

2021 HOUSE FINANCE AND TAXATION

HB 1456

2021 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Room JW327E, State Capitol

HB 1456
2/3/2021

A bill relating to a sales and use tax exemption for materials used in the research and development of bioscience and biotechnology.

Chairman Headland opened the hearing at 9:30am.

Representatives	Present
Representative Craig Headland	Y
Representative Vicky Steiner	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	AB
Representative Sebastian Ertelt	Y
Representative Jay Fisher	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	Y
Representative Tom Kading	AB
Representative Ben Koppelman	Y
Representative Marvin E. Nelson	Y
Representative Nathan Toman	Y
Representative Wayne A. Trottier	Y

Discussion Topics:

- Sales and use tax exemption in bioscience and biotechnology
- Eligibility of exemption

Representative O'Brien introduced bill (#5128).

Shawn McCormick, Chief Financial Officer at Aldevron, and Michael Chambers, Founding CEO and Executive Chairman of Aldevron, testified in support (#5075, 5076, 5077).

Additional written testimony:

Richard Glynn, Executive Director for Bioscience Association of North Dakota, testimony in support #5121.

Jennifer Greuel, Executive Director for Economic Development Association of North Dakota, testimony in support #5036.

Keith Lund, President and CEO of Grand Forks Region Economic Development Corporation, testimony in support #5011.

Phil Murphy, Government Liaison for North Dakota Soybean Growers Association, testimony in support #4655.

Joe Raso, Greater Fargo Moorhead Economic Development Corporation, testimony in support #4498, as submitted by Ryan Aasheim.

Chairman Headland closed the hearing at 9:48am.

Mary Brucker, Committee Clerk



NORTH DAKOTA HOUSE OF REPRESENTATIVES

STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360



Representative Emily O'Brien

District 42

5021 West Elm Court

Grand Forks, North Dakota 58203

eobrien@nd.gov

COMMITTEES:

Industry, Business and Labor
Transportation

#5128

February 3, 2021

House Bill 1456
House Finance and Taxation Committee
Representative Headland, Chairman
February 3, 2021

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

I am Representative Emily O'Brien, from District 42, in Grand Forks, North Dakota.

House Bill 1456 would provide a sales and use tax exemption for materials used in research and development of bioscience and biotechnology.

The Bioscience industry uses the knowledge of living organisms or other biological systems in the manufacturing of innovative products that address health, agricultural and environmental challenges. This diverse industry spans many markets and includes manufacturing, services, and research activities.

The United States bioscience industry continues to be a significant economic engine creating high-wage, family-sustaining jobs with average wages well above the overall private sector. Despite a tough economic climate, the bioscience and biotechnology industries have created jobs across the country with many states and regions maintaining or growing their industry presence in specialized industry subsectors.

Currently, there are two states – Wisconsin and Texas that are using policies such as HB 1456 to make their regions more attractive to bioscience and biotechnology companies to be more attractive to innovators and businesses.

To quickly go through the bill:

Section 1. Explains what would qualify under the sales tax exemption –

Subsection 1 – gross receipts from sales of tangible personal property purchased for use, storage, or consumption directly and predominately in the research and development of bioscience and biotechnology.

Subsection 2 – the qualified biotechnology taxpayer or qualified bioscience taxpayer must receive from the tax commissioner a certificate that the tangible personal property qualifies for the exemption. If a certificate is not received before the purchase, the qualified biotechnology taxpayer or qualified bioscience taxpayer shall pay the applicable tax imposed by this chapter and apply to the tax commissioner for a refund.

Subsection 3 – if the tangible personal property is purchased or installed by a contractor subject to the tax imposed by this chapter, the qualified bioscience or qualified biotechnology taxpayer may apply for a refund of the difference between the amount remitted by the contractor.

Subsection 4 – Definitions

Section 2. – authorizes the Tax Commissioner to authorize or approve tangible personal property.

Section 3. – provides an effective date for taxable events occurring after June 30, 2021.

Chairman Headland and members of the Finance and Taxation Committee - North Dakota provides the perfect ecosystem to support such legislation as House Bill 1456. North Dakota is home to a dynamic ecosystem of growing advanced research, development and manufacturing for bioscience and biotechnology companies. Offering a sales and use tax exemption for investments those businesses make would create jobs and modernize operations – innovation is key to making North Dakota the most competitive state in the country. This will have a tangible impact.

I hope you will support House Bill 1456. Industry experts will be here to provide support for House Bill 1456 for technical questions. I'd be happy to answer any questions that the committee may have.

Representative Emily O'Brien
District 42, Grand Forks



February 2, 2021

To: North Dakota House of Representatives

Subject: Support for HB 1465—Bioscience Tax Exemption Bill

To whom it may concern,

Aldevron would like to inform you of our support of HB 1465 – Bioscience Tax Exemption Bill.

Thank you for consideration of HB 1465 which offers the potential of sales and use tax exemption to the bioscience and biotechnology industry in a fashion similar to the exemption provided to other industries within North Dakota as well as exemptions for the bioscience industry in other states, including Wisconsin and Texas.

Rationale for Support

Current tax legislation relating to sales and use tax exemptions does not cover the bioscience industry nor address fundamental differences between the bioscience industry and other more long-standing industries. HB 1465 addresses some of these differences and extends the exemptions to the rapidly developing biotechnology industry.

As a well-known leader in the bioscience industry with a long-standing commitment to North Dakota, Aldevron appreciates these efforts to update tax legislation to apply the same concepts and principles, historically applied to manufacturers, to the new and dramatically expanding industry of bioscience and biotechnology. Aldevron continues to be committed to expanding our business, providing highly skilled employment growth, and establishing North Dakota as a focal point of our industry. However, compared to other manufacturers, such as equipment manufacturers, we operate at a disadvantage with regard to sales and use taxes, which places restrictions on capital for expansion.

One of the fundamental differences in our industry is that you cannot see with the naked eye the cellular structures we use as raw materials or that are produced through our processes. It requires thousands or even millions of cells accumulated together to be visible. But our work is accomplished on a cell-by-cell basis. Because of this, there are unique requirements of our manufacturing processes to be able to complete our work.

One of the most significant differences is that what you put into the process is not what you get out at the end. This is similar to the fertilizer manufacturing process. Various ingredients are put into the process, there are reactions and alterations that change the chemical make-up or cellular structure of the ingredients, and the end result is a new product (cells or plasmid DNA) that does not resemble the raw materials that were used in the beginning.

Another fundamental difference of the biotech industry is that in order to “harvest” our end product – plasmid DNA or RNA – we are required to use resins to “pull” the cells out of the fermented mixture used to create the cells. These resins, although not part of the final plasmid DNA product sold to a

Aldevron

4055 41st Avenue South, Fargo, ND 58104 | www.aldevron.com

T: (701) 297-9256 | Toll-free 1 877 Pure-DNA (787-3362) | F: 1 (701) 280-1642



customer, are similar to conveyors or cranes. And, although in some cases these resins can be recycled for re-use, they are not used across multiple customer plasmid DNA products. In other words, the resins are similar to capital equipment, albeit with a short useful life.

There is also a fundamental difference in being able to track exactly how products are used within our industry. Although much of the biotech industry can be considered to be in research and development stages and many organizations, such as Universities, primarily focus on research and development, many companies perform both functions. As an example, many companies, such as J&J, Pfizer, Moderna and hundreds of others, are completing research on therapies that require plasmid DNA, RNA and proteins. These same companies now or in the future have commercially available therapies or vaccines (i.e., COVID vaccines). As this industry continues to evolve, it will become more balanced between research and development efforts and commercial efforts for approved therapies.

There are obviously many other differences between the biotech industry and other more readily visible product industries. The intent here is not to define all these differences, but rather, to explain that regardless of the fundamental differences, we believe the same intent of sales and use tax exemptions are equally applicable. Therefore, we support the adoption of revised sales and use tax exemption language to clarify the applicability of the exemptions to the bioscience and biotechnology industry. Specifically, we believe the exemption should apply to materials used in or required as an integral part of the research and development of or manufacture of bioscience and biotechnology products.

Sincerely,

Shawn McCormick
Chief Financial Officer

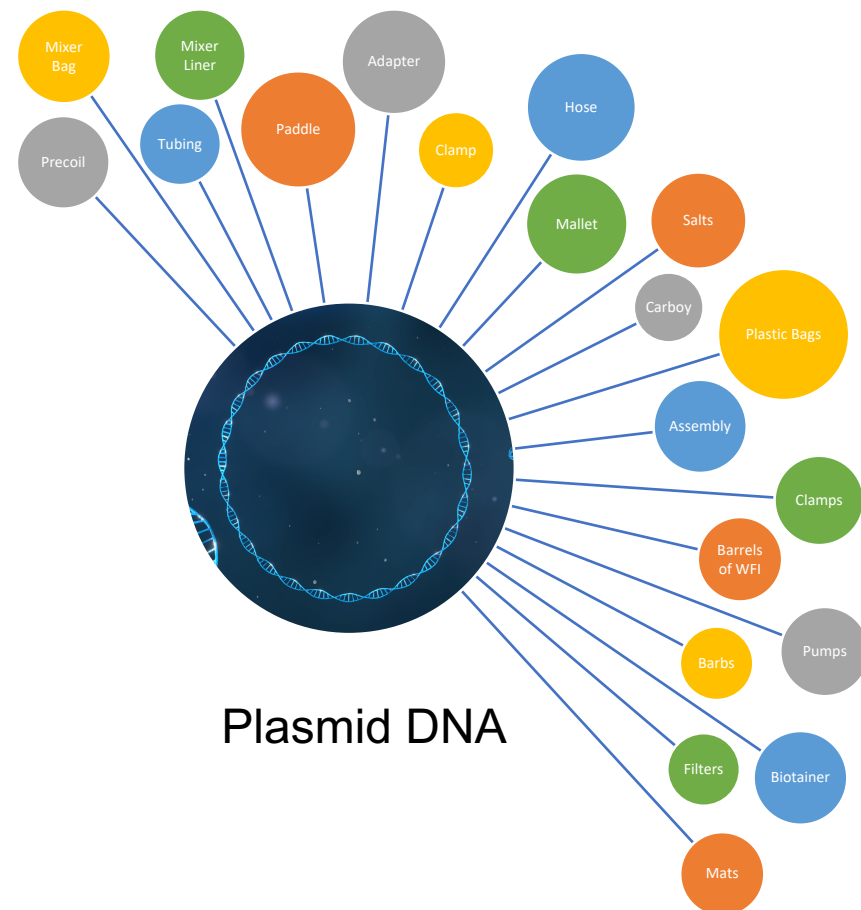
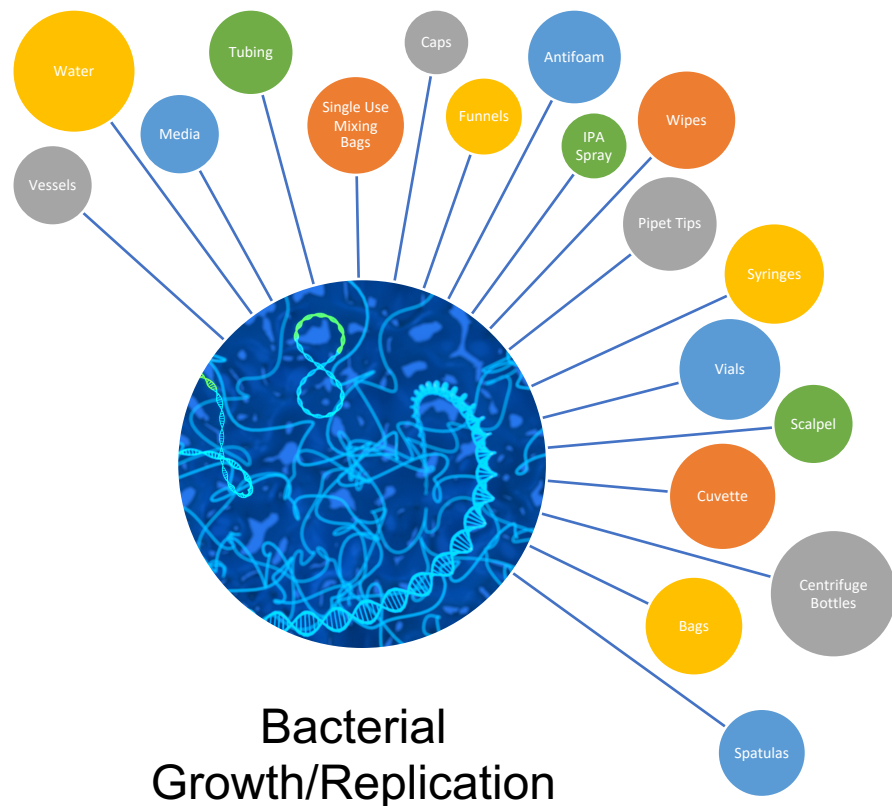
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#5076

Plasmid Growth/Purification



Fermentation (Growing the Bacteria)

Integral Materials:
Media, Antibiotic, Antifoam

Integral Equipment:
Fermenators, Shakers,
Centrifuges

Consumables:
Fermentation Bag, Transfer
Bags, Harvest Liners

Final Material is the
bacterial paste containing
the pDNA from the harvest
after centrifugation that is
taken on to Lysis

Lysis/AEX (Breaking the Bacteria to Extract the pDNA)

Integral Materials:
Resin, Filters, Buffer

Integral Equipment:
Chromatography Columns,
AKTA Skids, Pumps,
Conductivity Meter

Consumables:
Collection Bags, tubing
assemblies, mixing Bags

Final material is pDNA
suspended in high-salt
solution

Interim TFF (Buffer Exchange of Impure pDNA)

Integral Materials:
TFF filters, Buffers

Integral Equipment:
AKTA Skid, Pumps, Scales

Consumables:
TFF tubing assemblies or
tubing, sensors, and sterile
bags

Final material is pDNA
suspended in low salt
solution

Polishing Chromatography (Purification of pDNA)

Integral Materials:
Resin, Buffer

Integral Equipment:
Chromatography Columns,
AKTA Skids, Pumps,
Conductivity Meter

Consumables:
Collection Bags, tubing
assemblies, Tubing

Final material is purified
pDNA suspended in high-
salt solution

Final TFF (Purified pDNA in Final Solution)

Integral Materials:
TFF filters, Buffers

Integral Equipment:
AKTA Skid, Pumps, Scales

Consumables:
TFF tubing assemblies or
tubing, sensors, and sterile
bags

Final material is purified
pDNA suspended in low-
salt solution

Dispensing (pDNA Solution in Final Vials)

Integral Materials
Final Vials (Variety of
sterile containers from
glass vials, to cryovials to
biotainers), Sterile Filters

Integral Equipment:
Pumps, Repeater Pipette,
ISO 5 Biological Safety
Cabinet

Consumables
Pipettes, Syringes, tubing
assemblies,

Final Vials are transported
to Client

House Finance and Taxation Committee
Chairman Craig Headland
4950 92nd Avenue SE
Montpelier, ND 58472-9630

Re: Bill 1456, relating to a sales and use tax exemption for materials used in the research and development of bioscience and biotechnology; and to provide an effective date.

Honorable Chairman Headland:

One of the “Missions” of the Bioscience Association of North Dakota is to facilitate the growth of biotech companies in North Dakota by recruiting quality applicants from outside the state as well as to encourage high quality applicants located in the State to expand their operations. The Association was successful these last two years in that we managed to add 13 Companies to the Bioscience Portfolio, 7 were recruited to North Dakota and 6 were North Dakota startups. The 13 companies created are projected to create - 161 jobs. The industry average salary is \$65,000 a year, or \$28.85 per hour. Therefore, the companies generate \$10.5 million a year in salary, \$21 million per biennium.

The Association was also successful in helping a major biotech company, Aldevron, Inc., located in Fargo, North Dakota, expand its operations in 2018 when they constructed their 70,000-sf addition, the world’s largest plasmid DNA manufacturing facility. Since that time, they are expanding once again and are now constructing an 189,000-sf building expected to open in Q2 2021. It is projected that Aldevron, which has 500 employees now, for an annual payroll of \$32,500,000 a year, will grow to 1,000 employees by 2021, with an annual payroll of \$65 million dollars per year.

In order to continue our success, we need “economic tools” that our contemporaries have in places like Wisconsin and Texas, who are using policies like HB-1456 to make their regions more attractive to innovators and businesses deciding where to locate and grow their biotechnology companies. Policies like HB-1456 would not only put us on a more even footing with other states in attracting biotech firms but would also strengthen the global competitiveness of companies that we already have here.

We have world class research capabilities and talent production from NDSU and UND; powerful capital access programs for technology innovators through LIFT, PACE, and the North Dakota Development Fund; and major ecosystem anchors like Aldevron that are already attracting other biotech partners and collaborators to relocate to be near them. By adding sales and use tax exemption for materials used in the research and development of bioscience and biotechnology products we could have the leading edge in attracting biotech firms to North Dakota as well as encouraging those firms already here to “dive in” and make the investment to expand their businesses.

We believe in the potential of the biotechnology industry to become a future driver of North Dakota’s economy and have a lasting impact on this state and urge your support HB-1456 as you consider this important public policy.

Respectfully submitted,
Richard Glynn
Executive Director
Bioscience Association of North Dakota



PO Box 1091 • Bismarck, ND 58502

701-355-4458 • www.ednd.org

Testimony of Jennifer Greuel
Economic Development Association of North Dakota
In Support of HB 1456
Feb. 2, 2021

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

The Economic Development Association of North Dakota represents more than 80 large and small and rural and urban economic development organizations on the front line of growing businesses and communities in North Dakota. The primary purpose of the organization is to promote the creation of new wealth throughout North Dakota to develop more vibrant communities and improve quality of life. It is for these reasons our organization and its members want to express support for HB 1456.

Energy and agriculture have long been the two historical and leading pillars of North Dakota's economy. EDND supports investments that will enhance these important economic sectors and ensure their success in the future, while making strides to diversify the economy. The bioscience and biotechnology fields have the potential to broaden the tax base and pose North Dakota as a leader in this important, newly developing sector. As we have seen with UAS, making investments into new technologies and ideas can make a huge impact on the direction of our state.

Thank you for the opportunity to express our support for HB 1456 and for your continued commitment to keeping North Dakota globally competitive and diversifying the state's economy.



February 3, 2021

House Finance and Taxation Committee
Chairman Craig Headland
4950 92nd Avenue SE
Montpelier, ND 58472-9630

Honorable Chairman Headland and Members of the Committee:

The Grand Forks Region Economic Development Corporation (EDC) is writing this letter in support of HB 1456, which would create a sales tax exemption for biologic materials used in research and manufacturing processes by bioscience and biotechnology firms.

As a regional economic development organization our focus is the expansion and diversification of the Grand Forks regional economy. In pursuit of this goal, we strive to grow industries that bring additional resources to North Dakota through the marketing and sales of products and services across the nation and, in many cases, the world. The bioscience industry, with its vast applications, is a key target of many economic development priorities across the nation.

It is our understanding that other states are using policies like HB 1456 to make their regions more attractive to biotechnical businesses seeking a location for their companies. The positive impacts of HB 1456 would not only increase North Dakota's competitiveness with other states in attracting investment in this space but would also strengthen the competitiveness of companies that currently operate in North Dakota.

We believe that tremendous opportunity exists to leverage the world class research capabilities and talent production from our two research universities, NDSU and UND, to include the UND School of Medicine and Health Sciences; increased access to capital for technology companies through LIFT, PACE, and North Dakota Development Fund; and a growing number of ecosystem partners.

In recent years, the Grand Forks Region EDC has seen increased interest from biotech and medical device companies from other states with two new firms locating here in 2020 alone. We believe strongly in the potential of the biotechnology industry to become a future driver of North Dakota's economy and to create a lasting impact to the state. We urge you to support HB 1456 as you consider this important public policy.

Sincerely,

A handwritten signature in blue ink, appearing to read "Keith Lund".

Keith Lund
President & CEO

Testimony for 1456 Phil Murphy, NDSGA

This bill can help the growth of what is becoming a large and exciting group of businesses doing biological research that often results in products unheard of and creating large numbers of jobs into the foreseeable future. This industry could and should be considered the poster child for economic diversity in our state. One example of why the Soybean Growers Association cares is the experimentation with soy showing promise with regards to a cancer cure. We have all seen a lot of change in our lives; this is one example of exploration/research that can help us individually and as a state. We thank you for supporting the biotech industry with the tools 1456 would make available.



51 Broadway, Suite 500
Fargo, ND 58102
www.gfmedc.com
www.liveinfargo.com

February 3, 2021

House Finance and Taxation Committee
Chairman Craig Headland
4950 92nd Avenue SE
Montpelier, ND 58472-9630

Honorable Chairman Headland:

The Greater Fargo Moorhead Economic Development Corporation (GFMEDC) is writing to affirm our support for HB-1456 which would create a sales tax exemption for biologic materials used in research and manufacturing processes by bioscience and biotechnology firms.

As a regional economic development organization our focus remains strongly trained on industries that hold great promise for the state's economic future, strengthen the composition of local industry clusters, and support continued economic diversification. The bioscience industry, with its vast applications, tops countless economic development priority lists across the nation.

In consultation with experts in the bioscience industry, we understand that our contemporaries, in places like Wisconsin and Texas, are using policies like HB-1456 to make their regions more attractive to innovators and businesses deciding where to locate and grow their biotechnology companies. Policies like HB-1456 would not only put us on more even footing with other states in attracting biotech firms but would also strengthen the global competitiveness of companies that are already here.

We have much momentum in this space with world class research capabilities and talent production from NDSU and UND; powerful capital access programs for technology innovators through LIFT, PACE, and North Dakota Development Fund; and major ecosystem anchors like Aldevron that are already attracting other biotech partners and collaborators to relocate to be near them. In recent years, the GFMEDC has seen increased interest from biotech and medical device companies from other states with four new firms locating here in 2020 alone.

We believe strongly in the potential of the biotechnology industry to become a future driver of North Dakota's economy and to create a lasting impact to the state and urge your support HB-1456 as you consider this important public policy.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Raso".

Joe Raso
President & CEO

2021 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Room JW327E, State Capitol

HB 1456
2/8/2021

A bill relating to a sales and use tax exemption for materials used in the research and development of bioscience and biotechnology.

Chairman Headland opened up for discussion at 10:54am.

Representatives	Present
Representative Craig Headland	Y
Representative Vicky Steiner	Y
Representative Dick Anderson	Y
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Sebastian Ertelt	AB
Representative Jay Fisher	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	Y
Representative Tom Kading	Y
Representative Ben Koppelman	Y
Representative Marvin E. Nelson	Y
Representative Nathan Toman	AB
Representative Wayne A. Trottier	Y

Discussion Topics:

- Committee decision

Vice Chairman Steiner made a motion for a Do Not Pass.

Representative Trottier seconded the motion.

Representatives	Vote
Representative Craig Headland	Y
Representative Vicky Steiner	Y
Representative Dick Anderson	N
Representative Glenn Bosch	Y
Representative Jason Dockter	Y
Representative Sebastian Ertelt	AB
Representative Jay Fisher	Y
Representative Patrick Hatlestad	Y
Representative Zachary Ista	N
Representative Tom Kading	Y
Representative Ben Koppelman	Y

Representative Marvin E. Nelson	N
Representative Nathan Toman	AB
Representative Wayne A. Trottier	Y

Motion carried 9-3-2

Representative Kading will be the bill carrier.

Chairman Headland closed discussion at 11:00am.

Mary Brucker, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1456: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (9 YEAS, 3 NAYS, 2 ABSENT AND NOT VOTING). HB 1456 was placed on the Eleventh order on the calendar.