

FISCAL NOTE

Requested by Legislative Council

02/07/2005

Amendment to: SB 2032

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

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$6,667,000)		(\$6,667,000)	
Expenditures			\$3,847,825	\$5,100,000	\$2,964,075	\$5,100,000
Appropriations			\$1,088,103	\$5,100,000	\$2,964,075	\$5,100,000

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

Section 1: Venture capital investments. (Bank of North Dakota)

Section 4: Establish a Commission for Centers of Excellence.
(Higher Education)and Debt repayment for BND loan to the
Dept. of Commerce for Centers of Excellence matching
funds.

Section 5: Develop a cooperative work experience program.
(Career and Technical Education)

Section 7: Develop an American Indian business development office.
(Department of Commerce)

Section 8: Develop an economic developer certification program.
(Department of Commerce)

Section 9: Develop a procurement information program. (Office of
Management and Budget)

Section 10: Develop an international trade office. (Department of
Commerce)

Section 11: Complete a targeted industries report. (Department of
Commerce)

Section 12: Implement an image information program. (Department of
Commerce)

Section 13: Implment a business hotline program. (Department of
Commerce)

Section 19: Seed capital investment tax credit. (Tax Department)

Section 22: Complete a business climate initiative study.
(Department of Commerce)

Section 24: Implement the Dakota Manufacturing Initiative.
(Department of Commerce)

Section 33: Complete a technology commercialization study.
(Higher Education)

Section 34: Complete an insurance and liability study. (Insurance Department)

Section 35: Complete a transportation study. (Higher Education)

Section 36: Complete an intellectual property rights study. (Department of Commerce)

Section 37: Complete a procurement assistance study. (Office of Management and Budget)

Section 38: Complete an economic development incentives study. (Department of Commerce)

Section 39: Complete a tax study. (Tax Department)

Please note that the estimated expenditures for the 2007-2009 do not include any type of inflation adjustment.

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.*

Bank of North Dakota

Section 1: This section permits the Bank of North Dakota to invest funds in North Dakota alternative and venture capital investments and early-stage capital funds including the North Dakota Development Fund not to exceed \$10,000,000 for the purpose of providing funds for investment in North Dakota alternative and venture capital investments and early-stage capital funds. The Bank may allow for third-party management of the funds if the management is provided by the North Dakota Development Fund or a third party that is located in the state and that has demonstrated fund management experience.

Based on Bank of North Dakota's (BND) prior experience and on studies done on a national basis it is anticipated BND could incur losses up to 33% of the \$10,000,000 investment in alternative and venture capital investments and early-stage funds. The impact if the entire \$10,000,000 was invested and losses were experienced at the 33% level would be \$3,334,000 over a four-year period. BND shall request from the Industrial Commission a transfer from the Student Loan Trust Fund (contingent on available monies in this fund) to reimburse the Bank for any losses incurred. Any gains from investments must first be applied to offset any losses reimbursed by the Student Loan Trust Fund. Once the Student Loan Trust Fund has been made whole, BND and the Trust Fund shall share any additional revenue on a mutually agreed formula as determined by the Industrial Commission. As currently contemplated there will be no fiscal impact for third party fund management services provided to BND.

Contact: Eric Hardmeyer 328-5674

Tax Department

Section 19: General fund revenues will be reduced by \$2,500,000 in each fiscal year of both bienniums.

Contact: Kathy Strombeck 328-3402

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.*

Bank of North Dakota

Section 26

Section 26: No additional fiscal impact.

Contact: Eric Hardmeyer 328-5674

Board of Higher Education
Sections 4, 27, 33 & 35

Sections 4 & 27: The NDUS will incur direct and indirect costs, beyond the general funds appropriated in the bill, related to the following activities in support of an Economic Development Centers of Excellence (COE) program, as mandated in the legislation:

- Establishment of COE program by SBHE
- Provide staff support to the new commission
- Coordinate the preparation of applications from the campuses
- Review of applications by the SBHE
- Preparation of reports to be presented to the Budget Section
- Preparation of annual reports to be presented to the Governor and foundation
- Generating significant local match requirements, now 2:1, totaling \$100 million
- Campus administrative costs for managing center(s)

The costs to complete these activities, although significant both individually and collectively, will be absorbed by the campus and System within current or other externally generated resources. We will not be able to provide a good estimate of the total fiscal impact, until the number and types of projects have been identified.

Contact: Eddie Dunn, NDSU (701) 231-8494

Section 33: SBHE Study Incentives for Stimulating Commercialization of New Technologies will require an additional appropriation of \$50,000 in state general funds to UND and NDSU to jointly coordinate and prepare the study. The additional costs reflect staffing costs and related operating costs. Possible consulting assistance may also be necessary.

Contact: Phil Boudjouk, NDSU (701) 231-6542 and Peter Alfonso, UND (701) 777-6736

Section 35: There is no expected alternative source of revenues for this project, thus it is anticipated that it would be funded by General Funds. The project can be separated into two distinct and separable efforts. Part 1 would cover highway and railroad improvements requiring resources of \$360,000. This would include the purchase of the REMI transportation model. Part 2 would cover airports which would require an additional \$125,000. Total cost, not including indirect costs, amount to \$485,000.

Contact: Gene Griffin, Upper Great Plains Transportation Institute (701) 231-8343

Department of Career and Technical Education
Sections 5 & 28

Section 5: To implement the cooperative work experience program as delineated in this section, the program would be modeled after the school to work system. This would include 30 partnerships (school consortiums) across the state and \$30,000 per year to each partnership to fund a coordinators position to support the local effort. The total cost of the partnerships would then be \$900,000 per year in the grants line item. An additional \$100,000 per year would be needed by the Department to contract for statewide oversight and professional development for schools. The total cost to implement the program within the Department of Career and Technical Education would equal \$2,000,000 for the biennium.

Section 28: No additional fiscal impact.

Contact: Wayne Kutzer 328-2259

Department of Commerce

Sections 3, 4, 6, 7, 8, 10-13, 22, 24, 25, 29-32, 36 & 38

Section 3: The fiscal impact cannot be determined at this time. However, the impact would be contingent upon the Development Fund providing management services for the Bank of North Dakota's alternative and venture capital investments and early-stage capital funds. It should be pointed out that the Bank of North Dakota is not required to contract with the Development Fund, but if they did provide management services to BND, a contract would have to be negotiated and executed between the two parties. It would be expected that the contract would include some type of compensation such as commitment fees, interest rate participations and/or take-out provisions with equity investments.

Section 4: 2005-2007 & 2007-2009

\$5 million in special funds from the student loan trust fund.

Section 6: No additional fiscal impact.

Section 7: 2005-2007 & 2007-2009

Salary and Fringe Benefits for 1 FTE:	\$105,432
Operating Expenses:	\$23,840
Total Cost Per Biennium	\$129,272

Section 8: The fiscal impact would be \$150,000 per biennium. It is likely that the development and delivery of the program would be contracted out to a third party with experience certifying development professionals.

Section 10: 2005-2007 & 2007-2009

Salary and Fringe Benefits (1 Director & ½ Admin. Staff)	\$163,103
Operating Expenses	\$250,000
Total Cost Per Biennium	\$413,103

The aforementioned costs represent the minimum amount required to operate an International Trade Office. It is estimated that the actual cost to run an effective program would be \$1,200,000 per year. Therefore, \$413,103 of general fund dollars will be used to leverage federal and private dollars for the additional amount needed.

Section 11: The fiscal impact would be a contractual expense of \$50,000 per biennium.

Section 12: 2005-2007 & 2007-2009

Salary and Fringe Benefits \$81,183 (77% FTE)	
Operating Expenses	\$18,817
Total Cost Per Biennium	\$100,000

Section 13: Only 2005-2007

Salary and Fringe Benefits (23% FTE)	\$24,249
Operating Expenses	\$5,751
Total Cost Per Biennium	\$30,000

*The image information program (Section 12) and the business hotline program (Section 13) are authorized, by this legislation, one full-time equivalent position to be shared between the programs.

Section 22: The fiscal impact would be a contractual expense of \$50,000 per biennium.

Section 24: The fiscal impact would be a \$165,000 contractual expense with the Dakota Manufacturing Extension Partnership per biennium.

Sections 25, 29, 30, 31, & 32: No additional fiscal impact.

Section 36: The fiscal impact would be a contractual expense of \$50,000 per biennium.

Section 38: The fiscal impact would be a contractual expense of \$30,000 per biennium.

Contact: Paul Govig 328-4499

Insurance Department
Section 34

Section 34: If the study was done by a consulting firm, the fiscal impact would be approximately \$41,250 plus \$2,500 for travel and miscellaneous costs.

If the study was completed in-house, it is estimated that it would require the equivalent of $\frac{3}{4}$ -1 FTE for six months. Assuming an average blended cost for staff of \$30 per hour and estimating 800-1100 hours, the estimated in-house cost for the department would be \$24,000 to \$33,000. Expenses for travel and mailing etc. might be \$1,500 to \$2,500.

Contact: Chuck Johnson 328-4984

Legislative Council
Section 23

Section 23: No additional fiscal impact.

Office of Management and Budget
Sections 9, 37 & 41

Sections 9 & 37: 2005-2007 Biennium-\$151,700
2007-2009 Biennium-\$106,700

Costs associated with an additional FTE, related operating expenses and funds for a study are associated with Sections 9 and 37 of this fiscal note. An appropriation of \$150,000 to OMB is included in Section 41 of this bill.

Revenues-Section 9 and 37 of this bill would not affect state revenues.

Expenditures-Sections 9 and 37 of this bill would increase state expenditures. \$106,700 of the \$151,700 fiscal note would fund an additional FTE in OMB's State Procurement Office. The remaining \$45,000 would fund the development and maintenance of a website to post all state bidding opportunities and a study to determine the most effective manner in which to provide a one-stop procurement assistance center for North Dakota vendors.

Appropriations-A \$150,000 appropriation to OMB is provided in Section 41 of the bill. This \$150,000 is not included in the executive budget. The 2007-2009 appropriation amount is for continued funding for the FTE. Continued appropriation for succeeding bienniums is also needed to set up and operate a procurement assistance center, including maintenance of a website for on-line posting of all bidding opportunities. This amount will be determined pending the outcome of the procurement assistance center study that is conducted during the 2005-06 interim as required in Section 37 of this bill.

Contact: Linda Belisle 328-3494

Securities Department
Section 2

Section 2: No additional fiscal impact.

Contact: Karen Tyler 328-2910

Tax Department
Sections 14,15,16,17,18,20,21 & 39

Section 14: No additional fiscal impact.
Section 15: No additional fiscal impact.
Section 16: No additional fiscal impact.
Section 17: No additional fiscal impact.
Section 18: No additional fiscal impact.
Section 20: No additional fiscal impact.
Section 21: No additional fiscal impact.
Section 39: \$50,000 of additional administrative costs to complete
the study or contract it out.

*Some of the preceding sections could have a fiscal impact on the tax department but because they are difficult to accurately define at this point, they will be addressed in testimony to the committee or in amendments or both.

Contact: Kathy Strombeck 328-3402

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.*

The appropriations contained within the individual bill sections are as follows:

Section 8: \$50,000 General Funds, \$100,000 Special Funds
(Department of Commerce)
Section 9: \$150,000 (Office of Management and Budget)
Section 10: \$413,103 (Department of Commerce)
Section 11: \$50,000 (Department of Commerce)
Section 12: \$100,000 (Department of Commerce)
Section 13: \$30,000 (Department of Commerce)
Section 22: \$50,000 (Department of Commerce)
Section 24: \$165,000 (Department of Commerce)
Section 36: \$50,000 (Department of Commerce)
Section 38: \$30,000 (Department of Commerce)

Total: \$1,088,103 General Funds \$100,000 Special Funds

For the sections that have not be given an appropriation in the bill, it is estimated that the following additional appropriations will be needed for the implementation of each section:

Section 4: \$5,000,000 in Special Funds from the student loan

trust fund. (Dept. of Commerce)

Section 5: \$2,000,000 (Career and Technical Education)

Section 7: \$129,272 (Department of Commerce)

Section 9: \$1,700-Additional dollars above the \$150,000
appropriation. Pertains only to the 2005-2007
biennium (Office of Management and Budget)

Section 33: \$50,000 (Higher Education)

Section 34: \$43,750 (Insurance Department)

Section 35: \$485,000 (Higher Education)

Section 39: \$50,000 (Tax Department)

Total: \$2,759,722 General Funds

The following sections are assumed to be on-going programs that would require future appropriations:

Section 5: \$2,000,000 (Career and Technical Education)

Section 7: \$129,272 (Department of Commerce)

Section 8: \$50,000 General Funds \$100,000 Special Funds
(Department of Commerce)

Section 9: \$106,700 (Office of Management and Budget)

Section 10: \$413,103 (Department of Commerce)

Section 12: \$100,000 (Department of Commerce)

Section 24: \$165,000 (Department of Commerce)

Total: \$2,964,075 General Funds \$100,000 Special Funds

Name: Paul T. Govig

Agency: Dept. of Commerce

Phone Number: 328-4499

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