MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

2188

2001 SENATE POLITICAL SUBDIVISIONS

SB 2188

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2188

Senate Political Subdivisions Committee

☐ Conference Committee

Hearing Date January 25, 2001

Tape Number	Side A	Side B	Meter #
1	x		19.4-49.1
		X	3.3-13.4
Committee Clerk Signature	Mary Jo Wocken		

Minutes:

The hearing was opened on SB2188 ; relating to a governmental purchase preference to residents.

SENATOR GARY NELSON, sponsor, also spoke in favor of this bill. This bill simply allows a 5% preference for North Dakota bidders on ND projects. The people that asked me to sponsor this legislation have had the occasion to be beaten on a bid by a very small percentage, 1% or less than 1%. This bid has to be awarded to the low bidder and the low bidder is many times is domiciled outside the state of ND has absolutely no involvement in the state of ND other than sending the product in, dumping it and going back outside of the state. We think there are good reasons for allowing ND companies that manufacture in ND, that do business in ND, that are domiciled in ND to have some kind of leeway to be able to be successful in some of their bids. I propose an amendment which will exempt a group of people who wish not to be included in this bill. There is another bill in the House that deals with this same section of Century code, but after

reviewing that one, I think that's a bill that better stand on its own. SENATOR LEE: One comment from a constituent of mine related to the service that would likely be available and being able to consider that and I don't see that is a factor here. Is this something Political Subdivisions would be able to consider when they are looking at this. SENATOR NELSON: I think that would be absolutely something you could take a look at. SENATOR POLOVITZ : This process of bidding I have had a a lot of experience while Mayor of Grand Forks. I agree with you that there is a certain factor as far as service concern and its coming from even the whole state of North Dakota. We had trouble getting outside bids, outside the city. They were lower than the companies within the city. Why were the bids lower from out of the city or state? We always took in consideration because we did take into the factor of service. WY do these bids come in lower than our local people? SENATOR NELSON: There are times where we see some dumping, someone has a big supply of something and all its really going to cost us is the cost of transportation to ND and back. Using Minneapolis as a base, we can cut our price on that to get rid of some products. I believe I know the intent of the original legislation, to eliminate the 'good ole boys'. Through the scrutiny and the openness of the process at this point, that is not longer something that is prevalent. This would not be unique to the state of North Dakota, as we found in doing a little bit of groundwork that California has a 5% preference, as does Wyoming, West Virginia has a 2.5% preference also, and some other factors that can be considered within a bid. One of the concerns that always is, if we do it, the other state is going to reciprocate and it causes us problems as well. This is an issue to debate again and take a look at giving preference to our own North Dakota merchants. SENATOR MATHERN: I has some correspondence as to an Attorney Generals opinion on it and if it violated NAFTA, or any of those and if other states are doing it? Obviously, its typical, as I am in favor of taking care of our own. SENATOR

NELSON: I haven't asked for or received an Attorney Generals opinion on the validity of this, within the trade agreements. REPRESENTATIVE PEACH: Spoke in favor of this bill. I worry about protectionism and being accused of protectionism and things like that, I worry about whether this bill would cause the cost of government subdivisions to pay more. Conceptually, I see from the stand point here, they ought to at least be 5% below what the accommodating vendors in North Dakota are able to do.

KEN YANTES: Township Officers Association, spoke in support of this bill. See attached testimony.

CURT PETERSON: Represented the Associated General Contractors of ND. He spoke in opposition to SB2188. However, he would support this bill with the attached amendment included in this bill. See attached testimony. SENATOR COOK: Do you know of any state that offers a preference to their bidders, the people of residence, the people that you bid against? CURT PETERSON: None that I can think of. Now I believe Senator Nelson said there was a preference I Oklahoma or California, Wyoming, but I think that by and large most states have this recripocal system. Minnesota put in a 8-10% preference and then Iowa passed a recripocal legislation as did North Dakota, South Dakota as did everybody. CONNIE SPRYNCZYNATYK: North Dakota League of Cities, was strongly ambivalent to this bill. The cities do have some concerns. I think they have already been alluded to. One, would be the fact that its very common for us within a city construction project to receive bids from Curts' membership. It's not so common to receive bids from out of state contractors. However, if there is a way to drive up the price so that the local tax payers are going to pay more, that would not be our preference. We always love to support the main street businesses, the businesses that live in North Dakota, we have the ability to take the 'lowest and best bid' in most instances and in that

case we can consider service. We would be concerned if this bill will limit our number of bids. One bid is effectively no choice, two bids isn't really very good. We want as many bidders as possible on a project so we can take the lowest and best price. So if the net effect doesn't feel like this is to limit our choices in terms of number of bids, and to drive up the price, they all will have to pay, then we would be opposed to this bill. But like Mr. Peterson, we would be happy if you just take political subdivisions out of this bill. If the state wants to do it, then that would be certainly be your choice. SENATOR COOK: Connie, as a city commissioner, do you ever challenge sometimes when your opening bids and wishing that somehow you could apply a service factor? CONNIE SPRYNCZYNATYK: We try to take the lowest bid prices, but if there is a service factor included then the bid specifications are written so that we can take lowest and best. Which means, that we can factor in service. We prefer to have the lowest price because the economy is what the people that live in our state want, but we also can't ignore service when that is a factor. I understand the concept of this bill. I don't dispute the need to support our main street businesses, we need those people in our community. But we also have to look at the tax payers bottom line, and we do look at service. SENATOR WATNE: This bill all the way through says they shall give a 5%, they shall do this. If that word 'shall' was changed to 'may' would you have an objection to this bill? CONNIE SPRYNCZYNATYK: Frankly, our participants in the Legislative Council haven't talked about that, but Bill Wocken can speak on that behalf. BILL WOCKEN : See written testimony. I think a performance specification may be part of the answer to the lowest and best bid. There are some concerns that we certainly would have that would echo some of the concerns that you've heard previously. CONNIE SPRYNCZYNATYK: The real issue is in terms of this process in terms of the local level, its not the complaints from the out of state bids, it's the complaints from the out of town bids. LINDA ENGMANN,

Director,Central Services Committee. See written testimony. In state law, in our chapter for procurement laws we have to award it to the lowest and best bidder. It is a concern and we don't know how to work around that either. But preference laws do, there are some concerns and they can cause some problems. SENATOR COOK: Is there anything in this bill that you like? You did sign in? You did check neutral? LINDA ENGMANN: Yes.

The hearing was closed on SB 2188.

Discussion was held among committee members. (Tape 1, Side B, 3.3-13.4)

Roll call vote was taken.

Senator Lee moved a Do Not Pass on SB2188; Senator Polovitz, 2nd

Do Not Pass Motion SB2188 7 yea, 1 no 0 Absent

Carrier: Senator Lee

1-25-01

Tape 1 side A
Meter #19.3-49.1
side B 3.3-13.4

SB2188

SENATOR COOK OPENED THE HEARING ON SB2188. SENATOR GARY NELSON SPONSOR OF THIS BILL, ALSO SPOKE IN FAVOR OF THIS BILL, AND ASKED FOR A FAVORABLE DO PASS.

SIMPLY ALLOWS 5% PREFERENCE FOR ND BIDDERS ON ND PROJECTS
WE HAVE HAD A NUMBER OF OCCASSIONS; THE PEOPLE THAT ASKED ME TO SPONSOR THIS LEGISLATION HAVE HAD THE OCCASION TO BE BEATEN on a bid by a very small percentage ,1% or less than 1%. The bid has to be awarded to the low bidder and the low bidder is many times is domiciled outside the state of North Dakota, has absolutely no involvement in the state of ND other than sending the product in, dumping it and going back outside of the state. We think there are good reasons for allowing ND companies that manufacture in ND that do business in ND that are domiciled in ND to have some kind of leeway to be able to be successful in some of their bids. There will be some amendments to this bill our proposed amendments, the one that I know of I do not have a problem with, there is a group that would like to be exempted From this part of the bill, and if that is their desire, it's not a problem for me. There is another bill that deals with the same section of the code over in the House, I thought perhaps maybe we could look at putting them together, but after really reviewing that one, I think that That's a bill that better stand on its own, and if we get it over here we will look at that one. Senator Lee: one of the comments from a constituent of mine had to do with the service that would likely be available, and being able to consider that and I don't see that that is a factor here? Is that something political subdivisions would be able to consider when they are looking at this. SENATOR NELSON: I think that would be absolutely something you could take a look at . Senator Polovitz: This process of bidding I have had a lot experience with, I have a lot of questions even with the city of Grand Forks, and I can see both sides of the story. I agree with you that there is a certain factor as far as services concern and its coming from even the whole

CONT

NEXT FICHE

state of ND. We had the problem in getting outside bids, outside the city. They were lower than the companies within the city. And the problem that I always has was why, why were the bids lower from out of the city, or out of the state. But we always took into consideration Because we did take into the factor of service. Why do these bids come in lower than our own local people? SENATOR NELSON: However, there are times where we see perhaps some dumping, we see, we've got a big supply of something and all its really going to cost us is the cost of transportation to ND and back, using Minneapolis as a base, we can cut our price on that to get rid of some products. I also have had some of the same thoughts. I believe I know what the intent of the original legislation, to eliminate the " good ole boys". Through the scrutiny and the openness of the process at this point, that is no longer that is something that is prevalent. Not a issue of great importance any more. This would not be unique to the state of ND, in a little bit of background work, we found that the state of California has a 5% preference, Wyoming does, West Virginia has a 2.5%, and some other factors that can be considered within a bid. One of the concerns that always is, if we do it, the other state if going to recriopicate, and it cause us some problems as well. I think it is an issue that we, its time for us to debate again and take a look at, are we wrong to give some preference to our own ND merchants? SENATOR MATHERN: Senator Nelson, I had some correspondence as to an Attorney General's opinion on it, and if it violates NAFTA or any of those and if other states are doing it, obviously its typical, as I am in favor of taking care of our own. SENATOR NELSON: I haven't asked for or received an attorney generals opinion on the validity of this, within the trade agreements.

REPRESENTATIVE PEACH, spoke in support of this bill. I think that Senator Nelson has layed out. I worry about protectionism and being accused of protectionism and things like that, I worry about whether this bill would cause the cost of government subdivisions to pay more. Conceptually I see this from the stand point that if an out of state vendor wants to dump product here, they out to at least be 5% below what the accommodating vendors in North Dakota are able to do.

KEN YANTES, N.D. Township Officers Association spoke in support of this bill. See attached testimony.

Curt

KURT PETERSON: represent the Associated General Contractors of ND: spoke in opposition of SB2188. I do understand that there is an amendment that we would like. That is to exempt the construction industry from the provisions contained in 2188. The rationale for that is this: our market for construction is not only in ND, it extensive work done by contractors of all sorts in SD, and Minn primarily and in addition to that we have contractors who do work whether it be highways or buildings, far away as Ark, Texas or California. Most of the states including ND quite frankly, with the existing law, have a recripocal type preference, in other words, if we have a 5% preference in ND, and we go to SD to bid work, they are going to impose a 5% penalty on us. So it kind of becomes a wash as it is now. We compete on every public project that comes along, and we would rather do that on a straight up basis. I am fearful that if the 5% would go in on all public projects in construction we can forget about bringing money back from SD. Loss of revenue to members in the construction business, but also to the state. For that reason, if the amendment approved to exempt construction industry in ND I would have no problem with that at all. But as the bill stands right now we are definitely opposed to it. (enclosed recent economic impact statement)

SENATOR COOK: Do you know of any state that offers a preference to their bidders, the people of residence, the people that you bid against. KURT PETERSON: None that I can think of. Now I believe Senator Nelson said there was a preference in Oklahoma, or Calif, Wyo, but, I think that by and large most states have this recripocal system. Minnesota put in a 8-10% preference and then Iowa passed a recriopical legislation as did ND,SD as did everybody.

CONNIE SPYRNCZYNATYK League of Cities. Strongly ambivalent: The cities do have some concerns. I think they have already been alluded to. One would be the fact that its very common for us, within a city construction project to receive bids from Kurts' membership. Its not so common to receive bids from out of state contractors. However, if there is a way to drive up the price so that the local tax payers are going to pay more, that would not be our preference. We always love to support the main street businesses, the businesses that live in ND, we have the ability to take the "lowest and best bid" in most instances and in that case we can consider service. We would be concerned if this bill will limit our number of bids. One bid is effectively no choice, two bids isn't really very good, we want as

many bidders as possible on a project so we can take the lowest and best price. So if the net effect doesn't feel like this is to limit our choices in terms of number of bids, and to drive up the price, they all will have to pay, then we would have to be opposed to this bill. But like what Mr.Peterson we would be happy if you just take political subdivisions out of this bill. If the state wants to do it, then that would be certainly be your choice.
SENATOR COOK: Connie, as a city commissioner, do you ever challenge sometimes when your opening bids and wishing that somehow you could apply a service factor? CONNIE SF.?YNCZYNATYK: We try to take the lowest bid prices, but if there is a service factor included then the bid specifications are written so that we can take lowest and best. Which means that we can factor in service. We prefer to have the lowest price because the economy is what the people that live in our state want, but we also can't ignore service when that is a factor. I understand the concept of this bill. I don't dispute the need to support our main street businesses, we need those people in our community. But we also have to look at the tax payers bottom line and we do look at service. SENATOR WATNE: This bill all the way through says they shall give a 5%, they shall do this. If that word shall was changed to "may", would you have an objection to this bill? CONNIE SYRYNCZYNATYK: Frankly, our participants in the Legislative Council haven't talked about that, but we do have Bill Wocken to speak on this behalf. BILL WOCKEN: By putting in the word "May" in place of shall, on Line 10, I think some of the same concerns that we have for recriopicals might still be present. I guess I would like some time to kind of cast around a bit to see what some of the other folks would think about that, but I am afraid if you put in the word "may" that it becomes a license on one bid we'll have it and on another bid we won't. I'm trying to think how another state may react to that particular phraseology and I'm guessing that they may say well "they have one". I think in this case it might be a case of having to license would be intrepated as having to have that recripocal and we might suffer from that. We do very often now, specify equipment and construction with performance specifications particularly with equipment. We'll say that this equipment is to be introduced into the bid and these are the performance specifications that the equipment has to meet. You have to guarantee us what the cost of repairs are going to be over a period of time, we get the option after a period of time to return the

equipment to you, or to purchase it at a buyout price. So we refine the bidding process, particularly on heavy equipment to the point where we do have some options built in. I think a performance specification may be part of the answer to the lowest and best. There are some concerns we certainly would have that would echo some of the concerns that you've heard previously. CONNIE SYRYNCZYNATYK: The real issue is in terms of this process in terms of the local level, its not the complaints from the out of state bids, it's the complaints from the out of town bids. LINDA ENGMANN: Representative from the Office of Management and Budget: Neutral: handed out information to committee, January 2000, Recriprocity is an issue, 33 states currently have recriprocity, whether or not they have preference in other areas that they do they do recripocity laws. Any time a ND vendor would want to bid on business in other states, that ND vendor would be added 5% disadvantage automatically across the board. That is a concern on how that would impact our state vendors. E-commerce is such a big thing and many states are taking advantage of it, and setting up what they call, Vendor Exchanges. Its all done electronically just go out on the WEB. In state, ND vendors and businesses have opportunity for exposure to business that they do not currently have but is becoming more common and accessible and economically accessible. Because of the recripocity laws that are in effect in the states, ND vendors using that avenue to expand their business and therefore increase their own business help the economy of the state would automatically be penalized by 5%. That's an issue, we feel on the state level. Serviceability, write in your specifications, those are the things you need, when you evaluate those bids, that's part of the evaluation criteria. Then the lowest and best bid or the lowest bid does not become necessarily the best bid. The leeway to give that in state vendor that preference is already there. Increasing the cost of doing business for the public entity, whether it be a county, city or state agency is definitely a factor. If the low bid is from an out of state vendor, the 5% is applied, basically what your doing then is issuing that bid where that vendor preference is applied, to the second low bidder. Cost is automatically going to be higher because the second low bidder was higher. So it has the potential of increasing the cost of doing business up to that 5%, not in all cases. State law in our chapter for procurement laws we have to award it to the lowest and best bidder. It is a concern and we don't

know how to work around that either. But preference laws do, there are some concerns and they can cause some problems.
SENATOR COOK: Is there anything in this bill that you like? You did sign in, you did check neutral? LINDA ENGMANN: Yes.

Hearing Closed on SB2188.

SB 2188 continued

SENATOR COOK: I PUT AMENDMENTS IN FOR THE ASSOCIATION OF GENERAL CONTRACTORS.

SENATOR LEE: MY INITIAL THOUGHT WHEN REVIEWING THIS BILL WAS THAT IT DESERVED OUR SUPPORT, BUT THE MORE I HEAR THE MORE I FEEL IT IS A PANDORA'S BOX I FEEL IT REALLY OPENS, SO, I KNOW OUR RESPONSIBILITY IS TO PUT THE BILL IN THE BEST POSSIBLE SHAPE IT CAN BE IN, IN THE EVENT THAT IT DOES PASS. MY FEELING AT THIS POINT IS THAT MAYBE OUR LOCAL CONTRACTORS ARE BETTER OFF IN THE LONG RUN IF ITS LEFT THIS WAY. WHAT SEEMED TO ME TO BE THE CASE IS THAT THE ANSWER IS IN THE WAY THE BID REQUIREMENTS ARE PREPARED. THAT WHOMEVER, WHETHER ITS THE CITY OR SOME OTHER POLITICAL SUBDIVISION IS DRAFTING THE BID REQUIREMENTS THAT IS WHERE THEY NEED TO BE QUITE SPECIFIC ABOUT THINGS SUCH AS SERVICE. AND IF THEY DO A REALLY GOOD JOB OF THAT THEN CURRENT STATUTE WILL NOT COME BACK AND FIGHT US.

SENATOR COOK: THERE ARE SOME REPRECCIONS IF THIS BILL IS PASSED, AND PERHAPS THIS APPLIES MORE TO FARGO/MOORHEAD OR GRAND FORKS/EAST GRAND FORKS AREA.

SENATOR LYSON; WILLISTON SUPPLIES NEEDS FOR EASTERN MONTANA. MONTANA DOES NOT HAVE A PROBLEM RIGHT NOW, THIS BILL MAY GIVE THEM A PROBLEM AT SOME TIME.

SENATOR POLOVITZ : THROUGH PASS EXPERIENCE WE ARE SOMETIMES WORSE OFF THAN NO EXPERIENCE. THEY ARE SOME OF THE ROUGHEST DECISSIONS TO MAKE AT THE CITY/COUNCIL LEVEL TRYING TO SUPPORT YOUR LOCAL BUSINESSES, WHAT THERE IS A STRONG FEELING FOR, AT THE OTHER HAND WE HAVE TO LOOK AT THE BOTTOM LINE IT IS THE VOTERS MONEY THAT YOUR DEALING WITH AND ANOTHER THING YOU FIND OUT, 5% DEPENDING UPON THE BID CAN BECOME A VERY LARGE AMOUNT OF MONEY. I THINK WHAT WE ARE TRYING TO DO IS SOLVE A LOCAL PROBLEM. AND ARE WE CREATING A BIGGER PROBLEM BY TAKING THIS BILL ON. WE HAVE BEEN ABLE TO RESOLVE THE PROBLEMS AS FAR AS THE BIDDING PROCESS IS CONCERNED.

SENATOR CHRISTENSON: CONNIE, ALOOTED TO THE TERM ' LOWEST AND BEST BID ', CAN CITIES DO THIS. IS THIS STATUTE, IN THIS IN POLICY? WHAT HAPPENS WHEN THE LOWEST AND THE BEST, ARE MUTUALLY EXCLUSIVE? WHAT EXACTLY IS THAT POLICY AND WHAT DOES THAT MEAN?

SENATOR POLOVITZ; " BEST", ONE THAT OFFERS SERVICE WITHIN YOUR OWN CITY. BUSINESS HAS A COMPANY WHO CAN'T OFFER SERVICE.

SENATOR COOK: UNLESS BIDDERS ARE ALSO ASKED FOR BIDS, OR OFFERS UPON OTHER ARTICLES OF LIKE NATURE IN UTILITY, AND MERIT... AND MERIT IS WHERE?

SENATOR CHRISTENSON; IS THAT STATUTE?

SENATOR FLAKOLL: 33 STATES HAVE RECRIPOCAL AGREEMENTS, AND THAT DOESN'T LEAVE MANY THAT DON'T HAVE RECRIPOCAL AGREEMENTS ,BUT MAYBE THAT'S PART OF THE WHOLE PROCESS TO MAKE IT A LITTLE MORE PALATEABLE. WE SHOULD CONSIDER THIS BILL WOULD ONLY APPLY TO STATES THAT DON'T HAVE RECRIPOCAL AGREEMENTS WITH. So we aren't penalized

SENATOR WATNE: I DID GET AN ANSWER DURING THE BREAK ON CHANGING THE WORD 'SHALL TO MAY'. THEY FOUND IT WOULD NOT WORK BECAUSE OF THE RECRIOPICITY. THIS SCARES ME ON SOME OF THIS BILL, BECAUSE WE ARE FINING SOME OF OUR PEOPLE. EVEN IF IT WAS A MAY, WE WOULD GO ON THE LIST OF THOSE THAT HAVE ANY KIND OF A NOTICE IN THERE.

SENATOR LEE IF WE ELIMINATE THE GENERAL CONTRACTORS AND WE ELIMINATE THE POLITICAL SUBDIVISIONS THEN WE WATER IT DOWN TO THE SEVENTEEN WHO CURRENTLY DON'T HAVE RECRIPOCAL AGREEMENTS. I DON'T SEE MUCH POINT IN GOING FORWARD.

SENATOR FLAKOLL; DROWNING THE BILL, WATERED DOWN VERSION.

SENATOR LEE: MOVED A DO NOT PASS ON 2188
2ND- SENATOR POLOVITZ

DISCUSSION; SENATOR LYSON, I THINK THE BILL HAS SOME GOOD THOUGHTS IN IT,FOR THE AREA THAT I REPRESENT, IT MAY BE A BURDEN. I WILL BE VOTING FOR THE MOTION.

DO NOT PASS MOTION SB2188 7YES, 1 NO 0 ABSENT

CARRIER SENATOR LEE

FISCAL NOTE

Requested by Legislative Council
01/15/2001

Bill/Resolution No.: SB 2188

Amendment to:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

Impossible to determine direct fiscal impact. Costs to agencies for goods could potentially increase by 5 percent.

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 effected and any amounts included in the executive budget.*

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

Agency expenditures for goods could potentially increase by 5 percent, the amount of the preference.

   C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

No impact on appropriations.

Name:	Pam Sharp	Agency:	OMB

Phone Number:	328-4606	Date Prepared: 01/15/2001

10363.0101
Title.

Prepared by the Legislative Council staff for
Senator Cook
January 17, 2001

PROPOSED AMENDMENTS TO SENATE BILL NO. 2188

Page 1, line 9, overstrike ", or contracting to build or repair"

Page 1, line 10, overstrike "any building, structure, road, or other real property,"

Page 1, line 11, remove the overstrike over "~~The~~"

Page 1, line 12, remove the overstrike over "~~preference~~" and insert immediately thereafter "for contracting to build or repair any building, structure, road, or other real property" and remove the overstrike over "~~must be equal to the preference given or required by the state of the~~"

Page 1, line 13, remove the overstrike over "~~nonresident bidder, seller, or contractor.~~"

Renumber accordingly

Date: January 25, 2001
Roll Call Vote #:

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2188

Senate Political Subdivisions Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sen. Lee Seconded By Sen. Polovitz

Senators	Yes	No	Senators	Yes	No
Senator Cook		✓	Senator Christenson	✓	
Senator Lyson	✓		Senator Mathern	✓	
Senator Flakoll	✓		Senator Polovitz	✓	
Senator Lee	✓				
Senator Watne	✓				

Total (Yes) 7 No 1

Absent 0

Floor Assignment Sen. Nelson

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

REPORT OF STANDING COMMITTEE

SB 2188: Political Subdivisions Committee (Sen. Cook, Chairman) recommends **DO NOT PASS** (7 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2188 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

SB 2188

Testimony Regarding SB 2188

Provided by Curt Peterson, Executive Vice President of the Associated General Contractors of North Dakota.

Mr. Chairman, members of the committee, I am Curt Peterson, Executive Vice President of the Associated General Contractors of North Dakota.

The concept of establishing a 5% preference to North Dakota resident business may have merit in some applications, however it is not in the best interest of the construction industry.

Our contractor members operate in several of our neighbor states, virtually all of these states surrounding North Dakota have reciprocal laws similar to what is currently contained in the North Dakota statutes.

The problem we see in this instance is that we would not be competitive in obtaining contracts outside the borders of our state. That volume of business done by our resident contractors is significant and brings millions of dollars back into our state. Senate bill 2188 would preclude that situation continuing.

I respectfully request that the amendment proposed by Senator Cook be adopted by your committee.

With the amendment adopted, we as an organization would not be in opposition to SB2188.

Thank you for the opportunity to express our opinion on this issue.

I would be pleased to address any questions you may have.

Senate Political Subdivisions Committee

Testimony by North Dakota Township Officers Association

Mr. Chairman and members of the Senate Political Subdivisions Committee My name is Ken Yantes and I am here today representing the North Dakota Township Officers Association. We support Senate Bill 2188 and ask for your affirmative vote on it.

At our December annual meeting of our membership a resolution was unanimously passed in support of this concept. Testimony given indicated support for the flexibility in county government by allowing the commissioners to pick a ND firm if a reasonable amount of difference in the bids existed. We felt that to be required to take the lowest bid could restrict some of our ND businessmen that offer closer and faster service when the need for service arises.

By supporting our existing ND businessmen rather than asking for tax exemptions to start new businesses, we could be maintaining our tax base and improving the profitability of existing businesses.

We ask for your support on SB 2188 .

TESTIMONY

SB 2188

Presented by: Linda Engmann, Director
Central Services Division

Before: Political Subdivisions Committee
Dwight Cook, Chairman

Date: January 25, 2001

TESTIMONY

Chairman Cook and members of the committee, my name is Linda Engmann. I am the director of Central Services Division of the Office of Management and Budget.

Preference laws appear to be advantageous for our North Dakota vendors because when out-of-state vendors bid against in-state vendors, the percent of the preference is added to the out-of-state vendor's bid. For North Dakota vendors who do business only in North Dakota, this is a good thing.

However, because of reciprocity laws, when North Dakota vendors compete with the in-state vendors of other states, the other state will automatically add North Dakota's preference percent to the North Dakota vendor's bid. A North Dakota preference law puts North Dakota vendors at a great disadvantage in those 33 states that have reciprocal preference laws. E-commerce is becoming a bigger and bigger factor in today's marketplace and states are taking advantage of it. The opportunities for economic development for North Dakota vendors through e-commerce would be negatively impacted by a preference law.

A preference law could also increase the state's cost of doing business – potentially up to the 5% suggested in this bill. If an out-of-state vendor's bid is the low bid and an in-state vendor's bid is the next low bid and is, for the sake of example, 4% higher than the low bid, the award would go to the in-state vendor. When the 5% preference is applied, the out-of-state vendor is no longer the low bidder. The result is that the state has paid 4% more than it would have had there been no preference law.

This concludes my testimony. I will be happy to answer any questions of the committee.

Senator Watne asked if a change in the word "shall" on Line 10, Page 1 of the bill to the word "may" would alleviate concerns for receprocity with this bill. I believe the opportunity for the local preference change allowed by the word "may"may be enough to trigger reciprocal arrangements from other states.

I would also like to clarify Connie Sprynczyntyk's testimony on the "lowest and the best" bid. The city often bids on a performance specification that requires a measure of serviceability from an item bid. This is often done on heavy equipment with guaranteed repairs and buy back amounts. This gives the city an option to consider issues other than cost per Sen. Polovitz's concern.

The City of Bismarck has not taken a position on this bill, nor will I at this time.

W.C. Wocken

Economic Impact of Aggregate Expenditure by Associated General Contractors of North Dakota

Scot Arthur Stradley, Ph.D.
Director, Bureau of Economic & Business Research
University of North Dakota
Grand Forks, North Dakota

Bureau Occasional Paper Number 501

Table of Contents

List of Tables

Highlights

1. Construction industry employment has increased 5.1% per year since 1989.

2. The North Dakota construction industry averaged 4.82% of total North Dakota employment during the 1990s.

3. Construction industry gross state product increased twice as that for the North Dakota economy since 1989.

4. The real rate of growth in North Dakota construction industry gross state product since 1989 has been 11.8% per year compared to 5.9% per year for North Dakota.

5. Employee compensation increased 124% since 1989 compared to 63% for the State.

6. Construction industry personal income increased 129% since 1989, an amazing 11.7% per year compared to 5.4% for North Dakota.

7. The total economic impact of the North Dakota construction industry is $1,634,427,749, 9% of North Dakota gross state product. One of every 11 dollars spent in North Dakota result from the economic impact of this industry.

8. The construction industry generates $1,291,135,273 of personal income, or 8.7% of North Dakota total personal income. One of every 11 dollars earned in North Dakota results from the economic impact of this industry.

9. One of every nine dollars of North Dakota employee compensation results from the economic impact of this industry.

10. The construction industry is responsible for 24,494 directly and for a total of 48,512 North Dakota jobs, or 10.9% of total North Dakota employment.

11. The construction industry generates a total of $317 million in revenues for the Federal government.

12. The construction industry generates $125 million in revenues for State and local government.

Highlights cont.–

13. Employers in the North Dakota construction industry pay Unemployment Insurance Fund tax rates of 8.5% for road construction and 7% for others. This compares to an average employer tax rate of 2.2 percent.

14. According to North Dakota ED&F funded report "Our Competitive Landscape: A Report on the Composition and Performance of the North Dakota Economy" the construction industry is a dynamic industry.

Introduction

Economists divide industries into three groups. The first group, called primary industries includes agriculture, forestry, fisheries, and mining. The second group, called secondary industries includes construction, manufacture. The third part, the tertiary includes transportation, communications, utilities, and finance-insurance and real estate, business services, professional services, and government. This report examines the North Dakota construction industry.

The purpose of this report is to provide information regarding the economic impact of the North Dakota construction industry. This includes two parts. The first part is the direct impact, which is described in the next or second section. The second part is the impact on the remainder on the State's economy, oftentimes called the indirect and induced effects. That is described in the third part. The fourth part evaluates the impact of the industry on the North Dakota unemployment insurance system.

The standard of measurement used throughout this report is the relative impact, or the construction industry impact compared to total economic activity in North Dakota. The types of economic impact emphasized include employment, income, and gross state product.

Direct Impact

The first column of Table 1 gives total full and part-time employment in North Dakota from 1970 through 1999. Total employment increased steadily, although at different rates from 1970 through 1983. Employment did decrease from 1984 through 1986. The construction industry increased through 1979, after which it fell to 1981 and then increased to 1983, then decreased until 1989. Total employment increased much sooner than construction industry employment. It took until 1989 before construction industry employment increased again. There was no recovery for the "general building" segment of the industry after 1981. This portion was more strongly influenced by the 50,000 decline in the resident population during the 1980s.

Construction industry employment increased 56% since 1989, a 5.1% annual rate of increase. General building construction employment increased by

Table 1
North Dakota & Construction Industry Employment
1970-1999

Year	Total Employ-ment	Construct Industry Employ	Wage & Salary Employ	General Building Employ	Heavy Construct Employ	Special Trade Employ
1970	281,459	13,697	10,585	3,706	4,004	5,987
1971	283,812	14,342	11,251	3,612	4,751	5,979
1972	288,139	15,727	12,239	4,300	4,912	6,515
1973	300,252	15,585	11,677	4,844	3,499	7,242
1974	308,012	16,688	12,654	5,212	3,237	8,239
1975	313,716	18,560	14,260	5,702	4,189	8,669
1976	326,115	21,020	16,178	6,956	4,051	10,013
1977	331,139	21,927	16,890	7,183	4,030	10,714
1978	345,549	24,493	19,062	7,495	4,678	12,320
1979	354,285	24,678	19,247	7,303	5,075	12,300
1980	355,960	22,241	17,086	6,014	4,621	11,606
1981	360,298	21,141	15,605	5,448	4,745	10,948
1982	361,072	22,122	16,243	5,212	6,175	10,753
1983	366,691	24,285	17,991	5,404	7,649	11,232
1984	368,285	21,095	14,196	5,563	4,848	10,684
1985	365,660	18,630	12,267	4,827	3,761	10,042
1986	359,555	17,865	11,385	4,804	3,327	9,734
1987	365,083	16,948	11,301	4,020	3,223	9,705
1988	369,057	15,971	10,440	3,968	2,787	9,216
1989	372,929	15,731	10,267	3,836	2,639	9,256
1990	376,339	15,865	10,644	3,607	2,862	9,396
1991	384,649	16,298	10,860	3,585	2,886	9,727
1992	390,405	17,122	11,674	3,825	2,759	10,538
1993	399,753	18,131	12,416	4,351	3,102	10,678
1994	414,740	19,783	13,476	4,487	3,226	12,070
1995	421,447	20,547	14,319	4,458	3,577	12,512
1996	429,572	21,793	15,683	4,592	3,833	13,368
1997	434,048	22,487	15,780	4,895	3,628	13,964
1998	439,676	23,311	16,444	5,204	3,596	14,511
1999	444,224	24,556	17,573	5,121	4,215	15,220

Source: U. S. Department of Commerce, Regional Economics Information System, "State Personal Income, 1929-99", November 2000.

thirty-four percent. Heavy construction employment increased 61% and special trade construction employment increased 64 percent.

Seventy-two percent of 1999 construction industry employment was "wage and salary" full and part-time employment. The balance of 28% of industry employment is due to proprietors.

Table 2
North Dakota & Construction Industry Gross State Product
1977-1998 (millions)

Year	GSP Current Dollars		Em-ployee Comp-ensation		Indirect Busi-ness Taxes		Real GSP 1996 Dollars	
	State	Industry	State	Industry	State	Industry	State	Industry
1998	17,214	865	9,264	556	1,534	21	17,205	794
1997	16,193	803	8,850	511	1,531	18	16,188	771
1996	16,089	772	8,422	496	1,474	18	16,089	772
1995	14,747	663	7,984	432	1,390	15	15,229	685
1994	14,140	617	7,583	382	1,367	14	14,902	666
1993	13,103	551	7,180	345	1,250	12	14,066	618
1992	12,939	490	6,793	314	1,100	12	14,239	568
1991	11,855	440	6,384	283	1,110	10	13,355	509
1990	11,675	423	6,056	273	1,028	10	13,380	494
1989	10,826	396	5,692	248	1,003	9	12,899	478
1988	9,929	397	5,485	250	943	10	12,290	492
1987	10,372	413	5,264	264	902	11	13,210	525
1986	9,975	430	5,086	254	890	10	13,096	569
1985	10,919	451	5,072	273	1,021	10	NA	NA
1984	10,960	536	4,963	338	1,104	12	NA	NA
1983	10,187	678	4,769	469	1,047	15	NA	NA
1982	10,088	589	4,572	381	1,036	11	NA	NA
1981	10,058	524	4,284	337	1,053	10	NA	NA
1980	7,743	536	3,778	337	692	10	NA	NA
1979	7,341	555	3,435	352	507	11	NA	NA
1978	6,545	518	3,027	329	446	11	NA	NA
1977	5,330	410	2,638	259	418	11	NA	NA

Source: www.bea.gov

The North Dakota construction industry averaged 4.82% of total employment during the 1990s. That percentage increased over the decade from the low 4% level to the 5.5% level by 1999. The construction industry increased its share of total employment from the low to middle 4 percent level to the middle 5% level by the end of the 1990s, nearly a 25% increase. This means that construction industry employment increased faster than employment in other industries.

Table 2 presents data on North Dakota and construction industry gross state product. Gross state product is similar to gross domestic product in that it measures total spending, depreciation, and indirect business taxes. It is available from the U. S. Department of Commerce for the years 1997-1998.

Real gross state product is measured in 1996 dollars. Constant dollar measurements are preferred by economists because they more accurately measure the quantity rather than the value of construction activity. A similar pattern as was found in employment emerges. Construction industry real gross state product bottomed in 1989, the same year as employment. It then increased robustly throughout the 1990s.

Whereas North Dakota gross state product increased 33% between 1989 and 1998 (3.3% per year) construction industry real gross state product increased 66 percent (6.6% per year), or twice the rate of real gross state product. This implies that North Dakota is becoming relatively more dependent on the construction industry as a source of economic activity.

Current dollar gross state product increased 59% (5.9% per year) over the same interval of time compared to 118% (11.8% per year) for the construction industry. Employee compensation increased 124% in the construction industry compared to 63% for the state. Indirect business taxes increased 133% in the construction industry compared to 63% for the state. Since the construction industry totals for employee compensation and indirect business taxes are increasing much faster than comparable State totals it follows that the construction industry is relatively more important as a source of spending on government services and workers.

Spending produces income for economic agents. Table 3 produces statistics on total personal income in North Dakota and the construction industry. *Personal income in the construction industry grew faster than North Dakota personal income, which increased 129% from 1989 to 1999, an amazing 11.73% per year.* North Dakota total personal income only increased 59%, or 5.4% per year.

Personal income increased faster than the State average for the decade as well. General construction personal income increased 104%, or 9.45% per year. Heavy construction personal income increased 154% or 14% per year. Special trade construction income increased 130% or 11.8% per year. The last column gives construction industry income as a percent of total personal income. This has been increasing since 1991.

Table 3
North Dakota and Construction Industry Total Personal Income
1970-1999 (000)

Year	Personal Income	Construc Income	General Building	Heavy Construc	Special Trade	Ratio of C to PI
1970	1,988,968	118,506	28,227	41,020	49,259	5.96%
1971	2,299,381	135,530	29,385	52,319	53,826	5.89%
1972	2,761,347	163,779	35,724	61,071	66,984	5.93%
1973	3,903,321	163,202	44,935	40,085	78,182	4.18%
1974	3,881,283	194,422	54,171	38,855	101,396	5.01%
1975	4,044,269	238,937	62,855	64,665	111,417	5.91%
1976	3,990,249	300,747	88,635	67,004	145,108	7.54%
1977	4,172,119	328,082	99,600	67,666	160,816	7.86%
1978	5,293,941	406,968	114,895	90,362	201,711	7.69%
1979	5,477,036	427,084	119,252	101,383	206,449	7.80%
1980	5,296,893	405,135	104,167	94,169	206,799	7.65%
1981	6,820,275	390,696	87,763	112,119	190,814	5.73%
1982	7,351,871	432,932	83,843	160,651	188,438	5.89%
1983	7,704,431	521,549	93,679	226,012	201,858	6.77%
1984	8,375,006	426,869	98,024	131,150	197,695	5.10%
1985	8,672,948	369,402	87,970	92,242	189,190	4.26%
1986	8,788,163	362,836	95,970	80,217	186,649	4.13%
1987	8,968,475	358,350	85,000	81,816	191,534	4.00%
1988	8,352,113	336,729	81,802	72,715	182,212	4.03%
1989	9,279,703	332,517	74,523	70,685	187,309	3.58%
1990	10,121,249	351,675	72,535	84,347	194,793	3.47%
1991	10,318,486	362,750	69,437	83,551	209,762	3.52%
1992	11,241,941	400,858	82,244	81,973	236,641	3.57%
1993	11,361,715	448,092	94,307	91,285	262,500	3.94%
1994	12,176,830	498,875	105,964	99,731	293,180	4.10%
1995	12,243,384	527,504	108,229	116,886	302,319	4.31%
1996	13,606,650	610,663	118,613	140,209	351,841	4.49%
1997	13,330,457	611,473	127,100	130,108	354,265	4.59%
1998	14,520,817	667,983	146,045	130,230	391,708	4.60%
1999	14,772,589	761,935	152,145	179,736	430,054	5.16%

Source: U. S. Department of Commerce, Bureau of Economic Analysis, "State Personal Income 1929-1999", November 2000.

Because construction industry income has increased faster than North Dakota total personal income its share of the latter has increased from 3.47% in 1990 to 5.16 percent in 1999, a 49% increase. The last time this happened was from 1973 to 1979.

Since inflation has averaged approximately 2% per year annually, North Dakotans have experienced real income growth rates of 3% or more per year for the 1990s. Members of the construction industry have witnessed real income growth rates near 9% per year. The per capita income in the construction industry has probably doubled in the 1990s. The same would be true for gross state product per capita.

Construction industry income increased 25% since 1997 compared to an 11% increase in State total personal income. Total personal income, gross state product and employment have increased faster than North Dakota total personal income. Much of this growth is due to the substantial damage inflicted on the State by the winter of 1996-1997 and the resultant flooding. This additional employment, income, and spending has no doubt offset the decreases in these amounts caused by this disaster.

Indirect and Induced Economic Impacts

The next part of this study looks at the impact of the construction industry on employment, income, and gross state product in other North Dakota industries. Road construction requires that asphalt and concrete be produced. This is an example of the indirect economic impact. Industries that supply production inputs to the construction industry are included in the indirect impact. The induced economic impact results when income earned in the direct and indirect impacts is re-spent.

There is a variety of methods that can be used to calculate an economic impact. This study uses IMPLAN, a product developed and sold by the Minnesota IMPLAN Group. IMPLAN is an input-output model. The various coefficients that make up the model are calculated from 1997 U. S. Department of Commerce, Bureau of Economic Analysis data. The fact that the model coefficients are calculated from recent data probably increases the accuracy of the model's predictions. The construction industry probably utilizes more capital per unit of output than 40 years ago. The induced impact of expenditures by North Dakotans is probably smaller than it was 40 years ago because the number of proprietors has declined. Transactions that were conducted in State are now probably conducted out-of-state.[1] Readers that are interested in all that has been done with the IMPLAN model can consults www.implan.com for more information.

This economic impact analysis calculates the impact of the aggregate expenditures of the North Dakota Association of General Contractors on North

Dakota personal income, gross state product, and employment. The majority of this economic impact results because the contractors bring dollars from Out-of State, like highway construction, for instance. The construction industry is subdivided into three groups by the U. S. Department of Commerce, Bureau of Economic Analysis. These include General Building, Heavy Construction, and Special Trade segments. Heavy construction primarily is road construction. General building refers to construction of buildings and special construction is a category created to capture the many other things our society builds, like transmission towers, and other infrastructure.

A survey was mailed to all association members to acquire various data, especially total revenue. A reasonable response permitted the estimation of the total revenue of the membership--$2,533,000,000 1999 dollars. The reader should bear in mind that the best approach would be to calculate a range of economic impacts for different possible levels of expenditure. However, this would add many more tables to a report designed primarily to inform the public and government of the economic impact of the industry. Because a point estimate is used, the reader is cautioned to add an error term to the numbers that follow. The actual economic impact probably is within plus or minus four percent of the following calculations. This approach acknowledges that this study relies on a sample and not a census to calculate total aggregate expenditures received by the Associated General Contractors of North Dakota.

IMPLAN calculates economic impact for a number of important economic magnitudes including total value added (gross state product), total personal income and its components—employee compensation (wages and salaries), proprietors income (profits), and other property income (dividends, rents, and interest). IMPLAN calculates the employment impact and the output impact. IMPLAN also calculates indirect business taxes and both the Federal and North Dakota tax collections resulting from the expenditure by the Contractors.

Moreover, IMPLAN calculates these for each industrial subdivision of the economy—1) Agriculture, forestry, and fisheries; 2) Mining; 3) Construction; 4) Manufacturing; 5) Transportation, communication and public utilities; 6) Trade (both wholesale and retail); 7) Finance, insurance and real estate; 8) Services (both business and professional); 9) Government (Federal, State and local); and 10) Other. These industries are reported in the subsequent tables as follows: 1) Agriculture; 2) Mining; 3) Construction; 4) Manufacturing; 5) Transportation CPU; 6) Trade; 7) FIRE; 8) Services; 9) Government; and 10) Other. The Government impacts incorporate all levels of government into this title.

An economic impact is comprised of three parts: 1) the direct impact; 2) the indirect impact; and 3) the induced impact. The sum of the parts is the total economic impact. The direct impact calculation calculates the economic impact in North Dakota of the total revenue received by the Association. The national economic impact is obviously larger. The revenue received by the Association is

used to buy equipment, nearly all of which is manufactured outside the State. Part of the revenue goes for taxes (income and Social Security), which also leaks out-of-state. One of the great virtues of the IMPLAN model is that it permits the calculation of the Federal, State and even Local (county) economic impacts. The Association wishes to illustrate their economic impact in the State of North Dakota, and this is how the following numbers are interpreted.

The indirect economic impact measures the employment, income, and value added that result from production in the construction industry. A concrete or asphalt manufacturer, and a gravel mine all are examples of indirect economic impact. The induced economic impact results from the expenditure of income earned by those in or supplying the construction industry. They spend their income that creates production and income in other industries, like medical services, retail trade, or government. The tables that follow give the direct, indirect, induced, and total economic impacts (the sum of the three).

Before the data is presented, it is necessary to discuss the issue of inflation as far as it affects these results. The base year for the IMPLAN model is 1997. That means that all results are given in 1997 prices. IMPLAN coefficients are based on North Dakota data so they are not biased by the fact that the inflation rate in other parts of the country is higher than in North Dakota. The problem relates to inflation since 1997. The IMPLAN model would automatically multiply every 1997 outcome by 1.04. This is the amount of inflation that has occurred on the average since 1997. Where North Dakota relates to this average is hard to say. If the figures were left unadjusted then the argument would be that there has been no inflation since 1997. If the figures are adjusted by the national average since 1997 then the implicit assumption is that North Dakota mirrors the national average experience. Probably some would want to multiply by a larger factor because our economy has had more than the national average inflation. This report will adjust the 1997 amounts by 1.04 and adopt the assumption that North Dakota is average as far as inflation is concerned.

Table 4 provides the "total value added" by the aggregate expenditure

Table 4
Total Value Added by North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	0	4,223,306	2,542,451	$6,765,755
Mining	0	7,031,378	3,642,469	$10,673,847
Construction	846,906,378	4,188,403	7,662,253	$858,757,053
Manufacturing	0	22,453,735	10,759,659	$33,213,392
Transportation CPU	0	51,088,898	46,012,662	$97,101,564
Trade	0	103,290,354	117,884,824	$221,175,169
FIRE	0	31,526,666	89,769,405	$121,296,074
Services	0	130,403,312	140,451,684	$270,854,988
Government	0	4,987,330	8,004,354	$12,991,684
Other	0	0	1,598,223	$1,598,223
Total	0	359,193,382	428,327,981	$1,634,427,749

of the Contractors Association. The direct impact gives North Dakota gross state product (value added) by the gross expenditure of the construction industry. The impact of the construction industry on the national gross domestic product is larger. The direct impact estimated by the model is 5% of North Dakota 1998 gross state product estimated by the U. S. Department of Commerce, Bureau of Economic Analysis. This figure is consistent with that for other years. The Contractors Association aggregate expenditure results in an economic impact of $359,193,382 in industries supplying goods and services to it. The income from the direct and indirect impacts creates another $428,327,981 in industries where this income is re-spent. The total economic impact of the construction industry is **$1,634,427,749**. This is 9% of total North Dakota gross state product in 1998. ***One out of every $11 dollars*** *circulating in the North Dakota economy originates in the aggregate expenditure of the industry.*

Table 5 presents the total personal income resulting from the aggregate expenditure of the Contractors Association. Total personal income represents

Table 5
Total Personal Income Added by North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$3,094,868	$1,510,574	$4,605,442
Mining	$0	$2,975,437	$3,834,348	$3,834,348
Construction	$780,280,351	$3,857,973	$7,115,219	$791,253,565
Manufacturing	$0	$15,846,827	$6,881,431	$22,727,259
Transportation CPU	$0	$32,523,573	$18,685,023	$51,208,593
Trade	$0	$62,517,516	$74,379,835	$136,897,347
FIRE	$0	$13,230,369	$19,022,168	$32,252,538
Services	$0	$110,957,966	$125,131,885	$236,089,851
Government	$0	$4,804,522	$5,863,586	$10,668,107
Other	$0	$0	$1,598,223	$1,598,223
Total	$780,280,351	$249,808,050	$261,046,854	$1,291,135,273

the sum of wages, profits, rents, interest and dividends. Subsequent Tables 6, 7, and 8 give the breakdowns of these totals. The aggregate expenditure of the Contractors Association generates $780,280,351 of personal income directly. This is 5.3% of North Dakota total personal income. There is $259,808,050 of income created by construction industry suppliers. Another $261,046,854 is created when this income is re-spent. *Overall, the construction industry contributes* ***$1,291,135,273, or 8.7%*** *of North Dakota total personal income. Thus, one of every $11 dollars of income earned in North Dakota is derived from the construction industry.*

Table 6 illustrates the impact of the Contractors Association on employee income in North Dakota. The direct impact of the aggregate expenditure produces a total of $599,132,186 of employee compensation. A total of $206,151,573 employee compensation is produced in industries supplying inputs to the construction industry. This income, when re-spent creates another $227,461,826 of employee compensation. *The total employee compensation created in North Dakota is over 1 billion dollars. Thus, one of every $9 dollars of employee compensation in North Dakota is the result of the construction industry.*

Table 7 gives the calculations for proprietors income. Proprietors do not exist in government, and hence there is no proprietors income unlike employee

Table 6
Employee Compensation Added by North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$1,634,708	$866,142	$2,500,851
Mining	$0	$2,843,105	$731,800	$3,574,905
Construction	$599,132,186	$2,966,050	$5,460,339	$607,558,548
Manufacturing	$0	$15,393,164	$6,608,239	$22,001,402
Transportation CPU	$0	$25,253,488	$15,993,874	$41,247,365
Trade	$0	$53,005,056	$64,008,755	$117,013,811
FIRE	$0	$12,384,275	$17,562,703	$29,946,977
Services	$0	$87,867,204	$108,768,167	$196,635,363
Government	$0	$4,804,522	$5,863,586	$10,668,107
Other	$0	$0	$1,598,223	$1,598,223
Total	$599,132,186	$206,151,573	$227,461,826	$1,032,745,552

Table 7
Proprietors Income from North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$1,460,160	$644,432	$2,104,592
Mining	$0	$132,332	$127,111	$259,443
Construction	$181,148,232	$891,922	$1,654,880	$183,695,034
Manufacturing	$0	$452,663	$273,193	$725,857
Transportation CPU	$0	$7,270,083	$2,691,149	$9,961,231
Trade	$0	$9,512,461	$10,371,084	$19,883,546
FIRE	$0	$846,095	$1,459,466	$2,305,560
Services	$0	$23,090,766	$16,363,722	$39,454,488
Government	$0	$0	$0	$0
Other	$0	$0	$0	$0
Total	$181,148,232	$43,656,481	$33,585,036	$258,389,750

compensation. Proprietors in the North Dakota construction industry receive a total of $181,148,232 because of the aggregate spending of the Contractors Association. Another $43,656,481 of proprietors income is created in industries supplying production inputs to the construction industry. This income creates another $33,585,036 of proprietors income when it is re-spent. *Altogether, the aggregate spending of the Contractors Association results in a grand total of $258,389,750 of income for proprietors, over one-quarter billion dollars in 1999. This is also approximately one of every nine dollars of proprietors income.*

Table 8 gives the results for other property incomes, which includes interest, dividends (corporate income), and rent. The direct impact of the

Table 8
Other Property Income from North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$957,485	$856,983	$1,814,468
Mining	$0	$3,601,675	$2,465,243	$6,066,918
Construction	$495,824	$285,584	$470,126	$49,380,827
Manufacturing	$0	$5,905,537	$3,350,071	$9,255,607
Transportation CPU	$0	$15,219,812	$21,786,696	$37,006,507
Trade	$0	$19,097,919	$20,427,089	$39,525,009
FIRE	$0	$15,977,632	$59,889,344	$75,866,977
Services	$0	$16,548,538	$12,379,274	$28,927,812
Government	$0	$182,808	$2,140,769	$2,323,577
Other	$0	$0	$0	$0
Total	$495,824	$77,776,991	$123,765,595	$250,167,701

aggregate expenditure of the Contractors Association is $495,824. Both the indirect and induced impacts are much larger at $77,776,991 and $123,765,595 respectively. *The total impact on other property income is $250,167,701, or one-quarter billion 1999 dollars.*

Table 9 reports the impact on total industry output resulting from the aggregate expenditure of the Contractors Association. These numbers indicate a $2.718 billion dollar direct impact and a total direct, indirect, and induced

Table 9
Output Impact from North Dakota Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$6,091,996	$14,150,291	$20,242,288
Mining	$0	$11,217,465	$6,354,478	$17,571,942
Construction	$2,717,519,933	$7,738,522	$15,267,609	$2,740,525,998
Manufacturing	$0	$75,739,905	$55,016,840	$130,756,746
Transportation CPU	$0	$115,144,532	$72,683,445	$187,827,977
Trade	$0	$140,082,808	$171,609,169	$311,691,994
FIRE	$0	$45,177,637	$120,965,736	$166,143,378
Services	$0	$268,554,940	$355,871,110	$521,466,051
Government	$0	$8,513,286	$18,066,185	$26,579,471
Other	$0	$0	$1,598,223	$1,598,223
Total	$2,717,519,933	$678,761,092	$728,623,086	$4,124,404,067

economic impact on total output of $4.124 billion 1999 dollars. The output impact of an industry is much larger than the other estimates included here because it is the sum of the intermediate and final demand for that industry. It also can be calculated by summing total outlays on both intermediate and primary inputs for the industry. Hence, it is either gross state income or gross regional product (outlays). Both of these figures include the impact of trade with the "outside" world, including other States and countries.

Table 10 gives the employment impact. The direct impact to the State's

Table 10
Employment Impact from North Dakota Construction Industry
1999

Industry	Direct	Indirect	Induced	Total
Agriculture	0	319	129	448
Mining	0	76	20	96
Construction	24,494	121	230	24,845
Manufacturing	0	549	239	788
Transportation CPU	0	1,016	471	1,487
Trade	0	3,242	5,091	8,333
FIRE	0	486	785	1,271
Services	0	5,271	5,493	10,764
Government	0	110	177	286
Other	0	0	194	194
Total	24,494	11,190	12,828	48,512

economy is 24,494 jobs. There are 11,190 jobs created in firms that supply the construction industry production inputs. Another 12,828 jobs are created as a result of the "respending effect". A grand total of 48,512 jobs represents the total impact of the aggregate expenditure of the Contractors Association. The model's estimate of 24,494 jobs is slightly less than that reported by North Dakota Job Service-- 24,556 jobs. The estimate represents 5.5% of all North Dakota employment. The total employment impact is 10.9% of all North Dakota employment. *Nearly 1 in 9 employed North Dakotans would lose their job if the aggregate expenditure of the Contractors Association stopped today.*

The next three tables summarize the impact of the construction industry on tax collections. The above tables provided useful information about the industry's impact on government. Table 4 informed that government creates value by nearly $13 million 1999 dollars because of the aggregate expenditure by the Contractors Association. Table 5 stated that government employees received $10.668 million 1999 dollars worth of income because of the construction industry. Government actually receives "other owners income" worth $2.33 million. Moreover, government employment is 286 employees higher than it

would be without the construction industry. The following tables tell the rest of the story about tax collections that result from the economic activity created by the aggregate expenditures of the Contractors Association.

Table 11 gives the indirect business taxes impact of the aggregate expenditure by the Contractors Association. The Contractors pay $18,000,898

Table 11
Indirect Business Taxes Impact from Construction Industry
1999 Dollars

Industry	Direct	Indirect	Induced	Total
Agriculture	$0	$170,952	$174,893	$345,845
Mining	$0	$454,266	$318,315	$772,581
Construction	$18,000,898	$44,847	$76,908	$18,122,653
Manufacturing	$0	$702,371	$528,157	$1,230,528
Transportation PCU	$0	$3,345,517	$5,540,942	$8,886,459
Trade	$0	$21,674,915	$23,077,893	$44,752,810
FIRE	$0	$2,318,666	$10,857,887	$13,176,554
Services	$0	$2,896,800	$2,940,519	$5,837,319
Government	$0	$0	$0	$0
Other	$0	$0	$0	$0
Total	$18,000,898	$31,608,334	$43,515,513	$93,124,748

1999 dollars. Because of economic activity generated as a result of the aggregate expenditure of the Contractors Association supplying businesses pay $31,608,334 and businesses affected by re-spending pay an additional $43,515,513. The total indirect business taxes paid as a result of the construction industry is $93,124,748. The next two tables show the breakdown of this amount between Federal and State/Local government as well as indicate the purpose of the tax.

Table 12 shows the impact of the Contractor Association aggregate expenditures on Federal tax collections. The abbreviations in the table are as follows: IBT means Indirect Business Tax; PT means Personal Tax; and, SIT stands for Social Insurance Tax. North Dakota employers pay over $161 million to the Social Security Administration. North Dakota proprietors pay Federal taxes of nearly $14 million. Households pay taxes of nearly $108 million. Corporations pay $22 million. Over $11 million are paid in the form of indirect business taxes. The Indirect Business Tax "Non-Tax" amount is mostly employer premiums paid to the Federal Unemployment Insurance Fund. *The grand total Federal tax collection that results from income created by the Contractors Association aggregate expenditure is nearly* ***$317 million, almost one-third billion dollars.***

Table 12
Federal Tax Collections from North Dakota Construction Industry
1999 Dollars

Type of Tax	Employee Compensation	Proprietary Income	Household Expenditures	Corporations	Indirect Business Tax	Grand Total Federal
Corporate Profits Tax	$0	$0	$0	$22,308,355	$0	$22,308,355
IBT: Custom Duty	$0	$0	$0	$0	$2,375,793	$2,375,793
IBT: Excise Tax	$0	$0	$0	$0	$7,212,228	$7,212,228
IBT: Fed Non Tax	$0	$0	$0	$0	$1,769,723	$1,769,723
PT: Estate & Gift	$0	$0	$1,937,750	$0	$0	$1,937,750
PT: Income Tax	$0	$0	$105,463,432	$0	$0	$105,463,432
PT: Non Tax (fines)	$0	$0	$566,759	$0	$0	$566,759
SIT: Employee Cont.	$71,457,134	$13,875,792	$0	$0	$0	$85,332,927
SIT: Employer Cont.	$89,935,626	$0	$0	$0	$0	$89,935,626
Total	$161,392,760	$13,875,792	$107,967,941	$22,308,355	$11,357,744	$316,902,591

Table 13 presents North Dakota tax collections that result from the aggregate expenditure of the Contractors Association. The table shows that the

Table 13
State Tax Collections from North Dakota Construction Industry
1999 Dollars

Type of Tax	Employee Compen	Proprietar Income	Household Expend	Corporate	Indirect Bus Tax	Total State Tax
Profit/Dividend Tax	$0	$0	$0	$5,694,296	$0	$5,694,296
IBT: Motor Veh.Lic.	$0	$0	$0	$0	$798,478	$798,478
IBT: Other Taxes	$0	$0	$0	$0	$2,598,705	$2,598,705
IBT: Property Taxes	$0	$0	$0	$0	$26,448,396	$26,448,396
IBT: S/L Non Taxes	$0	$0	$0	$0	$12,928,396	$12,785,930
IBT: Sales Tax	$0	$0	$0	$0	$31,027,160	$31,026,640
IBT: Severance Tax	$0	$0	$0	$0	$8,108,853	$8,108,853
PT: Estate & Gift	$0	$0	$451,315	$0	$0	$451,315
PT: Income Tax	$0	$0	$14,710,124	$0	$0	$14,710,124
PT: Motor Veh.Lic.	$0	$0	$2,539,858	$0	$0	$2,539,858
PT: Non Tax (fines)	$0	$0	$4,856,325	$0	$0	$4,856,325
PT: Other (fish/hunt)	$0	$0	$1,539,087	$0	$0	$1,539,087
PT: Property Tax	$0	$0	$603,849	$0	$0	$603,849
SIT: Employee Cont.	$3,755,596	$0	$0	$0	$0	$3,755,596
SIT: Employer Cont.	$9,139,153	$0	$0	$0	$0	$9,139,153
Total	$12,894,749	$0	$24,700,557	$5,694,296	$81,767,002	$125,056,603

State of North Dakota collects a substantial $125,056,603 because of economic activity in and that created by the aggregate expenditure of the Contractors Association. The State collects nearly $5.7 million on profits and dividends. It collects nearly $13 million in Social Insurance Tax. Households pay nearly $25 million for estate and gift tax, income tax, motor vehicle license fees, fines and fees, fishing and hunting licenses and personal property taxes. The State collects a total of $81,767,002 indirect business taxes. Around $11 million of this (the model aggregates a few payments into this category) is collected as insurance premiums for the North Dakota Unemployment Insurance Fund. Property tax represents the largest amount in the indirect business tax column. *Economic activity generated by the construction industry is approximately responsible for 8.3% of total State tax collections.*

This completes the review of the results of running the IMPLAN input-output model with the aggregate expenditure of the North Dakota Contractors Association. This industry is one of the foundation blocks of the State economy. Along with agriculture, mining, and manufacturing it accounts for the bulk of economic activity in the transportation, communication, and public utilities industry. Economic activity in these base industries is responsible for nearly all economic activity in trade, finance, insurance and real estate, services and government.

Construction is fundamental to investment, whether that is in infrastructure or capital. Economic activity in this industry is an important indicator of growth in North Dakota gross state product, total personal income, and employment.

Impact of the Construction Industry on the Unemployment Insurance Fund

The final section of this paper on the construction industry examines the impact of this industry on the North Dakota Unemployment Insurance Fund. The main concern addressed here is the demand for funds created by the seasonal and cyclical nature of the construction industry. The cost to society is tied to funding the unemployment that occurs during the winter months in the outdoor segment of the industry and the unemployment that occurs when interest rates rise. High unemployment rates in the construction trades place a significant draw on the fund and create the potential for a significant mismatch between income and expense.

North Dakota Job Insurance Handbook, 1970-1999 (Job Service North Dakota, June 2000) provides information useful to evaluating the issue. The construction industry covered unemployment rate is higher than the rates observed in manufacturing, agriculture, and mining. It is also higher than similar rates in transportation, (communications, and public utilities) finance

(insurance and real estate), trade, services, and government. The highest observed rates in mining came in 1983, 1986, and 1987 when the covered unemployment rate reached 20-25 percent. The highest rates observed in agriculture were reached in 1983-1989 when rates reached 20-25 percent. The construction industry also reached 30-35% during the same time frame.

This experience led the North Dakota legislature to reformulate (beginning in 1987) the premiums charged to employers. Since 1990, North Dakota State law requires that the state's trust fund be at 60 percent of the average annual amount of benefits paid. The latter amount is one-third of the total amount of benefits paid (and projected to be paid) for the prior 36 months.

Given this constraint the method of charging employers is to assign a job insurance tax rate to each employer based on their unemployment experience (called the reserve ratio system). Employers with lower unemployment experience pay lower rates than those with the opposite. The job insurance tax rate in 1999 ranged from a minimum of 0.2 percentage to 5.4% for non-construction. *Construction industry employers are charged a higher rate--8.5% for highway and street construction, and 7% for other construction industry employers.* It is very clear from these facts that the 1987 North Dakota legislature has already imposed a higher cost on construction industry employers to reflect the fact that they benefit proportionally more than employers in other industries. Consequently, the fund balance has increased from negative $6,624,164 in 1986 to $30,508,037 in 1999.

Since 1987, construction industry contributions have averaged (mean) 78.9% of benefits paid while ranging from 54.62 to 98.6 percent. Table 14 gives

Table 14
Mean North Dakota Industry Contributions as Fraction of Benefits Paid
1987-1999

	Ag	Min	Cons	Manf	TCU	Whol	Ret	FIRE	Serv	Govt
AV	.7286	.6669	.7890	.8903	1.201	1.071	1.559	1.796	1.742	.9308
LOW	.5194	.3533	.5462	.4583	.4212	.4373	.4851	.5899	.7003	.2020
HI	1.112	1.273	.9860	1.607	2.536	1.998	2.939	4.216	3.256	2.085

the mean of the ratio contributions to benefits paid for every industry. The State average is 1.0045. The table indicates that the tertiary industries, except government are subsidizing the fund. The primary and secondary industries are benefiting from the subsidy. Mining receives the greatest relative subsidy since 33.31% of benefits paid are contributed by other industries. Agriculture is second, construction third, manufacturing fourth and government fifth in this list of relative subsidy.

Is there any logic to the fact that the tertiary industries, except government are subsidizing the primary industries? The answer is yes. First, employment in these industries is more stable than the primary and secondary industries. Secondly, the primary and secondary industries create the foundation of the economy on which other industries grow. If there were no farmers, miners, manufacturers, and construction contractors then there would be less trade, fewer services, less transportation (communication and public utilities), and government. Society benefits from subsidizing the seasonal and cyclical unemployment problems in the primary industries. The spillover benefits, which are income, spending, and income in the tertiary industries is the classic argument in favor of a subsidy.

There is also a good reason to subsidize the construction industry seasonal and cyclical unemployment problem. If we didn't then the labor force and proprietors would migrate to areas of the country where construction is a year-round business. The North Dakota winter creates a very large opportunity cost for North Dakota construction industry members relative to other parts of the United States: three or more months of unemployment. This represents lost income. Such a large opportunity cost would no doubt result in outmigration. The result would be a scarcity of workers and higher wages. Labor market shortages and higher labor costs would no doubt eliminate smaller operators so the supply of contractors would decrease. The smaller supply of contractors and workers and higher construction costs would affect building. Families would dwell in smaller homes and apartments. Children would attend smaller schools. Businesses would have higher capital costs. The public would travel on fewer roads. Things like a fiber optic Internet would take more years before they would be built. The actual cost to the public of these effects is impossible to calculate, but it is considerable enough to justify the wisdom of the actuaries managing the North Dakota Unemployment Insurance Fund.

In 1999, the North Dakota unemployment insurance fund paid benefits equal to $11,769,377 while employers paid $10,768,980 in taxes (premiums). This is a difference of only $1,000,397. The construction industry supplies at least $90 million more to the legislature by its presence to cover the cost that is not funded by construction industry taxes. Combining this amount with the amount the public saves by having lower construction costs creates a benefit to the public much greater than the cost of the subsidy. The subsidy is the rational thing for North Dakota citizens to do not only for the construction industry, but also for agriculture, mining, and manufacturing. The only defect that seems to exist in the North Dakota unemployment insurance program is that taxes are calculated based on the prior three years of experience. The result is that the ratio of contributions to benefits paid falls during good times (1990s) and rises during bad times (1980s). This must make the tax burdensome for employers during

bad times when revenues are already off. The actuaries should introduce work to reduce this ratio during bad times and to increase it during good times.

While the tertiary industries, except government subsidizes the primary and secondary industries the overall result is a benefit to the other industries and to the public. This is also true of the construction industry, and possibly moreso than agriculture, mining, and manufactures. This is because the construction industry produces investment goods and these are typically much more expensive than raw materials that ultimately become consumer goods.

Conclusions

Where the national construction industry experienced declining employment and rising unemployment rates the North Dakota construction industry experienced the opposite: rising employment and falling unemployment rates. The North Dakota construction industry experienced faster growth rates in total personal income, gross state product, and employment than the overall North Dakota economy. The share of the State's income, expenditure, and employment generated by the construction industry has been increasing since 1991.

An August, 2000 study funded by North Dakota's Department of Economic Development and Finance, "Our Competitive Landscape: A Report on the Composition and Performance of the North Dakota Economy", included the North Dakota construction industry in the list of "dynamic" industries for these reasons.[2] Dynamic industries are growing relative to other North Dakota industries in economic importance. This report is important in that it allows North Dakota policy makers to identify the strong parts of the economy where the citizens of this State can receive the greatest benefit to cost ratio for their public expenditures.

Footnotes

[1] Two similar studies were done in 1986 and 1987. See Randall C. Coon, Donald F. Scott, and F. Larry Leistritz, "The Contribution of the Road Construction and Maintenance Industry to the North Dakota Economy" Agricultural Economics Miscellaneous Report No. 104, North Dakota State University, Fargo, ND, December 1986; and, Randal C. Coon and F. Larry Leistritz, "The North Dakota Construction Industry's Contribution to the State Economy" Agricultural Economics Miscellaneous Report No. 113, North Dakota State University, Fargo, ND, December 1987. The current study is most similar to the latter in that the latter study examines the impact of the 3 segments of the construction industry: general building, heavy (highway), and special trade. It was also prepared for the North Dakota General Contractors Association. There are a number of differences. Most important would be that they used the North Dakota Input-Output Model where this study uses IMPLAN. Secondly, their study does not attempt to analyze the unemployment compensation fund issue. Finally, this report offers published data so that the results of this model can be compared to U. S. Department of Commerce data.

[2] This study was conducted by RFA of West Chester, PA. This study and its details can be examined at http://www.growingnd.com/allmedia.pdf?mediaID=137&sz=217214. There are instructions available in this summary on where and how to examine the entire report.