynamic fiscal impact bill selection committee under section 2 of this Act.

SECTION 2. A new section to chapter 54-03 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact bill selection committee.

1. During the 2019 legislative session, a dynamic fiscal impact bill selection committee must be formed consisting of the following members:
 - a. The majority leader and minority leader of the house of representatives;
 - b. The majority leader and minority leader of the senate;
 - c. The chairman of the legislative management, who shall serve as chairman of the committee;
 - d. The chairman of the house finance and taxation committee; and
 - e. The chairman of the senate finance and taxation committee.
2. The committee shall review bills introduced by the sixty-sixth legislative assembly which have a fiscal impact and forward bills selected for dynamic fiscal impact analysis to the Bank of North Dakota for review pursuant to section 1 of this Act.

SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective."

Renumber accordingly

CH
2/21/17
2 of 2

Date: 2/20/2017

Roll Call Vote #: 1

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2044**

Senate Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: to amend 17.0299.03001

Recommendation: ☐ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☒ to amend the amendment

Motion Made By Senator Grabinger Seconded By Senator Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	Y		Senator Mathern	Y	
Vice Chair Krebsbach	Y		Senator Grabinger	Y	
Vice Chair Bowman	Y		Senator Robinson	Y	
Senator Erbele	Y				
Senator Wanzek	Y				
Senator Kilzer	Y				
Senator Lee	Y				
Senator Dever	Y				
Senator Sorvaag	Y				
Senator Oehlke	Y				
Senator Hogue	Y				

Total (Yes) 14 No 0

Absent 0

Floor Assignment _____

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

The amendment was amended requesting that the chairman of legislative management would also chair the dynamic fiscal impact bill selection committee.

Date: 2-20-2017Roll Call Vote #: 2

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2044

Senate Appropriations Committee☐ SubcommitteeAmendment LC# or Description: 17.0299.03002

Recommendation: ☒ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Senator Bowman Seconded By Senator Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	X		Senator Mathern	X	
Vice Chair Krebsbach	X		Senator Grabinger	X	
Vice Chair Bowman	X		Senator Robinson	X	
Senator Erbele	X				
Senator Wanzek	X				
Senator Kilzer	X				
Senator Lee	X				
Senator Dever	X				
Senator Sorvaag	X				
Senator Oehlke	X				
Senator Hogue	X				

Total (Yes) 14 No 0Absent 0

Floor Assignment _____

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

Date: 2/20/2017

Roll Call Vote #: 3

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2044**

Senate Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☒ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ _____

Motion Made By Senator Krebsbach Seconded By Senator Mathern

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	Y		Senator Mathern	Y	
Vice Chair Krebsbach	Y		Senator Grabinger	Y	
Vice Chair Bowman	Y		Senator Robinson	Y	
Senator Erbele	Y				
Senator Wanzek	Y				
Senator Kilzer	Y				
Senator Lee	Y				
Senator Dever	Y				
Senator Sorvaag	Y				
Senator Oehlke	Y				
Senator Hogue	Y				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Finance & Tax (Senator Unruh)

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

REPORT OF STANDING COMMITTEE

SB 2044, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2044 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 6-09 and a new section to chapter 54-03 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of select economic development incentives and bills introduced by the legislative assembly and the creation of a dynamic fiscal impact bill selection committee; and to provide an expiration date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact analysis.

The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54-35-26 and bills selected by the dynamic fiscal impact bill selection committee under section 2 of this Act.

SECTION 2. A new section to chapter 54-03 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact bill selection committee.

1. During the 2019 legislative session, a dynamic fiscal impact bill selection committee must be formed consisting of the following members:
 - a. The majority leader and minority leader of the house of representatives;
 - b. The majority leader and minority leader of the senate;
 - c. The chairman of the legislative management, who shall serve as chairman of the committee;
 - d. The chairman of the house finance and taxation committee; and
 - e. The chairman of the senate finance and taxation committee.
2. The committee shall review bills introduced by the sixty-sixth legislative assembly which have a fiscal impact and forward bills selected for dynamic fiscal impact analysis to the Bank of North Dakota for review pursuant to section 1 of this Act.

SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective."

Renumber accordingly

2017 HOUSE FINANCE AND TAXATION

SB 2044

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

SB 2044
3/13/2017
29072

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A bill relating to dynamic fiscal impact analysis of select economic development incentives and bills introduced by the legislative assembly and the creation of a dynamic fiscal impact bill selection committee.

Minutes:

Attachment #1

Chairman Headland: Opened hearing on SB 2044.

Vice Chairman Dockter: Introduced bill. During the interim in Political Sub Tax, we studied how we can evaluate fiscal notes and could we do a better job when looking at these economic incentives. REMI software entails putting information into the software and figure out if these incentives are working. We really don't have an economic tool and I believe we're the only one without a state economist so we're looking at ways to study incentives. REMI is the software we would like to use as a tool to do the analysis. We still have two more interims to study all the tax incentives for the state. Once we get going it will be an ongoing tool to help us determine if we're getting any benefit from giving these tax incentives.

Representative Steiner: Who will evaluate the software data?

Vice Chairman Dockter: The Bank of North Dakota, Department of Commerce, and Senator Cook put an amendment on and it looks like the Bank of North Dakota has an economic development division and that is the change being proposed in this bill.

Senator Cook: Dynamic fiscal analysis is a new trend. As states started looking at evaluating economic development incentives they realized the answers to some of the questions were not there. This software would give us a lot of the data we need to do the evaluation. I think there are somewhere between 12-15 states that are using dynamic fiscal analysis as a tool to evaluate certain tax incentives. You don't use a dynamic fiscal analysis for a balanced budget; we would continue to use the static fiscal analysis that we do now. The dynamic fiscal analysis would be a great tool to evaluate whether an incentive is working or not. Our biggest challenge when we had this in the interim committee was where we put it. We thought of five different places where this could possibly fit in; Commerce Department, Bank of North Dakota, Legislative Council, Tax Department, and Commerce. We chose to put it in

Legislative Council for two years for a trial so we could learn more about the dynamic fiscal analysis and how we would use it. It came with a fiscal note of \$165,000 and that is for the software itself. The interim committee discussed an economist and the Senate Finance and Tax committee also put it in the bill so that raised the fiscal note to about \$300,000. An economist is something I would hope the state of North Dakota would employ at some time in the future. As this bill got down to Appropriations prior to their hearing there was a presentation put on at a hotel in Bismarck by REMI for economic development folks. The people from the Bank of North Dakota were there and they want it. The fiscal note is zero because they are buying the software out of their ongoing revenues because they have a need to use this software for the bank business. We added language in the bill to make sure the bank makes available to the legislature this software for the interim committee and during the 2019 session there is a committee put together to evaluate requests that legislators might have for a dynamic fiscal analysis. I would ask that you give this a favorable vote.

Chairman Headland: During the interim REMI offered us a package at a reduced rate, is that still in play?

Senator Cook: That is still in play. After the bill is passed and signed by the governor I would hope we will negotiate what the price is but the bank will have that responsibility before we buy it.

Representative Hogan: Are there other companies besides REMI doing this? Have we looked at all the options?

Senator Cook: I believe when we looked back at all the dynamic fiscal analysis being used by other states, they were all REMI except one.

Representative Hogan: Would we need to go through some kind of bid process or is it assumed we would go with REMI?

Senator Cook: I would assume we would have to go through a bid process.

Chairman Headland: Is there testimony in support of SB 2044?

Jennifer Greuel, Executive Director of Economic Development Association of North Dakota: Distributed written testimony in support. See attachment #1. Ended testimony at 9:33.

Chairman Headland: Is there further testimony in support? Is there any opposition? Are there any questions for bank executives?

Representative Olson: Does this software allow us to plug in different variables that would exist in surrounding states or even all states regarding the various inputs, costs, and incentives? What I wanted as a member of this committee when looking at an incentive is an ability to see how competitive we are compared to a competitor state. I'm hoping this software would give us a dashboard that would compare us to other states. Is that part of the package?

Eric Hardmeyer, President of the Bank of North Dakota: I sat in on the presentation a couple weeks ago and I had believed it had other state variables in it and I think that is important to us as well as the committee members.

Representative Steiner: Where in the budget is this ongoing?

Eric Hardmeyer: This would be purchased through our operations in the Bank of North Dakota and it would come out of our contingency funding of which we have about \$2.5 million available as is proposed today in our budget. There will be a comparison to see what is going on around the country and the different types of software. This is probably the best for forecasting and modeling software that is available. It will simply be a line in our contingency funding and we don't anticipate a problem with that.

Representative Hogan: Do you have an economist on staff? What do you think about the state needing an economist?

Eric Hardmeyer: We do not have an economist on staff. I think it's largely a decision left up to you. Other states and other banks have economists. It wouldn't be unusual to see that and it wouldn't be unusual to see that person housed at the Bank of North Dakota. There are a lot of reasons we would have interest in it. I would say there is probably an overall need for that.

Chairman Headland: Does this particular software have value to the bank outside of what the legislature is looking at for analysis of economic incentives?

Eric Hardmeyer: There are other reasons for us to purchase the software. It keeps track of the revenue coming into the state. It helps model our deposits because that forms the basis of our deposits of the state revenues. It helps with our own forecasting and modeling of looking at all the revenues coming in to the state to help us forecast what our needs are going to be and what the shortfalls are going to be then how to plug those gaps. It also helps us to do economic development analysis and look at specific projects to see the overall benefit to the state, what kind of tax revenue it generates, and to determine if this is a positive step for the state and the bank to get involved in aside from just a return on its investment.

Chairman Headland: It would have the capability of you making the decision whether you believe that maybe a new area of lending for drain tile or something.

Eric Hardmeyer: Absolutely. That is exactly what it could be used for, these one off type things. We could use it with decision making.

Chairman Headland: Can the other government agencies make requests of analysis through the bank as well or is it just under the purview of the legislature and the bank for now?

Eric Hardmeyer: Commerce has a piece of this. They don't have the more robust software that is out there. I think there is an opportunity for us to get a sub license off of that. For other users it's \$2,000 per user after the initial number of licenses. I think there is the ability to leverage and I think as legislators and employees we would be looking for that.

Representative Olson: It sounds like it would take an economist or equivalent to run this software or interpret the results. Do you have any thoughts as to the complexity of it, who would be using it, and do you need to get an economist to get the most bang for your buck out of this because it sounds pretty powerful?

Eric Hardmeyer: I don't know that we would need an economist. There are some individuals at the bank who could use this in terms of modeling and analysis. With the additions and the ability to leverage that software, I think it's an add on to our existing staff so it wouldn't be requesting a FTE at this point but we'll see how much utilization it takes then maybe two years from now we'll come back.

Chairman Headland: I'm assuming there would be a fair amount of training associated with the purchase of this software.

Representative Schobinger: Will this software be able to score something before it's passed or is it simply a tool to take a look at what the effects are of certain incentives? If so, do you see any bill introduced that cut or increase taxes where an individual legislator wouldn't want to see the dynamic score?

Eric Hardmeyer: I think that's exactly the purpose of this software; to look at the dynamic fiscal impact to the state with projects or tax incentives.

Representative Ertelt: In the other states this software is being utilized, how long has it been used and what has been the result of analyzing similar incentives to what we offer in our state?

Eric Hardmeyer: I don't know that I could answer that. There are 10-15 other states using this. We saw an example of a decision that was made by Indiana to keep carrier and provide incentives. It was a hot button issue in January with the Trump administration to keep the jobs here, we saw how that was done to which dynamic fiscal analysis and all of the outcomes that were generated. At the end of the day they decided it was a good decision. That is one of the things this would be used for is to make those decisions.

Chairman Headland: Any other questions?

Pete Hanebutt, North Dakota Farm Bureau: I have a colleague in Indiana and they had said it was helpful to them in a lot of ways and it was very useful.

Chairman Headland: I think the bank has the ability to purchase the software whether we want to authorize it or not. The bill sets up a committee that allows us to utilize it and I think that's a good thing. Is there anything else? If not, we'll close the hearing.

Representative Hogan: MADE A DO PASS MOTION

Representative Hatlestad: SECONDED

Chairman Headland: Is there any discussion?

House Finance and Taxation Committee

SB 2044

March 13, 2017

Page 5

ROLL CALL VOTE: 13 YES 0 NO 1 ABSENT

MOTION CARRIED

Vice Chairman Dockter will carry this bill.

Date: 3-13-17
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2044

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Rep. Hogan Seconded By Rep. Hatlestad

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Hogan	✓	
Vice Chairman Dockter	✓		Representative Mitskog	A	
Representative Ertelt	✓				
Representative Grueneich	✓				
Representative Hatlestad	✓				
Representative Howe	✓				
Representative Koppelman	✓				
Representative Olson	✓				
Representative Schobinger	✓				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Dockter

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

REPORT OF STANDING COMMITTEE

SB 2044, as reengrossed: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Reengrossed SB 2044 was placed on the Fourteenth order on the calendar.

2017 TESTIMONY

SB 2044

1/10/2017

SB 2044

#1

pg 1

Thompson, Emily L.

From: John Bennett <John.Bennett@remi.com>
Sent: Wednesday, January 4, 2017 9:38 AM
To: Thompson, Emily L.
Subject: Updated Pricing

CAUTION: This email originated from an outside source. Do not click links or open attachments unless you know they are safe.

Hi Emily,

Just wanted to follow up with you from our last conversation and send along an up-to-date Tax-PI price quote, as discussed.

You'll notice that the Tax-PI pricing has not actually changed – we did change pricing for some of our other products this year, but luckily the quote you have from before is still current:

Model Purchase: \$136,000

Annual Maintenance: \$28,000

(This brings the total two-year cost to **\$164,000** – this includes unlimited tech support, training, etc.).

12-Month Rental: \$68,000

Six-Month Rental: \$56,500

The terms of the rentals are fairly straightforward and essentially the same as the purchase, with the obvious caveat that all support ceases at the expiration of the rental period, and the user will be locked out of the model at the end of the rental period.

Let me know if you need anything more!

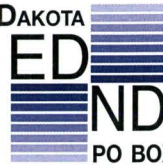
Thanks,
John

John A. Bennett, M.Sc.
Senior Economic Associate

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ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA



PO BOX 1091 • BISMARCK, NORTH DAKOTA 58502

Testimony of Keith Lund, EDND Past President
Economic Development Association of North Dakota (EDND)
In Support of SB 2044
January 10, 2017

Chairman Cook and members of the Senate Finance and Taxation Committee, I'm Keith Lund, vice president of the Grand Forks Region Economic Development Corporation and past president of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2044, which provides for the use of dynamic fiscal impact analysis to study state economic development incentives.

The Economic Development Association of North Dakota represents more than 80 large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Economic development incentives are important tools in supporting entrepreneurship, innovation and start-up companies in the state. These incentives continue to help meet the need for economic diversification in North Dakota and focus on developing new business in the state.

North Dakota no longer simply competes with other states but rather on a global scale. Properly structured tax incentives help companies meet the current challenges facing them today. State tax credits have no transaction costs, as with loans, grants or investments, yet economic development is encouraged. It is imperative the state reviews these incentives to ensure we have the best tools at our disposal to compete.

4/10/17

SB 2044 #1

pg 2

When studying incentives, it is important to have the tools necessary to see a realistic dynamic projection of impacts. Incentives bring more benefit to the state than easily tracked variables such as the number of jobs created. They increase the property tax base, grow sales and income tax revenues, and create secondary jobs. Without a tool providing dynamic fiscal impact analysis, it is difficult to see the entire result of an incentive and enhance or modify the state's incentives as necessary.

EDND is supportive of efforts to demonstrate the value of the state's investment in business support programs to diversify North Dakota's economy. We were very active in the interim study process because we too want to assure North Dakota taxpayers these investments provide a return on their investment. However, the interim committee was impeded in their study by a lack of available data and the mechanism necessary to see the true value of tax incentives. Therefore, we are supportive of adopting and funding an evaluation tool, such as REMI, and the necessary staff support needed to properly evaluate the remaining economic development tax incentives during future interims.

Thank you for the opportunity to address the committee and express support for this bill and your continued commitment to keeping North Dakota globally competitive to recruit and retain viable businesses. We urge the committee's support of SB 2044.

January 13, 2017

PROPOSED AMENDMENTS TO SENATE BILL NO. 2044

Page 4, line 19, replace "\$165,000" with "\$358,841"

Page 4, line 21, after "project" insert "and for salaries and operating expenses for a professional services position"

Page 4, line 22, after the period insert "The legislative council is authorized one full-time equivalent position."

Renumber accordingly

STATEMENT PURPOSE OF AMENDMENT:

This amendment provides \$193,841 from the general fund to the Legislative Council for expenses related to the addition of 1 FTE professional services position as follows:

Salaries and wages	\$188,841
Operating expenses	<u>5,000</u>
Total general fund	\$193,841

Products

1-31-17

SB 2042

1

PI+

PI

PI⁺, the next generation of Policy Insight, generates realistic year-by-year estimates of the total regional effects of any specific policy initiative. A wide range of policy variables allows the user to represent the policy to be evaluated, while the explicit structure in the model helps the user to interpret the predicted economic and demographic effects. The model is calibrated to many sub-national areas for policy analysis and forecasting, and is available in single- and multi-area configurations. Each calibrated area (or region) has economic and demographic variables, as well as policy variables so that any policy that affects a local economy can be tested.

PI⁺ is used by government agencies (including most U.S. state governments), consulting firms, nonprofit institutions, universities, and public utilities. Model simulations estimate comprehensive economic and demographic effects in wide-ranging initiatives such as: economic impact analysis; policies and programs for economic development, infrastructure, environment, energy and natural resources; and state and local tax changes. Articles about the model equations and research findings have been published in professional journals such as the American Economic Review, The Review of Economic Statistics, the Journal of Regional Science, and the International Regional Science Review.



1-31-17

SB 2024
2
p1

**Testimony of Jennifer Greuel, Executive Director
Economic Development Association of North Dakota (EDND)
In Support of SB 2044
January 31, 2017**

Chairman Holmberg and members of the Senate Appropriations Committee, I'm Jennifer Greuel, executive director of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2044, which provides for the use of dynamic fiscal impact analysis to study state economic development incentives.

The Economic Development Association of North Dakota represents more than 80 large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Economic development incentives are important tools in supporting entrepreneurship, innovation and start-up companies in the state. These incentives continue to help meet the need for economic diversification in North Dakota and focus on developing new business in the state.

North Dakota no longer simply competes with other states but rather on a global scale. Properly structured tax incentives help companies meet the current challenges facing them today. State tax credits have no transaction costs, as with loans, grants or investments, yet economic development is encouraged. It is imperative the state reviews these incentives to ensure we have the best tools at our disposal to compete.

When studying incentives, it is important to have the tools necessary to see a realistic dynamic projection of impacts. Incentives bring more benefit to the state than easily

tracked variables such as the number of jobs created. They increase the property tax base, grow sales and income tax revenues, and create secondary jobs. Without a tool providing dynamic fiscal impact analysis, it is difficult to see the entire result of an incentive and enhance or modify the state's incentives as necessary.

EDND is supportive of efforts to demonstrate the value of the state's investment in business support programs to diversify North Dakota's economy. We were very active in the interim study process because we too want to assure North Dakota taxpayers these investments provide a return on their investment. However, the interim committee was impeded in their study by a lack of available data and the mechanism necessary to see the true value of tax incentives. Therefore, we are supportive of adopting and funding an evaluation tool, such as REMI, and the necessary staff support needed to properly evaluate the remaining economic development tax incentives during future interims.

Thank you for the opportunity to address the committee and express support for this bill and your continued commitment to keeping North Dakota globally competitive to recruit and retain viable businesses. We urge the committee's support of SB 2044.

February 17, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2044

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new section to chapter 6-09 and a new section to chapter 54-03 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of select economic development incentives and bills introduced by the legislative assembly and the creation of a dynamic fiscal impact bill selection committee; and to provide an expiration date."

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact analysis.

The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54-35-36 and bills selected by the dynamic fiscal impact bill selection committee under section 2 of this Act.

SECTION 2. A new section to chapter 54-03 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact bill selection committee.

1. During the 2019 legislative session, a dynamic fiscal impact bill selection committee must be formed consisting of the following members:
 - a. The majority leader and minority leader of the house of representatives;
 - b. The majority leader and minority leader of the senate;
 - c. The chairman of the house finance and taxation committee; and
 - d. The chairman of the senate finance and taxation committee.
2. The committee shall review bills introduced by the sixty-sixth legislative assembly which have a fiscal impact and forward bills selected for dynamic fiscal impact analysis to the Bank of North Dakota for review pursuant to section 1 of this Act.

SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective."

Renumber accordingly

Sixty-fifth
Legislative Assembly
of North Dakota

ENGROSSED SENATE BILL NO. 2044

Introduced by

Legislative Management

(Political Subdivision Taxation Committee)

2-17-17
#2
p1

1 A BILL ~~for an Act to amend and reenact section 54-35-26 of the North Dakota Century Code,~~
2 ~~relating to dynamic fiscal impact analysis of economic development tax incentives reviewed by~~
3 ~~a legislative management interim committee; to provide an appropriation; and to provide an~~
4 ~~expiration date for an Act to create and enact a new section to chapter 6-09 and a new section~~
5 ~~to chapter 54-03 of the North Dakota Century Code, relating to dynamic fiscal impact analysis of~~
6 ~~select economic development incentives and bills introduced by the legislative assembly and~~
7 ~~the creation of a dynamic fiscal impact bill selection committee; and to provide an expiration~~
8 ~~date.~~

9 BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

10 **SECTION 1. AMENDMENT.** ~~Section 54-35-26 of the North Dakota Century Code is~~
11 ~~amended and reenacted as follows:~~

12 ~~—54-35-26. Legislative interim committee review of economic development tax~~
13 ~~incentives.~~

14 ~~—The legislative assembly enacts economic development tax incentives with the intent to~~
15 ~~encourage businesses to locate, grow, and remain in the state; to enhance employment~~
16 ~~opportunities for citizens; and to foster the most advantageous direction, diversity, and growth of~~
17 ~~the state economy. The legislative assembly requires systematic, detailed analysis of enacted~~
18 ~~economic development tax incentives to assure that incentives are, and will continue, serving~~
19 ~~the intended purposes in a cost-effective and equitable manner consistent with the intent of the~~
20 ~~legislative assembly. To serve this intent and requirement:~~

21 ~~—1.—During each interim, the legislative management shall assign to a legislative~~
22 ~~management interim committee study responsibility that includes completing the~~
23 ~~analysis of economic development tax incentives as provided in this section and~~
24 ~~reporting its findings and any associated recommended legislation to the legislative~~

management. ~~Upon the directive of the legislative management, the interim committee assigned that responsibility shall perform, as a pilot project, a dynamic fiscal impact analysis for each economic development tax incentive selected for review during the 2017-18 interim.~~

2. ~~The legislative management interim committee assigned the study responsibility under this section shall analyze each incentive, applying considerations relevant to the perceived goals of the incentive, including any or all of the following:~~

a. ~~The extent of achievement of the goals of the incentive and whether unintended consequences have developed in its application.~~

b. ~~Whether the design and application of the incentive can be improved.~~

c. ~~The extent of complementary or duplicative effect of other incentives or governmental programs.~~

d. ~~Whether the incentive has a positive influence on business behavior or rewards business behavior that is likely to have occurred without the incentive.~~

e. ~~The effect of the incentive on the state economy, including the extent of primary sector operation of the recipient and any competitive disadvantage imposed or benefit conferred on other state businesses, any benefit or burden created for local government, and the extent of the incentive's benefit that flows to out-of-state concerns.~~

f. ~~The employment opportunities generated by the incentive and the extent those represent career opportunities.~~

g. ~~Whether the incentive is the most effective use of state resources to achieve desired goals.~~

h. ~~If the committee's analysis of the incentive is constrained by lack of data, whether statutory or administrative changes should be made to improve collection and availability of data.~~

3. ~~The legislative management interim committee assigned the study responsibility under this section may examine economic development tax incentives, shall complete analysis of the state-imposed tax aspects of the incentives it designates for analysis during the interim, and shall approve a plan to provide that each of the economic development tax incentives listed in this subsection is subject to a complete analysis~~

- 1 within each six year period. The interim committee may include in its
2 recommendations any amendments to this section, including amendments to add or
3 remove incentives from the list of incentives subject to analysis under this subsection.
4 Analysis must be completed for state imposed tax aspects of economic development
5 tax incentives, including each of the following:
- 6 ~~_____ a. Renaissance zone credits and exemptions.~~
 - 7 ~~_____ b. Research expense credit.~~
 - 8 ~~_____ c. Agricultural commodity processing facility investment credit.~~
 - 9 ~~_____ d. Biodiesel fuel production facility construction or retrofit credit, biodiesel fuel~~
10 ~~blending credit, and biodiesel fuel equipment credit.~~
 - 11 ~~_____ e. Seed capital investment credit.~~
 - 12 ~~_____ f. Wage and salary credit.~~
 - 13 ~~_____ g. Internship program credit.~~
 - 14 ~~_____ h. Microbusiness credit.~~
 - 15 ~~_____ i. Angel fund investment credit.~~
 - 16 ~~_____ j. Workforce recruitment credit.~~
 - 17 ~~_____ k. Soybean or canola crushing facility construction or retrofit credit.~~
 - 18 ~~_____ l. Manufacturing automation equipment credit.~~
 - 19 ~~_____ m. New or expanding business exemption.~~
 - 20 ~~_____ n. Manufacturing and recycling equipment sales tax exemption.~~
 - 21 ~~_____ o. Coal severance and conversion tax exemptions.~~
 - 22 ~~_____ p. Oil and gas gross production and oil extraction tax exemptions.~~
 - 23 ~~_____ q. Fuel tax refunds for certain users.~~
 - 24 ~~_____ r. New jobs credit from income tax withholding.~~
 - 25 ~~_____ s. Any economic development tax incentive created by the sixty fourth legislative~~
26 ~~assembly.~~
 - 27 ~~_____ 4. By October first of each odd numbered year, the interim committee assigned the study~~
28 ~~responsibility under this section shall determine and approve:~~
 - 29 ~~_____ a. The economic development tax incentives under subsection 3 which will be~~
30 ~~designated for analysis during that interim and a plan to provide for analysis of~~

#2
P4

1 ~~the remaining economic development tax incentives under subsection 3 within~~
2 ~~the six-year period.~~

3 ~~b. The perceived goals of the legislative assembly in creating or altering each~~
4 ~~incentive designated for analysis, for use as a baseline for committee analysis of~~
5 ~~the incentive.~~

6 ~~c. The data and testimony that will be required to conduct an effective analysis of~~
7 ~~each incentive designated for analysis.~~

8 ~~5. The department of commerce, tax commissioner, economic development foundation,~~
9 ~~and any other state agency or instrumentality shall provide data and analysis as~~
10 ~~requested by the interim committee conducting the analysis under this section.~~

11 ~~a. If data is not available, the entity requested to provide the information shall~~
12 ~~advise the committee how the data could be obtained and the estimated cost of~~
13 ~~obtaining the data.~~

14 ~~b. If data is available but cannot be shared with the committee, the entity requested~~
15 ~~to provide the information shall explain the reason and whether there are options~~
16 ~~that could be used to obtain the data or an adequate substitute for the data.~~

17 ~~6. The interim committee conducting the analysis under this section shall report its~~
18 ~~findings and recommendations together with any legislation required to implement~~
19 ~~these recommendations to the legislative management.~~

20 ~~**SECTION 2. APPROPRIATION.** There is appropriated out of any moneys in the general~~
21 ~~fund in the state treasury, not otherwise appropriated, the sum of \$358,841, or so much of the~~
22 ~~sum as may be necessary, to the legislative council for the purpose of acquiring dynamic fiscal~~
23 ~~impact analysis software to be used to conduct the pilot project and for salaries and operating~~
24 ~~expenses for a professional services position, for the biennium beginning July 1, 2017, and~~
25 ~~ending June 30, 2019. The legislative council is authorized one full-time equivalent position.~~

26 ~~**SECTION 3. EXPIRATION DATE.** Section 1 of this Act is effective through June 30, 2019,~~
27 ~~and after that date is ineffective.~~

28 **SECTION 1.** A new section to chapter 6-09 of the North Dakota Century Code is created
29 and enacted as follows:

Dynamic fiscal impact analysis.

The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54-35-36 and bills selected by the dynamic fiscal impact bill selection committee under section 2 of this Act.

SECTION 2. A new section to chapter 54-03 of the North Dakota Century Code is created and enacted as follows:

Dynamic fiscal impact bill selection committee.

1. During the 2019 legislative session, a dynamic fiscal impact bill selection committee must be formed consisting of the following members:

- a. The majority leader and minority leader of the house of representatives;
- b. The majority leader and minority leader of the senate;
- c. The chairman of the house finance and taxation committee; and
- d. The chairman of the senate finance and taxation committee.

2. The committee shall review bills introduced by the sixty-sixth legislative assembly which have a fiscal impact and forward bills selected for dynamic fiscal impact analysis to the Bank of North Dakota for review pursuant to section 1 of this Act.

SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective.

February 17, 2017

SB2044
2-20-17

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2044

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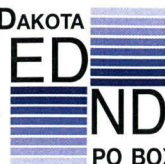
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SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2019, and after that date is ineffective."

Renumber accordingly



**Testimony of Jennifer Greuel, Executive Director
Economic Development Association of North Dakota (EDND)
In Support of SB 2044
March 13, 2017**

Chairman Headland and members of the House Finance and Taxation Committee, I'm Jennifer Greuel, executive director of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2044, which provides for the use of dynamic fiscal impact analysis to study state economic development incentives.

The Economic Development Association of North Dakota represents more than 80 large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

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