

FISCAL NOTE
Requested by Legislative Council
12/21/2018

Bill/Resolution No.: HB 1053

- 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			\$(3,000,000)			
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 1053 creates a new income tax deduction for individuals, including their survivors, who receive military retirement pay for service in the U.S. armed forces, National Guard, or their reserve components.

- 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 will exclude from income tax 100% of an individual's military retirement pay for service in the U.S. armed forces, National Guard, or their reserve components.

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.*

If enacted, HB 1053 is expected to reduce state general fund revenues by an estimated \$3 million for the 2019-21 biennium. Of this amount, approximately \$132,000 is attributable to payments to survivors of retired military members.

- 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 1053

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1053
1/7/2019
30458

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A BILL relating to an income tax deduction for retired military personnel benefits; and to provide an effective date.

Minutes:

Attachments 1, 2, 3

Chairman Headland: Opened hearing.

Representative Vetter: Introduced HB 1053. Distributed written testimony (attachment #1). Ended testimony at 11:45.

Chairman Headland: Are there any questions?

Representative Ertelt: Wouldn't North Dakota National Guard have to reside in this state?

Representative Vetter: I believe that's correct. When they're choosing another state over ours there is a deficiency.

Representative Ertelt: If they join the North Dakota National Guard do they have to be residents at that time?

Representative Vetter: Someone from the crowd said no.

Chairman Headland: You referenced 5,430 military retirees currently choose North Dakota as a residence. How many possible retirees are there?

Representative Vetter: Someone after me could provide you with that information.

Chairman Headland: Could you explain what the \$1,910 of federal funds is?

Representative Vetter: Someone else could better answer that.

Chairman Headland: Is there further testimony?

Senator Burckhard: Workforce issues are a major topic in our state. Back in 2014 during the oil boom we had people coming in from everywhere because the economy in the western part of the state wasn't very impressive. Now many states have workforce issues so they're not going to come here just because of the oil boom. Many go to other states for their residency because some states have no income tax. We have a project coming up that will replace the 150 missiles around Minot which will cost billions. We need every single person we can with the discipline and knowledge of being in the military to stay in Minot to install those as a retired military person. These types of things are important. We should consider this bill because we have workforce issues. The military people are disciplined and trained, and the oil producing people around Minot love them because they are good workers and they are trained well. There are many millennials that come into the military never having had turned a wrench and no knowledge of repairing the older planes and missiles. We've got to give the retirees a reason to stay. I would ask for your consideration of this bill.

Chairman Headland: You're saying we have a lot of military retirees that stay here but choose another state for their residency. Do they have homes in those other states as well? I'm assuming they're going to have to spend some time there regardless of whether we have a tax exemption here for them or not. I don't see how this bill will convince them to choose North Dakota as their residence if they have homes in other states.

Senator Burckhard: Many of them grew up in other states with no income taxes but they like it here and would have a reason to stay. They would like to pay less taxes and feel that they have earned it because of the service they provided.

Chairman Headland: I think we would all like to pay less taxes. North Dakota has the lowest income taxes and you can thank this committee for that.

Senator Burckhard: I know that and I appreciate that.

Chairman Headland: Further testimony in support?

Tom Ford, Director of Administration at County of Grand Forks County Direction, Base Retention and Investment Committee (BRIC): You have the opportunity to determine the future of the military in North Dakota. Not long ago the Army, Navy, and the Air Force said they need to consider quality of life in strategic mission placement in BRAC. There are many different ways to determine quality of life but one is the bill we are talking about today. The competition for more missions in BRAC is heating up. In the old days they used to look at infrastructure and geographical locations to see if it fit the need for the missions rather than engage the communities and see what they offer. Many military people acquire residencies in other states due to not having to pay income taxes without really living there.

Chairman Headland: But don't they have to have some type of mailing address to claim residency?

Tom Ford: I don't know. The secretary of defense who resigned has requested funding for 2021 budget funding for BRAC; the pentagon is requesting a BRAC so that threat is never going to leave. The overall military economic impact on the state is \$1.1 billion. I can provide you that information at another time as I don't have that with me now. Most importantly for

this specific bill we want military retirees to call North Dakota home. There's great opportunity with missile silos coming in soon and more high tech oil companies coming in doing work there. This bill looks to grow the workforce and the tax base, because if more retire here they will buy the homes, they will pay income taxes on their post military jobs, they will pay property taxes, their kids will go to our schools, they will shop locally, etc. It would also benefit the future missions at both Minot and Grand Forks Air Force bases because when strategic mission analysis and a BRAC analysis is done they will see this is just another good thing North Dakota does to help out the military. Grand Sky generates \$11 million in wages alone which is a pretty good tax base just in one county in North Dakota. I would urge support of this bill.

Chairman Headland: You said to establish residency you don't necessarily have to have a mailing address. Would it also work that way in North Dakota when they could claim residency here without staying here if we were to pass this?

Tom Ford: I don't know the answer to that question.

Representative Eidson: I can provide a little insight. As far as claiming residency in the state while in the military you are allowed to do that and you don't have to provide an address. I believe you can also do this as a retiree. It just comes down to the benefits you get when it comes to the state. When I came to North Dakota that was one of the things I looked for was whether or not they had income tax with the military benefits.

Chairman Headland: Are there any other questions?

Al Palmer, Military Affairs Committee from Grand Forks: When I was in my military career I claimed Indiana as my home state and paid taxes there but didn't claim North Dakota until I separated active duty and went into the guard. I think it's important for you to vote yes on this bill. This is an investment, not an expense. It's important to bring retired military to work in North Dakota. The jobs available in North Dakota are very good jobs.

Chairman Headland: Is there further testimony in support?

Major Al Dohrmann, Adjutant General for the North Dakota National Guard: Provided written testimony (see attachment #2). Ended testimony at 35:59. I have some information I can share with you after this meeting if you like regarding the residency concerns. As you move through your career in the military you can move all over the place. The military will ask where you're from and when you say North Dakota they ask if you would want to be a resident of their state where they don't have to pay income taxes. I urge a do pass on this bill.

Chairman Headland: Thank you for your service and the safety you provide to all of us, and to all of the military retirees. Are retiree benefits, such as pensions, federally taxed?

Major Al Dohrmann: I believe they are.

Chairman Headland: The feds are asking the state to relieve them from the tax burden and they're not willing to do that themselves.

Major Al Dohrmann: Some states have looked at this. In Wyoming they just passed a bill to exempt retired pay. They are convinced that tax exemption on retired pay will pay for itself in a short period of time. Being competitive regionally is important.

Chairman Headland: I have the solution; we just have to exempt everybody from income tax.

Representative Ertelt: After you're retired do you have to claim residency in the state you reside?

Major Al Dohrmann: I'm the wrong guy to ask. As soon as you can land in a state with favorable benefits you tend to become a resident of that state. Once you retire and its state law you would pay taxes in that state. Military tend to move every three years early in their career and as often as every 12 to 18 months later in their career so many have property they own in other states which may allow them to continue that residence here.

Chairman Headland: Could you find that answer for us?

Major Al Dohrmann: We could try and find that information for you.

Chairman Headland: Is there further testimony in support of HB 1053?

Jennifer Greuel, Economic Development Association of North Dakota: Provided written testimony (attachment #3).

Chairman Headland: I think we're all trying to attract all the workforce we can to this state. If you're supporting this bill, then you would certainly support a bill that would give this same relief to all taxpayers I'm assuming.

Jennifer Greuel: I wouldn't speak to that as a whole but that is a possibility.

Vice Chairman Grueneich: How many potential retirees are available each year?

Jennifer Greuel: I'm not sure. The Department of Commerce would have that information. I wouldn't restrict it to just people retiring from our bases. My dad is retired military and came from Washington state.

Chairman Headland: He chose to live here in North Dakota with the high taxes?

Jennifer Greuel: He did but when I brought this up he was well aware he was paying taxes here.

Chairman Headland: Further testimony in support?

Michelle Kommer, Commerce Commissioner for the Department of Commerce and Labor: I serve on a workforce committee and we're focusing on five issues. North Dakota has a significant shortage of technical skilled workers, nursing and healthcare technicians.

We have great opportunity for deeper youth engagement in earlier and more diverse exposure to career opportunities in North Dakota. There is opportunity to mitigate barriers to employment. We need more workers. For the first time this summer in the country there were more jobs on record than there were job seekers. North Dakota has had one of the lowest unemployment rates in the nation for quite some time. Today we've slipped to the sixth lowest employment rate. North Dakota has one of the highest labor participation rates in the nation. It is a gate to growth in North Dakota. There are more than 14,000 active militaries in North Dakota today and almost 4,000 jobs that are created indirectly. Members of the military brings a multi-billion-dollar impact to the state. The return on this investment is significant. We need to recruit more members of active military as well as incent people to stay on in our state and continue to work here.

Chairman Headland: You mentioned this was one of the five different criteria that was looked at. Was eliminating income tax for all citizens looked at?

Michelle Kommer: There were five themes discovered in the study. This was one of the recommendations among 36 others. No, this was not a recommendation that was made by the Workforce Development Council.

Chairman Headland: Would you agree that this is one of the things to attract more labor into the state? Eliminating the tax burden for everyone should be a helpful thing.

Michelle Kommer: I can't disagree with that; it would certainly be helpful.

Chairman Headland: Further support? Is there any opposition? Closed hearing on HB 1053.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1053
1/21/2019
31134

- Subcommittee
 Conference Committee

Committee Clerk:

Explanation or reason for introduction of bill/resolution:

A bill relating to an income tax deduction for retired military personnel benefits; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: I'm looking for direction here. I believe we've discussed this bill at length.

Representative B. Koppelman: MADE A MOTION FOR A DO PASS AND REREFER TO APPROPRIATIONS

Representative Eidson: SECONDED

Chairman Headland: Any discussion?

**ROLL CALL VOTE: 8 YES 5 NO 1 ABSENT
MOTION CARRIED**

Representative Hatlestad will carry this bill.

Date: 1-21-19
 Roll Call Vote #:

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1053**

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 Koppelman Seconded By Rep. Eidson

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	A				

Total (Yes) 8 No 5

Absent 1

Floor Assignment Rep. Hatlestad

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

REPORT OF STANDING COMMITTEE

HB 1053: Finance and Taxation Committee (Rep. Headland, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (8 YEAS, 5 NAYS, 1 ABSENT AND NOT VOTING). HB 1053 was rereferred to the Appropriations Committee.

2019 HOUSE APPROPRIATIONS

HB 1053

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1053
2/7/2019
32332

- Subcommittee
 Conference Committee

Committee Clerk Risa Bergquist by Caitlin Fleck

Explanation or reason for introduction of bill/resolution:

Relating to an income tax deduction for retired military personnel benefits; and to provide and effective date.

Minutes:

Chairman Delzer: Called the meeting to order, Representative Headland is here to present this bill.

Representative Headland: This bill is a military retiree pension benefit. It would exclude the 100% military benefit from taxation. We debated this in the House before, and always with a different result out of committee. The one different given to us is that a decision has been made that in the next round of basic closings, military friendly states will come into the discussion. That was enough to overturn what the committee had previously decided. The fiscal note is the same also.

Chairman Delzer: It's all retired military and their spouses, reserve and national guard to the extent of the amount included in federal and taxable income.

Representative Bellew: Why should the spouses get to take advantage of this?

Representative Headland: I don't believe we talked about that, I suspect that's probably it was the way it has been handled in other states or the way the bill was crafted in the past.

Representative Bellew: Normally, the spouses received 50% of their retirement if the military spouse passed away.

Chairman Delzer: Is this when they can take the higher retirement or less and leave some for their spouse. I don't like that they are being treated differently from everyone else, and the other thing is the idea that this will cause bases to close.

Meeting closed.

2019 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1053
2/12/2019
32633

- Subcommittee
 Conference Committee

Committee Clerk: Risa Bergquist

Explanation or reason for introduction of bill/resolution:

Relating to an income tax deduction for retired military personnel benefits

Minutes:

Representative Delzer: Begins to discuss HB 1053. This bill reduces income taxes on retired military personal or the surviving spouse of a deceased member. Reserve component of the United Armed Forces of the United State or the National Guard but only to the extent of the amount that was included in federal taxable income. Feds are taxing it all and the states are not. 3-million-dollar fiscal note, some of these people retire fairly young with a pretty decent retirement. I think one of the issues that the governor's office is saying that if there's another round of base closing the military friendlier we are the better it is.

(1:55) Representative Boe: Makes a motion for a do not pass. Seconded by Vigesaa.

Representative Delzer: It came out of finance and tax with an 8-5 vote. Discussion on the motion?

Representative Monson: Beyond giving BRAC a good impression, this is meant to attract retiring military to stay here or come here?

Chairman Delzer: That's what they say, I don't know if it will or not.

Representative Brandenburg: The airbases in Minot and Grand Forks are used to keep the retiring members, but I would rather see the money go to the younger members.

Representative Boe: I read an article before session in a retirement publication that talked about the best states for a friendly tax structure, but North Dakota was number 1 for our total tax package.

Chairman Delzer: Further discussion? If not, we will take a vote.

A Roll Call vote was taken. Yea: 15 Nay: 6 Absent: 0

House Appropriations Committee

HB 1053

Feb. 12th 2019

Page 2

Motion Carries, Representative Brandenburg will carry the bill

(7:00) Delzer: Closes meeting on HB 1053.

Date: 2/12/2019
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB 1053**

House 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 Representative Boe Seconded By Representative Vigesaa

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) 15 No 6

Absent 0

Floor Assignment Representative Brandenburg

Motion Carries

REPORT OF STANDING COMMITTEE

HB 1053: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO NOT PASS** (15 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING). HB 1053 was placed on the Eleventh order on the calendar.

2019 SENATE FINANCE AND TAXATION

HB 1053

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1053
3/12/2019
Job #33557

- 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 subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to an income tax deduction for retired military personnel benefits; and to provide an effective date.

Minutes:

Attachments: 3

Chairman Cook: Called the hearing to order on HB 1174.

Representative Steve Vetter, District 18, Grand Forks: Introduced the bill. See attachment #1.

(10:07) Chairman Cook: You make a statement here that “The tax exemption is a criteria that the defense checks off their list when deciding how military friendly our state is so this bill has a role in base retention and expansion.” Can you expand on that?

Representative Vetter: When I have been to these different Veteran’s meetings, they had talked about these checklists and the programs. One of those is the military exemption for military retirees. They use that to judge how friendly we are and what money we should put towards what base or if we should add a new program or not.

Senator Randy Burckhard, District 5, Minot: Testified in support of the bill. In ND, we provide, power, and protect. We provide through our agriculture. 39 M acres of our state is used for agriculture. We are number 1 in 13 different commodities. We power through producing way more energy than we need. We protect by the way of our military bases in this state. If ND was exit from the union, we would be the third most powerful nation because we have two nuclear missions at Minot air force base. That is the only one with two nuclear missions. There are only three nuclear missions out there. One is submarine and we do not have that. We have b-52 bombers. We also have special missile systems that can be anywhere in a half hour or less. There are only three communities that have missiles; Great Falls, Montana, Sheyenne, Wyoming, and Minot, North Dakota. In order to convert to this ground bases strategic deuterium, you have to have qualified people to work and help install these things. What better individual for that, then a retired air force person? We need to have

a reason to retain these folks. A lot of them find reasons to stay. We have a good education system, great communities, and job opportunities.

Representative Vetter talked about the question you asked, Mr. Chairman, regarding military policy review. We have been through a number of background over the years. They look at a checklist of about 10 different things. Having two nuclear missions is important. But they also look at other things. How does Minot air force base compare on this checklist? I have been told that we need to work on this issue. The mission is important but retaining the military person is even more important. We have to give them reasons to stay so they can do the mission. There are 5 benefits states offer to veterans, active military, and their spouses. They like it here because of the community and they want to stay here. Let us also give them an income tax reason to stay. I will stand for questions.

Senator Patten: Regarding the three missions, are you aware that there is a U.S.S Nuclear Submarine named the North Dakota? I think we do have that area covered.

Senator Burckhard: Yes. I did know that.

Chairman Cook: You mentioned that tax policy is important criteria. What is to keep you from coming next session and trying to exempt active military pay from income tax. Is that one of the criteria also?

Senator Burckhard: I think that would also show up yes.

Chairman Cook: I understand the argument for keeping retired military people in this state for the jobs we have on field. You mentioned we are the lowest tax rate of all 41 states that have tax. That probably has a lot to do with us having a broad base. I strongly believe in a broad base and a low rate. Everyone has some skin in the game. My fear is that this will continue rolling our base, session after session.

Senator Burckhard: These people have been all over the place. Then they get Minot, and they love it. They still claim other states to reside in for taxes.

Chairman Cook: It is a state that doesn't have the tax.

Senator Burckhard: I think the more urgent need is the workforce issues we have.

Senator Scott Meyer, District 18, Grand Forks: Testified in support of the bill. In my other occupation, I am a mortgage lender in Grand Forks. Many times, we get retired military individuals and they just purchase on the other side of the river in East Grand Forks. I think we are missing out on some of these people and that is why I stand here in support of this bill. I will stand for any questions.

Chairman Cook: What does Minnesota do for retired military folks? They have a very high income tax.

Senator Meyer: For the retired income, they have that in place over there.

Chairman Cook: So they have a small base and a high rate.

Al Dohrmann, Adjutant General, North Dakota National Guard: Testified in favor of the bill. See attachment #2. A spouse from Minot air force base is becoming a star witness on license portability. She shared her story of how long it took her to get her license transferred to ND even though we had a job lined up already. It took her 9 months to get the license. She was asked the question of if she will stay in ND after her husband retires. She said no because of the tax law. Most retirees factor that in whether their income will be taxed or not when they decide where they are going to live when they retire. To some extent, even if we are the lowest taxed state, there is a perception out there that there is tax or no tax and no tax is always better.

You also asked a question about why Minnesota. That state does not tax active duty military pay. They exempt both active duty pay and retired pay. I have a wing in Fargo, ND and I would say ½ of them live in Minnesota. If you are a disabled veteran that is still qualified to serve in the military, and you lived in MN, you are not going to pay tax on your military pay. If you are receiving any disability pay, you are not going to pay tax on that. If you have a mortgage, you are not going to pay tax on your home. That is what we are up against in the red river valley is competing with MN. They have a lot of policies in place that are friendly to the military. We reached out to the command chief at the air force base in Grand Forks and asked how many current members that are retiring are staying in the region. He knew there were 12 getting out and 7 are staying in the region but living on the east side of the river. The main reason I am testifying today is that I have been asked to help develop an effort to tax a state wide approach to base retention. The governor put a group together for that and we looked at the top 10 DOD initiatives they like each state to pursue to make sure we are the best possible state for military members being transferred here. As we went through that process, we found that we are one of only 8 states that taxes military retired pay.

The question was asked of if it military pay that is next. If we think it is important for base retention and to provide a welcoming environment to these military members in our state, maybe that is something we need to look at in the future. One data point is that between Minot and Grand Forks, there are almost 2,000 folks sent to ND every year. Having started out on active duty, when I went to Fort Benning, Georgia, the talk was where your first assignment is? If you do up to Minot or Forks, you do not see many ND license plates. You see Texas, Alaska, South Dakota, and Florida. If your first assignment is in one of these states, you become a resident. I just wanted to share that with you that this may be a way to grow our population. Of these 2,000 people sent to ND every year, and they decide to become a ND resident, they will register their vehicles here. For each one of the residents we bring in every year, that would result in about \$1,910 in federal grants. Early on in their careers, we can maybe have them identify as a North Dakotan. Then later, when they get out, they can call ND their home. Based on the quality of our schools and our welcoming communities, with the right policies in place, we can drive our population to fill those critical jobs we are trying to fill right now with some highly trained individuals.

I have some other statistics for you. The average retiree is between 30-50 years of age. Typically, they are looking for a second job so we are taxing that second job. Between trying to make grants and ND the center of excellent for all things UAS, and that fact that there is significant work to be done on the missile fields, the need for a highly trained quality work

force is going to rise. The best population to find those individuals in that may have a security clearance, is our military retirees and former military members. I will stand for questions.

(28:15) Chairman Cook: I grew up in MN. I always called it the land of 10,000 taxes.

Chairman Cook: Any further testimony on the bill? Hearing none, we will close the hearing on HB 1053.

Additional testimony was given to the clerk after the hearing from Mason Sisk of the Economic Development Association of ND. Please see attachment #3.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1053
3/18/2019
Job #33838

- 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 subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to an income tax deduction for retired military personnel benefits; and to provide an effective date.

Minutes:

Attachments: 0

Chairman Cook: Called the committee to order on HB 1053. This exempts retired military benefits from ND income tax. It chips away at the broad base of tax payers. Next session, I am afraid you will see active duty military to be exempt. As much as I hate to reduce the base of the tax, I think there are some good reasons to be voting for this bill. This would keep them in the state. There are help wanted signs all over.

Senator Meyer: Moved a Do Pass on HB 1053 and Rerefer to Appropriations.

Senator Patten: Seconded.

Chairman Cook: Any Discussion?

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

Motion Carried.

Senator Meyer will carry the bill.

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

**2019 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1053**

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 Meyer Seconded By Patten

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 Meyer

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

REPORT OF STANDING COMMITTEE

HB 1053: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (5 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1053 was rereferred to the Appropriations Committee.

2019 SENATE APPROPRIATIONS

HB 1053

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1053
3/25/2019
JOB # 34201

- Subcommittee
 Conference Committee

Committee Clerk: Alice Delzer/Florence Mayer

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to an income tax deduction for retired military personnel benefits; and to provide an effective date.

Minutes:

1. Testimony of Major Jay Sheldon, NDNG

Chairman Holmberg: Called the Committee to order on HB 1053. All committee members were present. Becky J. Keller, OMB and Chris Kadrmas, Legislative Council were also present.

Major Jay Sheldon NDNG, representing the Adjutant General: Testified in favor of HB 1053 and provided Attachment #1, which states this bill could contribute to increasing the skilled workforce and assist in filling current and future job vacancies across the state.

(0.5:29) Chairman Holmberg: The legislature and the executive branch have worked on the risk of base closures and the criteria from the federal government. One of them was related to trailing spouses, which the legislature passed. Is this one of the issues on their checklist?

Major Jay Sheldon: Currently this is not an issue on their checklist, although it previously was. You are correct the trailing spouse licensing bill is one thing we have supported in order to improve our standing on the Department of Defense (DOD) website.

Senator Mathern: This weekend a veteran called me, we have a number of bills going through involving veterans, and he expressed his dismay and anger that we have so many veterans bills that are general. They are not specific to veterans who were in combat. I would appreciate the feedback on that. He expressed that a number of people he knew became a veteran because they didn't know what else to do, but some actually served in combat. Their experience was more dramatic in terms of the impact on their lives. Do you have any option on that? Should there be more of a focus on these things?

Major Sheldon: As a combat veteran, there are numerous programs available to individuals who have achieved that status. I know the Disabled Veterans of America (DVA)

run many programs. There is also a House resolution, which addresses how those programs work together. The governor's task force on veterans will be looking at how to best service our veterans, but to include combat veterans as well. I know many combat veterans and am one myself. I understand the severity and impacts combat has. I agree their needs should be met as best possible.

Senator Mathern: He was saying we shouldn't have the general things to just give every veteran a benefit. We should narrow them to those who were in combat.

Major Sheldon: That is somewhat interesting, the questions we get is that the legislature doesn't like to carve out special groups. There was a veteran's court bill, so there was a process in place to get them additional treatment. It counter acts the feedback we've gotten.

(0.11:00) Senator Gary Lee: You mentioned that most of the retirees are between the age of 38 and 50. What age can they start drawing their retirement?

Major Sheldon: That depends. As an active duty military member, we've just gone through a transition from the historical program of a 20-year retirement. If you are an Active Guard Reserve (AGR) that works in the National Guard or Reserves, you are a full time employee, at 20 years you can collect your retirement just like an active duty service member would be able to. If you are a traditional soldier in the National Guard, generally you don't start collecting that retirement until 60. However, there are some federal laws that allow for early retirement for time served in combat zones. It is dependent on the individual situation but for National Guard members, generally 60 and for active duty members, generally immediately following their retirement.

(0.12.29) Senator Randy Burckhard, District 5: I am going to give you a civilian perspective of this topic. In my civilian life I have many opportunities to hang out with the Minot Air Force Base, and I am also a member of Task Force 21, which is a Air Force Base Retention Group in Minot. Minot is unique because we have 2 nuclear missions. We are the only base with 2. We have the B-52 bombers that are 60 years old that drop bombs from 35,000 feet, they can go through the front door, the back door, they're very accurate. We have the Minuteman Missile Systems There is only 3 bases that have those. Minot has 150 missiles around Minot, Cheyenne, WY has 150 missiles around their community and Great Falls, MT has 150 missiles, so 450 missiles total. They are also old, but they are very accurate and very fast. The plan is to replace those missiles with a Ground Based Strategic Deterrent (GBSD). The contract will be determined this coming summer. If they get it funded it will be like a \$85B project. In order to replace old with new, you have to do it very timely because you can't take them all out of service while you're doing this. We need people with experience. Retired military especially. As funny as it is, people who have served in Minot like it for a lot of reasons. Mostly, because of the community, they are very accepting and also they like to hunt and fish. They've already gotten used to the weather here, but they ask "do we have a reason to stay here?" This incentive would be something that would give them a reason to stay. These people are well trained, disciplined, these are people you want because they've already served in that capacity. This would be a great reason for them to consider staying here.

(0.15:51) V. Chairman Krebsbach: There is the situation where the military is looking at the favorability of what the state does. You probably could address that better than I.

(0.16.04) Senator Burkhardt: The base closure and realignment commission, we haven't met since about 2005, every once in a while they decide we've got to save money, we're going to close bases that aren't necessary, so we look at this checklist of 10-11 things; they give a red check mark if you're bad, a yellow check mark if you're ordinary and a green check mark if you're really good. This is one of those check marks. Is it a based military friendly community how we treat our military folks and I think Minot and Grand Forks, probably did in 5 or 6 of those categories and maybe weak on some of the other ones. That definitely comes into play too, thank you, Senator Krebsbach for asking that question.

Chairman Holmberg: Is there anyone else that wants to testify on 1053? Anyone testifying against 1053. If not we will closed the hearing on HB 1053.

He asked if any subcommittees could meet this afternoon. We will have to start discussions following this, regarding the bills from DHS. Please mark them off HB 1124, HB 1318, HB 1395 and HB 1515. Those are the ones we have in committee right now. They have a fiscal impact, but there is no money associated with the bills.

2019 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1053
3/28/2019
JOB # 34307

- Subcommittee
 Conference Committee

Committee Clerk: Alice Delzer

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to create and enact a new subdivision to subsection 2 of section 57-38-30.3 of the North Dakota Century Code, relating to an income tax deduction for retired military personnel benefits; and to provide an effective date. (DO PASS)

Minutes:

No testimony submitted

Chairman Holmberg: called the Committee to order. Roll call was taken. All committee members were present except Senator Hogue. Alex Cronquist, Legislative Council and Larry Martin, OMB were also present. we have a few bills. Senator Hogue is gone today. There was discussion on several bills, and if they were ready to pass out of committee. Chairman Holmberg: stated that the subcommittee for the Commerce Department will be assigned to HB 1402: Chairman Holmberg, Senator Bekkedahl and Senator Robinson. There was discussion that 1402 could be rolled into Commerce. It was mentioned that some people questioned whether HB 1402 would be rolled into Commerce. It was confirmed that it will not be rolled into the Commerce bill. There is no intention of doing that.

(0.06.13) Chairman Holmberg: Let's do 1053. This bill is income tax deduction for military personal. the interesting discussion is we have two bills. This bill has a fiscal impact of \$3M. This came from Finance and Tax. you heard the discussions. One of the comments. we had two different comments because didn't we here from the Guard it wasn't on the list of criteria but then we heard from sponsors that said it was on the list of criteria for base closures.

Senator Bekkedahl: The other part about this bill is I don't know how many numbers it equates to. It was brought up in discussion that it could be a workforce bill as well. The people that have this benefit, a lot of these people are in their late 40s and early 50s and they are looking for a career place to be. I lot of them we keep here because they are from here, but you would be surprised at how many Air Force, in particular, that stay in Grand Forks and Minot and how many are we losing that don't stay because of something like this. It's a minor thing, we have low tax rates, but it does send a message.

V. Chairman Krebsbach: would move a do pass on HB 1053. 2nd by Senator Poolman.

Senator Gary Lee: We've had this, seems like every session I've been here, we talk about taking away the income tax for these retired military people. I am a veteran, and my issue is it seems, similar to SS issue that we deal with here, it's the people on the lower end and the lower ranks who aren't paying any anyway probably, because it's at \$3M. It's the guy at the higher rank are the ones that are paying into this. we are not affecting people that it really makes a difference with. I am not sure I am going to support this.

(0.09.20) Senator Dever: Four or five years ago I attended a conference on military higher education. As a part of that discussion, it was very interesting, one of the founders was one of the Mountain Rangers in Fort Bragg NC working with this program to work with veterans or military personal in the last 6 months to a year before their discharge in educating them into occupations that might be available in ND. I think, that type of program coupled with this incentive to stay in ND might lend some validity to the idea as a workforce development. One of the things that struck me in that conference is that the military (Military Occupational Specialist) OMS71BRAVO is a truck driver. Trucks in the military have automatic transmissions. Trucks in the private sector are standard transmissions. You can retrain somebody really easily to fill a lot of those jobs we have available so I think from a workforce point of view there is some validity for that argument to encourage those retirees as they get out of the Air Force and for people completing their term to entice them to stay in the state.

Senator Gary Lee: I think our income tax rates are about as low as we can get. Across the country I think we are number 2 in terms of our rates. And so the \$3M benefit here to somebody in total is not very significant when you put it all to together with the number of people that it may affect. I think we can try to rationalize it in all kinds of ways,, the workforce, the base closures, and all those kinds of things but everybody should pay a little, and that allows us to have low rates as they are, but when we continue to nibble away at all of these little things, that are important to some people, and I don't disagree with that, but that we come up with fewer people paying more.

V. Chairman Krebsbach: I hear what Senator Lee is saying. This is strictly on their retirement from the military pay that they would be receiving this reduction on and ND is one of the very few military states that does tax on the income tax of their state. In addition to that, I think one of the biggest reasons that I see it as being necessary is, when it comes to be being involved with bases here in the state, or any type of military function they have a whole checklist of things that are favorable to the military and this is one area where ND gets hammered by collecting income tax on their military retirement. I am supporting the bill.

Chairman Holmberg: Call the roll on a Do Pass on HB 1053.

A Roll Call vote was taken. Yea: 7; Nay: 6; Absent:1.

Chairman Holmberg: The motion carried, 7 to 6. That goes back to Finance and Tax. Senator Meyer will carry the bill.

The hearing was closed on HB 1053.

Date: 3-28-19

Roll Call Vote #: 1

**2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1053**

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 Krebsbach Seconded By Poolman

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	A				

Total (Yes) 7 No 6

Absent 1

Floor Assignment F & T (Meyer)

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

REPORT OF STANDING COMMITTEE

HB 1053: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (7 YEAS, 6 NAYS, 1 ABSENT AND NOT VOTING). HB 1053 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HB 1053

Grueneich

Chairman Headland and Vice Chairman Grueneich and esteemed members of the Finance and Tax committee. All of you have a hard job in this committee as you are the ones who must make the hard choices of what is viewed as an expense or as an investment for the state. My name is Steve Vetter. I represent District 18 which has a little of South Grand Forks, Downtown, half of North Grand Forks, a small rural area north of town which extends out to include the Grand Forks Air Force Base. I am serving in my 2nd session. I am introducing House bill 1053. This bill exempts military retirement pay from state income tax for military retirees and surviving spouses.

Why should you support this bill?

Number #1 Workforce Shortage in ND

We know as legislators that one of biggest challenges our State is facing is trying to fill thousands of jobs that need qualified applicants. How do we meet these workforce challenges? Vote Yes on House bill 1053.

What do we know about military retirees that make them good prospect to fill our workforce needs?

A typical military retiree is between 38 and 50

Retirees have proven to be a trainable and reliable employee with various diversified life and work experiences.

They have security clearances that are needed to qualify them to work the near future jobs at the Grand Sky UAS site, defense contractors and jobs building missile silos in Minot. ND needs to stay competitive in the UAS industry as we are competing with 10 other sites. We need qualified applicants to grow this industry remain at the top of this industry. The jobs building missile silos could be an easy transition for retirees with a security clearance to begin working their 2nd career in ND.

Most retirees have multiple dependents often in high school or college, so they are of working age. These young workers can fill jobs and pay taxes.

Number #2 (and maybe the most important reason) HB 1053 can pay for itself in several ways!!!

How? Let me show you how. First on an individual basis then as a larger policy using DOD statistics and Tax information from the ND Com

Retirees pay state income tax on their post retirement jobs. If for example, that job pays them \$50K of taxable income, the state receives \$1,500 in state tax.

Spouses and dependent in most cases have jobs. Let's assume between the spouse and dependents are paid a total of \$40K. The state receives another \$1,000 in tax.

Retirees, their spouses and dependents pay sales tax and they also contribute to their local community paying property tax.

Retirees help grow the state's population. Thus, growing the federal assistance program dollars for critical services. (HHS, DOT, USDA, ED, HUD).

Just Federal dollars alone will pay for this bill in 5-13 years! How? Let's take a look.

For each retiree that is a citizen, our state receives an average of \$1,910** in Federal dollars.

We have no way of telling the future, but we can make reasonable assumptions. I provided chart to showing an assumption of gaining 50 citizens a year from the policy and an assumption of gaining 200 citizens a year from the policy.

50 per year

Year	New Citizens	Times \$1910 Fed Pro. Dollars
1	50	\$95,500.00
2	100	\$191,000.00
3	150	\$286,500.00
4	200	\$382,000.00
5	250	\$477,500.00
6	300	\$573,000.00
7	350	\$668,500.00
8	400	\$764,000.00
9	450	\$859,500.00
10	500	\$955,000.00
		\$5,252,500.00

200 per year

Year	New Citizens	Times \$1910 Fed Pro. Dollars
1	200	\$382,000.00
2	400	\$764,000.00
3	600	\$1,146,000.00
4	800	\$1,528,000.00
5	1000	\$1,910,000.00
6	1200	\$2,292,000.00
7	1400	\$2,674,000.00
8	1600	\$3,056,000.00
9	1800	\$3,438,000.00
10	2000	\$3,820,000.00
		\$21,010,000.00

The Estimated tax reduction for biennium: -\$2.98 million.

At the lowball estimate of 50 per year, Federal funds would pay for the HB1053 per biennium beginning the 7th biennium. The more reasonable estimate of 200 per year would pay for HB1053 beginning the 3rd biennium.

Current statistics indicate that approximately 5,430* military retirees claim ND as their resident state. On average, ND retirees receive \$1,750 from the federal government for their retirement pay on a monthly basis. However, the more accurate number would be taking 2.98 million and divide by 5430 = \$548.

If a retiree stays in ND and gets a post retirement job paying 50K, they will pay almost 3 times the amount of the retirement exemption in state income tax on their new job (\$1,500). If you add the spouse and dependent example, it is almost 5 times the amount of the exemption (\$2,500). Add in Federal Funds of \$1,910 and its 8 TIMES the amount of the cost of this exemption!

The amount the state would lose in tax revenue from passing HB 1053 per average individual is \$548/year. Compare this to the amount paid in by the individual family (above example) of \$2,500 in state income tax and then add in the amount of Federal Funds \$1,910 = \$4,410.

The average Retiree that make ND their home brings in \$4,410 for a cost of \$548/year!!!!

Yet, the fiscal note says it is a cost of 3 million dollars. I say to you, it is an investment not an expense because that 3 million could return \$24 million. Which one you of would invest \$1,000 if they thought it could turn into 8 million?

Number #3 Competition with border states

We are the only state in the Midwest without some form of an exemption on military retirement income. We compete for military personnel to make ND their home. I am not saying we don't provide numerous benefits for our military, but it appears we are somehow deficient compared to bordering states. As I stated earlier, I represent the district in which the Grand Forks Air Force base is located. The question I ask is, why is there so few ballots cast from the base? Why don't the Airman choose to become residents of North Dakota?

Currently just under 15% of active NDNG members have residency in MN or SD. That is roughly 600 Soldiers/Airmen, many with families. Granted there are numerous variables that contribute to the decision on where to live but it has been stated by many service members that the tax exemption laws and property tax laws for disabled vets (especially MN) does contribute to that decision while actively serving and in retirement.

This benefit may also encourage retirees to retain their ND residency rather than changing it to the other states that they may split their time which have better incentives. Those military retirees that snowbird would be less likely to change residency to AZ or FL.

The strategy I would suggest for this committee is to pass HB1053 in combination with HB1061, which you will hear later, that exempts active duty military from state tax. These bills work well together and

the combination of these two bills would put ND in position to be the leader among our Midwest neighbors.

This is an opportunity to grow the North Dakota population by enticing the new Airmen assigned to Minot & Grand Forks AFBs each year to claim residency as a ND citizen. Those Airmen will likely retain their ND residency as they change duty stations. Many of the Airmen that come to ND are likely to return at some point in their career as there are only a few bases that have their military occupations. By providing this benefit they are more likely to consider ND as their retirement destination.

Number #4 Small thank you to our Military

This bill is a small thank you for protecting our nation. Military is most basic responsibility of the government. Without the military, we have no rights because it the military who protect our rights given to us by God and stated in the constitution.

“We sleep safely at night because rough men stand ready to visit violence on those who would harm us.”
— **Winston S. Churchill**

“The soldier is the Army. No army is better than its soldiers. The Soldier is also a citizen. In fact, the highest obligation and privilege of citizenship is that of bearing arms for one’s country”
— **George S. Patton Jr.**

“No duty is more urgent than that of returning thanks.” —**James Allen**

A \$548 tax exemption does not seem like a lot for 20 years of service to our country.

In review, there are 4 great reasons to vote give HB1053 a “Do Pass’ recommendation, but every reason by themselves is reason enough to pass this bill:

#1) To provide a small thank you to those who served our nation and protect us.

#2) To become more competitive with neighbor border states

#3) Workforce Shortage in ND

#4) It can pay for itself in several ways!

Additional information:

* NORTH DAKOTA – Military Retirees in ND - 5,430 (2,344 +65 years old) Retires Paid by DoD - 5,120
Monthly Payment - \$9,396,000

** COMMERCE - Census Office - Federal Assistance programs distribute funds on basis of decennial census-derived stats. For fiscal year 2015 the per capita rate of ND was \$1910 and totaled \$1,445,647,171. Some of the programs that receive these funds are Medicaid, Highway planning and construction, Special education grants, Foster Care, WIC, SNAP, and Child care and Development Fund Entitlement. More people claiming ND residency means more federal funds for these programs. Even if some of those ND citizens are military members or retirees that are stationed at other bases or spend a portion of their time living out of state, they are still counted in the states favor.

1-7-19
#2

TESTIMONY OF
MAJOR GENERAL AL DOHRMANN
NORTH DAKOTA NATIONAL GUARD
BEFORE THE
HOUSE FINANCE AND TAXATION COMMITTEE
07 JANUARY 2019
HOUSE BILL 1053

Mr. Chairman, members of the committee, my name is Al Dohrmann, the Adjutant General of the North Dakota National Guard. I am here today to provide testimony in support of House Bill 1053.

As recommended in the Governor's budget address and in North Dakota Department of Labor's Workforce Development Council's recent report, this bill could serve as a tool to entice military retirees to remain in or become citizens of North Dakota. This could contribute to increasing the skilled workforce and assist in filling current and future job vacancies across the state.

At a recent summit, that included more than 30 state-wide community leaders, representatives from both Air Force Bases, the Navy Reserve, and the North Dakota National Guard, we discussed how to improve North Dakota as a military friendly state. During our discussion and subsequent research, we discovered that North Dakota is 1 of only 8 states that still taxes retired military pay, putting us at a competitive disadvantage to attract this skilled and disciplined workforce, and a competitive disadvantage during any future base closure and realignment processes.

The Tax Department estimates a \$3 million fiscal note; however, we believe the benefit of attracting and retaining military retirees to North Dakota will reduce the fiscal impact and eventually eliminate it. North Dakota currently has about 5,200 retirees whose retirement benefits inject \$9 million a month in federal dollars into North Dakota. Even if this money is not taxed, it is still used to buy goods and services that help drive our economy. By increasing the number of veterans calling North Dakota home, we can increase this injection of federal dollars, further reducing the fiscal impact of HB 1053. Further, as our resident veteran population grows, federal program dollars received per citizen could quickly move this initiative to revenue positive.

Most military retirees are between 38-50 years of age and have proven to be a reliable, ready workforce with strong values. In almost all cases, they pursue a second career after retiring from the military at this young age. With known workforce requirements in our unmanned aerial systems industry and the upcoming Ground Based Strategic Deterrent upgrade near Minot, we need to be in a strong position to recruit skilled workforce, preferably with a security clearance. The strongest demographic to fill this requirement is our veteran population. Income earned from these second careers would be fully taxed. Additionally, in many cases, they are accompanied by dependents who are often employed, further reducing the potential fiscal impact of this Bill. Lastly, the military member and their family are often active in their community's public, private, and civic organizations further contributing to the betterment of North Dakota. They have become North Dakotans and we want them to stay North Dakotans.

I ask for your support of HB 1053 and will stand by for any questions that you may have.



Testimony of Jennifer Greuel
Economic Development Association of North Dakota
In Support of HB 1053
Jan. 7, 2019

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

I'm Jennifer Greuel from the Economic Development Association of North Dakota (EDND), and I would like to express our support for HB 1053.

EDND represents large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota to 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 businesses and industries. 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.

Military personnel retire with a wealth of experience and potential to aid North Dakota businesses. North Dakota is currently one of only eight states that fully tax military retirement pay (other states include California, Montana, New Mexico, Rhode Island, Utah, Vermont, and Virginia). Exempting military pensions has the potential to entice more service members to relocate to or remain in North Dakota, providing much-needed skill sets to businesses.

Thank you for the opportunity to address the committee and express support for this bill and for your continued commitment to working together to address North Dakota's workforce needs.

3/12 NB 1053 #1 pg.1

From: Vetter, Steve M. smvetter@nd.gov
Subject: Chairman Cook and esteemed Senators of the Finance and
Tax committee...
Date: Mar 12, 2019 at 8:13:33 AM
To: Vetter, Steve M. smvetter@nd.gov

Chairman Cook and esteemed Senators of the Finance and Tax committee. All of you have a hard job in this committee as you are the ones who must make the hard choices of what is viewed as an expense or as an investment for the state.

My name is Steve Vetter. I represent District 18 which has a little of South Grand Forks, Downtown, half of North Grand Forks, a small rural area north of town which extends out to include the Grand Forks Air Force Base. I am serving in my 2nd session. I am introducing House bill 1053. This bill exempts military retirement pay from state income tax for military retirees and surviving spouses.

Why should you support this bill?

Workforce Shortage in ND

North Dakota competes with other states for skilled and specialized workers. Unemployment is very low nearly everywhere so everyplace is seeking workers. We need military retirees who are mobile and are ideally suited for our many of open jobs with their extensive experience and expertise. A typical military retiree is between the ages of 38 and 50, right in the prime of their working career. This state exemption is a benefit retirees would receive in 86% of the other states and they should expect it in North Dakota too for their years of service, often at lower wage rates than civilians receive for similar work.

Retirees have proven to be a trainable and reliable employee with various diversified life and work experiences. Our state has several types of jobs to fill that require a specialized type of worker. Military retirees are the perfect fit for these jobs because of their skills and they already have a security clearance.

3/12 HB 1053 #1 pg.2

What am I talking about?

Former military are the few who are qualified for the higher skilled jobs, especially if the job requires a security clearance, at places like Grand Sky, the nation's first UAS airport. To grow the exciting new UAS industry, we need a skilled workforce. They have security clearances that are needed to qualify them to work at jobs at the Grand Sky UAS site, defense contractors and jobs building missile silos in Minot. ND needs to stay competitive in the UAS industry as we are competing with 10 other sites. We need qualified applicants to grow this industry remain at the top of this industry. ND is a world leader in this industry because of the wise decisions made by those that were here before me. We need to continue to use that wisdom to give us the best chance to fill the specialized jobs that military retirees are the best fit. These jobs are available right now. At least 60 jobs are available right at the UAS site. HB1053 is an investment not an expense.

Competition with border states and base retention

HB 1053 was introduced to help retain or attract military retirees by exempting their military pension from state income tax. North Dakota is the only state in the Midwest without some form of exemption. Just seven states offer no special tax treatment of military pensions. I am not saying we don't provide numerous benefits for our military, but it appears we are somehow deficient compared to bordering states. As I stated earlier, I represent the district in which the Grand Forks Air Force base is located. The question I ask is, why is there so few ballots cast from the base? Why don't the Airman choose to become residents of North Dakota?

Currently just under 15% of active NDNG members have residency in MN or SD. That is roughly 600 Soldiers/Airmen, many with families. Granted there are numerous variables that contribute to the decision on where to live but it has been stated by many service members that the tax exemption laws and

3/12 HB 1053 # 1 pg. 3

property tax laws for disabled vets (especially MN) does contribute to that decision while actively serving and in retirement.

This benefit may also encourage retirees to retain their ND residency rather than changing it to the other states that they may split their time which have better incentives. Those military retirees that snowbird would be less likely to change residency to AZ or FL.

This state tax exemption is also a criteria that Defense checks off their list when deciding how military friendly our state is. So this bill has a role in base retention and expansion. HB1053 is an investment not an expense.

Small thank you to our Military.

This bill is a small thank you for protecting our nation. Military is most basic responsibility of the government. Without the military, we have no rights because it the military who protect our rights given to us by God and stated in the constitution.

"We sleep safely at night because rough men stand ready to visit violence on those who would harm us." — Winston S. Churchill

"The soldier is the Army. No army is better than its soldiers. The Soldier is also a citizen. In fact, the highest obligation and privilege of citizenship is that of bearing arms for one's country" — George S. Patton Jr.

"No duty is more urgent than that of returning thanks." — **James Allen**

A \$550 tax exemption does not seem like a lot for 20 years of service to our country.

HB 1053 can pay for itself in several times over!!!

This state tax exemption pays for itself several times over. There are 5,430* military retirees who call North Dakota home. The fiscal note on this bill is \$3

3/12 HB 1053 #1 pg. 4

million, or \$550 per retiree per biennium. However, the retiree pays income tax on their other income. A job of \$60,000 added with a spouse's job of \$30,000, means they will pay \$2500 in state income taxes, or nearly five times the amount of their state deduction. Plus they pay sales taxes and gas taxes of at least \$1,500 and also pay property taxes.

Add their income tax (\$2500), sales and gas tax (\$1500). That is \$4000 in revenue to the state or over 7 times more than the investment of \$550 in their state income tax exemption. And with my example I am using very conservative numbers because a retiree working as a UAS operator or instructor will make 3-4 times the amount of my example. Let us bring in more military retirees with this kind of return and payback to our great State. HB1053 is an investment not an expense.

Retirees help grow the state's population. Thus, growing the federal assistance program dollars for critical services. (HHS, DOT, USDA, ED, HUD).

Just Federal dollars alone will pay for this bill in 5-13 years! How? Let's take a look.

For each retiree that is a citizen, our state receives an average of \$1,910** in Federal dollars.

We have no way of telling the future, but we can make reasonable assumptions. I provided chart to showing an assumption of gaining 50 citizens a year and an assumption of gaining 200 citizens a year from the policy.

50 per year		
Year	New Citizens	Times \$1910 Fed Pro. Dollars
1	50	\$95,500.00

3/12 HB 1053 # 1 pg.5

2	100	\$191,000.00
3	150	\$286,500.00
4	200	\$382,000.00
5	250	\$477,500.00
6	300	\$573,000.00
7	350	\$668,500.00
8	400	\$764,000.00
9	450	\$859,500.00
10	500	\$955,000.00
		\$5,252,500.00
200 per year		
Year	New Citizens	Times \$1910 Fed Pro. Dollars
1	200	\$382,000.00
2	400	\$764,000.00
3	600	\$1,146,000.00
4	800	\$1,528,000.00
5	1000	\$1,910,000.00
6	1200	\$2,292,000.00
7	1400	\$2,674,000.00
8	1600	\$3,056,000.00
9	1800	\$3,438,000.00

3/12 HB 1053 #1 pg.6

10	2000	\$3,820,000.00
		\$21,010,000.00

At the lower estimate of 50 per year, Federal funds would pay for the HB1053 per biennium beginning the 7th biennium. The higher estimate of 200 per year would pay for HB1053 beginning the 3rd biennium. HB1053 is an investment not an expense.

Add their income tax (\$2500), sales and gas tax (\$1500) and federal funds(\$1910). That is nearly \$6000 in revenue to the state, over ten times more than the investment of \$550 in their state income tax exemption!

The average Retiree that make ND their home brings in \$6000 for a cost of \$550/year!!!!

Yet, the fiscal note says it is a cost of 3 million dollars. I say to you, it is an investment not an expense because that 3 million could return \$30 million to the state.

Which one you of would not invest your own money with a potential return of 10 times your investment?

To those that won't vote for this because they want a broader tax reduction. The house recently passed a bill for this broad base reduction in the near future. Even if we were to pass an elimination of income taxes in the near future, this bill is still good because it would then cost nothing and it would still help with our military friendly rating for base retention. Is the economic impact of our military bases and number #1 UAS site a good enough reason? I would hope you could reconsider your vote.

3/12 #B 1053 # 1 pg. 7

In review, there are several great reasons to vote to give HB1053 a "Do Pass" recommendation:

#1) To provide a small thank you to those who served our nation and protect us.

#2) To become more competitive with neighbor border states and base retention

#3) Workforce Shortage in ND

#4) It can pay for itself in several ways and several times over!

And what better neighbor than one who knows how to work and defend our country? Let us say thank you for their service and say welcome to North Dakota with HB 1053.

3/12 HB 1053 #1 pg. 8

Additional information:

* NORTH DAKOTA – Military Retirees in ND - 5,430 (2,344 +65 years old)

Retires Paid by DoD - 5,120 Monthly Payment - \$9,396,000

** COMMERCE - Census Office - Federal Assistance programs distribute funds on basis of decennial census-derived stats. For fiscal year 2015 the per capita rate of ND was \$1910 and totaled \$1,445,647,171. Some of the programs that receive these funds are Medicaid, Highway planning and construction, Special education grants, Foster Care, WIC, SNAP, and Child care and Development Fund Entitlement. More people claiming ND residency means more federal funds for these programs. Even if some of those ND citizens are military members or retirees that are stationed at other bases or spend a portion of their time living out of state, they are still counted in the states favor.

3/12 HB 1053 #2 pg.1

TESTIMONY OF
MAJOR GENERAL AL DOHRMANN
NORTH DAKOTA NATIONAL GUARD
BEFORE THE
SENATE FINANCE AND TAXATION COMMITTEE
12 MARCH 2019
HOUSE BILL 1053

Mr. Chairman, members of the committee, my name is Al Dohrmann, the Adjutant General of the North Dakota National Guard. I am here today to provide testimony in support of House Bill 1053.

As recommended in the Governor's budget address and in North Dakota Department of Labor's Workforce Development Council's recent report, this bill could serve as a tool to entice military retirees to remain in or become citizens of North Dakota. This could contribute to increasing the skilled workforce and assist in filling current and future job vacancies across the state.

At a recent summit, that included more than 30 state-wide community leaders, representatives from both Air Force Bases, the Navy Reserve, and the North Dakota National Guard, we discussed how to improve North Dakota as a military friendly state. During our discussion and subsequent research, we discovered that North Dakota is 1 of only 8 states that still taxes retired military pay, putting us at a competitive disadvantage to attract this skilled and disciplined workforce, and a competitive disadvantage during any future base closure and realignment processes.

The Tax Department estimates a \$3 million fiscal note; however, we believe the benefit of attracting and retaining military retirees to North Dakota will reduce the fiscal impact and eventually eliminate it. North Dakota currently has about 5,200 retirees whose retirement benefits inject \$9 million a month in federal dollars into North Dakota. Even if this money is not taxed, it is still used to buy goods and services that help drive our economy. By increasing the number of veterans calling North Dakota home, we can increase this injection of federal dollars, further reducing the fiscal impact of HB 1053. Further, as our resident veteran population grows, federal program dollars received per citizen could quickly move this initiative to revenue positive.

Most military retirees are between 38-50 years of age and have proven to be a reliable, ready workforce with strong values. In almost all cases, they pursue a second career after retiring from the military at this young age. With known workforce requirements in our unmanned aerial systems industry and the upcoming Ground Based Strategic Deterrent upgrade near Minot, we need to be in a strong position to recruit skilled workforce, preferably with a security clearance. The strongest demographic to fill this requirement is our veteran population. Income earned from these second careers would be fully taxed. Additionally, in many cases, they are accompanied by dependents who are often employed, further reducing the potential fiscal impact of this Bill. Lastly, the military member and their family are often active in their community's public, private, and civic organizations further contributing to the betterment of North Dakota. They have become North Dakotans and we want them to stay North Dakotans.

I ask for your support of HB 1053 and will stand by for any questions that you may have.



Testimony of Keith Lund
Economic Development Association of North Dakota
In Support of HB 1053
March 12, 2019

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

My name is Keith Lund, president of the Grand Forks Region Economic Development Corporation. I am also the secretary/treasurer of the Economic Development Association of North Dakota (EDND) and it is in this capacity I am testifying in support of HB 1053.

EDND represents large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota to 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 businesses and industries. 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.

Military personnel retire with a wealth of experience and potential to aid North Dakota businesses. North Dakota is currently one of only eight states that fully tax military retirement pay (other states include California, Montana, New Mexico, Rhode Island, Utah, Vermont, and Virginia). Exempting military pensions has the potential to entice more service members to relocate to or remain in North Dakota, providing much-needed skill sets to businesses.

Thank you for the opportunity to address the committee and express support for this bill and for your continued commitment to working together to address North Dakota's workforce needs.

HB 1053

3-25-19

#1

P1

TESTIMONY OF
MAJOR JAY SHELDON
NORTH DAKOTA NATIONAL GUARD
BEFORE THE
SENATE APPROPRIATIONS COMMITTEE
25 MARCH 2019
HOUSE BILL 1053

Mr. Chairman, members of the committee, my name is Jay Sheldon, here on behalf of the the Adjutant General of the North Dakota National Guard. I am here today to provide testimony in support of House Bill 1053.

As recommended in the Governor's budget address and in North Dakota Department of Labor's Workforce Development Council's recent report, this bill could serve as a tool to entice military retirees to remain in or become citizens of North Dakota. This could contribute to increasing the skilled workforce and assist in filling current and future job vacancies across the state.

At a recent summit, that included more than 30 state-wide community leaders, representatives from both Air Force Bases, the Navy Reserve, and the North Dakota National Guard, we discussed how to improve North Dakota as a military friendly state. During our discussion and subsequent research, we discovered that North Dakota is 1 of only 8 states that still taxes retired military pay, putting us at a competitive disadvantage to attract this skilled and disciplined workforce, and a competitive disadvantage during any future base closure and realignment processes.

The Tax Department estimates a \$3 million fiscal note; however, we believe the benefit of attracting and retaining military retirees to North Dakota will reduce the fiscal impact and eventually eliminate it. North Dakota currently has about 5,200 retirees whose retirement benefits inject \$9 million a month in federal dollars into North Dakota. Even if this money is not taxed, it is still used to buy goods and services that help drive our economy. By increasing the number of veterans calling North Dakota home, we can increase this injection of federal dollars, further reducing the fiscal impact of HB 1053. Further, as our resident veteran population grows, federal program dollars received per citizen could quickly move this initiative to revenue positive.

Most military retirees are between 38-50 years of age and have proven to be a reliable, ready workforce with strong values. In almost all cases, they pursue a second career after retiring from the military at this young age. With known workforce requirements in our unmanned aerial systems industry and the upcoming Ground Based Strategic Deterrent upgrade near Minot, we need to be in a strong position to recruit skilled workforce, preferably with a security clearance. The strongest demographic to fill this requirement is our veteran population. Income earned from these second careers would be fully taxed. Additionally, in many cases, they are accompanied by dependents who are often employed, further reducing the potential fiscal impact of this Bill. Lastly, the military member and their family are often active in their community's public, private, and civic organizations further contributing to the betterment of North Dakota. They have become North Dakotans and we want them to stay North Dakotans.

I ask for your support of HB 1053 and will stand by for any questions that you may have.

R1