

FISCAL NOTE

Requested by Legislative Council
01/23/2001

Bill/Resolution No.: SB 2321

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						
Expenditures						
Appropriations						

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

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

Senate Bill 2321 requires that Bank of North Dakota (BND) maintain a primary capital ratio of at least 10%.

- Primary capital is defined as all capital (capital, surplus and undivided profits) plus loan loss reserves. Loan loss reserve is a reserve banks carry for potential losses they might incur in their loan portfolio.
- The primary capital ratio is determined by dividing primary capital by average total assets.
- Growth in capital is achieved in two ways; the issuance of stock or through retained profits.

On June 30, 2001, total capital for BND is projected to be \$168 million with loan loss reserves of \$22 million providing primary capital of \$190 million. Assets at BND are anticipated to be approximately \$1.7 billion. At that point the primary capital ratio would be 11.2% or 1.2% above the minimum 10% ratio. However, average total assets at BND can vary up to \$150 million throughout the year. Based on a static primary capital amount of \$190 million, average total assets at BND can increase to \$1.9 billion with BND staying in compliance with SB 2321. Total average assets exceeding \$1.9 billion with static primary capital of \$190 million will cause BND to be out of compliance.

In Governor Hoeven's executive budget it is proposed that BND will provide \$60 million to the general fund for the next biennium with a contingency of an additional \$25 million if the North Dakota budget falls below certain thresholds. It is projected that the Bank will earn \$32 million per year during the next biennium, allowing the

difference of the total earnings for two years (\$64 million minus the \$60 million transfer to the general fund = \$4 million) to be used to increase the capital accounts. Consequently, it is projected that at the end of the 2001-2003 biennium BND capital will increase from \$168 million to \$172 million. assuming a static loan reserve of \$22 million, BND will have primary capital of \$194 million.

The concern for BND is the contingent draw of \$25 million. If average total assets remain at \$1.8 billion and SB 2321 requires 10%, primary capital of \$180 million must be maintained. However, should the state coffers fail to meet expectations and all other assumptions noted above hold true, the maximum draw for the contingency could only be \$14 million to maintain compliance with this bill.

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.*

See narrative.

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.*

None identified.

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.*

None identified.

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Agency: Bank of North Dakota
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Prepared: