

FISCAL NOTE
Requested by Legislative Council
12/26/2006

Bill/Resolution No.: HB 1027

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$13,100,000)		(\$13,100,000)	
Expenditures			\$17,472,025		\$16,562,025	
Appropriations			\$14,845,000		\$14,245,000	

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

This bill is the business initiative bill sponsored by the interim Economic Development Committee to address a broad range of economic development and business climate issues. Multiple provisions have fiscal impact and are listed in section 2B.

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.*

- Section 1: Rural airport economic development fund. (Aeronautics Commission)
- Section 2 & 3: Beginning entrepreneur loan guarantee program. (Bank of North Dakota)
- Section 4: Biodiesel PACE. (Bank of North Dakota)
- Section 5: State board of higher education annual performance and accountability report and new program startup grant program. (Higher Education)
- Section 6: Develop a program to provide grants for innovation. (Department of Career and Technical Education)
- Section 8: Department of Commerce to provide staff services to Centers of Excellence Commission. (Department of Commerce)
- Section 9: Changes to Centers of Excellence program including requirement for independent, expert review of complete applications and Commission responsible for monitoring Centers from six to ten years. (Department of Commerce)
- Section 11: Mortgage loan financing program. (Housing Finance Agency)
- Section 13: International business and trade office work with higher education to expand international business expertise of students of higher education. (Department of Commerce)
- Section 14: Visitor information centers. (Department of Commerce)
- Section 15: New division of innovation and technology with the Department of Commerce. (Department of Commerce)
- Section 16: Expands the Division of Workforce Development's duties to include developing and implementing the state's talent strategy and a statewide intelligence coordination strategy. (Department of Commerce)
- Section 17: Requires the North Dakota image information program to include the private sector. (Department of Commerce)
- Section 18: Tax expenditure report. (Tax Department and Department of Commerce)
- Section 19: Expands the duties of the Department of Commerce to include: administering a rural community tourism enhancement grant program; implement a program to attract out-of-state workers; assist businesses in recruitment of permanent legal immigrants; develop and implement the state's talent strategy and a system of performance and accountability measures; develop and implement the statewide intelligence coordination strategy system; report to

the governor and legislative council on workforce initiatives; administer a higher education internship program; and develop and implement career education and career promotion programs. (Department of Commerce)

Section 20: State business incentive expenditure report. (Department of Commerce)

Section 21: Business and tourism acceleration commission. (Department of Commerce)

Section 22: Workforce recruitment tax credit for hard-to-fill employment positions. (Tax Department)

Section 23: Internship employment tax credit. (Tax Department)

Section 25: Corporate income tax credit for research and experimental expenditures. (Tax Department)

Section 26: Seed capital investment tax credit limits. (Tax Department)

Section 27: Agricultural commodity processing facility definition for the purposes of the agricultural business investment tax credit. (Tax Department)

Section 28: Sales tax exemption for tourism equipment and wireless service provider equipment. (Tax Department)

Section 29: Business climate initiative. (Department of Commerce)

Section 30: Repeal of beginning entrepreneur income tax deduction. (Tax Department)

Section 31: Higher education report on CCBenefits. (Higher Education)

Section 32: Chronic unemployment and soft skills training study and report. (Job Service North Dakota)

Section 33: Study of the cluster industries related to the state's target industries. (Department of Commerce)

Section 34: Workforce intelligence study and report. (Department of Commerce)

Section 35: Higher education internship study and report. (Department of Commerce)

Section 36: Career education study and report. (Department of Commerce)

Section 39: Transfer of \$5,000,000 from general fund to rural airport economic development fund. (Aeronautics Commission)

Section 40: Appropriation of \$5,000,000 in the rural airport economic development fund. (Aeronautics Commission)

Section 41: Appropriation of \$1,200,000 from the general fund for Biodiesel PACE. (Bank of North Dakota)

Section 42: Appropriation of \$8,000,000 from the general fund for PACE. (Bank of North Dakota)

Section 44: Appropriation of \$45,000 from the general fund for grants for innovation. (Department of Career and Technical Education)

Section 45: Appropriation of \$600,000 from the general fund for a web site spider program to identify job listings available in North Dakota. (Job Service North Dakota)

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.*

Tax Department

Section 22 provides for a tax credit against corporation and individual income tax liabilities relating to expenses incurred by employers in the recruitment for hard-to-fill positions. The fiscal impact of this section cannot be determined.

Section 23 provides for a tax credit against corporation and individual income tax liabilities relating to stipends or salaries paid to North Dakota college students hired as interns by North Dakota employers. The fiscal impact of this section cannot be determined.

Section 24 allows the tax credits for recruitment expenses and internship programs contained in Sections 22 and 23 to be claimed on the state's simplified form, Form ND-1.

Section 25 expands the corporation income tax credit for research and experimental expenditures, and allows unused credits to be assigned to other taxpayers. Based on current information, the fiscal impact of this section is an estimated reduction in state general fund revenues of \$8.1 million for the 2007-09 biennium. This amount could be low, and the fiscal impact greater, if the broadening and assigning provisions significantly alter behavior.

Section 26 raises the limits on the seed capital investment tax credit program from \$2.5 million to \$5 million per calendar year. The fiscal impact of this section is potentially a reduction in state general fund revenues of \$5 million for the 2007-09 biennium.

Section 27 expands the definition of agricultural processing facilities to include livestock operations that use byproducts of North Dakota's ethanol or biodiesel plants. The fiscal impact of this expansion is a reduction in state general fund revenues of an unknown amount.

Section 28 provides a sales tax exemption for equipment purchased by a new or expanding tourism and wireless service provider business. The fiscal impact of this section is a reduction in state general fund and state aid distribution fund revenues of an unknown amount. This section sunsets in FY 2011.

Section 30 repeals the beginning entrepreneur tax deduction program, but allows existing contracts to continue to claim the tax deduction until the expiration of the contract. The fiscal impact is under \$5000.

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.*

Aeronautics Commission
Section 1

Section 1: No additional fiscal impact other than the \$5,000,000 transferred from the general fund in section 39 and appropriated in section 40.

Contact: Gary Ness 328-9655

Bank of North Dakota
Sections 2, 3, 4, 41 & 42

Sections 2, 3 & 4: No additional fiscal impact.

Section 41: The \$1,200,000 appropriation for BioDiesel PACE in Section 41 differs from the \$4,200,000 appropriation for BioFuels PACE in HB 1014.

Section 42: The \$8,000,000 appropriation for PACE in Section 42 differs from the \$4,500,000 appropriation for PACE in HB 1014.

Contact: Stan Benson 328-5682

Board of Higher Education
Sections 5 & 31

Sections 5 & 31: Although the bill provisions impose additional reporting requirements, we do not believe that any new resources, beyond those provided for in the 2007-09 Executive Budget proposal would be required.

Contact: Laura Glatt 328-4116

Department of Career and Technical Education
Sections 6 & 44

Sections 6 & 44: No additional fiscal impact other than the \$45,000 appropriated in section 44.

Department of Commerce
Sections 8, 9, 13, 14, 15, 16, 17, 18, 19, 20, 21, 29, 33, 34, 35, & 36

Section 8: No additional fiscal impact.

Section 9: The fiscal impact of having expert review of each complete application is estimated at \$500,000 for the 2007-2009 biennium. This assumes an average contractual expense of \$25,000 per application and a total of 20 applications to be reviewed. The fiscal impact for the 2009-2011 biennium would be \$250,000, assuming that having only \$10 million in Centers of Excellence funding available would produce 10 complete applications.

Section 13: The fiscal impact would be \$200,000 per biennium. This amount is based upon the North Dakota Trade Office hiring 12 interns as export assistants and providing them with international export training for potential placement as managers within international export companies.

Section 14: The fiscal impact would be \$525,000 per biennium. This is comprised of \$100,000 for training and

\$425,000 for matching grants.

Section 15: No additional fiscal impact. Funding for innovation and technology is already included in the Department of Commerce's appropriations bill, HB 1018.

Section 16: No additional fiscal impact.

Section 17: The fiscal impact would be \$50,000 per biennium to expand the image information program to the private sector.

Section 18: The fiscal impact to the Department of Commerce is estimated at contractual expenses of \$500,000 for the 2007-2009 biennium and contractual expenses of \$300,000 for future bienniums.

Section 19: The fiscal impact would be \$2,042,025 per biennium of which \$1,600,000 is already included in the Department of Commerce's appropriations bill HB 1018. So the additional fiscal impact would be \$442,025. This fiscal impact consists of the following:

Rural tourism enhancement grant program: \$100,000 per biennium.

Talent attraction: No additional fiscal impact. Resources would be diverted from business recruitment efforts.

Foreign worker recruitment: \$30,000 per biennium.

Talent strategy: No additional fiscal impact.

Intelligence coordination:

Salary and Fringe Benefits: \$262,025 (2 FTE's for FINDET/Intelligence Coordination)

Operating Expenses: \$50,000

Total Cost Per Biennium: \$312,025

Higher education internships: \$400,000 per biennium which is already included in HB 1018.

Career education – Career promotion: \$1,200,000 is included in HB 1018 for a similar purpose.

Section 20: The fiscal impact to the Department of Commerce is estimated at \$150,000 for the 2007-2009 biennium and \$100,000 for future bienniums.

Section 21: The fiscal impact cannot be determined as there is not an appropriation in this bill for the Business and Tourism Acceleration Commission (BTAC). The BTAC is similar in scope to the Agricultural Products Utilization Commission which during the 2005-2007 biennium was appropriated \$4,108,503 consisting of \$1,818,939 from the general fund, \$650,000 from federal funds, and \$1,639,564 from special funds. The bill allows up to ten percent of the funds provided to the BTAC to be used for administrative expenses.

Section 29 & 33: No additional fiscal impact.

Section 34: The fiscal impact would be a contractual expense of \$50,000 for the 2007-2009 biennium.

Section 35: The fiscal impact would be a contractual expense of \$50,000 for the 2007-2009 biennium.

Section 36: The fiscal impact would be a contractual expense of \$80,000 for the 2007-2009 biennium.

Contact: Justin Dever 328-7258

Housing Finance Agency
Section 11

Section 11: No additional fiscal impact.

Contact: Pat Nagel 328-8081

Job Service North Dakota
Sections 32 & 45

Section 32: JSND will conduct a study on the issue of chronic unemployment and the issue of soft skills training for the chronically unemployed and as an element of workforce training. This would be a 12 month study with legislative council reports on the outcomes. This report will be used to consider any recommendations to be implemented to the sixty-first legislative assembly. Conducting the chronic unemployment study will require an additional 1 FTE position,

with costs for salary and fringe benefits of \$60,048 (Research Analyst III for 13 months at \$3,3450 per month plus fringe benefits), and operating expenditures of \$19,952 (indirect and overhead costs related to the position) for a total fiscal impact of \$80,000.

Section 45: No additional fiscal impact other than the \$600,000 appropriated.

Contact: DeAnn Berg 328-3135

Tax Department

Section 18 requires the Tax Commissioner compile and furnish tax expenditure data to the Department of Commerce to be used in creating a tax expenditure report for the legislative assembly. The Office of Tax Commissioner will incur some costs associated with this requirement, but the costs, although currently undeterminable, will not be significant unless return information and programming must be changed significantly.

Contact: Kathy Strombeck 328-3402

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 is also included in the executive budget or relates to a continuing appropriation.*

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

Sections 1, 39, & 40: \$5,000,000 General Fund (Aeronautics Commission)
Sections 6 & 44: \$45,000 General Fund (Career and Technical Education)
Section 41: \$1,200,000 General Fund (Bank of North Dakota)
Section 42: \$8,000,000 General Fund (Bank of North Dakota)
Section 45: \$600,000 General Fund (Job Service North Dakota)

Total: \$14,845,000 General Funds

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

Section 9: \$500,000 (Centers of Excellence line item in OMB appropriations bill SB 2015)
Section 13: \$200,000 (Department of Commerce - Trade Office)
Section 14: \$525,000 (Department of Commerce)
Section 17: \$50,000 (Department of Commerce)
Section 18: \$500,000 (Department of Commerce)
Section 19: \$442,025 (Department of Commerce)
Section 20: \$150,000 (Department of Commerce)
Section 32: \$80,000 (Job Service North Dakota)
Section 34: \$50,000 (Department of Commerce)
Section 35: \$50,000 (Department of Commerce)
Section 36: \$80,000 (Department of Commerce)

Total: \$2,627,025 General Funds

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

Section 1, 39, & 40: \$5,000,000 General Fund (Aeronautics Commission)
Section 41: \$1,200,000 General Fund (Bank of North Dakota)
Section 42: \$8,000,000 General Fund (Bank of North Dakota)
Section 44: \$45,000 General Fund (Career and Technical Education)

Total: \$14,245,000 General Funds

Name:	Justin Dever (See individual sections for specific contact)	Agency:	Department of Commerce
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Phone Number:

328-7258

Date Prepared:

01/13/2007