

**1999 HOUSE FINANCE AND TAXATION**  
**HB 1394**

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1394

House Finance and Taxation Committee

Conference Committee

Hearing Date January 26, 1999

Tape Number	Side A	Side B	Meter #
1	x		52.7
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. PHILIP MUELLER, DIST. 24, Introduced the bill. This bill allows beginning farmers the right to request a property tax exemption on newly acquired farmland and ranchland. The exemption is not to exceed five years from the commencement of farming or ranching on the newly acquired land. It is important to note, that the beginning farmer can request the exemption under this bill, but is to be granted only with the approval of the municipality. This legislation comes in part, from a report that was issued by the commission on the future of agriculture of North Dakota. See attached handout.

REP. BELTER Asked whether it was the intent to give an exemption from county, school, and township taxes?

REP. MUELLER That would be the intention of this bill.



REP. BELTER Who would make that decision?

REP. MUELLER In that instance, the county commissioners would be based on their financial constraints and needs.

REP. BELTER They would also be able to exempt the school and township?

REP. MUELLER Under this bill, yes.

REP. GROSZ What is the definition of a municipality?

REP. MUELLER My definition of a municipality, would be those institutions, agencies that would be in control of ad valorem property taxes to do with beginning farmers in this instance.

SEN. KENNETH KROEPLIN, Testified in support of the bill. Commented on the fairness issue. It is being done for other businesses, with the difficulty for starting farmers, this should be done.

ROGER JOHNSON, STATE AG COMMISSIONER, Testified in support of the bill. Referred to the Report of the Future of Agriculture, asked committee members to turn to page 8 of the handout, which Rep. Mueller submitted. Also related to pages 10, 11 and 12, showing net returns of wheat, charts showed every year is getting more negative. Also related to charts showing the negative years of cattle prices. This document shows people leaving the state and the ag business.

REP. BELTER Related to all newly acquired farmland, is that purchased and leased?

ROGER JOHNSON No, I don't believe so, the intent was on purchased.

REP. WARNER Is there a technical, legal definition for beginning farmers?

ROGER JOHNSON 57-30-67, beginning farmer is defined, it is a long definition. There is another bill in that is changing the definition of farmer, but not beginning farmer.

REP. GRANDE Does is also qualify for inherited land?

ROGER JOHNSON I don't know that I could give you a good answer, my presumption is that it was purchased, not inherited.

REP. RENNERFELDT Newly acquired farmland, will that pertain to one purchase?

ROGER JOHNSON This period of five years, if there are purchases within the first five years of a beginning farmer, I would think they would qualify, that beginning farmer will have to go back to that municipality and ask for that exemption.

RICHARD SCHLOSSER, NORTH DAKOTA FARMERS UNION, Testified in support of the bill. Addressed the issue of fairness. We need to put some components together to bring some young farmers back to rural North Dakota.

MARK JOHNSON, NORTH DAKOTA ASSOCIATION OF COUNTIES, Testified in opposition of the bill. See written testimony.

REP. WINRICH The existing exemptions on which this is apparently based, have to do with start up businesses, etc., what has happened in some of our cities, is that they get into a competition with each other about trying to attract businesses, and are pressured and forced into granting these tax exemptions, do you envision counties would get into a competition here to give these tax exemptions?

MARK JOHNSON It would be difficult for me to speculate on that. As you noted, it may exist to some degree in the cities. I suppose a neighboring county could adapt a very liberal exemption policy for farmers and if land could be purchased and newly acquired, it could see a migration. That is speculation.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 1-26-99, Tape #2, Side A, Meter #35.4

REP. WARNER Presented amendments prepared by the legislative council.

REP. GROSZ Made a motion to adopt the amendments as presented.

REP. WINRICH Second the motion. MOTION CARRIED BY VOICE VOTE.

REP. GROSZ Made a motion for a DO PASS AS AMENDED.

REP. WARNER Second the motion. MOTION FAILED

REP. RENNER Made a motion for a DO NOT PASS AS AMENDED.

REP. GRANDE Second the motion. MOTION CARRIED

9 Yes 5 No 1 Absent

REP. RENNER Was given the floor assignment.

Please type or use black pen to complete

Date 1-26-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1394

House HOUSE FINANCE & TAX Committee

- Subcommittee on \_\_\_\_\_
  - Conference Committee
- } Identify or check where appropriate

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

Action Taken Do Pass as amended

Motion Made By Rep. Grosz Seconded By Rep. Warner

DO NOT USE HIGHLIGHTER ON ANY FORMS

Representatives	Yes	No	Representatives	Yes	No
BELTER		✓	WINRICH	✓	
RENNERFELDT		✓			
CLARK		✓			
FROELICH	A				
GRANDE		✓			
GROSZ	✓				
HERBEL		✓			
KROEBER	✓				
MICKELSON		✓			
NICHOLAS		✓			
RENNER		✓			
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER		✓			

Total 5 9  
(Yes) (No)

Absent 1

Floor Assignment Rep.

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

Please type or use black pen to complete

Date 1-26-99

Roll call vote # 2

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1394

House HOUSE FINANCE & TAX Committee

Subcommittee on \_\_\_\_\_

Conference Committee

} Identify or check where appropriate

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

Action Taken Do Not pass as amended

Motion Made By Rep. Renner Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH		✓
RENNERFELDT	✓				
CLARK	✓				
FROELICH	A				
GRANDE	✓	⊙			
GROSZ		✓			
HERBEL	✓				
KROEBER		✓			
MICKELSON	✓				
NICHOLAS	✓				
RENNER	✓				
SCHMIDT		✓			
WARNER		✓			
WIKENHEISER	✓				

Total 9 5  
(Yes) (No)

Absent 1

Floor Assignment Rep. Renner

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

**REPORT OF STANDING COMMITTEE**

**HB 1394: Finance and Taxation Committee (Rep. Belter, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (9 YEAS, 5 NAYS, 1 ABSENT AND NOT VOTING). HB 1394 was placed on the Sixth order on the calendar.

Page 1, line 13, replace "all" with "up to one hundred sixty acres [64.75 hectares] of"

Page 1, line 15, after the underscored period insert "Farmland or ranchland may not be granted an exemption under this section unless it contains, or is contiguous to property that contains, the residence of the farmer seeking the exemption and that residence is exempt from taxation under subsection 15 of section 57-02-08."

Renumber accordingly

**1999 TESTIMONY**

**HB 1394**

**TESTIMONY TO THE  
HOUSE FINANCE & TAXATION COMMITTEE  
Prepared January 26, 1999, by the  
North Dakota Association of Counties  
Mark A. Johnson, Executive Director**

**CONCERNING HOUSE BILL NO. 1394**

Chairman Belter and members of the committee, as Executive Director of the North Dakota Association of Counties, I am here on behalf of county commissioners to express their concerns for the new property tax exemption proposed in House Bill 1394.

While this exemption extends only to farm and ranch land and is not mandatory, it creates a situation where pressure to grant an exemption can be applied. Already State Law allows 39 separate property tax exemptions, and at least three new or expanded exemptions have been proposed this session. The value of already exempt property is staggering, and it results in increased taxes on the fewer and fewer property owners that don't have their own personal exemption.

We recognize that this is an equity issue about expanding agri-business just like new main-street businesses; however, county officials are the ones forced to raise taxes on all other property, each time a new exemption is created or an existing one expanded.

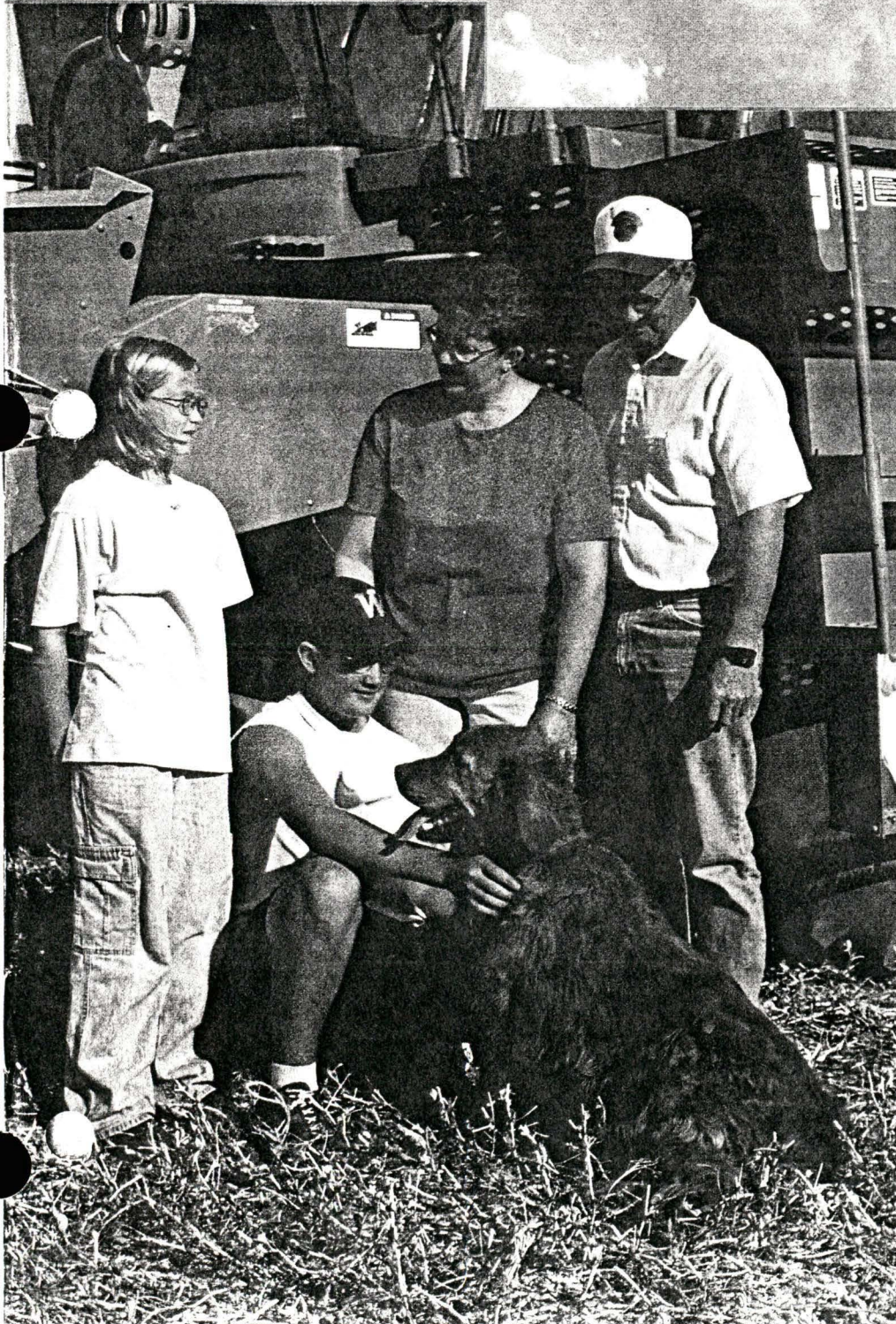
Unless the Legislature is willing to fund these options as with the Homestead Tax Exemption, this Association would rather they were not established. If the Legislature believes that there is statewide economic benefit in creating a property tax exemption in this case, then the economic benefit very likely extends beyond the borders of the county which must bear the burden of increased taxes.

Mr. Chairman and committee members, I urge a "Do Not Pass" recommendation on House Bill 1394, unless funding is there to support it.



HB 1594  
Rep. Muehlen

# Building the Future of North Dakota Agriculture



*"The trusted  
provider of  
the highest  
quality food  
in the world!"*

Commission  
on the Future  
of Agriculture  
**1998**



# Introduction

Dear friends,

North Dakotans are a special breed of people! In the midst of low prices, disease, poor yields, winter storms and spring flooding, you didn't quit—you persevered. Your positive attitude, participation and suggestions have helped the Commission on the Future of Agriculture do its work successfully.

In the fall of 1997, as we were beginning the slow recovery from the many disasters of the previous winter and spring, Agriculture Commissioner Roger Johnson called us together to start a discussion about what needed to be done to help North Dakota agriculture, our state's #1 industry. He told us he wanted representation from Farm Bureau and Farmers Union (the state's two largest farm organizations), the North Dakota Association of Rural Electric Cooperatives, and North Dakota State University. We all gladly joined the effort as the steering committee.

We recognized that the agricultural economy of the state could not be left to chance. We had to do something, since 25 percent of our state's population is employed directly by agriculture or in an agriculture-related business. Ninety percent of North Dakota's land area consists of farms and ranches, and agricultural production and manufacturing make up more than 37 percent of North Dakota's economic base. We acknowledged that the business of agriculture is changing and that we need to change with it. The ques-

tion was: How do we make those changes profitable for our agricultural community?

Our first step toward finding that answer was to establish the 15-member Working Group in November 1997. We asked these individuals to contribute a significant amount of time and energy during the next seven months to answering two questions:

- ◆ What do we want North Dakota agriculture to look like in the future?
- ◆ What are we going to do to get there?

We then created the Commission on the Future of Agriculture, comprised of over 60 agricultural and rural organizations and agencies. This group met for the first time in January and set the process in full motion, with funds provided by Attorney General Heidi Heitkamp as the result of the settlement of a multi-state legal action.

More than a thousand of you have been involved in this process from the first public forum at Marketplace '98 on Jan. 8, through 20 other forums held around the state. You attended those forums to hear what others had to say and to make significant contributions to the list of recommendations.

As a result of those forums and after considerable discussion by both the Working Group and the Commission, we have identified the direction in which we believe North Dakota agriculture must move. On June 5, 1998, the Commission on the Future of Agriculture overwhelmingly approved this plan,

which is truly an investment in the future.

The recommendations identified in "Building the Future of North Dakota Agriculture" will require action from a variety of sources including Congress, the State Legislature, federal and state government agencies, local political subdivisions, private companies, and you—the citizens of North Dakota. Those of us who have been involved in this effort thought that you would want to know the current state of our #1 industry and plans for its future.

The hardest work is yet to come—implementation—when we turn our vision of the future and our 54 recommendations into reality. That's Phase II, our next step: making it all happen. There is a part for you to play in it; we certainly hope that you'll join us!

The significance of the Commission's efforts is not what is written on the following pages, but rather, what will happen because of its work. We hope that you will talk to your friends and neighbors about what we're recommending and call us if you have any questions or comments.

Finally, please remember that this is simply a blueprint for building the future of North Dakota agriculture. It is not a finished product, but rather, it is a work in progress.

Sincerely,

**The Steering Committee of the Commission on the Future of Agriculture**

Pictured left to right: Dennis Hill, Executive Director, N.D. Assn. of Rural Electric Co-ops; Robert Carlson, President, N.D. Farmers Union; Howard Schmid, Past President, N.D. Farm Bureau; Roger Johnson, N.D. Commissioner of Agriculture, and Pat Jensen, Vice President - College of Agriculture, N.D. State University



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"Building the Future of North Dakota Agriculture," the Final Report and Action Plan of the Commission on the Future of Agriculture. Published in cooperation with "North Dakota REC/RTC Magazine," the monthly magazine of the state's rural electric cooperatives and rural telephone cooperatives. For more information on COFA, contact N.D. Department of Agriculture, 600 East Blvd. Ave., Department 602, Bismarck, N.D. 58505-0020; ph: (800) 242-7535. For information on the "North Dakota REC/RTC Magazine," contact the magazine at: P.O. Box 727, Mandan, N.D. 58554-0727; ph: (701) 663-6501; fax: (701) 663-3745; e-mail: kbrick@ndarec.com; or see the web site: <http://www.ndarec.com>. Cover note: The Celley family—Roland and Tammy, young Aaron and Alison, and their dog, "Dude," farm near Regan, N.D.





## Vision

*"The commission's work is detailed and far-reaching. In many aspects, it is nothing short of visionary. It should be taken seriously because it contains the seeds of a new, diversified and invigorated agricultural sector."*

The Forum, June 14, 1998

### Our vision of the future is:

**T**hat North Dakota becomes *the trusted provider of the highest-quality food in the world* with:

- ◆ Prosperous family farms;
- ◆ Thriving rural communities, and
- ◆ World-class stewardship of resources.

The Commission recognizes that North Dakota's agricultural commodities are also used as raw materials for processing into fiber, energy, and other industrial products as well as food products. However, there is value in adopting a vision statement that is bold, compelling, and easy to remember. We believe the phrase, "... the trusted provider of the highest quality food in the world ..." is a crisp vision statement that can capture the imagination of industry participants and motivate them to take the actions needed to make the vision become reality.



## Mission

*To significantly increase net farm income, improve the quality of rural life, and increase North Dakota's rural population.*



## Goals, Objectives and Actions

The following goals are designed to enable North Dakota to fulfill its vision and to achieve its mission.

### Goal 1

Make North Dakota agricultural products synonymous with high quality, dominating the premium markets.

### Goal 2

Increase value-added agricultural processing.

### Goal 3

Diversify and increase the value of agricultural production.

### Goal 4

Increase farm and non-farm cooperation that supports thriving rural communities and enhances our natural resources.

### Goal 5

Create a political, regulatory, economic, trade, financial, and natural resource environment in which North Dakota producers can compete in the global marketplace.





# Specific objectives and action steps for each goal:

## Goal 1

**Make North Dakota agricultural products synonymous with high quality, dominating the premium markets.**

### Objective 1

Develop a recognized family of brands that provides commensurate net returns.

- a. We recommend initial efforts be directed toward those products for which North Dakota has the greatest comparative advantage.

- b. We recommend that cost-effective joint marketing be undertaken as multiple brands become viable or marketing pools of differentiable products can be identified.

### Objective 2

Establish, promote, and implement internationally recognized standards of product quality and processing excellence that can be certified by an independent entity.

- a. We recommend that the North Dakota Department of Agriculture promote the cooperation of appropriate certifying agencies with all relevant producer and processor groups to develop standards for their products and to develop systems for monitoring adherence to these standards.
- b. We recommend that the North Dakota Mill and Elevator establish a model for developing standards for wheat.

### Objective 3

Conduct the necessary animal and crop research to differentiate and market high

quality crop and livestock products from North Dakota.

- a. We recommend that the U.S. Congress and the State Legislature provide adequate research funding to North Dakota for emerging diseases of plants and animals.
- b. We recommend that public support for research related to crops and livestock grown in North Dakota be gradually increased to 2 percent of gross farm income to the state.
- c. We recommend that a major bench-marking effort be undertaken for key North Dakota agricultural products so as to quantify the greatest product advantages and areas requiring augmentation.

### Objective 4

Get producers to buy equity in and commit production to North Dakota-based processing and marketing enterprises.

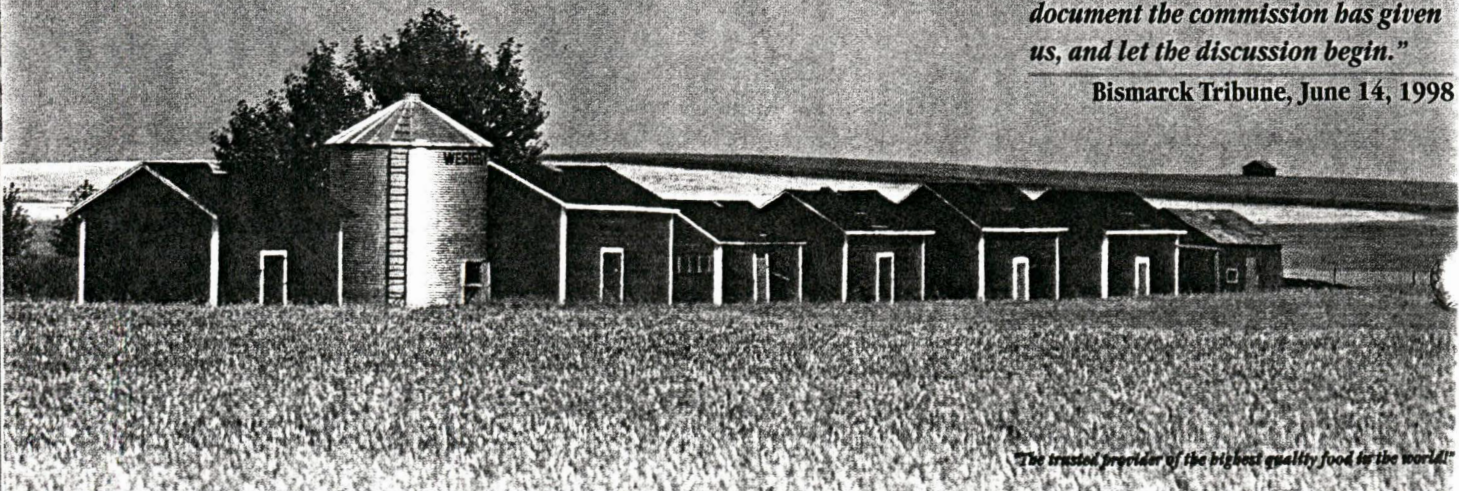
- a. We recommend that the Cooperative Development Center technical assistance services to producers be strengthened and expanded. ♦

*"The report is must reading for any farmer or rancher who wants to survive and see his farm or ranch passed on to future generations."*

Farm and Ranch Guide, June 19, 1998

*"Let us ponder the rather remarkable document the commission has given us, and let the discussion begin."*

Bismarck Tribune, June 14, 1998



*"The trusted provider of the highest quality food in the world!"*





## Goal 2

### Increase value-added agricultural processing.

#### Objective 1

Provide and promote opportunities for producers to invest in value-added agricultural processing through incentives.

- a. We recommend that the U.S. Congress and the North Dakota Legislature provide tax incentives for investors in value-added agricultural processing.

#### Objective 2

Improve and strengthen the Agricultural Products Utilization Commission (APUC).

- a. We recommend that the legislature assure a permanent funding source to support value-added research and development through APUC.
- b. We recommend that APUC remain under the control of farmers, with six appointed members to be selected from names recommended by agricultural organizations.
- c. We recommend that APUC be able to negotiate repayment of grants through preferred stock, intellectual property, and other methods.
- d. We recommend that APUC assist in the commercialization of innovations and patentable technologies discovered in publicly assisted research.



#### Objective 3

Provide and promote favorable finance programs for value-added agricultural processing businesses.

- a. We recommend improvements in the cooperative stock purchase program to include stronger incentives for low-equity farmers and improved loan terms for other farmers.
- b. We recommend the creation of an additional capital fund, partly funded by profits from the Bank of North Dakota, to make equity investments in value-added agricultural ventures within the state.

#### Objective 4

Promote innovative financial tools for non-farm North Dakota residents to invest in value-added agricultural processing projects with their farmer neighbors.

- a. We recommend that a mutual fund capital pool be developed to attract

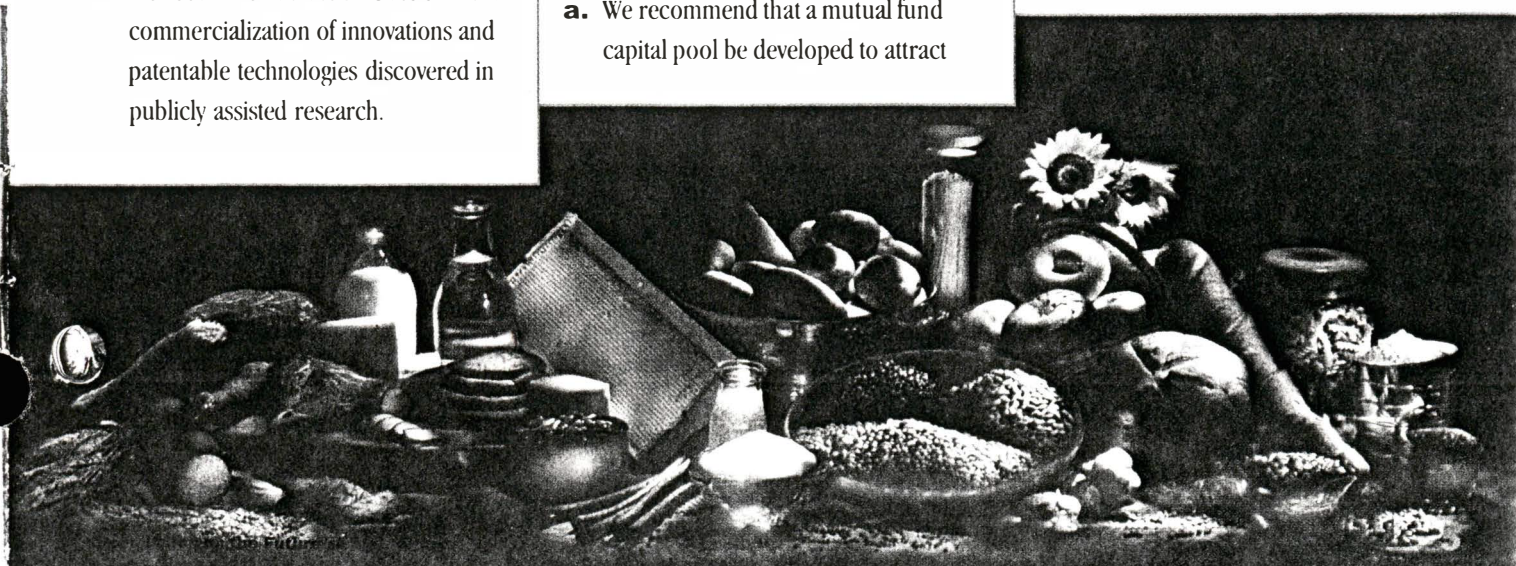
farm and non-farm investments in North Dakota value-added processing projects.

- b. We recommend that existing cooperatives be encouraged to create and capitalize a fund to be used to encourage farmers to invest in diversification and value-added projects.

#### Objective 5

Locate value-added food businesses in rural areas, where economically feasible and sustainable, with a high preference for North Dakota locations.

- a. We recommend that the legislature appropriate funds for a targeted Partnership in Assisting Community Expansion (PACE) program with lower matching requirements for value-added processing projects. ♦







## Goal 3

### Diversify and increase the value of agricultural production.

#### Objective 1

Develop and implement an aggressive plan for increasing animal agriculture within the state.

- a. We recommend that the 1999 legislature change the farm property tax structure to encourage investment in animal agriculture facilities.
- b. We recommend the promotion of value-added animal agriculture production, including quality assurance standards and safe food animal processing. We recommend that the state government explore the possibility of creating a partnership with the USDA Northern Great Plains Research Center to expand its mission to include this component.
- c. We recommend significant local and state involvement in the formulation and implementation of appropriate environmental regulations.

#### Objective 2

Focus research on new and emerging crops, livestock species, and appropriate technology that is suitable for production

and processing of food, fiber, energy, and other industrial products.

- a. We recommend that research be conducted in partnership with land grant universities, industry, farmers and non-profit organizations. The results of this research should be disseminated in a format that will optimize its use among farmers and processors.

#### Objective 3

To retain the ownership and control of production agriculture in the hands of family farms.

- a. We recommend that the North Dakota Legislature strengthen the family farming statute by allowing the number of possible shareholders related in some way to the "farmer" (as stated in the statute) to be increased to 30 members. We support the spirit and intent of North Dakota's family farming statute, which was established to preserve and maintain farm ownership and control in the hands of family farmers. The law should also make some allowances for no more than two full-time unrelated (to the "farmer") employees of the family corporation to become members of the farm family corporation. To qualify for such inclusion, the employee must have at least three years employment history with the family farm corporation, and upon leaving the employment of the farm,

the employee would be required to liquidate his/her shares.

#### Objective 4

Reduce transportation costs for North Dakota agricultural commodities and food products.

- a. We recommend that the State Legislature appropriate funding to the Department of Transportation to analyze methods of reducing transportation costs of North Dakota produced and processed commodities and products and to develop a strategic transportation plan for the state.
- b. We recommend that the State Department of Transportation harmonize requirements among North Dakota, other states, and Canadian provinces.

#### Objective 5

Create and implement an aggressive plan to develop and conserve water resources within the state.

- a. We recommend that the formulation of a strategic plan for economic development through irrigation be prepared by the High Value Irrigated Crops Task Force, in cooperation with NDSU, with state funding.
- b. We recommend that the USDA Northern Great Plains Research Center establish a Dryland Farming Institute to develop more drought-resistant crops and moisture-conserving farming practices.

#### Objective 6

Establish an agricultural marketing web site to link buyers and sellers of North Dakota produced and processed commodities and products.

- a. We recommend that the North Dakota Department of Agriculture establish and maintain a user-friendly web site that can be accessed by all North Dakota producers and processors as well as domestic and international buyers. ♦







## Goal 4

**Increase farm and non-farm cooperation that supports thriving rural communities and enhances our natural resources.**

### Objective 1

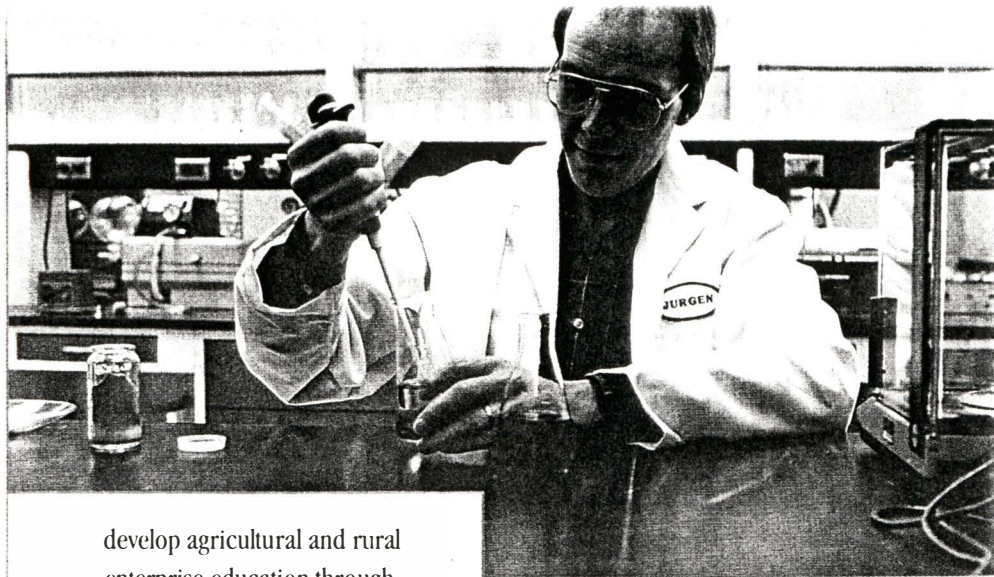
Increase the connectivity to and availability of information in rural communities.

- a. We recommend that the North Dakota Legislature provide incentives to establish an advanced telecommunications network that provides affordable service to all areas of the state.

### Objective 2

Develop broad-based support for agricultural education from elementary through adult levels.

- a. We recommend that the North Dakota Legislature provide adequate funding for agricultural education at the post-secondary level as well as for establishing vocational education courses in high schools.
- b. We recommend that the North Dakota Legislature provide adequate funding to the Board for Vocational Education:
  - ◆ To support as many adult farm management programs as demand requires;
  - ◆ To support the expansion of the curriculum to emphasize marketing education for farmers;
  - ◆ To encourage the creation and expansion of marketing clubs as adjuncts to new and existing Adult Farm Management Programs, and
  - ◆ To align the Extension Service, the Board for Vocational Education, and the university system to



develop agricultural and rural enterprise education through electronic means such as e-mail, internet web sites, and interactive video network classes.

### Objective 3

Design and implement entrepreneurial and work force recruitment and training incentive programs which will retain and attract people to rural North Dakota communities.

- a. We recommend a program of tuition rebates in partnership with local communities for university system students who work in rural North Dakota for a minimum of five years following graduation.
- b. We recommend that Job Service North Dakota expand its prospect list by lending its support to "Project Back Home" to increase the impact of the program statewide.

### Objective 4

Provide for a work force that has a vested interest in the business.

- a. We recommend that the legislature explore potential tax incentives which would encourage greater participation by North Dakota employees in agricultural business ownership.

### Objective 5

Increase the awareness of the significance of agriculture to the state of North Dakota.

- a. We recommend that the North Dakota Legislature provide adequate funding for the Ag in the Classroom program to educate the state's children on the vital importance of agriculture in their lives and in the state's economy.
- b. We recommend the continued funding, at current or increased levels, of 4-H and FFA programs.

### Objective 6

Increase the appreciation of the importance of stewardship of our natural resources in the production of high-quality food.

- a. We recommend the use of incentive-based conservation programs that are voluntary and that include annual payments to farmers to encourage greater use of natural resources by the public.
- b. We recommend the development of a teaching and learning curriculum for adults and school-age children that presents the production ethic that balances agricultural production and environmental concerns.◆

*"Everybody ought to read the final report of the Commission on the Future of Agriculture...Its blueprint for a prosperous and self-sufficient future is the boldest and most comprehensive in 80 years..."*

Bismarck Tribune, June 14, 1998



## Goal 5

**Create a political, regulatory, economic, trade, financial, and natural resource environment in which North Dakota producers can compete in the global marketplace.**

### Objective 1

Provide immediate tax relief for producers, focused on a more favorable property and income tax structure for agricultural producers.

- a. We recommend that Congress enact modifications to the tax law to permit the \$500,000 exemption in capital gain tax on residences to be applied to farms and small business real estate. A five-year minimum ownership is also suggested to prevent speculation in farmland.
- b. We recommend that the U.S. Congress

*"In order to be fully implemented it needs support, beginning at the grass-root level on up to the legislatures on both the state and federal levels..."*

Farm & Ranch Guide, June 19, 1998

provide additional estate tax exemptions to farm real estate transferred within families.

- c. We recommend that Congress allow farmers to purchase, own, and operate farm real estate with tax deferred retirement funds.
- d. We recommend that the state create a property tax structure which encourages on-farm living, well-kept buildings, and state-of-the-art, environmentally friendly production facilities.
- e. We recommend that Congress extend and expand income tax provisions to enable agricultural producers to utilize Income Averaging, the Investment Tax Credit, and 100 percent health insurance premium deductibility.
- f. We recommend tax abatements for beginning farmers similar to tax abatement programs for other beginning small businesses.
- g. We recommend that facilities used to grow or raise any unprocessed agricultural product be exempted from property tax.
- h. We recommend reducing dependence

on property taxes and increasing dependence on state revenue sources. Furthermore, we recommend that:

- ◆ State Aid Distribution be funded at 0.6 percent of statewide taxable sales;
  - ◆ State Foundation Aid be increased to 60 percent of the statewide per pupil cost for education, and
  - ◆ A related decrease in property taxes by local political subdivisions be implemented.
- i. We recommend that the 1999 North Dakota Legislature adopt changes in the definition of "farmer" for determining residential exemptions for property tax from a definition based on the percent of family income derived from farming to "whose gross farm income exceeds off-farm income."

### Objective 2

Improve the lending environment for agriculture.

- a. We recommend changes in the lending practices of the Bank of North Dakota and Farm Service Agency (FSA) for improved beginning farmer and first-time farm purchases. Beginning farmers should be afforded incentives similar to lending programs for beginning small businesses in other industries. We recommend that the Bank of North Dakota increase its beginning farmer loan limit from \$100,000 to \$150,000.
- b. We also recommend that:
  - ◆ FSA intensify its efforts to help beginning farmers and make every effort to reduce burdensome paperwork;
  - ◆ The FSA director take immediate action to implement the line-of-credit loans authorized in section



*"The trusted provider of the biggest quality food in the world!"*



614 of the 1996 Farm Act. Line-of-credit loans should be used for all routine and recurring operating loans using either direct or guaranteed authorities;

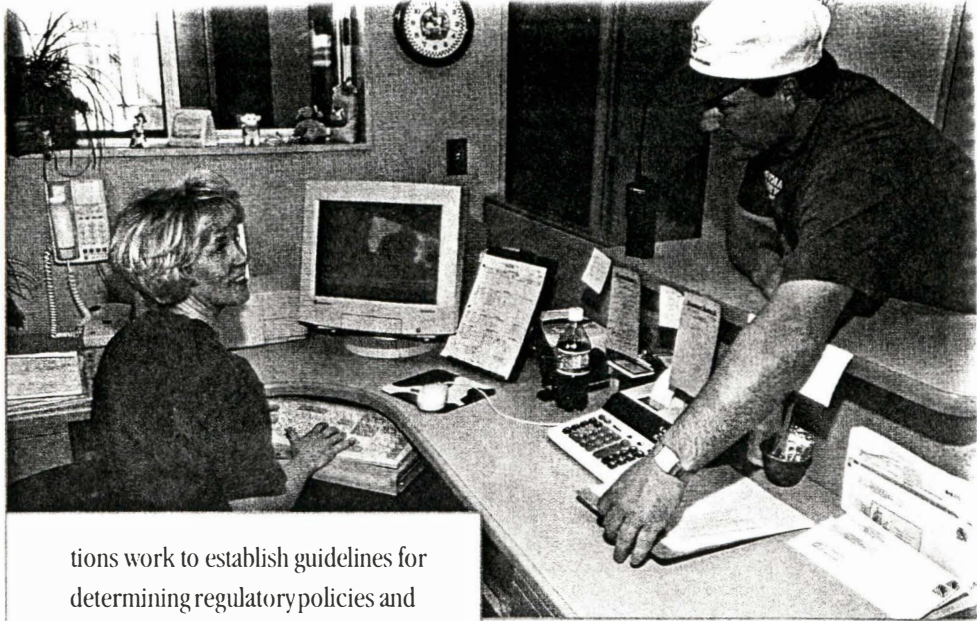
- ◆ The FSA administrator give the highest priority to the immediate establishment of regulations to fully implement the "Preferred Lender" and "short form application" for operating loans under \$50,000 as required under the 1992 Agriculture Credit Act amendments;
- ◆ Congress authorize the Farm Service Agency to guarantee tax-exempt First Time Bonds used to make loans to beginning farmers and ranchers. These bonds should be allowed for use in seller-financed transactions between family members, and
- ◆ FSA increase its lending limits.

### Objective 3

Ease or eliminate restrictive regulatory burdens.

- a. We recommend easing impediments caused by existing pesticide regulations through:
  - ◆ Increasing resources and efforts of the U.S./Canada Technical Working Group (TWG) on Pesticides to harmonize pesticide regulations in the two countries;
  - ◆ Committing more resources and efforts to establishing tolerances for pesticides registered for use in Canada but not in the United States, and
  - ◆ Exerting a greater effort to accept registration data currently accepted by Canadian officials in support of Canadian registrations.

- b. We recommend that farm organiza-



tions work to establish guidelines for determining regulatory policies and specifications, including environmental bonding where warranted, that balance the need for agricultural production and preservation of North Dakota's valuable natural resources. These guidelines should be shared and coordinated with environmental, consumer, and regulatory groups.

### Objective 4

Reduce non-farm competition with individual farmers and ranchers for land acquisition including government agencies and non-profit organizations.

- a. We recommend that agricultural organizations in conjunction with the North Dakota Association of Counties and the North Dakota Township Officers Association develop model land use zoning guidelines for use by counties and townships that preserve agricultural land for future generations. More specifically, we recommend:
  - ◆ A statewide cap on CRP acreage at the current level, and that all future CRP be limited to highly erodible land and waterways, and
  - ◆ Retention of ownership and control of production agriculture in the hands of family farmers and ranchers by implementing a policy of no net loss of productive agricultural land.

### Objective 5

Provide better options for risk management by farmers.

- a. We recommend that the Congress and the U.S. Department of Agriculture make the following changes to the Federal Risk Management Program:
  - ◆ Expand coverage to all crops, including new and emerging crops;
  - ◆ Expand coverage to protect minimum revenue levels;
  - ◆ Develop a gross-farm income protection program, and
  - ◆ Provide that the yield data for disaster years not be included when calculating actual production histories for determining yield guarantee levels.

### Objective 6

Encourage options for lower cost, quality health insurance for farm families.

- a. We recommend that North Dakota Farm Bureau, North Dakota Farmers Union and other farm organizations cooperate in offering one health insurance program to their combined membership that would benefit from lower rates due to the larger pool of participants than any one organization currently enjoys. ◆





# Background

*"The best thing about the (Commission on) Future of Agriculture Report might be the psychological lift it gives North Dakotans..."*

*"The report has managed to lift our sights beyond the farm crisis and toward a prosperous farm future."*

*"...it's good to see state farm leaders taking the initiative. It is only in this way that the state's farmers will gain greater control of their own—and the state's—destiny."*

Grand Forks Herald, June 23, 1998

Ninety percent of North Dakota's land (over 40.2 million acres) is in farms, making the state fourth in the nation in the percentage of total acres devoted to agriculture. North Dakota also ranks fourth in the nation in the percentage of economic base derived from agriculture.

At 38 percent of the total, agriculture is the largest sector of the state's economic base (see Figure 1) and generated more than \$3 billion in revenue in 1997. North Dakota ranks 10th in agricultural exports, earning \$1.7 billion in fiscal year 1996.

North Dakota's principal agricultural

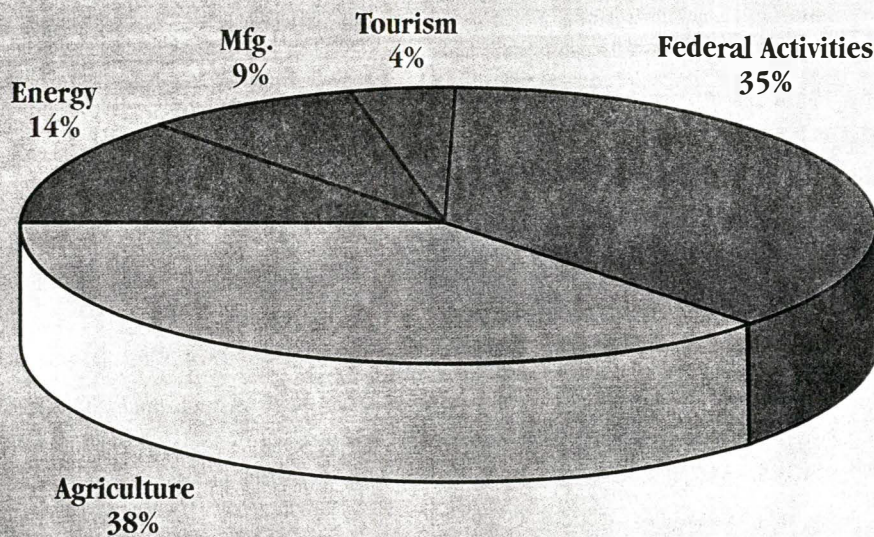
products are wheat and cattle. The combination of wheat at 41.4 percent and cattle at 9.2 percent made up over one-half of the state's total agricultural receipts in 1996. These two enterprises were also among the hardest hit by recent weather disasters. In 1997, wheat production was down 33 percent from 1996. Disease and insect problems, coupled with poor prices, have led to a predicted decline of more than one-and-one-half million acres in 1998 wheat plantings.

Total cattle inventories have dropped 8 percent from a year ago, due largely to record winter-related losses and economic factors. As a percent of total inventory, the total cattle death loss in 1997 is the highest on record.

Net returns per acre of wheat in North Dakota turned negative in 1997, with an average statewide loss of \$16 per acre (as shown in Figure 2). Similarly, returns for beef cattle were net losses for many cattle producers during 1995 and 1996 (as shown in Figure 3 on page 12).

Low and negative net returns on wheat and cattle have led to declining net farm

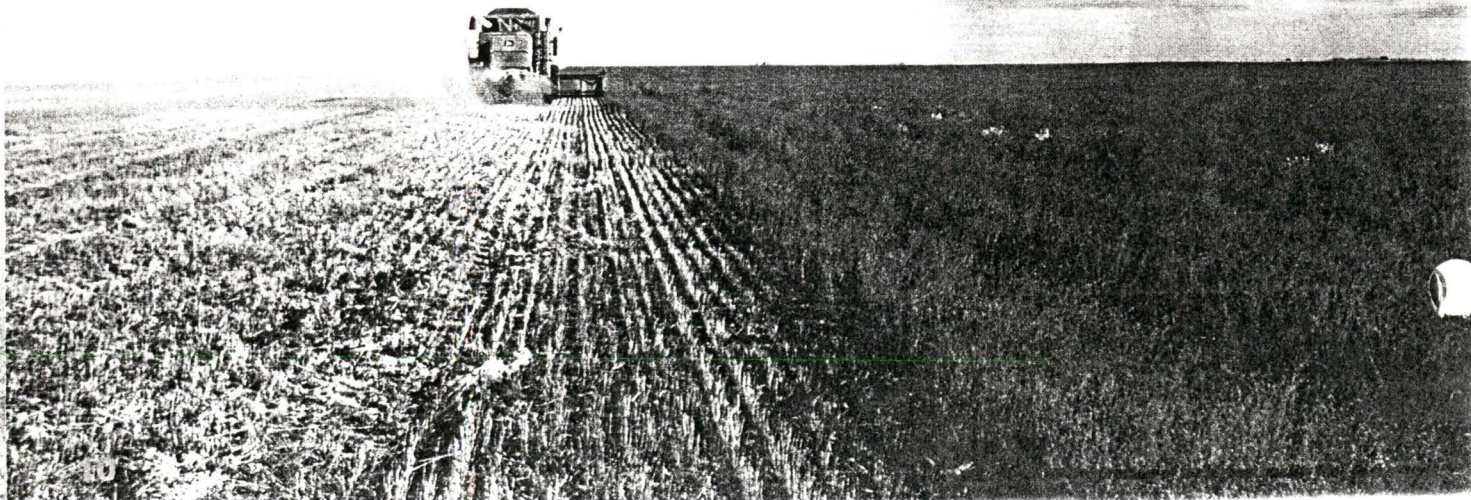
**FIGURE 1. NORTH DAKOTA'S ECONOMY IN THE 1990s**



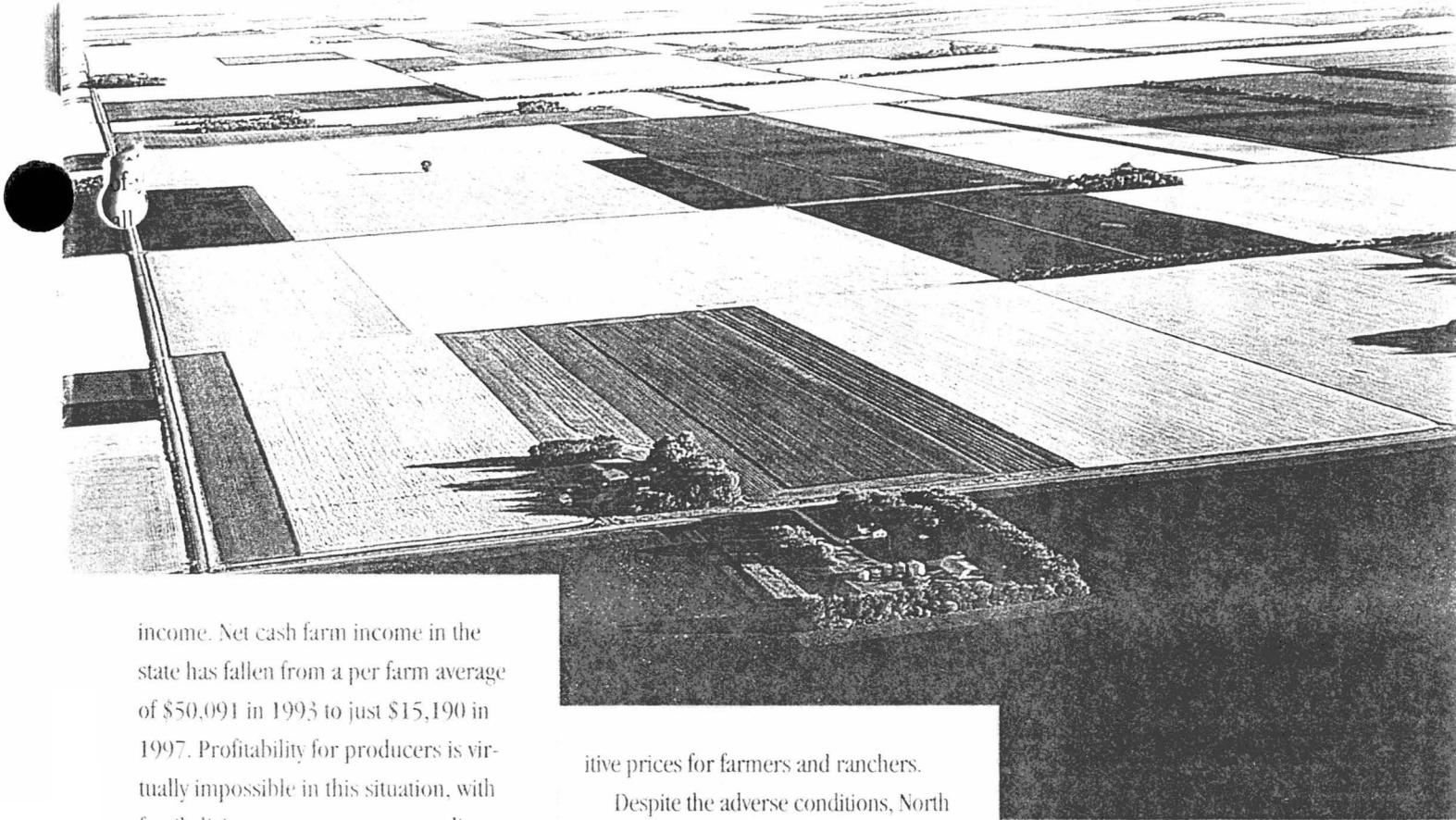
Source: North Dakota Blue Book

*"The commission's blueprint is a long-term approach."*

The Forum, June 14, 1998







income. Net cash farm income in the state has fallen from a per farm average of \$50,091 in 1993 to just \$15,190 in 1997. Profitability for producers is virtually impossible in this situation, with family living expenses now exceeding average net cash farm income (as shown in Figure 4 on page 13).

The state has also experienced a significant demographic change. The number of farm youth within the state has declined from 63,557 in 1970 to 17,366 in 1990 (as shown in Figure 5 on page 13) and is estimated to have decreased further to 10,000 at present. In addition, 31 of 53 counties have registered more deaths than births in the period from 1990 to 1996.

Family farm net income is also impacted by growing economic concentration in sectors of agricultural marketing and processing. Economic concentration among the four top meat packers has increased from 67 percent in 1987 to 87 percent in 1997. Similarly, the top four flour millers control 62 percent of the market today versus 40 percent in 1982.

As shown in Figure 6 on page 13, eight sectors of agricultural marketing and processing continue to see an increasing percentage of economic concentration, limiting market opportunities and compet-

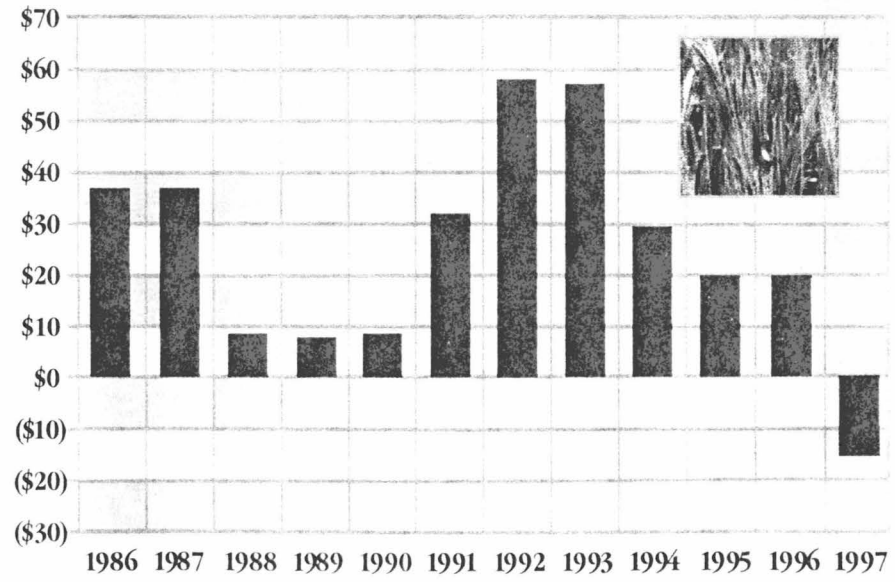
itive prices for farmers and ranchers.

Despite the adverse conditions, North Dakota has developed a worldwide reputation as a leader in value-added processing cooperatives. This well-deserved opinion is based on a carefully developed strategy and hard-fought successes in the creation of producer-owned enterprises. This body of experience in successes and failures will

*“Where predictions are concerned, the Commission on the Future of Agriculture’s are ... useful ... They build on the state’s current situation.”*

Grand Forks Herald, June 24, 1998

**FIGURE 2. NET RETURNS PER ACRE FOR WHEAT IN N.D.**



Source: North Dakota Adult Farm Management Program



*"Perfect timing. The plan could be the beginning of the salvation of North Dakota agriculture."*

*"Building the Future of North Dakota," a report by the Commission on the Future of Agriculture, reveals the clear-thinking, problem-solving abilities of North Dakotans..."*

Minot Daily News, June 14, 1998

serve us well in building the future envisioned in this report. Our hard work and profound commitment have generated an unshakable sense of self-confidence. We believe we can achieve our vision.

The Commission on the Future of Agriculture (the Commission) was formed because of the crisis in North Dakota agriculture. However, the Commission is confi-

dent that people within the state can build upon the very impressive human and social capital that has been developed over the last several decades.

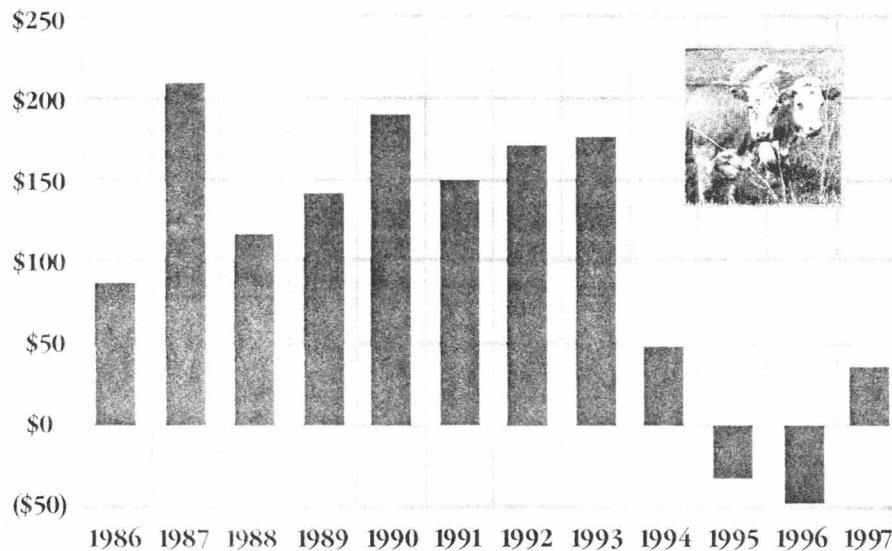
The Commission recognizes that many members of the farming community need immediate relief if they are going to survive economically. Furthermore, the state must develop a long-term strategic plan that will create long-term, sustainable prosperity utilizing all appropriate technology if the current crisis is not to repeat itself again in another few years.

Thus, the Commission believes it is imperative that its recommendations include strong action steps that will:

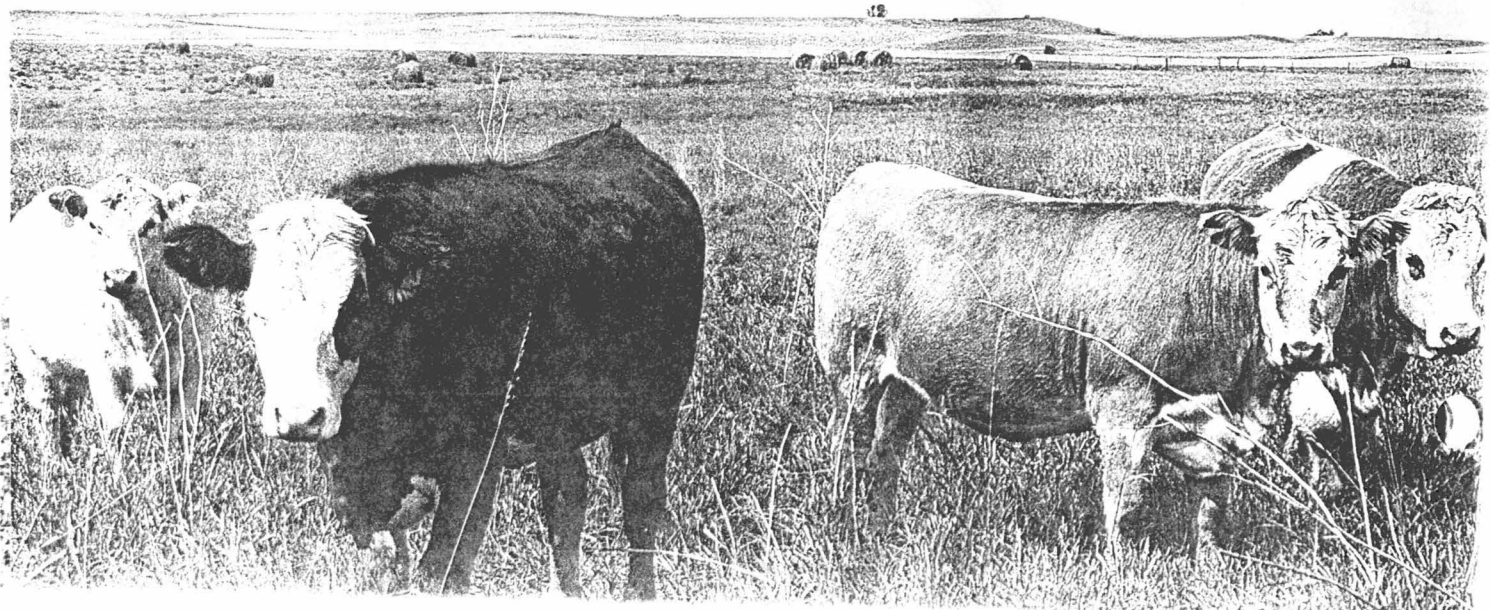
- ◆ Provide immediate relief to today's farmers;
- ◆ Generate actions that will improve profitability in the medium term, and
- ◆ Create a viable long-term economic future for North Dakota's farm and non-farm population.

The Working Group identified criteria that it felt should be used in selecting appropriate goals, objectives and action steps. It was determined that the goals,

**FIGURE 3. NET RETURNS PER BEEF COW IN N.D.**



Source: North Dakota Adult Farm Management Program



Objectives and action steps presented in the report should meet most, if not all, of the following criteria:

- ◆ Contribute to an increase in net farm income.
- ◆ Create an active cooperation between farm and non-farm communities.
- ◆ Be doable.
- ◆ Be incentive-driven.
- ◆ Increase the quality of food production.
- ◆ Contribute to healthy population growth.

The Commission believes that the objectives and recommendations in this report meet these criteria. We hope that you do, too.

Many of the people of North Dakota who have developed this report are listed on the following page. Their assistance has been invaluable.

All of us know that we have just begun the effort to create our future. The real challenge—implementation—is ahead of us. As the June 14, 1998, *Forum* editorial observed, *“The initiative might be the most important item of business to come before the 1999 Legislature.”*

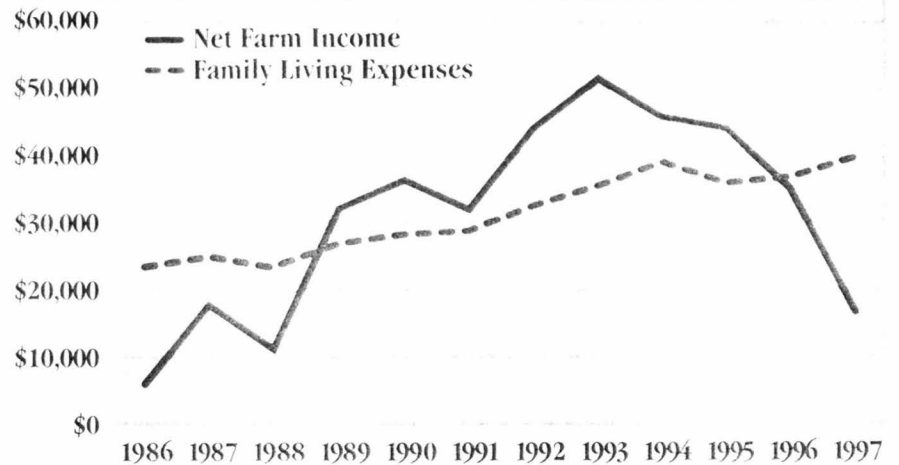
The words in this report are just *words* until they are implemented. This is a task that will require all of our efforts!◆

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**For more information about the Commission on the Future of Agriculture, please contact the North Dakota Department of Agriculture at 1-800-242-7535 or 328-2231.**

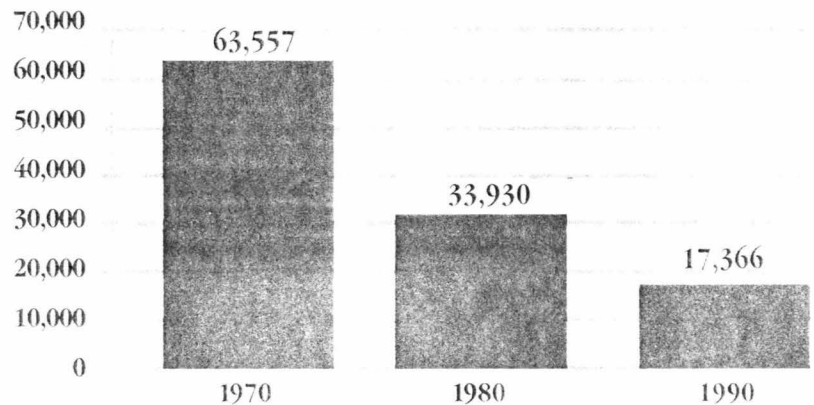
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**FIGURE 4. NET FARM INCOME VS. LIVING EXPENSES**



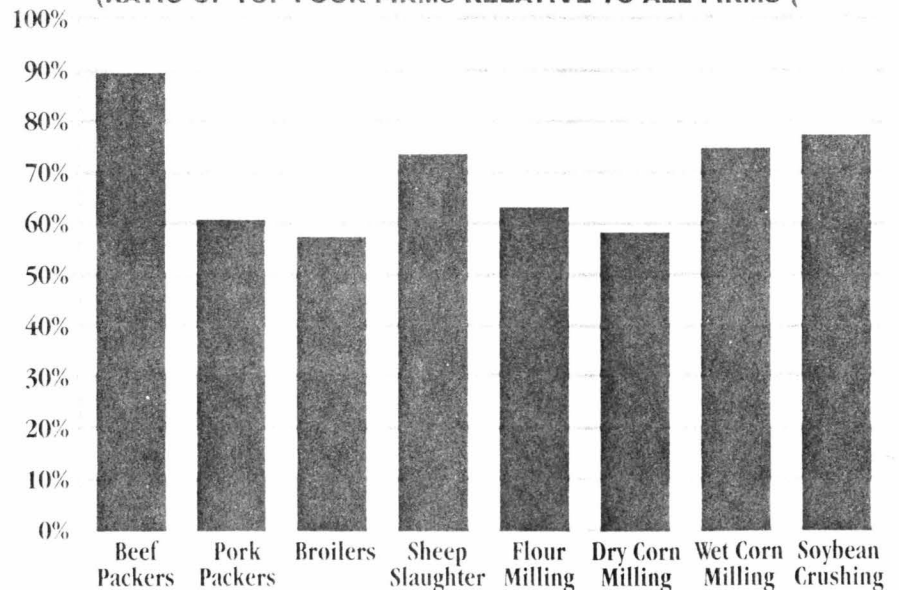
Source: North Dakota Adult Farm Management Program

**FIGURE 5. N.D. FARM YOUTH UNDER 18 YEARS OF AGE**



Source: Census Data Center

**FIGURE 6. CONCENTRATION OF AGRICULTURAL MARKETS (RATIO OF TOP FOUR FIRMS RELATIVE TO ALL FIRMS)**



Source: University of Missouri, 1997



# Participants

The following people, representing the following organizations, participated on either the Steering Committee, the Working Group, or the Commission on the Future of Agriculture:

## Commission on the Future of Agriculture

Bruce Anderson, CEMEX  
Sharon Anderson, NDSU Extension Service  
Ben Axtman, N.D. Assn. of Rural Electric Co-ops  
Elwood Barth, N.D. Credit Review Board  
Lori Capouch, N.D. Assn. of Rural Electric Co-ops  
Dennis Carlson, CEMEX Land O' Lakes  
Robert Carlson, N.D. Farmers Union  
Kent Conrad, U.S. Senator  
Kevin Cooper, Industrial Development Assn.  
Kevin Craner, N.D. Economic Development & Finance  
Galen Debey, N.D. Credit Union League  
Judith Dewitz, N.D. Water Commission  
Jerry Doan, Board of Ag Research  
Byron Dorgan, U.S. Senator  
Gerald Eissingner, N.D. Assn. of Telephone Co-ops  
Mark Froemke, N.D. AFL-CIO  
Lance Gaebe, N.D. Grain Growers Assn.  
Paul Germolus, Office of Attorney General

Cornelius Grant, NDRDC  
Dale Greenwood, N.D. Stockmen's Assn.  
John Hagen, MCETA  
Arden Haner, LAND  
Jim Harmon, N.D. Farm Bureau  
Jarvis Haugeberg, N.D. Grain Dealers Assn.  
Heidi Heitkamp, N.D. Attorney General  
Bill Hejl, Red River Valley Sugarbeet Growers Assn.  
Dennis Hill, N.D. Assn. of Rural Electric Co-ops  
Scott Hoag, Jr., NRCS  
John Hoeven, Bank of North Dakota  
Gary Hoffman, American Dairy Assn.  
Bryan Hoime, N.D. Township Officers Assn.  
Larry Isaak, N.D. University System  
Joel Janke, N.D. Vocational/Technical Education  
Patricia Jensen, N.D. State University  
Mark Johnson, N.D. Assn. of Counties  
Roger Johnson, N.D. Agriculture Commissioner  
Annie Kirschenmann, Farm Verified Organic  
Dave Koland, N.D. Assn. of Rural Water Systems  
Max Laird, N.D. Education Assn.  
Darrell Larson, N.D. Implement Dealers Assn.  
Charlotte Meier, N.D. Pork Producers Assn.  
Charles Mertens, USDA-Rural Development  
Bill Muhs, Farm Credit Services  
Bev Nielson, N.D. School Boards Assn.  
Eugene Nicholas, N.D. Legislature  
Arlene Olson, N.D. Farmers Union



Keith Pelier, Ag Assn  
Shelly Peterson, Long Term Care Assn.  
Thomas Plough, NDSU  
Earl Pomeroy, U.S. Congressman  
Kevin Price, American Crystal Sugar  
Lincoln Reinhiller, Dakota Resource Council  
Dale Roemmich, N.D. Bankers Assn.  
Edward Schafer, Governor  
Howard Schmid, N.D. Farm Bureau  
Rev. George Schneider, N.D. Conference on Churches  
Francis Schwindt, N.D. Health Department  
Connie Sprynczynatyk, N.D. League of Cities  
Scott Stofferahn, Farm Service Agency  
Mike Strobel, N.D. Mill and Elevator  
Arnold "Chip" Thomas, N.D. Hospital Assn.  
Terry Wanzek, N.D. Legislature  
Dan Wiltse, N.D. Barley Council

## COFA Working Group Members

**John Bollingberg** - a life-long farmer from Wells County and graduate of N.D. State University. Bollingberg has served numerous groups, including the Agricultural Products Utilization Commission, Edible Bean Council and the N.D. Farm Bureau. Bollingberg currently chairs the N.D. Ag Coalition.

**Jack Dalrymple** - a Casselton farmer and Yale University graduate. Dalrymple has been a state legislator since 1985 and has served numerous other groups, including leadership positions for Dakota Growers Pasta Company and United Spring Wheat Processors.

**Jerry Effertz** - a Velva area family farm and ranch owner and master's degree graduate of N.D. State University. Effertz is a member of the N.D. Stockmen's Assn., N.D. Limousin Cattle Assn., McHenry County Farm Bureau, McHenry County Farmers Union and the Velva Lions Club.

**Neil Fisher** - administrator of the N.D. Wheat Commission and master's degree graduate of N.D. State University. Fisher was raised on a family farm that still operates near Pettibone, has been with the Commission since 1978 and was appointed administrator in 1998.

**Patricia Jensen** - vice president and dean for Agricultural Affairs at N.D. State University. Jensen is a College of St. Catherine graduate and William

Mitchell School of Law graduate and has a lengthy record of service to agriculture, through education and industry groups.

**Roger Johnson** - N.D. Commissioner of Agriculture and N.D. State University graduate. Johnson, a native of Turtle Lake, where he still owns a family farm, was administrator of the N.D. Agricultural Mediation Service from 1989 to 1996, serves now on the N.D. Industrial Commission and has served several other statewide groups.

**Fred Kirschenmann** - owner of a 3,100-acre organic farm in south central N.D. Kirschenmann is a doctoral graduate of the University of Chicago, a former college instructor and administrator, and now serves several sustainable and organic agricultural groups.

**Ron LeClerc** - director of Community and Rural Development for the N.D. Dept. of Economic Development & Finance. A Minot State and N.D. State University graduate, LeClerc farms part-time and serves several state and regional groups.

**Wade Moser** - executive vice president of the N.D. Stockmen's Assn., N.D. State University graduate, life-long rancher and former agricultural loan officer.

**Bill Patrie** - rural development director for the N.D. Association of Rural Electric Coopera-

tives and Telephone Cooperatives and master's degree graduate of Ball State University. Patrie is past CEO of Northern Plains Premium Beef and current chairman of the Rural Development Finance Corporation.

**Richard Schlosser** - owner of a 1,500-acre family farm near Edgeley and former school teacher. Schlosser is vice president of N.D. Farmers Union and serves on the N.D. Credit Review Board.

**Howard Schmid** - life-long Benson County farmer, raising wheat, barley and sunflowers. Schmid served as N.D. Farm Bureau president from 1990 to 1998, and is a member of the U.S. Durum Growers and N.D. Grain Growers.

**Robert Sorenson** - president of the Independent Community Banks of N.D. and graduate of N.D. State University. Sorenson is currently vice president of the Scandia American Bank, where he has been employed for the past 18 years.

**Steven Tomac** - owner of a 1,100-acre family farm and ranch in Morton County and a graduate of N.D. State University. Tomac has served as a state senator since 1991 and served in the state house of representatives during the 1987-1989 sessions. He works as a rural appraiser and is involved with several statewide organizations.