

FISCAL NOTE

Requested by Legislative Council

02/15/2005

Amendment to: HB 1518

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				\$2,810,000		\$2,810,000
Expenditures				\$3,049,713		\$1,036,245
Appropriations						

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.*

This bill proposes to increase the current 10 mills per bushel levy of the North Dakota Wheat Commission (NDWC) to 15 mills per bushel on all wheat sold in the state. All funds are special funds and are non-appropriated, with continuing appropriation authority granted under NDCC 4-28-08. The NDWC mill levy, which is assessed at the first point of sale, is the Commission's only source of funding, and is used to support the NDWC mission, which is, in short, to aid in the orderly marketing of North Dakota wheat by expanding markets through promotion, education and research. Commonly known as the wheat checkoff, the program at the current assessment level has the potential to generate \$5,620,000 in gross revenues per biennium, based on a 5-year average North Dakota wheat crop of 290 million bushels, less on-farm seed and feed use. The proposed increase could raise potential gross revenues by an additional 50 percent or by \$2,810,000 per biennium, based on similar assumptions of average production. Deductions for existing and potential increases in producer refunds will be addressed in subsequent sections to provide a better assessment of potential net revenues available for Commission programs. Recent changes in the language of this bill do not affect the impact of this fiscal note.

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.*

The proposed five mill increase in the wheat checkoff could potentially generate an additional \$2,810,000 in gross revenues per biennium increasing potential existing gross revenue of \$5,620,000 to \$8,430,000. Proposed changes to the existing legislation also provide in subsection four of Section 4-28-07, that The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to: a. Contract for market maintenance and development services, utilization research, transportation research, and education; b. To address domestic policy issues: and

c. To engage in other related activities, with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers. Under this proposal two mills or 13.3 percent (\$1,124,000) of the potential total gross revenue produced by the 15 mill checkoff would be allocated to two wheat trade associations incorporated in North Dakota under contracts for specific services. The NDWC has had ongoing contractual agreements with these associations since 1989. Under provisions of the proposal the North Dakota

Wheat Commission would retain revenues generated by 13 mills or potential gross revenue of \$7,306,000 or 87 percent of the total gross revenue.

The impact of the measure on producer refunds which currently average slightly less than 7 percent is unknown. However, past experience indicates previous increases in the checkoff have brought accompanying increases in the frequency and volume of refund requests, which over time typically moderate to some extent.

For example, at current levels (7 percent) the impact of producer refunds per biennium would reduce the total potential gross revenue of \$8,430,000 generated by the 15 mill checkoff to a net revenue estimate of \$7,839,900, a reduction of \$590,100. However, anticipated refund rates of 9 percent or possibly higher should not be ruled out. A producer refund rate of 9 percent would reduce the total potential gross revenue of \$8,430,000, by \$758,700, for net revenue estimate of \$7,671,300. Of that total revenue, the \$1,124,000 (2mills) gross revenue to be contracted with the associations would similarly be reduced by \$101,160, due to producer refunds, for a net revenue (generated by 2 mills) of \$1,022,840, available for contractual services and purposes.

An estimate of the projected revenue situation for the 2007-2009 biennium would be similar to the upcoming 2005-2007 biennium and can also be derived only from estimates of potential acreage, yield and production based on historic averages.

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.*

Total projected expenditures associated with this proposal would increase to \$8,421,413 per biennium, an increase of \$3,049,713 over expenditures under current law and current assessment levels, to cover NDWC core program expenses including export marketing, research and customer service, domestic product promotion, trade and domestic policy issues and administration. This level of expenditure also assumes full payment of the outstanding trade case legal bills and provides for anticipated trade case maintenance costs of \$300,000 per year in the 2005-2007 biennium. This aggressive expenditure level with the inclusion of trade case maintenance costs during the upcoming 2005-2007 biennium would also deplete the Commission's budgeted ending balance. Other adjustments in program and contract commitments, an extension of a portion of trade case legal bill, or a reduction in trade case maintenance expenditures, would be required by the NDWC board to maintain a positive ending balance in the NDWC budget.

Prospective expenditures in the 2007-2009 biennium assume a more traditional balance of priorities and expenditures in the Commission's key program areas of the budget and include re-instatement and expansion of programs and contracts for services that were reduced to accommodate greater emphasis on trade and policy issues in the 2003-2005 and 2005-2007 bienniums. The current estimates also allow for the Commission to address other important issues and industry needs that to date have been relegated to lower priority under present budget demands.

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.*

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Agency: ND Wheat Commission
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