

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2178

2005 SENATE FINANCE AND TAXATION

SB 2178


2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2178

Senate Finance and Taxation Committee

Conference Committee

Hearing Date January 19, 2005

Tape Number	Side A	Side B	Meter #
#1	X		.7 - END
		X	0 - 46.4
Committee Clerk Signature 			

Minutes:

Chairman Urlacher opened the hearing on SB 2177, a bill relating to a sales and use tax exemption for dairy farm machinery, equipment, and structural materials; and to provide an effective date. and SB 2178, a bill relating to an individual and corporate income tax credit for certain investments in a dairy farm milking operation; and to provide an effective date. Because the bills are so similar, we will hear testimony on both bills. All members were present.

**Senator Wardner** introduced the bill. A year ago the State Dairy Task Force asked for the help of the Dickinson Chamber of Commerce with fund raising. He learned of the positive economic impact of the dairy industry on communities. The dairy industry's infrastructure is becoming depleted and this bill will help restore it. He is sponsoring these bills because there is always a need for milk, dairies are moving out of western and eastern states due to the growth of their metro areas and North Dakota offers them a place to conduct their business in peace and one dairy cow creates \$5000 economic activity.

SB 2177 is a sales and tax use exemption for dairy purposes only. If the equipment would have another use, it would not qualify and the fiscal note indicates it. SB 2178 is very specific and to get the tax credit, a taxpayer has to let the tax commissioner know. The bills will help rural North Dakota. (meter 4.8)

**Gary Anderson** from the tax department, explained the fiscal note. The tax department based the fiscal note on NDSU's figure of the capital impact of a milk cow to be from \$150 - \$500 per cow. They used \$150 and multiplied it by 37,000 cows. The fiscal note assumes minor expansion and primarily replacement. (meter 6.7)

**Senator Urlacher** asked if he foresees any complications on administration.

**Mr. Anderson** said most of these types of items are installed by the seller. In that case, there is a refund mechanism to the farmer. He would recommend an amendment to comply with the streamlined sales tax after December 2005.

**Senator Cook** asked if the bill includes structural materials, would that include building materials.

**Mr. Anderson** said according to their interpretation, yes. (meter 9.4)

**Senator Cook** asked if there is a lot of preferential tax treatment in the sales tax law. Is sales tax exemption common.

**Mr. Anderson** said there is another exemption for agricultural processing facilities that is very similar to SB 2177.

**Senator Cook** asked for a clarification, would Bobcat qualify for that exemption.

**Mr. Anderson** said no, they are not a processor. He said he should have said agricultural commodity processing facilities are exempt. He said another exemption is manufacturing, not the structure, just equipment.

**Senator Every** asked if Elite Swine would qualify. (meter 11.1)

**Mr. Anderson** said it must be a processing facility, since Elite Swine is a feeding operation, it would not qualify.

**Senator Tollefson** said the original impetus for this bill is from the existing dairy industry. The fiscal note is based on the existing industry. New industry would multiply the fiscal impact.

**Mr. Anderson** said yes, they looked at the existing environment. They would need to look to the industry experts to see where the industry is heading.

**Senator Tollefson** asked how milk is processed.

**Mr. Anderson** said this bill is aimed at dairy production facilities. The next level would be processing.

**Senator Cook** said during the interim, the tax department provided some numbers regarding preferential tax treatment. He would like to see those numbers. (meter 13.7)

**Senator Bercier** asked if a dairy farm also had an interest in a cheese plant would they be exempt.

**Joe Becker** from the tax department said, regarding SB 2178, the owner of the dairy farm milking operation would qualify. Page 2, line 10 says the taxpayer must expend the dollars so the credit goes to the taxpayer that owns the facility.

**Representative Onstad** appeared in support of the bill. (meter 16.7) (written testimony)

**Senator Every** asked what Cass Clay pays a dairy farmer for a gallon of milk. (meter 24.1)

**Representative Onstad** said the dairy he works with has several contracts, they average \$15/cwt. Price is based on protein and fat.

**Senator Bercier** asked if there used to be 100,000 dairy cows in North Dakota.

**Representative Onstad** said yes, about 25 years ago. In the late 1970's, the price of durum went up and many acres of pasture were converted to crop land. There was a terrible exodus of livestock from the state. Towns with a strong dairy industry are progressive, New Salem for example.

**Senator Wardner** asked if any dairies in Representative Onstad's area decided to stay in business because North West Dairy was there. (meter 27.6)

**Representative Onstad** said he can think of one. They are not in competition with their neighbors.

**Senator Tollefson** asked if this is a bill to sustain or grow the dairy industry.

**Representative Onstad** said absolutely, it is expensive to expand.

**Senator Tollefson** asked about the market in more populated states to the east or west.

**Representative Onstad** said he wasn't sure. Their buyer, Cass Clay, does not have enough milk to meet their market. There has been a big campaign in the dairy industry to introduce milk in fast food restaurants which has increased consumption. Federal regulations and EPA standards are forcing dairy farmers from more populated areas to move. A Virginia dairy recently moved to Montana. The midwest could have 30% of the nation's dairies due to urban growth in other parts of the country. North Dakota and South Dakota also have less disease and thus less problems with raising heifers.

**Senator Tollefson** asked if the number of dairies is decreasing. Is dairy farming viable, apparently not. (meter 32.4)

**Representative Onstad** said it is not a price issue, it is a life style issue.

**Harlan Fuglesten**, North Dakota Association of Rural Electric Cooperatives testified in favor of the bill.. (written testimony) (meter 33.6)

**Senator Cook** said exemptions to sales tax are a growing trend. How should we look at requests, why not add beef feedlots. (meter 37.0)

**Mr. Fuglesten** said this is a good question and a hard issue. The dairy industry is in trouble and has great economic impact on their communities. If we sustain and grow the industry, it will pay us dividends and can help promote the rural economy.

**Senator Cook** asked if North Dakota could potentially recover the dollars lost to this tax exemption with other tax dollars.

**Mr. Fuglesten** said the loss of dairy farms has caused a \$10 million loss to REC's. Property tax is paid by the REC's, the electricity they sell comes primarily from the lignite industry, personal income tax comes from employees of the dairy industry.

**Senator Cook** asked if dairies are replaced by other agricultural enterprises.

**Senator Tollefson** asked if this will build the industry or make producers bigger. The market is t there for the product.

**Mr. Fuglesten** said the North Dakota Dairy Coalition has other initiatives, too.

**Senator Bercier** asked if the dairy industry improves, will electric rates drop?

**Mr. Fuglesten** said yes, it would impact rate stability. (meter 45.2)

**Gary Hoffman**, North Dakota Dairy Coalition, testified in favor of the bill.. (written testimony)  
(meter 46.6)

**Senator Cook** asked what other incentives are available now.

**Mr. Hoffman** said there are some incentives with the Bank of North Dakota like AgPace. They are hoping some communities will apply to APUC.

**Senator Cook** asked if this bill is passed will be see the number of dairy farms rise.

**Mr. Hoffman** said it is the intent of the North Dakota Dairy Coalition to get the numbers back up to 100,000 dairy farms. It is doable with dairies leaving the west and east coasts. North Dakota has everything needed for a healthy dairy industry.

**Senator Urlacher** asked if the out of state dairies are quite large.

**Mr. Hoffman** said he knows of two Minnesota producers considering a move to North Dakota, one with 150 cows, one with 100 cows, a Vermont farmer with 400 cows and a Washington state farmer with 1000 cows so the size of the dairies varies.

**Senator Every** said asked how we explain this bill to taxpayers who are paying \$5/gallon for milk. (meter 3.8)

**Mr. Hoffman** said milk pricing is very complicated due to the federal milk pricing regulations. There a lots of steps from farm to bottle. If we can't keep our processing plants going, the price will go even higher.

**Senator Urlacher** asked if there is a shortage if milk in the region.

**Mr. Hoffman** said our processing is underutilized in North Dakota but plants are full in other parts of the US.

**Senator Bercier** asked if we approach 100,000 dairy farms will milk prices drop.



**Mr. Hoffman** said it is possible but not probable. We would be redistributing current production. If plants are running full, impact is likely. (meter 7.7)

**Jerry Messer**, a dairy farmer from Richardton, testified in favor of the bill.. He runs 220 dairy cows, 800 beef cows and farms 12,000 acres. This bill won't help his operation but her supports it. Nationwide, dairy farmers are being squeezed out and they are picking and choosing where to go. They need an incentive to come to North Dakota. South Dakota is doing a good job of recruiting on the I-94 corridor. They have a new plant that needs 60,000 cows. They have stopped the decline of the dairy industry in South Dakota.

Demand for milk is the best in 20 years. Research has been done that shows 3 servings per day of milk help with weight loss. Happy Meals at McDonalds are now being sold with milk and the consumption of milk at McDonalds has soared. Our cold winters are tough to sell but it is easier to get a cow to milk in the cold than in the heat.

**Senator Tollefson** asked if some dairies are milking three times per day.

**Mr. Messer** said yes, some farmers have been doing it for 20 years. On his farm, they have made some adjustments for lifestyle and milk at 11AM and 11 PM so they can attend their children's activities. Modern day dairy farms take life style issues into consideration.

**Senator Bercier** asked if corporate entities are involved in dairy farming in other states.

**Mr. Messer** said there is a false perception that large dairy herds are corporate farms. Most are family farms, they might include more than one family.

**Senator Bercier** asked what is the largest family dairy farm in the US.

**Mr. Messer** said in Indiana there is a family farm with 30,000 cows and they want to grow to 90,000. Mr. Messer had 17 kids on his family farm at one time, they all got on the school bus. Some are in college now.

**Senator Every** asked how dairy farmers are going to get more of the \$4 difference from farmer to retail price.

**Mr. Messer** said prices are set by the milk stabilization board and dairymen need the protection.

**Senator Urlacher** commented that prices have been lucrative this year.

**Mr. Messer** said 2 years ago prices are \$9/cwt. It takes a few years to recover. The industry is trying to help itself by increasing demand. McDonalds needed a health story and milk provided it.

**Senator Every** asked if Mr. Messer was in favor of the milk stabilization board,

**Mr. Messer** said it doesn't really help him, much of his production goes to cheese, but it does prevent against out of area producers from flooding the market. (meter 20.4)

**Ole Johnson**, (pictured on page 7 of the brochure passed out by Mr. Hoffman) testified in favor of the bill. He moved to North Dakota from Washington. Other states recruited him and there were no incentives from North Dakota but he found an empty facility. He brought 17 people with him. He is utilizing the AgPace program. He is currently undergoing a \$300,000 expansion to go to 400 cows. His operation has had an impact on Center, where he buys all his feed, spending \$500,000 locally for feed last year. Getting service on broken equipment is the biggest challenge and that could improve if there were more dairies.

**Senator Cook** asked if he has realized a change in profit in North Dakota.

**Mr. Johnson** said yes, tremendously. Its hard to leave the huge investment in facilities and hard to move the kids. It took 13 semi trucks to haul the cows. It has been very profitable here, there is a huge feed source that is not being used. Of course, this was a profitable year in the dairy business. In Washington is was cheaper to add cows. The weather here demands more facilities but its easier to milk in the cold. Their electric bills are about \$20,000 annually and were comparable in Washington where they have hydroelectric power . A beef farmer doesn't have the equipment and utility expense of a dairy farmer. His kids love it in North Dakota.

**Nathan Boehm** testified in favor of the bill.. (meter 30.3) He has 100 dairy cows west of Mandan. The bills won't benefit him directly but an improvement to the industry will keep him in business.

**Woody Barth**, North Dakota Farmers Union, testified in favor of the bill.. (written testimony) (meter 31.5)

**John Mittleider**, North Dakota Farm Bureau, testified in favor of the bill.. (written testimony) (meter 33.8)

**Senator Every** asked if the corporate farming law was abolished, would it help the family farm. Mr. Mittleider said that would depend on the structure put in place. A couple of large families could perhaps form a corporation.

**Senator Urlacher** asked about the multiplier for dairy cows.

**Mr. Miettleder** said it is 2.69.

**Bobbi Talmadge**, North Dakota Agriculture Department, testified in favor of the bill.. (written testimony) (meter 38.7)

**Joe Becker**, North Dakota Tax Department, provided information on SB 2178. (meter 43.1) On page 2 of the bill, in line 1 the language limits this to partnerships and the committee might want to consider adding language to include pass through entities, LLC or S corps. Lines 15 -17, the language is unclear as to when the credit could be taken, the year of purchase, the year it was paid for or the year a final payment was made in the case of an installment plan, He would recommend an amendment making it the year of purchase.

**Senator Wardner** will work with Mr. Becker on the language.

Chairman Urlacher closed the hearing on SB 2177 and SB 2178. (meter 46.4)

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2178

Senate Finance and Taxation Committee

Conference Committee

Hearing Date January 25, 2005

Tape Number	Side A	Side B	Meter #
# 2		X	14.0 - 25.9
Committee Clerk Signature <i>Sharon Bengtson</i>			

Minutes: Afternoon Committee work.

JOE BECKER: Tax Dept. Came to explain the amendment. Page 1, line 9 after the word operation, we are suggesting that you would insert the language, owned by the taxpayer. My understanding from the public hearing is that \_\_\_ operation, the owner of the dairy operation is the one who is to get the credit, that would just help clarify that. Page 2, lines 1 through 6 at the hearing, I had suggested that perhaps you include all of the past due type entities and we had some suggested language there that would include partnerships, s-corporations as well as \_\_\_ liability companies, which are the main past due entities. Which means that those types of entities are the ones operating the dairy farm then if they make the necessary investment, the credit will be earned by the entity but \_\_\_ passes on through to the owners, so that the credit has some value to them. On page 2, lines 10 through 14, our amendment would strike that language, however all we're doing is moving it down in the definitional section. Haven't taken out, just moved it in the bill. On page 2, lines 15 through 17, we had some problems with the language "full

consideration and paid” and what that meant, the amendment will change that to read, that the first year in which the credit can be taken, will be the year that the tax payer makes the necessary purchase. Back on page 1 where we are changing the language to owned by the tax payer, a lot of the credit, deductions bills that come through often times are open ended meaning that it doesn’t necessarily mean that the operation has to be targeted here in ND. I might suggest that you look at the amendments, the first amendments that says page 1, line 9 would state owned by the taxpayer, I must suggest that right in front of owned, we might include the language in this state that is.

**SEN. URLACHER:** That’s to keep the foreign investors out of the mix?

**MR. BECKER:** that’s up to your discretion. If you leave it wide open, then there’s a possibility that its nonresident.

**SEN. BERCIER:** having someone come in here and establish himself, as he’s moving his operation into the State, is there kind of a gap in here that might be created by using that language.

**MR. BECKER:** He would have to purchase a property that’s going to be used here, depends on the operation that he’s going to use it in would be located here, so I don’t see a problem with someone moving their operation in.

**SEN. EVERY:** made a motion to **ADOPT THE AMENDMENTS**, seconded by Sen. Bercier.

**VOICE VOTE:** 6-0-0

**SEN. COOK:** this credit can be carried for up to 15 years. Correct.

Page 3

Senate Finance and Taxation Committee

Bill/Resolution Number SB 2178

Hearing Date January 25, 2005

**SEN. COOK:** I would like a list of all the credits, the year that we implemented that credit, the total amount that that credit could be for and how many years persons have to carry that over.

Mr. Becker will get a list to the committee.

**SEN. WARDNER:** Keep in mind re: the fiscal note, there is a very limiting factor, you'll notice that the fiscal note isn't real large, but the limiting factor is that you can only claim 50% of your tax liability. So if you were able to deduct everything and not have to pay any taxes, you wouldn't pay to take it. We're assuming that some people are gonna be able to take it. So even though it does spread out over 15 years its limited because you can only go up to 50% of your State tax liability.

**SEN. COOK:** requested holding off on this bill until we get the information from the Tax Dept.

End of Discussion.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2178

Senate Finance and Taxation Committee

Conference Committee

Hearing Date January 26, 2005

Tape Number	Side A	Side B	Meter #
#2	X		51.7 - 61.5
		X	0.0 - 9.6
Committee Clerk Signature <i>Sharon Sawyer</i>			

Minutes: Afternoon Committee Work

**SEN. WARDNER:** Focus on fiscal note. The amount of the credit to which a tax payers entitled 30% of the amount invested by the taxpayer in the dairy farm milking operation during a taxable year and the most that aggregate that they could do in one year for the tax credit is \$50,000. Now I agree everybody saying oh \$50,000, that's a lot of tax credit but we read on and it talks about that you can take this credit over 15 yrs. That sounds like its going to be a fiscal note and then comes the hammer and the hammer says, that you may not claim more than 50% in any one year of the tax liability of that dairy farmer and if you read where it talks about there are approximately 380 dairy farms in the State, tax payers claiming agriculture as their income source paying average \$745.00. That's there tax liability. Cook's change it to a \$1,000 for a round number, lets say the average is \$1000, the most they could take in any one year, would be \$500 and you take  $5 \times 15 = \$7,500$ . You can't even get to the \$50,000 and its not even possible unless its a big time operation and there is a lot of money going through. I'm comfortable with



this, if the fiscal note is \$283,000 and I don't know if it will all be used, but the limiting factor is that you can only take half of your annual State income tax liability and that keeps it down.

**SEN. COOK:** You referred to a partnership and the amendments of course as it shows pass through entity, s-corporation, limited liability company, those aren't individuals, shed some light on this.

**SEN. WARDNER:** its an income tax issue, with the dairy bill SB 2178 a tax credit and we changed it so that , it was a pass through entity and consisted of partnership, s-corp, limited liability company are treated like a partnership, the question is if there were 3 partners and they all through in \$50,000, would they all be able to get the tax credit or does it just go to the parent entity?

**DONNITA WALD,** Tax Dept. Appeared to explain, its different with personal and entity.

These are entities that do not pay state income tax at the entity level, the income passes through to the individual. We put this language in so that the partners that are getting the income they are also being able to take advantage of any deductions that that partnership or incentives credits.

**SEN. COOK:** tax payers claiming agriculture as their income source paying an average of \$745 the return, there's no income taxes. So that's taxpayers claiming agriculture, that's all 5%, so then their assuming the dairy farmers are in this group so that average applies to them, I think we should point that out.

**SEN. WARDNER:** made a **MOTION FOR DO PASS AS AMENDED AND REFER TO APPROPRIATIONS**, seconded by Sen. Bercier.

**SEN. COOK;** commented that we have a property tax problem, we have a lot of tax issues that we have got to sooner or later deal with and I believe that part of that solution is that we have to move away from this \_\_\_\_\_ carving out of tax base. Make more equitable across the board.

**SEN. WARDNER:** Not all of your tax credits and exemptions create the economic impact. If these are used, I guarantee you there is going to be economic activity around.

**SEN. URLACHER:** For the same reason the turn around of dollars mentioned in the previous bill. The turn around of dollars is going to be a volume of investment and makes it tough to split my thoughts and allowing credits and yet, recognizing the return.

**SEN. BERCIER:** feels its a good investment for the State.

**ROLL CALL VOTE:** 5-1-0 Sen. Cook voted no. Sen. Wardner will carry the bill.

**FISCAL NOTE**  
**Requested by Legislative Council**  
02/01/2005

Amendment to: SB 2178

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$283,000)			
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Eng. SB 2178 creates an income tax credit for qualified investments in a dairy farm.

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

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

The tax credit provisions of Eng. SB 2178 are limited to 30% of the amount invested by the taxpayer in machinery, equipment and structural materials used directly in the operation of the dairy, including replacement purchases. The credit is further limited to 50% of the tax liability in any given year, and can be carried forward for up to 15 years.

There are approx. 380 dairy farms in the state. Taxpayers claiming "agriculture" as their income source pay an average of \$745 per return in individual income taxes. The major limiting factor of SB 2178 appears to be the "50% of tax liability". The fiscal impact assumes a reduction in tax liability for each dairy farmer totaling one-half of the agriculture average tax payment, or \$373 each. This equates to a reduction in state general fund revenues of \$283,000 for the 2005-07 biennium. (NOTE: any large dairy operations that pay significantly more income tax than the average used in this calculation could qualify for a tax credit that exceeds the amount shown here.)

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.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner

Phone Number: 328-3402

Date Prepared: 02/03/2005

**FISCAL NOTE**  
 Requested by Legislative Council  
 01/12/2005

Bill/Resolution No.: SB 2178

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$283,000)			
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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 2178 creates an income tax credit for qualified investments in a dairy farm.

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

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

The tax credit provisions of SB 2178 are limited to 30% of the amount invested by the taxpayer in machinery, equipment and structural materials used directly in the operation of the dairy, including replacement purchases. The credit is further limited to 50% of the tax liability in any given year, and can be carried forward for up to 15 years.

There are approx. 380 dairy farms in the state. Taxpayers claiming "agriculture" as their income source pay an average of \$745 per return in individual income taxes. The major limiting factor of SB 2178 appears to be the "50% of tax liability". The fiscal impact assumes a reduction in tax liability for each dairy farmer totaling one-half of the agriculture average tax payment, or \$373 each. This equates to a reduction in state general fund revenues of \$283,000 for the 2005-07 biennium. (NOTE: any large dairy operations that pay significantly more income tax than the average used in this calculation could qualify for a tax credit that exceeds the amount shown here.)

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.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/18/2005

January 19, 2005

PROPOSED AMENDMENTS TO SENATE BILL NO. 2178

Page 1, line 9, after "operation" insert "owned by the taxpayer"

Page 2, replace lines 1 through 6 with

- "4. If the taxpayer is a passthrough entity consisting of a partnership, S corporation, or a limited liability company treated like a partnership for purposes of this chapter, the total amount of the credit must be determined at the passthrough entity level. The total amount of the credit must be allowed to the passthrough entity's owners in proportion to their respective interests in the passthrough entity. For this purpose, subsections 1, 2 and 3 of this section do not apply to the passthrough entity but do apply to any passthrough entity owner that is not a passthrough entity."

Page 2, remove lines 10 through 14

Page 2, replace lines 15 through 17 with

- "7. The first taxable year in which the credit is allowed is the taxable year in which the taxpayer purchased the eligible machinery, equipment, and structural materials."

Page 2, after line 18, insert:

- "a. "Qualified investment" or "investment" means the purchase of machinery, equipment, and structural materials used directly and exclusively in a dairy farm milking operation. It includes the purchase of replacement machinery, equipment, and construction materials used for the same purpose."

Page 2, line 19, replace "a." with "b."

Page 2, line 26, replace "b." with "c."

Page 3, line 5, replace "c." with "d."

Page 3, line 10, replace "d." with "e."

Renumber accordingly

Date: 1-29-05  
 Roll Call Vote #: 1

**2005 SENATE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. SB 217B**

Senate Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken ~~Adopt~~ Adopt Amendments w/add on

Motion Made By Every Seconded By Bercier

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier	✓	
Sen. Wardner	✓		Sen. Every	✓	
Sen. Cook	✓				
Sen. Tollefson	✓				

*voice vote*

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*"in this state that is owned by the taxpayer"*

Date: 1-26-05  
Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2178

Senate Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DP as Amended & refer to Approp

Motion Made By Wardner Seconded By Bercier

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier	✓	
Sen. Wardner	✓		Sen. Every	✓	
Sen. Cook		✓			
Sen. Tollefson	✓				

Total (Yes) 5 No 1

Absent 0

Floor Assignment Wardner

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



**REPORT OF STANDING COMMITTEE**

**SB 2178: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS and BE REREFERRED to the Appropriations Committee (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2178 was placed on the Sixth order on the calendar.**

Page 1, line 9, after "operation" insert "in this state that is owned by the taxpayer"

Page 2, replace lines 1 through 6 with:

- "4. If the taxpayer is a passthrough entity consisting of a partnership, S corporation, or a limited liability company treated like a partnership for purposes of this chapter, the total amount of the credit must be determined at the passthrough entity level. The total amount of the credit must be allowed to the passthrough entity's owners in proportion to their respective interests in the passthrough entity. For this purpose, subsections 1, 2, and 3 do not apply to the passthrough entity but do apply to any passthrough entity owner that is not a passthrough entity."

Page 2, replace lines 10 through 17 with:

- "6. The first taxable year in which the credit is allowed is the taxable year in which the taxpayer purchased the eligible machinery, equipment, and structural materials."

Page 2, line 18, replace "8." with "7."

Page 3, after line 9, insert:

- "d. "Qualified investment" or "investment" means the purchase of machinery, equipment, and structural materials used directly and exclusively in a dairy farm milking operation. It includes the purchase of replacement machinery, equipment, and construction materials used for the same purpose."

Page 3, line 10, replace "d." with "e."

Renumber accordingly

2005 SENATE APPROPRIATIONS

SB 2178

handouts  
in SB 2177


2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2177 & 2178

Senate Appropriations Committee

Conference Committee

Hearing Date February 4, 2005

Tape Number	Side A	Side B	Meter #
1	a	b	
Committee Clerk Signature 			

Minutes:

**Chairman Holmberg** opened the hearing on SB 2177 and 2178.

**Senator Richard Wardner, Dickinson**, testified describing both SB 2177 and SB 2178. He indicated he got involved the bills through his involvement in Stark County. In addition, both bills are exclusive to the dairy industry. SB 2177 deals with the failed tax exemption as it can be used exclusively for dairy equipment. He discussed the fiscal note attached to this bill and indicated the bill will solidify the existing operations and will help grow the industry. SB 2178 is talking about an income tax credit which has a limiting factor, it depends on the individuals tax liability before they can get the tax credit.

**Gary Hoffman, Director ND Dairy Coalition** distributed written testimony in **support of SB 2177 and SB 2178** and a leaflet ND A Dairy Friendly State. He discussed the purpose of the Dairy Coalition, why it supports the senate bills, what has transpired in the dairy industry in the past and where it hopes to go in the future by promoting Dairy Farming.

Page 2

Senate Appropriations Committee

Bill/Resolution Number 2177 & 2178

Hearing Date February 4, 2005

Questions raised involved the clarification of the money lost in the industry, the reduction in dairy cattle lost in the state, what the polls show about the industry, the cost of investment for a 1000 head dairy farm, the factors of what is happening to the abandoned dairy lands and monetary impact, the financial impacts of this legislation, and the potential of accessing local funding sources.

**Nathan Boehm, concerned dairy farmer, Mandan**, provided written testimony in **support of SB 2177 and SB 2178**. He indicated the acceptance of SB 2177 and SB 2178 would give the dairy industry another means to expand the dairy industry from inside and bringing in dairy farmers from outside North Dakota.

**Wayne Carlson, Livestock Director, ND Department of Agriculture** testified in **support of both SB 2177 and SB 2178** which he believes will aid in growing the industry.

**Chairman Holmberg** closed the hearing on SB 2177 and SB 2178.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2178

Senate Appropriations Committee

Conference Committee

Hearing Date February 10, 2005

Tape Number	Side A	Side B	Meter #
2		a	
Committee Clerk Signature <i>Janet Parks</i>			

Minutes:

**Chairman Holmberg** opened the discussion on SB 2178 which reduces revenues \$283,000.

**Senator Mathern** moved for a do pass on SB 2178. Senator Tallackson seconded the motion.

Discussion followed.

**Senator Bowman** indicated this may be a good incentive to look for investors.

**Senator Thane** indicated if this is going to reduce revenues by \$283,000 and we are cutting bills to increase spending, I am not enthusiastic about this bill.

No further discussion.

A **roll call vote** was taken for a **do pass** on SB 2178, with 6 yes and 9 no 0 absent. The motion **failed**.

**Senator Grindberg** moved for a do not pass. Senator Fischer seconded.

Page 2

Senate Appropriations Committee

Bill/Resolution Number 2178

Hearing Date February 10, 2005

**Senator Grindberg** indicated we have passed legislation for value added agriculture. This to me is going into specific farm operation. I am trying to be clear in my mind about value added as we have the value added piece. We need to get more people to milk cows.

No further discussion.

A **roll call vote** was taken for **Do Not Pass** on SB 2178. The motion **carried** on SB 2178 for a

Do Not Pass.

Chairman Holmberg closed the hearing.

Date 2/10/05  
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2178

Senate SENATE APPROPRIATIONS Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Mathero Seconded By Tallackson

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG		✓	SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN	✓		SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG		✓	SENATOR MATHERN	✓	
SENATOR ANDRIST		✓	SENATOR ROBINSON	✓	
SENATOR CHRISTMANN		✓	SEN. TALLACKSON	✓	
SENATOR FISCHER					
SENATOR KILZER		✓			
SENATOR KRINGSTAD		✓			
SENATOR SCHOBINGER		✓			
SENATOR THANE		✓			

Total (Yes) 6 No 9

Absent 0

Floor Assignment \_\_\_\_\_

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

Date 2/10/05  
Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2178

Senate SENATE APPROPRIATIONS Committee

Check here for Conference Committee

Legislative Council Amendment Number 2178

Action Taken Do Not Pass

Motion Made By Grindberg Seconded By Fischer

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	✓		SENATOR KRAUTER		✓
VICE CHAIRMAN BOWMAN		✓	SENATOR LINDAAS		✓
VICE CHAIRMAN GRINDBERG	✓		SENATOR MATHERN		✓
SENATOR ANDRIST	✓		SENATOR ROBINSON		✓
SENATOR CHRISTMANN	✓		SEN. TALLACKSON		✓
SENATOR FISCHER	✓				
SENATOR KILZER	✓				
SENATOR KRINGSTAD	✓				
SENATOR SCHOBINGER	✓				
SENATOR THANE	✓				

Total (Yes) 9 No 6

Absent 0

Floor Assignment Senator Thane

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



REPORT OF STANDING COMMITTEE (410)  
February 11, 2005 10:11 a.m.

Module No: SR-28-2523  
Carrier: Thane  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

SB 2178, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)  
recommends **DO NOT PASS** (9 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING).  
Engrossed SB 2178 was placed on the Eleventh order on the calendar.

**2005 TESTIMONY**

SB 2178

Testimony in Support of SB 2177 and SB 2178

By

Harlan Fuglesten,

Communications and Government Relations Director  
North Dakota Association of Rural Electric Cooperatives  
Before the Senate Finance and Tax Committee  
January 19, 2004

Mr. Chairman and members of the Committee, my name is Harlan Fuglesten, representing the North Dakota Association of Rural Electric Cooperatives. Our members serve most, if not all of the dairies in the state. Over the last decade or so, we have witnessed a steady and dramatic decline of about 70 percent in the number of dairy producers in North Dakota. Whereas, there were 1,250 dairies a decade ago, there are currently only 383 producers left in the state.

The decline in the dairy industry has had a negative impact on the rural economy, including local electric cooperatives. As a consequence, our Association was very involved in the formation of the North Dakota Dairy Coalition and we support measures, such as SB 2177 and SB 2178, to provide needed incentives to expand our remaining dairy industry in the state. Without such incentives, we risk losing the infrastructure needed to keep current producers in business. The loss of business to the local co-op also puts pressure on rates for the remaining rural electric consumers who must pick up the cost of the rural electric distribution system.

From a utility perspective, dairies are large and efficient users of our product, electricity. Unlike grain drying and irrigation systems that are seasonal, dairy farms maintain a consistent load demand all year long, and dairy producers use, on average, about three times as much energy as an average small grain farm.

An average 100 cow dairy has a monthly power bill of between \$800 and \$1,100 per month, or between \$10,000 and \$13,000 per year. The loss of nearly 900 dairies in the last decade represents a loss of between \$8 and \$10 million per year in electric revenue to local electric cooperatives. This is only one example of the economic impact to our rural areas from the loss of our dairy industry.

For your information, I have attached to my testimony some information compiled from one of our co-ops, KEM Electric Cooperative of Linton. The information covers a nine-year period from 1994 through 2003, and documents the impact the decline of the dairy industry has had in KEM's service area.

On behalf of the rural electric cooperatives of North Dakota, we urge a DO PASS on SB 2177 and SB 2178.

Thank you.

## THE LOSS OF DAIRY FARMS IN KEM ELECTRIC COOPERATIVE

The KEM Electric Cooperative service area covers Emmons, McIntosh, Logan, and most of Kidder counties. The numbers that will be illustrated include the entire service area.

From January 1, 1994 until January 1, 2003, KEM Electric has noticed a loss in dairy operations. We used the records of the North Dakota Dairy Commission for the data used in this study.

### CHANGE IN THE NUMBER OF DAIRY OPERATIONS

	January 1, 1994		January 1, 1999		January 1, 2003	
COUNTY	GRADE A MANUFACTURED		GRADE A MANUFACTURED		GRADE A MANUFACTURED	
Emmons	47	91	42	47	32	21
Kidder	17	30	11	14	6	5
Logan	19	44	11	18	5	8
McIntosh	28	36	14	17	10	7
<b>Totals</b>	<b>111</b>	<b>201</b>	<b>78</b>	<b>96</b>	<b>53</b>	<b>41</b>
	312		174		94	
			Decrease % from 1994		Decrease % from 1999	
			29.7%	52.2%	32.0%	57.3%
			Overall Decrease from 1994		Overall Decrease from 1994	
			44.2%		47.7%	79.6%
					Total Decrease	
					69.8%	

### TOTAL PRODUCERS IN THE STATE

1994 - 1,366                      1999 - 784                      2003 - 467  
 Loss in 9 Years = 899 Producers

### WHAT IS THE IMPACT TO KEM ELECTRIC FROM THE LOSS OF THESE DAIRY OPERATIONS?

Each dairy operation uses about 320% more electricity than an average small grain operation. The impact of 218 fewer dairy operations is like losing 698 farms. Is that an impact to the member of KEM Electric?—YES! IT IS A MAJOR IMPACT. THE REMAINING MEMBERS MUST PICK UP THE COSTS FOR OPERATING AND MAINTAINING A SYSTEM WITH FEWER SERVICES OVER WHICH TO SPREAD THE COSTS.

KEM had and still has 20%-22% of all dairies in the state. The difference is the number of operations have dropped by 899 operations statewide in 9 years.

Testimony in Support of SB 2177 and SB 2178

Chairman Urlacher and Members of the Senate Finance and Tax Committee.

I am Representative Kenton Onstad, District 4 and I was the managing Partner in the Development of NorthWestern Dairy, located at Parshall North Dakota. Currently manage the individual accounts of it's investors.

I am here in support of both SB 2177 and SB 2178. NorthWestern Dairy was a development for several purposes. Economic Development, job creation and create other opportunity either directly or indirectly related to the dairy industry.

The livestock industry will turn dollars quicker , faster and more times than any other enterprise. The Dairy industry is tops in the livestock category. I would like to illustrate what NorthWestern Dairy does on a monthly basis for our area.

NorthWestern is an 800 cow milking facility with 800 free stalls and a double 12 milking facility which can be expanded to 16. Health permits are for 1600 milking cows.

It currently is a     \$2.3 million facility  
                              \$1.4 million of livestock  
                              Total \$3.7 million in total plant


Has 103 investors of which ½ able to take advantage of State Tax Credit

Employs 16 full time employees- \$ 36,000 per month  
Feed Purchases                     \$80,000 per month  
Utilities                               \$5500 per month

Equivalent to 40 farms

Milk Sales \$250,000 per month \$3m annually

Benefits:     The water pays the Water Maintenance salary at Parshall  
                  Two irrigations pivots were installed- more planned  
                  Created a rural water District  
                  Heifer raising in the area  
                  Custom Harvesting  
                  Trucking  
                  Veterinarian



Sells milk to North Dakota processing plant-( more markets than they have milk)

A State of the Art Livestock Facility are excellent Economic Development in certain areas of our state. As you see the impact in our area, I hope you will support SB 2177 and 2178 and recommend a DO PASS

Testimony in support of SB 2177 and 2178

January 19, 2005, 9:00 A.M.

Lewis and Clark room, State Capital

By

Gary Hoffman, executive director

North Dakota Dairy Coalition

Good morning

Mr. Chairman and members of the Committee, my name is Gary Hoffman representing the North Dakota Dairy Coalition. The ND Dairy Coalition is a group of dairy producers, dairy processors, commodity groups, Rural Electric co-ops and other entities who have an interest in North Dakota's dairy industry.

My job is to grow the industry in North Dakota by;

1. working with North Dakota producers to help them expand and reinvest in their facilities so they can bring in sons or daughters who may want to dairy in North Dakota.
2. Recruit dairy producers from within the United States who are considering relocating their dairies to the Midwest.

As producer numbers and cow numbers go down it becomes more difficult for the remaining producers to access the services, commodities, and processors that are needed to run an efficient dairy operation. Several processors have closed their doors in recent years because of not having an adequate milk supply.

Let me give you an example. In 1995 we had 1250 dairies. Today we are at 383 dairies. In 1985 we had over 100,000 dairy cows in North Dakota. Today we have 36,000 dairy cows in the state. This decline of our industry has huge impact on the state of North Dakota. Dairy farming has the highest multiplier effect of any animal enterprise. The output multiplier for dairy is 2.69, so if each cow produces \$2548.00 in milk revenue annually, times the multiplier of 2.69 this equals \$6854.00 revenue per cow. (Based on 20,000 lbs. per cow production, average 2003 ND milk price of \$12.74 cwt, USDA economic impact of dairy) This does not include dairy heifer sales or dairy beef sales. The loss of 64,000 dairy cows in North Dakota has an annual economic impact on our state of \$438,656,000.00. This is all money that was distributed across rural North Dakota. It's time to do something to revitalize what was once a major industry in this State. Also, a rule of thumb is that every 65 to 67 cows requires one FTE. This means we have lost 955 employees that once worked in the dairy industry across North Dakota.

As I look at our neighboring states I see various things they are doing to promote and grow their dairy industries.

For instance, Wisconsin has implemented a \$2 million Value Added Dairy Initiative, the Iowa Dairy Development Group is focusing on dairy enhancement programs, and Kansas has created an investment tax credit, a sales tax exemption and other incentives to help producers in their state. Missouri has low interest loans and loan guarantees for their dairy producers. Minnesota is providing technical assistance and Dairy Business Planning Grants and I'm sure you have all heard about South Dakota's successes in dairy development.

I'm here today on behalf of the North Dakota Dairy Coalition to ask for a do pass on SB 2177 and SB 2178. This legislation is needed desperately by our industry and North Dakota.

Thank you



# North Dakota Farmers Union

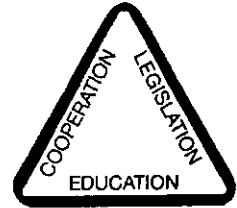
PO Box 2136 • 1415 12th Ave SE • Jamestown ND 58401

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E-MAIL: [ndfu@ndfu.org](mailto:ndfu@ndfu.org)



Senate Bill 2178  
Finance and Tax

Chairman Urlacher and Members of the Senate Finance and Tax committee,

My name is Woody Barth; I am here representing over 35,000 members of North Dakota Farmers Union. I am here to testify in favor of Senate Bill 2178, which would provide for an individual and a corporate income tax credit for certain investments in a dairy farm milking operation.

North Dakota Farmers Union believes that Livestock production is essential to the well being of North Dakota. We actively promote the development of livestock production in North Dakota as a vital component in maintaining a healthy agriculture sector.

According USDA National Agricultural Statistics Service in 2003 North Dakota had.

**North Dakota:**

- 440 dairy farms
- 36,000 dairy cows
- 554 million pounds of milk produced annually
- North Dakota's average dairy herd is 82 cows.

North Dakota Farmers Union has and will continue to support our state's dairy farmers as they try to be successful in a rapidly changing industry.

SB 2178 would give a taxpayer who makes a qualified investment in a dairy farm milking operation a credit against state income tax liability.

Our producers have a strong commitment to producing the highest quality dairy products in the world. It is essential that we continue to find ways to grow and expand our state's dairy production.

Thank you Chairman Urlacher and Members of the Senate Finance and Tax committee, I would be willing to answer any questions that you have at this time.



**Administration:**  
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701-224-0330 • 1-800-932-8869  
Fax: 701-224-9485

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## **North Dakota Farm Bureau**

[www.ndfb.org](http://www.ndfb.org)

**Testimony of North Dakota Farm Bureau  
Senate Bill 2177 + SB 2178  
Senate Finance and Taxation Committee  
January 19, 2005  
John Mittleider**

Good morning, Mr. Chairman and members of the Committee. My name is John Mittleider and I am here today representing the 27,500 member families of North Dakota Farm Bureau.

One of our top priorities for the 2005 Legislative Session is to support programs and policies that enhance livestock production in the state. We have low cost, abundant feed and forage in the state. One of the major challenges the agricultural community faces is to utilize our abundant feed and forage to their optimal use. We are far from doing so today.

We need to acknowledge the forward thinking efforts of the Dairy Coalition. Without question, the dairy industry is fading across the state and has been for a number of years. Just yesterday, USDA released a report showing that the dairy herd size in North Dakota declined by 1,000 head over the past year, while milk production declined three percent. Meanwhile, the number of milk cows and milk production increased across the United States. In spite of the trends, the Dairy Coalition, however, is taking a progressive approach to rejuvenating this important industry.

We support Senate Bill 2177 and encourage a "Do Pass" recommendation. We would furthermore respectfully request the Committee consider expanding SB 2177 to include other forms of livestock produced in the state. Other livestock species are experiencing several of the same difficulties as that of the dairy industry and we believe expanding the scope of SB 2177 to include other livestock species would also be a great asset in expanding livestock production in the state.

Thank you for your consideration and I would be happy to try to answer any questions you may have.

Roger Johnson  
Agriculture Commissioner  
www.agdepartment.com



Phone (701) 328-2231  
Toll Free (800) 242-7535  
Fax (701) 328-4567

600 E Boulevard Ave., Dept. 602  
Bismarck, ND 58505-0020

**Testimony of Roger Johnson  
North Dakota Agriculture Commissioner  
Senate Bill 2178  
Senate Finance and Taxation Committee  
Lewis and Clark Room  
January 19, 2005**

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Chairman Urlacher and members of the Senate Finance and Taxation Committee, I am Bobbi Talmadge, Livestock Development Specialist at the North Dakota Department of Agriculture. Our department has been a member of the Dairy Coalition since its inception. We support the Dairy Coalition and support SB 2178 which provides additional tools for dairy development in North Dakota.

In addition to support of this bill, I would like you to consider including livestock feedlots and swine feeding and finishing operations in the language. While dairy is important to our state, North Dakota has tremendous opportunities to grow in the areas of dairy heifer raising, beef feedlots, swine farrowing, and swine finishing. Our state has many competitive advantages in the areas of feed cost, feedstuff availability, agriculture business friendly, animal health, biosecurity, climate and wide open spaces. I would like to make you aware of ~~SB~~ 2147 which is similar to this bill in its content.

## **National Leader in Crop Production**

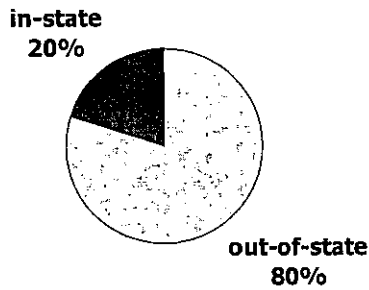
To build a livestock industry in the state it takes feed. North Dakota leads the nation in the production of thirteen different commodity categories – flaxseed, canola, durum wheat, oil sunflower, all sunflower, pinto beans, dry edible peas, non-oil sunflower, spring wheat, navy beans, barley, all dry edible beans and oats.

Many of these crop and their co-products are excellent livestock feed sources. Additional livestock feeding would create a stronger market for local crops. Rather than see these crops shipped to other states for their feeding industries, we would like to strengthen our own rural economy with the additional jobs and opportunities that livestock feeding brings to a community.

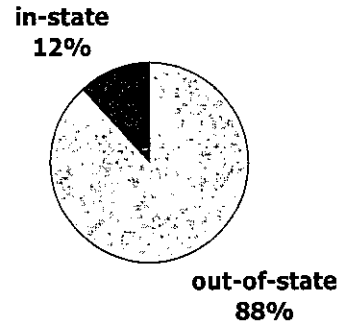
## **Beyond Our Borders**

Currently, the majority of livestock feed produced in North Dakota heads beyond our borders. In addition, only 12% of soybeans, 19% of corn and 20% of the barley produced in North Dakota are utilized here – the rest is destined to leave the state.

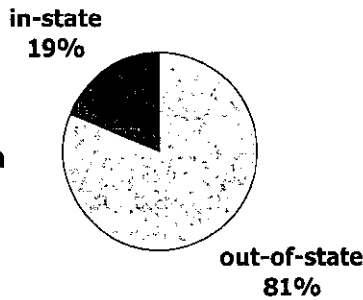
### Barley Utilization



### Soybean Utilization



### Corn Utilization



Source: UGPTI

We have an abundance of co-products that are produced from our ag processing plants in the region - beet tailings at Hillsboro, barley malt sprout pellets at Spiritwood, canola meal at Velva, corn gluten feed at Wahpeton, distillers grains at Walhalla and sunflower meal at Enderlin. Red Trail Energy's proposed ethanol facility at Richardton would be a superb source of co-products for livestock producers in the western part of North Dakota.

Our agricultural industry is continually adapting and changing to meet consumer demands and to fill global markets. Adding value to agricultural commodities and diversifying farm operations have proven effective in maintaining and enhancing the viability of agriculture. Value-added agricultural farm processing and farm input manufacturing generate \$1.7 billion in business

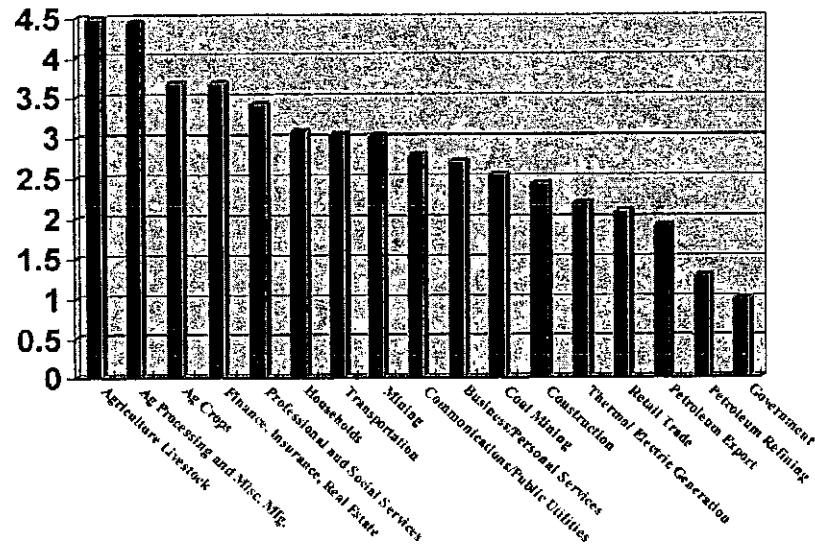
activity in the state each year. These businesses directly and indirectly employ more than 25,000 North Dakotans. (Source: *The Role of Agricultural Processing and Farm Input Manufacturing in the North Dakota Economy* -- March 2003)

### **Why do We Need Livestock Development?**

Livestock is a key component of our agricultural economy in North Dakota, generating cash receipts of \$870 million in 2003. We have 1.75 million head of cattle, 97,000 head of sheep and 150,000 head of hogs in the state.

While livestock industries already make a significant contribution to our economy, further development of these industries holds great economic value for our state. According to a study completed by North Dakota State University, livestock development has the greatest multiplier on North Dakota's economy. (Source: *The North Dakota Input-Output Model: A Tool for Measuring Economic Linkages* -- Updated 2004.)

## Multiplier Effect in North Dakota's Economy



Study completed by  
NDSU Agricultural Economics Department

The economic multiplier effect in animal agriculture is significant because of all of the additional economic opportunities that are created. Additional inputs, such as veterinary services, medications, financial services and trucking are all integral parallel components of livestock development. Again, the most important of those inputs are the additional local markets created by the sale and processing of the feedstuffs in the local economy.

Thank you for giving me the opportunity to testify on this bill. I'll be happy to answer any questions you might have.

**For:** Senate Finance and Taxation Committee (at request of Senator Cook)  
**Re:** Senate Bill 2178 (Dairy farm investment tax credit)

**Tax credits allowed on Form ND-1  
(main method for individuals)**

	Year Created	Actual usage <sup>1</sup>					
		2003 No. of Returns	Amount	2002 No. of Returns	Amount	2001 No. of Returns	Amount
Seed capital investment tax credit	1993	173	\$388,268	51	\$98,448	Not applicable <sup>2</sup>	
Family member care credit	1997	19	16,732	21	15,395	18	\$15,708
Renaissance zone tax credit	1999	107	446,281	76	255,860	84	405,382
Agricultural commodity processing facility investment tax credit	2001	260	126,418	258	107,608	259	137,480

Prepared by North Dakota Office of State Tax Commissioner  
January 26, 2005

<sup>1</sup> Numbers reflect actual amounts claimed on tax returns. They do not reflect the total potential credit that, because of carryover provisions, will be claimed in more than one tax year.

<sup>2</sup> From 1993 through 2000, the seed capital investment tax credit was allowed only on Form 37 (the former long form). In 2001, it was allowed only on Form ND-2 (which replaced Form 37). The credit was first allowed on Form ND-1 in 2002.