FISCAL NOTE

Requested by Legislative Council
03/22/2001

REVISION

Bill/Resolution No.:

Amendment to: Engrossed HB 1400

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	$3,000,000	$0	$3,000,000	$0
Appropriations	$0	$0	$3,000,000	$0	$3,000,000	$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	$312,500	$937,500	$0	$312,500	$937,500	$0

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

The reengrossed HB 1400 would commit an unspecified portion (Section 2) of the amount available (in the ND Development Fund relating to regional rural development loan fund monies) as a loan to communities (under 2,500 people) who are established as a rural growth incentive city. In order to qualify for that designation (Section 1.1) the city needs to raise (from public and private sources) dollar for dollar match of the amount requested in the loan, prepare an economic development strategic plan and meet any additional program requirements that may be provided by the rule.

The city (Section 1.2) can distribute funds to qualifying new or expanded primary sector businesses in the city. A qualifying business can include a business that provides essential services to the city. There is no distinction on whether the cities distribution is in the form of loan, grants, etc. to the qualifying business.

There is also no provision should the city default on their loan to the Development Fund. Currently these monies are loaned directly by the Development Fund to a qualified (primary sector, new wealth creating) business.

The reengrossed bill also requires the Department of Economic Development & Finance to provide the rural growth incentive city with training to assist them in expanding primary sector businesses and in working with state economic development programs.

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.*

Revenues are impossible to estimate since the positive economic benefits to the state and the communities cannot be predicted.

The bill does weaken the overall ability of the Development Fund to foster new wealth creation – thus potentially harming new revenue development at a state level. The Development Fund is unique in its targeting new wealth creation and in helping to cover risk – which other financial providers do not.

North Dakota currently has a $2.5 to $3 billion annual 'trade deficit' (we spend that much additional money on products and services brought into the state versus what we're able to sell outside the state). So continuing to build and diversify the state's new wealth creation is critical.

Channeling financial resources to finance essential services (by communities) may help stem some of the local dollars going to larger trade areas but those enterprises (i.e. community centers, grocery stores, gas stations, restaurants) likely will not be bringing new wealth into the state. They are re-circulating the dollars already here.

   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.*

This bill is targeted to those communities (under 2,500 people) who may be able to raise a minimum of $25,000 with a maximum of $75,000 (public and private sector) to be used in helping to expand new or expanded primary sector businesses or businesses providing essential services (to the city).

There are roughly 200 communities with local development programs (only 17 in communities with over 2,500 people). It is open to debate on how many of the state's communities would seek to establish themselves as rural growth incentive cities.

We do know that cities are approaching other cities for assistance in funding projects (i.e. MAGIC fund). Therefore, local sales taxes (which raise almost 8 million each year) dedicated for economic development in a community could be utilized to assist in developing these rural growth incentive cities.

If 100 communities were successful during the biennium, it would require (at a minimum) Development Fund loans of $2,500,000, which would need to be funded with General Funds. The current remaining balance in the revolving fund is for future projects and will not be enough to capitalize this additional community loan requirement.

To fulfill Section 1.2b will require the Department to add a community development function, which ended when BUILD (people and funding) was eliminated from the agency's budget. In preparation of this biennium's budget the agency hoped to re-introduce education and training, building community capacity and certifying communities as 'economic development' ready. The state total costs for this function would be $500,000 a biennium and would require 2 FTE's. This is currently not in our budget proposal. However those state funds could leverage an additional $450,000 in federal and special funds – resulting in a comprehensive capacity building effort (to assist the state's communities) of $950,000.

If 100 communities are successful, a local public sector fiscal impact has been estimated at 50% of the $25,000 local amount ($12,500). Of this amount, we've estimated that counties may raise about 25% of the public sector amount ($3,125 per community) with the remaining 75% of the public sector commitment coming from the community ($9,375). The remaining $12,500 (per community) would be raised from the private sector.

The city's administrative costs for the development and maintenance of the rural growth incentive funds have not been estimated; but state-wide this amount could be substantial. The costs associated with project due diligence, business credit analysis, loan management, legal, accounting, etc. have not been estimated. Easily it could amount to 5 to 10% of the total in each community's rural growth incentive fund.

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 appropriations have been provided.

The Development Fund would be directed to provide an unspecified portion of the amount available in the regional rural development revolving loan fund monies to the communities. Currently those dollars are not loaned to communities but directly to businesses, which are primary sector and/or create new wealth in the state.

The current balance remaining (2/20/01) in the Regional Rural Development Revolving Loan Fund is $900,000 with business loan applications pending.

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