

FISCAL NOTE
Requested by Legislative Council
04/22/2019

Amendment to: Engrossed HB 1040

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(2,000,000)			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed HB 1040 with Conference Committee Amendments creates an income tax credit for the purchase of machinery and equipment to automate a manufacturing process in this state.

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

Section 1 of the bill provides for an income tax credit equal to twenty percent of the cost of qualifying machinery and equipment purchased within the tax year. To qualify, the machinery and equipment must upgrade or advance a manufacturing process in this state, which leads to a 5% increase in average wages, workforce safety, or output.

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.*

The bill limits the combined allowable tax credits to a maximum of \$1 million per calendar year. If total credits claimed in a calendar year are less than \$1 million, the unclaimed credits are carried over and added to the following calendar year's \$1 million limit. Based on the usage of a similar credit in tax years 2013 through 2017, it is expected that the maximum credits allowed will be claimed by taxpayers. If enacted, Engrossed HB 1040 with Conference Committee Amendments is expected to reduce state general fund revenues by \$2 million in the 2019-21 biennium.

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

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: (701)328-3402

Date Prepared: 04/22/2019

FISCAL NOTE
Requested by Legislative Council
03/18/2019

Amendment to: Engrossed HB 1040

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(4,000,000)			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed HB 1040 with Senate Amendments creates an income tax credit for the purchase of machinery and equipment to automate a manufacturing process in this state.

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

Section 1 of the bill provides for an income tax credit equal to twenty percent of the cost of qualifying machinery and equipment purchased within the tax year. To qualify, the machinery and equipment must upgrade or advance a manufacturing process in this state, which leads to a 5% increase in average wages, workforce safety, or output.

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.*

The bill limits the combined allowable tax credits to a maximum of \$2 million per calendar year. If total credits claimed in a calendar year are less than \$2 million, the unclaimed credits are carried over and added to the following calendar year's \$2 million limit. Based on the usage of a similar credit in tax years 2013 through 2017, it is expected that the maximum credits allowed will be claimed by taxpayers. If enacted, Engrossed HB 1040 with Senate Amendments is expected to reduce state general fund revenues by \$4 million in the 2019-21 biennium.

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

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: (701)328-3402

Date Prepared: 03/19/2019

FISCAL NOTE
Requested by Legislative Council
02/06/2019

Amendment to: HB 1040

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(1,000,000)			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed HB 1040 creates an income tax credit for the purchase of manufacturing equipment used to automate and improve a manufacturing process.

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

Section 1 of engrossed HB 1040 provides for an income tax credit equal to twenty percent of the cost of qualifying equipment purchased within the tax year. To qualify, the equipment must lead to improved job quality or increased productivity.

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.*

The bill limits the combined allowable tax credits to a maximum of \$500,000 per calendar year. The bill also limits the availability of the tax credit to the 2019 and 2020 taxable years, after which the credit expires. Based on the usage of a similar credit in tax years 2013 through 2017, it is expected that the maximum credits allowed will be claimed by taxpayers. If enacted, engrossed HB 1040 is expected to reduce state general fund revenues by -\$1 million for the 2019-21 biennium.

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

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: (701)328-3402

Date Prepared: 02/07/2019

FISCAL NOTE
Requested by Legislative Council
12/21/2018

Bill/Resolution No.: HB 1040

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(4,000,000)			
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

HB 1040 creates an income tax credit for the purchase of manufacturing equipment used to automate and improve a manufacturing process.

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

Section 1 of HB 1040 sets forth the provisions of an income tax credit equal to twenty percent of the cost of qualifying equipment purchased within the tax year. In order to qualify for the tax credit, the equipment must lead to improved job quality or increased productivity.

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.*

The provisions of the bill limit the combined allowable tax credits to a maximum of \$2 million per calendar year. The fiscal note assumes this limit is reached each year of the 2019-21 biennium.

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

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn Strombeck

Agency: Office of Tax Commissioner

Telephone: (701)328-3402

Date Prepared: 01/04/2019

2019 HOUSE FINANCE AND TAXATION

HB 1040

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
1/8/2019
30520

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A BILL relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

Attachment 1-11

Chairman Headland: Opened hearing on HB 1040.

Representative Beadle: Introduced bill. I am here on behalf of the interim taxation committee. This is an automation tax credit proposal. We decided to sunset it last session. During the course of the interim we looked at it a little more. This bill allows a company who is making an advancement of capital, in order to secure new technology, to increase their production output to be able to take a credit of up to 20% of the cost of that machinery or they need to claim it during that calendar year. There's a fiscal note of about \$4 million over the course of the biennium. There are workforce shortages and significant problems attracting and obtaining quality workers. Industry needs to be able to incentivize and get companies to make investments to try and grow their output without relying on the bodies that aren't there and that's just good policy.

Chairman Headland: Further testimony in support?

Representative Steiner: I think there was some confusion last session that the money was not being used. This is a reimplementation of a tax credit we used to have. This session we're asking for \$2 million. I think it's really important to look at ways to enhance our workforce and this is one of those ways to do that. We need to keep moving forward with artificial intelligence, robotics, and big data centers. I believe that will help with the workforce shortage. We need to encourage our manufacturing centers instead of discouraging them. They need to be competitive in their markets. It's very important to my district. When we're ready to discuss this bill I will distribute a proposed amendment clarifying page 1 line 22 so it's the way the manufacturers want it to be.

Chairman Headland: Further testimony in support?

Matt Gardner, Greater North Dakota Chamber: See written testimony attachment #1. (Ended testimony at 9:00)

Chairman Headland: Would you explain how the current language would be restrictive to larger manufacturers?

Matt Gardner: On page 1 lines 21 and 22, it talks about increased productivity. We hope that on the individual line where they use automation, is the place where you want to see the five percent increase.

Representative B. Koppelman: Why wouldn't businesses be incentivized on their own to do just this? Why is this necessary to increase productivity when the labor market incentivizes that on its own?

Matt Gardner: I would like to defer to our manufacturers on that question.

Chairman Headland: Further testimony in support?

Ellen Huber, Business Development Director for the City of Mandan and president of the Economic Development Association of North Dakota: See written testimony attachment #2. (Ended testimony at 15:52)

Tony Richards, President and CEO of Impact North Dakota: See written testimony attachment #3. (Ended testimony at 19:11). Representative B. Koppelman, in response to your question earlier, I think it puts everybody on an equal playing field. It helps the small to medium manufacturers be more competitive and that's why this is so important.

Chairman Headland: With the suggested amendment that would allow the very large manufacturers in the state to participate, with the state's limited resources, are we going to achieve our real goal of helping our smaller manufacturers grow if we allow our larger manufacturers to gobble up the bulk of the credits?

Tony Richards: I think we will be helping our smaller manufacturers partner with our larger manufacturers and work closer together. I think it is significant and beneficial to do this.

Chairman Headland: Is it a sincere genuine concern that our large manufacturers such as John Deere or Melroe would really leave the state of North Dakota over something as small as a tax credit?

Tony Richards: In this current environment every incentive is critical. It will be their decision whether to stay or not but something like this and other tools available serve as an incentive to stay.

Chairman Headland: Would it be alright for this committee to believe that if we would go further to eliminate the income tax burden on our businesses and citizens across the state that people are going to flock here in droves?

Tony Richards: I can't answer that question for every citizen but from our perspective in working with manufacturers every incentive we can give is important.

Representative Kading: You said this would even the playing field for small and medium manufacturers, can you expand on that? Are there certain tax benefits the larger manufacturers get that the small to medium manufacturers don't get?

Tony Richards: I don't know what the individual taxes are for each manufacturer. This would allow each manufacturer to be more competitive with other North Dakota manufacturers as well as globally.

Matt Gardner, Greater North Dakota Chamber, is presenting for Guy Moos, President of Baker Boy: See written testimony attachment #4. (Ended testimony at 25:05).

Peter Rackov, CFO for Steffes LLC: See written testimony attachment #5. (Ended testimony at 29:00)

Chairman Headland: This is a credit that was allowed to sunset last session. Were you able to utilize the credit prior to its sunset?

Peter Rackov: Yes we were able to take advantage all three years.

Chairman Headland: Could you tell us how you took advantage of this and what it did to grow your company and workforce needs?

Peter Rackov: One of the big things we invested in was a \$1 million paint line in our Grand Forks facility. We looked at the horizon of what the payback period would be on this and the 20% automation tax credit reduces that payback by months.

Chairman Headland: What type of skill set and wages are required to operate these machines?

Peter Rackov: We have welding robots as welders are hard to find. I believe welder wages vary anywhere from \$18-to mid to high 20s. They have a certain amount of skill; they have to wear the mask and operate the gun which the welding robot does. The skill set required to operate the robot has to have the welding knowledge, computer, and mechanical expertise. The wage for that could be another \$1-2 per hour.

Representative Mitskog: With the innovations and the equipment you've acquired have you displaced workers?

Peter Rackov: We have over 40 positions open today. We haven't displaced anyone.

Tom Shorma, WCCO Belting: See written testimony attachment #6. (Ended testimony at 40:42)

Representative Mitskog: Could you comment on the automation improvements in the equipment and how it's affected safety?

Tom Shorma: There were 2,000 ideas that ranged from not only productivity but working conditions and safety. We didn't have the best track record as far as a safe work environment. Workforce safety has always been important to us. We've used a lot of automation to reduce that physicality. In a period of 40 years we went from 60 recordable injuries down to three using the automation. We now have a significant discount on our workforce safety allowance in North Dakota.

Chairman Headland: Is there further testimony in support?

Bryan Bossert, Manager of Operations for John Deere: See written testimony attachment #7. John Deere wouldn't leave the state if we didn't have this tax credit. We need to understand that this is a very automated business. We have to reinvest about every two years in new automation in order to keep up and be competitive. We have four manufacturing lines in our Fargo facility and over the last two years we've replaced two of them; one where we used the automation tax credit and one of them it was sunsetted. In order to determine where we're going to invest we do a return on investment. It was a lot easier when we had the tax credit. We will continue to make those decisions in the future but this tax credit would make a big difference.

Chairman Headland: Thank you for your testimony. I only used John Deere as an example of a large manufacturer. It's good to know you're going to stay in North Dakota and help us grow our economy.

Miranda Bergquist, CFO of Cloverdale Foods: See written testimony attachment #8. In addition to the written testimony safety has been brought up and it significantly helps the safety in our company. It's important to spend the money on replacing the aging equipment so the people employed will be more safe on a day to day basis. We have also struggled with the workforce but being able to raise our starting wage a couple dollars has been very helpful for the retention as well as getting more locals interested in working for us in North Dakota. The automation process is also good for ergonomic conditions when picking up heavy objects. I'd like you to take into consideration of how this automated tax credit could benefit our company.

**Additional written testimony was submitted by Integrity Steel Supply (attachment #9) and Pivotal Edge (attachment #10).

Kristin Hedger, Killdeer Mountain Manufacturing: We're a third generation aerospace company. We've benefited from the support that makes our state unique in that we work closely together. Our customer base is impressed by the transparency and the connectivity that business can have with government and the support you can render with things such as this automation tax credit. We supply half commercial to Boeing which is one of our larger customers. We having Boeing in our house today to see how we can take on increased work. We build 52 ½ 737s per month. We have four wire harness suppliers in that supply chain. Our competitors are Morocco, Mexico, and China. Our wages are different and some of the countries invest in their own equipment for them. They have a much more dynamic environment so for us to remain competitive and take on these growing demands we're looking at trying to get to 68 737s a month in the next couple years. We build 3.5 777s per

month and on the defense side we've got incredible surges associated with the hellfire missile and other platforms with P8 reconnaissance aircraft. We are working actively to try and engage the unmanned airspace. We've worked to stay on the cutting edge by investing in new equipment to keep us a shining star in the global supply chain. A lot of the automated tax credit can help us to continually improve our equipment, help us to increase our wage opportunities, and expand our footprint. We just got the Air force 1 contract which is very good for the state. We are thankful for your support.

Chairman Headland: Is there further testimony in support? Any opposition?

Waylon Hedegaard, President of the North Dakota AFL-CIO: See written testimony attachment #11. (Ended testimony at 59:09)

Chairman Headland: How would you respond from some of the manufacturers today about remaining competitive both within the United States and globally.

Waylon Hedegaard: In North Dakota I believe we make a mistake by focusing only on business first. In addition, we have to really look at our education and training programs. We have to start thinking into the future. This increase in automation will eliminate a lot of jobs. How do we train those workers to then fit what they need? This program would be acceptable if we also had an additional program or programs. I know this is coming to look at these workers to see what skills they need and how we get them there. I ask this committee to strongly consider how we get these workers, who are probably going to be displaced, trained in other things.

Chairman Headland: Further testimony in opposition? Seeing none we will close the hearing on HB 1040.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
1/30/2019
31818

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

Attachment 1

Vice Chairman Grueneich: We're open for discussion. Distributed proposed amendment, see attachment 1.

Representative Steiner: Do you want the amendment brought forward for discussion?
MADE A MOTION TO ADOPT AMENDMENT.

Representative B. Koppelman: SECONDED

Vice Chairman Grueneich: Discussion.

Representative Steiner: I would just like to remind the committee that the manufacturers asked for the per automated line to be added to the bill before we take action on the bill. Without that, Bobcat for example, would have to have that percent increase in their entire plant. This way if they add a particular line it's per automated line, it's not over the entire corporate structure.

Vice Chairman Grueneich: We're trying to get the amended bill in front of us then we can decide if there will be any further action.

VOICE VOTE: MOTION CARRIED

Vice Chairman Grueneich: We have amended HB 1040 before us.

Representative B. Koppelman: There was discussion about us possibly putting a sunset on this tax credit to see if the new wording would be used to the extent that was requested. Also to see if it meets the cap we put in place with these amendments, which is now

\$500,000. I'd like to add a sunset for the two-year period that it's implemented so the legislature can revisit it.

Vice Chairman Grueneich: That's not a bad idea but I think this bill will be back in front of us in two years regardless. Is there opposition to putting a sunset on it?

Representative B. Koppelman: The reason we had the discussion last session had to do with the sunset so I don't believe it would have come back to us before that. The only other reason it may have come in front of us was because we had the three biennium review of tax credits which is part of the interim committee process. I think it's good policy when we're doing these credits to put a sunset on them. **MADE A MOTION ADOPT AMENDMENT BY PUTTING ON A TWO YEAR SUNSET.**

Representative Kading: SECONDED

Vice Chairman Grueneich: Discussion.

VOICE VOTE: MOTION CARRIED

Vice Chairman Grueneich: We have amended HB 1040 in front of us.

Representative Steiner: They have to know if they prorate it then people come in for it. That was some of the confusion in committee before because it had a sunset and hadn't been used. They wait for the end of January at which time it's dispersed so it's deceiving for legislators to look at it that way.

Representative B. Koppelman: If we say it's for the two taxable years following December 31, 2018 or it expires December 31, 2020 even though the reporting might have to happen in January, that would be the proper way to write the language if we only wanted in place for two years?

Dee Wald, General Counsel for the Tax Department: Yes.

Representative Eidson: I think on the whole it's a good idea to incentivize companies to move towards automation but testimony has indicated that companies are already incentivized to do this. I don't think we need to be pushing them along or offering tax credits to help these companies move towards automation when they are already incentivized by economic drivers to do that anyway. We have a workforce that is going to have to adapt. I'll be voting against this bill.

Representative Kading: I agree. This is just corporate welfare. It's government subsidizing private industry. Industry is going to be moving this way no matter what credit we give so we shouldn't have to pay for it.

Representative Steiner: For the workers there are some good things in this bill which you should reconsider. As we give automated tax credits these positions move into a higher pay scale because they require higher training. There are training costs for these companies for these workers. It is the future. I can see you resisting some type of corporate welfare but

you have to think of training North Dakota's people at the same time we're in this rapid change. I think this is really good for that manufacturing sector to make sure they stay competitive. If this keeps this company competitive then I would hate to see us lose that edge. I will support the bill.

Vice Chairman Grueneich: I'd echo the comments from Representative Steiner. I think we get caught up in the giants of the industry. The small manufacturing plant in Killdeer is a big deal to that town. The small manufacturers have stayed in those small communities as opposed to moving on or moving out. We've cut the dollars and it's a small step towards doing the right thing to help them out. I would hope we could get behind this.

Representative Hatlestad: MADE A MOTION FOR A DO PASS AS AMENDED

Representative Steiner: SECONDED

Representative Ertelt: The bill as written gives an advantage to larger businesses to claim. It's on a first come first serve basis and the bigger companies are better equipped with their staffing and their administrative roles to fulfill the requirements to claim this credit. These larger businesses don't need this advantage. I don't know if in practice it will actually help the smaller businesses proportionately.

ROLL CALL VOTE: 9 YES 4 NO 1 ABSENT

MOTION CARRIED

Representative Steiner will carry this bill.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
2/5/2019
32174

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

No attachment

Chairman Headland: We passed out this bill but we didn't rerefer it to Appropriations. Will someone make a motion to reconsider?

Representative Steiner: MADE A MOTION TO RECONSIDER OUR ACTIONS AND REREFER IT TO APPROPRIATIONS

Vice Chairman Grueneich: SECONDED

VOICE VOTE: MOTION CARRIED

Chairman Headland: We have the bill before us. We need someone to make a motion to pass this bill and rerefer it to Appropriations.

Representative Hatlestad: MADE A MOTION FOR A DO PASS AS AMENDED AND REREFER TO APPROPRIATIONS.

Representative Steiner: SECONDED

Chairman Headland: Is there any further discussion?

ROLL CALL VOTE: 9 YES 5 NO 0 ABSENT

MOTION CARRIED

Representative Steiner will carry this bill.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1040

Page 1, line 22, after "produced" insert "per automated line"

Page 2, line 18, replace "two million" with "five hundred thousand"

Renumber accordingly

January 30, 2019

DA 1/30/19

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1040

Page 1, line 4, remove "and"

Page 1, line 4, after "date" insert "; and to provide an expiration date"

Page 1, line 22, after "produced" insert "per automated line"

Page 2, line 18, replace "two million" with "five hundred thousand"

Page 4, line 7, after "Act" insert "(effective for the first two taxable years beginning after December 31, 2018)"

Page 4, line 8, after "**DATE**" insert "**- EXPIRATION DATE**"

Page 4, line 8, after "for" insert "the first two"

Page 4, line 9, after "2018" insert ", and is ineffective after that date"

Renumber accordingly

Date: 1-30-19
Roll Call Vote #: /

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

House Finance and Taxation Committee

☐ Subcommittee 19..0369.01003

Amendment LC# or Description: Attachment #1 dated Jan. 30, 2019

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. Steiner Seconded By Rep. Koppelman

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice Vote = Motion carried
add "per automated line"

Date: 1-30-19
Roll Call Vote #: 2

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: Sunset for two years to Dec. 31, 2020

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. Koppelman Seconded By Rep. Kading

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice Vote = Motion carried

Date: 1-30-19
Roll Call Vote #: 3

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: 19-0389.01004

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. Hatlestad Seconded By Rep. Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	<input checked="" type="checkbox"/>		Representative Eidson	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Vice Chairman Grueneich	<input checked="" type="checkbox"/>		Representative Mitskog	<input checked="" type="checkbox"/>	
Representative Blum	<input checked="" type="checkbox"/>				
Representative Dockter	<input checked="" type="checkbox"/>				
Representative Ertelt		<input checked="" type="checkbox"/>			
Representative Fisher	<input checked="" type="checkbox"/>				
Representative Hatlestad	<input checked="" type="checkbox"/>				
Representative Kading		<input checked="" type="checkbox"/>			
Representative Koppelman	<input checked="" type="checkbox"/>				
Representative Steiner	<input checked="" type="checkbox"/>				
Representative Toman		<input checked="" type="checkbox"/>			
Representative Trottier	<input checked="" type="checkbox"/>				

Total (Yes) 9 No 4

Absent 1

Floor Assignment Rep. Steiner

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

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1040

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. Steiner Seconded By Rep. Grueneich

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice Vote = Motion carried

Date: 2-5-19
Roll Call Vote #: 2

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: 19.0389.01004

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. Hatlestad Seconded By Rep. Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓	✓	Representative Eidson	✓	✓
Vice Chairman Grueneich	✓		Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt		✓			
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading		✓			
Representative Koppelman	✓				
Representative Steiner	✓				
Representative Toman		✓			
Representative Trottier	✓				

Total (Yes) 9 No 5

Absent 0

Floor Assignment Rep. Steiner

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

REPORT OF STANDING COMMITTEE

HB 1040: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (9 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1040 was placed on the Sixth order on the calendar.

Page 1, line 4, remove "and"

Page 1, line 4, after "date" insert "; and to provide an expiration date"

Page 1, line 22, after "produced" insert "per automated line"

Page 2, line 18, replace "two million" with "five hundred thousand"

Page 4, line 7, after "Act" insert "(effective for the first two taxable years beginning after December 31, 2018)"

Page 4, line 8, after "**DATE**" insert "**- EXPIRATION DATE**"

Page 4, line 8, after "for" insert "the first two"

Page 4, line 9, after "2018" insert ", and is ineffective after that date"

Renumber accordingly

2019 HOUSE APPROPRIATIONS

HB 1040

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1040
2/14/2019
32720

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Risa Bergquist and Parker Oswald

Explanation or reason for introduction of bill/resolution:

Relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes

Minutes:

--

Chairman Delzer: Opens meeting on HB 1040.

(4:15) Chairman Delzer: HB 1040 involves automated workforce credit.

(5:00) Representative Headland: This had a sunset provision last session and the committee chose not to bring it back. HB 1040 has an income tax credit for the purchase of manufacturing automation. We put a sunset clause on it, lowered the amount of available credits and we also changed the language where they only have to have a 5% increase on the line where automation is put into and not the whole business.

Chairman Delzer: All of the language is the same as 4 years ago and there was a sunset for this biennium? I want to know what fiscal year 2020 is.

Brady Larson, LC: The state fiscal year would begin July 1st, 2019 and end June 30th, 2020.

Chairman Delzer: Questions for Representative Headland? I know it was originally \$2M credits per year and was cut.

Representative Headland: It was cut to \$500,000 credits.

(8:05) Chairman Delzer: Did you have a look at who actually receives the credits?

Representative Headland: We did not look back into when it was last used, but the last time the credits were on the books, all of the money was not used.

Chairman Delzer: Are we taking jobs away from people and is this something that is plausible for the businesses to do without the credit?

Representative Headland: That has always been the question we have asked, but I think it is actually both.

(9:25) Representative J. Nelson: How confident are you in the fiscal note?

Chairman Delzer: This one would be very solid because it is an amount of money being put in and there cannot be more than that used.

Representative J. Nelson: The experience utilized in the old by was \$1M? If we lower that threshold, will companies be more inclined to use that?

Representative Headland: Four years ago the appropriations committee set it to \$500,000.

Representative Beadle: It was not totally used last time, but the fiscal note reflects what the prediction that will be used is.

Chairman Delzer: Do they give the credit until it runs out or do they prorate it?

Representative Headland: It would be prorated.

Chairman Delzer: So they do not figure it out until the end of the year.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee Roughrider Room, State Capitol

HB 1040
2/15/2019
32843

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Parker Oswald

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

--

Chairman Jeff Delzer: Opens meeting on HB 1040.

(1:00) Chairman Jeff Delzer: What is the wish of the committee? I have always had heartburn on the idea of putting general fund money into automation that would take away jobs, but we are seeing a shortage in the work force. I got information on how many there was, but not information on who was doing it. I would like to make sure it was not the same group getting extra money to do this. It is up to the committee to what we do.

(2:15) Representative David Monson: I do not know if really like the bill, but I see where it should increase the profits to the companies, but I would think this will be a case where we spend a little money and we should see a lot of increase in productivity. I would support it.

Representative Keith Kempenich: How much has this been used in the past?

Chairman Jeff Delzer: It was in two times and last session they asked for an extension and we did not grant that. The language is there for the whole thing and they were a little short on how much they have used, but they will use this for the automated lines.

(4:00) Representative Thomas Beadle: We received an email about the history of what was handed in out in terms of credit volume. It did not list who got what, just the amount.

Chairman Jeff Delzer: I think it requires it to be a primary sector and total manufacturing. It does not work for retail.

(5:05) Representative Thomas Beadle: Makes a motion of do pass on HB 1040, seconded by Representative Mike Brandenburg.

Chairman Jeff Delzer: No amendments on this. **Roll call vote is taken. Motion carries with 14 yes, 7 nays and 0 absent. Representative Vicky Steiner will carry HB 1040.**

Date: 2/15/2019
Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1040**

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: _____

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

Other Actions: ☐ Place on Consent Calendar
☐ Reconsider ☐ _____

Motion Made By Representative Beadle Seconded By Representative Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer		X			
Representative Kempenich		X			
Representative Anderson	X		Representative Schobinger		X
Representative Beadle	X		Representative Vigesaa	X	
Representative Bellew	X				
Representative Brandenburg	X				
Representative Howe	X		Representative Boe		X
Representative Kreidt		X	Representative Holman	X	
Representative Martinson	X		Representative Mock	X	
Representative Meier		X			
Representative Monson	X				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Sanford	X				
Representative Schatz	X				
Representative Schmidt		X			

Total (Yes) 14 No 7

Absent 0

Floor Assignment Representative Steiner

Motion Carries

REPORT OF STANDING COMMITTEE

HB 1040, as engrossed: Appropriations Committee (Rep. Delzer, Chairman)
recommends **DO PASS** (14 YEAS, 7 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1040 was placed on the Eleventh order on the calendar.

2019 SENATE FINANCE AND TAXATION

HB 1040

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1040
3/4/2019
Job #33090

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; to provide an effective date; and to provide an expiration date.

Minutes:

Attachments: 2

Chairman Cook: Called the committee to order on HB 1040.

Emily Thompson, Legislative Council: Introduced the bill. This bill came out of the interim taxation committee. The committee was tasked with reviewed economic reviewing tax incentives. This incentive was not the only one the committee was tasked with studying. The committee did review other workforce recruitment incentives and found that the state was suffering from quite a workforce shortage. The committee received information from the economic development association of ND urging the revival of an expired credit that was known as the automation tax credit. Based on their recommendations, HB 1040 was introduced by the interim finance and taxation committee. This is modeled closely off an expired credit. Back in 1516, the interim political sub tax committee studied that automation credit. They recommended a bill draft to remove the sunset date. That was tasked to expire in 2017. That bill was introduced in the 2017 session but failed to pass. It was revived by the current taxation committee. The expired credit provided an income tax credit equal to 20% of the amount that is expended to purchase manufacturing machinery and equipment in order to automate a manufacturing process. The amount of credits available was 2 M per year. Those amounts were dialed back to 500,000 per calendar year in 16 and 17 before the credit ultimately expired. The credits are prorated among claimants if the amount claimed exceeds the amount available. The only changes in this new retitled 21st century manufacturing workforce incentive, the committee kicked the bill out with a \$2M per year amendment. That was amended on the House side to bring that back down to the \$500,000 per year limit. That was the limit when that credit expired back in 2017. The bill included additional language indicating that any purchase of automation machinery equipment that should improve job quality and produce productivity. It clarified that purchases of replacement machinery and equipment that do not serve the purpose of upgrading or advancing that process will not

qualify for the credit. It also includes the new definition of primary sector business and a requirement for the applicant to file a statement regarding how upgrades or advancements will improve job quality and increase output. Lastly, the change from the previous credit requires additional reporting and it provides a claw back mechanism should the claimant fail to meet those required job quality and productivity thresholds. They would be required to file an amended return. I would be happy to take any questions.

Chairman Cook: The definition of primary sector businesses is our one and only definition of that that we have?

Emily Thompson: That is correct. The committee did undertake a task of unifying 7 definitions of primary section business in code. The committee thought it was best to have a unified definition. That was placed in title 1 of century code. This just references that.

Senator Dotzenrod: I want you to check my math. The fiscal note is \$500,000 a year for the biennium, correct?

Emily Thompson: Yes.

Senator Dotzenrod: It is a 20% credit that would cover \$5 M worth of investment in the kind of equipment that would qualify.

Emily Thompson: It is 20% on the amount expended to purchase that equipment.

Senator Dotzenrod: When we had this before, the level we are using at \$500,000 per year is the same?

Emily Thompson: It started out with a \$2 M limit when it was initially created in 2011. But that was dialed back to half a million per year in '17.

Senator Patten: How do you determine if there is excess request for the exemption?

Emily Thompson: The amount of claimants; the claims would be submitted and then if there are more claimants then money available, the tax commissioner will go through and prorate that among the claimants. It is not first come first serve. It is prorated.

Matt Gardner, Greater ND Chamber: Testified in support of the bill. See attachment #1. We are the largest state wide business advocacy organization in the state. We are also the state affiliate for the National Association of Manufacturers. As the bill came out of the interim committee, it was \$2 M a year for the tax credit and the House amended that down to \$500,000 a year. I think it is important we get that back up to that \$2 M mark. Introduced manufacturers to talk about manufacturing and how they automate their businesses. A lot of them have used the automation tax credit in the past.

Brian Ritter, Economic Development Association of ND: Testified in favor of the bill. See attachment #2. On behalf of EDND's 80 plus members from around the state, who are invested in the creation of new wealth and new jobs and in support of the primary sector projects that are outlined in this particular piece of legislation, we support this bill. We also

support the proposed amendments that would raise the cap back to \$2 M. It would also either extend or remove the sunset. I also included testimony from other manufacturers. As a practitioner myself, we are sensitive to the use of economic development incentives. We are aware of the ramifications, consequences, and benefits. We believe this piece of legislation is structure in a responsible way to not only the company, but to the tax payers of the state. I will stand for any questions.

Bryan Bossert, John Deere, Fargo, ND: Testified in favor of the bill. I am here today representing the electronics manufacturer in Fargo. We build electronic circuit boards and circuit assembly. That is something that is not done very often in the U.S. One of the most common questions I get on this bill is if we are going to make the investment even though you aren't going to have a tax credit. The answer is yes. We have made many investments. We invest around \$7 M a year. We represent over 55,000 employees. We manufacture everywhere on the planet. We are trying to keep manufacturing jobs highly technical. When you talk about the 250 manufacture jobs I have, there is also about 350 engineers. Many of them are from UND or NDSU. They design the products and we build them. Every day, I am in a battle to make sure we can stay globally competitive in ND. It is credits like this that help us to make the decisions to continue to make those investments here rather than making them some places else. In addition, unemployment in my county was down to 1.4% for a while. Finding people to do the manufacturing is a challenge for us both in Fargo and in Valley City. As a manufacturer in the state, we think this credit is very important and we would like to see it go back to the \$2 M as well as remove the sun set so I do not have to come every two years to testify.

Tom Shorma, CEO President WCCO Belting, Wahpeton: Testified in favor of the bill. We are a primary sector business. I am the second generation of this business. My father started it in 1954. We are a company that sells its products into 20 countries around the world. We have to compete globally. More than half of our revenues come from customers located outside of the U.S. I understand it is important to hear from constituents when conducting the due diligence on legislation. I will go through a little of our history starting in 2013. We employed 257 people in Wahpeton. As the economy strengthened, we struggle to fill multiple job openings and our total workforce dropped down to 200. WCCO's reduction in the workforce was directly attributed to our inability to find, hire, and retain enough people. There were just not enough applicants. We still have a lot of unfilled job positions. It was the same lack of a workforce that drilled us to create a new plan for growing our business. Basically, we were forced to rethink our situation and reinvent ourselves using automation and work force training to stay in business. In our case, it was easier said than done because no one in the world does what we do the way we do it. All of our processing equipment is customized and custom made. We needed to invent our automation. In December of 2013, we gathered and informed every one of our plan to immediately raise their wages two times the annual increase. Everyone was happy. We then told them that it was with the expectation that they must help us produce more product, more efficiently. It could not be higher wages for the same output, rather higher wages, for more output. There were a lot of heads shaking that day. People were wondering how they were supposed to work even harder. We just needed to work smarter. We immediately hired several new process improvement engineers. They expanded our maintenance team to implement as many process improvements as we could and as much as we could afford. Over the course of the next 4 years, more than 1,000 process improvement ideas were implemented. It goes without saying that the former ND

automation tax incentives in the workforce training support dollars made available to us back then, really helped us to justify to our board, the true reinvention of the company and the implementation of many automation ideas and investments. The taxation incentives by themselves, represented only a small fraction of the total dollars we invested in our people or our technology. It was a very important tool to help us convince our board of directors that we needed to make the changes and the long term investments. During the last biennium when the legislature eliminated its incentive to automate and make fewer dollars available, WCCO's advanced manufacturing development was stalling. Our board was less enthused about the longer term. Yet, the conclusion of the story is, as a result of our investments in automation and training, you helped to produce and ship 20% more product, with 20% fewer people than we had back then. That is what automation did. WCCO's workforce is now also earning significantly more. It also helped us reduce our annual employee turnover from about 25% to less than 2%. People always want to say automation will reduce jobs or displace workers but it really increases the potential for the people to establish a higher valued career where they can earn more for the services they provide. When I was asked if I would be willing to stress my support for the new legislation of new workforce incentive legislation, I was more than happy to comply. Today we shouldn't be looking to reduce the incentives for automation when everyone in the country is struggling to fill job openings. I would like to say thank you to those that supported automation and workforce training. This really does matter.

Scott Stauding, Cloverdale Foods, Mandan: Testified in favor of the bill. You have heard a lot of concerns with the automation and workforce development. I want to let you know how this affects small primary sector businesses. As an example, Cloverdale Foods has about 330 employees. We are planning to double our capacity from \$100 M in sales to \$200 M in sales per year. Here, we have about 3,000 full time job openings and about 6,000-part time job openings. I just returned from Guam to find employees that will come back to our organization to meet those demands. Your automation then allows us to leverage that and not subtract employees, but to continue to increase and make us relevant in our business. We will add about 40 employees within the next month which will put about \$1 M into our payroll. The automation to go up is definitely a major positive for us as we continue to grow and add on. We are putting about \$30 M into our new plant. With that, we need to have the equipment and technology that will make us a more efficient plant.

Kristin Hedger, Killdeer Mountain Manufacturing: Testified in favor of the bill. We are a three generation company. My grandpa started our company to create jobs in the 80s. We have a boom bust economy in ND. That was a terrible drought year. The price of oil was down. For our region, it was very sad. My grandpa had a background in Aerospace. He took his skills to create labor intensive sub-assemblies for aircrafts. It took off. We make parts for commercial aerospace as well as defense. We are ramping our productions up. It is constantly improving as global markets shrink. The demand for aerospace and travel is huge. Foreign military sales have taken off as well. We supply to fighter jets as well as others. Automation is important to us because while we remain to creating jobs in our state, we have to remain competitive because our competitors we quote against are in China, Mexico, Morocco, etc. They are able to pay their workforce a lot less than what we want to pay. We want to have good high paying jobs here in ND. In order to remain competitive and stay ahead of the demand, we have to continuously invest. Like any good North Dakotan, we are always investing in better equipment just like our farmers and ranchers. We remain so competitive that even our customers have brought some of their experts out to our facility to

see some of the new advancements we are investing in. While we have grown, we need to continue to invest in companies that are committed to us. While we have benefited, this is yet another example of an investment in economic diversity that can help us be stable during some of those boom bust times and provide a match for our communities. I think it is a very worthwhile investment. It is one that I think will render return for our state. It is one I am hopeful you will pass. I will welcome and questions.

Chairman Cook: Any further testimony in support? Any opposed? Neutral?

Senator Dotzenrod: Before you close the hearing, I would like to ask about the changes in federal tax law and how they are relative to this bill. It seems like the trend at the federal level is to increase or make the depreciable assets available to the purchaser, a more rapid depreciation environment than we are used to having. I am wondering if that is something that is a factor and is important to buy this automation equipment and then be able to depreciate in one year. It is not a credit. A credit is something that could be more readily useful. I would think that in the kind of business you are talking about automating, those federal changes would be helpful.

Chairman Cook: My guess is that these people all have a tax accountant they could ask that question to.

Kristin Hedger: We do have tax folks who handle all that. I would say that the environment has created one than incentivizes further investment. I missed to say that when we have an opportunity to increase our sales, we are able to increase our wages and the training. It would be a welcome compliment from the state of ND and it speaks volumes to our customers when we are able to say we have the backing of our state. It sets us apart from our competitors.

Chairman Cook: We will close the hearing on HB 1040.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1040
3/18/2019
Job #33842

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; to provide an effective date; and to provide an expiration date.

Minutes:

Attachments: 1

Chairman Cook: Called the committee to order on HB 1040. The House sent this over with a \$500,000 cap and an expiration date. I am passing out amendments that would raise the \$500,000 to \$2M. It would remove the expiration date. \$2 M used to be where it is at. There has been a lot of movement on that over the years. I would like to see the expiration date removed so we can have some certainty.

Senator Patten: Moved to adopt the amendments.

Senator Unruh: Seconded.

Chairman Cook: Any Discussion?

A Voice Vote Was Taken.

Motion Carried.

Senator Unruh: Moved a Do Pass on HB 1040 As Amended and Rerefer to Appropriations.

Senator Kannianen: Seconded.

Chairman Cook: Any Discussion?

A Roll Call Vote Was Taken. 6 yeas, 0 nays, 0 absent.

Senate Finance and Taxation Committee
HB 1040
March 18, 2019
Page 2

Senator Patten will carry the bill.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1040
3/18/2019
Job #33873

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

Attachments: 0

Chairman Cook: Called the committee to order on HB 1040.

Senator Unruh: Moved to reconsider prior actions on HB 1040.

Senator Patten: Seconded.

A Voice Vote Was Taken.

Motion Carried.

Senator Patten: Moved a Do Pass as Amended and Refer to Appropriations.

Senator Meyer: Seconded.

Chairman Cook: Any Discussion?

A Roll Call Vote Was Taken: 5 yeas, 1 nay, 0 absent.

Motion Carried.

Senator Patten will carry the bill.

March 15, 2019

8/1061
3/18

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1040

Page 1, line 4, after the first semicolon insert "and"

Page 1, line 4, remove "; and to provide an expiration date"

Page 2, line 20, replace "five hundred thousand" with "two million"

Page 4, line 10, remove "(effective for the first two taxable years beginning after
December 31, 2018)"

Page 4, line 11, remove "- EXPIRATION DATE"

Page 4, line 11, remove "the first two"

Page 4, line 12, remove ", and is ineffective after that date"

Renumber accordingly

Date: 3-18-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

Senate	Finance and Taxation	Committee
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☐ Subcommittee

Amendment LC# or Description: 19.0389. 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 Patten Seconded By Unruh

[illegible]

Total	(Yes)	No

Absent

Floor Assignment

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

Date: 3-18-19
Roll Call Vote #: 2

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

Senate 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 Unruh Seconded By Kannianen

Senators	Yes	No	Senators	Yes	No
Chairman Cook	✓		Senator Dotzenrod	✓	
Vice Chairman Kannianen	✓				
Senator Meyer	✓				
Senator Patten	✓				
Senator Unruh	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Patten

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

Date: 3-18-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

Senate	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 ☐ Prior Actions

Motion Made By Unruh Seconded By Patton

[illegible]

Total (Yes) _____ No _____

Absent

Floor Assignment

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

Date: 3-18-19
Roll Call Vote #: 2

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040

Senate 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 Patten Seconded By Meyer

Senators	Yes	No	Senators	Yes	No
Chairman Cook	✓		Senator Dotzenrod	✓	
Vice Chairman Kannianen	✓				
Senator Meyer	✓				
Senator Patten	✓				
Senator Unruh		✓			

Total (Yes) 5 No 1

Absent 0

Floor Assignment Patten

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

REPORT OF STANDING COMMITTEE

HB 1040, as engrossed: 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** (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1040 was placed on the Sixth order on the calendar.

Page 1, line 4, after the first semicolon insert "and"

Page 1, line 4, remove "; and to provide an expiration date"

Page 2, line 20, replace "five hundred thousand" with "two million"

Page 4, line 10, remove "(effective for the first two taxable years beginning after December 31, 2018)"

Page 4, line 11, remove "- **EXPIRATION DATE**"

Page 4, line 11, remove "the first two"

Page 4, line 12, remove ", and is ineffective after that date"

Renumber accordingly

2019 SENATE APPROPRIATIONS

HB 1040

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee Harvest Room, State Capitol

HB 1040
3/27/2019
JOB # 34252

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alice Delzer / Carie Winings

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new section to chapter 57-38 and a new subdivision to subsection 7 of section 57-38-30.3 of the North Dakota Century Code, relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes; and to provide an effective date.

Minutes:

1. Testimony of Arik Spencer, GNDC 2. Testimony of Mason Sisk, EDAND

Chairman Holmberg: Called the committee to order on HB 1040. All committee members were present. Sheila M. Sandness, Legislative Council and Becky J. Keller, OMB were also present.

(1:18) Arik Spencer, President and CEO, Greater North Dakota Chamber (GNDC): Testified in favor of HB 1040 and provided Attachment #1 explaining the reason for the bill. I'm not prepared to fully introduce the bill, but I will talk about a few features of the bill. It provides a 20% tax credit for investment in automation. To qualify, a project would have to result in a 5% improvement in job quality. Meaning work place safety, increase in wages, or a 5% increase in productivity on the specific line that is being automated. This bill puts \$2 million per year up for the automation tax credit with no sunset. Essentially adopting what the interim committee suggested. It is a change from what the House did. We think this is critically important for North Dakota's manufacturers. Manufacturing's total output in North Dakota is \$3.71 billion or 7.1% of the state's total economic output. Because workforce issues are so prevalent in our state, the automation tax credit is 1 tool that manufacturers have to overcome those obstacles. The result is not less jobs. It is higher paying jobs that help our manufacturers continue to grow and meet demand both in North Dakota and beyond.

(3:25) Chairman Holmberg: Committee members should be aware that on the revenue impact sheet that we have, it indicates that this is a \$1million item. That is because of the updating of the dollar amount doesn't occur until after the appropriations committee has acted on it. The policy committee acted, but that is still running as \$1million on the worksheets we have.

Senator Grabinger: I know many of our local economic development groups have programs similar to this and are utilized for this same purpose. And we might be doubling up a little there. Can you answer that? Also, how much was this used in the last biennium when the program was put with a sunset?

Arik Spencer: I will defer to the speaker coming behind me who has the answers to those questions.

V. Chairman Wanzek: I was thinking of my cousin down the road. He bought 5 robots to milk cows. Would that be considered manufacturing? He spent \$300,000 for each robot. You are seeing more and more of that kind of automation in agriculture. Is this exclusive to manufacturing?

Arik Spencer: He would have to qualify as a primary sector business. As defined in section 1-01.49. I don't know the answer to your question. I would have to look that up.

V. Chairman Wanzek: There has to be a 5% increase in wages or a 5% improvement for workforce safety. I think he would qualify in the improvement of work place safety. I'm not sure if that is a primary sector business.

Mason Sisk, Economic Development Association of North Dakota, (EDND): Testified in favor of HB 1040 and provided Attachment #2. On page 2 of my testimony, you can see the usage of the credit from previous years. It shows how much was approved and what the cap was at the time, as well as what was being applied for. It was certainly being used. Last session they did not have the data for the last year before it sun-setted so they were not able to see what was being used in that last year. It was kind of a perception that it was not being used. But you can see here that it was. We might have to defer to the Department of Commerce on what other kinds of programs that this might also cover. In my testimony, I included companies that have taken advantage of this program in the past. There are all kinds of manufacturers across the state. Large and small. We really feel it is important to leave that cap at \$2 million. When it came over from the House at a \$500,000 cap, we had some concerns it may not be enough. Some of these automation projects are very large and require a lot of planning. We felt the sunset in 2020 was too short. We are supportive of the amendments that the Senate Finance and Tax committee made.

Chairman Holmberg: As the bill stands, there is no sunset?

Mason Sisk: Correct. We are supportive of the removal of that sunset.

Senator Wanzek: I see Matt is here. This is exclusive to manufacturing. As I thought about it, on our farm, we are similar to other operations where we are bonded and licensed and we process a specialty crops. As it is now, it is mostly back labor to take 100 lb. bags of beans and put them on a pallet, and I know more and more people that are buying automated equipment that would do that. Is that all under manufacturing?

Matt Peyerl, Tax Department: I am familiar with the credit and could provide some information. The Department of Commerce makes the determination. They review the applications as they come in. In administering the program with them for the last 5 years,

there are number of grey areas and decision that have to be made. Primary sector is the first criteria that the business would have to meet. That is a separate determination. As far as the activities of taking a product and changing its form as far as packaging and so forth, I know there have been those that have been approved when it has been a matter of repackaging, dividing up, and so forth when the automation equipment has related to that. I believe that is the type of project that has been approved under the program in the past.

Senator Oehlke: When we talk about the amount of credit is 20% of the cost of the manufacturing machinery and equipment – I get that. How does that equipment then get depreciated? Are they able to depreciate the entire cost of the equipment, or is that 20% of the cost deducted first and then they can depreciate the balance? How does that work?

Matt Peyerl: No, they don't have to change what they otherwise would be able to depreciate. If they have \$1 million of equipment and they would depreciate it over 5 years, they would still deduct \$200,000 per year in depreciation. The amount of the credit does not offset their basis of that. It is in the deep end of the pool with accounting principles if you get a discount or rebate, that goes against what you can depreciate but the tax incentive, thus far, isn't considered something that goes to reduce the amount of depreciation expense you can take on your federal tax return. If you can take it on your federal tax return, that flows through automatically to your North Dakota taxes because there is no separate modification on our state tax return that un does that depreciation.

Senator Oehlke: Do you recognize that as a conflict or a problem?

Matt Peyerl: That is the way this bill is. It didn't require any kind offsetting claw backs. You might remember that there are other tax incentives where they say, if you get a credit for donating to the housing incentive fund, that you had to add back that deduction so you couldn't double dip a little bit. There are other tax credits that have that feature in them. There is no offsetting provision in this one. That's just the way this incentive is structured.

Chairman Holmberg: Senator Bekkedahl, you were on the tax committee when this went through. What was the rational on the fact that last time we had a sunset clause and now they're back?

Senator Bekkedahl: I've been on conference committees for this issue both in the 2015 and 2017 session. Essentially, the House is the body that keeps putting the sunset on. They don't like the continuing appropriation on this program, and generally the Senate has always looked for higher limits and the House has always tried to reduce those limits. In fact, we lost this program for the 2017 biennium. This is bringing it back from the 2015 biennium.

Chairman Holmberg: What does the committee want to do?

Senator Robinson: Moved a Do Pass.

V. Chairman Krebsbach: Seconded.

A Roll Call Vote Was Taken: 14 yeas, 0 nays, 0 absent.

Senate Appropriations Committee

HB 1040

03-27-19

Page 4

Senator Patten will carry the bill.

Chairman Holmberg: Closed the hearing on HB 1040.

Date: 3-27-19Roll Call Vote #: 1

**2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1040**

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 Robinson Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Holmberg	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator Grabinger	✓	
Senator Wanzek	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Poolman	✓				
Senator Bekkedahl	✓				
Senator G. Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0Absent 0Floor Assignment goes back to Finance + Tax Patten

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

REPORT OF STANDING COMMITTEE

HB 1040, as engrossed and amended: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1040, as amended, was placed on the Fourteenth order on the calendar.

2019 CONFERENCE COMMITTEE

HB 1040

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
4/8/2019
34613

☐ Subcommittee
☒ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A BILL relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes.

Minutes:

No attachments

Chairman Grueneich: Opened the conference committee on HB 1040. Are you willing to rescind your amendments?

Senator Patten: Not yet.

Chairman Grueneich: As I look at what the Senate did on page 4, lines 10-12 where the sunset was removed, I think that's something that got put on from the House side and I think it helped to move the bill forward. The biggest stumbling block for me is changing it from \$500,000 to \$2 million. Could anyone add to that?

Senator Patten: The sunset clause has been renewed for several biennia. This needs to find a permanent home. The changing from \$500,000 to \$2 million was reflective of two things; one being as we use this the demand seems to be there so it seems to be successful and the cost to doing these projects is higher the more successful they become. The companies are bigger. This is a successful program that we felt needed additional funding. We didn't think it needed to come back every two to four years for review.

Senator Kannianen: The interim taxation committee reviews any tax credit every three biennia. This would be looked at a minimum every six years anyway. We just decided to bring the \$2 million back to what the original bill was.

Chairman Grueneich: Would it be safe to assume that there may be some room to find a number that would be amiable for everyone? I agree with you on the sunset. I don't think we need to review these credits every single session. If the number is too low, we're going to see it next session anyway with or without a sunset clause. I would love nothing better than to see some of these things working to come back with statistics and proof. In our committee we had some discussion as to how much of the automated credit was being used.

We dropped it back down because it was being used completely at \$2 million. The way it was reported could have been the reason it wasn't shown to be used as much.

Senator Patten: Did you have a number in mind?

Chairman Grueneich: I would be open to suggestions and discussion. Prior to making a motion I would be interested to see if you had something in mind that would be a middle ground.

Senator Patten: In negotiating I don't like to bid against myself. The Senate was at \$2 million but you didn't concur so I think the ball is in your court for an offer.

Chairman Grueneich: I would like to leave it where it is at the \$500,000 mark. I would consider going to \$750,000 possibly.

Representative Eidson: Waylon Hedegaard came in and spoke with us about this specific tax credit. I'm not against tax credits in any way but this one already has an economic driver with these companies to move towards automation equipment. Workers and middle class people are already having trouble keeping up with that very aggressive and fast moving pace. I don't see why we should be helping that along as I think it hurts the worker disproportionately. With this discussion if we're going to put a credit like this forward then I would like to see it lower rather than higher. I'm on board with keeping it at \$500,000.

Senator Dotzenrod: I don't think we heard from Mr. Hedegaard in our hearing. You mentioned something about the numbers showing when we had this in effect it wasn't getting used that much. Do you have data showing this? We've had this in effect for several biennia. What has been our use in the past biennia?

Chairman Grueneich: It came in the form of an email from the Tax Department of what was being used. Testimony showed a lot of it had been applied for. The Tax Department has information on what was being used. Matt, there was a different dollar amount on the testimony so could you explain that to us?

Matt Peyerl, Tax Department: I don't recall if I provided that information to your committee. I provided some information to the House Appropriations. The credit was in existence for five years. The first year was \$2 million cap and it was all used. The second year \$2 million cap was all used. The third year \$2 million cap was half used. In that year the excess of the \$1 million was rolled over and added to what was available the following year so year four was a \$500,000 cap per statute plus the \$1 million rollover and that was all used. The fifth year was a half million dollars and it was all used. It was just the one year when it was \$2 million and only half used but ultimately used the next year.

Chairman Grueneich: Is it safe to say that \$3 million was used that year?

Matt Peyerl: It would just be \$2 million that year. In the one year when there was \$500,000 plus the \$1 million, \$2 million was applied for and everyone was prorated down so they each got about 75% of their credit. That is what happens when there is an excess in applications.

This information wasn't given to you in the first listing. Of the five years it was available there was \$7 million allocated and it was all used, some of it was just not used in its initial year.

Chairman Grueneich: That's where I may have gotten thrown off. Are we getting enough applicants?

Matt Peyerl: The application counts range from 11 at the lowest to 18 at the highest. The applications go to the Department of Commerce. In four of the five years there were excess purchases approved. If there is excess then everybody gets prorated shares. The Tax Department does the notification at the end of the year to each taxpayer informing them what they actually got because when they get it approved during the year it's a tentative guess based on the number of applications. It's not a certainty that everybody gets the 20% credit on the cost.

Chairman Grueneich: Were the 18 applicants the most recent?

Matt Peyerl: The counts from 2013 to 2017 were 11, 13, 14, 18, and 14. There's also a handful of applicants that weren't approved so these are just the approved applicant counts.

Chairman Grueneich: How many people get denied?

Matt Peyerl: Not a lot, maybe one to two a year. Most would communicate ahead of time and not go through the work of applying if it wasn't going to qualify. We have meetings throughout the year with companies so they know ahead of time if they are going to qualify or not.

Chairman Grueneich: Why wouldn't a company get approved?

Matt Peyerl: It was probably something that didn't automate a manufacturing process; it was just new equipment or possibly software. There are certain things that have parameters with criteria that has to be met. One of the largest was replacement equipment when something had exhausted itself over its life so they replaced it with something better but it wasn't geared towards automating an existing manual process to some level.

Senator Patten: With the \$2 million and 15 applicants that's \$125,000 per applicant. If you cut that to ¼ at the \$500,000 the actual benefit is pretty limiting for a company if you're prorating. The value to a company can be marginal when you're looking at \$25,000 to \$30,000. When you're looking at some of the larger companies that amount isn't that big of an issue. To me it looks like the demand has been there for the \$2 million level. Their biggest issue is turnover. They want to keep their employees and they feel that this automation level is one of the things that helps with employee retention. That's a much bigger cost to them than any other factor.

Representative Eidson: I completely agree. When it comes to better quality of work and such I agree. While it's improving in those cases the amount of workers there are shrinking. I don't see employee retention as the case at all. It's an economic driver to move towards automation. Having better workplace facilities is already going to happen despite what we do here. During our hearing a representative from John Deere was asked if a tax credit

wasn't available if they would leave North Dakota and he said they would not. They are already incentivized to move towards this, I don't think we need to speed it up. We're trying to create training programs to move workers from one area to another. All we're doing by encouraging this is displacing it. If we're going to have it, I prefer to have it at the House's recommendation.

Senator Dotzenrod: In my district we have the largest manufacturing plant in the state, Bobcat. Those jobs are some of the most sought after jobs in the area being high quality jobs that are high paying with good benefits. We have a surprisingly large number of carpools out of Fargo to get to those jobs. It's allowed them to have high paying jobs with a tendency for the workers to want to stay there. Based on the testimony we heard there was a sense that they could do a job that put them at a more competitive higher plane with the jobs created. The productivity would go up per worker. When you start automating there will be fewer workers but they have a talented workforce with quality jobs and the output per worker will go up. Our income tax probably isn't high enough to drive this but we can help with this along with changes in the federal system. There is a tendency for them to want to do this anyway. If they had this little extra benefit to go with it, I think you'd see more of it.

Senator Patten: With these companies that are looking to do these expansions in automation it isn't so they can reduce workforce, they are growing their companies. Cloverdale wanted to generate another \$100 million in sales but they don't do that by reducing their workforce. When we have record low unemployment now it's difficult to find workers, especially at the production level side where automation can make that difference. Job satisfaction is key. The retention of the jobs is much better if they can improve the retention, satisfaction, safety and the salary. When we look at our workforce now I believe the automation component is the next step forward that will provide that higher quality job for the workforce we have. If we draw it in from other states it would require that higher pay and higher quality. We're sticking pretty close with our number.

Chairman Grueneich: We can agree to disagree. Automation tax credit does some good things for our businesses. The problem for the House is the lack of appetite for a \$4 million fiscal note. We need to find a number that will get passed. The industry wants and needs this credit. If we can't come to something that's common ground, we're not doing our industry any favors. We could possibly remove the sunset and step this up if it's being used. We could set a dollar amount for this biennium then have an increased dollar amount for the next biennium so we wouldn't have to look at it. We all want to see this move forward. The \$2 million a year isn't something the House is interested in. I think we all agree to remove the sunset. Before we close the hearing I'd like to have something that's closer to work on as opposed to the Senate stuck on one side and the House on the other. We'll need to take some time and talk to the industry before we come back on Wednesday. We need to find some middle ground.

Senator Patten: One of the things I believe is if we drop it to the \$500,000 or \$700,000 we would probably see a drop in applicants because their benefit is going to be more limited. I would like to have some numbers in mind for our next meeting.

Chairman Grueneich: I feel the same. We owe it to the industry to have a good discussion.

Senator Patten: Representative Eidson is still around \$500,000 and Chairman is at \$700,000. We haven't talked amongst ourselves about a number yet.

Chairman Grueneich: We can discuss individually and reschedule for Wednesday.
Hearing closed.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB1040
4/10/2019
34659

☐ Subcommittee
☒ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes.

Minutes:

No attachments

Chairman Grueneich: Opened conference committee on HB 1040. I sent an email regarding the automated tax credit. I'd like to have someone from the Tax Department explain the numbers. The numbers are a bit misleading as to what it shows on that and how it's claimed. They told us that the whole \$2 million was being used but these numbers conflict with that. The Tax Department said the difference between the document from Joe Becker and what Matt Peyerl told the committee relates to the credits claimed versus what was earned.

Matt Peyerl, Tax Department: The difference between a credit claimed is when it hits a tax return and reduces the tax liability versus a credit earned is available to use. If the tax liability is \$10,000 but they earn a \$50,000 credit they can only use the \$10,000 against their tax then the other \$40,000 gets carried over to a subsequent year to be offset against tax. That's the difference between earned and claimed.

Chairman Grueneich: How long can they carry them over?

Matt Peyerl: For this program I believe it's five years to carry over.

Chairman Grueneich: Senator Patten, do you want to remove your amendments?

Senator Patten: I don't think so.

Chairman Grueneich: We're open for discussion.

Senator Patten: You had said in the last conference committee that we could take a look at a staggered method of including this at some level. On a biennium basis maybe \$2 million per biennium then have an increase to \$4 million a biennium for the following one to stagger that in place. We'd be interested in that type of concept as it relates to this bill.

Chairman Grueneich: How would that work from an appropriations standpoint? Would we have to commit all \$6 million this biennium?

Matt Peyerl: The fiscal note attached shows \$1 million per year for this biennium which would have a fiscal note impact of a negative \$2 million. I don't know if they would put \$4 million on the out biennium for 2021-23 but I'm fairly confident this biennium would just reflect the \$2 million for this biennium. They don't appropriate out further and pull that into this biennium, it's per biennium.

Chairman Grueneich: As a committee I don't think we want to see this come back every session. Would that mean next biennium it would roll through and go through the appropriation process? How would that process work?

Matt Peyerl: For this fiscal note if it were amended to be \$1 million per year or \$2 million for this biennium, you would have a negative impact of -\$2 million for the 2019-21 biennium. I don't know how set appropriations makes that for the 2021-23 session. If the sunset is taken out there wouldn't be anything else brought back next biennium.

Chairman Grueneich: Senator Patten, we could take a look at that on our side. I think it would be a good compromise. If that's something the Senate would be open to we'll close the hearing for today and have Legislative Council draft an amendment reflecting your wishes. Hearing closed.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
4/15/2019
34735

☐ Subcommittee
☒ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes.

Minutes:

No attachments

Chairman Grueneich: Opened the conference committee on HB 1040. Would the Senate be willing to recede from their amendments?

Senator Kannianen: No.

Chairman Grueneich: Closed the hearing.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1040
4/17/2019
34813

☐ Subcommittee
☒ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the provision of an income tax credit for purchases of manufacturing machinery and equipment to automate manufacturing processes.

Minutes:

No attachments

Chairman Grueneich: Opened conference committee on HB 1040. Does the Senate want to recede from their amendments?

Senator Patten: No.

Chairman Grueneich: I have a suggestion. On the original bill I'd like to have an expiration date and change the wording on page 4 line 10, "effective for the first four taxable years beginning after December 31, 2018. We would put a four-year sunset on it. This would give the program time to see how effective it is. The second proposed change is on page 2 line 20 strike the \$2 million and change to \$1 million.

Senator Patten: Senators, is there any disagreement to that?

Senator Dotzenrod: This seems like a reasonable first attempt to try and find something in the middle.

Chairman Grueneich: It is the general consensus on the House side to have the ability to look at it sooner than six years. The dollar amount is something that could get passed on the House floor. We have to get out a bill that will be passed and help the industry.

Senator Patten: We would agree with that. Made a motion for the Senate to recede from Senate amendments and amend as follows: four-year sunset and an annual credit of \$1 million.

Representative Fisher: Seconded motion.

Roll call vote: 6 yes 0 no 0 absent
Motion carried.

April 17, 2019

DO 4/17/19

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1040

That the Senate recede from its amendments as printed on pages 1392 and 1393 of the House Journal and page 964 of the Senate Journal and that Engrossed House Bill No. 1040 be amended as follows:

Page 2, line 20, replace "five hundred thousand" with "one million"

Page 4, line 10, replace "two" with "four"

Page 4, line 11, replace "two" with "four"

Renumber accordingly

Date: _____

Roll Call Vote #: _____

2019 HOUSE CONFERENCE COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1040 as (re) engrossed

House Finance and Taxation Committee

- Action Taken**
- ☐ HOUSE accede to Senate Amendments
 - ☐ HOUSE accede to Senate Amendments and further amend
 - ☐ SENATE recede from Senate amendments
 - ☐ SENATE recede from Senate amendments and amend as follows
 - ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: _____ Seconded by: _____

Representatives	4-8	4-10	4-15	Yes	No		Senators	4-8	4-10	4-15	Yes	No
Chairman Grueneich	X	X	X				Senator Patten	X	X	A		
Representative Fisher	X	X	X				Senator Kannianen	X	X	X		
Representative Eidson	X	X	X				Senator Dotzenrod	X	X	X		
Total Rep. Vote							Total Senate Vote					

Vote Count Yes: _____ No: _____ Absent: _____

House Carrier _____ Senate Carrier _____

LC Number _____ . _____ of amendment

LC Number _____ . _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Date: 4-17-19
Roll Call Vote #: 1

2019 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1040 as (re) engrossed

House Finance and Taxation Committee

- Action Taken ☐ HOUSE accede to Senate Amendments
 ☐ HOUSE accede to Senate Amendments and further amend
 ☐ SENATE recede from Senate amendments
 ☒ SENATE recede from Senate amendments and amend as follows
 4 year sunset and annual credit of \$1million.
 ☐ Unable to agree, recommends that the committee be discharged and a new
 committee be appointed

Motion Made by: Sen. Patten Seconded by: Rep. Fisher

Representatives					Senators				
	<u>4/17</u>		Yes	No		<u>4/17</u>		Yes	No
Chairman Grueneich	<u>X</u>		<u>X</u>		Senator Patten	<u>X</u>		<u>X</u>	
Representative Fisher	<u>X</u>		<u>X</u>		Senator Kannianen	<u>X</u>		<u>X</u>	
Representative Eidson	<u>X</u>		<u>X</u>		Senator Dotzenrod	<u>X</u>		<u>X</u>	
Total Rep. Vote					Total Senate Vote				

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Rep. Grueneich Senate Carrier Senator Patten

LC Number 19.0389 . 02002 of amendment

LC Number _____ . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Pg. 4 line 10, 4 year sunset and change p. 2 line 20 to \$1million.

Insert LC: 19.0389.02002
House Carrier: Grueneich
Senate Carrier: Patten

REPORT OF CONFERENCE COMMITTEE

HB 1040, as engrossed: Your conference committee (Sens. Patten, Kannianen, Dotzenrod and Reps. Grueneich, Fisher, Eidson) recommends that the **SENATE RECEDE** from the Senate amendments as printed on HJ pages 1392-1393, adopt amendments as follows, and place HB 1040 on the Seventh order:

That the Senate recede from its amendments as printed on pages 1392 and 1393 of the House Journal and page 964 of the Senate Journal and that Engrossed House Bill No. 1040 be amended as follows:

Page 2, line 20, replace "five hundred thousand" with "one million"

Page 4, line 10, replace "two" with "four"

Page 4, line 11, replace "two" with "four"

Renumber accordingly

Engrossed HB 1040 was placed on the Seventh order of business on the calendar.

2019 TESTIMONY

HB 1040

Greater North Dakota Chamber
HB 1040
Finance and Taxation Committee
Representative Headland - Chair
January 08, 2019

Mr. Chairman and members of the committee, my name is Matt Gardner and I am here today representing the Greater North Dakota Chamber (GNDC). The GNDC is the largest statewide business advocacy organization in North Dakota. We stand in support of HB 1040 and ask for a do pass.

A crucial business sector that we represent are advanced manufacturers. The GNDC is the official state affiliate for the National Association of Manufacturers (NAM). GNDC recently formed the North Dakota Manufacturing Council to aid in getting a clear picture of the state of manufacturing in North Dakota and better understand the issues that face our manufacturers.

Manufacturing's total annual output in North Dakota is \$3.72 billion which accounts for 7.1% of the state's total economic impact. Our over 700 manufacturers employ more than 24,000 North Dakotans and serves as a significant driver of our state's economy.

The bill before us reinstates the automation tax credit. EDND will share more stats but during the time the previous automation tax credit was active 70+ automation projects were completed from 40 different manufacturers.

From my discussions with manufacturers and as you will hear from them today, a large issue they face is the availability of workforce. Without workers it's tough for manufacturers to expand operations and increase productivity. With few unemployed seeking work, we need to better utilize our existing workforce and focus on quality of jobs rather than quantity. We must do more with less and the automation tax credit helps our manufacturers increase output through automation to supplement human labor and remain competitive within the global market.

New to this bill from previous law is a reporting requirement that manufacturers would need to prove a 5% increase in employee wages, safety or total output. In discussions with manufacturers, the reporting requirement is reasonable but more attention is needed to the 5% increase in total output. The language in the bill is broad and could be interpreted to mean a 5% increase in total production for the entire company. For large manufactures this would be very restrictive and even next to impossible. We feel a 5% increase in total output per automated line would be more appropriate. Our manufacturers here today can discuss that portion further.

GNDC and the NDMC ask for a do pass with amendments to the reporting requirements. I will be happy to answer any questions. Later I will introduce some manufactures who are here to testify how automation impacts this important primary sector industry.

HB 1040

1 p. 2

1-8-19



NATIONAL ASSOCIATION OF

Manufacturers

NDMC is the official state affiliate of the National Association of Manufacturers



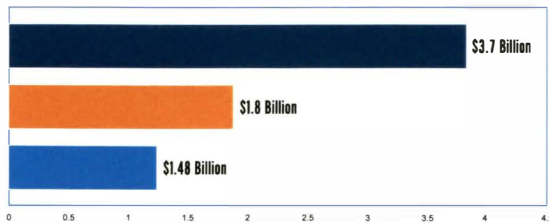
**NORTH DAKOTA
MANUFACTURING COUNCIL**

— MANUFACTURING SUCCESS —

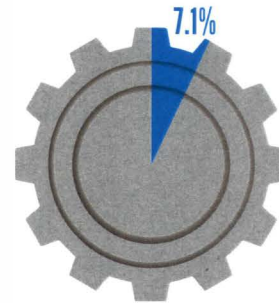
Box 2639 • Bismarck, ND 58502 • (701) 222-0920

manufacturingnd.com

North Dakota Manufacturing Industry



- North Dakota's manufacturers total output in 2016.
- North Dakota manufactured goods exports in 2016.
- North Dakota manufactured goods exports with free trade agreement nations in 2016.

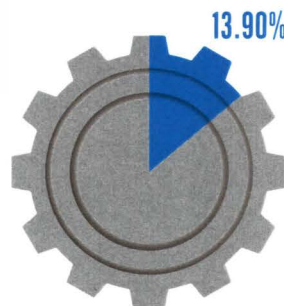
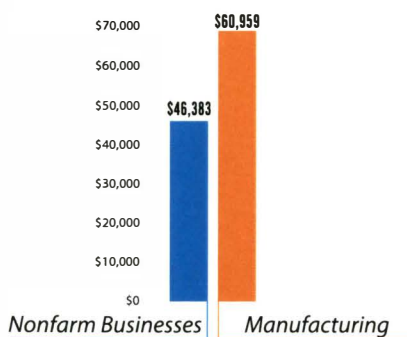


7.1% Manufacturing's share of North Dakota's Gross State Product.

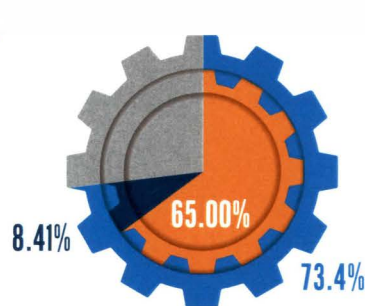
5.6% The percentage of the state's workforce employed in manufacturing.

24,500 North Dakotans are employed in manufacturing.

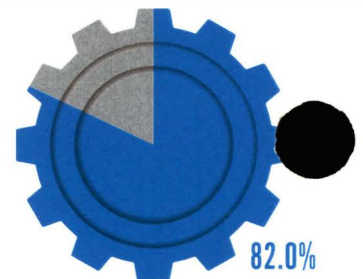
The average annual compensation of North Dakotans



13.90% of North Dakota employment that stemmed from exports in 2011.



73.4% of North Dakota manufactured goods exported to Canada (65.00%) and Mexico (8.41%)



82.0% of small businesses that comprised North Dakota's total exporters.

North Dakota's Top Five Export Markets

65% Canada
8.41% Mexico
6.75% Australia
3.50% Czech Republic
2.34% Germany

**Manufacturing Matters to North Dakota's Future.
And North Dakota Needs Free Trade.**



**Testimony of Ellen Huber
Economic Development Association of North Dakota
In Support of HB 1040
House Finance and Taxation Committee
January 9, 2019**

Chairman Headland and members of the House Finance and Taxation Committee:

I'm Ellen Huber, business development director for the City of Mandan and president of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support of HB 1040, which creates a 21st Century Manufacturing Workforce Incentive.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota, develop more vibrant communities and improve quality of life.

Workforce availability is the most significant challenge facing North Dakota businesses, limiting the growth potential of the state's economy. EDND supports the development of workforce attraction, development and retention strategies that address the needs of the state's companies. As of October 2018, North Dakota had an unemployment rate of 2.8 percent, which can make it difficult for businesses to find qualified candidates.

This incentive for manufacturing automation, particularly in the face of the workforce shortage, is important to primary sector businesses challenged to recruit and retain skilled workforce while remaining competitive nationally and internationally. Investment in innovative equipment can mean the difference between retaining a business or having it close or move elsewhere or the difference between status quo and an expansion.

In a climate where manufacturers can invest anywhere in the world, North Dakota may not be a top choice for businesses due to its lack of workforce and geography. This not only includes the attraction of new manufacturers, but also the retention of businesses already in the area supporting local jobs. If a

North Dakota manufacturer stops investing in updated equipment in the state, they may eventually choose to close a North Dakota business or location completely. This incentive would encourage manufacturers to be innovative in their equipment investments, including upgrading or advancing equipment that helps increase job quality and capacity. Other states with similar programs include Kentucky, Mississippi, Missouri, New Jersey, New Mexico, Rhode Island, and West Virginia.

A similar, previous credit to support automation was in place from 2013 to 2017 and was recommended for continuation by the 2015-16 Interim Political Subdivisions Committee. The idea originally came out of the 2009 Interim Workforce Committee and was designed to provide support for North Dakota manufacturing companies that invest in technology for the purpose of automating the manufacturing process. The program was successful in aiding North Dakota manufacturers in gaining market share and increasing their competitiveness through automation.

The previous program was widely used by North Dakota manufacturers before it was discontinued. The table below shows the request and approval data for each year the credit was in place.

Year	Approved	Cap	Disallowed
2013	\$2,153,809.98	\$2 Million	\$153,809.98
2014	\$2,117,639.59	\$2 Million	\$117,639.59
2015*	\$978,956.62	\$2 Million	0
2016	\$2,002,794	\$1,521,043	\$481,751
2017	\$1,698,508	\$500,000	\$1,198,508

*Unused \$1,021,043 added to the \$500,000 amount for 2016

Many major manufacturers in North Dakota, including Aldevron, John Deere, Bobcat and Doosan, Baker Boy, Cloverdale, Dakota Turbines, Killdeer Mountain Manufacturing, Peterson Farms Seed, Pivotal Edge, Precision Ag, Remington Seeds, Steffes Corporation, WCCO Belting, have spoken to the importance of a credit for automation to drive investments in North Dakota facilities to help businesses grow, to improve ergonomics for job safety, and to increase productivity. The North Dakota Workforce Development Council also recommended remodeling and reinstating the automation tax credit in its recent report.

The accountability provisions in this bill were proposed by EDND during the interim after discussions with legislators. However, after speaking with manufacturers in more detail, we would request a slight adjustment to the definition of increased output. Specifically, that the 5 percent increase in output be

applied only to the manufacturing line being automated, rather than to the entire output of a manufacturing plant.

This tax credit supports capital investments in automation, which provides companies with the ability to support current and new markets and continue to compete on a global scale. We urge the committee's support for the program.

TESTIMONY
To the
North Dakota State
House Finance and Tax Committee
HB 1040
Tuesday, January 8, 2019

#3 p. 1

I am Tony Richards, the President & CEO of Impact Dakota, the official representative of the MEP National Network in North Dakota, and I am providing testimony in support of HB 1040 relating to the Automation Tax Credit Reinstatement.

Today's North Dakota manufacturers are under constant pressure to cut costs and operate more efficiently. With global competition and escalating operating costs, North Dakota manufacturers must explore every option for increasing profits while providing a safe and competitive product for the marketplace.

The impact of North Dakota manufacturers is felt locally, nationally and globally and the Automation Tax Credit is one critical tool that will allow our manufacturers to remain competitive in technology, innovation and in attracting and maintaining higher-skilled technical positions.

On a state level, according to the US Bureau of Economic Analysis, in 2017 manufacturing provided:

- 7.1% of the total state output
- Employed 5.6% of the workforce or approximately 24,500 workers
- Produced over \$3.72 billion dollars in 2017
- There were 24,500 manufacturing employees in North Dakota in 2017 with average annual compensation of \$60,959.
- Small business manufacturing comprised 82% of North Dakota's exporters
- 13.9% of North Dakota's employment stemmed from exports in 2011

Nationally and globally, according to the US Department of Commerce, in 2017, North Dakota trade statistics for manufacturing:

- Accounted for 53.3% of all ND exports
- Manufactured goods exports accounted for \$2.84 billion dollars
- Average more than \$715,000 in exports per manufacturer
- 2010-2017 the national growth average in trade was 50.4% in North Dakota during this same time period, we averaged 67.2%

North Dakota Manufacturers top five exporting markets include:

- Canada 65.0%
- Mexico 8.4%
- Australia 6.7%
- Czech Republic 3.5%
- Germany 2.3%
- Others 14.1%

HB 1040

#3 p. 2

1-8-19

The economic impacts that North Dakota manufacturers have on this state nationally and globally are significant and will continue to grow over the years. The Automation Tax Credit Reinstatement is a critical "tool" that will allow all of our manufacturing base to remain competitive on all levels both today, and for years to come.

On behalf of Impact Dakota and the manufacturers we proudly serve, I respectfully request that the House Finance and Tax Committee support HB 1040.

Sincerely,

Tony Richards
President & CEO
Impact Dakota
701-354-0976
tonyr@impactdakota.com

HB 1040

#4

1-8-19



January 7, 2019

Chairman Craig Headlund and members of the North Dakota House of Representatives Finance and Taxation Committee:

My name is Guy Moos, and I am the president of Baker Boy, Inc., a premium baked goods manufacturer in Dickinson, North Dakota. While I am unable to attend Tuesday's hearing, I am writing to express my strong support of House Bill No. 1040, the "Twenty-First Century Manufacturing Workforce Initiative."

Since it was established in 1955, Baker Boy has grown from humble beginnings as a storefront bakery into a successful manufacturer that employs more than 210 people. Machine automation has long been a key factor in our company's continued growth, productivity and success, and especially in our employees' ever-improving job quality.

In 2018, Baker Boy began an ambitious project to change the way we manufacture and package donut products made at our Dickinson plant. Over the next two years, our company plans to invest more than \$8 million into the complete automatization and modernization of our donut processing line. This automation will help Baker Boy increase our current capacity of 5,000 donuts per hour to an estimated 22,000 donuts per hour by the fall of 2019.

Baker Boy's automation improvements began in the summer of 2018 with a donut-injection machine that has ushered in the creation of the popular new Magic Ring™ Donuts – America's first filled ring donut. In 2019, we will continue our modernization with the addition of new icing and glazing units. These will allow for the expansion of our fully finished donut line, as these items are increasingly in high demand due to customer-level workforce challenges.

If HB 1040 passes and is signed into law, we hope to use the tax credits as we continue to add automation improvements, such as a robotic pick-and-place packaging system. These advancements are critical to Baker Boy keeping pace with existing marketplace demands and trends, and will allow us to reach new customers and expand beyond our current marketplace.

Baker Boy's automation advancements will continue to provide our plant employees increased job stability and higher wages through skill specialization. This is a welcome change for employees challenged by western North Dakota's high cost of living.

bakerboy.com

170 GTA Drive Dickinson, North Dakota 58601 > 701 225 4444 > 800 437 2008

HB 1040
#4 p.2
1-8-19



Additionally, HB 1040 will have great impacts beyond those at Baker Boy. It will be beneficial to the growth of the entire North Dakota manufacturing community, in which automation takes on many forms and functions, and is a serious method in combating workforce shortages.

Manufacturers who are beset by workforce challenges would benefit from the improved automation tax credit. Others would use this bill's incentives to grow their businesses to stay competitive in an ever-changing marketplace. Many, like Baker Boy, would use the tax credit to help modernize their facilities and allow long-term employees better opportunities for advancement by providing jobs with greater skill levels.

Overall, HB 1040 would allow for North Dakota manufacturers to reinvest and/or reinvent themselves to suit the needs of our national and world markets.

Thank you for allowing me to voice my support of HB 1040, the "Twenty-First Century Manufacturing Workforce Initiative," and for your support of the hard work and challenges faced by North Dakota manufacturers.

Thank you,

Guy Moos
President, Baker Boy, Inc.
170 GTA Drive
Dickinson, ND 58601

bakerboy.com

170 GTA Drive Dickinson, North Dakota 58601 > 701 225 4444 > 800 437 2008



HB 1040
#5
1-8-19

January 8, 2019

Representative Headland and members of the House Finance and Taxation Committee

I am Peter Rackov, the CFO of Steffes LLC. Steffes has been headquartered in Dickinson, North Dakota since it was founded in Dickinson more than 40 years ago. Steffes is a primary sector business which manufacturers fabricated metal products in support of the oil exploration industry in North Dakota. We also manufacture component parts for heavy equipment manufacturers such as Doosan / Bobcat.

I support the 21st Century Manufacturing Workforce Incentive bill, HB 1040 which proposes the creation of an Automation Tax Credit.

We at Steffes have been very fortunate and have been able to sell almost everything we could produce over the last few years. But, like most North Dakota employers, we experience significant challenges trying to find additional workers. Automation allows us to grow by improving efficiency and output with existing workers.

An automation tax credit is a significant consideration as we evaluate how long an investment in automation will take to payback or if we should simply outsource the production to other states. In 2018, we outsourced production to Wyoming, Nebraska and Minnesota for items we did not have the labor to produce. We also committed \$500k for 3 robots that can leverage the output of two individuals to an amount approximately equal to what 15 people can produce. These are 15 people we have not been able to find and hire. Automation will allow us to bring some of the volume back to North Dakota.

Automation is critical to manufacturing as it allows small companies in North Dakota remain competitive with companies located much closer to large cities and larger labor pools. It allows us to compete profitably, with high quality output and provide skilled jobs to our workforce. Any incentive the legislature can provide to encourage and support primary sector businesses will benefit the State, our workforce and North Dakota families.

As you consider an automation tax credit, I also ask you to consider the precision of how the rule is applied. Currently, as I understand the Bill, Section 1, item 2.b. requires a 5% increase in unit output by the whole business to qualify. Automation comes in all shapes and sizes. Please consider a less onerous hurdle such as measuring the increase in output based on the individual work cell or product line as improved by the introduction of the automation investment.

In summary, I support the 21st Century Manufacturing Workforce Incentive Bill (HB 1040) and ask you to reduce the hurdle required for manufacturers to participate. The tax credit will help Steffes and all North Dakota businesses to grow and remain competitive. The credit makes investing in North Dakota an easier choice. I encourage the committee to recommend approval for HB 1040.

Thank you for your time.

Sincerely,

Peter Rackov, CPA

Chief Financial Officer

1040

1998 North 9th Street • Wahpeton, ND 58075
 Ph: 701.642.8787 • Fax: 701.642.8788
 www.wccobelt.com



WCCO Belting, Inc.

#6 p.1
 1-8-17
 HB 1040

January 2019

Chairman Headlund and Members of the ND House Finance and Tax Committee:

I understand how important it is to hear from constituents when conducting the necessary due diligence on legislation. I was unable to attend the committee meeting during the last legislative session to testify in person on behalf of our company. **WCCO Belting strongly supports HB 1040 – The Twenty-First Century Manufacturing Workforce Incentive and a DO PASS recommendation.**

My name is Thomas D. Shorma and I am the CEO / President of WCCO Belting located in Wahpeton ND. I am a 2nd Generation family member and the leader of a Company that was founded by my father in 1954. That original business, then known as Wahpeton Canvas Company and now known as WCCO Belting – was a one-man shoe repair shop which he ultimately grew to include 10 divisions and over 1000 employees. 2019 marks 65 years for the Shorma Family Business.

How might you ask has this kind of incentive-based legislation in the past impact our company's success? I would be happy to testify in-person if allowed to do so but provide this letter to give you one ND Real World example of how the utilization of process automation and extensive workforce training was used to reinvent and thereafter benefit WCCO Belting and its employees.

When I took over the leadership role of WCCO Belting 17 years ago, we had 30 Full time employees. We were fortunate to experience some strong revenue growth by finding more markets and more customers outside of the U.S. borders – through exporting. Today we sell into more than 20 countries. Due to that growth, in 2015 WCCO Belting employed a total of 257 full time employees (FTE's). Unfortunately, like so many other businesses in ND we have struggled to fill multiple job openings and we are now down to just 200 FTE's. That kind of drop might jeopardize a company's ability to produce and deliver in a timely manner; it may even force them to move their company to another location or state where a suitable workforce does exist; or worse yet, it could put them completely out of business!

Certainly, a part of WCCO's reduction in workforce was created by our inability to find, hire and retain enough people. There just are not enough applicants and we still have many unfilled job openings. That continues to be a major challenge for nearly every business sector across the entire state; most certainly it includes manufacturing companies. We / ND MUST find a way to bring more people, more job applicants into our state – and I do have some thoughts on how to do that for anyone wants to discuss it!

However, that lack of an available workforce became a key part of WCCO's bigger strategic plan for growing our company. **Basically, we were forced to re-invent ourselves using greater automation and workforce training to solve the challenge of fewer and fewer people being available to fill our job openings.**

What did we do? Two things!

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1-8-19

Page 2 – Twenty-First Century Manufacturing Workforce Incentive

Four years ago, we gathered everyone together – our entire workforce at our annual state-of-the company meeting and informed them of our plan to immediately raise their annual incomes – which of course they loved to hear! We then told them that it was with the expectation that they must help us produce more product – more efficiently. **Not higher wages for the same output – rather more for more!**

There were a lot of heads shaking that day with many people looking around the room for answers. They were worried that we just wanted them to work harder, yet we knew that they were already working very hard. What we needed was for them to help us ALL work smarter – more efficiently.

First, we had to give them the tools to do that. We initiated a formal LEAN manufacturing tool called a Kaizen program. It is basically an employee driven process improvement program. They proceeded to tell us what they needed. Since inception, it has generated more than 2000 employee ideas on how to improve and how to “automate” more of our processes.

Simultaneously we hired several new and experienced process improvement engineers – both industrial and mechanical – and we expanded our maintenance team to implement as many of those ideas as fast as we could with as much as we could afford. Over the course of the past 4 years more than 1000 of those ideas have been fully implemented!

It goes without saying that the former ND automation tax incentives and the workforce training support dollars made available to us back then helped us justify the implementation of many of those employee idea and investments. Of course, those tax saving incentives by themselves represented only a small fraction of the total dollars we invested in our people or our new technology. However, it was a VERY important tool to help us convince our board of directors that we needed to make the changes.

For example, in 2015, WCCO requested \$95,293 in Automation Tax Credits and received just \$14,635 from the state. In 2016, WCCO invested well over \$200,000 in automation technology. Unfortunately, when the ND legislature eliminated its incentive to automate and made fewer support dollars available for workforce training in 2017 and 2018, WCCO’s advanced manufacturing development program stalled.

Second, as the new automation equipment and processes were developed and ready to use, we initiated a comprehensive top to bottom workforce training program. Our team needed to be trained using the new technology. Our training ranged from new employees - entry level training to 100 level to 400 level advanced curriculums with leadership development. They were told that the greater the skills that they possessed, the more adept they became at using our new technology and processes, and then the more they would be paid...and they have been!

Every single WCCO employee has since received a wide assortment of training with some delivered by internal leaders, others delivered by Train ND and still others via customized training from NDSCS. It was ALL done to help us produce more product with fewer people. Over the course of the past four years, in an unprecedented effort by our company, WCCO Belting invested more than \$500k and 30,000 hours of training of its workforce

#6 p.3
HB 1040
1-8-19

As a result of our investments in automation and training, we have been able to reduce the overall size of our workforce by approximately 20% while more efficiently producing and shipping 20% more product – with shorter lead times! Our workforce is now earning more AND producing more.

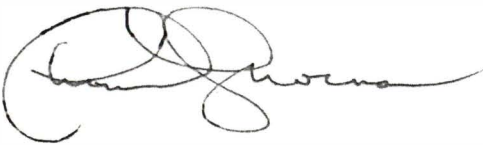
So, when I was asked if I would be willing to express my support for the new Twenty-First Century Manufacturing Workforce Incentive legislation, I was more than happy to comply.

Today is not a time when we should be looking to reduce the incentives for business to automate or to train when everyone is struggling to fill job openings – we should be expanding them.

With thousands of unfilled jobs (30,000 by recent estimates) still sitting open in ND, we need to do more of what works – and less of what doesn't and developing greater automation and expanding our workforce training works! Both must be done if we are to have any chance of retaining those currently unfilled jobs (and those companies with them) in our state. If we don't, those jobs will eventually get filled, it just won't be in ND.

In closing, on behalf of WCCO Belting, I would like to say THANK YOU to those ND legislators who have previously supported *Automation and Workforce Training* Legislation. I now lead a company that has and will continue to use any ND incentive or funds available to stay competitive globally!

The Twenty-First Century Manufacturing Workforce Incentive REALLY DOES MATTER especially to those of us either starting new companies – or trying to build upon those passed down to us.



Thomas D. Shorma
CEO/President
WCCO Belting, Inc.
1998 North 9th Street
Wahpeton, ND 58075



JOHN DEERE

HB 1040
#7
1-8-19

John Deere Electronic Solutions
1441 44th Street NW
Phone: 701-282-9364 Fax: 701-282-9365
E-mail: BossertBryanB@JohnDeere.com

Bryan Bossert
Manager, Operations

7 January 2019

House Finance and Taxation Committee
North Dakota Legislature
Bismarck, ND 58505

Re: Support of Automation Tax Credit

Chairman Headland and Members of the House and Finance Taxation Committee,

I am writing to voice support for the proposed Automation Tax Credit, currently being considered in House Bill 1041. This bill was passed by the Interim Taxation Committee and would revive the credit to its original \$2 million cap.

John Deere has facilities across the world where we manufacture high quality agricultural, turf, construction, forestry and mining equipment. Specifically, in North Dakota, we have John Deere Electronic Solutions (JDES), located in Fargo and John Deere Seeding, located in Valley City. Our business supports over 900 employees and their families, all of whom make considerable contributions to the economic vitality of the state.

The products we manufacture are becoming more technologically advanced every day. JDES is one of the primary locations for the development and manufacturing of our sensor technologies. These specialized devices enable precision agriculture practices that have positive impact both to the environment as well as our customers' bottom line. On our construction, forestry and mining equipment, these sensors enable extreme precision for grading, leveling and other key activities in the industry.

In Valley City, we manufacture large air seeding equipment which allows our customers to make fewer passes with greater precision during North Dakota's very narrow seeding windows. This greatly improves efficiency and soil health and drives down costs for our producers.

The North Dakota Automation Tax Credit was originally established in 2013, making the credit available to manufacturers through 2015. It was then extended through the passage of SB 2340 with a sunset date of December 31, 2017. Since its inception, this credit has been a proven economic development tool, encouraging continued capital improvements and facility modernization across the state – all a critical part of remaining viable in today's highly competitive marketplace.

On behalf of John Deere, thank you for your consideration of the reinstatement of the automation tax credit and for your support in promoting a strong and vibrant business environment in the state of North Dakota.

Sincerely,

Bryan Bossert
Manager, Operations



January 4, 2019

HB 1040

#8

1-8-19

Re: House Bill 1040, Twenty-First Century Manufacturing Workforce Incentive

Cloverdale Foods Company, a Mandan, ND company has been part of the community for over 100 years. On behalf of our 315+ hardworking employees, please accept this letter as a show of support for House Bill 1040, Twenty-First Century Manufacturing Workforce Incentive. Throughout the family's 4 generations of competing in the food business we have learned how to best compete with the giants of the industry. In 2018, in ND alone, Cloverdale reached \$17.8 million in sales and 5.7 million in pounds sold. We want to continue to grow what we produce with the great state of North Dakota.

This tax credit is important to Cloverdale for several reasons. It can help balance out the material financial needs it takes to automate in the manufacturing industry. Investing in automation is such a significant part of staying relevant to the competition and increasing efficiency of output. Automation of processes will help create safer jobs and improve the ergonomic conditions of the manufacturing environment.

As you are aware, there are many companies throughout this great state investing in their businesses. If the tax credit would be approved, it would be an important part of the financial planning process for all of us. We were active participants in the previous Automation Tax Credit and we would be very grateful for it to get passed again.

Sincerely,

Miranda Bergquist
CFO



Cloverdale Foods Company
3015 34th St. NW | Mandan, ND 58554

P.O. Box 667 | toll free: 800.669.9511 | local: 701.663.9511 | fax: 701.663.0690 | cloverdalefoods.com

HB 1040
#9

1-8-19



January 4, 2019

RE: Twenty-First Century Manufacturing Workforce Incentive
House Bill 1040

Integrity Steel is writing in support of House Bill 1040 which provides a nonrefundable credit for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes.

Integrity Steel Supply LLC was founded in 2006 within North Dakota. Integrity Steel fabricates large amounts of structural steel for commercial building contractors including hospitals, schools, arenas, stadiums and office/retail space. We also custom fabricate metal stairs and railings for commercial, industrial and residential projects.

The equipment in our facility includes Overhead Cranes, Robotic Plasma Cutting Machine, Plasma Cutting Table, Pipe CNC Plasma, CNC Saw and two CNC drill lines.

Integrity has recently invested in an EMI Tube Plasma cutting machine. Formerly our employees manually were cutting and coping all of our products. The new plasma cutting machine completes all that work for us which increases our production time and cuts down on our labor hours.

Based on the EMI Tube Plasma machine purchase Integrity was allowed a 2017 income tax credit of \$3,692.06.

The approval of House Bill 1040 will assist in ensuring manufacturing companies throughout ND remain innovative and efficient in a technological market. The bill will ensure that safety, productivity & efficiency remain on the forefront of our industries.

Sincerely,

Kelly Behan

Kelly Behan, COO



January 7, 2019

PIVOTAL EDGE Inc.

Physical Location

4503 19th St. SE
Mandan, North Dakota 58557
USA.

Mailing Address

P.O. Box 2636
Bismarck, North Dakota 58502
USA

BACKGROUND

Pivotal Edge is a privately owned North Dakota company that builds a cover for pneumatic tanks. The cover is a replacement for the manual cover currently used and allows the driver to operate the cover from the safety of the ground and provide a more efficient operation for the trucking industry. The trailers would haul dry products such as: Cement, Fly Ash, Frac sand, flower, charcoal, plastic pellets any many other products around the world. We currently have two employees.

Our manufacturing plant is located in Mandan, ND where we have been located for the past 7 years. We have approximately 65% of our sales outside of North America, and our sales volume is growing at 35% a year.

AUTOMATION TAX CREDIT IMPACT

Pivotal Edge, Inc. has international relationships that would make it easy for us to locate in any country, or state. North Dakota has been both active and progressive in building business incentives, the automation tax credit is another tool used by business for the key economic growth that the State is looking for. The help that automation tax credit gives us is to keep us competitive in the global market place. As our sales have continued to grow, the addition of the CNC machinery is critical in keeping us competitive. The automation tax credit has been calculated into our business plan to determine at what point we are able to bring this work in house.

Pivotal Edge has used the tax credit on four pieces of equipment this has increased our production by making our process safer and more efficient.

The automation tax credit is available to small or large business making it a create tool for the manufacturing base in North Dakota.

I would request that you give your favorable consideration for HB 1040.

Jay Beyer
President
701-220-0889
Jay@thepivotaledge.com



11 p.1
HB 1040

Testimony for 2019 House Bill 1197
House Finance and Taxation Committee
Presented by Waylon Hedegaard
President of the North Dakota AFL-CIO
January 8th.

Mr. Chairman, Members of the Committee:

My name is Waylon Hedegaard, and I'm the President of the North Dakota AFL-CIO. I rise in opposition to House Bill 1040.

As a member of the Workforce Development Council, I know what this bill is trying to do. I understand that we face a critical skills shortage in certain areas, and that we need to stay competitive. I don't stand against the purpose of this bill. In fact, I sympathize with its goal of a better and stronger North Dakota.

I also understand technology changes are coming, and they are revolutionizing the way we do business. Like the tides, they are inevitable. The economic forces driving increased automation are irresistible, but I am wary of how these changes are going to affect our communities.

So what I stand against is hurrying this process of technological change any faster than the economic reality forces upon us. We are already rushing into a future where automation and artificial intelligence will shift the job markets into uncharted territory. Most of us realize that the jobs our workers have now are not those they will have in 20 years. We don't need to use artificial incentives push this change any faster than is already coming.

Without more worker protections, what I object to even more is that the initial loss of revenue from these tax breaks will have to be made

up someone and that's basically everyone else, so we face the very real issue of the taxes from the workers in these facilities will end up paying for the incentives that threaten to them.

If the Bobcat plant in Gwinner installed equipment that replaced 10% of its workforce, how would this affect the surrounding communities?
How about 15%... or 20%.

The 5% increases in workplace safety or wages mandates by this bill are not enough for the workers or their communities. They need something more. The technological changes are coming rapidly. What we need is better and more widely available training for our workforce to stay ahead of these changes. By putting the people first, we will put North Dakota first.

Whether it's good for North Dakota or not, we can't have people pay for their own economic demise.

Thank you.

19.0389.01003
Title.

Prepared by the Legislative Council staff for
Representative Grueneich
January 30, 2019

#1
HB 1040
1-30-19

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1040

Page 1, line 22, after "produced" insert "per automated line"

Page 2, line 18, replace "two million" with "five hundred thousand"

Renumber accordingly



3/4 HB 1040 #1 pg.1

March 4, 2019

Senator Cook and members of the Senate Finance and Taxation Committee, thank you for hearing me today.

I am Peter Rackov, the CFO of Steffes LLC. Steffes has been headquartered in Dickinson, North Dakota since it was founded in Dickinson more than 40 years ago. We also have two factories in Grand Forks. Steffes is a primary sector business who manufacturers fabricated metal products in support of the oil exploration industry in North Dakota. We also manufacture component parts for heavy equipment manufacturers such as Doosan / Bobcat.

I am here in support of the 21st Century Manufacturing Workforce Incentive bill, HB 1040 which would reinstate an Automation Tax Credit.

I support this bill because increased automation supports North Dakota. Unemployment is low in the state and we are challenged to find enough people to fill open positions. Automation supports the increasing skills of a changing workforce with and better paying jobs that will last longer into the future. Increased Automation will not affect how many people we hire; we hire every available, qualified worker we can find, rather, automation will allow us to engage current high school and trade school graduates with better paying jobs. Automation helps us to be more productive, have greater capacity and be competitive with larger, out of state businesses. This in turn, makes our business more stable for the employees and communities we operate in.

The automation tax credit provides shorter payback periods and reduces risk as we struggle to remain competitive. Automation allows us to keep jobs in North Dakota. Automation helps us hire enough people to meet customer demand. Automation keeps jobs here; If we see too much risk in automating (meaning too long of payback), we will look to other regions to outsource manufacturing to or even to relocate production.

In summary, I support the 21st Century Manufacturing Workforce Incentive Bill (HB 1040). The tax credit will help Steffes and all North Dakota businesses grow in North Dakota and remain competitive. The credit makes investing in North Dakota an easier choice. I encourage the committee to recommend "do pass" for HB 1040.

Thank you for your time.

Sincerely,

Peter Rackov, CPA
Chief Financial Officer



3/4 HB 1040 # 1 pg. 2

January 4, 2019

RE: Twenty-First Century Manufacturing Workforce Incentive
House Bill 1040

Integrity Steel is writing in support of House Bill 1040 which provides a nonrefundable credit for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes.

Integrity Steel Supply LLC was founded in 2006 within North Dakota. Integrity Steel fabricates large amounts of structural steel for commercial building contractors including hospitals, schools, arenas, stadiums and office/retail space. We also custom fabricate metal stairs and railings for commercial, industrial and residential projects.

The equipment in our facility includes Overhead Cranes, Robotic Plasma Cutting Machine, Plasma Cutting Table, Pipe CNC Plasma, CNC Saw and two CNC drill lines.

Integrity has recently invested in an EMI Tube Plasma cutting machine. Formerly our employees manually were cutting and coping all of our products. The new plasma cutting machine completes all that work for us which increases our production time and cuts down on our labor hours.

Based on the EMI Tube Plasma machine purchase Integrity was allowed a 2017 income tax credit of \$3,692.06.

The approval of House Bill 1040 will assist in ensuring manufacturing companies throughout ND remain innovative and efficient in a technological market. The bill will ensure that safety, productivity & efficiency remain on the forefront of our industries.

Sincerely,

Kelly Behan

Kelly Behan, COO



January 7, 2019

PIVOTAL EDGE Inc.

Physical Location

4503 19th St. SE
Mandan, North Dakota 58557
USA.

Mailing Address

P.O. Box 2636
Bismarck, North Dakota 58502
USA

BACKGROUND

Pivotal Edge is a privately owned North Dakota company that builds a cover for pneumatic tanks. The cover is a replacement for the manual cover currently used and allows the driver to operate the cover from the safety of the ground and provide a more efficient operation for the trucking industry. The trailers would haul dry products such as: Cement, Fly Ash, Frac sand, flower, charcoal, plastic pellets any many other products around the world. We currently have two employees.

Our manufacturing plant is located in Mandan, ND where we have been located for the past 7 years. We have approximately 65% of our sales outside of North America, and our sales volume is growing at 35% a year.

AUTOMATION TAX CREDIT IMPACT

Pivotal Edge, Inc. has international relationships that would make it easy for us to locate in any country, or state. North Dakota has been both active and progressive in building business incentives, the automation tax credit is another tool used by business for the key economic growth that the State is looking for. The help that automation tax credit gives us is to keep us competitive in the global market place. As our sales have continued to grow, the addition of the CNC machinery is critical in keeping us competitive. The automation tax credit has been calculated into our business plan to determine at what point we are able to bring this work in house.

Pivotal Edge has used the tax credit on four pieces of equipment this has increased our production by making our process safer and more efficient.

The automation tax credit is available to small or large business making it a create tool for the manufacturing base in North Dakota.

I would request that you give your favorable consideration for HB 1040.

Jay Beyer
President
701-220-0889
Jay@thepivotaledge.com



3/4 HB 1040 #1 pg.4

December 28, 2018

To Whom it May Concern:

Amber Waves Integration fully supports House Bill 1040 to fund the Automation Tax Credit. We are a family owned, North Dakota company that relies on software and automation as our business.

Automating production processes is vital for any company to stay competitive in today's business environment. Automation allows businesses to increase their production and grow while maintaining and adding skills to their current staff.

One of the biggest barriers to entry for most small companies is the cost of taking on an automation project. While the project may be cost effective in the long term the initial cost of getting started may be too much. This tax credit will allow these small companies to take advantage of the automation that was once only available to companies that could make large investments.

Amber Waves Integration currently has 2 full time employees and works closely with their sister company Amber Waves Electronics, who has 6 full time employees. The two companies together can provide a complete automation package for grain processing plants. In the past two years we have taken two grain processing plants from a state where the operator walks around to each machine and starts them individually to having a computer that starts all the equipment automatically. In addition, we have created software from scratch that tracks the grain through the plant from when it is weighed in to when it ships to the customer. Both these plants have expanded their business and continue to grow. The automation tax credit will allow for more projects like these for Amber Waves and allow us to grow.

In conclusion, Amber Waves Integration supports House Bill 1040 to continue the economic growth that automation can provide.

Thank you,



Kalvin Hoff, PE
President
Amber Waves Integration



3/4 HB 1040 #1 pg. 5

January 4, 2019

Re: House Bill 1040, Twenty-First Century Manufacturing Workforce Incentive

Cloverdale Foods Company, a Mandan, ND company has been part of the community for over 100 years. On behalf of our 315+ hardworking employees, please accept this letter as a show of support for House Bill 1040, Twenty-First Century Manufacturing Workforce Incentive. Throughout the family's 4 generations of competing in the food business we have learned how to best compete with the giants of the industry. In 2018, in ND alone, Cloverdale reached \$17.8 million in sales and 5.7 million in pounds sold. We want to continue to grow what we produce with the great state of North Dakota.

This tax credit is important to Cloverdale for several reasons. It can help balance out the material financial needs it takes to automate in the manufacturing industry. Investing in automation is such a significant part of staying relevant to the competition and increasing efficiency of output. Automation of processes will help create safer jobs and improve the ergonomic conditions of the manufacturing environment.

As you are aware, there are many companies throughout this great state investing in their businesses. If the tax credit would be approved, it would be an important part of the financial planning process for all of us. We were active participants in the previous Automation Tax Credit and we would be very grateful for it to get passed again.

Sincerely,

Miranda Bergquist
CFO

Cloverdale Foods Company
3015 34th St. NW | Mandan, ND 58554



P.O. Box 667 | toll free: 800.669.9511 | local: 701.663.9511 | fax: 701.663.0690 | cloverdalefoods.com



JOHN DEERE

3/4 HB 1040 #1 pg. 6

John Deere Public Affairs Worldwide
6400 NW 86th Street, Johnston, IA 50131
Phone: 515-267-3837
Cell: 309-714-1355
E-mail: PellettStacey@JohnDeere.com

Stacey Pellett
Manager, State Public Affairs

1 March 2019

Senate and Finance Taxation Committee
North Dakota Legislature
Bismarck, ND 58505

Re: Support of Twenty-First Century Manufacturing Workforce Incentive

Chairman Cook and Members of the Senate and Finance Taxation Committee,

I am writing to voice support for the proposed Twenty-First Century Manufacturing Workforce Incentive, currently being considered in House Bill 1040. This bill was passed by the House Finance and Taxation Committee and sought to restore the credit to its original \$2 million cap.

John Deere has facilities across the world where we manufacture high quality agricultural, turf, construction, forestry and mining equipment. Specifically, in North Dakota, we have John Deere Electronic Solutions (JDES), located in Fargo and John Deere Seeding, located in Valley City. Our business supports over 900 employees and their families, all of whom make considerable contributions to the economic vitality of the state.

The products we manufacture are becoming more technologically advanced every day. JDES is one of the primary locations for the development and manufacturing of our sensor technologies. These specialized devices enable precision agriculture practices that have positive impact both to the environment as well as our customers' bottom line. On our construction, forestry and mining equipment, these sensors enable extreme precision for grading, leveling and other key activities in the industry.

In Valley City, we manufacture large air seeding equipment which allows our customers to make fewer passes with greater precision during North Dakota's very narrow seeding windows. This greatly improves efficiency and soil health and drives down costs for our producers.

The Twenty-First Century Manufacturing Workforce Incentive, formerly known as the North Dakota Automation Tax Credit, was originally established in 2013, making the credit available to manufacturers through 2015. It was then extended through the passage of SB 2340 with a sunset date of December 31, 2017. Since its inception, this credit has been a proven economic development tool, encouraging continued capital improvements and facility modernization across the state – all a critical part of remaining viable in today's highly competitive marketplace.

On behalf of John Deere, thank you for considering the reinstatement of the \$2 million Twenty-First Century Manufacturing Workforce Incentive and for your support in promoting a strong and vibrant business environment in the state of North Dakota.

Sincerely,

Stacey Pellett
Manager, State Public Affairs

John Deere

PRESENCE IN NORTH DAKOTA

3/4 HB 1040 #1 pg. 7



JOHN DEERE

Deere & Company (NYSE: DE) is committed to the success of customers throughout the world whose work is linked to the land. Since 1837, John Deere has delivered innovative products of superior quality, built on a tradition of integrity. For more information, visit www.JohnDeere.com.

WHO WE ARE IN NORTH DAKOTA

EMPLOYEES

- >900 work as part of John Deere's major business operations
- >800 live in the state
- >100 retirees

SUPPLIERS & DEALERS

- >100 contracts (Approx. \$44 M)
- 47 dealerships

JOHN DEERE FOUNDATION

invested more than **\$227,000** in Fargo and Valley City Communities in FY2017

John Deere Electronic Solutions | John Deere Seeding



ABOUT DEERE & COMPANY

2022 Sustainability Goals

These goals address our commitment to an ever-changing world and the need to protect its most valuable resources - both natural and human.



Occupational Safety: Achieve safety excellence through increased focus on leading indicators, risk assessment, safety management systems, and prevention.



Sustainable Energy Use: Reduce GHG emissions by 20% through 50% renewable electricity supply and excellence in energy efficiency.



Use Water Responsibly: Implement water best management practices in 100% of water scarce manufacturing locations.



Increase Recycling: Recycle 85% of total waste.



Sustainable Products: Reduce environmental impact, including CO2e emissions, on 90% of new products. Increase the use of sustainable materials by growing remanufactured and rebuild sales by 30% and by increasing recyclable, renewable, and recycled content.

Promoting alternative energy

John Deere supports utilization of biofuels as a method of increasing energy stability and independence, reducing greenhouse gas emissions, and generating agricultural and other rural economic opportunities throughout the world.

John Deere is a Power for Good

We help improve living standards for people in ways beyond what we produce in our factories, research centers, and financing offices. In fiscal 2017, Deere & Company and the John Deere Foundation made charitable contributions totaling approximately \$33.4 million. John Deere employees strengthened the impact of these contributions by offering 160,688 volunteer hours – a new annual record.



NET SALES & REVENUES >\$29 billion*

EMPLOYEES >68,000 (includes Wirtgen acquisition)

FACILITIES 19 states

R&D >\$1.3 billion* (about \$4 million/day)

* Figures taken from Deere & Company Annual Report 2017

Greater North Dakota Chamber

HB 1040

Finance and Taxation Committee

Senator Cook - Chair

March 4, 2019

Mr. Chairman and members of the committee, my name is Matt Gardner and I am here today representing the Greater North Dakota Chamber (GNDC). The GNDC is the largest statewide business advocacy organization in the state. We are also the state affiliate for NAM, the National Association of Manufacturers. We stand in support of HB 1040 and ask for a do pass.

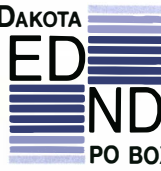
A crucial business sector that we represent are advanced manufacturers. GNDC recently formed the North Dakota Manufacturing Council to aid in getting a clear picture of the state of manufacturing in North Dakota and better understand the issues that face our manufacturers.

Manufacturing's total annual output in North Dakota is \$3.71 billion which accounts for 7.1% of the state's total economic impact. Our over 700 manufacturers employ more than 24,000 North Dakotans and serves as a significant driver of our state's economy.

The bill before us reinstates the automation tax credit. From my discussions with manufacturers and you will hear from them today, a large issue they face is the availability of workforce. Without workers it's tough for manufacturers to expand operations and increase productivity. With few unemployed seeking work, we need to better utilize our existing workforce and focus on quality of jobs rather than quantity. We must do more with less and the automation tax credit helps our manufacturers increase output by using machines and robots to supplement human labor and remain competitive within the global market.

New to this bill from previous law is a reporting requirement that manufacturers would need to prove a 5% increase in employee wages, safety or output per line automated. In discussions with manufacturers, the reporting requirements are reasonable. Some changes from the original version is the reduction down from \$2 million per year to \$500,000 and a sunset next biennium. We have heard from our manufacturers that \$500,000 per year will make little impact and would propose the original amount of \$2 million. We would also advocate for extending out the sunset or overall elimination. One biennium simply is not enough time to get the projects completed, data collected and reported for the next legislative session. Our manufacturers here today can discuss further.

GNDC the NDMC ask for a do pass with amendments to the funding levels and the sunset. I will answer any questions before I ask our manufactures to come up and give testimony.



3/4 HB 1040 #2 pg. 1

Testimony of Brian Ritter
Economic Development Association of North Dakota
In Support of HB 1040
Senate Finance and Taxation Committee
March 4, 2019

Chairman Cook and members of the Senate Finance and Taxation Committee:

I'm Brian Ritter, president and CEO of the Bismarck Mandan Chamber EDC. I am here today on behalf of the Economic Development Association of North Dakota to express our support of HB 1040, which creates a 21st Century Manufacturing Workforce Incentive.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota, develop more vibrant communities and improve quality of life.

Workforce availability is the most significant challenge facing North Dakota businesses, limiting the growth potential of the state's economy. EDND supports the development of workforce attraction, development and retention strategies that address the needs of the state's companies. As of December 2018, North Dakota had an unemployment rate of 2.6 percent, which can make it difficult for businesses to find qualified candidates.

A similar, previous credit to support automation was in place from 2013 to 2017 and was recommended for continuation by the 2015-16 Interim Political Subdivisions Committee. The idea originally came out of the 2009 Interim Workforce Committee and was designed to provide support for North Dakota manufacturing companies that invest in technology for the purpose of automating the manufacturing process. The program was successful in aiding North Dakota manufacturers in gaining market share and increasing their competitiveness through automation.

The previous program was widely used by North Dakota manufacturers before it was discontinued. The table on the following page shows the request and approval data for each year the credit was in place.

Year	Approved	Cap	Disallowed
2013	\$2,153,809.98	\$2 Million	\$153,809.98
2014	\$2,117,639.59	\$2 Million	\$117,639.59
2015*	\$978,956.62	\$2 Million	0
2016	\$2,002,794	\$1,521,043	\$481,751
2017	\$1,698,508	\$500,000	\$1,198,508

*Unused \$1,021,043 added to the \$500,000 amount for 2016

This incentive is important to primary sector businesses challenged to recruit and retain skilled workforce while remaining competitive nationally and internationally. Investment in innovative equipment can mean the difference between retaining a business or having it close or move elsewhere or the difference between status quo and an expansion.

In a climate where manufacturers can invest anywhere in the world, North Dakota may not be a top choice for businesses due to its lack of workforce and geography. This not only includes the attraction of new manufacturers, but also the retention of businesses already in the area supporting local jobs. If a North Dakota manufacturer stops investing in updated equipment in the state, they may eventually choose to close a North Dakota business or location completely. This incentive would encourage manufacturers to be innovative in their equipment investments, including upgrading or advancing equipment that helps increase job quality and capacity. Other states with similar programs include Kentucky, Mississippi, Missouri, New Jersey, New Mexico, Rhode Island, and West Virginia.

Many major manufacturers in North Dakota, including Aldevron, John Deere, Bobcat and Doosan, Baker Boy, Cloverdale, Dakota Turbines, Killdeer Mountain Manufacturing, Peterson Farms Seed, Pivotal Edge, Precision Ag, Remington Seeds, Steffes Corporation, WCCO Belting, have spoken to the importance of a credit for automation to drive investments in North Dakota facilities to help businesses grow, to improve ergonomics for job safety, and to increase productivity. The North Dakota Workforce Development Council also recommended remodeling and reinstating the automation tax credit in its recent report.

EDND would ask the committee reinstate the \$2 million cap originally in the bill and remove or extend the sunset. A cap that is too low and is prorated between companies may not be enough of an incentive for a manufacturer to move forward with a project. These automation projects are large undertakings that need to be planned in advance and the instability of a 2020 sunset date may discourage manufacturers from investing in the state. With such little notice, other manufacturers may not have time to complete an automation project before the credit expires.

This tax credit supports capital investments in automation, which provides companies with the ability to support current and new markets and continue to compete on a global scale. We urge the committee's support for the program.

3/18 HB
1040
#1 pg.1

March 15, 2019

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1040

Page 1, line 4, after the first semicolon insert "and"

Page 1, line 4, remove "; and to provide an expiration date"

Page 2, line 20, replace "five hundred thousand" with "two million"

Page 4, line 10, remove "(effective for the first two taxable years beginning after
December 31, 2018)"

Page 4, line 11, remove "- **EXPIRATION DATE**"

Page 4, line 11, remove "the first two"

Page 4, line 12, remove ", and is ineffective after that date"

Renumber accordingly

Greater North Dakota Chamber
HB 1040
Senate Appropriations Committee
March 27th, 2019

Mr. Chairman and members of the committee, my name is Arik Spencer, President and CEO of the Greater North Dakota Chamber (GNDC), the largest statewide business advocacy organization in the North Dakota and the state affiliate for the National Association of Manufacturers. We stand in support of HB 1040 and ask for a do pass.

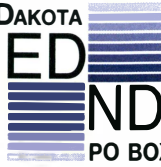
Manufacturing's total annual output in North Dakota is \$3.71 billion which accounts for 7.1% of the state's total economic impact. Our over 700 manufacturers employ more than 24,000 North Dakotans and serves as a significant driver of our state's economy.

Workforce availability is a key roadblock for North Dakota manufacturers ability to expand operations and increase productivity. Automation is one of the few options manufacturers have to better utilize their existing workforce and focus on the quality of jobs rather than quantity, which is where the automation tax credit comes in. The automation tax credit helps our manufacturers compete nationally and internationally by incentivizing the use of machines and robots to supplement human labor, which is key to being competitive in the global market.

The bill before us reinstates the automation tax credit at a meaningful level. New to the automation tax credit this session is a reporting requirement that manufacturers would need to prove a 5% increase in employee wages, safety or output per line automated to qualify, which are reasonable to manufacturers.

GNDC ask for a do pass recommendation and I will be glad to answer any questions you may have.

P1



HB 1040

3-27-19

#2

P1

**Testimony of Mason Sisk
Economic Development Association of North Dakota
In Support of HB 1040
Senate Appropriations Committee
March 27, 2019**

Chairman Holmberg and members of the Senate Appropriations Committee:

My name is Mason Sisk and I am here on behalf of the Economic Development Association of North Dakota to express our support of HB 1040, which creates a 21st Century Manufacturing Workforce Incentive.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota, develop more vibrant communities and improve quality of life.

Workforce availability is the most significant challenge facing North Dakota businesses, limiting the growth potential of the state's economy. EDND supports the development of workforce attraction, development and retention strategies that address the needs of the state's companies. As of December 2018, North Dakota had an unemployment rate of 2.6 percent, which can make it difficult for businesses to find qualified candidates.

A similar, previous credit to support automation was in place from 2013 to 2017 and was recommended for continuation by the 2015-16 Interim Political Subdivisions Committee. The idea originally came out of the 2009 Interim Workforce Committee and was designed to provide support for North Dakota manufacturing companies that invest in technology for the purpose of automating the manufacturing process. The program was successful in aiding North Dakota manufacturers in gaining market share and increasing their competitiveness through automation.

The previous program was widely used by North Dakota manufacturers before it was discontinued. The table on the following page shows the request and approval data for each year the credit was in place.

P1

HB 1040
3-27-19
#2
P2

Year	Approved	Cap	Disallowed
2013	\$2,153,809.98	\$2 Million	\$153,809.98
2014	\$2,117,639.59	\$2 Million	\$117,639.59
2015*	\$978,956.62	\$2 Million	0
2016	\$2,002,794	\$1,521,043	\$481,751
2017	\$1,698,508	\$500,000	\$1,198,508

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This incentive is important to primary sector businesses challenged to recruit and retain skilled workforce while remaining competitive nationally and internationally. Investment in innovative equipment can mean the difference between retaining a business or having it close or move elsewhere or the difference between status quo and an expansion.

In a climate where manufacturers can invest anywhere in the world, North Dakota may not be a top choice for businesses due to its lack of workforce and geography. This not only includes the attraction of new manufacturers, but also the retention of businesses already in the area supporting local jobs. If a North Dakota manufacturer stops investing in updated equipment in the state, they may eventually choose to close a North Dakota business or location completely. This incentive would encourage manufacturers to be innovative in their equipment investments, including upgrading or advancing equipment that helps increase job quality and capacity. Other states with similar programs include Kentucky, Mississippi, Missouri, New Jersey, New Mexico, Rhode Island, and West Virginia.

Many major manufacturers in North Dakota, including Aldevron, John Deere, Bobcat and Doosan, Baker Boy, Cloverdale, Dakota Turbines, Killdeer Mountain Manufacturing, Peterson Farms Seed, Pivotal Edge, Precision Ag, Remington Seeds, Steffes Corporation, WCCO Belting, have spoken to the importance of a credit for automation to drive investments in North Dakota facilities to help businesses grow, to improve ergonomics for job safety, and to increase productivity. The North Dakota Workforce Development Council also recommended remodeling and reinstating the automation tax credit in its recent report.

EDND fully supports the Senate Finance and Taxation committee's amendment to increase the cap to \$2 million and remove the sunset. A cap that is too low and is prorated between companies may not be enough of an incentive for a manufacturer to move forward with a project. These automation projects are large undertakings that need to be planned in advance and the instability of a 2020 sunset date may discourage manufacturers from investing in the state. With such little notice, other manufacturers may not have time to complete an automation project before the credit expires.

This tax credit supports capital investments in automation, which provides companies with the ability to support current and new markets and continue to compete on a global scale. We urge the committee's support for the program.

P2