

# FISCAL NOTE

Requested by Legislative Council  
01/23/2001

Bill/Resolution No.: HB 1403

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
<b>Revenues</b>	\$0	\$0	\$0	\$0	\$0	\$0
<b>Expenditures</b>	\$0	\$0	\$445,000	\$0	\$287,000	\$0
<b>Appropriations</b>	\$0	\$0	\$0	\$0	\$0	\$0

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
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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

This bill requires the acquisition, management, compilation and reporting of state and local economic development assistance (see Section 1.3) by the North Dakota Tax Department and Department of Economic Development and Finance (ED&F). It also provides for recapture of incentives (i.e. clawbacks) when recipients do not achieve their stated job, wage and benefit targets.

Currently development assistance is not tracked by the state nor is there measurement of that development assistance. Specific state and local programs performance is sometimes measured (by that specific program) but there certainly is no aggregate as to the total development assistance provided to specific businesses and what economic benefits are produced as a result of that assistance. There is no standard means utilized to recapture development assistance from companies who have not met their planned employment and/or investment goals. This proposed bill seeks to address these issues.

Requiring the aggregation of public sector incentives by the state and information about the recipients may lead to better decisions about the best use of incentives to further economic growth and diversification. Providing for a statewide method to recapture (clawbacks)

public sector incentives may serve to better protect public sector resources. As the potential results are unknown, the fiscal impact to state, county, city and school districts has not been determined (zero has been entered in those fields).

There are several issues that could be clarified:

1. Is the bill only tracking state and local (publicly provided) development assistance? In many cases, federal development assistance may be part of the overall development assistance. Should this bill address federal development assistance? If so, how?
2. What about programs that provide early stage project development and/or financing? In many cases (APUC is an example) these resources may not result directly in new and/or additional job creation. In some cases, this assistance may prove why additional development assistance is not warranted.
3. In Section 1.3, lines 3 and 4, state 'for the purpose of stimulating economic development of a given business entity, industry, geographic jurisdiction',...What is meant by a geographic jurisdiction?
4. In Section 1.5, are there any state or local organizations involved in providing development assistance that are not governed by a state agency or political subdivision? If so, are they excluded from the provisions of this bill?
5. Section 3 provides for disclosure of property tax development assistance. Example: Burleigh and Morton counties provided property tax exemptions for residential construction. Are these to be classified as development assistance and those included in the registry?
6. Section 3.4 states that failure to comply with the reporting requirements of Section 3 can lead to suspension of current development assistance (to that jurisdiction) under the control of the department of economic development and finance. (Similar suspensions are described elsewhere in the bill.)

There are many other state players involved in economic development (i.e. Bank of North Dakota, Division of Community Services, Tourism, Job Service, Vocational/Technical Education, University System). Unless the state coordinates these resources, the suspension of services by the department of economic development and finance have far less consequence. There are many programs that provide development assistance directly to recipients (i.e. Development Fund, APUC). Are programs which directly serve business to be suspended if the potential recipient operates in a jurisdiction not in compliance?

7. The bill (Section 4 and 5) focuses on jobs, wages, benefits but does not measure the types of jobs. This is important because it's an indicator as to what kinds of job skills we're building in economic development.

8. Are there recommendations as to how to best verify recipient's progress report data? (as per Section 5.4). For the purposes of responding to this fiscal impact, we've estimated that 10% of the total recipients will be subject to a 'spot check' (i.e. audit) by ED&F (may be contracted for).

9. Section 6.6 and 6.7 Are there legal remedies that are suggested to granting bodies? If a Recapture (Clawbacks) provision is standardized throughout the state, legal agreements providing development assistance will also likely need to be standardized (at least to include the provisions of this bill). Legal assistance in implementing this bill throughout the state (with granting bodies) has been estimated.

If we might add the following:

(1) Economic development incentives should be looked at as investment (by the public sector) in order to capture/encourage/nurture investment by the private sector. The benefits of that private sector investment should go beyond just jobs, wages and benefits. What are our public sector incentives doing to:

Grow and diversify the state product? Insulate the economy from cyclical trends?

Raise per capita income? Increase productivity?

Export more products and services to markets outside the state? outside the country?

Improve worker skills? Stimulate entrepreneurship? Stimulate innovation?

Improve our demographics? Strengthen the tax base? Decrease business closures?.

(2) Likewise development assistance (such as described in this bill) may not be the only public costs in an economic development project. Will a project's impact require additional public sector services? Need improved roads and highways? Required additional water? Water/waste treatment? What will a project's impact be on the school system? Will we need additional housing?

To assist state and local decision makers in making the best use of public sector resources, North Dakota Department of Economic Development & Finance would advocate not just gathering information about public incentives (as provided in this bill) but to measure the return on investment of public incentives and other public costs.

This goes beyond counting jobs, wages and benefits to assessing all the direct and indirect benefits from the public and private investment. This information is vital in order to assist economic development decision makers (at a state and local level).

Many state economic development agencies and tax departments already use impact assessment and modeling 'tools' to help them understand the return on public sector investments when tax/financial incentives are provided. They also use these tools to assist in developing tax and public policy changes to stimulate the general economy and/or nurture specific economic sectors. (In fact, these tools are be used to simulate many of the impacts of public policy on the state, it's regions and/or counties in order to assist the executive and legislative branches.)

ED&F has acquired some of these tools (from Regional Economic Models, Inc.). ED&F has also demonstrated this system (last year) to the interim Commerce & Labor Committee. We have elected to add the resources necessary to continue utilization of tools, like REMI, to the expenditures above. Perhaps some of those expenditures should be shared by the political subdivisions (i.e. local development organizations) on a fee basis.

We would suggest that projects of a certain size (public or private sector investment), type be assessed, in order to help decision makers better assess the advantages/disadvantages of each specific project and the overall return on public sector investment.

This initiative would go far beyond the accounting for public development assistance costs (provided in this legislation) to the consideration of all public sector costs. Likewise, it would go far beyond the private sector's provision of jobs, wages and benefits to all direct and in-direct benefits provided by that private sector investment. Such an additional tool would allow economic development to better protect and insure appropriate returns on the public sector's investment. This information may also serve to strengthen the public sectors negotiaion on a project and further how recaptures (clawbacks) are structured.

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.*

No revenues (as per narrative above) have been estimated.

**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.*

North Dakota Department of Economic Development & Finance

Staff: 1 FTE is required, estimated cost with benefits is \$130,000/biennium.

Expenses (information systems, occupancy, printing, travel, supplies): estimated at \$25,000/biennium.

Impact Assessment Tools (software, data, customization, maintenance): \$240,000 (2001-2003 biennium) and \$82,000 (2003-2005 biennium). These tools would allow the impacts of projects and/or policy decisions to be assessed down to the county level.

External Services (i.e. accounting/audit, legal): \$50,000/biennium.

North Dakota Tax Department

No estimates have been provided.

**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.*

No appropriation has been provided in this bill.

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