

2009 HOUSE FINANCE AND TAXATION

HB 1250

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1250**

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: **January 19, 2009**

Recorder Job Number: 7182

Committee Clerk Signature



Minutes:

Chairman Belter opened the hearing of HB 1250.

Representative Bob Skarphol, District 2, introduced the bill. As someone who has served on the Appropriations Committee for some time and had some degree of difficulty with the funding mechanisms and the claims made for the various Centers of Excellence, I decided it was time to really track the relative success of each of these centers. This legislation is not designed to track each of them, but the collective revenue that they actually produce. I would hope that this committee and the folks in Legislative Counsel would insure that the language is adequate and that we actually tax identified tax revenue produced by the centers. I'm speaking of income tax revenues and whatever types of revenue is produced by the individuals that work there and by the products they produce. If we do this early enough we can recognize the value of these centers and see which are producing the best results for our dollars invested. Potentially, if they are producing enough revenue, they could be a self-sustaining type of program.

Representative Weiler: Can you take us back and give us a brief history of the Centers of Excellence in include when they began and what dollar amount for them was each biennium?

Representative Skarphol: The first reference was in the 2001 session. There was some contingent dollars put in place so that if they were able to get a partner they could begin that process. There were some other references to Centers of Excellence that were not funded. The 2005 session was the first session where we appropriated significant dollars and we committed to a \$50 million total expenditure. At that time it was \$20 million for the centers brought forward and approved through the process. In 2007 we committed to another \$20 million. There is about \$40.1 million dollars spent of that \$50 million commitment.

Representative Weiler: Do you envision them going above the \$50 million in this or the next biennium and asking for more?

Representative Skarphol: I believe there is a \$20 million request in the Governor's budget. I think there was an amendment drafted that would remove that funding. It would make it a policy bill and then the body would vote on whether the body wishes to continue that program under those parameters. I believe it should be doable under the budgets of the Commerce Department or the Tax Department. I don't expect all these Centers to produce revenue. Some are still in the formative stages. I do think there should be a level of revenue being produced.

Representative Pinkerton: Is there a history of other states doing this?

Representative Skarphol: I can't speak to what other states have done. I know there are other states that have centers of excellence programs and I'm not sure how they handle the funding mechanisms for them. I would guess there are states that have funded more than we have for these types of ventures.

Chairman Belter: Would you consider the multiplier effect to be incorporated in this?

Representative Skarphol: I would hope not. I would hope this to be actual, statistical numbers of tax revenues generated. If a particular center has not generated any revenue, I'm

fine with that. The Life Science Center at Grand Forks is still in the developing stages. I know they are doing some exciting work up there because I'm familiar with one of the projects they are working on with regard to West Nile Virus. Whether or not it has produced one dime is not really relevant. But those that are in place and are producing revenue, we need to be more familiar with.

Shane Gettle, commissioner of the ND Department of Commerce. We have been very involved with the awards as well as the review and monitoring of the Centers of Excellence program. We did commission a study of the economic impact. We retained Larry Leistritz to do the modeling. **(Attachment 1)** With respect to revenues back to the state, it can only be estimated. Unless we had taxpayer identified information, we wouldn't be able to accurately give you hard numbers in terms of tax revenues. The economic models do extrapolate that data from the economic impact. He went through portions of the data presented in the report.

Some of the Centers aren't designed to generate revenue. The Williston petroleum safety and technology program is simply training students to go out to the oilfield. The revenue is what those students are making in the oilfield, which we could only estimate. The hydrogen technology center built at UND now has some private sector partners. To understand what they are returning to the state, we would have to have some taxpayer information. If you look at the oilseed technology project at NDSU, that is doing research with Monsanto and EDM to extend Canola to dry land areas as well as trying to grow Canola in other regions of the state besides the northern tier. With respect to that research, it's going to take some while for the revenue to be realized by the farmers who will perhaps plant that crop and ultimately Monsanto and EDM will be involved in sales and we would need to know what kind of revenue that meant to them or a crushing facility. Each of these projects are fundamentally different and the approach that would need to be taken with respect to calculating what the revenues are

back to the state gets very complicated. The easiest way is to put together models for estimates. If you really want more than estimates, we would have to engage in a much more comprehensive kind of study in order to generate that back. That get's much more costly. For the four pilot projects that we set aside, we were able to do that at the expense of \$25-\$30,000. Useful information but it's expensive to get it.

Representative Weiler: The way this bill is written, do you feel it is too vague?

Gettle: We can now turn around exactly what I handed out to you. If that's what you wish with this bill, we are able to do that by engaging in the kind of study that provides this information.

Representative Weiler: We would have to decide as a Committee to accept what you have or make it more specific in the bill as to what exactly we want.

Representative Wrangham: Is there somewhere I can see a list of the centers or their programs.

Gettle: We have a full report of the centers and we would be happy to provide that to you. It provides a list of the very different kinds of projects that have come through the program.

Representative Wrangham: Does that include how much money has been put in to each of them.

Gettle: It does. It also provides a report on the three projects that did not go through the approval process. There were three pilot projects: Beef, Innovation at UND and the NDSU tech park. Those did not receive direct appropriations. Even though we don't have jurisdiction over those programs for reporting purposes, we ask them if they would mind being included in our report and we have included their data as well.

Representative Froseth: In the original legislation in 2001, weren't there reporting requirements included or have we just been depending on your department to provide and update?

Gettle: The first 3 centers were approved at two different sessions. Those were direct appropriations. It wasn't until the 2005 that the process as we know it now was established. It was 2006 before any awards went out. It's relatively young. We have established with each center where we monitor them for a 6 to 10 year timeframe from the time they receive the funds. The reporting requirements were first put in to legislation in 2007. At that time we received an FTE as well as an obligation to issue a report on the centers and their activities. We have issued reports that identified their strengths and weaknesses. We are going back to each of the centers now having given them a time to comment. We will be submitting our final report in the future.

Representative Pinkerton: You don't list the Bismarck center here. Is this just because this is the report from 2007?

Gettle: It's just the timing. I'm not positive. I'll look at that.

Representative Pinkerton: Do you just have one full-time person that is authorized to do this follow up.

Gettle: I had one person already that I could provide. So we have two people conducting the site visits and involved with the report.

Representative Pinkerton: So ND has invested \$70 million in this program.

Gettle: I'll set the first 3 aside for the moment. The 2005 session authorized a \$20 million program and the 2007 authorized \$20 million. With projects that have gone through the screening process, there have been awards of just shy of \$40 million. There is about \$.5million that's not been awarded. Of those awarded funds, not all of that's been distributed. We have roughly \$10 where we are waiting for centers to provide information to authorize distribution of funds. There are certain conditions they need to meet. When you add the 3 centers, it was less than \$5 million—maybe \$3 million. It would be less than \$45 million to

date. We have 2 full time people that are monitoring this. I have also been involved in some of the centers so may 2.25.

Representative ___?___: You have talked about \$50.0 and about \$8 million not used. I'm a bit confused here.

Gettle: Some of the confusion may be that the Governor has pitched this as \$50 million program. The first installment was \$20 million in 05; the second was \$20 million in 07. That has all been awarded. That's \$40 million that has gone through the screening committee process. Add those three other projects that were appropriated in 2003 and we're about \$43 million for the whole program. The Governor has proposed at \$20 million program for the next biennium. That would take it up to \$60 million.

Representative Pinkerton: Have there been substantial federal dollars that have come in to this too?

Gettle: The program provides funds to colleges and universities and research foundations. They get the money and they can apply it toward infrastructure or apply it to equipment or personnel. There has to be a match of 2 to 1 for this program. The private sector partners have to have skin in the game. Non profit, private and federal dollars are eligible to be applied towards that match requirement. There has been a tremendous amount of federal dollars that have come in. Some of those federal dollars require a match so they can apply the Centers for Excellence dollars in order to access those federal dollars.

Representative Headland: Don't these private partners require some level of data. They are going to want to know what's going on and what kind of economic impact they will produce. I'm trying to figure out why that information is going to be so tough to gather.

Gettle: I'm not suggesting it's tough to gather, it's just that individual and corporations do not want to turn over their tax data. I'm not authorized to look at that and the tax department

cannot reveal it. We are left then at looking at their economic activity that they may report through the contracts that are established with the centers. It's not difficult to get information as we have done with this report and we can extrapolate revenues back to the state. That's easy. It's harder to say with concrete certainty that this is the tax revenue they have generated.

Representative Pinkerton: So with the match we are looking at \$125 million or so?

Gettle: The 2 to 1 is the minimum leverage. It is actually substantially higher than that because many of the projects brought over and above what they needed. There is an incentive to bring in more than 2-1. We haven't analyzed the amount of public funds invested versus the jobs. Be mindful that some of these are research jobs and the real jobs will be realized after the research has run its course. At the UND we have the largest goose producing facility and they are doing research on West Nile Virus and the avian flu. They are setting up near Tullin and contracting with area farmers. There are jobs associated with the fact that these producers have located here and there are jobs associated with the research that will be conducted once that facility has all of its bio security labs up and running. They are partnered with Mayo as well. The jobs will be realized down the road when this research has materialized.

There being no further testimony, Chairman Belter closed the hearing of HB 1250.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1250**

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 19, 2009

Recorder Job Number: 7242

Committee Clerk Signature

Paul Fendley

Minutes:

Chairman Belter opened discussion of HB 1250, the Centers for excellence bill.

I'm not going to act on this bill. Any expenditure, the first thing we always get is how this has a wonderful economic impact. We get all kinds of wonderful numbers that justify programs. Programs that seem to be more of a benefit to the general public, there is never an economic impact that shows a glorious multiplier. I'm going to hold this and talk to the sponsor.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1250

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 8065

Committee Clerk Signature

Minutes:

Chairman Belter: What are your wishes on HB1250?

Vice Chairman Drovdal: I move a "do not pass".

Representative Brandenburg: Second.

Vice Chairman Drovdal: I understand what he is looking for. We all get frustrated at times trying to get reports from agencies, but I think this is a little bit heavy. He is not going to be able to get the information anyway. I think this is unworkable.

Chairman Belter: I have a "do not pass" motion from Representative Drovdal and a second from Representative Brandenburg. Is there any discussion?

Representative Weiler: I am going to resist the motion. When the State of North Dakota spends that kind of money on a program, I believe we have the right to know whether or not it is working. It may or may not have the ability to become self-sufficient. If these programs are as great as we think and hope they are, then they are returning a certain dollar amount back into the pool and we would like to know that. I think it is a good bill and I am going to oppose the "do not pass".

A roll call vote was taken, resulting in a vote of 9 yeas, 4 nays, and 0 not voting.

Representative Kelsh will carry the bill.

Date: January 28, 2009
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1250

House FINANCE AND TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☐ Do Pass ☒ Do Not Pass ☐ Amended

Motion Made By Drovdal Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter		/	Representative Froelich	/	
Vice Chairman David Drovdal	/		Representative Kelsh	/	
Representative Brandenburg	/		Representative Pinkerton	/	
Representative Froseth	/		Representative Schmidt	/	
Representative Grande		/	Representative Winrich	/	
Representative Headland		/			
Representative Weiler		/			
Representative Wrangham	/				

Total (Yes) 9 No 4

Absent 0

Floor Assignment Representative Kelsh

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

REPORT OF STANDING COMMITTEE

HB 1250: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (9 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1250 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1250

Economic Impact of North Dakota Centers of Excellence Program, 2007

F. Larry Leistritz, Dean A. Bangsund, and Nancy M. Hodur¹

In recent years, economic development has become increasingly linked to technology and information. As a result, policy makers have attempted to facilitate partnerships between universities and private sector businesses. The success of public-private partnerships in areas like the Silicon Valley of California, the Research Triangle of North Carolina, and the Austin, Texas area offers support for the concept of technology-based development. The Centers of Excellence program is North Dakota's initiative to participate in technology and information-based economic development.

The 2003 Legislative session authorized funding for three pilot Centers of Excellence projects. Then in 2005, the Legislature approved Senate Bill No. 2032 expanding the concept into the Centers of Excellence in Economic Development program. The legislation called for a \$50 million state investment over multiple biennia, to be leveraged on a 2-to-1 basis with private sector and federal funds. The Legislature approved \$20 million for the initiative in the 2005-07 biennium, which launched 11 different Centers throughout the state. These Centers are located in Fargo (4), Grand Forks (3), Valley City, Devils Lake, Dickinson, and Williston (for additional information, see Goettle 2008). The 2007 Legislature approved additional funding for the program. As of March, 2008, two Centers were fully operational, nine Centers were in the early stages of their planned activities, and three Centers were under development. In addition, two Centers had been authorized for new funding, but had not yet received funds.

The purpose of this report is to estimate the economic impacts of the Centers of Excellence program for 2007. The analysis is based on payroll and associated costs reported by each Center in their 2007 annual reports, as well as start up costs reported by the Centers.

Methods

The initial task in any impact assessment is estimating the direct impacts (or "first-round effects") of the activity being studied. In this study, information on payroll and start up costs, as well as direct employment, were drawn from the 2007 report from each Center. Other expenditures by the Centers and/or their private sector partners were assumed to bear the same relationship to payrolls as has been found in past studies of the economic impact of R&D activities (Leistritz and Coon 2008), exported services (Coon and Leistritz 2001), and manufacturing (Coon and Leistritz 1997). The North Dakota Input-Output Model was used to estimate the secondary economic impacts based on these data.

The North Dakota Input-Output Model consists of interdependence coefficients or

¹The authors are respectively professor and research scientists in the Department of Agribusiness and Applied Economics, North Dakota State University, Fargo.

multipliers that measure the level of business activity generated in each economic sector from an additional dollar of expenditures in a given sector. (A sector is a group of similar economic units, e.g., the firms engaged in retail trade make up the retail trade sector.) For a complete description of the input-output model, see Coon and Leistritz (1989). The model estimates the changes in gross business volume (gross receipts) for all sectors of the area economy resulting from the direct expenditures associated with the Centers of Excellence program. The increased gross business volumes are used to estimate secondary employment and tax revenues based on historic relationships. The procedures used in the analysis are parallel to those used in estimating the impact of other facilities and activities (Leistritz and Coon 2008; Bangsund and Leistritz 2004 & 2007, Hodur et al. 2006). Empirical testing has confirmed the model's accuracy in estimating changes in levels of economic activity in North Dakota. Over the period 1958-2006, estimates of statewide personal income derived from the model averaged within 4 percent of comparable values reported by the U.S. Department of Commerce (Leistritz et al. 1990, Coon and Leistritz 2008).

Results

The economic impact of the Centers of Excellence program was analyzed in four segments. The first of these examined impacts associated with the R&D, training, and educational activities of the Centers. Two Centers had developed important private sector partners, one in exported services and the other in manufacturing. These activities were analyzed separately. Finally, several Centers had major one-time start-up expenditures in 2007, which formed the basis for the fourth component of the analysis.

Table 1 summarizes economic impacts of the Centers' R&D and related activities. The 2007 estimated direct expenditures by the 12 Centers that reported some level of activity totaled \$27.3 million. The Centers' direct expenditures illustrate the high level of leveraging associated with the program. As of March, 2008, the total state investment of \$23 million had been leveraged with nearly \$100 million in matching funds from private and other sources (Goettle 2008). The Centers also reported 296.25 jobs, including Center and partner employees. The Centers' direct expenditures resulted in estimated secondary effects of \$55.2 million for a total impact of \$82.5 million. Estimated secondary employment was 408 jobs, for a total employment effect of almost 800.

The estimated economic impacts of the Center partner engaged in exported services are summarized in Table 2. The partner firm had direct employment of 102 and annual direct expenditures to North Dakota entities of \$7.9 million. These resulted in secondary economic impacts of almost \$16.2 million, for a total economic impact of \$24.1 million. The total employment impact was estimated at 220.

A second Center partner was engaged in manufacturing, and the economic impacts of its operations are summarized in Table 3. The firm had 95 employees and 2007 expenditures to North Dakota entities of \$4.9 million. These resulted in an estimated secondary impact of \$10.9 million for a total impact of \$15.8 million. Secondary employment was estimated at 76 jobs, for a total employment effect of 171.

The economic impacts associated with the Centers' one-time start-up expenditures in 2007 are summarized in Table 4. The one-time expenditures totaled \$18.8 million, of which \$17.7 million were to the construction sector. Four Centers had multi-million dollar construction expenditures in 2007. Total economic impacts associated with these expenditures were \$46.7 million. This level of economic activity would support about 169 jobs.

The economic impacts associated with the Centers of Excellence program in 2007 are summarized in Table 5. The direct economic impacts of Center and partner activities total \$59 million. The total economic impact (contribution) was \$169 million. Direct employment by Centers and partners totaled 493.25 and total employment effects totaled 1,359.25. These levels of increased economic activity also generate additional state tax collections. Sales and use tax collections are estimated to increase by \$1.8 million while personal income tax collections increase by \$0.9 million.

Discussion

The Centers of Excellence program is North Dakota's major initiative to participate in technology and information-based economic development. Although the program is still in its early stages and most Centers are in early stages of development, the economic effects of the program to date are encouraging. With a direct economic impact of \$59 million and total impact of \$169 million in 2007, the program's contribution to the North Dakota economy is already substantial. Further, it is noteworthy that the two operational Centers (UND Center for Innovation and NDSU Technology Incubator) are already making impressive contributions. In 2007, these two Centers combined for 233 direct jobs (Center staff plus tenants) and a payroll of \$10.7 million. As the other Centers become fully established and partner facilities are developed, the program's economic contribution can be expected to increase considerably.

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Table 1. Direct, Secondary, and Total Economic Impacts of North Dakota Centers of Excellence R & D Activities, 2007

Sector	Expenditures/Receipts		Total
	Direct	Secondary	
	-----	\$000	-----
Communications& public utilities	730	2,796	3,526
Retail trade	4,773	17,203	21,876
Finance, insurance & real estate	5,550	3,815	9,365
Business & personal services	876	1,509	2,385
Professional & social services	876	2,188	3,064
Households	14,604	18,744	33,348
Other ¹	0	8,961	8,961
Total	27,309	55,216	82,525
Employment	296.25	408	799.25

¹ Includes agriculture, mining, construction, transportation, manufacturing, and government.

Table 2. Direct, Secondary, and Total Economic Impacts of North Dakota Centers of Excellence Partner Activities, Exported Services, 2007

Sector	Expenditures/Receipts		Total
	Direct	Secondary \$000	
Transportation	132	81	213
Communications & public utilities	264	815	1,079
Ag. Processing & manufacturing	44	399	443
Retail trade	1,144	5,052	6,196
Finance, insurance, & real estate	1,584	1,124	2,708
Business & personal services	264	445	709
Professional & social services	88	638	726
Households	4,400	5,425	9,825
Other ¹	0	2,213	2,213
Total	7,920	16,192	24,112
Employment	102	118	220

¹ Includes agriculture, mining, construction, and government.

Table 3. Direct, Secondary, and Total Economic Impacts of North Dakota Centers of Excellence Partner Activities, Manufacturing, 2007

Sector	Expenditures/Receipts		
	Direct	Secondary	Total
	-----	\$000	-----
Construction	270	361	631
Transportation	67	52	119
Communications & public utilities	112	485	597
Ag. processing & manufacturing	607	649	1,256
Retail trade	517	3,100	3,617
Finance, insurance & real estate	1,011	683	1,694
Business & personal services	45	273	318
Professional & social services	22	374	396
Households	2,247	3,503	5,750
Other ¹	0	1,410	1,410
Total	4,898	10,890	15,788
Employment	95	76	171

¹ Includes agriculture, mining, and government.

Table 4. Direct, Secondary, and Total Economic Impacts of North Dakota Centers of Excellence, One-time Impacts of Startup Activities, 2007

Sector	Expenditures/Receipts		
	Direct	Secondary	Total
	-----	\$000	-----
Construction	17,747	978	18,725
Communications & public utilities	117	1,185	1,302
Retail trade	132	7,998	8,130
Finance, insurance & real estate	26	1,649	1,675
Business & personal services	44	568	612
Professional & social services	66	807	873
Households	744	11,495	12,239
Other ¹	0	3,131	3,131
Total	18,876	27,811	46,687
Employment	0	169	169

¹ Includes agriculture, mining, transportation, manufacturing, and government.

Table 5. Summary of Economic Impacts of the Centers of Excellence Program, 2007

Item	R&D Activities	Partner Exported Services	Partner Manufacturing	One-time Start-up	Total
Direct Impact (\$000)	27,309	7,920	4,898	18,876	59,003
Total Impact (\$000)	82,525	24,112	15,788	46,687	169,112
Direct Employment (FTE jobs)	296.25	102	95	0	493.25
Total Employment (FTE jobs)	799.25	220	171	169	1,359.25
Sales & use taxes (\$000)	1,013	287	167	376	1,843
Personal income taxes (\$000)	500	147	86	184	917