

FISCAL NOTE
Requested by Legislative Council
01/08/2019

Bill/Resolution No.: SCR 4005

- 1 A. **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.*

	2017-2019 Biennium		2019-2021 Biennium		2021-2023 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues					\$(300,000,000)	
Expenditures						
Appropriations						

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

	2017-2019 Biennium	2019-2021 Biennium	2021-2023 Biennium
Counties			
Cities			
School Districts			
Townships			

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

SCR 4005 seeks to amend Section 26 of Article X of the Constitution. It would require a transfer to the North Dakota First Fund of 15% of the principal balance of the Legacy Fund as of 7/1/21, and annual transfers of 15% of any principal increase and 25% of the earnings in each subsequent year.

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

If approved, SCR 4005 would require a transfer from the Legacy Fund to the North Dakota First Fund of an amount equal to 15% of the principal balance of the fund as of July 1, 2021. Using conservative (\$40 oil) estimates from the North Dakota Retirement and Investment Office (RIO), this would lead to a roughly \$1 billion transfer to the North Dakota First Fund (\$6.7B estimated value x 15%).

Furthermore, it would require an annual transfer of 15% of any increase in the principal of the Legacy Fund. In other words, 15% of the oil and gas deposits currently being deposited into the Legacy Fund would be transferred annually to the North Dakota First Fund. Again, using conservative RIO estimates of \$400M per year being deposited from oil and gas taxes, this would lead to about \$60 million per year being transferred to the North Dakota First Fund.

Finally, SCR 4005 would also require that 25% of the Legacy Fund's annual earnings be transferred to the North Dakota First Fund annually.

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.*

Currently, Section 26 of Article X of the ND Constitution requires the State Treasurer to transfer earnings of the Legacy Fund to the State general fund at the end of each biennium. If SCR 4005 is approved by the voters, this biennial transfer of earnings would continue however, it would be based on a lower balance in the Legacy Fund and would be further reduced by the required transfers to the North Dakota First Fund.

Assuming the initial transfer of roughly \$1B out of the Legacy Fund after July 1, 2021 and the subsequent annual transfers as spelled out in the fiscal impact section (2B) above, it is estimated that the Legacy Fund earnings required to be transferred to the general fund at the end of the 2021-2023 biennium will be \$300M less than would be if no transfers were made.

With the required subsequent annual transfers to the North Dakota First Fund of portions of additional principal increases and earnings, the difference in estimated Legacy Fund earnings transferred to the general fund versus the estimates if no transfers were made would continue to increase. Based on estimates prepared by ND RIO, the \$300M biennial reduction in general fund revenue could potentially increase to become an over \$1B biennial reduction by 2038.

PLEASE NOTE: These estimates are based on numerous assumptions regarding market factors, tax rates, oil and gas prices, and production levels. Changes in any of these assumptions could cause dramatically different results than what has been indicated above.

- 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.*

No expenditure amounts are included above however, there will most likely be expenditures incurred to facilitate the board activities of the North Dakota Infrastructure Board which would be created to administer the grants and loans of the North Dakota First Fund if this resolution is approved by the voters.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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