

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2294

2001 SENATE FINANCE AND TAXATION

SB 2294

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2294

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 2/5/01

Tape Number	Side A	Side B	Meter #
1	x		21.6-44.3
2/13/01 - 2		x	4.2-34
Committee Clerk Signature <i>Lynelle A. Kraft</i>			

Minutes:

Senator Urlacher: Opened the hearing on SB 2294, relating to a corporate and individual income tax credit for fees paid to the small business administration for guaranteed financing.

Senator Tony Grindberg: Co-sponsored the bill, testified in support. Explained what the bill would actually do. This would help start up businesses which would otherwise not be created, and existing businesses which would otherwise not expand. Proposed an amendment.

Jeff Vye: Dakota Certified Development Corporation, testified in support. Written testimony attached. Also provided handout and submitted absentee testimony from BND.

Senator Christmann: Is the fee a one-time loan fee?

Jeff Vye: No, it's part of the interest rate that they're paying every year.

Senator Christmann: Is there a certain percentage for the guarantee fee?

Jeff Vye: It's .472% of the remaining balance of the loan.

Senator Stenehjem: Is this strictly to a farm-related project?

Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number 2294

Hearing Date 2/5/01

Jeff Vye: No, it's commercial.

Senator Kroepflin: These SBA loans are for how many years?

Jeff Vye: 20.

Donnita Wald: State Tax Dept., testified neutrally. Clarified some things.

Jeff Vye: Explains percentages dealing with BND.

Senator Urlacher: Closed the hearing. Action delayed.

Discussion held (2/13/01). Meter number 4.2-34.

Senator Tony Grindberg: Appeared to explain how it works.

Senator Christmann: Does the handout from Jeff Vye look reasonable to you?

Senator Tony Grindberg: I believe that the information would have pulled off of what they actually write per year. I would feel comfortable in saying that what's been provided is an estimate based on current loan volume and projection into the future. This 504 program is a very effective tool for small businesses.

Senator Nichols: Is the guarantee fee a one time fee?

Donnita Wald: There are two kinds of fee. The guarantee is the one time upfront fee and the servicing fee which is part of the interest rate that is paid on the note.

Senator Tony Grindberg: I realize the magnitude of your challenge with these bills, I would be open to what you determine appropriate, if you need to cut it down a little bit. I think it's important enough that it does move forward in some fashion.

Senator Kroepflin: I'd make a motion that we amend it for the first biennium and revisit it when we come back.

Page 3

Senate Finance and Taxation Committee

Bill/Resolution Number 2294

Hearing Date 2/5/01

2-13-01

AMENDMENT ACTION:

Motion was made by Senator Kroepflin, Seconded by Senator Nichols, to move the amendment numbered 10606.0101 with changes. Voice Vote taken. All present in favor, 1 absent.

COMMITTEE ACTION:

Motion made by Senator Nichols for a DO PASS AS AMENDED, Seconded by Senator Christmann. Vote was 6 yeas, 0 nays, 0 absent and not voting. Bill carrier was Senator Nichols.

FISCAL NOTE
 Requested by Legislative Council
 01/23/2001

BW/Resolution No.: SB 2294

Amendment to:

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

SB 2294 creates an income tax credit for fees paid to the SBA for financing. The fiscal impact 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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	02/02/2001

PROPOSED AMENDMENTS TO SENATE BILL NO. 2294

Page 1, line 4, remove "and" and after "date" insert "; and to provide an expiration date"

Page 1, line 13, replace "a guaranty" with "an annual guarantee"

Page 1, line 15, replace "was" with "is"

Page 2, after line 4, insert:

5. For purposes of this section, a "guarantee fee" paid to the small business administration means the fee identified in the small business administration 504 loan authorization to the business applying for guaranteed financing as the ongoing guarantee fee.
6. A small business is entitled to a credit under this section only for an annual guarantee fee for a small business administration 504 loan program loan funded during calendar years 2001 through 200~~0~~².

Page 2, line 9, after "DATE" insert "- EXPIRATION DATE" and after "for" insert "the first ² ~~five~~"

Page 2, line 10, after "2000" insert ", and is thereafter ineffective"

Renumber accordingly

Date: 2/15/01
Roll Call Vote #: 2

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2294

Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS AS AMENDED

Motion Made By Nichols Seconded By Christmann

Senators	Yes	No	Senators	Yes	No
Senator Urlacher-Chairman	✓				
Senator Wardner-Vice Chairman	✓				
Senator Christmann	✓				
Senator Stenehjem	✓				
Senator Kroeplin	✓				
Senator Nichols	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Nichols

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

REPORT OF STANDING COMMITTEE

SB 2294: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2294 was placed on the Sixth order on the calendar.

Page 1, line 4, remove "and" and after "date" insert "; and to provide an expiration date"

Page 1, line 13, replace "a guaranty" with "an annual guarantee"

Page 1, line 15, replace "was" with "is"

Page 2, after line 4, insert:

- "5. For purposes of this section, a "guarantee fee" paid to the small business administration means the fee identified in the small business administration 504 loan authorization to the business applying for guaranteed financing as the ongoing guarantee fee.
6. A small business is entitled to a credit under this section only for an annual guarantee fee for a small business administration 504 loan program loan funded during calendar years 2001 and 2002."

Page 2, line 9, after "DATE" insert "- EXPIRATION DATE" and after "for" insert "the first two"

Page 2, line 10, after "2000" insert ", and is thereafter ineffective"

Renumber accordingly

2001 SENATE APPROPRIATIONS

SB 2294

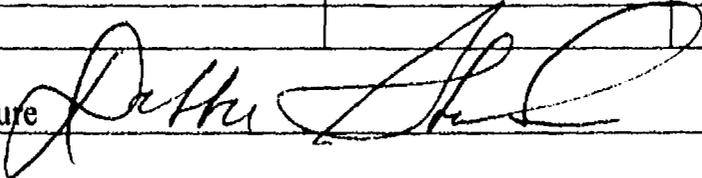
2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2294

Senate Appropriations Committee

Conference Committee

Hearing Date February 19, 2001

Tape Number	Side A	Side B	Meter #
2	X		17.4-29.0
Committee Clerk Signature 			

Minutes:

Senator Nething opened the hearing on SB 2294.

Senator Grindberg, sponsor of the bill, spoke to the committee favoring the bill.

Jeffrey Bye, spoke in favor of the bill and passed out a Fact Sheet (attached) showing the fiscal impact of the bill.

Senator Tallackson: Why are there no figures on the fiscal note?

Jeffrey Bye: It can't be determined at this time.

Donnita Wald, from ND Tax Department, stated there will be an impact with this bill and we cannot give you the figures. The figures given by Jeffrey Bye are not from their department.

Senator Tomac: What type of fee are you exempting and this can be used on the short form?

Donnita Wald: In Section 2, credit for fee paid.

Jeffrey Bye: Yes can also be applied when using the short form.

Page 2

Senate Appropriations Committee

Bill/Resolution Number SB 2294

Hearing Date February 19, 2001

John Kramer, explained the 504 loan process. The 504 loan is 40% and the lead bank is 50%, the bank being the first guaranteed. Can also look at other to finance. The SBA's guarantees the fee because there are no appraisals and there are very few delinquent loans and it includes all other states in business for the 1/2% fee but it does hurt the rural areas.

Senator Nething: In 2001, figures on the \$8 million loan fee?

John Kramer: There are 35 loans around \$16 million in 2000; next year because of construction.

Senator Nething: So \$37,800 for 2001 and for 2002 three times as many; because of activity?

John Kramer: Yes there are more loans planned for this increase

Senator Solberg: This is a one time fee; is it added to the balance of the loan?

John Kramer: Yes, the credit is only for the two years then it sunsets.

Senator Tomac: So a loan balance of \$100,000 first year is deductible and the second year of \$95,000 for a credit of a 1/2 percent, will this go on and on?

John Kramer: These are not guaranteed loans, work with banks, find the project for SBA bonds.

Senator Tomac: The title of the bill says fees paid to SBA to guarantee financing?

John Kramer: Few loans in ND go back. SBA are bond loans, they take losses and change rate every year. The guarantee fee is annual, it services the investor and loan is taken over. This is not original fee on loans.

With no opposition, the hearing was closed.

Page 3

Senate Appropriations Committee

Bill/Resolution Number SB 2294

Hearing Date February 20, 2001

February 20, 2001 Finkl Committee (Tape #1, Side A, Meter No. 6.4-9.3)

Senator Nething reopened the hearing on SB2294.

Discussion. Senator Grindberg moved a DO PASS; Senator Kringstad seconded.

Discussion. Roll Call Vote: 9 yes; 4 no; 1 absent and not voting.

Floor assignment goes back to original committee carrier: Senator Nichols.

Date: 2-20-01

Roll Call Vote #: _____

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB2294

Senate Appropriations Committee

Subcommittee on _____

or

Conference Committee

Legislative Council Amendment Number _____

Action Taken As per

Motion Made By Sen Grindberg Seconded By Sen Kringstad

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

Total Yes 9 No 4

Absent _____

Floor Assignment Senators Dickits

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

REPORT OF STANDING COMMITTEE (410)
February 20, 2001 9:42 a.m.

Module No: SR-31-3954
Carrier: Nichols
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2294, as engrossed: Appropriations Committee (Sen. Nething, Chairman)
recommends DO PASS (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING).
Engrossed SB 2294 was placed on the Eleventh order on the calendar.

2001 HOUSE FINANCE AND TAXATION

SB 2294

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2294

House Finance and Taxation Committee

Conference Committee

Hearing Date March 12, 2001

Tape Number	Side A	Side B	Meter #
1	X		3,733
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN, Opened the hearing and read the fiscal note.

JEFFREY VYE, DAKOTA CERTIFIED DEVELOPMENT CORPORATION, Testified in support of the bill. See attached written testimony and Fact Sheet. Also submitted amendments to the bill and testimony from Eric Hardmeyer, Interim President of the Bank of North Dakota.

REP. CARLSON Asked for an example of what the ongoing fee would be for a typical month.

JEFFREY VYE The fee is .472%, it is almost one half of one percent on the declining balance, that is an annual fee, but it is paid monthly.

REP. CARLSON If you had a five hundred thousand dollar loan, it would be two hundred fifty per month?

JEFFREY VYE That would be close.

Mr. Vye went on to explain the fact sheet he had submitted. See attached copy.

REP. RENNER You say there are forty million dollars of loans made annually?

Page 2

House Finance and Taxation Committee

Bill/Resolution Number SB 2294

Hearing Date March 12, 2001

JEFFREY VYE Right

REP. RENNER Is the fee paid on the whole amount of the loan or just the SBA portion?

JEFFREY VYE Just on the 16 million

Mr. Vye went on to explain the amendments he had submitted.

REP. CARLSON There would be other fees, but this does clarify that it would only be the fees that you pay on SBA. None of your upfront points and fees are included?

JEFFREY VYE Just the ongoing guaranteed fee.

REP. CARLSON I have been involved with the 504 program on several projects, and it was a valuable tool to get anything done.

REP. DROVDAL In your testimony, you had a comment in there, has there been a shortage of federal dollars on the SB 504 program?

JEFFREY VYE No there hasn't. Basically, where we get those funds, we make a direct loan and they take all of the 504 loans in the United States, once a month, they collateralize them and sell them. The reason they can sell them so easily, is because it is guaranteed by the Small Business Administration. It is usually at a rate higher than your treasury bill.

REP. DROVDAL The reason I asked you, is that in your testimony, you said it would bring more federal dollars in the state, but if we have no shortages, how would we justify that it will bring in more?

JEFFREY VYE Basically what you are doing, these are investors outside the state. Using the 504 program, brings those dollars into the state along with the funds from the bank.

REP. CARLSON Are the 504 programs available to the ag sector?

JEFFREY VYE Within the last four years, we have been doing a lot of ag. We have done at least three dairy operations, five hundred cows or more. We have done an eleven hundred cow operation and two, five hundred cow operations. We have done two feed lots, one of the feed lots was a co-op, which we usually don't get involved in, but we have a very good SBA administration in North Dakota, probably one of the best. Usually they require a personal guarantee. We have done elevators and feed clean facilities. We cannot do agricultural loans like crops.

DONNITA WALD, ATTORNEY FOR THE TAX DEPARTMENT Testified neither for nor against the bill. Mr. Vye threw out some numbers for you as to how much it will cost the state in the next biennium, we have no reason to dispute those numbers. Those numbers are not available to us, that is why they aren't in our fiscal note. We have worked with Mr. Vye on the amendment. The bill, as it came out of the Senate, provided a credit for loans funded in 2001, 2002 and gave credit only until the end of 2002. If you had a five year note, your credit didn't end in five years, it ended in 2002. There was a potential for only two months of credit, if you took out a loan in November.

REP. RENNER Would I be safe in assuming that the annual cost in this program would be about eighty thousand dollars per year?

DONNITA WALD I think the number of one hundred fifty thousand per biennium.

REP. DROYDAL On this tax credit, it says, the credit may not exceed the taxpayer's liability under this chapter, we didn't have that on SB 2272, does that mean they couldn't carry it forward or back?

Page 4

House Finance and Taxation Committee

Bill/Resolution Number SB 2294

Hearing Date March 12, 2001

DONNITA WALD To some extent it is extra language. The carry forward and carry back, are only allowed if the statute says so, if the statute is silent, then you can't.

REP. KROEBER I noticed in this one and the last one, that the effective date is either retroactive or whatever, and you usually talk about doing these for new businesses, why then do we have retroactive dates if we are doing this for new businesses?

DONNITA WALD This bill really isn't, although it looks like the loan is funded during 2001, like it may be retroactive. Like a credit, you have to think about when that would be playing, it would be the 2002 taxes, so they would get twelve months of credit, if the loan was taken out in January. You really don't think of this as retroactive, all of the taxes go back to January 1, 2001. With no further testimony, the hearing was closed.

COMMITTEE ACTION 3-12-01, TAPE #2, SIDE B, METER #959

Committee members reviewed amendments #10606.0201 which were submitted by Sen. Grindberg. These amendments take the ongoing guarantee fees which you pay to the SBA, and the credit is equal to the amount paid during the taxable year. Also, the credit is available during the first sixty months in which the fee is paid. It may only be claimed by the small businesses. You get to deduct .472% of the declining balance.

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

REP. BRANDENBURG Second the motion. **MOTION CARRIED BY VOICE VOTE.**

JOHN KRAMER Gave some comments regarding questions committee members raised.

DONNITA WALD Appeared to answer questions.

REP. DROYDAL Made a motion for a **DO NOT PASS AS AMENDED**

Page 5
House Finance and Taxation Committee
Bill/Resolution Number SB 2294
Hearing Date March 12, 2001

REP. RENNERFELDT Second the motion. **MOTION CARRIED**

12 YES 1 NO 2 ABSENT

REP. RENNER Was given the floor assignment.

Date: 3-12-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2294

House FINANCE & TAXATION Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number 10606.0201

Action Taken Do Not Pass as amended

Motion Made By Rep. Drovdal Seconded By Rep. Rennerfeldt

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	✓	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	✓	
CLARK, BYRON	✓		SCHMIDT, ARLO	✓	
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY	✓	
KELSH, SCOT		✓			
KROEBER, JOE	X				
LLOYD, EDWARD					

Total (Yes) 12 No 1

Absent 2

Floor Assignment Rep. Pennu

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

REPORT OF STANDING COMMITTEE (410)
March 13, 2001 2:02 p.m.

Module No: HR-43-5493
Carrier: Renner
Insert LC: 10606.0201 Title: .0300

REPORT OF STANDING COMMITTEE

SB 2294, as engrossed: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** and **BE REREFERRED** to the **Appropriations Committee (12 YEAS, 1 NAY, 2 ABSENT AND NOT VOTING)**. Engrossed SB 2294 was placed on the Sixth order on the calendar.

Page 1, line 12, after "paid" insert "during the taxable year"

Page 1, line 15, replace "only in the taxable year" with "for the first sixty months"

Page 1, line 16, replace "and" with ". The credit"

Page 2, remove lines 9 through 11

Page 2, line 16, replace "the" with "small business administration 504 program loans funded during calendar years 2001 and 2002."

Page 2, remove line 17

Renumber accordingly

2001 HOUSE APPROPRIATIONS

SB 2294

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2294

House Appropriations Committee

Conference Committee

Hearing Date March 20, 2001

Tape Number	Side A	Side B	Meter #
2	x		1251 - 3335
Committee Clerk Signature <i>L. J. Jensen</i>			

Minutes:

HOUSE APPROPRIATIONS COMMITTEE HEARING ON SB2294.

Rep. Timm: We will open the hearing on SB2294.

Sen. Grindberg: I have an individual here that represents the Dakota Certified Development Corporation that will address the fiscal impact of this bill and we have some other information for you as well. The Dakota Certified Development Corporation is a recognized certified development corporation by the US Small Business Administration, Dakota Certified has offices in Fargo and Bismarck and this legislation attempts to get a tax credit on the state tax portion of guarantee fees that are paid by small businesses across the state that participate in the SBA 504 loan program, briefly the SBA 504 loan program allows businesses to apply for money, loans, for small business activity that typically %50 a local bank will carry, %40 by the SBA and %10 by the equity of the small business owner, this attempts to allow the guarantee fees that are required by the SBA to receive a tax credit that's paid annually. The guarantee fee is paid

annually through the life of the loan and that's what this issue addresses. Mr. Jeff Vye has some information that explains in detail the fiscal impact.

Rep. Timm: Any questions of Sen. Grindberg?

Rep. Heuther: Did the Myron T. Nelson fund get rolled into this certified development corporation, is that where it ended up?

Sen Grindberg: No it is not.

Rep. Skarphol: Does this have any connection to that new market initiative that the SBA is working on?

Sen. Grindberg: I don't believe so.

Rep. Timm: Is this credit going to be on the long form and short form?

Sen. Grindberg: I'm not sure, and I will find out.

Rep. Kerzman: What is the typical fee, is it a percentage of the loan amount or what.

Sen. Grindberg: Mr. Vye will have that information.

Mr. Jeffrey Vye, Dakota Certified Development Corporation. (Had written testimony and then answered questions after presenting his testimony.)

Rep. Timm: Allan (LC) you tell us whether the tax payer is entitled to a credit on the long form and short form?

Allan, LC: I would have to check for sure, but I believe the 30.3 is the short form, but I think it would be on both, but I will check that out.

Mr. Vye: Just a capsule, the 404 loan program is basically an economic development tool and these are loans that the banks would not normally make because its 10% equity which is required, we lend 40% and the bank lends 50% and the bank has first position on all collateral we take a second position and that's one of the reason for the guarantee fee. These loans are only

made on land, buildings, machinery and equipment they are long term financing, we go 20 years on land and buildings, 10 years on machinery and equipment and this frees up the cash flow for the borrower and so it makes these loans go. These loans would not go without the 504 loan program because the bank simply would not make them, they look to this program to make these loans and these are all commercial loans plus agri business loans, we have done elevators, feed lots, seed cleaning facilities, restaurants, and a host of others. Mr. Vye went on to speak about the loan process and the need for tax credits.

Rep. Timm: A person can get a small business administration loan that a lot of people can't get and he gets this loan at a low rate of interest, its guaranteed by the government and then we are supposed to give him a tax credit besides is that right?

Mr. Vye: Basically, the loans are not always at a lower rate of interest, the rate of interest is determined by the market, the funds that fund these loans are debentures that are sold on the open market and that's based upon the treasury bill plus a certain percentage and most of these loans once they are approved the bank carries the loan until the completion of the construction is done, and we close our end of it.

Rep. Wald: Are you housed in the Bank of North Dakota? Yes we are, but I don't work for the Bank of North Dakota. Generally speaking, the 504 program has a lower interest rate than the prime rate or your average commercial loan rate is that not correct?

Mr. Vye: Generally yes, its a twenty year fixed rate, the banks rate is not fixed, they can do what they want with there rates, but our rate is fixed and its based on the open market.

Rep. Carlisle: These are high risk loans is that correct? How many years have you been providing these loans under the 504 program?

Mr. Vye: I believe the program has been in existence since about 1982 under a 502 program, I have been associated with it for the last five years, but actually in one form or another its been since about 1984.

Rep. Gulleason: Your remark just a minute ago saying that it would be used as an incentive to get more people to apply for these loans, is there not a demand for people requesting these loans?

Mr. Vye: There is, but I know that this year its down quite a bit, but basically these are loans for expansion and also for new businesses that would not normally get a chance to do that.

Rep. Glassheim: In this \$8 millions that for 2001 that was loaned out, how many loans would that represent roughly? One or ten or what would that number be?

Mr. Vye: It varies, I would say, our minimum on a debenture is \$50,000 so that would take a loan of at least \$110 to \$120 thousand, so they range anywhere from \$50,000 to up to \$1.3 million that we are allowed to go to. So the average might be in the \$400 to \$500 thousand range.

Rep. Kempenich: I was trying to figure out, to calculate out unless its got some kind of numbers on the fiscal note its going to be awful hard to estimate on what's going to happen with this.

Rep. Kerzman: I'm having trouble getting a clear picture of this, who is going to qualify for this guarantee fee, is it going to be the secondary lender or is it going to be the one at the bottom or the end?

Mr. Vye: Its going to be the borrower that gets the credit back.

Rep. Byerly: To follow up on Rep. Kerzman's question, they can write off the interest already on their taxes , are these fees not also considered a business expense from the IRS standpoint and can I as a business man not already write those off?

Mr. Vye: Yes I believe it is written off as an expense.

Page 5
House Appropriations Committee
Bill/Resolution Number SB2294
Hearing Date March 20, 2001

Rep. Aarsvold: Am I to understand that if someone had a loan from the 504 SBA that he could deduct his personal income tax as well as corporate?

Mr. Vye: I guess I'm not qualified to answer that, I believe that if they were a corporation that they would be deducting it as a corporation tax.

Rep. Timm: Any other questions?

Rep. Delzer: The one question that I would have, these are high risk loans on new start up, the depreciation would be there for the most part, how many of these in the first year or two, or five even show much of a profit margin, that they would have any income tax there to claim anything?

Mr. Vye: I don't have that information.

Allan, Legislative Council: I did check in the code and this credit would be available on the short form as well as the long form.

Rep. Timm: Any other questions of Mr. Vye? Any other testimony in support of SB2294? Any opposition to SB2294? We will close the hearing on SB2294.

HOUSE APPROPRIATIONS COMMITTEE HEARING ON SB2294 COMPLETED.

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2294A

House Appropriations Committee

Conference Committee

Hearing Date **March 21, 2001**

Tape Number	Side A	Side B	Meter #
1	x		157 - 370
Committee Clerk Signature <i>L. Joubert</i>			

Minutes:

HOUSE APPROPRIATIONS ACTION ON SB2294A.

Rep. Timm: Lets take action on SB2294.

Rep. Wald: I would like to make a motion of DO NOT PASS on engrossed SB2294. Seconded by Rep. Carlisle. We all heard the hearing yesterday and this has to guaranteed SBA loans and they are already a low interest subsidized interest rate loan and to refund this little fee I think it is ludicrous and the dollar amount is insignificant and the impact on new business and high risk loans is insignificant and I just don't see a need for the bill, and its double dipping.

Rep. Timm: Any other discussion? Roll call vote will be taken for a DO NOT PASS. (21) YES (0) NO. Motion passes. Rep. Wald will carry the bill to the floor.

End House Appropriations action on SB2294A.

Date: 3-21-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2294

House APPROPRIATIONS Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken DO NOT PASS

Motion Made By WALD Seconded By CARLISLE

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

Total (Yes) 21 No 0

Absent _____

Floor Assignment WALD

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

2001 TESTIMONY

SB 2294

**Testimony to the
Senate Finance and Taxation Committee
February 5th, 2001**

Senate Bill No 2294

Jeffrey Vye, Dakota Certified Development Corporation

Senate Bill 2294 which the DCDC supports is a bill to create and enact a new section to chapter 57-38 and a new subsection to section 57-38-30.3 of the North Dakota Century Code, relating to a corporate and individual income tax credit for fees paid to the small business administration for guaranteed financing; and to provide an effective date.

What is it? A proposal to provide a tax credit to North Dakota small business equal to the annual guaranty fee paid to the Small Business Administration for an SBA 504 loan.

What is SBA 504 – It's a participation program with banks to provide long term fixed rate financing for long term assets (land, building and equipment). Banks receive a first lien on all assets with only a 50% loan to value; SBA second lien with a 40% loan to value, and the business has a relatively small equity requirement (usually 10%).

The North Dakota Small Business Tax Credit proposal if enacted would benefit North Dakota by bringing more federal dollars into the State through the SBA 504 loans. This will increase both the formation and expansion of small businesses, businesses located in rural areas, and jobs statewide, thereby increasing the tax base at both State and Local levels. No appropriation by the legislature is necessary.

What is the merit of this legislation? Help start-up businesses which otherwise would not be created and existing businesses which otherwise would not expand.

Examples of making a definitive difference in a project. Scranton area Hog farrow to finish facility (farmer owned cooperative); Numerous cattle feed lots (some cooperatives and other farmer owned). Dairy farms new and expansions, Elevators, Potato Warehouses, Bean processing facilities etc.

The need for the Tax Exemption. Cash flows are often very tight for many of the businesses using the SBA 504 program. This tax credit during the first five years would increase the chances of the business loan being approved and ultimately, the success of the business.

CO

NT

NEXT FICHE

Jeff. Uye

Fact Sheet

Senate Bill 2294

Senate Bill 2294 is a proposal to provide a tax credit to North Dakota small business equal to the annual guarantee fee paid to the Small Business Administration for an SBA 504 loan.

Fiscal Impact:

- **Estimated Income Tax Credit:**
 1. 2001 \$37,800 based on \$8 million
 2. 2002 \$113,280 based on \$24 million

- \$16 million annually in 504 loans equates with the bank's portion and the owners equity to approximately 40 million annually in land, building, and equipment which is taxable through the State of North Dakota in real estate taxes or sales tax. 2.3% average per \$100,000 commercial.
 1. 2001 Real Estate Tax Revenue \$460,000 (based on total project investment of \$20million)
 2. 2002 Real Estate Tax Revenue \$1.380 million (based on total project investment of \$40 million)

- **Jobs created or saved : 1 job per \$15,000 504 investment**
 1. 2001 533
 2. 2002 1066

BND

BANK OF NORTH DAKOTA

February 2, 2001

Senate Finance & Taxation Committee Members,

The Bank of North Dakota supports Senate Bill No. 2294. A bill for an Act to create and enact a new section to chapter 57-38 and a new subsection to section 57-38-30.3 of the North Dakota Century Code, relating to a corporate and individual income tax credit for fees paid to the small business administration for SBA 504 financing and to provide an effective date and sunset date.

The specific fee is the guarantee fee paid to the SBA as identified in the SBA 504 Loan authorization to the business applying for the credit as the ongoing guarantee fee.

The SBA 504 loan program plays an important part in North Dakota economic development by making long-term, fixed rate, low down payment financing available to North Dakota business. This program is often used in conjunction with other North Dakota economic development programs.

This tax credit to the small business would be another tool that would help the cash flow of the small business in the first 5 years and contribute to its further success.

Sincerely,



Eric Hardmeyer
Interim President

Estimated Income Tax Cost of the SBA 504 Tax Credit Program

Year 1 - \$37,000

Year 2 - \$144,000

Year 3 - \$217,000

Year 4 - \$265,000

Year 5 - \$340,000

Note- This estimate is on the average loan volume of the SBA 504 program for the past three years (\$16 million) and the current SBA guarantee fee of .472, which is adjusted annually for new loans. Existing loans pay the same fee for the life of the loan based on the loan approval date. For the past four years the SBA guarantee fee has declined slightly.

SB 2294

Fact Sheet

Senate Bill 2294

Senate Bill 2294 is a proposal to provide a tax credit to North Dakota small business equal to the annual guarantee fee paid to the Small Business Administration for an SBA 504 loan.

Fiscal Impact:

- **Estimated Income Tax Credit:**

1. 2001 \$37,800 based on \$8 million
2. 2002 ~~\$103,000~~^{113,000} based on ~~\$22~~³⁴ million

- \$16 million annually in 504 loans equates with the bank' portion and the owners equity to approximately 40 million annually in land, building, and equipment which is taxable through the State of North Dakota in real estate taxes or sales tax. 2.3% average per \$100,000 commercial.

1. 2001 Real Estate Tax Revenue \$460,000 (based on total project investment of \$20million)

2. 2002 Real Estate Tax Revenue \$1.380 million (based on total project investment of \$40 million)

- Jobs created or saved : 1 job per \$15,000 504 investment

1. 2001 533
2. 2002 1066

Jeffrey Byr