

FISCAL NOTE
Requested by Legislative Council
02/15/2007

Amendment to: Engrossed
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			(\$13,400,000)		(\$13,400,000)	
Expenditures			\$775,000		\$775,000	
Appropriations						

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 2: Department of Commerce to provide staff services to Centers of Excellence Commission. (Department of Commerce)
- Section 3: Changes to Centers of Excellence program including consideration of independent, expert review of complete applications and Commission responsibility to monitor Centers from six to ten years. (Department of Commerce)
- Section 4: Allows the Centers of Excellence Commission to use funds for expenses including contracting for independent, expert reviews. (Department of Commerce)
- Section 5: Mortgage loan financing program changes. (Housing Finance Agency)
- Section 6: International business and trade office work with higher education to expand international business expertise of students of higher education. (Department of Commerce)
- Section 7: Visitor information centers. (Department of Commerce)
- Section 9: 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 10: Requires the North Dakota image information program to include the private sector. (Department of Commerce)
- Section 11: A program to increase use of higher education internships and a career specialist program. (Department of Commerce)
- Section 12: Internship employment tax credit. (Tax Department)
- Section 14: Income tax credit for research and experimental expenditures. (Tax Department)
- Section 15: Seed capital investment tax credit limits. (Tax Department)
- Section 16: Agricultural commodity processing facility definition for the purposes of the agricultural business investment tax credit. (Tax Department)
- Section 17: Business climate initiative. (Department of Commerce)
- Section 18: Repeal of beginning entrepreneur income tax deduction. (Tax Department)
- Section 19: Higher education report on CCBenefits. (Higher Education)
- Section 20: Study of the cluster industries related to the state's target industries. (Department of Commerce)

Section 21: Tax expenditure report pilot project. (Tax Department and Department of Commerce)
Section 22: State business incentive expenditure report pilot project. (Department of Commerce)

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 12 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 13 allows the tax credits for recruitment expenses and internship programs contained in Section 14 to be claimed on the state's simplified form, Form ND-1.

Section 14 expands the 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 \$8.4 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 15 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 16 expands the definition of agricultural processing facilities to include livestock operations that use byproducts of North Dakota's biofuels plants. The fiscal impact of this expansion is a reduction in state general fund revenues of an unknown amount.

Section 18 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.*

Board of Higher Education
Section 19

Section 19: Although this section imposes an additional reporting requirement, we do not believe that any new resources, beyond those provided for in the 2007-09 Executive Budget proposal would be required.

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Department of Commerce
Sections 1, 2, 3, 4, 6, 7, 9, 10, 11, 17, 20, 21, & 22

Section 2: No additional fiscal impact as HB 1018 contains sufficient funds for the Department of Commerce to provide staff services to the Centers of Excellence Commission.

Section 3: This section adds a consideration of independent, expert review for complete Centers of Excellence applications. There is no additional fiscal impact as section 6 allows the Centers of Excellence Commission to use a portion of the Centers of Excellence funds for this purpose.

Section 6: 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 7: This section allows the division of Tourism to develop and implement a visitor information center assistance program. \$525,000 in additional funds would be required in order to implement this program, which would

be comprised of \$100,000 for training and \$425,000 for matching grants.

Section 9: No additional fiscal impact.

Section 10: This section expands the requirements for the North Dakota image information program to include private businesses. \$50,000 in additional funds would be needed to fully expand this program to the private sector.

Section 11: No additional fiscal impact beyond the funding including in HB 1018 for the Higher Education Internship and Career Specialist programs.

Sections 17 & 20: No additional fiscal impact.

Sections 21 & 22: No additional fiscal impact beyond the \$50,000 appropriated in HB 1018 for this purpose.

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Housing Finance Agency
Section 5

Section 5: The HFA has requested an appropriation for loan loss reserve for these loans in the amount of \$6 million. It is not possible to identify how many loans would be made with versus without the expanded language provided in HB 1027 therefore the fiscal impact at this time is unknown. HFA is moving forward with these programs with the intent that the loans will be repaid and the fiscal impact will be zero.

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Tax Department

Section 21 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.

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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.*

As amended, this bill does not provide any appropriations.

It is estimated that the following additional appropriations would be needed for the implementation of each section:

Section 6: \$200,000 (Department of Commerce - Trade Office)
Section 7: \$525,000 (Department of Commerce)
Section 10: \$50,000 (Department of Commerce)

Total: \$775,000 General Funds

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