FISCAL NOTE

Requested by Legislative Council
01/29/2001

Bill/Resolution No.: SB 2379

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	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$32,900	$300,000	$32,900	$300,000
Appropriations	$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.*

The bill seeks to establish a value-added agriculture entrepreneur program with a board (Section 1.1) to screen applications (business plans) for value-added agricultural projects and to appoint a financing group to assist selected projects. Much of the focus of the financing groups is on securing grants with which to reimburse the University system for any assistance they might provide the to entrepreneur.

The program is to be housed at the Department of Economic Development & Finance - where adminstrative assistance is to be provided.

Expenses related to this initiative are to be reimbursed (as per 54-06-09 and 44-08-04).

As provided to legislators in other fiscal notes regarding the department of economic development and finance, we are providing definitions of various stages of business formation and financing. Hopefully these will help legislators as they discuss the merits of the various financing programs already available to assist entrepreneurs.

FINANCING STAGE DEFINITIONS

EARLY STAGE FINANCING

Seed Financing: This stage is relative small amount of capital provided to an inventor or entrepreneur to prove a concept and to qualify for start-up capital. This may involve product development and market research as well as building a management team and developing a business plan, if the initial steps are successful.

Start-Up Financing: This stage provides financing to companies completing development and initial marketing. Companies may be in the process of organizing or they may already be in business for one year or less, but have not sold their products commercially. Usually such firms will have made market studies, assembled the key management, developed a business plan, and are ready to do business.

First-Stage Financing: This stage provides financing to companies that have expended their initial capital, often in developing and market testing a prototype, and require funds to initiate full-scale production and sales.

EXPANSION FINANCING

Second-Stage Financing: This stage is working capital for the initial expansion of a company that is producing and shipping, and has growing accounts receivables and inventories. Although the company has made progress, it may not yet be showing a profit.

Third-Stage Financing: This stage provides major expansion of a company whose sales volume is increasing and that is breaking even or profitable. These funds are used for further plan expansion, marketing, working capital, or development of an improved product.

LATER STAGE FINANCING

Bridge Financing: This stage is needed at times when a company plans to go public within six months to a year. Often bridge financing is structured so that it can be repaid from the proceeds of a public underwriting. It can also involve restructuring of major stockholder positions through secondary transactions. Restructuring is undertaken if there are early investors who want to reduce or liquidate their positions, or if management has changed and the stockholdings of the former management, their relatives and associates are being bought out to relieve a potential oversupply when public.

Open Market: This stage involves acquiring securities of companies whose common shares trade publicly.

ACQUISITION/BUYOUT

Acquisition Financing: This stage provides funds to finance the acquiring of another company. Venture Economics tracks these deals when calculating venture capital disbursements in situations where the funding is by a venture capital firm, but not when it is by a buyout firm.

Management/Leveraged Buyout: These funds enable an operating management group to acquire a product line or business, at any stage of development, from either a public or private company. Often these companies are closely held or family owned. Management/leveraged buyouts usually involve revitalizing an operation, with entrepreneurial management acquiring a significant equity interest.

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.*

Not possible to estimate.

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.*

Using APUC applications as a guide, the screening committee could review 18 to 24 business plans every quarter. To effectively review those plans could take 2 full days. Expenses related to travel, lodging and per diem could total $215 per person. Holding quarterly screenings (2 full days) for 5 people would total about $4,300 for the year ($8,600 for biennium).

The financing group to assist in finding funding/writing grants for the entrepreneur could cost from a low of $75,000 to $150,000 per year ($150,000 to $300,000 for biennium) (dependent to what amount(s) the grant writer(s) are compensated). These grant expenditures have been classified in Other (assuming that the amount of the grant will compensate the grant writer.) Financing expenses have been figured at approximately 1/2 of the screening committee's ($2,150 per year, $4,300 for biennium).

As ED&F has no additional administrative assistance (or FTE's) for this program, contract staff and additional overheads (for expenses related to the program) have been estimated at $10,000 per year ($20,000 for the biennium).

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.*

There is no appropriation provided.

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