

FISCAL NOTE

Requested by Legislative Council
01/19/2005

Bill/Resolution No.: SB 2279

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$3,034,200	\$0	\$3,034,200
Expenditures	\$0	\$0	\$2,859,250	\$3,034,200	\$2,154,100	\$3,034,200
Appropriations	\$0	\$0	\$2,859,150	\$3,034,200	\$2,154,100	\$3,034,200

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Several aspects of this bill cause fiscal impact. The bill asks the Commission to act as a surety in selling bonds to grain warehousemen, auctioneers and auction clerks. Revenues from the sale of these bonds will cause fiscal impact. Implementing the process and continuing administration will cause fiscal impact due to the need for additional staff with special expertise. Additionally, funds will be necessary to provide protection against claim payments, at least until there are sufficient funds from premiums. Finally, if a warehouseman becomes insolvent or a claim is made against an auctioneer or auction clerk bond, the payment of claims will cause fiscal impact.

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 to the special fund will come from premiums paid by grain warehousemen, auctioneers and auction clerks, plus an amount from the general fund. We project annual premiums for grain warehousemen will total \$670,850 and yearly premiums for auctioneers and auction clerks will total \$34,200. The current total bond liability of all public warehouse licensees is \$67,085,000. We estimate premiums at 1% of \$67,085,000 or \$670,850. We have used the 1% of total liability for auctioneers and auction clerks as well. The current total bond liability of all auctioneer and auction clerks is \$3,420,000. Assessing a 1% premium would equal \$34,200. Total estimated annual revenue from premiums would be \$705,050. We do not estimate any revenue until 2006, because it would take at least a year to get the program up and running. Consequently, the premium revenue estimate for 2005-2007 is \$705,050 and for the 2007-2009 biennium is twice that or 1,410,100.

Because the bill creates a special fund for these bond premiums, the impact of this revenue is shown as revenue to other funds, not the general fund. In addition, we assume the intent of the legislation is to pay valid claims from this special fund. We believe that the special fund, then, should have sufficient starting money to cover potential claims until premiums become sufficient to pay claims. We estimate needing seed money of \$3,000,000 for the grain warehouse fund and \$34,200 for the auctioneer/auction clerk fund, for a total need of \$3,034,200. The difference between this amount and the expected revenue from premiums for the 2005-2007 biennium is \$2,329,150, which will be additional

revenue to other funds, as well as an expenditure to the general fund. Consequently, total special fund revenue for each biennium is the estimated premiums received plus the amount of general fund seed money needed to bring the fund up to a sufficient level to cover potential valid claims.

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.*

The bill will cause several types of expenditures. Implementation and administration of the program will cause expenditures for salaries and operating expenses. We assume these will be general fund expenditures because the premiums paid into the fund will be insufficient to cover potential insolvencies and claims, and trying to cover salaries and operating expenses, as well, will just make matters worse. We have estimated that this program will require a minimum of \$380,000 in salaries and benefits for a biennium. This is made up of two new auditor FTEs (at \$60,000 annual expense each), one new inspector FTE (at \$53,000 annual expense) and one-half administrative support FTE (at \$17,000 annual expense) for a total annual salary line item expense of \$190,000, or \$380,000 for a biennium. These positions will be needed because of the functions involved in determining whether any particular licensee qualifies and continues to qualify for the required bond. These positions will involve, among other functions, auditing the financial condition of licensees on a continuing basis, which is not a function currently performed by the Commission. The Commission also estimates the need for an additional \$150,000 per biennium for operating expenses associated with implementation and administration of the program. These costs include software for the audit and bonding functions, legal fees, professional fees, IT support and equipment, travel, training and other general operating expenses. Total general fund expenditures for a biennium are estimated at \$530,000.

A question arises regarding the funds necessary should an insolvency occur before the premiums taken in by the fund are sufficient to cover the amount needed to pay valid claims. We are assuming the legislature intended that the fund be sufficient to cover claims and we estimate this need at \$3,000,000 for the grain warehouse fund and \$34,200 for the auctioneer/auction clerk fund, for a total need of \$3,034,200. The special fund premium revenues will not be sufficient in either biennium to reach this amount and so general fund monies will be needed to bring the fund up to a sufficient level. In the 2005-2007 biennium, we estimate this general fund amount to be \$2,329,150 (\$3,034,200 less \$705,050) and in the 2007-2009 biennium, we estimate this general fund amount to be \$1,624,100 (\$3,034,200 less premium revenue of \$1,410,100). The general fund expenditures for each biennium are the totals of the amounts needed as seed money plus the amounts needed for salaries and operating expenses. For the 2005-2007 biennium this totals \$2,859,250 and for the 2007-2009 biennium this totals \$2,154,100.

Special fund expenditure amounts are estimated equal to the amounts we believe are necessary to pay valid claims in the event the Commission must proceed against a licensee's bond.

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.*

An appropriation would be required for the general fund expenditures estimated above.

A question arises regarding the funds necessary should an insolvency occur or claim be made before the premiums taken in by the fund are sufficient to cover the amount needed to pay valid claims. We are assuming the legislature intended that the fund be sufficient to cover insolvency claims and we estimate this need at \$3,000,000 for the grain warehouse fund and \$34,200 for the auctioneer/auction clerk fund, for a total need of \$3,034,200. The special fund premium revenues will not be sufficient in either biennium to reach this amount and so general fund monies will be needed to bring the fund up to a sufficient level. In the 2005-2007 biennium, we estimate this general fund amount to be \$2,329,150 (\$3,034,200 less \$705,050) and in the 2007-2009 biennium, we estimate this general fund amount to be \$1,624,100 (\$3,034,200 less premium revenue of \$1,410,100). The general fund expenditures for each biennium are the totals of the amounts needed as seed money plus the amounts needed for salaries and operating expenses. For the 2005-2007 biennium this totals \$2,859,250 and for the 2007-2009 biennium this totals \$2,154,100.

An appropriation will be necessary for the general fund expenditures, including the additional FTEs.

A special fund appropriation may not be necessary, since the bill contains a continuing appropriation. However, we have included it here under the appropriation box, above, so the need for spending authority, and the amount, is clear.

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