2011 SENATE FINANCE AND TAXATION

SB 2055

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2055
1/26/2011
Job Number 13420

☐ Conference Committee

A. Rittmiller

Explanation or reason for introduction of bill/resolution:

Relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing

Minutes:

Written Testimony Attached

Chairman Cook opened the hearing on SB 2055.

Tony Grindberg –(Attachment A and A1) What we worked on during the interim was a package that in many ways align with SSTI and best practice going on in other states, whether physical infrastructure, mechanisms for transferring knowledge, or access to angel capital for example. So, there is a sense to the madness of what we worked on during the interim committee. In particular the manufacturing income tax credit is a bill that in my opinion fits under the technically skilled workforce definition put out by SSTI. You might hear some concerns about, we if we automate less, less need for workforce. That is not the case. We all know automation and manufacturing is becoming highly automated. My view is, if we can incent and allow businesses to further expand and automate, they will be more competitive globally, and add jobs.

Senator Burckhard – SSTI, what does that stand for?

Tony Grindberg - State Science and Technology Institute.

Ryan Rauschenberger, Office of State Tax Commissioner – Essentially, the first page begins with an automation manufacturing process tax credit. It is allowed for a primary sector business that would have to be certified by the Department of Commerce. Currently there are a few references throughout the bill to section 2573829, which is the long form that was illuminated last session, just a note. Again, on page one, this creates a manufacturing credit for the purchase of manufacturing machinery and equipment for the purpose of automating. This is a 20% credit for the purchase of that equipment.

Chairman Cook – That credit is on personal income tax and corporate income tax?

Ryan Rauschenberger, Office of State Tax Commissioner – That is correct. Page 2, just some definitions of, again, primary sector, it has to be certified with the Department of Commerce, definition of manufacturing machinery and equipment, etc. Moving down the page starting on line 7 through 10 essentially says that the credit must be taken in the year that the purchase was made. Lines 11 through 16 has a 5 year carry forward. Lines 17 through 19, that is $2 million for your cap. That is the cap Senator Grindberg referenced that was put in place during the interim workforce committee. Lines 20 through 25 is standard language for partnerships and pass through's. Moving on to page 3, section 3 is essentially the other half of this bill. Again what I just went through was a credit for purchase of machinery. Section 2 is a credit for expenditures for implementing lean manufacturing. That would include expenditures like labor that adds value to the process. It also includes training programs, material, tool, technology, software, or consultant services. It is a 20% credit, same percentage as the first credit, has a 5 year carry forward like the first credit, again another $2 million per year cap.

Chairman Cook – We have a definition of primary sector business in here. Is there another definition of primary sector business in code?

Ryan Rauschenberger, Office of State Tax Commissioner – I know there are 3 or 4 definitions. This one is fairly standard. In addition to the cleanup I do want to just make a couple quick notes as far as just some things for the committee to consider when working on the bill. Some of the considerations would be that these current expenditures may also apply for the research and development credit. The research and development credit is for expenditures. If you do qualify for the federal research and development credit, North Dakota also has a credit and we would need to take in to consideration that there are certain expenditures under the lean manufacturing expenditures that might qualify for both. Also, the $2 million cap, if that were to remain in place, the $2 million per cap on each of the different credits, we would want to take in to consideration any administrative difficulty due to the fact if more than $2 million of credits or expenditures to earn the credits are made during the year we would be looking for some sort of language on how that would actually be earned. If it's on a first come first serve or if we were to have some sort of reporting requirement like the seed capital. I'm not sure how that would work. We would be happy to work with the committee in finding a solution to those points.

Senator Oehlke – On page 1 line 13 and 14 it basically says what the credit is for. Then on page 3 it expands the qualified expenditures, it takes it from more than just machinery. It talks about training programs, materials, etc. Training programs, does that mean a training program you pay for or get on a CD and learn it that way or does that mean you can send people somewhere to learn how to operate the machinery? That seems to open the ball an awful lot, and maybe it needs to be, but I'm not sure.

Ryan Rauschenberger, Office of State Tax Commissioner – I'm not quite sure at this point exactly what that means. I would refer that question to members from the industry or development community that are more familiar with the types of training programs that they have intended to be included in that portion of the bill.

Kevin McKinnon, Greater Fargo Moorhead Economic Development Corporation – (See attached testimony B in favor of SB 2055)

Andy Peterson, North Dakota Chamber of Commerce – (See attached testimony C in favor of SB 2055)

Senator Oehlke – Does Minnesota have anything like this right now?

Andy Peterson, North Dakota Chamber of Commerce – They have several programs like this. One of the things that they do have is something called jobs z. And that allows a business to move in to a rural area that's a non-metro area and allows them up to 10 or 20 years of a tax free environment. The thing Minnesota doesn't have is the kind of business climate that we have.

Bryan Bossart, Vice President of Operations, Phoenix International, and Division of John Deere – John Deere is a $26 billion global company. I'm here today to talk to you about SB 2055. John Deere has a couple of significant manufacturing operations in North Dakota. One in Valley City that makes seeding equipment for the Ag industry, and the one I'm responsible for in Fargo North Dakota designs and manufacturers electronics for those vehicles I talked about. We have a workforce of over 1000 people in North Dakota. The workforce that works for my business is very high tech and very high value. It's a lot of engineers; we've hired probably 40% of our workforce from the engineers from NDSU and UND. We put those people to work in a high tech industry that really serves a global business. Now if you think about this incentive for automation, all our global competitors are automating. In our industry, the technologies that our customers are expecting to make their vehicles globally competitive is getting more and more complex and it requires the automation to actually build that equipment. We have our design center for all of this electronics in Fargo North Dakota. We have over 300 engineers there. We have our manufacturing right next to that engineering. We also have manufacturing centers in other parts of the world. The best place to do that manufacturing is right next to that engineer. Other than 2009, which was a down year, we have grown at 25% per year. SB 2055 makes sure that when we are evaluating where we are going to upgrade our facilities and put that automation, it makes sure that it still makes sense to put it right next to that engineering which resides in Fargo. In addition I've had exposure to a lot of other business in North Dakota and South Dakota, I've seen the benefits of lean manufacturing in my own operation and what it can do and I think that really is a key to making businesses in North Dakota globally competitive. Again this is just another incentive to make sure those businesses are out there doing the right things to make themselves competitive so we can continue to grow the business in North Dakota.

Senator Dotzenrod – Your company has located and has some operations in Fargo and North Dakota does have an income tax, a fairly low income tax. This bill would reduce, would provide a credit and reduce income taxes. So I'm wondering just how significant a benefit is that for you. If it was important to you, you could have built in Sioux Falls where there is no income tax, but you chose to build here. Evidently the income tax really wasn't that much of a significant part of the concerns you had and the judgments you made about locating. So I'm wondering if you had a choice of going to zero tax and the taxes we have and you chose our taxes, does this reduction really become significant?

Bryan Bossart, Vice President of Operations, Phoenix International, and Division of John Deere – If you think about how our company started, it started in 1987, and was acquired by John Deere 100% in 1999. When you look at starting from nothing, going to a company that is over $300 million in sales, that's like having worked in 3 or 4 different companies. Where we are at today, is John Deere and Phoenix International is a global player. We no longer just sell electronics in the region or even in North America. We will design electronics in Fargo, but when we are going to build them, we have to decide where we are going to implement that infrastructure to build them. We would like to do it in the same location we are in, but we have a lot more choices than we had in 1987. This bill helps keep it right next to the engineering which is where we want it and makes it more competitive with other geographies. Not just other states, but other countries.

Ron Allan, Bourgault Industries - (See attached testimony D in favor of SB 2055)

Senator Dotzenrod – In your statement to us you have outlined all of the reasons to do the lean manufacturing. It brings down your cost, it makes you more competitive and it sounds like a good business practice and should achieve efficiency and profitability. Given all those advantages, do you really need to have a tax incentive to do it given that inherently just by doing it; it's its own incentive.

Ron Allan, Bourgault Industries – Within our corporation we are a global corporation that operates in 4 different continents and we expand our operations, we will look to our greatest opportunity, not only to produce a profit for the company, but also to look towards a workforce that is going to be steady and consistent. That is why we moved to North Dakota originally. To tap in to the workforce here and that workforce has provided what we were looking for and these tools will enhance that workforce.

Keith Lund, Economic Development Association of North Dakota - (See attached testimony E in favor of SB 2055)

Vice Chairman Miller – It was mentioned by other testimony that they really need a consistent, steady, reliable workforce and that this bill helps create an atmosphere of that affect. I'm wondering if you would believe that a more broad based tax reform package for North Dakota that affects not only the employers but employees directly is even a better approach.

Keith Lund, Economic Development Association of North Dakota – I'll respond to that by saying the tax environment in North Dakota regulatory environment is very competitive. We generally bring that in to consideration of a project as an enhancement. I think that this particular bill addresses labor shortages particularly in manufacturing. It addresses some of the issues that you've heard this morning. One of them which is global companies having to make a decision on where to deploy capital, where they will have the largest return investment. Another significant challenge of course is trying to find labor in a labor constrained environment, requiring to automate in order to produce and remain competitive. A comprehensive look at the state's tax structure, particularly corporate income tax and for businesses that is always a good idea. Our organization supports this in particular because it's supporting existing companies in North Dakota in the face of global competition.

Senator Dotzenrod – The arguments you have used to advance the purpose of this bill, they are good arguments; they would bring down cost, increase profitability. I'm wondering what distinguishes these operations from other operations in the state that would also benefit from similar tax credits or tax reductions. It seems to be every tax becomes reduction profitability. It seems to me that what we've got is an argument that businesses shouldn't pay any taxes. So tell me, what is unique about the proposition in this bill that makes it different from the argument that we just shouldn't have any taxes at all?

Keith Lund, Economic Development Association of North Dakota – I think one of the primary benefits of this bill, manufacturing in the USA is really declining. North Dakota hasn't declined in that capacity. This is one of the tools that certainly help our North Dakota manufacturers remain competitive. I don't think it's realistic that businesses pay no taxes. I certainly think the state needs income. If we are to support our North Dakota manufacturers and manufacturing base, EDND believes this is a very valuable tool that will help them with global competitiveness and we do see it as a workforce issue.

Chairman Cook asked for testimony opposed to SB 2055. No one came forward.

Chairman Cook asked for neutral testimony for SB 2055. No one came forward.

No further action was taken.

Chairman Cook closed the hearing on SB 2055.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2055
2/14/2011
Job Number 14469

☐ Conference Committee

A. Bittmiller

Explanation or reason for introduction of bill/resolution:

Relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing

Minutes: Committee Work

Chairman Cook opened discussion on SB 2055.

Chairman Cook – This is a nonrefundable credit against the tax imposed.

Donnita Wald, Tax Department went through the amendments.

Chairman Cook – So there are $2 million worth of credits in both the lean and the automated to total $4 million.

Donnita Wald, Tax Department – That's correct.

Chairman Cook – Can these credits be sold?

Donnita Wald, Tax Department – No.

Senator Dotzenrod – The limits that are placed on it, the $2 million, where is that at?

Donnita Wald, Tax Department – For the automated manufacturing on page 1 lines 24 through 26, and then for the lean manufacturing its page 3 lines 24 through 26.

Senator Dotzenrod – Are these going to be awarded on a first come first serve or do you have a way of prioritizing them so that there would be some that would get it and some that wouldn't or how will you know if you have $6 million worth of applications and you can give $2 million, how do you decide?

Donnita Wald, Tax Department – We usually do first come first served, but also prorate.

Senator Dotzenrod – Would you envision having to do that here?

Donnita Wald, Tax Department – That's correct.

Senator Dotzenrod – On page 3 line 6, lean manufacturing means a manufacturing improvement based on using the minimum amount of manpower. I'm going to assume that no manufacturer is going to put in an improvement approach based on the maximum amount of manpower materials. I think every improvement that a company makes is going to have to, by definition almost, going to be based on reducing and contributing to the profitability and reducing costs so doesn't this definition essentially mean all manufacturing?

Donnita Wald, Tax Department – I don't think that's what this says. I think what they are trying to do is minimize the parts of the manufacturing that use manpower, so they are trying to put in robotics and that type of thing. I don't know if it's necessarily applying to their whole manufacturing process, I suppose it could.

Senator Triplett – Certainly you could think of areas where a corporation would be upgrading that didn't affect manpower, for example power plants having to put on new environmental controls or whatever. They might put a huge investment in and it might not affect their manpower one way or the other but the purpose of the investment is to improve environmental controls so there certainly are examples you can think of where they would be required to put in money without affecting manpower.

Donnita Wald, Tax Department – If you look on page 3 lines 11 through 13 those kind of identify what those expenditures can be for. That in itself limits what this credit can be used for. The other thing I want to point out that we did in this amendment is on page 3 line 13 the qualified expenditures have to be approved by commerce, the original bill says, or an entity designated by the Department of Commerce.

Chairman Cook closed discussion on SB 2055.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2055
2/14/2011
Job Number 14516

☐ Conference Committee

A. Bittmiller

Explanation or reason for introduction of bill/resolution:

Relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing

Minutes: Committee Work

Chairman Cook opened discussion on SB 2055.

Senator Dotzenrod – In considering the bill and what the bill does, it seems to me that one of the things that's going to be a key to making it work, or make it function as intended, is can the Tax Department draw a clear enough line so that they are going to be able to decide what qualifies and what doesn't. I see in the amendments it says the Department of Commerce is supposed to provide a list of those items that were approved. I would think that would not be easy to do.

Chairman Cook – I think it is the Department of Commerce that makes the determination as to whether it qualifies or not. Automation credit could be for an existing business that's upgrading or it could be for a brand new business, manufacturing plant coming in, is that correct?

Donnita Wald, Tax Department – The only qualifier I see is that the business be a primary sector business.

Chairman Cook – So it could be a brand new business just coming to North Dakota.

Donnita Wald, Tax Department – That's correct. They do have to create new wealth.

Chairman Cook – But that is not the case for the lean manufacturing credit?

Donnita Wald, Tax Department – They also have to be a primary sector business.

Chairman Cook – But they would have to be an existing business that's going to make an improvement to reduce required manpower?

Donnita Wald, Tax Department – Again if it adds value to a product process and creates new wealth which is the standard primary sector business language. I don't know how the Department of Commerce measures that.

Chairman Cook – Lean manufacturing means a manufacturing improvement, so in my mind you have to have something there that you are improving.

Donnita Wald, Tax Department – Yes, it would have to be an improvement it seems.

Senator Oehlke – Lean manufacturing means a manufacturing improvement approach based on using the minimum amount of manpower, not improvement necessarily, an improvement approach.

Chairman Cook – I'm not going to change the bill to make sure it's one way or the other but I think that it's an intent question we are going to want to ask.

Senator Dotzenrod – It seems to me that any new plant, any modification is going to be by definition designed to be economically advantageous to the company. It seems what they are saying is anything that's new gets the deal.

Donnita Wald, Tax Department – There has been some question in the department about what this all encompasses for both credits.

Senator Oehlke – I'll move the amendments.

Seconded by **Senator Burckhard**.

Chairman Cook – All in favor of the amendments signify by saying yea. (6-0-1)

Senator Oehlke – I'll move a Do Pass as Amended.

Seconded by **Senator Burckhard**.

Senator Triplett – Given the testimony that we just heard from the Tax Department that they are not sure what it means or how it's going to be interpreted in response to Senator Dotzenrod's question that it appears that any new investment on the part of a primary sector business is going to be allowed this credit, I think that is way too wide open. If we can't get some better clarification from the Tax Department who will be administering this, I think I will have to vote against it.

Chairman Cook – I do again believe its Department of Commerce that makes the determination of whether or not it qualifies, not the Tax Department.

Donnita Wald, Tax Department – Commerce determines for the lean manufacturing credit, the automated manufacturing processes, the qualified expenditures are not certified by Commerce.

Chairman Cook – You have to make that determination.

Donnita Wald, Tax Department – That's correct.

Chairman Cook – These amendments came down from the Tax Department?

Donnita Wald, Tax Department – Yes, the original bill did not have any certification of expenditures by the department. It always had the Commerce qualifier in section 2.

Senator Dotzenrod – I see section 1 has language on line 24 about may not exceed $2 million. Is that also then if you took that out that's repeated again?

Chairman Cook – It's also in the lean manufacturing.

Senator Dotzenrod – If the bill was not amended and passed as it is it's a $4 million potential cost and if we took section 1 out we are talking about $2 million potential cost per year.

Chairman Cook – I have the same concerns about the ambiguity as far as what would actually apply and what wouldn't. I think that should be more clearly defined.

Senator Dotzenrod – What is your purpose in taking section 1 out?

Chairman Cook – That is the one that is unclear.

Senator Dotzenrod – One page 3 line 6 this definition to me, if we leave section 2 in, and that's really what the bill is, I see that lean manufacturing definition again, it just tells me that, I don't see how you can turn down anyone.

Chairman Cook – I'm only more comfortable with section 2 because it's not the Tax Department that has to do it. I would think that Commerce might even draft some rules to make it clear.

Senator Oehlke – I would like to remove my Do Pass recommendation.

Senator Burckhard – I will remove my second.

Chairman Cook – We have before us SB 2055.

Senator Hogue – I was wondering whether we want a per taxpayer cap on the credits as well. Do I understand the $2 million is what the Department of Commerce could allocate at any taxable year, but there doesn't seem to be any cap on what a single business could do so it would appear that, could a single business get the entire $2 million?

Senator Dotzenrod – Did I understand right that it would be prorated?

Senator Triplett – That creates a problem all by itself if we are expecting businesses to use these as incentives but they can't know until after they have made the expenditure in a certain time period has passed how many other companies are making the same request so it really isn't an incentive at all upfront in terms of decisions making if it's going to be prorated. It could theoretically end up being prorated among 20 people and be almost valueless to any individual business. I think I like Senator Hogue's idea better that it would be limited to a dollar amount per applicant and that would seem to make it more of a real incentive.

Senator Dotzenrod – I've been going through this testimony and I can't find that we had testimony from the Department of Commerce.

Chairman Cook – I know they were here but may not have testified.

Chairman Cook closed discussion on SB 2055.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB 2055
2/21/2011
Job Number 14761

☐ Conference Committee

A. Bittmiller

Explanation or reason for introduction of bill/resolution:

Relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing

Minutes:

Committee Work

Chairman Cook opened discussion on SB 2055.

Chairman Cook – We had some concerns that there was thought that the automation credits, or the credits for automation left some discretion to the Tax Department as far as what actually is available or what is an expense that would qualify and what would not be. Do we not have sales tax exemptions for the same type of thing? Right now a manufacturing plant, if they were going to purchase something for automation that is exempt from sales tax?

Donnita Wald, Tax Department – If the automation is part of manufacturing sales tax equipment, yes I am assuming. That was something we discussed in the department, that there may be some overlap between this particular credit and the sales tax credit.

Chairman Cook – You say there might be some overlap. In other words they might get both?

Donnita Wald, Tax Department – Right now on line 7 and 8 we did put in there that an expenditure under this section could not qualify for another income tax credit or expenditure but right now that isn't broad enough to cover sales tax exemptions.

Chairman Cook – My guess is that if it gets a sales tax exemption it will qualify as a credit here also.

Donnita Wald, Tax Department – Yes

Chairman Cook – Is that the same for the credits for the lean section?

Donnita Wald, Tax Department – Some of the items in the lean manufacturing may qualify for the sales tax exemption. Page 3 line 11 through 14, here we are dealing with more training programs, materials may, tools may, technology, software, consultant services, would not qualify for that sales tax. There would again, may be some possible overlap in which they would qualify for both the sales tax and the income tax.

Senator Dotzenrod – You were just referencing page 3, qualified expenditures, we have these sales tax exemptions we provide right now for assembly line manufacturing type automated equipment. There are things in here like software, consultant services, and training programs. That to me is something that is not tangible; it's a classroom instruction, bringing in maybe a safety person or a technology advisor or someone that can do some training. This is going to be an income tax because it meets that definition of qualified expenditures, there will be an income tax credit provided for that.

Donnita Wald, Tax Department – That's correct.

Senator Dotzenrod – This list of qualified expenditures that must be a different list in this bill than the same list in the sales tax provisions.

Donnita Wald, Tax Department – Off the top of my head I don't recall what exactly the sales tax manufacturing equipment statute says, if it lists them or not.

Donnita Wald, Tax Department – There is an incentive for training programs in the new jobs training from withholding program that is administered by Job Service and they qualify the companies for that program and the Tax Department administers that.

Senator Dotzenrod – That's for a training program. Through Job Service they have an approved program for training employees for certain particular things that are spelled out and when they employ that and use it they will get an income tax credit and that's under current law separate from what we are considering.

Donnita Wald, Tax Department – Yes

Vice Chairman Miller – That credit, is it a transferrable credit or how does that work?

Donnita Wald, Tax Department – Are you talking about the new jobs training program? That program, how that works is, the business and Job Service enter into a contract. The business can obtain a loan from a local bank. Now the business files its withholding return. The Tax Department will take the dollars that are filed with that return and pay the bank back with the loan, or we can pay the company back until their training costs have been paid off.

Vice Chairman Miller – Is it utilized successfully? What is your opinion on that?

Donnita Wald, Tax Department – Yes it is used and appears successful.

Senator Burckhard – Where I come from we have some serious workforce issues. We've got about 1,100 jobs on the field in Ward County so we have a lot of training needs. Is a bill like this good for that?

Donnita Wald, Tax Department – If the purpose of those training programs is to implement lean manufacturing, under this is bill they would.

Chairman Cook – Generally the training that we are taking about in lean manufacturing is training that's going to be given to current employees.

Donnita Wald, Tax Department – That's correct. It could be current, it could be new.

Chairman Cook – We have before us SB 2055 as amended.

Senator Dotzenrod – During the last week there's been an individual, I can't remember his name, but he's from Bowman, he's been lobbying on this bill and we've had a number of conversations about this. I told him over and over that I needed more clarifications, he's gotten me information, but I told him regardless of how much paper I get on this, I'm still struggling with the idea that if a company is motivated to do something to improve their bottom line and modernize and reduce their costs, reduce their labor, and all the things that are listed here, it seems to me that, I don't know what we need, to have some contribution from the state in terms of reducing their taxes or providing credits. This appears to me to be saying the practices that are in this bill are the practices that you would normally expect businesses to want to try to do, reduce costs, it's got a list of things this lean manufacturing does, to me they are all the things you'd want to do to bring your cost down. I told this fellow I'm having a hard time with this bill. It appears to me that we are taking normal behavior that you would normally expect to see in a capitalistic free competitive society and providing tax credits. I just don't know where the line is anymore on what is the kind of behavior the state should really take some responsibility to try to encourage, and what is just normal standard business. I will move a Do Not Pass on SB 2055.

Seconded by **Senator Oehlke**.

Chairman Cook – I have been selling in the industrial world for 25 years. Everything you sell them is sold to them based on the fact of reducing labor, reduce overhead, reduce costs somewhere, and there is a payback or they don't buy it. If you can't save them money you aren't going to sell anything to them. They've got armies of sales men coming in and doing just that and I don't know if at any time, the person making the buying decision, is considering tax policy, I think that's an afterthought.

Senator Dotzenrod – I think that overall it is a valid objective for state legislators and policy makers to do what you can to create an environment that's competitive and try to bring cost structures down. I think we've got a favorable income tax rate in the state and the taxes that these companies are paying on property for those benefits flow to the corporate side and the companies that might use this bill. I do think we've done a fair amount to provide a general overall favorable climate. I think this bill provides one more thing that they pay be able to use but I'm not too sure where that line is anymore. Where is it that the state's interest lies anymore in providing more and more of this?

Chairman Cook – Any other discussion? Ask the clerk to take the roll on a Do Not Pass on SB 2055.

Carried by **Senator Oehlke**.

FISCAL NOTE

Requested by Legislative Council
12/16/2010

Bill/Resolution No.: SB 2055

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2055 creates two new income tax credits for purchases of machinery and equipment used to automate the manufacturing process and for qualified expenditures relative to lean manufacturing.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 2 of SB 2055 creates a corporation and individual income tax credit for certified primary sector businesses equal to 20% of the cost of purchasing equipment for automating the manufacturing processes. The total amount of tax credits for automation is limited to $2 million per tax year.

Section 3 of SB 2055 creates a corporation and individual income tax credit for certified primary sector businesses equal to 20% of qualifying expenditures associated with implementing lean manufacturing. The total amount of tax credits for lean manufacturing is limited to $2 million per tax year.

Combined, the two tax credits could result in a reduction in state general fund revenues up to $8 million for the 2011-13 biennium. The actual amount of automation and lean manufacturing expenses that will qualify for the credit cannot be determined.

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.*

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, for each agency* *and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/12/2011

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Title.03000

Prepared by the Legislative Council staff for
House Finance and Taxation
February 21, 2011

9B
2-21-11
1 of 3

PROPOSED AMENDMENTS TO SENATE BILL NO. 2055

Page 1, line 16, remove "57-38-29,"

Page 1, line 16, remove the second underscored comma

Page 1, line 19, replace "expenses for purchases of" with "the costs incurred in the taxable year to purchase"

Page 1, line 20, after the underscored period insert "Qualified expenditures under this section may not be used in the calculation of any other income tax deduction or credit allowed by law."

Page 2, line 11, remove "for any taxable year"

Page 2, line 12, replace "limitation under subsection 3, the unused credit" with "liability for tax under this chapter, the excess"

Page 2, line 12, remove "used as an automation"

Page 2, line 13, replace "credit carryover" with "carried forward"

Page 2, line 13, after the first "the" insert "next"

Page 2, line 13, remove "The entire amount of the"

Page 2, remove lines 14 through 16

Page 2, line 17, replace "total" with "aggregate"

Page 2, line 18, replace "taxable" with "calendar"

Page 2, remove lines 20 through 25

Page 2, line 26, replace "7." with "6."

Page 2, line 30, replace "8." with "7."

Page 3, line 6, remove "57-38-29 or"

Page 3, after line 6, insert:

"8. The department of commerce shall provide the tax commissioner the name, address, and federal identification number or social security number of the taxpayer approved as qualifying for the credit under this section, and a list of those items that were approved as a qualified expenditure by the department. The taxpayer claiming the credit shall file with the taxpayer's return, on forms prescribed by the tax commissioner, the following information:

a. The name, address, and federal identification number or social security number of the taxpayer who made the purchase; and

b. An itemization of:

(1) Each item of machinery or equipment purchased for automation;

2 of 3

(2) The amount paid for each item of machinery or equipment if the amount paid for the machinery or equipment is being used as a basis for calculating the credit; and

(3) The date on which payment for the purchase was made.

9. Notwithstanding the time limitations contained in section 57-38-38, this section does not prohibit the tax commissioner from conducting an examination of the credit claimed and assessing additional tax due under section 57-38-38."

Page 3, line 12, remove "57-38-29,"

Page 3, line 12, remove the second underscored comma

Page 3, line 14, replace "expenses" with "the costs incurred in the taxable year"

Page 3, line 15, after the underscored period insert "Qualified expenditures under this section may not be used in the calculation of any other income tax deduction or credit allowed by law."

Page 3, line 25, remove ", or an"

Page 3, line 26, remove "entity designated by the department of commerce,"

Page 3, line 28, remove "total"

Page 3, line 28, replace "amount for" with "in"

Page 3, line 29, replace "incurred" with "made"

Page 4, line 1, remove "for any taxable year"

Page 4, line 2, replace "limitation under subsection 3, the unused credit" with "liability for tax under this chapter, the excess"

Page 4, line 2, remove "used as a lean"

Page 4, line 3, replace "manufacturing credit carryover" with "carried forward"

Page 4, line 3, after "the" insert "next"

Page 4, line 3, remove "The entire"

Page 4, remove lines 4 through 6

Page 4, line 7, replace "total" with "aggregate"

Page 4, line 8, replace "taxable" with "calendar"

Page 4, remove lines 10 through 15

Page 4, line 16, replace "7." with "6."

Page 4, line 20, replace "8." with "7."

Page 4, line 27, remove "57-38-29 or"

Page 4, after line 27, insert:

"8. The department of commerce shall provide the tax commissioner the name, address, and federal identification number or social security number of the taxpayer approved as qualifying for the credit under this section, and a list of those items that were approved as a qualified expenditure by the department. The taxpayer claiming the credit shall file with the taxpayer's return, on forms prescribed by the tax commissioner, the following information:

a. The name, address, and federal identification number or social security number of the taxpayer who made the purchase; and

b. An itemization of:

(1) Each qualified expenditure;

(2) The amount paid for each qualified expenditure if the amount paid for the qualified expenditure is being used as a basis for calculating the credit; and

(3) The date on which payment for the qualified expenditure was made.

9. Notwithstanding the time limitations contained in section 57-38-38, this section does not prohibit the tax commissioner from conducting an examination of the credit claimed and assessing additional tax due under section 57-38-38."

Renumber accordingly

Date: 2-14-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2055

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken: ☐ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Oehlke Seconded By Senator Burckhard

Senators	Yes	No	Senators	Yes	No
Dwight Cook – Chairman			Jim Dotzenrod		
Joe Miller – Vice Chairman			Connie Triplett		
Randy Burckhard					
David Hogue					
Dave Oehlke					

Total (Yes) 6 No 0

Absent 1

Floor Assignment ____________

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

Verbal vote

Date: 2-21-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2055

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Dotzenrod Seconded By Senator Oehlke

Senators	Yes	No	Senators	Yes	No
Dwight Cook – Chairman	X		Jim Dotzenrod	X	
Joe Miller – Vice Chairman		X	Connie Triplett		X
Randy Burckhard		X			
David Hogue	X				
Dave Oehlke	X				

Total (Yes) 4 No 3

Absent 0

Floor Assignment Senator Oehlke

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

REPORT OF STANDING COMMITTEE

SB 2055: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2055 was placed on the Sixth order on the calendar.

Page 1, line 16, remove "57-38-29,"

Page 1, line 16, remove the second underscored comma

Page 1, line 19, replace "expenses for purchases of" with "the costs incurred in the taxable year to purchase"

Page 1, line 20, after the underscored period insert "Qualified expenditures under this section may not be used in the calculation of any other income tax deduction or credit allowed by law."

Page 2, line 11, remove "for any taxable year"

Page 2, line 12, replace "limitation under subsection 3, the unused credit" with "liability for tax under this chapter, the excess"

Page 2, line 12, remove "used as an automation"

Page 2, line 13, replace "credit carryover" with "carried forward"

Page 2, line 13, after the first "the" insert "next"

Page 2, line 13, remove "The entire amount of the"

Page 2, remove lines 14 through 16

Page 2, line 17, replace "total" with "aggregate"

Page 2, line 18, replace "taxable" with "calendar"

Page 2, remove lines 20 through 25

Page 2, line 26, replace "7." with "6."

Page 2, line 30, replace "8." with "7."

Page 3, line 6, remove "57-38-29 or"

Page 3, after line 6, insert:

"8. The department of commerce shall provide the tax commissioner the name, address, and federal identification number or social security number of the taxpayer approved as qualifying for the credit under this section, and a list of those items that were approved as a qualified expenditure by the department. The taxpayer claiming the credit shall file with the taxpayer's return, on forms prescribed by the tax commissioner, the following information:

a. The name, address, and federal identification number or social security number of the taxpayer who made the purchase; and

b. An itemization of:

(1) Each item of machinery or equipment purchased for automation;

(2) The amount paid for each item of machinery or equipment if the amount paid for the machinery or equipment is being used as a basis for calculating the credit; and

(3) The date on which payment for the purchase was made.

9. Notwithstanding the time limitations contained in section 57-38-38, this section does not prohibit the tax commissioner from conducting an examination of the credit claimed and assessing additional tax due under section 57-38-38."

Page 3, line 12, remove "57-38-29,"

Page 3, line 12, remove the second underscored comma

Page 3, line 14, replace "expenses" with "the costs incurred in the taxable year"

Page 3, line 15, after the underscored period insert "Qualified expenditures under this section may not be used in the calculation of any other income tax deduction or credit allowed by law."

Page 3, line 25, remove ", or an"

Page 3, line 26, remove "entity designated by the department of commerce,"

Page 3, line 28, remove "total"

Page 3, line 28, replace "amount for" with "in"

Page 3, line 29, replace "incurred" with "made"

Page 4, line 1, remove "for any taxable year"

Page 4, line 2, replace "limitation under subsection 3, the unused credit" with "liability for tax under this chapter, the excess"

Page 4, line 2, remove "used as a lean"

Page 4, line 3, replace "manufacturing credit carryover" with "carried forward"

Page 4, line 3, after "the" insert "next"

Page 4, line 3, remove "The entire"

Page 4, remove lines 4 through 6

Page 4, line 7, replace "total" with "aggregate"

Page 4, line 8, replace "taxable" with "calendar"

Page 4, remove lines 10 through 15

Page 4, line 16, replace "7." with "6."

Page 4, line 20, replace "8." with "7."

Page 4, line 27, remove "57-38-29 or"

Page 4, after line 27, insert:

"8. The department of commerce shall provide the tax commissioner the name, address, and federal identification number or social security number of the taxpayer approved as qualifying for the credit under this section, and a list of those items that were approved as a qualified expenditure by the department. The taxpayer claiming the credit shall file with the taxpayer's return, on forms prescribed by the tax commissioner, the following information:

a. The name, address, and federal identification number or social security number of the taxpayer who made the purchase; and

b. An itemization of:

(1) Each qualified expenditure;

(2) The amount paid for each qualified expenditure if the amount paid for the qualified expenditure is being used as a basis for calculating the credit; and

(3) The date on which payment for the qualified expenditure was made.

9. Notwithstanding the time limitations contained in section 57-38-38, this section does not prohibit the tax commissioner from conducting an examination of the credit claimed and assessing additional tax due under section 57-38-38."

Renumber accordingly

2011 SENATE APPROPRIATIONS

SB 2055

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee
Harvest Room, State Capitol

SB 2055
02-23-2011
Job # 14801

☐ Conference Committee

Committee Clerk Signature	Alice Delzer

Explanation or reason for introduction of bill/resolution:

A BILL relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing.

Minutes: You may make reference to "attached testimony."

Chairman Holmberg called the committee to order in reference to SB 2055. Roll call was taken. All committee members were present. Tammy R. Dolan, OMB and Roxanne Woeste, Legislative council were present.

Chairman Holmberg: As you all recall we had a Bill referred to us by Senate Rule 329.3 this morning and we have to take a look at it although we have all voted on it. We do have to follow through with the rules and look at the Bill. The Bill came out of the interim Workforce Committee, a number of people on this committee were on that particular Bill. It was a DO NOT PASS and it passed and it just came down to our committee.

V. Chair Grindberg shared that this Bill is a product of the interim Economic Workforce Committee and it positions ND as a leader in productivity. The intent is to provide the additional tool from a business standpoint to advance the manufacturing sector with the automation tax credit and the lean manufacturing as well.

Senator Christmann: From the standpoint of leadership on our side this wasn't sent down in an effort to try to undermine it or anything like that. I noticed the fiscal note and I thought we should have it, but the vote comes up fast, and that's how it made it here.

Chairman Holmberg: It wasn't our fault at all because they had put a Do Not Pass, which meant that we did not have an opportunity to see the Bill. But once it passed, what do you do, the rule is clear. We were told you have to have this Bill down in committee according to the rules unless you suspend the rules. So we wanted the process to be clean.

Senator Wardner MOVED A DO PASS. Seconded by Senator Krebsbach.

A Roll Call vote was taken. Yea: 12; Nay: 1; Absent 0. Senator Warner will carry the Bill. The hearing was closed on SB 2055.

Date: 2-23-11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2035

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Wardner Seconded By Krebsback

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner	✓	
Senator Bowman	✓		Senator O'Connell	✓	
Senator Grindberg	✓		Senator Robinson	✓	
Senator Christmann		✓			
Senator Wardner	✓				
Senator Kilzer	✓				
Senator Fischer	✓				
Senator Krebsbach	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 12 No 1

Absent ______

Floor Assignment Warner

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

REPORT OF STANDING COMMITTEE

SB 2055, as reengrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (12 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). Reengrossed SB 2055 was placed on the Eleventh order on the calendar.

2011 HOUSE FINANCE AND TAXATION

SB 2055

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2055
March 14, 2011
#15369

☐ Conference Committee

Committee Clerk Signature Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing; to provide an effective date; and to provide an expiration date.

Minutes:

See attached testimony #1, #2, #3, #4, and #5.

Senator Grindberg: Introduced bill. Please refer to attached testimony #1. The automated tax credit is a proposal that the economic developers from the across the state have put a lot of effort into in advancing this bill. The bill came to us as a result of the interim work force and economic development committee of which I chaired. We spent a considerable amount of time evaluating this proposal. You may recall that this proposal is similar to a concept that was introduced last session that you heard as well. In my opinion this is about jobs and business growth and continuing to position North Dakota ahead of the pack. I'm sure we all agree that it is a pretty interesting time to be in North Dakota right now with the circumstances, natural resources, and good public policy. In particular the efforts over the last eight to ten years with former Representative Berg's efforts with the business congress that lasted four years, two biennium, and the workforce congress which has now come to a four year process. We have advanced some effective legislation in my opinion. When SB 2055 came up on the floor for a vote I said that this was about higher productivity and a pro-business position for North Dakota. Our manufacturers are experiencing the global competition. The handout I provided is a report recently put out by McKenzie and Company which is a leading U.S. based global competeviness consulting firm working with Fortune 500 and 100 companies primarily around the globe. (Read attached report) I think this demonstrates the priority of SB 2055. My closing comment on the senate floor reminded me of Wayne Gretsky who often said when he was asked how he became such an effective hockey player and he said he learned to skate where the puck is going not where the puck is at and I think that illustrates the example of where we need North Dakota's economy and business climate to keep moving forward to where the puck is going. This bill certainly fits in that mold in my opinion.

Justin Pearson, Vice President of Greater Fargo Moorhead Economic Development Corporation: Support. Please refer to attached testimony #2.

Chairman Wesley R. Belter: The automated manufacturing equipment is on the federal tax liability. Is that eligible for the 179 or the full bonus depreciations that are in effect right now?

Justin Pearson: I'm not positive on that.

Representative Steven L. Zaiser: How do we define and measure lean manufacturing in terms of if we really are lean and mean so therefore being eligible for these tax credits? I think that is an important definition because if it passes both houses we've already given some pretty broad based tax cuts to all businesses and if we're going to give over and above some of those tax cuts I'd like to make sure it's defined well.

Justin Pearson: I think what was in the bill was to allow the department of commerce to certify those expenditures. Lean manufacturing is an important part of the manufacturing to grow on the assets and resources they have existing to improve their productivity and efficiency to fill that gap.

Representative Steven L. Zaiser: Will there be any claw-backs? For instance, a manufacturing says they've achieved this lean manufacturing and they actually don't, are there any claw-back requirements?

Justin Pearson: I don't believe there is anything in the bill right now.

Representative Dwight Wrangham: If I read this correctly, this would be an income tax credit. Would the expenses for the automating in becoming a lean manufacturer be first deductible as an expense and also getting a tax credit?

Justin Pearson: I believe so.

Dan Walerius, Facility Manager of Caterpillar Reman Drivetrain: Support. Please refer to attached testimony #3.

Joe Rothschiller, President of Steffes Corporation in Dickinson: Support. We are a metal manufacturing company with 160 employees. We do a tremendous amount of work in the oil patch. We make all kinds of things that we didn't make five years ago. We also make electric heaters that we sell throughout North America so we deal with many of the cold climates across rural America. We are a pieces and parts manufacturing company where we build attachments and weldments for larger companies like Bobcat, Case, etc. We are in support of this bill for a variety of reasons. There are two parts to the bill and one is the automation side of it and when we look at automation we don't look at it ever as replacing jobs. It actually requires a higher skilled workforce to bring automation into your plant. Automation is something we have to look at. I remember as a smaller manufacturer we should be about $40 million in sales this year while three years ago we were about $18 million in sales. Automation is something that is very scary for a smaller manufacturing company. When you spend $180,000 to $1.2 million on a piece of equipment it gets real scary. What comes with that in terms of the higher skilled workforce isn't just the operator. You can't just take any ordinary operator and stick him on that with no training but you also increase the skill levels that are needed in your maintenance people and your engineering staff; everybody has to perform at a higher level. I many times draw on a board for staff what I call the ladders of manufacturing sophistication and at the center of any industry is the job shop. If you envision a ladder above that circle of the job shop each wrung of that ladder requires certain things for a manufacturing company to go through to move up that level of manufacturing sophistication and automation is one of those; lean manufacturing is another one. Lean manufacturing has been around for 30 years, this isn't anything new. I can tell you along with ISO, International Standards Organization, other things that are going on out there and what happened with the economy in the last three years the larger manufacturers are requiring the smaller manufacturers to become more automated and to implement lean and ISO. If you want to do business with those guys today we've got customers that are saying if you are not certified and not doing these things you will no longer get new business from us. As a small company having to automate something we are certainly willing to do but it is an investment that isn't a one-time investment. If you spend the million dollars you invest in that piece of equipment every single year in terms of operating and maintenance costs. Any of you who have been in manufacturing we have a powder painting system out there that we've had for 25 years and every year we learn something new on that system. I always chuckle when I hear other companies say they are going to put one in and start doing this right away but it doesn't work that way as you have to learn that technology and everything that goes with that. Bringing in that first robot welder was scary but that was 24 years ago and so when we look at automation and look at moving forward as an organization there are a lot of scary things. What does lean mean? I'm a bean counter and we started out in lean in 2002 and at that same time we were looking at expanding our building. Since 2002 we have delayed our building expansion three times because of lean. Lean is a process a transformation you go through as a company. It actually makes you think the opposite of GAP accounting, general accepted accounting principles. Today I cringe when I look at smaller manufacturers and what they want to do to increase their inventory and spend money on all this equipment when all they really need to be doing is lean because it makes you focus on flow and pull and your bottlenecks in your operation and that's where you need to invest your dollars. Lean is a great program but it's not easy to do. The GAP accounting system tells you mass production is right and to build lots of it at a low cost. Lean says to build it at the rate of customer demand, it's all about flow and pull and cash flow and survival. It's not about a small per piece cost, it's completely different thinking and you won't spend money on equipment in a lean environment as you would in a GAP environment. When I saw that piece in the legislation that got me excited. I started feeling around to see what was happening with this bill. Lean is very critical to the manufacturers in North Dakota and anything we can do to entice them to go down those avenues, it's not cheap either, it's a complete transformation of the company. We have resources like the Dakota MEP that has done wonderful things with lean manufacturing training. At Steffes of the 160 employees we now have 20% of the people who have gone through the bronze certification training through the MEP, 10 of those are certified people who have gone through the entire process which isn't an inexpensive task to go down but is something our people realize how valuable that is. In 2002 we started with lean and it died in our company, it became a swear word because as soon as you ran out of a part or something happened they thought it was because of lean. I failed in 2002 as president of the company not to educate and get a common vocabulary in our company on what lean was all about. In 2005 we started over with the MEP and we started doing education and training with our staff. Today you can't take it away from our people. They sit in an airport and they see people washing windows and they come back and say they were batching washing those windows instead of doing a flow system. It makes you efficient and productive. The purpose of our company is to create wealth for customers, vendors, employees, stockholders, and our community. This bill helps create wealth and that is why I am asking you to support it.

Vice Chairman Craig Headland: Would your business be better served with a 20% reduction in your overall tax or do you think that a tax credit is more targeted and is more helpful to your business with all the other things that are occurring today such as the 179 exemption or instant depreciation or whatever? What better serves your business?

Joe Rothschiller: I believe that our expenses through automation would indeed qualify through section 179 and any other accelerated depreciation that is out there. What I take away more from this is that I'm not a real generalist kind of guy and I love all the tax breaks but my point is that when you can hone in and target where you want those credits to go and believe that investment is truly going to have a return I support those things. When we step back and say let's just make this real general and anything could qualify then where's the return on that? I look at the specifics of automation and lean manufacturing. I have a passion for both of those in order to keep us competitive and other businesses in North Dakota competitive.

Vice Chairman Craig Headland: I'm asking you in a world where you can't have both. This committee has passed out a fairly substantial tax reduction in the overall burden which you would certainly have available to your company if you are making a profit. Does that help you in ways that also help all the other taxpayers where this is targeted at a company such as yours?

Joe Rothschiller: You're asking me to choose an a or b?

Vice Chairman Craig Headland: I'm asking you if you have preference.

Joe Rothschiller: I'm really on both sides of this. I can't say one is better than the other.

Representative Steven L. Zaiser: How much does this bill define lean manufacturing and how much of the equipment being purchased today by various North Dakota companies would fit under lean manufacturing?

Joe Rothschiller: I can't answer the total number in relation to North Dakota. Lean tells you not to spend money it says to find the best way possible with the least amount of expenditures. If I look at the bill what expenses the bill would allow would be consulting services, training for specific programs, materials you may need, etc. This isn't a huge expenditure in terms of an equipment purchase on the lean side of things; it's to get that outside help you need to implement it to your organization. I believe as the bill is written the department of commerce is going to determine which of those will qualify and I think that is the best. We invest half million to million dollars a year on equipment and not all of it is automated, you just have to do that to stay competitive. From a lean perspective I would say that we've invested probably about $800,000 in the last five to six years of which I would say $120,000 would have qualified in this bill.

Representative Steven L. Zaiser: Would you say the trend in North Dakota is to move this way?

Joe Rothschiller: Yes, I think that as companies grow and move up those ladders of manufacturing sophistication they are going to face this. To be a job shop you can operate within your own little region or township but when you're trying to go out statewide or regionally or globally then you aren't going to make it because they won't do business with you. The larger businesses aren't going to do business with you to help you grow, you have to invest and start doing some things.

Representative Dwight Wrangham: I love your enthusiasm about lean manufacturing. In my opinion we do not have very lean government in North Dakota. When we give a tax credit of any kind to one individual, person, or entity we raise somebody else's because we don't lower the budget. You said you do a lot of business with the oil fields. Aren't you afraid that as we continually rely more and more on things like oil production to over tax them and to give tax credits to businesses that the overall sum game to you is going to be a minus?

Joe Rothschiller: I'm not sure how I should answer that question because I'm sure I fully understand it. If we look at lean and granted this bill is talking about manufactures, you don't have to be a manufacturer to be lean; it's not about being a lean mean machine. Lean will apply to any process, it will apply to government. One of our consultants we use wrote the book on practical lean accounting and works with all types of entities. Lean is for everybody. Government could benefit greatly. Starting somewhere to see that materialize is good as well but manufacturing has been the place for the last 30 years. We haven't seen companies take off and do a lot of lean things. In Dickinson I'm part of a round table with about 25 different businesses and Steffes is the one who has taken the bull by the horns and has moved forward more than anybody and yet the others need the same.

Representative Dwight Wrangham: I'm talking about the tax shift. The shift that takes place when we give a tax credit to one industry or one manufacturing segment and then raise the tax on your customers. Isn't it eventually going to be a negative to them and consequently they do less business with you? A tax break is good for you but is a tax increase bad for them? I'm assuming it must be. I think fairness is where we need to be and that's why I'm having a bit of trouble with this but I want to give you every chance you can to make me understand differently.

Joe Rothschiller: Taxes are a necessary evil. In our organization our purpose is to create wealth. There may be a tax credit but as the company grows and becomes more competitive and provides better benefits with higher pay those all come back to society and our communities. I think that there is a multiple effect of that credit in the positive sense.

Representative Mark S. Owens: This is an interesting approach to manufacturing based on everything that's been done across the United States to try to entice manufacturing. However, in reading all the handouts and reading the bill over again my question is that I see a reporting requirement in here on what was expended and who did it and who took the tax credit and things but I don't see the matrix associated with the so called goals of both automation and lean and linking the two. So far we've heard some really good questions about section 179 and the appreciation and the deduction and getting a tax credit on top of the deduction. I'm curious though if this tax credit and the matrix themselves to see if it's doing what the goal of the program was.

Joe Rothschiller: I would defer that answer to someone on the bill side.

Representative Dave Weiler: Do you understand the irony in coming to the government to ask for lean? I proposed a complete elimination of personal and corporate income tax in the state this session that did not get a lot of support. I'm starting to understand that it is probably a good thing that we didn't pass that because if that bill would have passed we wouldn't be able to give all these tax credits that we've been asked to give this session.

Representative Lonny B. Winrich: I'm not really sure from your testimony if your company has started the lean manufacturing in either 2002 or 2005, but how many employees did you have at that time and how many do you have today?

Joe Rothschiller: In 2002 we had about 85 employees so we have doubled. We started calling it lean manufacturing, it's not lean manufacturing it's a lean enterprise. We don't have any departments at Stefas, they are all value streams. We've changed our accounting in how we look at the actual flows of revenues and expenses. It's a transformation and a journey. I don't think you ever get there but we had to restart it because we started it wrong by not going to outside consultants because manufacturers are cheap and we don't like to spend money. When we did go outside to find that resource is when things really worked well for us.

Representative Lonny B. Winrich: But you went from 85 employees in 2002 to 170 today?

Joe Rothschiller: We have 160 today. I would tell you that we went from $18 million to $31 million in sales and we decreased our inventory by $1.5 million by using lean. It was black and white.

Representative Scot Kelsh: There has been no other tax increase in this session this year, just so you know.

Joe Rothschiller: That's great. You submitted a bill that didn't go but I would hope that each one of us in the room when we look at our grandkids and our grandkids are not paying state income tax in this state someday.

Bill Shalhoob, ND Chamber of Commerce: Support. Please refer to attached testimony #4. We talked a little about tax shift and while this may represent a tax shift there is a benefit to the companies that are on the other end and that is if we can get our companies to manufacture things costs become lower to them and the things that they sell. You're going to have to become more competitive in order to stay in business, we all know that. You can't just keep passing along costs to the customers because someone will come along and invent a better mousetrap and do it cheaper and better than you and you'll be out of business. I think there is a balance in revenue on the revenue side when we look at the revenues between tax cuts and credits. When we have a goal in mind and in this case we have a goal to encourage our manufacturers to become more automative and go down the path of lean manufacturing we are encouraging them as a state to become better so they can become more competitive so they can continue to grow their business. We think this is a good policy and a good path to put our manufacturers on. If we can do that and being these processes with a relatively modest sum of money we will see the benefits of that in the state in terms of increased jobs, growth, etc. While we are in favor of tax breaks we believe that the credit side also deserves some attention in areas where the policy will really be good for North Dakota.

Cal Klewin, Economic Development Association of North Dakota: Support. Please refer to attached testimony #5.

Representative Glen Froseth: If a manufacturing buys a new piece of equipment that qualifies for the 20% of income tax and that equipment makes them a lean manufacturer will that qualify for two income tax credits? That piece of equipment is subject to an accelerated depreciation under the income tax laws so that equipment could qualify for a lot of tax exemptions, is that right?

Jennifer Clark, Legislative Council: In the first house they amended this bill to include a provision on page 1 lines 20-22 where a qualified expenditure under this section may not be used in the calculation of any other income tax deduction or credit allowed by law. I would defer to somebody else for the second part of your question.

Ryan Rauschenberger, Office of State Tax Commissioner: My belief is that this equipment would be subject to the bonus depreciation at the federal level. Up until December it was 50% bonus depreciation and now with the compromise in congress it would be 100% deductible at least through this year then I think it goes back to the 50%. I think as far as federal treatment I believe it would be fully expensed if it is new equipment.

Representative Steven L. Zaiser: Is it going to be difficult to define what equipment is going to fit into what is lean manufacturing?

Ryan Rauschenberger: On the senate side we had some discussion about what would fit into lean manufacturing. With the ability for congress to certify those expenditures up front it provides for a screening process. That reporting process has another purpose in that it helps us identify. There's also a $2 million cap per year with each of these credits and it helps us identify when we are getting closer to that.

Representative Mark S. Owens: If they choose the 20% or whatever that might be, if they choose the state tax then they have to add it back in?

Ryan Rauschenberger: This would not have any effect on the federal deduction treatment. We start off of a point after depreciation and deduction when we start calculating state tax credits. That would still be deducted and wouldn't have any impact on this credit at the federal level. That language was added in the instance where research and development credit is offered on the state level 25% credit, so the expenditures would not be double dipped and qualify for this 20% on top of it. It was language as far as state expenditures go that this would not be eligible for both, it would have to be one or the other on the state level.

Chairman Wesley R. Belter: No further testimony. Closed hearing on SB 2055.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2055
March 14, 2011
#15400

☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to income tax credits for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes and for qualified expenditures for lean manufacturing; to provide an effective date; and to provide an expiration date.

Minutes:

No attachments.

Representative Bette Grande: As I'm listening to this I feel like there is a double dipping side to this. I was not impressed with passing this. Am I correct that they can do the depreciation and then they can also do the credit?

Chairman Wesley R. Belter: They can write the whole thing off on the federal. I don't think there's any double dipping on the state side.

Representative Bette Grande: Then they get a 20% off beyond that.

Chairman Wesley R. Belter: On the state tax, yes.

Representative Dwight Wrangham: I would move a Do Not Pass.

Vice Chairman Craig Headland: Seconded.

Representative Shirley Meyer: With what Representative Grande just said on page 1 lines 20 and 21, isn't it just one income tax deduction or credit?

Representative Bette Grande: Yes.

Representative Patrick Hatlestad: Does a business do their state tax like an individual does where you just take a percentage of your federal?

Chairman Wesley R. Belter: We don't do that anymore, we have our own rates.

A roll call vote was taken: YES 10 NO 4 ABSENT 0

MOTION CARRIED FOR DO NOT PASS.

Representative Dwight Wrangham will carry SB 2055.

Date: 3-14-11
Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2055

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Wrangham Seconded By Rep. Headland

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh		✓
Vice Chair. Craig Headland	✓		Shirley Meyer		✓
Glen Froseth	✓		Lonny B. Winrich		✓
Bette Grande	✓		Steven L. Zaiser		✓
Patrick Hatlestad	✓				
Mark S. Owens	✓				
Roscoe Streyle	✓				
Wayne Trottier	✓				
Dave Weiler	✓				
Dwight Wrangham	✓				

Total (Yes) 10 No 4

Absent Ø

Floor Assignment Rep. Wrangham

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

REPORT OF STANDING COMMITTEE

SB 2055, as reengrossed: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). Reengrossed SB 2055 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

SB 2055

A

<u>Senate Bill No. 2055 First Hearing</u>

1/26/11, 9:00 am, Lewis and Clark Room

1. Senator Tony Grindberg (5 minutes)
   a. Introduce Senate Bill 2055
   b. Discuss Workforce Committee
2. Tax Commissioners Office (5 minutes)
   a. Discuss fiscal impact to state and technical questions
3. GFMEDC- Kevin McKinnon (5 minutes)
   a. Discuss workforce shortages, production demands, low cost/global competition, and existing manufacturer's retention tool.
4. John Deere- Bryan Bossart, Phoenix International (5 minutes)
   a. Discuss company focus on growing John Deere facilities in N.D.
5. Bourgault Industries- Ron Allan (5 Minutes)
   a. Investing in U.S. operations in Minot
6. EDND- Keith Lund/Cal Klewin (5 minutes)
   a. EDND statewide support.
7. Minot EDC- Jerry Chavez (5 minutes)
   a. Focus on workforce shortages relating to oil impact

** Department of Commerce available for questions on logistics, certification, and application process.

A1

Introduction to TBED

What is Technology-based Economic Development?
Over the last several years, the U.S. economy has been undergoing a dramatic transformation as the nation moves to an economy driven by technology—through the creation of new industries and the application of technology in traditional industries. Competing in a global economy, regions must have an economic base composed of firms that constantly innovate and maximize the use of technology in the workplace. Technology-based economic development is the approach used to help create a climate where that new economic base can thrive.

What is Required for a Technology-based Economy?
Based on the experience of tech-based economies like Silicon Valley, Research Triangle, and Route 128, the following elements are required for a tech-based economy:

- **An intellectual infrastructure,** i.e. universities and public or private research laboratories that generate new knowledge and discoveries;
- **Mechanisms for transferring knowledge** from one individual to another or from one company to another;
- **Physical infrastructure** that includes high quality telecommunications systems and affordable high speed Internet connections;
- **Highly skilled technical workforce;** and
- Sources of risk **capital**.

What Approaches Can Be Employed to Develop These Elements?
Intellectual Infrastructure. Improving the intellectual infrastructure by strengthening higher education system R&D capacity, investing in higher education in areas of industrial relevance, and encouraging greater university-industry interaction.

Spillovers of Knowledge. Much of the success of Silicon Valley can be attributed to the success in transferring knowledge and technology from universities to the private sector and among companies. Spillovers of knowledge can be accomplished by identifying and removing barriers to the commercialization of university-developed technology, encouraging access to federal laboratories, and providing seed funding to industry associations and technology councils that promote communication among companies.

Physical Infrastructure. The competitiveness of an economy is increasingly dependent on its enabling infrastructure. While in the past this meant roads, bridges, rail and telephone access, today it includes proximity to airports, fiber optics networks, and high speed Internet access.

Technically-Skilled Workforce. Approaches that regions can take to ensure the availability of a technically skilled workforce include encouraging more students to enter science and engineering fields and providing training for workers in technology-based companies.

Capital. The availability of capital to support start-up and emerging companies is critical. Regions can address needs for capital by investing state funds in technology companies, using state funds to leverage private funds, helping companies access capital sources, and offering R&D tax incentives.

Want More Information on Tech-based Economic Development?
For the most comprehensive database of reports and studies on tech-based economic development, visit the TBED Resource Center, which SSTI has developed in partnership with the U.S. Department of Commerce.

Prepared by the North Dakota Legislative Council
staff for Senator Tony Grindberg, Chairman,
Workforce Committee
November 2010

WORKFORCE COMMITTEE - BILL DRAFT SUMMARIES

The 2009-10 interim Workforce Committee approved and recommended the following 12 legislative measures:

Angel Fund Investment Tax Credit - 10166.0200 - This bill draft amends the angel fund investment tax credit to allow for transferability of the tax credit and to allow passthrough entities to claim the credit. The bill draft includes a Tax Commissioner report to the Legislative Management, and the bill draft is applicable to the first four taxable years beginning after December 31, 2010, and is thereafter ineffective.

Innovation 2020 Award - 10167.0200 - This bill draft creates the innovation 2020 award program, which is administered by the Department of Commerce, and provides a $500,000 appropriation to the Department of Commerce for the program. The program provides proof of concept funding awards of up to $50,000 per qualified entrepreneur to help move a new technology from academia to the commercialization cycle. The entrepreneur is expected to repay the award.

Technology Award Grant Program - 10168.0200 - This bill draft creates a technology award grant program, which is administered by the North Dakota Development Fund, Inc., and provides a $500,000 appropriation to the North Dakota Development Fund, Inc., for the program. The program provides matching grants of up to $50,000 to technology-based businesses that are in the startup stage.

Manufacturing Income Tax Credits - 10169.0300 - This bill draft creates two new manufacturing income tax credits. The income tax credit for purchases of manufacturing machinery and equipment for the purpose of automating manufacturing processes is available to primary sector businesses and is equal to 20 percent of the expenses of the purchase. The income tax credit for qualified expenditures necessary for implementing lean manufacturing is available to primary sector businesses and is equal to 20 percent of the expenses. Each tax credit program is limited to $2 million per taxable year.

Higher Education and Workforce - 10170.0400 - This bill draft amends the laws relating to TrainND, the new jobs training program, and operation intern; creates an electronic portfolio pilot program and a student opportunity website; and provides the measure is an emergency measure.

The new jobs training program and the TrainND program are amended to provide the TrainND community colleges are included under the definition of "community" under the new jobs training program, thereby allowing TrainND to issue new job training loans in the same way as local economic development corporations.

The operation intern program law is amended to remove the provision that was added in 2009 to provide that employers are eligible for funding under the program only for new or expanded internship, apprenticeship, and work experience opportunities.

A higher education electronic portfolio (e-folio) system pilot program is created. The Department of Commerce Division of Workforce Development would administer the pilot program and the Division of Workforce Development, the North Dakota University System, Job Service North Dakota, and representatives of the institutions of higher education under the control of the State Board of Higher Education are directed to work together to establish the program. The e-folio product would be an online system that would be used to address the needs of higher education students and faculty as well as employers.

A student opportunity website is created which would act as a single portal through which users can search for internship opportunities and scholarship opportunities available at or through the institutions of higher education under the control of the State Board of Higher Education.

Centers of Workforce Excellence, Centers of Entrepreneurship Excellence, Centers of Research Excellence, and EPSCoR - 10178.0200 - This bill draft provides for the centers of workforce excellence (CWE), centers of entrepreneurship excellence (CEE), and centers of research excellence (CRE); provides funding for the CWE, CEE, and CRE; and provides funding for the EPSCoR program.

The existing Workforce Enhancement Council grants are renamed CWE grants, and $2 million is appropriated for the CWE grants.

The bill draft creates a CEE grant program administered by the Department of Commerce. The CEE program provides grants to department-certified entrepreneurial centers to be used to assist entrepreneurs in accessing capital, assisting entrepreneurs through providing marketing assistance, supporting building entrepreneur infrastructure, and developing entrepreneurial talent. An appropriation of $5 million is made for grants under the CEE program.

The bill draft creates a CRE grant program administered by the Department of Commerce. The CRE grant program is based on the current centers of excellence program but is limited to research universities. The eminent researcher recruitment challenge grant program is included as part of the CRE program. Appropriations are made as follows: $10 million for the CRE grants and $2 million for the eminent researcher recruitment challenge grant program.

The bill draft provides for CRE infrastructure grants, based on the infrastructure grants created in 2009. The CRE infrastructure grants would be available to research universities and to nonprofit university-related foundations for use in infrastructure or enhancement of economic development and employment opportunities. The bill draft provides an appropriation of $4 million for these CRE infrastructure grants and appropriates $10 million to the North Dakota University System for the purpose of funding the EPSCoR program.

Technology Impact Zones - 10179.0200 - This bill draft creates a technology impact zone program administered by the Department of Commerce. The program allows a local government, or one or more local governments working together, to qualify for a specified amount of sales tax reimbursement. The reimbursement is for support of regional technology-based economic development efforts. Caps built into the program include a recipient's lifetime cap of $3 million as well as a limit of eight zones in the state. The program is effective through July 31, 2023, and after that date is ineffective.

Centers of Excellence Postaward Monitoring - 10215.0200 - This bill draft modifies the centers of excellence postaward monitoring requirements. The bill draft allows for a postaward fiscal audit at the halfway point of the postaward monitoring period as well as at the completion of the postaward monitoring period and allows for an agreed-upon procedures engagement for all other years of the postaward monitoring period.

Performance Audit Timeframes - 10216.0200 - This bill draft provides the State Auditor shall complete a performance audit within 90 days from the date of commencement of the performance audit.

Scholarship Funding Legislative Intent - 10254.0100 - This bill draft provides legislative intent that the funding of higher education scholarships comes from the interest and other income transferred from the foundation aid stabilization fund to the state general fund.

Scholarship Funding Constitutional Amendment - 13024.0200 - This concurrent resolution draft provides for the amendment of Article X, Section 24, of the Constitution of North Dakota relating to the distribution of income from the foundation aid stabilization fund for use in funding higher education scholarships.

Northern Tier Network Technology Initiative - Concurrent Resolution 13022.0100 - This concurrent resolution draft supports the Northern Tier Network Technology Initiative and the related activities of the Legislative Management's Information Technology Committee.

B

Automation and Lean Manufacturing Incentives
N.D. Senate Bill No. 2055

Background

North Dakota has a strong history of creating a positive business climate that has attracted and supported the growth of many businesses, including manufacturing companies. A strong pro-business regulatory and tax climate combined with a low cost structure, and a productive and hard-working population, has helped us attract and support growth in the manufacturing industry.

Today's globally competitive marketplace presents challenges to North Dakota manufacturers. Our traditional low cost model is no longer superior. North Dakota is now faced with international competitors whose labor costs are a fraction of those in the United States. In addition, North Dakota companies are faced with increasing costs for healthcare, energy and transportation, and consumers that demand increasing lower cost products. In order to keep their costs per unit low enough to compete, North Dakota's manufacturers will be forced to increase productivity while decreasing costs. The only way to achieve this will be through automation and lean manufacturing.

There are exceptions to these challenges, which should be noted. Manufacturing companies that operate in high margin industries, along with those that are resistant to global competition for market access due to logistical advantages, will be less affected by international competition.

Another issue challenging North Dakota's manufacturers is a workforce availability shortage. In fact, a majority of the manufacturing businesses surveyed by the Greater Fargo Moorhead Economic Development Corporation's workforce retention and expansion program listed workforce availability as their number one barrier to growth.

With few unemployed seeking work, it is clear that we need to better utilize our existing workforce and focus on quality of jobs rather than quantity. We must do more with the workers we have, increasing productivity and output by using machines and robots to replace and supplement human labor.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Aggressive, innovate public policy that focuses on quality of jobs, not quantity, and that is relevant to today's economy, is the first step to addressing our challenges.

Bottom line: we must worry about the long-term viability of manufacturing companies in North Dakota. In order to address these challenges we propose tax incentives that encourage productivity and efficiency.

Review of Best Practices

Many states in the United States are concerned about the viability of their manufacturing industry. North Dakota is among several states that offer a sales tax exemption for manufacturing purchases.

A review of state policies produced a few incentives that focused on automation and increased productivity and efficiency. Here are a few of those policies:

-*Ohio Manufacturing Machinery & Equipment Investment Tax Credit.* This legislation was created to encourage the expansion of existing operations by upgrading machinery and equipment with new technology. This tax credit offers a non-refundable corporate franchise or state income tax credit for a manufacturer that purchases new machinery and equipment.

-*Louisiana Modernization Tax Credit.* This program provides a refundable state tax credit for manufacturers making capital investments to modernize or upgrade existing facilities. To qualify for the program, a company must meet one of the following criteria: modernization helps improve entire facility's or specific unit's efficiency by greater than 10% ***or*** the facility is in competition for capital expenditures within a company's established, competitive capital expenditure budget plan.

-*Virginia Investment Partnership Grant.* This program is used to encourage existing Virginia manufacturers to continue to invest in Virginia and to provide stable employment opportunities by adding production capacity, utilizing state-of-the-art technology, and modernizing assembly processes.

-*Kentucky Reinvestment Act.* This program offers an income tax exemption for the purchase of eligible equipment and related costs related to a qualifying Reinvestment Project which includes the acquisition, construction and installation of new equipment and the construction, rehabilitation and installation of improvements to facilities necessary to house the new equipment.

There does not appear to be any state incentive that ties both automation and lean manufacturing together in one policy. North Dakota could be a pioneer in this policy area.

<u>Proposed Tax Credits</u>

Automation tax credit

The purpose of an automation/productivity tax credit is to encourage the expansion of North Dakota manufacturing and to alleviate the challenges of workforce shortages and to help ND businesses compete against global competitors.

Proposed credit:
20 percent North Dakota corporate income tax credit on eligible equipment purchases. The taxpayer is permitted to carry forward unused tax credit amounts for up to five years. The total amount of credits allowed may not exceed $2 million in any taxable year. Eligible equipment includes automation and robotic technologies used in the manufacturing process.

The goals of the tax credit are:

- Retain and expand manufacturing companies and jobs
- Increase workforce productivity
- Address workforce shortages
- Assist in company's ability to meet market demand
- Transition North Dakota incentives to encourage higher-paying jobs
- Enhanced utilization of North Dakota's incumbent workforce

Lean Manufacturing Tax Credit

The purpose of the lean manufacturing tax credit is to promote the retention and expansion of North Dakota manufacturing companies through enhanced quality, productivity and efficiencies. This is critical to the survival of local companies as they face very stiff competition from companies based in low-cost countries.

Proposed credit:
20 percent North Dakota corporate income tax credit on qualified expenditures (training programs, materials, tools, technology, consulting services, software, which have been certified by the Dept. of Commerce) necessary in the implementation of lean manufacturing. The taxpayer is permitted to carry forward unused tax credit amounts for up to five years. The total amount of credits allowed may not exceed $2 million in any taxable year.

The goals of the tax credit are:

- Retain and expand manufacturing companies and jobs
- Increase workforce productivity
- Address workforce shortages
- Assist in company's ability to meet market demand
- Transition North Dakota incentives to encourage higher-paying jobs
- Enhanced utilization of North Dakota's incumbent workforce

CATERPILLAR®

Caterpillar Remanufacturing Drivetrain, LLC.

1262 West Main Avenue
West Fargo, North Dakota 58078 USA
Office: (701) 282-5294
Fax: (701) 282-6105

January 24, 2011

To: ND Senate Finance and Taxation Committee

Re: In Support of N.D. Senate Bill No. 2055

Dear Senators:

Caterpillar Reman Drivetrain, LLC. ("CRDL") a West Fargo based Caterpillar remanufacturing facility, is pleased to support Senate Bill No. 2055. As part of Caterpillar Inc., the world's leading manufacturer in mining and construction equipment, we recognize the importance of utilizing technology and innovation to continuously improve our product and reduce costs in a very competitive global marketplace. In fact, Caterpillar has over 8,000 engineers and technical experts throughout the world that do just that; including our engineering and technical support folks working right here at our North Dakota facility.

Caterpillar is committed to sustainable development which means leveraging technology and innovation to increase efficiency and productivity with less impact on the environment. A major contributor to the sustainability commitment is Caterpillar's remanufacturing program, which turns end-of- life iron back to good-as-new product. Over 120 million lbs of iron are salvaged annually at Caterpillar's remanufacturing facilities throughout the United States and all over the world, including the 18 million lbs remanufactured and recycled right here at our North Dakota facility.

Remanufacturing is a rapidly growing industry that is very competitive. This competition exists both in the "external" sense; that is, competing against other companies and their products, and in the "internal" sense, that is, competing cost-wise with our other Caterpillar facilities located throughout the world. With that, our CRDL North Dakota facility recognizes first-hand how critical a part technology and innovation play in our ability to face global competition.

As an example, with the recent acquisition of a CNC lathe and CNC mill costing over $2 million, CRDL was able to successfully bring high tech machining work done at a Caterpillar India facility to our West Fargo facility. This work will add two engineering support positions and six machinist positions to our facility. We are grateful to receive this level of capital investment from our company, especially as capital projects such as these are highly sought-after. This legislation before you, Senate Bill No. 2055, would help provide the competitive advantage needed to continue to help create and retain well paying highly-skilled manufacturing jobs in North Dakota.

Thank you for your consideration.

Sincerely,

Dan Walerius

Dan Walerius
Facility Manager
Caterpillar Remanufacturing Drivetrain, LLC.

APPAREO
SYSTEMS

1810 NDSU Research Circle North
Fargo, ND 58102

Tel [701] 356-2200
Fax [701] 356-3157

www.Appareo.com

January 24th, 2010

SUBJECT: Manufacturing Tax Credit (Senate Bill Number 2055)

Dear Chairman Cook and Senate Finance and Taxation Committee Members,

On behalf Appareo Systems, LLC, and our fifty-five employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

For Appareo Systems, this legislation supports our companies continuing efforts to grow and advance our manufacturing capabilities, bringing additional elements of our products' manufacturing process in-house. These elements are currently sourced to companies in other states, primarily Minnesota, allowing our company to add jobs in our manufacturing group while reducing the costs of our products and driving up our profitability.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in growing manufacturing companies.

Again, I encourage your support of Senate Bill 2055.

Very Respectfully,

David Batcheller
Chief Operating Officer

Composite America, Inc.

401 27th Street North
Fargo, ND 58102
phone: 701-364-2844
fax: 701-364-2846
www.compositeamerica.com

Dear Chairman Cook and Senate Finance and Taxation Committee Members,

On behalf of Composite America, Inc. and its ten employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

Composite America, Inc is a manufacturing company specializing in custom molding natural fiber composite materials for large OEMs. Our company is built on the fundamentals of lean manufacturing, which we feel is critical to our future success. We have and continue to benefit from our investments in automation within our production facility. Automation is a benefit for businesses, as it helps address workforce shortages and global competition. It is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining a competitive edge, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in encouraging our businesses to do business in a way that allows them to remain competitive and growing.

Again, I encourage your support of Senate Bill 2055.

Sincerely,

Scott Greelis

Scott Greelis
General Manager

Kringstad Ironworks, Inc.
PO Box 11
406 Tower Street
Park River, ND 58270
701-284-6194 phone
701-284-6200 fax

Dear Chairman Cook and Senate Finance and Taxation Committee Members,

On behalf of Kringstad Ironworks Inc., and its 58 employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

Kringstad Ironworks has grown considerably in recent years, with 80% of sales supported by the national sugar beet industry, 15% from our patented Safe-T-Pull apparatus, and approximately 5% through contracts with companies such as LM GlasFiber. With such growth comes the increased need for automated equipment, which KII has spent between $200,000 to $400,000 in recent years. To remain competitive in business, it is critical for our firm to hire and retain educated and highly qualified personnel, who are in high demand in rural areas. Legislation such as Senate Bill 2055, enables us to hire such employees as well as increase technological capabilities. Those factors in turn increase production, which directly affects sales.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in growing manufacturing companies.

Again, I encourage your support of Senate Bill 2055.

Sincerely,

Ronald Buchwitz
General Manager

C

Senate Bill 2055

Chair Cook finance & Members of the Senate Tax Committee;

My name is Andy Peterson. I am the President & Chief Executive Officer of the North Dakota Chamber of Commerce. The North Dakota Chamber of Commerce represents 1100 businesses across the state, many local Chambers of Commerce and their members, and the members of the National Association of Manufactures within North Dakota. I am here to testify in favor of Senate Bill No. 2055.

North Dakota is blessed to have the number one business climate amongst all fifty states. This is no small feat given that we were number twenty seven a decade ago. To climb so far, so fast, our leaders worked to provide reasonable, straightforward regulations; a legal environment that likes business, and a competitive tax environment. We can do more.

One such thing is to provide an incentive to businesses to innovate. This means that we embrace the kinds of technologies that increase productivity through automation. We should not be afraid that automation will eliminate jobs. Rather we ought to embrace automation as way to create higher standards of living and a stable environment for businesses to compete in a global marketplace. Given the right tools North Dakota businesses can compete in every corner of the globe.

One only need to look at our farmers. One person is now capable to do the work that a hundred people did. Moreover, fewer farmers produce more agricultural products. Many who have come off the farm now work in various industries that supply famers. This process has not been without pain. Yet I dare say that few would ever want to live and work on the farm as we did seventy five or one hundred years ago.

Providing a tax credit for automation is the right thing to do. It provides an incentive to build new factories, invest in new processes, and set North Dakota on a sustained course of global competiveness. I urge you to vote positively on Senate Bill No. 2055.

Thank you.

D

Senate Bill No. 2055 First Hearing

Ron Allan
US General Manger
Bourgault Ind Ltd.
Minot ND

Bourgault Industries operates a manufacturing facility in Minot North Dakota. This operation is a primary sector business that produces agricultural equipment. We established our sales and service business in Minot in 1995 and began manufacturing in 2008.

Products manufactured in the Minot facility are distributed through out the small grain and oil seed producing regions of the world.

We are constantly striving to produce the most advanced seeding and tillage equipment in the world. To achieve this we carryout extensive research programs in conjunction with reputable universities. This research produces leading edge scientific knowledge of agriculture. In North Dakota we partner in this research with NDSU.

In order to fully benefit from the research and advanced designs we also build and equip our factories with the latest manufacturing technology. This provides us with the consistent quality and efficiency necessary to compete with other global manufacturers. Many of our global competitors have access to large, low cost work forces that enable them to produce equipment in a cost effective manner. In North Dakota we have a limited work force available and the cost of that work force is higher. To ensure success in manufacturing we need to produce higher quality products more efficiently.

Automation plays a key role in achieving the quality and efficiency need to be competitive in a global market. Lean manufacturing is a second key in maintaining a competitive position. By adopting lean manufacturing principles, waste is eliminated in the process, and a culture of continuous improvement leads to greater efficiencies. This in turn lowers costs and provides increased value to the end user.

At Bourgault we have begun our journey along the lean manufacturing path and are currently using automated processes that enable us to compete in global markets. Without these tools I would not be here talking to you today. They are essential to our success and will create similar opportunities for other manufacturers in North Dakota.

Both automated manufacturing and lean manufacturing provide opportunities to the companies that invest. They also provide opportunities to develop an advanced, highly skilled workforce. Operators of automated equipment require specialized training that increases their career opportunities and incomes. Many of our skilled trades work force in North Dakota can be more productive by increasing their skills. Through advanced training methods in a lean manufacturing environment, lower skilled people or people transitioning from various fields including military veterans can be readily trained to take on new careers in automated manufacturing and excel.

To summarize; Bill No.2055 would not only contribute to an environment that would encourage investment in manufacturing but it would also contribute to the development of an advanced, highly skilled work force in North Dakota.

Thank you

Ron Allan

E

ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA

EDND

PO BOX 2639 · BISMARCK, NORTH DAKOTA 58502

Testimony of

Economic Development Association of North Dakota

SB 2055

January 26, 2011

Chairman Cook and members of the committee, my name is Keith Lund. I am the vice president of the Grand Forks Region Economic Development Corporation. I am providing testimony today in my capacity as a board member the Economic Development Association of North Dakota (EDND).

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations.

North Dakota businesses are challenged by a highly competitive global business environment characterized by excess capacity in many industries and by low in-migration of skilled workers. This is a particularly difficult challenge for the State's manufacturers. North Dakota needs a tool that will help our manufacturers realize efficiencies that will level the playing field for them in terms of overall productivity.

SB 2055 is supported by EDND because it will be a cost-effective way to realize an attractive competitive position for our manufacturing base. The proposed legislation would support both large and small manufacturers located throughout the state. It would be a valuable tool for traditional manufacturers as well as agricultural processors, which in many cases are located in smaller communities that have significant labor shortages.

In addition to assisting North Dakota manufacturers address workforce shortages and global competition, automation is also a benefit to workers and to the State of North Dakota. Working in an automated environment requires a higher level of skills. Highly-skilled positions demand higher salaries for manufacturing employees, which leads to higher tax revenues for North Dakota. Automation is also key to retaining North Dakota jobs in the very competitive manufacturing sector.

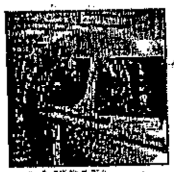
A manufacturing automation tax credit is included in EDND's 2011 Legislative Agenda. In fact, the association has placed it among its top three priorities for this session. Chairman Cook, members of the committee, EDND urges a **DO PASS** on SB 2055.

Thank you Chairman Cook. I would be happy to any questions of the committee.

Testimony #1 p.1
S.B. 2055

Report
Growth and renewal in the United States: Retooling America's economic engine
February 2011

Research Topic: Productivity and Competitiveness



More than ever, the United States needs productivity gains to drive growth and competitiveness. As baby boomers retire and the female participation rate plateaus, increases in the labor force will no longer provide the lift to US growth that they once did. New research by the McKinsey Global Institute finds that, to match the GDP growth of the past 20 years and the rising living standards of past generations, the United States needs to boost labor productivity growth from 1.7 to 2.3 percent a year. That's an acceleration of 34 percent to a rate not seen since the 1960s.

This acceleration needs to come both from efficiency gains—reducing inputs for given output—and from increasing the volume and value of outputs for any given input. Since 2000, the largest productivity gains have been in sectors that have seen large employment reductions. Periods such as this have made many Americans suspicious that boosting productivity is a job-destroying exercise. However, MGI finds that, since 1929, every ten-year rolling period except one has recorded increases in both US productivity and employment. It is nevertheless important that the United States returns to the more broadly-based productivity growth of the 1990s when strong demand and a shift to products with a higher value per unit helped to create jobs even as productivity was growing.

There is large untapped potential to increase productivity and growth in the United States, MGI finds. Businesses can achieve three-quarters of the necessary productivity growth acceleration in the current regulatory and business environment. Companies can achieve one-quarter of the acceleration by more widely adopting best practice. Even in such sectors as retail, where US businesses have a strong productivity record, there is scope to do more (e.g., by taking lean practices from the stockroom to the storefront). Aerospace companies may be leading global exporters but they have yet to adopt lean practices in the systematic way seen among best-in-class automotive players. The public sector and regulated sectors such as health care, which have not faced as strong competitive pressure, offer another large opportunity. Health care players have just begun to adopt lean. Hospitals have room to improve how nurses spend their

#1 p.2

time—at some hospitals, nurses spend less than 40 percent of their time with patients—and to improve their discharge and admissions processes.

Implementing emerging business and technology innovations can achieve a further half of the necessary acceleration. Opportunities lie in enhanced supply chain integration, greater responsiveness to evolving customer preferences and behavior, and innovating in what, and how, goods and services are provided to customers.

To obtain the last one-quarter of the acceleration—and potentially more—government and businesses need to act on economy-wide barriers that today limit productivity growth. MGI sees seven major imperatives:

1. Drive productivity gains in the public and regulated sectors.
Public and regulated sectors such as health care and education represent more than 20 percent of the US economy, but has persistently low productivity growth. McKinsey analysis has demonstrated that, if the US public sector could halve the estimated efficiency gap with similar private sector organizational functions, its productivity would be 5 to 15 percent higher and would generate annual savings of $100 billion to $300 billion.

2. Reinvigorate the innovation economy.
Innovation can increase the quality and quantity of goods and services produced, contributing to productivity gains. The United States remains the global leader in R&D spending but others are rapidly catching up. US policy and regulation should provide the right incentives for private companies to continue to invest in innovation and expand their US-based R&D activities. Specifically, the United States needs to ensure that the IT infrastructure and technologies are in place to capture fully the transformational potential of existing and new technologies. The potential runs from Big Data—data-driven business decisions and actions—to cloud computing and the application of advances in biology and the life sciences.

3. Develop the US talent pool to match the economy of the future and harness the full capabilities of the US population.
The US talent pool is not growing fast enough to meet future demand. For example, MGI estimates that the United States may face a shortfall of almost two million technical and analytical workers and a shortage of several hundred thousand nurses and as many as 100,000 physicians

#1 p.3

over the next ten years. In aerospace, 60 percent of the workforce is aged over 45 years old compared with 40 percent in the overall economy. The United States could alleviate such shortages by removing barriers to older workers staying in the workforce longer (e.g., altering disincentives in how health care costs for older workers are allocated; addressing defined benefit rules); improving incentives to technical and analytical training, for example through innovative funding mechanisms and direct links between jobs and educational institutions); and reducing barriers to the immigration of skilled workers.

4. Build 21st century infrastructure.

US infrastructure is not only inadequate to meet the needs of a dynamic, growing, and productive economy but its quality has been in relative decline. The United States today ranks 23rd in the quality of its infrastructure. There is major scope for the United States to identify and implement leading-edge practices from project selection to financing and delivery, sometimes through public-private partnerships.

5. Enhance the competitiveness of the US regulatory and business environment.

The relative competitiveness of the US regulatory and business environment is declining at a time when many competitor countries have taken major steps to create favorable conditions in order to attract companies to invest and participate in their economies. The United States scores particularly poorly on the burden of government regulation and red tape. The United States needs to reduce regulatory complexity, streamline the process of resolving disputes, and eliminate remaining sector-level barriers to more robust competition—learning from the most effective approaches employed elsewhere.

6. Embrace the energy productivity challenge.

Global demand for energy is predicted to rise at an accelerating pace over the next 20 years and focus needs to shift to boosting energy productivity—the level of GDP obtained from each unit of energy consumed. Today, the United States lags behind others in this regard, and also risks being left behind in important emerging technologies. Clear long-term policy could encourage the market discipline that drives productivity. For example fuel-economy standards could encourage the adoption of existing energy-saving technologies and spur the development of new ones.

#1 p. 4

7. Harness regional and local capacities to boost overall US growth and productivity.

Cities and regions in the United States have markedly different growth and productivity trajectories, and there is insufficient sharing of best practice among them. But there is a rich seam of effective solutions at the federal and local levels that offers scope for shared performance metrics (e.g., a defined set of tracking variables made transparent through technology) and the transfer of best practice. All levels of government should also seek cross-regional alliances in economic development.

The report builds on McKinsey's industry expertise and two decades of sector-level MGI productivity analysis in more than 20 countries and 28 industrial sectors.

Read the executive summary (PDF - 2.19 MB)
Read the full report (PDF - 2.72 MB)
Download eBook as ePub for Apple iPad, Barnes & Noble Nook, Sony Reader and other devices
Download eBook for Amazon Kindle

Source: http://www.mckinsey.com/mgi/publications/growth_and_renewal_in_the_us/index.asp

Testimony #2 p. 1

GREATER Fargo Moorhead
Economic Development Corporation

51 Broadway • Suite 500
Fargo, ND 58102
701.364.1900
Fax 701.293.7819

Senate Bill 2055- Handouts

1. Testimony from Greater Fargo Moorhead Economic Development Corporation
2. "White Paper" on Senate Bill 2055
3. Letters of Support
    a. John Deere – ***Valley City and Fargo***
    b. Caterpillar Remanufacturing Drivetrain, LLC – ***West Fargo***
    c. Kringstad Ironworks, Inc. – ***Park River***
    d. Appareo Systems – ***Fargo***
    e. Composite America, Inc. - ***Fargo***

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GREATER Fargo Moorhead Economic Development Corporation

51 Broadway • Suite 500
Fargo, ND 58102
701.364.1900
Fax 701.293.7819

March 14, 2011

Dear Chairman Belter and Members of the Committee:

My name is Justin Pearson, vice president of the Greater Fargo Moorhead Economic Development Corporation. We are a public/private EDC and our mission is to grow and diversify the economy by retaining, expanding and attraction primary sector businesses. Senate Bill 2055 before you today, is important to retaining our existing manufacturing base and encouraging its expansion. I intend to provide our perspective from what we are hearing not only in our community, but as you will hear, all around the state.

North Dakota manufacturers are engaged in a competitive global environment. Over the past number of years, the industry has been characterized by lower demand, excess capacity and a reduction in labor force. It has also been known for expanding operations in lower cost areas. While the industry has experienced these recessionary effects, many of our businesses have maintained their competitive position but the fact is the industry has moved beyond the inventory correction cycle and many of our companies serve markets that continue to grow. As strong exports and moderate increases in consumer demand point to expansion, our companies face labor shortages and the constant pressure to deliver products at lower costs in order to compete in the global marketplace.

Almost every company is looking at their business to determine the long term viability of their operations and how they will address expansion. As they do, productivity is one of the main drivers of their decision making. As these companies look to make further investments to address expansion needs, they look at facilities and environments that offer favorable costs, available workforce and among other factors.

In our region and within the state, the number one barrier to growth among our manufacturers is available workforce, specifically in the skilled trades such as welders and machinists. With the additional demand for products and as new opportunities for workers on a statewide basis emerge it is important that we work to address this barrier as other trends such as the low-unemployment rate, impending demographic shifts and low in-migration compound the workforce availability issue.

#2 p.3

Automation and Lean Manufacturing Incentives
N.D. Senate Bill No. 2055

Background

North Dakota has a strong history of creating a positive business climate that has attracted and supported the growth of many businesses, including manufacturing companies. A strong pro-business regulatory and tax climate combined with a low cost structure, and a productive and hard-working population, has helped us attract and support growth in the manufacturing industry.

Today's globally competitive marketplace presents challenges to North Dakota manufacturers. Our traditional low cost model is no longer superior. North Dakota is now faced with international competitors whose labor costs are a fraction of those in the United States. In addition, North Dakota companies are faced with increasing costs for healthcare, energy and transportation, and consumers that demand increasing lower cost products. In order to keep their costs per unit low enough to compete, North Dakota's manufacturers will be forced to increase productivity while decreasing costs. The only way to achieve this will be through automation and lean manufacturing.

There are exceptions to these challenges, which should be noted. Manufacturing companies that operate in high margin industries, along with those that are resistant to global competition for market access due to logistical advantages, will be less affected by international competition.

Another issue challenging North Dakota's manufacturers is a workforce availability shortage. In fact, a majority of the manufacturing businesses surveyed by the Greater Fargo Moorhead Economic Development Corporation's workforce retention and expansion program listed workforce availability as their number one barrier to growth.

With few unemployed seeking work, it is clear that we need to better utilize our existing workforce and focus on quality of jobs rather than quantity. We must do more with the workers we have, increasing productivity and output by using machines and robots to replace and supplement human labor.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

#2 p.4

Proposed Tax Credits

Automation tax credit

The purpose of an automation/productivity tax credit is to encourage the expansion of North Dakota manufacturing and to alleviate the challenges of workforce shortages and to help ND businesses compete against global competitors.

Proposed credit:
20 percent North Dakota corporate income tax credit on eligible equipment purchases. The taxpayer is permitted to carry forward unused tax credit amounts for up to five years. The total amount of credits allowed may not exceed $2 million in any taxable year. Eligible equipment includes automation and robotic technologies used in the manufacturing process.

The goals of the tax credit are:

- *Retain and expand manufacturing companies and jobs*
- *Increase workforce productivity*
- *Address workforce shortages*
- *Assist in company's ability to meet market demand*
- *Transition North Dakota incentives to encourage higher-paying jobs*
- *Enhanced utilization of North Dakota's incumbent workforce*

Lean Manufacturing Tax Credit

The purpose of the lean manufacturing tax credit is to promote the retention and expansion of North Dakota manufacturing companies through enhanced quality, productivity and efficiencies. This is critical to the survival of local companies as they face very stiff competition from companies based in low-cost countries.

Proposed credit:
20 percent North Dakota corporate income tax credit on qualified expenditures (training programs, materials, tools, technology, consulting services, software, which have been certified by the Dept. of Commerce) necessary in the implementation of lean manufacturing. The taxpayer is permitted to carry forward unused tax credit amounts for up to five years. The total amount of credits allowed may not exceed $2 million in any taxable year.

The goals of the tax credit are:

- *Retain and expand manufacturing companies and jobs*
- *Increase workforce productivity*
- *Address workforce shortages*
- *Assist in company's ability to meet market demand*
- *Transition North Dakota incentives to encourage higher-paying jobs*
- *Enhanced utilization of North Dakota's incumbent workforce*

#2 p.5

JOHN DEERE

John Deere Public Affairs Worldwide
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Phone: 202-423-2272 Fax: 202-296-0011
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Collis Jones
Director, Business Development
Public Affairs Worldwide

Beijing **Brussels**
Cary **Des Moines**
Moline **Sao Paulo**
Washington

March 10, 2011

The Honorable Wesley R. Belter
Chairman
House Finance and Taxation Committee
4426 58th Street South
Fargo, ND 58104

Dear Chairman Belter:

On behalf of Deere & Company and its 1000 employees in North Dakota, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies: global competitiveness and workforce availability.

Automation benefits businesses, addresses workforce shortages and provides the tools for North Dakota industries to compete globally. Aside from maintaining competitiveness, working in a highly automated environment requires workers with higher-levels of skill and often command higher salaries. This in turn has the potential to produce increased tax revenues for the State of North Dakota and thus bolsters the State's economy.

John Deere has two facilities in North Dakota, Phoenix International in Fargo, which designs and manufactures electronic components, and the John Deere Seeding Group in Valley City, producers of Air Seeding Equipment. In addition to our two manufacturing facilities, John Deere has 126 contracts with North Dakota suppliers valued at approximately $40 million. There are also 47 John Deere dealerships throughout the state.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. North Dakota can be a leader in growing manufacturing companies.

Again, I encourage your support of Senate Bill 2055.

Sincerely,

Collis Jones

#2 p. 6

CATERPILLAR®

Caterpillar Remanufacturing Drivetrain, LLC.

1262 West Main Avenue
West Fargo, North Dakota 58078 USA
Office: (701) 282-5294
Fax: (701) 282-6105

March 11, 2011

To: North Dakota House Finance and Taxation Committee

Re: In Support of N.D. Senate Bill No. 2055

Dear Representatives:

Caterpillar Reman Drivetrain, LLC. ("CRDL") a West Fargo based Caterpillar remanufacturing facility, is pleased to support Senate Bill No. 2055. As part of Caterpillar Inc., the world's leading manufacturer in mining and construction equipment, we recognize the importance of utilizing technology and innovation to continuously improve our product and reduce costs in a very competitive global marketplace. In fact, Caterpillar has over 8,000 engineers and technical experts throughout the world that do just that; including our engineering and technical support folks working right here at our North Dakota facility.

Caterpillar is committed to sustainable development which means leveraging technology and innovation to increase efficiency and productivity with less impact on the environment. A major contributor to the sustainability commitment is Caterpillar's remanufacturing program, which turns end-of- life iron back to good-as-new product. Over 120 million lbs of iron are salvaged annually at Caterpillar's remanufacturing facilities throughout the United States and all over the world, including the 18 million lbs remanufactured and recycled right here at our North Dakota facility.

Remanufacturing is a rapidly growing industry that is very competitive. This competition exists both in the "external" sense; that is, competing against other companies and their products, and in the "internal" sense, that is, competing cost-wise with our other Caterpillar facilities located throughout the world. With that, our CRDL North Dakota facility recognizes first-hand how critical a part technology and innovation play in our ability to face global competition.

As an example, with the recent acquisition of a CNC lathe and CNC mill costing over $2 million, CRDL was able to successfully bring high tech machining work done at a Caterpillar India facility to our West Fargo facility. This work will add two engineering support positions and six machinist positions to our facility. We are grateful to receive this level of capital investment from our company, especially as capital projects such as these are highly sought-after. This legislation before you, Senate Bill No. 2055, would help provide the competitive advantage needed to continue to help create and retain well paying highly-skilled manufacturing jobs in North Dakota.

Thank you for your consideration.

Sincerely,

Dan Walerius

Dan Walerius
Facility Manager
Caterpillar Remanufacturing Drivetrain, LLC.
1262 West Main Ave, West Fargo, ND 58078

#2 p.7

Kringstad Ironworks, Inc.
PO Box 11
406 Tower Street
Park River, ND 58270
701-284-6194 phone
701-284-6200 fax

Dear Chairman Belter and House Finance and Taxation Committee Members,

On behalf of Kringstad Ironworks Inc., and its 58 employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

Kringstad Ironworks has grown considerably in recent years, with 80% of sales supported by the national sugar beet industry, 15% from our patented Safe-T-Pull apparatus, and approximately 5% through contracts with companies such as LM GlasFiber. With such growth comes the increased need for automated equipment, which KII has spent between $200,000 to $400,000 in recent years. To remain competitive in business, it is critical for our firm to hire and retain educated and highly qualified personnel, who are in high demand in rural areas. Legislation such as Senate Bill 2055, enables us to hire such employees as well as increase technological capabilities. Those factors in turn increase production, which directly affects sales.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in growing manufacturing companies.

Again, I encourage your support of Senate Bill 2055.

Sincerely,

Bernie Kringstad
President/Owner

#2 p. 8

APPAREO
SYSTEMS

1810 NDSU Research Circle North
Fargo, ND 58102

Tel (701) 356-2200
Fax (701) 356-3157

www.Appareo.com

January 24th, 2010

SUBJECT: Manufacturing Tax Credit (Senate Bill Number 2055)

On behalf Appareo Systems, LLC, and our fifty-five employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

For Appareo Systems, this legislation supports our companies continuing efforts to grow and advance our manufacturing capabilities, bringing additional elements of our products' manufacturing process in-house. These elements are currently sourced to companies in other states, primarily Minnesota, allowing our company to add jobs in our manufacturing group while reducing the costs of our products and driving up our profitability.

Not only is automation a benefit for businesses, as it helps address workforce shortages and global competition, it is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining competitive, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in growing manufacturing companies.

Again, I encourage your support of Senate Bill 2055.

Very Respectfully,

David Batcheller
Chief Operating Officer

#2 p. 9

Composite America, Inc.

401 27th Street North
Fargo ND 58102
phone: 701-364-2844
fax: 701-364-2846
www.compositeamerica.com

On behalf of Composite America, Inc. and its ten employees, please accept this letter in support of Senate Bill 2055, establishing tax credits for automating manufacturing processes and implementing lean manufacturing.

The primary focus of this legislation is the retention and expansion of North Dakota's existing manufacturing companies. It addresses two distinct and very important issues that threaten the long-term viability of these companies; one, global competitiveness, and two, workforce availability.

Composite America, Inc is a manufacturing company specializing in custom molding natural fiber composite materials for large OEMs. Our company is built on the fundamentals of lean manufacturing, which we feel is critical to our future success. We have and continue to benefit from our investments in automation within our production facility. Automation is a benefit for businesses, as it helps address workforce shortages and global competition. It is also a benefit to workers and to the State of North Dakota. Aside from the obvious benefit of retaining jobs by maintaining a competitive edge, working in an automated environment requires a higher level of skills; highly-skilled positions demand a higher salary for workers; and higher salaries equal higher tax revenues for the State of North Dakota, therefore bolstering the State's economy.

Passing Senate Bill 2055 would make North Dakota one of the first states in the country to offer incentives to manufacturers for the purpose of automation and lean principles. Our state can be a leader in encouraging our businesses to do business in a way that allows them to remain competitive and growing.

Again, I encourage your support of Senate Bill 2055.

Sincerely,

Scott Greelis

Scott Greelis
General Manager

Testimony # 3

CATERPILLAR®

Caterpillar Remanufacturing Drivetrain, LLC.

1262 West Main Avenue
West Fargo, North Dakota 58078 USA
Office: (701) 282-5294
Fax: (309) 992-7873

March 11, 2011

To: North Dakota House Finance and Taxation Committee

Re: In Support of N.D. Senate Bill No. 2055

Dear Representatives:

Caterpillar Reman Drivetrain, LLC. ("CRDL") a West Fargo based Caterpillar remanufacturing facility, is pleased to support Senate Bill No. 2055. As part of Caterpillar Inc., the world's leading manufacturer in mining and construction equipment, we recognize the importance of utilizing technology and innovation to continuously improve our product and reduce costs in a very competitive global marketplace. In fact, Caterpillar has over 8,000 engineers and technical experts throughout the world that do just that; including our engineering and technical support folks working right here at our North Dakota facility.

Caterpillar is committed to sustainable development which means leveraging technology and innovation to increase efficiency and productivity with less impact on the environment. A major contributor to the sustainability commitment is Caterpillar's remanufacturing program, which turns end-of- life iron back to good-as-new product. Over 120 million lbs of iron are salvaged annually at Caterpillar's remanufacturing facilities throughout the United States and all over the world, including the 18 million lbs remanufactured and recycled right here at our North Dakota facility.

Remanufacturing is a rapidly growing industry that is very competitive. This competition exists both in the "external" sense; that is, competing against other companies and their products, and in the "internal" sense, that is, competing cost-wise with our other Caterpillar facilities located throughout the world. With that, our CRDL North Dakota facility recognizes first-hand how critical a part technology and innovation play in our ability to face global competition.

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Thank you for your consideration.

Sincerely,

Dan Walerius

Dan Walerius
Facility Manager
Caterpillar Remanufacturing Drivetrain, LLC.
1262 West Main Ave, West Fargo, ND 58078

Testimony #4

NORTH DAKOTA
CHAMBER of COMMERCE

Testimony of Bill Shalhoob
North Dakota Chamber of Commerce
SB 2055
March 14, 2011

Mr. Chairman and members of the committee, My name is Bill Shalhoob and I am here today representing the North Dakota Chamber of Commerce, the principal business advocacy group in North Dakota. Our organization is an economic and geographical cross section of North Dakota's private sector and also includes state associations, local chambers of commerce, development organizations, convention and visitors' bureaus and public sector organizations. For purposes of this hearing we are also representing five local chambers with over 5,000 members. As a group we stand in support of SB 2055 and urge a do pass from the committee on this bill.

The most important thing to remember about this bill and the credits in it is that it is not about jobs, that is eliminating positions. The motives here are two fold. The first is to encourage North Dakota companies to automate in order to remain competitive in the global economy. As our trade continues to expand in the U.S. and, given the recent growth shown by our trade office internationally, our manufacturers will have to be as good as they can be in order to compete and continue to grow our economy. The second is that upgrades of this kind require increased knowledge and skills from workers enhancing their value to a company and thereby increasing their earning power. Passing this bill will result in a win for all of North Dakota. Companies will become more competitive and average wage for employees will increase.

Thank you for the opportunity to appear before you today in support of SB 2055. I would be happy to answer any questions.

PO Box 2639 Bismarck, ND 58502 Toll-free: 800-382-1405 Local: 701-222-0929 Fax: 701-222-1611
www.ndchamber.com ndchamber@ndchamber.com

Testimony #5 p.1

ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA

EDND

PO BOX 2639 • BISMARCK, NORTH DAKOTA 58502

Testimony of

Economic Development Association of North Dakota

SB 2055

March 14, 2011

Chairman Belter and members of the committee, my name is Cal Klewin. I am representing the Economic Development Association of North Dakota (EDND).

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations.

North Dakota businesses are challenged by a highly competitive global business environment characterized by excess capacity in many industries and by low in-migration of skilled workers. This is a particularly difficult challenge for the State's manufacturers. North Dakota needs a tool that will help our manufacturers realize efficiencies that will level the playing field for them in terms of overall productivity.

SB 2055 is supported by EDND because it will be a cost-effective way to realize an attractive competitive position for our manufacturing base. The proposed legislation would support both large and small manufacturers located throughout the state. It would be a valuable tool for traditional manufacturers as well as agricultural processors, which in many cases are located in smaller communities that have significant labor shortages.

In addition to assisting North Dakota manufacturers address workforce shortages and global competition, automation is also a benefit to workers and to the State of North Dakota. Working in an automated environment requires a higher level of skills. Highly-skilled positions demand higher salaries for manufacturing employees, which leads to higher tax revenues for North Dakota. Automation is also key to retaining North Dakota jobs in the very competitive manufacturing sector.

A manufacturing automation tax credit is included in EDND's 2011 Legislative Agenda. In fact, the association has placed it among its top three priorities for this session. Chairman Belter and members of the committee, EDND urges a **DO PASS** on SB 2055.

Thank you. I would be happy to answer any questions.

5 p 2

Legislative *Agenda* 2011

ECONOMIC DEVELOPMENT ASSOCIATION EDND OF NORTH DAKOTA

North Dakota is well-positioned to take advantage of current state economic trends and global events to continue and expand efforts to create future economic opportunities. North Dakota's current financial strength, portfolio of economic development incentives, high-quality human capital, technology infrastructure and availability of natural resources are all in place to leverage these opportunities.

EDND recognizes factors such as safety, education, opportunity, and recreation and culture are what makes living, working, and conducting business in a community worthwhile and support legislation that enhances quality of life.

State of North Dakota economic development policy and resources should be limited to primary sector activities that create wealth for the state as a whole. The State of North Dakota should place the highest priority on the development of high-wage career opportunities that will retain state workforce and attract labor from areas outside the state.

State of North Dakota community development policy and resources should be focused on infrastructure, tourism and non-primary sector business activities that may improve a community's competitive position in capturing future revenue sources, or otherwise impact local quality of life.

LEGISLATIVE PRIORITIES

North Dakota has an effective economic development program that has brought success to our state. Our economy is strong but needs further diversification. As North Dakota expands its economy into knowledge- and technology-based areas of the global marketplace, the state's economic development policy must also expand to support these opportunities. The Economic Development Association of North Dakota supports key legislative initiatives designed to support North Dakota's traditional manufacturing sector, to assist North Dakota companies in attracting out-of-state investment, and to assist the state in expanding and attracting new technology development throughout North Dakota.

Automation Tax Credit

North Dakota businesses are challenged by a highly competitive global business environment characterized by excess capacity in many industries and by historically low in-migration of skilled workers. This is a particularly difficult challenge for manufacturers. North Dakota needs a tool that will help our manufacturers realize efficiencies that will level the playing field for them in terms of overall productivity.

The proposed automation tax credit is supported by EDND because it will be a cost-effective way to realize an attractive competitive position for our manufacturing base.

Centers of Research Excellence, Entrepreneurship Excellence Grants and Workforce Excellence Grants

Three of the key issues facing North Dakota in terms of economic growth are the development of new and innovative products, the ability of individuals to commercialize those products, and the talent needed to create companies that will be successful in further development of those products and marketing and distribution to customers.

EDND supports the development of these distinct Centers as proposed by the Interim Workforce Committee.

Angel Fund and Seed Capital Investment Tax Credit

The attraction of out-of-state investment in North Dakota ventures is critical to the growth of the State's economy. The State is uniquely positioned to address this long-standing challenge as North Dakota continues to expand its positive profile.

EDND supports strategic modifications to Angel Fund Investment Tax Credit legislation that will provide that these credits can be refundable to non-North Dakota investors in the State's network of Angel Funds. These modifications will increase the availability of critical funding for rapidly growing and early- to mid-stage companies in North Dakota. EDND also supports similar changes to existing Seed Capital Investment legislation to stimulate direct out-of-state investments into North Dakota ventures.

Value Statements

North Dakota currently has an excellent economic development program which has brought great success to our state. EDND supports continued use of the economic development tool chest and recognizes that enhancements are occasionally necessary. The economic development profession is one that seeks to put into action programs and policies that enhance the economic well-being and quality of life for our constituents. The value statements listed inside are intended to affirm the EDND's passion for improving the sustainability and growth of North Dakota's economy.

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Economic Development Value Statements

Infrastructure Development

A new perspective is necessary for addressing infrastructure needs in North Dakota. Infrastructure investment across the state has for many decades been limited to maintaining the status quo and addressing a few targeted new investments. North Dakota now has turned the corner from being a state with a gradually diminishing population to a state with a growing population with sophisticated expectations. To continue to capture this growth North Dakota must meet those expectations.

Planning for perpetual growth, and budgeting for it, will challenge our decades-old behaviors. Judicious yet progressive investment strategies are needed to not only maintain existing physical infrastructure, but to build for future broad-based growth. Communities and counties need to develop comprehensive plans that will carry them to a more prosperous tomorrow. EDND believes statewide support is necessary to promote planning by local units of government.

Business Development & Entrepreneurship

Entrepreneurship and the successful growth of small businesses are important to North Dakota's economic future. EDND views entrepreneur assistance as crucial and supports consistent and stable funding to maintain or expand these services. By matching funding available from the federal government and by partnering with our higher education system North Dakota can leverage its investment to assure accessible entrepreneur/small business assistance across every region of the State. EDND supports providing the necessary funding to encourage entrepreneurship and small business development.

Business Financing

ropriate financing tools are essential to the success of any business. North Dakota's menu of financing options erved the state well. We have worked over the years with those agencies in North Dakota, particularly the Bank of North Dakota, to sculpt detailed yet flexible financing options. Few changes are needed in this area. The array of business financing tools available from the Bank of North Dakota, the North Dakota Department of Commerce and others are appropriate and have the support of EDND.

PACE and Flex-PACE, business financing programs of the Bank of North Dakota, are tremendously successful tools for expanding and attracting businesses to North Dakota. The Bank of North Dakota has done an excellent job of delivering and customizing the PACE and Flex-PACE programs to meet the needs of businesses and localities. Continued management and promotion of the PACE and Flex-PACE programs by the Bank of North Dakota is encouraged and supported by EDND.

Tax Increment Financing (TIF) is an important and often misunderstood tool that is very valuable to the process of economic development nationwide. Wide-spread use of TIF as a familiar economic development tool for new and expanding businesses translates into a desire by those businesses to use TIF in North Dakota. As it stands in North Dakota, the TIF process reduces the uncertainty of proposed financing arrangements for companies considering new or expanded investment in our state. Proposal of changes to the existing TIF rules in North Dakota will diminish the desirability of North Dakota as a place to do business. EDND opposes changes to existing TIF legislation in North Dakota.

Pro-Business Climate

EDND is committed to improving the state's economic and business climate. We believe the best way to accomplish this is to support freedom of enterprise and allow the free market system to function in an attractive tax and regulatory climate.

Workforce Development

DND supports workforce development and training programs that address the comprehensive workforce needs of h Dakota companies. As North Dakota companies face increasingly greater domestic and international competition, state's workforce programs must support company's needs to increase throughput through greater efficiency and automation, as well as traditional workforce expansion initiatives. EDND supports modifications to programs such as Workforce 20/20 and North Dakota New Jobs Training Grant Program to reflect these needs. EDND also supports the continuation and expansion of Operation Intern as a means to introduce young North Dakotans to the vast array of career opportunities available in the State.

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Community Development Value Statements

Community Investment

North Dakota communities have had a difficult time attracting the capital necessary to maintain and grow. There are few investment tools that allow North Dakota citizens to consolidate their capital and then invest jointly in projects that enable state growth and fill critical needs of our communities.

A Renaissance Zone can be a very important and beneficial tool for community redevelopment and economic investment if properly developed, implemented, and managed. Continued support of the Renaissance Zone will provide opportunities for business growth from within the community, attracting new business growth and community sustainability for both rural and urban areas.

Housing

EDND recognizes that the availability of housing, particularly affordable housing, is a fundamental element that provides North Dakota communities the ability to foster economic development. EDND supports the efforts of North Dakota communities and regions to advance legislation that will promote the development of affordable housing in areas where the lack of affordable housing is limiting primary sector growth.

Leadership Development

EDND recognizes the importance of leadership development and supports the continued funding for the Center for Community Vitality, NDSU Extension Service programs, and Rural Leadership North Dakota.

It is also important that professional development programs be accessible to economic development practitioners to rease their effectiveness and develop strong leadership in this profession. EDND supports a continued appropriation he North Dakota Department of Commerce budget so that the department and the association can partner to provide training.

Quality of Life

EDND recognizes that the growth potential of North Dakota communities is frequently dependent upon the quality of life perceived to exist in those communities. This is also true on a broader geographic basis for all of the rural areas across North Dakota. EDND supports the development/maintenance of local amenities that support a pleasant and attractive living environment and local activities which people have the opportunity to enjoy.

Mission

It is the mission of the Economic Development Association of North Dakota to increase economic opportunities for residents of the state by supporting;

- primary sector growth.
- professionalism among economic development practitioners.
- cooperation among development organizations.

The Association will support the membership in furthering primary sector economic growth in the state of North Dakota.

EDND is the voice of the state's economic development community. It provides networking for its 80 embers, which include development organizations, communities, businesses and state agencies. EDND a highly regarded source of information on economic development issues and connects legislators with professionals across the state.

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