

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2352

2001 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2352

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2352

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date January 31, 2001.

Tape Number	Side A	Side B	Meter #
1		x	17.7 to 37.8
2		x	23.1 to 25.1
(Feb. 05/01) 2		x	26.3 to 39.4
Committee Clerk Signature <i>Doris E. Perez</i>			

Minutes:

The meeting was called to order. All committee members present. Hearing was opened on SB 2352 relating to a sales and use tax exemption for purchase of computer and telecommunication equipment by a new primary sector business; and to provide an effective date.

SENATOR TONY GRINDBERG, District 41, cosponsor. Explained how this bill differs from the ones proposed in past sessions. Defines primary sector business. This legislation would level the playing field with other states for companies that may be thinking of coming here. We are intending new wealth creation. Urge do pass.

RUSSELL STAIGEN, Bismarck-Mandan Development Assn., in favor. There is a current exemption if computers used to monitor robotics. One manufactures a product, another data, both should be treated the same.

DON MORTON, Great Plains, a ND company representing over 247 different small towns.

Microsoft will significantly invest in GP. GP is growing, we have built a campus in Fargo and a

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Senate Industry, Business and Labor Committee

Bill/Resolution Number SB 2352

Hearing Date January 31, 2001.

technology zone to attract new companies to Fargo. We need to create a favorable business climate for high tech companies. Strongly favor this bill.

JEFF SWANK, TMI Systems Design Inc., ITCND, SWITC. In favor. Written testimony attached. Proposed amendment included. Would like existing companies be included. Noted effective and ending date on the bill are the same.

JERRY BRYDL, Steffes Corp., Dickinson. Support this bill and amendment and would like it to include existing industries, this would be a pathway to increased employment in this area.

SENATOR KLEIN: Would you compromise on extension to only new companies, to include existing ones would expand the fiscal note?

J. SWANK, J BRYDL: No opposition.

BRIAN WOLF, ITCND, in favor. Written testimony attached.

DANA BOHN, GNDA, support this bill strongly.

STEVE EGELAND, BMDA. This bill is very important, we need something to attract industry, strongly support it.

TONY GRINDBERG: Tax department suggested small language modification for consistency. Will bring amendments.

No opposing testimony. Hearing closed.

Feb. 05/01. (Tape 2-B-26.3 to 39.4)

Committee reconvened. All members present. Discussion held regarding fiscal note and proposed amendment.

SENATOR KREBSBACH: Basically they are cutting the fiscal note in half because it doesn't become effective until July 2002.

SENATOR KLEIN: The bill makes very clear it has to be a new primary sector business.

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Senate Industry, Business and Labor Committee

Bill/Resolution Number SB 2352

Hearing Date January 31, 2001.

SENATOR EVERY: We need to support this bill to promote technology industry growth.

SENATOR ESPEGARD: Motion to adopt amendment. SENATOR KREBSBACH: Seconded.

Roll call vote: 7 yes; 0 no.

SENATOR KREBSBACH: Motion: do pass as amended, and be rereferred to appropriations.

SENATOR EVERY: Seconded.

Roll call vote: 7 yes; 0 no. Carrier: SENATOR EVERY.

FISCAL NOTE

Requested by Legislative Council

02/09/2001

Bill/Resolution No.:

Amendment to: SB 2352

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			(\$170,000)	(\$15,000)		
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.*

SB 2352 First Engrossment provides a sales and use tax exemption for purchases of computer and telecommunications equipment by new and expanding primary sector businesses.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

SB 2352 First Engrossment is expected to reduce state general fund and state aid distribution fund revenues by \$185,000 in the 01-03 biennium.

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

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, 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.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
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Phone Number: 328-3402

Date Prepared: 02/16/2001

FISCAL NOTE

Requested by Legislative Council

01/24/2001

Bill/Resolution No.: SB 2352

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			(\$138,000)	(\$12,000)		
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.*

SB 2352 provides a sales and use tax exemption for purchases of computer and telecommunications equipment by new primary sector businesses.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

SB 2352 is expected to reduce state general fund and state aid distribution funds by \$150,000 in the 01-03 biennium.

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

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, 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.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
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Phone Number: 328-3402

Date Prepared: 01/30/2001

Date: 2/05/01
Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2352

- Senate Industry, Business and Labor Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken On amendments to adopt

Motion Made By Sen. Espgaard Seconded By A Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Mutch - Chairman	✓		Senator Every	✓	
Senator Klein - Vice Chairman	✓		Senator Mathern	✓	
Senator Espgaard	✓				
Senator Krebsbach	✓				
Senator Tollefson	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment _____

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

Consistency

Date: 2/05/01
Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2352

- Senate Industry, Business and Labor Committee

☐ Subcommittee on _____
or

☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken DPA

Motion Made By Krebsbach Seconded By Every

Senators	Yes	No	Senators	Yes	No
Senator Mutch - Chairman	✓		Senator Every	✓	
Senator Klein - Vice Chairman	✓		Senator Mathern	✓	
Senator Espegard	✓				
Senator Krebsbach	✓				
Senator Tollefson	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Every

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

REPORT OF STANDING COMMITTEE

SB 2352: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2352 was placed on the Sixth order on the calendar.

Page 2, line 2, after "business" Insert "or a physical or economic expansion of a primary sector business"

Page 5, line 4, after "business" Insert "or a physical or economic expansion of a primary sector business"

Renumber accordingly

2001 SENATE APPROPRIATIONS

SB 2352

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2352

Senate Appropriations Committee

☐ Conference Committee

Hearing Date February 19, 2001

Tape Number	Side A	Side B	Meter #
Tape #1	x		46.5-54.5
Tape #1		x	0.0-9.1
Committee Clerk Signature <i>Gene Rietz</i>			

Minutes:

Senator Nething opened the hearing on SB2352 - relating to a sales and use tax exemption for purchases of computer and telecommunications equipment by a new primary sector business.

Senator Grindberg, District 41, Fargo, testified in support of the bill. Mention was made this is the third time since '97 that this has been set forward; and each time the amount gets smaller. It is an attempt to treat companies the same.

Brian Wolf (Lobbyist # 513), Information Technology Council of North Dakota, testified in support of SB2352. Financial incentive is imperative -- it's help to make successful companies.

Senator Tallackson: Know the number of companies covered?

Brian Wolf: Like to think 10-15 per year; next 2 years will be indicative; entry in high technology.

Senator Tallackson: Limited size of company?

Brian Wolf: No cap in terms of size.

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Senate Appropriations Committee

Bill/Resolution Number SB2352

Hearing Date February 19, 2001

Senator Solberg: Existing company wants to change - become high tech--not qualify?

Brian Wolf: This is for buying new equipment for new companies, not trying to reinvent the wheel. There are Economic Development and Finance (ED&F) certification requirements.

Senator Solberg: From manual labor to high tech?

Senator Grindberg: Take metal binding --- currently exempt on development software --- planning expansion - no.

Senator Solberg: Just sold my cattle business -- new owners are going fully computerized -- qualify?

Senator Grindberg: If deemed primary sector.

Senator Lindaas: Would companies such as Great Plains Software qualify?

Senator Grindberg: Yes, if new area - criteria met.

Senator Andrist: How does one become a primary sector?

Senator Grindberg: Criteria includes value to product, service and other documented items.

Senator Schobinger: Page 3, has the definition.

Paul Lucy, President Economic Development Association of North Dakota spoke in support of SB2352 (a copy of his written testimony is attached).

Senator Solberg: We have had companies come into North Dakota without this incentive?

Paul Lucy: Individual areas provide some incentives -- we have used most of our economic development dollars in the Minot area ourselves to bring companies in.

Senator Bowman: Is the margin so narrow on these companies -- that they can't afford the sales tax?

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Senate Appropriations Committee
Bill/Resolution Number SB2352
Hearing Date February 19, 2001

Paul Lucy: Companies visit -- look at locations around the country even the word --- more incentives elsewhere. The labor force is here, but looking for incentives --- always a better bottom line is desired.

Senator Bowman: More rentable spaces here versus California? Besides this incentive -- could the opportunity be here without this?

Paul Lucy: Could be in Kansas, Nebraska, South Dakota, Eastern Montana, or Ireland -- rent can be part of a company's decision.

Senator Robinson: There is support for this bill -- right time to look.

February 20, 2001 Full Committee (Tape #1, Side A, Meter No. 13.3-17.1)

Senator Nething reopened the hearing on SB2352.

Discussion on the bill.

Senator Grindberg moved a DO PASS, seconded by Senator Holmberg.

Discussion.

Roll Call Vote: 12 yes; 2 no; 0 absent and not voting.

Floor assignment will go back to the original committee; carrier: Senator Every.

Date: 3-26-01

Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2002

Senate Appropriations Committee

☐ Subcommittee on _____

or

☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Ad. Pass

Motion Made By H. D. Smith Seconded By Sen. K. Grindberg

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindaas		✓			
Harvey Tallackson	✓				
Larry J. Robinson	✓				
Steven W. Tomac		✓			
Joel C. Heitkamp	✓				
Tony Grindberg	✓				
Russell T. Thane	✓				
Ed Kringstad	✓				
Ray Holmberg	✓				
Bill Bowman	✓				
John M. Andrist	✓				

Total Yes 12 No 2

Absent 0

Floor Assignment Senator K. Grindberg

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

REPORT OF STANDING COMMITTEE (410)
February 20, 2001 9:50 a.m.

Module No: SR-31-3957
Carrier: Every
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2352, as engrossed: Appropriations Committee (Sen. Nething, Chairman)
recommends DO PASS (12 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed SB 2352 was placed on the Eleventh order on the calendar.

2001 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2352

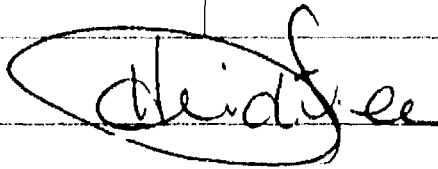
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2352

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date March 13, 2001

Tape Number	Side A	Side B	Meter #
1		X	40.2
2	X		-8.5
Committee Clerk Signature 			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Sen. Tony Grindberg: Sponsor of bill to level the playing field on economic development for primary sector businesses.

Rep. M. Klein: Does this include telemarketing?

Sen. Grindberg: Yes because they would be a primary sector.

Vice-Chairman Keiser: How is this different than 'extras'?

Sen. Grindberg: That will come out in the rule-making process.

Jeff Swank: (49.8) *TMI Systems* **Written testimony** in support of bill.

Chairman Berg: What are your concerns with the date?

Swank: The dates are simply confusing by technically allowing only one day.

Steve Egeland: *Economic Developers* Support bill to open up new business in ND.

John Kramer: *EDC Fargo* I support this bill for growth in intelligence areas. This would keep our best talent in the state and we need to nurture these businesses to help them grow.

Miles Vosberg: (2.2) *Tax Department* I appear in neutral testimony. The exemption for crude oil refineries is July 31, 2002. The second sections in temporary to include them. Anything used directly for manufacturing applies.

Vice-Chairman Keiser: Will you be treating expansion the same?

Vosberg: Yes.

Chairman Berg: We'll close the hearing on SB 2352.

Vice-Chairman Keiser: I move a do pass with re-referral to appropriations.

Rep. Ekstrom: I second.

Date: 3-13-01
 Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. SB 2352

House Industry, Business and Labor Committee

Legislative Council Amendment Number _____

Action Taken Do Pass w/ RB

Motion Made By Keiser Seconded By Ekstorm

Representatives	Yes	No	Representatives	Yes	No
Chairman- Rick Berg	✓		Rep. Jim Kasper	✓	
Vice-Chairman George Keiser	✓		Rep. Matthew M. Klein	✓	
Rep. Mary Ekstorm	✓		Rep. Myron Koppang	✓	
Rep. Rod Froelich			Rep. Doug Lemieux	✓	
Rep. Glen Froseth	✓		Rep. Bill Pietsch	✓	
Rep. Roxanne Jensen	✓		Rep. Dan Ruby	✓	
Rep. Nancy Johnson	✓		Rep. Dale C. Severson	✓	
			Rep. Elwood Thorpe	✓	

Total (Yes) 14 No 0

Absent 1

Floor Assignment Rep Keiser

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

REPORT OF STANDING COMMITTEE (410)
March 13, 2001 2:47 p.m.

Module No: HR-43-5504
Carrier: Kelser
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2352, as engrossed: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends **DO PASS** and **BE REREFERRED** to the Appropriations Committee (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2352 was rereferred to the Appropriations Committee.

2001 HOUSE APPROPRIATIONS

SB 2352

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB2352**

House Appropriations Committee

☐ Conference Committee

Hearing Date **March 26, 2001**

Tape Number	Side A	Side B	Meter #
1	x		2,166 - 6225
1		x	0 - 1231
Committee Clerk Signature <i>R. Z. Jonken</i>			

Minutes:

HOUSE APPROPRIATIONS COMMITTEE HEARING ON SB2352

Rep. Timm: We will open the hearing on SB2352. Is someone going to appear on behalf of this bill?

Mr. Paul Lucy, President of the Economic Development Association. (Followed written testimony and then answered questions following his testimony)

Rep. Timm: Both of these companies that you have described have been brought here and they have received most other incentives and grants and money to help start them up, do you really think that not having to pay sales tax on equipment is a big inducement to bring somebody here?

Mr. Lucy: Absolutely. Every additional incentive that we have to offer gives us a leg up on some other location around the country. What we have had to do with the limited number of incentives that the State of North Dakota has to offer, we have had to put forth a huge amount of money at the local level out of our own coffers to make sure that the projects get done so that we

can compete with Rapid City, Des Moines, Sioux Falls and wherever it might be and what's happened is we have had to use all of our available resources which leaves us short in all the rural communities and then Minot as well so that when we want to do additional projects we don't have as many resources to put forth towards the other projects.

Rep. Carlisle: Let's take Peliastar, they are owned by a Swiss based company, is that right?

Response was yes, but its a Dutch company. And they came here before this bill and they set up operations because we have a great workforce and to follow up on the chairman's question, when you have a worldwide firm coming into Minot they are here based on the present tax incentive is that correct?

Mr. Lucy: They are here for an number of different reasons, one of the big reasons they are here in North Dakota is because of the incentives that we offer. I guarantee that without the incentives that we provided them locally through our Minot Magic Fund and a few incentives from the state, not very much, they would not be in the State of North Dakota.

Rep. Gulleason: In something like this could be, how the tax department would be able to monitor whether its new equipment for increasing their business or replacement, how do you follow those receipts and how do you differentiate between them?

Mr. Lucy: Well generally, when a company is expanding, I don't think someone will come to the State of North Dakota and go through the effort of getting the tax exemption on buying one new computer for a new office staff person, but when a company is expanding and they need 50 new employees and they do an expansion that way they are going to be buying enough equipment to support that expansion, and at that point in time I believe you would see them applying for the exemption.

Rep. Byerly: I am really intrigued by the statement that you made, its on the last page in the first paragraph the second to the last sentence and it says "an expansion of the sales and use tax exemption on business computers and telecommunications equipment could be the single most important economic development program the State of North Dakota could offer to help turn around the negative population trends taking place in our state" so what your saying is that we could probably do away with the \$4.5 million dollars that we have slated to going to the development fund and some of those other programs and just terminate those and we could rely just on this bill?

Mr. Lucy: That statement is pointed at particularly the rural communities, my point there is that were we are going to see the greatest opportunity for economic development in the rural communities is IT based companies. When those rural communities are marketing themselves around the country or even one of the local residents to start up a business, they have there best level of success in recruiting a company in the IT industry sector, now they will also need programs like the development fund, and property tax exemptions, corporate income tax exemptions, but when companies are looking for a location they are not necessarily targeting rural communities, so if a rural community wants to get them to look at them they have to have as many incentives and offerings available to that company just to give them a look. Now also the thing that many times gets overlooked is, that there are some individuals that start IT based companies in the State of North Dakota, there are some local startups and those are the companies that need help more than anybody.

Rep. Kempenich: On the fiscal note what did you base that on, do you know how the fiscal note came about?

Mr. Lucy: I don't know about the terms of the fiscal note.

Rep. Wald: On line 4 page 2 it says purchase or replacement equipment is not exempt under this subsection? If a company comes in two years from now and replaces a whole bunch of equipment as I read this they would qualify.

Rep. Skarphol: You want to waive the sales tax for IT equipment, are you also including in this bill the waiver of the city sales tax as well or are we talking about just the state?

Mr. Lucy: I believe that it would include the local sales tax exemption.

Rep. Skarphol: We talk about the crops we raise in North Dakota and the Oil we produce is rolling over seven times in the economy, every dollar generated from oil or agricultural commodities, do you see the same thing happening with services from your perspective? Do you see it turning over seven times in our economy?

Mr. Lucy: Some industries rollover more, of course a company like Cloverdale where they slaughter animals, has a huge economic impact on the community. I don't know exactly what the indicator number is for this particular industry I think its around 2 to 3, but if you look at some communities where there is nothing, no new money coming in and a company puts \$1.5 million in there and it rolls two times in that community even if it rolls 1 ½ times, that is a huge economic impact on that community where there is only 300 people in that town and seven businesses.

Rep. Aarsvold: I see there are some references to agricultural processing on page 6, what about a dairy or a feed lot for instance where they are trying to improve there record keeping or acquire a record keeping process with computers, would they qualify?

Mr. Lucy: Yes they would.

Sen. Grindberg: I am sponsor of the bill, and just a couple of comments to pull some testimony together from Mr. Lucy. It is important to recognize that this is the third time that this bill has

been introduced, and I have been the prime sponsor the last three time, I was approached last fall by the Information Technology Council of North Dakota whether or not I would introduce this again and we talked about it and I said its important but I have some other things that are going to occupy my time, how important do you thing it is? And they said they would like this to move forward to have the legislature to consider again particularly after the formation of that council and the discussion about diversifying our economy and being a high tech state and that is some of the things your going to hear from some additional testimony. But just a couple of other comments that I think are relevant, It has been mentioned if this is important, when you look at the issue of fairness in our competitive situation competing with other states, I think this is extremely important, and let me give you an example. I work in economic development, about 1/3 of the deal flow that we get through our office in Fargo comes from consultants, individuals who might be one year out of college with their MBA that are working for a firm that are charged with looking for locations for expansion for there clients, and we get a 4 to 8 page fax to fill out the information and send it back and we will get back to you. Quite often that is jus the analysis, most often it is the analysis to weed you out and I'm here to stand an tell you that incentives are the deal breakers or deal makers for projects, but 1/3 of the projects that we get from outside of the state are based on an analysis trying to level the playing field from all of the states. Sen, Grindberg went on to speak about the different scenarios to attract businesses to North Dakota.

Sen. Robinson: I'm not going to be to repetitive here, I think there has been much said about SB2352 we have heard about the diversification of the economy we have talked about the fiscal note, there are 13 other states that have similar programs in place but this is not a new concept to just North Dakota, Its becoming increasingly apparent that in this world of competitive economic

development we need as many tools in our tool chest as is possible, this particular bill in and of itself is not a panacea, and its not going to solve all of our problems but when we take a look at the package of incentives and programs that we have out there hopefully we can become more competitive than we have been historically. North Dakota as a state has one of the lowest levels of technology firms in the nation, our economy has been struggling we know that and some of the experts in Information Technology believe in a big way that every job is or will become an information technology job in the new millennium. We are moving in that direction, our economy is going to be based on IT, so for those reasons and what you have heard previously I think this is a step in the right direction, yes there are some costs involved but again in this competitive market place we have to be at the table, we have to be working and be very aggressive and hopefully not allow the future to happen, lets do some things today to create that future.

Rep. Boucher: I'm going to be very brief in my comments this morning. Mr. Lucy and others have given you a pretty good background in terms of the technical aspects of SB2352. I come before you and want to emphasize about 3 or 4 specific points in regard to what I feel is before us on this particular issue today. I know there is a lot of questions in terms of budget and budget issues, where money comes from, how much money, what do we allow in terms of exemptions, because we know that we are in the final weeks of the legislative session, we know that we have a budget that has to come together and that's not an easy task. In the process we are scrambling for revenue dollars and anytime we allow revenue dollars to escape us in terms of exemptions and those kinds of things and it has an impact and we have to gather our resources from some other location Rep. Boucher continued to speak about economic development and the merits of this bill.

Rep. Timm: Any questions? Any other sponsors here?

Steve Eglund, Member of the Economic Developers of North Dakota: It is interesting that just recently we have been attending several trade shows, and one of the industries that we are focusing on is information technology because those are the kinds of jobs that we want within our communities and the reason we want them is because of the pay rates that they typically employ people at, for example, in most software development companies your going to see salaries in the range of \$10 to \$15 dollars an hour for their pay scale so those are the type that we are trying to attract, but its always interesting to me when we attend these trade shows whether they be software development or electronics trade shows of all the competition that is out there that is competing for economic development.

Rep. Glassheim: Does this include like your telephone systems, or office computers that are used for typing?

Mr. Egland: Our goal was to create a bill that was going to be used with primary sector companies, a primary sector company being any company that sells 51% of its goods or services outside of the state of North Dakota and it wasn't going to be for replacement, it was going to be for new growth, so a new company coming in or a company that said were going to create 40 new jobs and we need to get those people equipment, so the primary sector is focused.

Rep. Timm: Any questions?

Rep. Delzer: Have you got any feedback from the existing companies that are here, and we have less than 2% unemployment already, and we are going to be competing for the same people who do this jobs. Why is it fair to do this now for the ones that you want to come in and not for the ones that are existing?

Mr. Egland: I believe that it does include those companies that are going to be expanding with new jobs.

Rep. Timm: Any other questions? Any other testimony in support of SB2352?

Mr. Dale Anderson, President, Greater North Dakota Association. (Followed written testimony and answered questions after testimony)

Rep. Timm: Any questions of Mr. Anderson? Any other testimony in support of SB2352?

Mr. Gary Anderson: Representative of the North Dakota Tax Department: I just wish to speak about the fiscal note attached to this bill. As noted the fiscal note is \$185,000 with \$170,000 of that reflected as a revenue reduction in the general fund and \$15,000 to the state aid distribution fund. In regards to the question of local taxes, the city and county tax, the exemption would apply to those communities if this were passed, because of the communities in North Dakota that currently impose a local tax mirror the state tax sales and use tax law, meaning that if there is an exemption created in our law, they piggy back that based on the language in there

ordinances, or if we remove an exemption, again it effects the application of the city sales and use taxes.

Rep. Byerly: How would the tax department be able to determine when somebody is purchasing equipment for new employees verses purchase for replacement of existing equipment? Would you have to go out and audit these places?

Mr. Anderson: In part, in some cases we would have to complete some auditing of those locations, right now for the manufacturing exemptions we don't do a full fledged audit, and what we do is send our representatives to those locations, work with the taxpayer before the expansion or new process begins and during the process so we can monitor the purchases as they are being made, we can assist them as to what is taxable and what is not, we would envision this would accrue with the larger projects in North Dakota that would be affected by this, we would do the very same thing, we would offer that assistance to these individuals, we would rather do it up front rather than come out at the end and do an audit.

Rep. Skarphol: Under current situations if an ag processing facility has a need for computer equipment to run there system, is that not currently exempt?

Mr. Anderson: Currently under the manufacturing and the ag processing exemptions the law would allow computer equipment that is used to directly facilitate the operation of the manufacturing equipment or the ag processing equipment that's involved. Equipment that would be used for administrative purposes, inventory control purposes would not currently qualify, but the computer equipment that is necessary in the operation of the actual manufacturing or ag processing equipment would qualify.

Rep. Glassheim: Where did you get the estimate from on the fiscal note, what kind of guess is that or did you have a plan when that was formulated?

Mr. Anderson: As Sen. Grindberg indicated the tax department has provided fiscal notes during the last three sessions and gradually they have gotten smaller, and in part a large part of that is based just on the fact of the cost of the equipment, and I think our first fiscal note was actually something that was difficult for us to get a handle on.

Rep. Aarsvold: Is there ever a circumstance when you put together a fiscal note where you anticipate revenue as a consequence of a bill for instance?

Mr. Anderson: In part, that would be one of the basis for determination, this particular bill makes it very difficult because, one of the things you try to do is look at the historical applications and as you may be aware in your own areas, each year doesn't always reflect an increase in businesses that would fall into this category.

Rep. Glassheim: The exemptions on manufacturing like \$6.3 million, is that what the state lost or is that the machinery exempt that only 5% of that was lost?

Mr. Anderson: That's the tax exemption provided.

Rep. Timm: Any other questions? Any other testimony in opposition of SB2352? If not we will close the hearing on SB2352.

House Appropriations Committee completed its hearing on SB2352.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2352A.

House Appropriations Committee

☐ Conference Committee

Hearing Date **March 27, 2001**

Tape Number	Side A	Side B	Meter #
I		x	545 - 1156
Committee Clerk Signature <i>L. J. [Signature]</i>			

Minutes:

HOUSE APPROPRIATIONS ACTION ON SB2352A.

Rep. Timm: Lets go to SB2352.

Rep. Byerly: I have an amendment I would like to pass out if I can please. Basically all that this amendment does is inserts that in order to qualify for the sales tax exemption they have to purchase from somebody in North Dakota, right now the way that it would exist is they could purchase it someplace else and they would have to pay use tax on it, but with this the only way they would qualify for this tax exemption would be if they purchase it through somebody from North Dakota, and I would move the amendment (10301.0201). Seconded by Rep. Wald.

Rep. Timm: It is really going to restrict the bill, I'm sure that some big company is going to try there stuff directly from the manufacturer of something.

Rep. Byerly: That' fine, they can certainly go ahead and do that but if the North Dakota taxpayer is going to be picking up the slack I think that at least the vendor's in North Dakota whether they be telephone, or computer vendors should be the only ones that qualify for this.

Rep. Koppleman: I know in the past we have had some bills relative to economic development and that sort of thing that has sort of tried to give preferential treatment to North Dakota companies when doing state business and I'm just wondering that there was always threat when those bills came before us that other states would sort of reciprocate and our companies would be in big trouble. Do you think this is an issue?

Rep. Byerly: No it is not, because what your referring to is that in state bids we cannot put in any requirement that it be an in state company because of the interstate commerce clause of the state constitution, this has nothing to do with that, this merely states that if we are going to give a state tax break to a company purchasing these things it will only occur if they buy it within the borders of the State of North Dakota, they are still free to buy it where ever they wish.

Rep. Skarphol: In the case of Reliastar, it is my understanding that they spent about \$8 million dollars to equip there facility in Minot with computer equipment and very little of it probably was associated with the desk tops, most of if went in the back room to provide them with the kind of communications needs that they needed. I wonder if we have North Dakota computer companies that sell that kind of equipment in a competitive price as to what's available on a nationwide scale.

Rep. Byerly: Well, I personally think yes is the answer.

Rep. Warner: Lets concentrate on the word retailer, why would any of these companies buy purchases that large at retail prices, I would think they would always negotiate for the wholesale prices.

Rep. Beyerly: Retailer is a legal term under our tax code, and anybody that sells equipment has to have a retailers tax certificate and that's why it says retailer. That includes wholesale companies.

Rep. Timm: Any other discussion? Were discussing Rep. Byerly's motion to amend. All those in favor of the amendment signify by say AYE. Motion passes. Amendment adopted. Unless somebody wants a roll call vote?

Rep. Skarphol: I have been approached by someone who wishes to probably put together an amendment with regard to taking out the small end products on this particular bill. And I would appreciate it if we could hold it for a day to give him that opportunity. Don Litchfield.

Rep. Timm: He wants to do what? Answer:

Rep. Skarphol: To limit this to the high end equipment in the back room of these facilities rather than the desk tops and the typewrites and the telephones. I would give them a day to at least approach us about it.

Rep. Timm: We will hold the bill pending amendments. The amendment that we just adopted will stay on the bill until we go back to it.

End of House Appropriations action on SB2352 pending further amendments.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2352

House Appropriations Committee

☐ Conference Committee

Hearing Date March 30, 2001

Tape Number	Side A	Side B	Meter #
03-30-01 tape #1	274 - 1159		
Committee Clerk Signature <i>Kelli Hall</i>			

Minutes:

The committee was called to order, and opened committee work on SB 2352.

Chairman Timm: We have an amendment on the bill, made by Rep. Byerly on 3/27/01.

That amendment limits the sales to ND retailers.

Rep. Huether: Voiced some concern over the amendment previously made.

Rep. Martinson: Moves to delete the amendment 0201, passed on 3/27/01 by this committee. Seconded by Rep. Kempenich.

Voice vote adopted this motion to delete the amendment.

Rep. Skarphol: Moves DO PASS. Seconded by Rep. Kempenich.

(committee discussion)

Vote on Do Pass : 16 yes, 5 no, 0 absent and not voting.

Rep. Skarphol is assigned to carry the bill to the floor.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2352

House Appropriations Committee

☐ Conference Committee

Hearing Date April 3, 2001

Tape Number	Side A	Side B	Meter #
04-03-01 tape #1	67 - 500		
Committee Clerk Signature <i>Kathleen Hall</i>			

Minutes:

The committee was called to order, and opened committee work on SB 2352.

Chairman Timm: This bill was sent back down here from the floor by our request. There was going to be an amendment proposed, but that is not going to be proposed. We still have to reconsider our action, vote on the bill again, and send it back to the floor.

Rep. Byerly: Moves to reconsider previous action. Seconded by Rep. Monson.

Voice vote adopts the motion to reconsider.

Rep. Kempenich: Moves DO PASS. Seconded by Rep. Monson.

(Some discussion as to why it was thought it needed to be amended, but after being sent back down, it was discovered the language was okay. Some discussion as to needing a cap.)

Vote on Do Pass : 17 yes, 4 no, 0 absent and not voting.

Rep. Skarphol is assigned to carry the bill to the floor.

Date: 3/27/01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2352

House APPROPRIATIONS Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number 103 01- 0201

Action Taken MOTION PASSES - ADOPTED

Motion Made By Byerly Seconded By WALD

*HOLD
BILL
w/6
Amend
Skarpitol*

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman					
Wald - Vice Chairman					
Rep - Aarsvold			Rep - Koppelman		
Rep - Boehm			Rep - Martinson		
Rep - Byerly			Rep - Monson		
Rep - Carlisle			Rep - Skarphol		
Rep - Delzer			Rep - Svedjan		
Rep - Glassheim			Rep - Thoreson		
Rep - Guleson			Rep - Warner		
Rep - Huether			Rep - Wentz		
Rep - Kempenich					
Rep - Kerzman					
Rep - Kliniske					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Date: 3-30-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SR 2302

House APPROPRIATIONS Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Motion to take off

Motion Made By Rep Martinson Seconded By Rep Koppelman

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman					
Wald - Vice Chairman					
Rep - Aarsvold			Rep - Koppelman		
Rep - Boehm			Rep - Martinson		
Rep - Byerly			Rep - Monson		
Rep - Carlisle			Rep - Skarphol		
Rep - Delzer			Rep - Svedjan		
Rep - Glassheim			Rep - Thoreson		
Rep - Gulleon			Rep - Warner		
Rep - Huether			Rep - Wentz		
Rep - Kempenich					
Rep - Kerzman					
Rep - Kliniske					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

delete amendment of ND retailer
10301.0201 (adopted 3/27/01)

passed

Date: 3-30-01
Roll Call Vote #: 2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 3352

House APPROPRIATIONS Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Pass ~~Amendment~~

Motion Made By

Rep. Skarphol

Seconded
By

Rep. Kempenich

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman		✓			
Rep - Aarsvold	✓		Rep - Koppelman	✓	
Rep - Boehm	✓		Rep - Martinson	✓	
Rep - Byerly		✓	Rep - Monson	✓	
Rep - Carlisle	✓		Rep - Skarphol	✓	
Rep - Delzer		✓	Rep - Svedjan	✓	
Rep - Glassheim		✓	Rep - Thoreson	✓	
Rep - Gulleason		✓	Rep - Warner	✓	
Rep - Huether	✓		Rep - Wentz	✓	
Rep - Kempenich	✓				
Rep - Kerzman	✓				
Rep - Kliniske	✓				

Total (Yes)

16

No

5

Absent

Floor Assignment

Rep. Skarphol

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

Date: 4-30/
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2362

House APPROPRIATIONS Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Motion to reconsider previous action

Motion Made By Rep. Byerly Seconded By Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman					
Wald - Vice Chairman					
Rep - Aarsvold			Rep - Koppelman		
Rep - Boehm			Rep - Martinson		
Rep - Byerly			Rep - Monson		
Rep - Carlisle			Rep - Skarphol		
Rep - Delzer			Rep - Svedjan		
Rep - Glassheim			Rep - Thoreson		
Rep - Gulleason			Rep - Warner		
Rep - Huether			Rep - Wentz		
Rep - Kempenich					
Rep - Kerzman					
Rep - Kliniske					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Passes

Date:

Roll Call Vote #:

4-301
2

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO.

58 2363

House APPROPRIATIONS

Committee

☐

Subcommittee on _____

or

☐

Conference Committee

Legislative Council Amendment Number _____

Action Taken

Do Pass

Motion Made By

Rep. Kempenich

Seconded

By

Rep. Skarphol

Representatives	Yes	No	Representatives	Yes	No
Timm - Chairman	✓				
Wald - Vice Chairman	✓				
Rep - Aarsvold	✓		Rep - Koppelman	✓	
Rep - Boehm	✓		Rep - Martinson	✓	
Rep - Byerly		✓	Rep - Monson	✓	
Rep - Carlisle	✓		Rep - Skarphol	✓	
Rep - Delzer		✓	Rep - Svedjan	✓	
Rep - Glassheim		✓	Rep - Thoreson	✓	
Rep - Gulleeson		✓	Rep - Warner	✓	
Rep - Huether	✓		Rep - Wentz	✓	
Rep - Kempenich	✓				
Rep - Kerzman	✓				
Rep - Kliniske	✓				

Total (Yes)

17

No

4

Absent

Floor Assignment

Rep. Skarphol

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

2001 TESTIMONY

SB 2352

Testimony Supporting SB2352
Jeff Swank
Vice President, TMI Systems Design Corp.
Vice President, ITCND
President, SWITC
January 31, 2001

Industry, Business and Labor Committee
Senator Duane Mutch, Chairman

Mister Chairman, members of the committee, let me thank you for the opportunity to speak to you today. I am Jeff Swank, Vice President of TMI Systems Design Corp, Vice President of the Information Technology Council of North Dakota, and President of the Southwest Information Technology Council. I ask you to support this bill. If the state of North Dakota wants to attract new primary sector companies, and encourage growth of existing companies we need to provide the tax incentives specified in this bill.

Mr. Chairman, while I support SB 2352, I would like to suggest the following sections to be amended:

Section One, change "July 31, 2002" to "July 1, 2001". This would start the benefits of this bill in 2001 rather than waiting until 2002.

Section One, Item three, delete the word "new". This would extend this bill to our existing primary sector companies as well. North Dakota's future is dependent on both new companies and growth of existing firms.

Section One, Item Six change "through July 31, 2002" to "through July 31, 2004". This will enable companies to plan and implement those plans using the exemption.

Section One, Second Item Three, delete the word "new". Again, this would extend this bill to our existing primary sector companies as well. North Dakota's future is dependent on both new companies and growth of existing firms.

Again, thank you for your time today, and with a final request for your support of this bill, I would answer any questions you may have.

**Testimony of
Brian Wolf
Chairman
Information Technology of North Dakota
Before the Industry, Business and Labor Committee
January 31, 2001 - 8:30 AM**

Good Morning Mr. Chairman and Members of this committee, my name is Brian Wolf and I am here today representing the Information Technology Council of North Dakota (ITCND) as it's current chairman. The ITCND is a non-profit organization representing a public/private partnership between business and government. Our overall goal is to champion the development of Information Technology within the state of North Dakota. This goal includes encouraging the implementation of appropriate technology in government services, education, public policy and entrepreneurial expansion.

In the interest of entrepreneurial expansion, we are requesting this committee to strongly consider supporting Senate Bill 2352. We believe that incentives are necessary for Information Technology startup companies. Incentives include an accessible work force, adequate capital resources, access to infrastructure and a favorable business climate, including tax incentives.

Mr. Chairman and Members of this committee, we are asking you to modify existing legislation that was grounded on the solid foundation of providing incentives for the manufacturing and recycling industries. We are asking you to consider providing the same type of "Jump start" to the fledgling Information Technology industry in this state.

It is our hope that the Information Technology Industry will continue to take shape and thrive in our rural state. However, we recognize the challenges facing us today in order to make this a reality. It is our firm belief, that development of the environment we will need to attract and retain technology businesses and their employees, will require incentives like those outlined in this bill. In addition, we need to continue to promote and lead the adoption of appropriate technology in all sectors of business, education and government. We would also like you to consider extending the sunset of this legislation until 2005.

On behalf of the ITCND, I would like to thank you Mr. Chairman and Members of this committee for your kind consideration of this bill and I would be happy to answer any questions you may have.

PROPOSED AMENDMENTS TO SB 2352

Page 2, line 2, after business insert "or a physical or economic expansion"

Page 4, line 17, overstrike "through" and immediately thereafter insert "after"

Testimony in Support of SB #2352

Before the North Dakota Senate Appropriations Committee

By

**Paul Lucy, President
Economic Development Association of North Dakota**

February 19, 2001

Chairman Nething and committee members. Good morning and thank you for providing me this opportunity to come before you to speak in support of SB #2352. My name is Paul Lucy and I am the President of the Economic Development Association of North Dakota and also the Interim President of the Minot Area Development Corporation.

For the past eleven and a half years I have been employed as an economic development professional in North Dakota working to stimulate new primary sector growth. That effort has included working with start-up businesses, the expansion of existing local businesses and the recruitment of new businesses from outside of North Dakota. We have seen a significant level of success statewide as a result of the efforts of the many development professionals and community leaders from across the state. A great deal of that success we have seen over the past ten years must be attributed to the benefits being offered to businesses through local and state financial incentives. The sales and use tax exemption for manufacturing machinery and equipment has been one of those incentives. However, limiting the exemption to traditional manufacturing and food processing businesses does not support the growth of one of our state's primary industry targets – Information Technology (IT) based primary sector businesses.

The Economic Development Association of North Dakota has been a strong supporter of expanding the sales and use tax exemption to include primary sector business computer and telecommunications equipment. We are excited that SB #2352 is being discussed by the Senate Appropriations Committee. The expansion of this exemption has the potential to provide significant financial returns back to the State of North Dakota that would be far and above what the state would forfeit from expanding the sales and use tax exemption.

What is that potential impact? I am going to use numbers from a few Minot area businesses, because they are what I am familiar with. WebSmart Interactive, Inc. is a new start-up IT business in Minot that began operations in 2000. That company expended \$400,000+ on computer and telecommunications equipment. Their total sales and use tax payment to the State of North Dakota totaled \$37,000. As WebSmart grows, they will be paying over \$3,000,000 annually in employee wages and salaries. One of Minot's largest primary sector employers, ING/ReliaStar, estimates it will spend over \$4,000,000 on computer and telecommunications equipment in their Minot facility. The establishment of new projects of this magnitude does not happen frequently in our state. But when they do they have a huge economic impact upon our local and state economy. ING/ReliaStar will be paying approximately \$13,000,000+ annually in wages and salaries in its Minot facility.

Companies like these are scattered throughout our area and throughout North Dakota. A number of our state's more rural communities have come to rely upon IT based businesses to help sustain their local economies. For instance Medical Arts Press, a Minneapolis based company, spent approximately \$240,000 On equipment in its Ray, ND facility. That company paid out over \$1,200,000 in wages to employees in its Ray location in 2000 and is projecting to be over \$1,700,000 in wages when operating at full capacity. Contact Centers Unlimited, a company that started up in 2000 with an operations center in Grenora, North Dakota will invest approximately \$130,000 in computer equipment and projects to have an annual payroll of \$750,000 to \$1,000,000 when operating at full capacity. Businesses like this have a tremendous impact upon

those rural communities that have been relying, almost solely, upon their local farm economy for survival. An expansion of the sales and use tax exemption can help stimulate more of this much-needed new business activity in every other community across North Dakota.

All of these numbers do not take into consideration the tremendous level of additional economic activity generated as a result of the numerous indirect jobs and new businesses created from the IT primary sector growth. An economic impact analysis that was conducted relative to projects supported by the Minot MAGIC Fund from 1996 to 1999 estimated that for every dollar paid in wages for the new jobs assisted by the MAGIC Fund, another 70 cents is injected into the local economy. The point I am trying to make is that true primary sector development can have a tremendous financial impact upon our local, regional and state economies. And business development incentives are a key component necessary for promoting that primary sector development.

Virtually none of the businesses I've mentioned here today or the numerous other projects we have seen established in our region over the past decade would have happened without the availability of our local and state financial incentives. There exists an excellent opportunity for our state to capitalize on the national and international growth of IT companies. We have the potential to support a greater level of growth in this sector of our state's economy, and it is important that we do so because our state's future may depend upon our success in developing more IT based businesses across North Dakota. The sales and use tax exemption on computer and telecommunications equipment for primary sector businesses can be a tremendous boost to support that effort. I can't help but believe that the financial returns to our communities and the state will far exceed any lost sales tax collections resulting from the exemption. Thank you for your time.

Testimony Supporting SB2352
Jeff Swank
Vice President, TMI Systems Design Corp.
President, ITCND
President, SWITC
March 13, 2001

Industry, Business and Labor Committee
Representative Rick Berg, Chair

Mister Chairman, members of the committee, thank you for allowing me to speak in support of SB2352.

I am Jeff Swank, Vice President of TMI Systems Design Corp, President of the Information Technology Council of North Dakota, and President of the Southwest Information Technology Council. I ask you to support this bill. Information Technology is a key to North Dakota's continued growth.

According to Job Service North Dakota, in 1999 IT related employment grew at a rate of 3 percent compared to a national growth of 1 percent. We need to continue this growth.

The manufacturers and recyclers have used this exemption in past. Gaylon Baker, Director of Development for Start Development Corporation states "This exemption has been a major tool in the recruitment of new business to North Dakota." We need to extend this tool to primary sector business for computer and telecommunication equipment.

One of the four clusters of GNDA's New Economy Initiative is IT; please give our state another tool to use to improve our future. Pass SB2352. Thank you.

Testimony in Support of SB #2352**Before the North Dakota House Appropriations Committee****By****Paul Lucy, President
Economic Development Association of North Dakota****March 26, 2001**

Chairman Timm and committee members. Good morning and thank you for providing me this opportunity to speak in support of SB #2352. My name is Paul Lucy and I am the President of the Economic Development Association of North Dakota and also the Interim President of the Minot Area Development Corporation.

Since 1989 I have worked as an economic development professional in North Dakota assisting in the start-up of new businesses, the expansion of existing local businesses and the recruitment of new companies to North Dakota. A great deal of our business development success over the past ten years must be attributed to the benefits being offered to businesses through local and state financial incentives. The sales and use tax exemption for manufacturing machinery and equipment has been one of those incentives. However, limiting the exemption to traditional manufacturing and food processing businesses does not support the growth of one of our state's primary industry targets -- Information Technology (IT) based companies. For these IT based businesses, computer and telecommunications equipment is their manufacturing equipment. They use it to manufacture and process the information necessary for them to offer their products and services to their customers.

The Economic Development Association of North Dakota strongly supports expanding the sales and use tax exemption to include primary sector business computer

and telecommunications equipment. Company's eligible for this exemption would only include those primary sector companies that would create new jobs as a result of the new equipment purchases. The expansion of this exemption has the potential to provide significant financial returns back to the State of North Dakota that would be far and above what the state would forfeit in providing the exemption.

What is some of that potential impact? I am going to use numbers from a few Minot area businesses. WebSmart Interactive, Inc. is a new start-up IT company in Minot that expended \$400,000+ on computer and telecommunications equipment in 2000. Their total sales and use tax payment to the State of North Dakota totaled \$37,000. Within two years WebSmart projects to be paying over \$3,000,000 annually in employee wages and salaries.

One of Minot's largest primary sector employers, ING/ReliaStar, estimates it invested over \$4,000,000 on computer and telecommunications equipment in their Minot facility. New projects of this magnitude do not happen frequently in our state. But when they do they have a huge economic impact upon our local and state economy. ING/ReliaStar will be paying approximately \$13,000,000+ annually in wages and salaries in its Minot facility. That is direct wages only. It does not include the numerous other direct expenditures for products and services they purchase in North Dakota, nor the expenditures for their \$8,000,000 Minot facility, nor any of the indirect economic stimulation they provide to our State's economy.

A number of our state's more rural communities have come to rely upon IT based businesses to help sustain their local economies. For instance Medical Arts Press, a Minneapolis based company, spent approximately \$240,000 On equipment in its Ray, ND facility. That company paid out over \$1,200,000 in wages to employees in its Ray location in 2000 and is projecting to be over \$1,700,000 in wages when operating at full capacity. Contact Centers Unlimited, a company that started up last year with an operations center in Grenora, North Dakota will invest approximately \$130,000 in computer equipment and projects to have an annual payroll of \$750,000 to \$1,000,000

when operating at full capacity. Businesses like this have a tremendous impact upon those rural communities that have been relying, almost solely, upon their local farm economy for survival. An expansion of the sales and use tax exemption can help stimulate more of this much-needed new business activity in every other community across North Dakota.

All of these numbers do not take into consideration the tremendous level of additional economic activity generated as a result of the numerous indirect jobs and new businesses created from the IT primary sector growth. An economic impact analysis that was conducted relative to projects supported by the Minot MAGIC Fund from 1996 to 1999 estimated that for every dollar paid in wages for the new jobs assisted by the MAGIC Fund, another 70 cents is injected into the local economy. The point I am trying to make is that true primary sector development can have a tremendous financial impact upon our local, regional and state economies. And business development incentives are a key component necessary for promoting that primary sector development.

A recently completed national survey conducted by the POLICOM Corporation, relative to public based business finance incentives, indicated a number of reasons why incentives are offered to new and expanding businesses. Some communities indicated they provided incentives for one or more of the following reasons:

- 1) Reduce the initial setup costs for a company in a community.
- 2) Reduce the long-term operating costs for a company.
- 3) Project a "business friendly" image to potential companies.
- 4) Encourage economic or real estate development in blighted areas.
- 5) Overcome geographic disincentives for an area.
- 6) Overcome self-inflicted disincentives for an area.

North Dakota and a majority of its communities must provide financial incentives for all of these reasons. A sales and use tax exemption on business computer and telecommunications equipment will help in that effort.

Virtually none of the businesses I've mentioned here today, nor the numerous other projects we have seen established over the past decade would have happened without the availability of our local and state financial incentives. North Dakota has the potential to support a greater level of growth in the IT industry sector of our state's economy. It is essential that we do so because our state's future may depend upon our success in developing more IT based businesses across North Dakota. The sales and use tax exemption on computer and telecommunications equipment for primary sector businesses can be a tremendous boost to support that effort (particularly in the rural areas). Recently released U.S. Census figures point out the plight of our rural communities and counties. An expansion of the sales and use tax exemption on business computer and telecommunications equipment could be the single most important economic development program the State of North Dakota could offer to help turn around the negative population trends taking place in our state. There are virtually no barriers for IT based businesses to locate in rural North Dakota. Every effort should be made to encourage companies to consider these locations.

If an IT based primary sector company locates in South Dakota, or Iowa, or Kansas instead of North Dakota how much sales tax revenue and other tax revenues and economic benefits does the State of North Dakota receive from that company? A big fat ZERO! But if this company locates in North Dakota and they receive a tax exemption on their equipment, we've lost nothing since we had nothing before they begin operating here. But what we gain is huge when considering the injection of new capital into our local and state economies from these new companies that will operate here. Sales tax collections that the state will realize from purchases made by the new company's employees from the wages they receive from that company will far exceed any exemption the state will be providing them on the purchase of their computer and telecommunications equipment.

Please give Senate Bill 2352 your full support so we can truly put forth our best effort in "Growing North Dakota". Thank you for your time.



Greater North Dakota Association

01000101
SB 2352

STATEMENT BY DALEO O. ANDERSON, PRESIDENT, GREATER NORTH DAKOTA ASSOCIATION, REGARDING ENGROSSED SB 2352, NORTH DAKOTA HOUSE APPROPRIATIONS COMMITTEE; MARCH 26, 2001

Chairman Timm and members of the House Appropriations Committee. I am Dale O. Anderson, President, Greater North Dakota Association. Thank you for this opportunity to provide testimony in support of Engrossed SB 2352.

The Greater North Dakota Association is the voice for business and principal advocate for positive change for North Dakota. GND A was organized in 1925 as a statewide, general business organization. The organization's membership of 1,000 is an economic and geographic cross section of North Dakota's private sector, including statewide associations and local chambers of commerce, development organizations and convention and visitors entities. GND A is governed by a 25 member Board of Directors elected by GND A's membership. The Board of Directors establishes the organization's policy.

GND A is involved in a new initiative referred to as "The New Economy Initiative." The thrust of this initiative is that the "New Economy" is not composed of new industries, rather it is existing industries functioning in fundamentally different ways. The key is technology.

One important aspect of the New Economy is the breakdown of borders and physical distances as relevant in company location strategies. This means that North Dakota no longer simply must compete with its neighbors, but must consider each state in the U.S. - if not global peers - as its true competitors.

The North Dakota New Economy Initiative process is built around "clustering." Clustering is a collaborative, open process oriented to action and results. The Committee has selected six cluster working groups to develop North Dakota's New Economy Action Plan. One of those groups is "Information Technology Cluster." The group is developing a plan to maximize the impact of Information Technology on North Dakota's economy.

Growing pains are a fact of life in the New Economy. At some point, every entrepreneur needs flexible financial support and incentives.

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According to research by Standard and Poor's, DRI, the research firm working with the New Economy Initiative Committee, North Dakota has:

1. The lowest level of technology firms in the nation;
2. An overall business vitality that lags the rest of the nation; and
3. An economy that is among the least diverse in the nation.

Engrossed SB 2352

This bill provides a sales and use tax exemption for purchases of computer and telecommunications equipment of a primary sector business. GNDA supports this bill for the following features:

1. Fills a priority incentive need for North Dakota entrepreneurs to prosper in the new economy, including rural and urban;
2. Focuses on primary sector businesses other than manufacturing and recycling, which through the employment of knowledge or labor, adds value to a product, process or service which results in the creation of new wealth;
3. Applies to telecommunication equipment and computer equipment, printers and software that are an integral part of the primary sector business;
4. Purchase of replacement equipment does not qualify; and
5. The Department of Economic Development and Finance determines eligibility.

Fiscal Note

The fiscal note reflects a reduction in revenue rather than a commitment of hard dollars for general fund program expense. We believe the employment created by this incentive will generate individual sales, income and property tax from the new employees to offset the loss in revenue resulting from the passage of Engrossed SB 2352.

Chairman Timm and members of the House Appropriations Committee, GNDA, the voice of business and principal advocate for positive change for North Dakota, recommends a do pass for Engrossed SB 2352. I welcome your questions.